Herefordshire Council

Agenda

Audit and governance committee

Date:	**Wednesday 20 September 2017**
Time:	**2.00 pm**
Place:	**Council Chamber, 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: **Sarah Smith** Tel: 01432 260176 Email: sarah.smith1@herefordshire.gov.uk

If you would like help to understand this document, or would like it in another format, please call Sarah Smith on 01432 260176 or e-mail sarah.smith1@herefordshire.gov.uk in advance of the meeting.

Agenda for the meeting of the Audit and governance committee

Membership

Chairman	**Councillor PD Newman OBE**
Vice-Chairman	**Councillor ACR Chappell**
	Councillor CR Butler
	Councillor EPJ Harvey
	Councillor RJ Phillips
	Councillor J Stone
	Councillor LC Tawn

Agenda

		Pages
1.	**APOLOGIES FOR ABSENCE** To receive apologies for absence.	
2.	**NAMED SUBSTITUTES (IF ANY)** To receive details any details of members nominated to attend the meeting in place of a member of the committee.	
3.	**DECLARATIONS OF INTEREST** To receive any declarations of interest by Members in respect of items on the agenda.	
4.	**MINUTES** To approve and sign the minutes of the meeting held on 4 July 2017.	9 - 12
5.	**QUESTIONS FROM MEMBERS OF THE PUBLIC** To receive questions from members of the public. *Deadline for receipt of questions is 5.00 pm on 15 September 2017. Accepted questions will be published as a supplement prior to the meeting. Please submit questions to: councillorservices@herefordshire.gov.uk.*	
6.	**QUESTIONS FROM COUNCILLORS** To receive any questions from councillors. *Deadline for receipt of questions is 5.00 pm on 15 September 2017. Accepted questions will be published as a supplement prior to the meeting. Please submit questions to: councillorservices@herefordshire.gov.uk.*	
7.	**AUDIT FINDINGS REPORT 2016/17** To consider a report from the council's external auditor on the audit findings for the year ending 31 March 2017.	13 - 64
8.	**SIGNING OF 2016/17 STATEMENT OF ACCOUNTS** To approve the 2016/17 statement of accounts and to note the associated letter of representation from the external auditors, Grant Thornton.	65 - 164
9.	**UPDATE ON DEBT COLLECTION** This report provides details to the committee on the debt collection and uncollectable debt write off arrangements between the council and Hoople Ltd.	165 - 168
10.	**ACCOUNTING POLICY UPDATE** To confirm the council's accounting policy, which has informed the preparation of the 2016/17 financial statements, in relation to the pension deficit of previous employees transferred to Hoople Ltd.	169 - 172
11.	**APPOINTMENT OF COUNCIL'S EXTERNAL AUDITORS**	173 - 178

This report updates the committee on the outcome of the Public Sector Audit Appointments Limited (PSAA) procurement of external auditors for audits of the accounts from 2018/19.

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.

To provide independent assurance on the adequacy of the risk management framework together with the internal control of the financial reporting and annual governance processes by considering the head of internal audit's annual report and opinion, and the level of assurance it gives over the council's corporate governance arrangements.

To enable the committee to be assured that high standards of conduct continue to be promoted and maintained.

To provide an update on the committee's work programme for 2017/18.

To enable the committee to consider the findings of an internal audit report on the project management of the refurbishment of Blueschool House and the main issues arising and to provide assurance that action has been taken where necessary.

The public's rights to information and attendance at meetings

You have a right to: -

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

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Recording of this meeting

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

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

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

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

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

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

Guide to Audit and Governance Committee

The Audit and Governance Committee is a non executive committee of the council. The committee consists of 7 non executive councillors and may include an independent person who is not a councillor.

Councillor PD Newman OBE (Chairman)	Conservative
Councillor ACR Chappell (Vice Chairman)	Herefordshire Independents
Councillor CR Butler	Conservative
Councillor EJP Harvey	It's Our County
Councillor RJ Phillips	Conservative
Councillor J Stone	Conservative
Councillor LC Tawn	It's Our County

The purpose of the audit and governance committee is to provide independent assurance on the adequacy of the risk management framework together with the internal control of the financial reporting and annual governance processes. The committee do this by

(a) ensuring the effective and fully compliant governance of the council and in particular to ensure that all aspects of the financial affairs of the council are properly and efficiently conducted;

(b) reviewing and approve the council's annual governance statement, annual statements of account, the contract procedure rules and financial procedure rules;

(c) scrutinise the effectiveness of, and management compliance with, the systems identified in the annual governance statement framework;

(d) monitor the progress made by management in implementing improvements to elements of that framework identified by external or internal audit review; and.

(e) reviewing the constitution and recommending any necessary amendments to Council as appropriate.

Who attends audit and governance committee meetings?

Coloured nameplates are used which indicate their role at the committee:

Pale pink	Members of the committee, including the chairman and vice chairman.
Orange	Officers of the council – attend to present reports and give technical advice to the committee
Green	External advisors - attend to present reports and give technical advice to the committee
White	Other councillors may also attend as observers but are not only entitled to speak at the discretion of the chairman.

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 Tuesday 4 July 2017 at 2.00 pm

Present: **Councillor PD Newman OBE (Chairman)**
Councillor ACR Chappell (Vice-Chairman)

Councillors: BA Durkin, EPJ Harvey and J Stone

Officers: **Andrew Lovegrove and Claire Ward, Kevin Lloyd and Zoe Thomas (Grant Thornton)**

211. APOLOGIES FOR ABSENCE

Apologies for absence were received from Cllr RJ Phillips and Cllr LC Tawn.

212. NAMED SUBSTITUTES (IF ANY)

There were no substitutes.

213. DECLARATIONS OF INTEREST

There were no declarations of interest.

214. MINUTES

RESOLVED:

That the minutes of the meeting held on 10 May 2017 be confirmed as a correct record and signed by the chairman.

215. QUESTIONS FROM MEMBERS OF THE PUBLIC

There were no questions from members of the public.

216. QUESTIONS FROM COUNCILLORS

There were no questions from councillors.

217. EXTERNAL AUDIT PROGRESS UPDATE

Members were presented with an update on the external audit progress.

The external auditors had been on site since 12 June and anticipated completing the audit by the end of July.

It was noted that this audit had been a dry run as from next year the audit will need to have been finished by July. There had been some teething issues which were being addressed.

The external auditors and the chief finance officer were meeting in order resolve any outstanding issues, which were mainly around the valuation of property.

The committee requested that acronyms were not used in reports unless there was an explanation of what they stood for.

RESOLVED

That the report be noted.

218. CORPORATE RISK REGISTER

The business intelligence officer presented the quarterly corporate risk register report.

Following a query from a member, it was confirmed that the risk register was based on a 5 x 5 matrix. It was noted that the colouring rating would need to be reviewed as the numerical risk did not always match the colour rating.

It was noted that the performance, risk, opportunity and management ("PROM") policy was currently being reviewed and would be presented to cabinet in September for approval. The policy would form part of the corporate risk register report in November in order that the committee could receive an overview of the changes to enable them to understand any amendments to the framework.

Following a query from a member, it was confirmed that flood alleviation did appear on a service risk register. It was agreed that a copy of the risk as it appeared on the relevant risk register would be an appendix to the next corporate risk register report so that the committee could assure themselves that the risk was being appropriately monitored. It was also noted that a report on the local flood risk management strategy would be presented to the general scrutiny committee meeting on 11 July 2017.

The committee thanked officers for tracking changes on the risk register and requested consideration be given to illustrating when any changes last took place. The committee were interested in the rate of change in the corporate risk register.

Officers were also thanked for producing three detailed responses in connection with the three examples of fracking, water quality and flood alleviation which had previously been used to test the operation of risk management in the council.

The committee requested further clarification as to why the following risks had been removed from the risk register:

- Fastershire – as a new contract had been approved for a new provider, the committee felt that there was a potential reputational risk of non-delivery.
- Brexit – the committee felt that it seemed counter intuition that this risk was removed when negotiations were just starting. It was noted that Herefordshire was the only county which qualified as rural in England and there were emerging significant effects on rural counties.

Following a query from a member, the business intelligence officer confirmed that the waste loan agreement was managed as a directorate risk and there was a shared risk register with Worcestershire.

A member queried whether the recruitment of short breaks, regular monitoring related to the recruitment of short break providers and when the wording on the risk was last reviewed. The business intelligence officer would ask the children's wellbeing directorate what controls were in place and provide an update as part of the next corporate risk register report.

RESOLVED

That the report be noted.

219. ENERGY FROM WASTE (EFW) LOAN UPDATE

The chief finance and S151 officer presented the energy from waste loan update.

It was reported that the plant was now becoming operational and the loan was making repayments. There were no breaches during the drawdown phase and the technical handover of the plant had been delayed by two days.

Following a query from a member of the committee, it was confirmed that the two waivers which had been approved enabled a smooth transition period.

The committee agreed that unless there were exceptional reasons, a report on the energy from waste loan be presented on an annual basis.

RESOLVED

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.

220. ACCOUNTING POLICIES UPDATE

The chief finance and S151 officer presented the accounting policy update.

It was noted that when Hoople Ltd was set up, council staff were transferred with their pension obligation and the council acted as a guarantor for the pension liability. It was noted that the treatment, recognition and reporting of the pension liability had not been clear in previous sets of council's accounts and this policy update would resolve this issue. An independent actuary, Mercers, had been commissioned to provide an opinion on the valuation of the pension liability and these figures were reflected in the report.

It was further noted that the external auditors were looking at this accounting policy update as part of their audit.

It was agreed that the report be deferred to the September meeting in order that the external auditors' opinion could be taken into account.

RESOLVED

That the report be deferred until 20 September 2017.

221. ANTI-FRAUD, BRIBERY AND CORRUPTION POLICY 2017

The chief internal auditor presented the anti-fraud, bribery and corruption policy 2017. The policy was based on the previous policy and changes were minimal. A fraud triangle diagram had been introduced which illustrated the three key elements of fraud, bribery or corruption.

Following a query from a member, it was confirmed that a decision to refer to the police could take place at any point during or after the investigation, it would depend on the nature of the potential fraud. No time limit was put in place for any investigation as the length of any queries could vary depending on the complexity of the alleged fraud, etc.

It was noted that the strategy focused on financial types of fraud but there were other ways in which people could behave in a fraudulent way. This could mean that there may not be a documented audit trail. The chief internal auditor confirmed it would be a matter of judgement as to whether something was written down but that there would be supporting information which would detail how the decision was made.

It was confirmed that the council would normally seek to recover losses and this may be via internal process or the courts.

The committee requested that a cross-reference was made to the need to keep records as set out in the council's records management policy.

RESOLVED

That the anti-fraud, bribery and corruption policy 2017 be approved.

222. WORK PROGRAMME UPDATE

The committee's updated work programme was presented. The following amendments to the work programme were agreed:

- Corporate risk register – move to November meeting (from September 2017)
- Code of conduct report – move to September (from January 2018)
- Accounting policy update – deferred from July committee meeting
- Breach of confidentiality report – September 2017
- Overview of council's constitution - process for doing so – November 2017

RESOLVED

That subject to the amendments agreed at the meeting, updated work programme be agreed.

The meeting ended at 3.50 pm **Chairman**

Meeting:	**Audit & governance committee**
Meeting date:	**20 September 2017**
Title of report:	**Audit finding report 2016/17**
Report by:	**Head of corporate finance**

Classification

Open

Decision type

This is not an executive decision

Wards affected

(All Wards);

Purpose and summary

To consider a report from the council's external auditor on the audit findings for the year ending 31 March 2017. This is one of a number of reports which the committee receives in order that it may provide independent assurance on the adequacy of the risk management framework together with the internal control of the financial reporting and annual governance processes.

Recommendation(s)

That:

(a) the report of the external auditor attached at appendix A be considered; and

(b) the committee determine whether any issues raised in the report require inclusion in the committee's future workplan.

Alternative options

1. There are no alternative options to receiving the report.

Further information on the subject of this report is available from Josie Rushgrove
Tel: 01432 261867, email: jrushgrove@herefordshire.gov.uk

2. It is open to the committee to determine its future work programme to enable it to provide assurance on the adequacy of the councils risk management, financial reporting and annual governance processes.

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 2015/16, meaning adequate arrangements are in place. An amber assessment has been provided in the area of judgements and estimations to reflect the protracted work programme for concluding this year's audit. A follow up action plan has been presented and agreed to improve this next year.

5. The audit findings report includes an agreed action plan with actions delegated to officers with an agreed timeframe to enable improvements to be made to ensure adherence to the accelerated audit timetable for 2017/18.

Community impact

6. There is no community impact arising from this report. The council is committed to maintaining high standards of corporate governance with the reports recommendations supporting the council's code of corporate governance.

Equality duty

7. Under section 149 of the Equality Act 2010, the 'general duty' on public authorities is set out as follows:

   A public authority must, in the exercise of its functions, have due regard to the need to -

   (a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;

   (b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;

   (c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

8. The public sector equality duty (specific duty) requires us to consider how we can positively contribute to the advancement of equality and good relations, and demonstrate that we are paying 'due regard' in our decision making in the design of policies and in the delivery of services. As this is a decision on back office functions, we do not believe that it will have an impact on our equality duty.

Resource implications

9. There are no financial implications arising from this report. The annual audit fee is £124k and the agreed action plan is not expected to generate additional cost or resourcing.

Legal implications

10. The external audit opinion considered whether the financial statements give a true and fair view in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law. An unqualified external audit opinion has been expressed.

Risk management

11. 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. The external audit is not designed to test all internal controls or identify all areas of control weakness, however, if external audit identify any control weaknesses, these are reported. The external audit work has not identified any control weaknesses.

Consultees

12. None

Appendices

13. Appendix A – audit findings report

Background papers

14. None identified

DRAFT

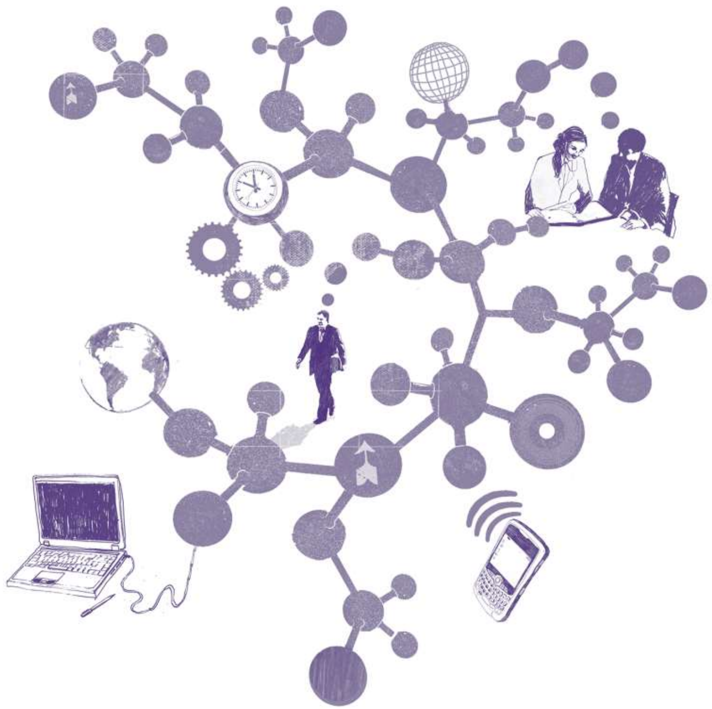
This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

Grant Thornton

The Audit Findings for Herefordshire Council

Year ended 31 March 2017

September 2017



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20 September 2017

Dear Members of the Audit and Governance Committee

Audit Findings for Herefordshire Council for the year ending 31 March 2017

This Audit Findings report highlights the key findings arising from the audit that are significant to the responsibility of those charged with governance (in the case of Herefordshire Council, the Audit and Governance Committee), to oversee the financial reporting process, 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 auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland) ('ISA (UK&I)'), 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 faithfully

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 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of ISA (UK&I) 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 (including the Annual Governance Statement (AGS) and Narrative Report, whether it is consistent with the financial statements, apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Council acquired in the course of performing our audit; or otherwise misleading.

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 year.

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: Accounts Audit

In carrying out the audit we have not had to alter or change our overall audit approach, which we communicated to you in our Audit Plan dated March 2017. As at 31 August 2017 there are three material uncertainties in the accounts which remain unresolved, relating to matters which were first raised up to six months ago. This is disappointing. There are also adjustments to be made to the accounts which we will need to review. We have discussed with officers how they plan to provide us with sufficient information to enable these matters to be resolved to our satisfaction. If these matters are not resolved by the 30 September deadline this will result in either a delayed opinion or a modification to the opinion. In summary the matters are:

- **Hoople Local Government Pension Liabilities (LGPS):-**The accounts have now been adjusted to exclude post 2011 Hoople pension liabilities, which were incorrectly included for the first time this year. The revised accounts continue to reflect Hoople pension liabilities accrued up to the point of transfer. The Council has supplied a guarantee to Hoople in respect of the LGPS liabilities, so the Council has a financial obligation that it must account for, reflecting local circumstances. This obligation is not reflected in the revised accounts and we currently have no information to assess how material this matter is.

- **Energy from waste PFI:** the accounts include £33.4m of additions to Property Plant and Equipment (PPE) related to this project. The Council has not demonstrated that the asset has been valued in accordance with the CIPFA Code. Worcestershire County Council has now commissioned a valuation of the PFI asset. We currently do not have a timescale for return of that information or the likely financial impact on the accounts.

- **Valuation of Property Plant & Equipment (PPE):** the Council provided information that indicated that PPE was materially misstated. This is because insufficient valuations had been undertaken to ensure the asset base reflects current market conditions, in accordance with the Code. We agreed with officers an approach to resolve this matter and that additional work has recently been completed, in consultation with the professional valuer. We have yet to complete our review of the working papers to support this assessment.

Further details on these and a number of other accounting issues arising are referred to later in the report. The audit has proved challenging this year as it has taken a considerable amount of time to resolve, to our satisfaction, a range of material accounting issues, as well as a number of more routine matters. We are finalising our audit procedures in the following additional areas:

- Obtaining and reviewing the final draft version of the accounts, ensuring that they reflect the various agreed changes made to the accounts
- Finalising the work on welfare benefits
- Completing our testing on investment properties
- Completion of our work on the IAS19 disclosures
- Obtaining and reviewing the management letter of representation
- Review of revised versions of the Annual Governance Statement
- Updating our post balance sheet events review, to the date of signing the opinion
- Whole of Government Accounts

We received draft financial statements and accompanying working papers at the commencement of our audit in June. The accounts were not of a good quality and contained a larger number of material errors than we would have normally anticipated. They did not properly reflect the revised requirements of the CIPFA code in some key areas. The notes to the accounts were also inadequate in a number of instances. The number of changes to figures in the accounts and disclosures set out in this report is accordingly considerably larger than in prior years. In part this can be attributed to a significant number of changes within the Finance department in the last year, and in particular, the absence of the Council's experienced Deputy S151 Officer. Better progress has been made in resolving issues since her return.

To progress the audit and resolve issues, regular progress meetings have been held with officers, followed up by emails summarising discussions, outstanding matters and agreed actions. The errors in the compilation of the accounts would, in our view, have been reduced had a stronger quality review process been in place, to ensure that the draft accounts submitted to audit complied with all Code requirements and adequately explained items of key financial significance.

The conduct of the audit was impacted by other factors. For instance, the absence of the Acting Corporate Finance Manager (ACFM) for the first two weeks of the audit visit, due to annual leave, delayed progress as it was difficult to obtain responses to audit questions during the period. Key sample data that we required was also often incomplete and difficult to follow. The ACFM attributed this to a lack of capacity to quality-review information prior to it being submitted to auditors.

Commitment to providing an adequate response to audit questions was also mixed. Auditors are required to challenge and seek additional evidence, where necessary, to gain sufficient audit assurance. Officers, in our view, did not always provide adequate evidence to support balances or key judgements made, which built delays into the conduct of the audit. In some instances, for instance the sale of the agricultural assets, it took several months for officers to agree to make changes to the accounts, which were required to improve transparency and aid readers' understanding of the accounts. We also, for instance, questioned why the draft accounts showed a transfer of £14.3m of investment properties to infrastructure assets. Months later it transpired that this was an accounting error, and the £14.3m transfer was in fact the result of an impairment of the asset resulting in a corresponding adjustment to the accounts required. Two of the three material matters still outstanding were also initially raised with officers at the interim stage of the audit, some 6-7 months ago.

The delays we experienced in progressing the audit, often involved an unnecessary escalation of issues in order to secure an adequate response to reasonable requests for information and evidence. These processes worked better in prior years in our view.

With the return of the Deputy S151 Officer, we would hope that there would be an improvement in these processes. However, the deadline for completion of the audit of the 2017/2018 accounts by 31 July 2018 will not be achieved unless quality processes over accounts production are strengthened and better working papers are produced to evidence key figures in the accounts, accounting treatments and decisions made.

Key audit and financial reporting issues

Financial statements opinion

The draft accounts presented for audit were not compliant with the requirements of the CIPFA Code of Practice in some key areas. We expect our concerns to be addressed in the revised draft of the accounts. Further details are contained in section 2 of the report

In order to improve arrangements for 2017/18 the Council needs to:

- Quality review the draft accounts including proper consideration by senior officers of compliance with the disclosure requirements of the Code
- More effectively demonstrate compliance with the accounting requirements of the Code, particularly around the classification and valuation of property plant and equipment.
- Challenge and quality review the information provided by third parties, in particular property values, before including it in the accounts.
- Respond in a more timely manner to audit questions and challenges

We have identified a number of adjustments to the accounts, some 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 2017 recorded net expenditure of £131.9k. The net expenditure in the audited financial statements is £128.3m. Further details are set out in section two of this report.
As highlighted on page 5, there are still some material matters in the accounts. It is our expectation that these will be resolved to our satisfaction and then we will provide 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 (AGS) and Narrative Report is misleading or inconsistent with the information of which we are aware from our audit.

Based on our review of the Council's Narrative Report and AGS we are satisfied that they are consistent with the audited financial statements. We are also satisfied that the AGS meets the requirements set out in the CIPFA/SOLACE guidance.

CIPFA's intention, based on FRC principles, is that the Narrative Report should provide an overall summary of the key features of the financial statements that follow and provide a forward financial view, putting the financial statements into context. The draft Narrative Report provided at audit did not meet all of the requirements of the Code. The Council's Accounts Foreword could be enhanced by reference to key events or developments of a financial significance arising during the year: for instance, a more detailed explanation of the Council's success in delivering the challenging savings targets; commentary around the budget outturn and challenges facing specific services, such as children's services or adult social care. We would also have expected the Foreword to refer to material balance sheet movements relating to PPE, for instance the inclusion of a £33.4m asset for the energy to waste plant and the material reclassification of investment property assets. No reference was made to the inclusion of Hoople pension liabilities within the statement of accounts for the first time this year, although these have subsequenty been excluded from the accounts.

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 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.

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.

Other matters

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Act and the Code until we have:

- completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2017, and
- completed our consideration of other matters brought to our attention by the Authority.

The WGA work will be completed by the deadline set by the national audit office, in September.

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 2017. We will report the outcome of this certification work through a separate letter to the Committee which is due in February 2018.

There is some cross-over between the audit procedures undertaken on the main audit and the housing benefits audit. There are no matters of concern arising from our benefits audit to date.

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 Chief Finance Officer.

We have made a number of recommendations, which are set out in the action plan at Appendix A. Recommendations have been discussed with the Chief Finance Officer and the finance team and reflect their responses.

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 2017

Section 2: Audit findings

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of ISA (UK&I) 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 £6.6m (being 1.8% of gross revenue expenditure). We have considered whether this level remained appropriate during the course of the audit and reduced it to £5.9m to reflect the lower gross expenditure at the outturn, 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 £295k.

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
Related Party Transactions	Due to public interest in these disclosures and the statutory requirement for them to be made.	£20k
Disclosures of officers' remuneration, salary bandings and exit packages in the notes to the financial statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£20k

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; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK&I) 320)

Audit findings against significant risks

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
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.	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.
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.	• review of journal entry process and selection of unusual journal entries for testing back to supporting documentation • 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 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.

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either 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 making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK&I) 550)

Audit findings against significant risks continued

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
Valuation of property, plant and equipment (PPE) The Council revalues its assets on a rolling basis over a five year period. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements.	• **Review of management's processes** and assumptions for the calculation of the estimate. • Review of the competence, expertise and objectivity of any management experts used. • Review of the instructions issued to valuation experts and the scope of their work • Discussions with the Council's valuer about the basis on which the valuation was carried out, challenging the key assumptions. • Review and challenge of the information used by the valuer to ensure it was robust and consistent with our understanding. • Testing of revaluations made during the year to ensure they were input correctly into the Council's asset register • Evaluation of the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value.	**Assets not valued in year:** Under the Code, assets should be revalued in a 'short period'. Most authorities meet this requirements through a 5 year rolling programme with additional valuations being requested where there has been a known change in circumstances. There is however an overriding requirement of the Code to ensure that the carrying value is not materially different to current value at each year end, of the entire portfolio. The Council's accounting policy refers to an annual review to meet this requirement. To meet this requirement, the Council asks Hub (the expert) for support by providing an evaluation of the change in value of particular classes of assets. At the interim stage of the audit, officers provided a working paper applying the percentages indicated across the classes of assets. When applied to assets not revalued in year, it indicated a material movement in the value of assets not revalued. Analysing the movements, we informed officers that they should either adjust the accounts or get the view of a valuation expert as to whether the movement in values in relation to schools (one of the higher-value areas of PPE) might be less than the material difference identified by HUB, to avoid the need undertake additional valuations. This matter has not yet been resolved to our satisfaction. **PPE testing:** Incorrect versions of valuation schedules were initially provided to support the PPE revaluations reflected in the asset register. Later versions did not contain sufficient information to support the change in value or classification of some of the assets we selected for testing , so that further explanations from the valuer had to be sought. Errors were identified from our testing, one amounting to some £14m and officers have agreed to adjust for these errors. Some of these errors should have been identified by the Finance Team's own quality review processes; by challenge of the information provided by the valuer and through questioning unusual movements in balances in the draft accounts before being presented for audit. **Agricultural properties:** The Council has made the policy decision that retention of the stock for current purposes is no longer a strategic priority. In April 2017 £2m of assets were marketed for sale , the deadline for bids was July 17 and completion is expected by the calendar year end. They are marketed for £35m. At interim audit we were told that these assets would be reclassified as assets held for sale and valued accordingly. In the accounts they remain as operational assets. No marketing took place until April 2017 and so reclassification as assets held for sale would not be appropriate. The remaining £6.5m are not being marketed due to their development potential, although they continue to be let with ongoing tenancies in place at the year end. Two of the properties have planning permission for industrial use. These continue to be classified and valued as operational properties. There was no reference to this matter in the draft accounts. The classification and valuation is unchanged from the previous years. The assets were last valued on 1 April 2013 prior to the Council decision on the future of these assets. We sought evidence to support the Council's judgement that the assets classification and valuation remained current in 2017, in view of the time elapsed from the original valuation, the policy decision and the marketed value of the assets. A judgement could have been made that reclassification as surplus or investment properties may more properly reflect the use and purpose of these assets and this would impact on the valuation of these assets. Officers argued that these assets remained operational properties because they all had on-going tenancies at the year end. Evidence was not provided to support this until August 2017, following an initial request in April 2017. We considered that this was a critical accounting judgement in the accounts and should be disclosed. Officers were initially reluctant to accept that this was in a critical judgment, the basis of which should be explained, but has now been included in the accounts. We have also received a draft 'non adjusting post balance sheet event' disclosure to reflect this significant event after the year end.

Audit findings against significant risks continued

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
Valuation of pension fund net liability The Council's pension fund net liability, as reflected in its balance sheet ,represents a significant estimate in the financial statements.	• Identifying the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessing whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement. • 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 net liability disclosures in notes to the financial statements with the actuarial report from your actuary.	We are satisfied that the actuary is appropriately qualified to undertake the work for Herefordshire Council. In considering the actuarial assumptions we have considered the views of our 'Auditors expert' PWC on the broad approach adopted by the actuary. In addition we have sought assurance from the auditor of the Pension fund administrator on the adequacy of their arrangements. No matters of concern have arisen from these enquiries. We have also considered the basis for any local assumptions referred to in the Mercers report and those stated in the accounts. Within the Mercers report there is reference to inclusion of Hoople Ltd pension assets within their ISA19 figures. There is no information provided on the values. Prior to this year, inclusion of Hoople assets and liabilities was up to the point of transfer of staff to Hoople from Herefordshire Council. This new assumption indicated that amounts accrued since this point were now also included. No reference to this has been made in the draft accounts. We requested evidence from officers to support this new assumption and the financial impact. We suggested that the Council should consult with its actuary to obtain this information. Whilst this matter has been with officers for many months, it has yet to be resolved to our satisfaction. We are awaiting the final position on this before we are able to complete our work on IAS19 disclosures. We do not have enough information to make a judgement as to the financial impact of this matter on the Councils accounts is material or not, nor on the lawfulness of the approach. This remains an uncertainty and could impact on our opinion on the accounts.

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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	Payroll expenditure represents a significant percentage of the Council's gross expenditure. We identified the completeness of payroll expenditure in the financial statements as a risk requiring particular audit attention: • 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 • tested a sample of employees costs to underlying records. • Reviewed the trend analysis • Review of reconciliation	No matters of concern have arisen in relation to this risk. There was one contract of employment that had not been signed in the sample tested We did however find that obtaining the trend data in the correct format and evidence to support some of the employee pay rates was difficult to obtain. This may be because there were new members of the payroll team. We will work with your officers to make sure that they understand audit requirements and that we are able to finalise the majority of this work at interim, reducing the risk of not delivering an early opinion in 2017/18.
Operating expenses	Non-pay expenditure represents a significant percentage of the Council's gross expenditure. Management uses judgement to estimate accruals of un-invoiced non-pay costs. We identified the completeness of non- pay expenditure in the financial statements as a risk requiring particular audit attention: • 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 • Tested interfaces with subsidiary ledger • Understood the process for year end accruals and tested a sample • Undertaken cut off testing • Completion of substantive testing for a sample of operating expenses.	No matters of concern have arisen in relation to our testing of operating expenses, including our review of the particular risk around creditors. We are awaiting further information to support the remaining to creditor items. We noted that the Council intends to increase the amount below which items are not accrued from £25k (applied in 16/17) to £100k in 2017/18. Our testing did not identify significant amounts not accrued in 16/17 and thus an increase to the deminimus is reasonable, particularly in view of the pressures for earlier close. The Council will need to demonstrate that increasing to £100k will not result in a material cut-off error and we will consider evidence to support this at our interim visit. We experienced some difficulty getting appropriate back up information to support our sample testing. Again, we will work with your officers to ensure that there is a better understanding of audit requirements and some quality control in place so that the work can be completed more quickly in 2017/18.

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK&I) 315)

Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Changes to the presentation of local authority financial statements	CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 CIPFA Code of Practice. The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.	We have undertaken the following work in relation to this risk: • documented and evaluated the process for the recording the required financial reporting changes to the 2016/17 financial statements • reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Council's internal reporting structure • reviewed the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS) • tested the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES • tested the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger • tested the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements • reviewed the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice.	We have not yet received a 'final' draft version of the financial statements and therefore this work is not yet complete. The accounts presented were not compliant with the new code requirements and a number of audit adjustments have been made to primary statements. The overarching principle of the 'telling the story' project is to simplify the accounts and to provide a better link to the in year reporting and this had not been achieved in the first draft of the accounts. Material changes had been made to the prior year restatement which we considered at interim to the final version presented for audit. Officers were reluctant to accept that the accounts were not presented in line with the code and thus resolution of this matter was protracted. Had better consideration of the code taken place in drafting the accounts this could have been avoided. Specifically: **CIES:** this has been restated as items had been included within a corporate line when the costs were attributable to service heads. **MIRS:** most councils are changing the presentation of the MIRS to simplify it. Herefordshire has chosen not to, with the format remaining the same as in 15/16. This is acceptable under the Code although the Council should have included a total column after the General Fund and Earmarked reserves columns to show the total General Fund Balance in order to meet the Code requirement in para 3.4.2.55. This is key to the new Expenditure and Funding Analysis (EFA). There should also be a note supporting the *adjustments between accounting basis and funding basis under regulations*. This is included in other councils financial statements and the consequence for Herefordshire is that the cross reference on the MIRS does not explain the movement clearly and additional notes have been added to the EFA. This all makes the statements difficult to follow.

Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Changes to the presentation of local authority financial statements (continued)			**A prior period restatement** note was not included which is a code requirement. **Expenditure and Funding analysis:** This was not presented in line with the Code, nor did it correctly balance with the MIRS. The Code makes clear that the accounts should introduce the EFA to explain its purpose to the user of the accounts. No introduction was provided. **Other matters:** The primary financial statements did not include any cross reference to the supporting notes, making it almost impossible for the user of the accounts to navigate the financial statements. As part of the drafting the accounts, we ask officers to complete the SORP disclosure checklist. This had been completed and indicated that the accounts were compliant in all areas. This evidently was not the case and we would recommend that in future years this is completed by a more senior member of staff as part of the quality review process.

Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Welfare benefit expenditure	Welfare benefit expenditure represents a significant percentage of the Council's gross expenditure. We identified welfare benefit expenditure as a risk requiring particular audit attention: • Welfare benefit expenditure improperly computed	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 • Undertaken substantive testing for a sample of benefits payments • Undertaken analytical review • Undertaken work to confirm that the correct version of software is being used and correct parameters are in place	No matters to report

Going concern

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK&I) 570).

We reviewed the management's assessment of the going concern assumption and the disclosures in the financial statements and concluded that this assumption is appropriate

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.	**Energy from waste plant** The Council has in conjunction with Worcestershire Council, developed an Energy From Waste (EFW) plant through a PFI arrangement. Worcestershire County Council are the lead on this project.	• The plant was completed in the financial year and £33.4m was included as additions within note 15 reflecting Herefordshire Council's 'interest' in the asset. There is some reference to the project in the leases note and a reference to the £11.4m loan in the narrative foreword. No specific reference is made to the £33.4m asset anywhere in the accounts, although it is highly material and significant project. • The Code is clear that the asset should be included in the accounts at fair value. This could be achieved through a valuation or by reference to invoices paid. The Council has not been able to demonstrate that the value relates to invoices raised nor has a valuation been undertaken. The need to comply with code requirements was raised by Grant Thornton with Worcestershire CC at interim. Worcestershire CC has commissioned a valuation during w/c 28 August 2017. This is likely to impact on the valuation of the asset and thus the share reflected in Herefordshire Council's financial statements. • We will be unable to issue an opinion on the accounts until this matter is resolved.
2	**Narrative report** We are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements.	• No evidence has been provided to support the statement that 'The 2016/17 accounts demonstrate financial robustness with reserves proportionately comparable to similar Councils' and so we are unable to express a view on the accuracy of this statement. Reference to balances compared to the CFO's stated judgement of the minimum level of balances would be an appropriate reference. • The pension deficit is a key challenge for all Councils however the paragraph does not adequately explain the position in Herefordshire (e.g. reducing deficit contributions and by the employer but this will eliminate the deficit over a shorter time period). This paragraph appears to be the prior year paragraph with this year's information inserted. It does not adequately inform the reader. This will have been impacted by the full actuarial review which took place this year and should have been better explained. No reference is made as to the impact of inclusion of Hoople liabilities and why this has been done.

Significant matters discussed with management

On 27 July 2017 a report was presented to Cabinet, updating on the Joint Customer Services Hub. The report highlights that there is a large projected overspend on the scheme with anticipated costs of £1.92m compared to £0.9m, as approved in June 2016. A recommendation is made for the Audit and Governance Committee to identify and recommend improvement actions to strengthen property capital management, and Internal Audit are supporting this review.

We discussed with officers whether there was a need to reflect this position in the accounts, but we agreed it was not sufficiently material to be reflected as a capital commitment or post balance sheet event. However it is a matter that could be referred to in the Narrative Report. No changes have been made to the Narrative Report.

All other significant matters discussed with management are already outlined within this report. There were no other significant financial or legal matters discussed in the course of the audit.

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	• No maters arising in relation to the adequacy and appropriateness of the disclosed revenue recognition policies. • Adequate disclosure has been made around key income sources including fees and charges and NNDR and council tax.	green
Judgements and estimates	• Key estimates and judgements include: – Useful life of PPE – Revaluations – Impairments – Accruals – Valuation of pension fund net liability – Provision for NNDR appeals – Other provisions	**Accounting policy:** • PPE Revaluations: the stated accounting policy has not been adequately applied in the draft accounts presented for audit because there was evidence of a material movement in the value of assets that had not been reflected in the accounts. • Accruals of income and expenditure refers to accruals being included above the deminimus, but the deminimus level is not stated. No level is stated for PPE capitalisation. **Assumptions made about future and major sources of estimation uncertainty**; All items should really contain a financial indication of the impact of a change in the financial assumption on the accounts	amber

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

.

Accounting area	Summary of policy	Comments	Assessment
Judgements and estimates (cont)	• Key estimates and judgements include: – Useful life of PPE – Revaluations – Impairments – Accruals – Valuation of pension fund net liability – Provision for NNDR appeals – Other provisions	**Critical judgment disclosures:** The critical judgement should describe the nature of the critical judgement rather than referring to the areas – e.g. the reference to the leases where the Council has used its judgement No reference is made to judgements around schools (e.g. accounting treatment of the schools' land and buildings and consolidation of school activities An additional critical judgement has been made at audit request on the Classification of agricultural properties We have assessed this section as amber, to reflect the draft accounts were not adequate in our view. We are satisfied that, subject to the comments above, appropriate disclosures are now made in the accounts.	● amber
Going concern	The Chief Finance Officer 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 2016/17 financial statements.	● green
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.	● green

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 Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures
2.	**Matters in relation to related parties**	• From the work we carried out, we have not identified any related party transactions which have not been disclosed.
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 • Specific representations have been requested from management in respect of the significant assumptions used in the ongoing tenancies assumption for agricultural properties
5.	**Confirmation requests from third parties**	• We have not mad any specific confirmation requests from third parties.
6.	**Disclosures**	• We have highlighted areas of non compliance with the code and omissions from the accounts with officers. They have agreed to make enhanced disclosures in all material areas, although there are some areas where presentation could be further enhanced in line with best practice.

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Other communication requirements continued

	Issue	Commentary
7.	**Matters on which we report by exception**	There are no matters to report be exception
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. If the Council exceeds the specified group reporting threshold of £350k we 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 but will be completed by the deadline set by the NAO

Internal controls

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

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

Our audit included consideration of internal control 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.

The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA (UK&I) 265)

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Adjusted misstatements at date of drafting we have not reviewed all the adjustments made to the accounts or the supporting working papers and thus some items are 'to be confirmed' as indicated) (TBC)

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

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year.

	Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on total net expenditure £000
1	PPE: note 10: investment assets (£3.9m impairment should be revaluation of £0.2 (see item 1 page 27)	tbc	tbc	tbc
2	PPE: note 10 investment assets (£14.3m impairment rather than reclassification) (see item 2 page 27)	tbc	-£14.3m	tbc
3	EFA restatement: see item 12 page 30	tbc	tbc	tbc
4	CIES restatement (see item 13 page 30) – reclassification between lines – no impact on totals	£67m exp £47.7m income	n/a	£nil
	Overall impact		**£4.8m tbc**	**£3.6m tbc**

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Unadjusted misstatements

The table below provides details of adjustments identified during the audit which have not been made within the final set of financial statements. We ave also made recommendations for further disclosures to be made which do not impact on the numbers themselves and these are referred to on page 27) The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below:

	Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Reason for not adjusting
1	Item 3 page 27. Discrepancy between asset register and Valuation certificates	n/a	£0.3m understatement	Not considered material to investigate further
2	PPE: item 6 page 28: discrepancy between the asset register and the accounts	Up to (£0.7m)	(£0.7m) £0.3m	Not considered material to investigate further
3	Item 20 page 31: grant income overstated – impact on notes 28 and 11 £1.2m	n/a	n/a	Not considered material to investigate further
	Maximum Overall impact	£0.7m	£0.7m	

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Misclassifications and disclosure changes

The table below provides details of misclassification and disclosure changes identified

	Adjustment type	Value	Account balance	Impact on the financial statements
1	Misstatement (adjusted, not yet reviewed)	£3.9m	PPE: note 10 Investment assets	Our sample included an impairment of £3.9m on an investment asset. We queried this and following consultation with the valuer was identified as an error. Rather than an impairment there is an upward revaluation of £0.2m which is to be adjusted for. This is reflected in the revised accounts however the associated journals are not yet available for us to review. This will impact on various statements including balance sheet and CIES
2	Misstatement (adjusted, not yet reviewed)	£14.3m	PPE: note 10 Investment assets	**Rotherwas Industrial Estate:** the draft accounts reflect an in year transfer of £14.3m of Investment properties to Infrastructure assets. We queried this as the reason for the re-classification was not evident from the valuation statement, and officers were unable to supply any explanation for the accounting treatment. This movement was highlighted as unusual in our initial review of the accounts due to the relative size, the expectation that this type of reclassification would normally require a revaluation (as investment and infrastructure assets have a different valuation basis) and whether this was as a consequence of an event in the year or an error in a prior year (which would require a prior period restatement). This matter took considerable time to resolve but the outcome is that this was incorrectly reclassified and should have been accounted for as an impairment in year. We again queried this as the asset was valued at £21m and was being impaired to £7.3 which is considerable for such an asset. Officers requested further information from the valuer who confirmed that this value reflected the uncertain conditions following Brexit and officers accept this explanation as reasonable. This impairment will impact on primary statements and we have yet to review the entries, although these are reflected in the revised accounts.
3	Misstatement (unadjusted)	£0.367m	PPE: note 10 Investment properties	The valuer has provided a spreadsheet reflecting his valuation of assets. There are some discrepancies between this and the asset register as follows:. • *Hereford New Livestock Market, Roman Road*, The value in the asset register is: £1,270,001, The valuation per the spreadsheet is£1,948,000, £677,999 lower than the valuer's amount. • *Rotherwas Industrial estate* The value in the asset register is: £7,321,500. The valuation as per the spreadsheet is £7,010,798. The Asset register is £310,702 higher than the valuer's amount. The net effect on the asset register and hence the accounts is £367,297 lower than the valuers report. Reported here as above trivial.

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Misclassifications and disclosure changes

The table below provides details of misclassification and disclosure changes identified

	Adjustment type	Value	Account balance	Impact on the financial statements
4	Disclosure (unadjusted)	£40.7m	Long term debtors/ Financial instruments	Long term debtors have increased from £27.1m to £40.7m. (£8.9m 2014/15 . Included in this total, is an amount of £35.8m 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 11 (financial instruments), and there is some reference to the loan arrangement under PFI disclosures, given the significance of this item, we proposed that the Council include a separate disclosure note specifically for this item. This was also a recommendation made in 15/16. (long term borrowing also impacted)
5	Disclosure (unadjusted)	£560.6	Note 10: Property Plant and equipment	Note 10 – is headed Fixed assets correct terminology under the code is property plans and equipment
	Disclosure (unadjusted)	£33.5	Note 10: Property Plant and equipment	Note 10 and note 32 – no reference to PFI asset additions in year – would expect specific reference (was included in 15/16) and it should be included n the assets table in this note. There is no reference in the accounts that the asset became operational this year – in fact the reference in note 32 implies it is not yet complete.
6	Misstatement (unadjusted)	£0.7m and £0.3 m	Note 10: Property Plant and equipment	There are two amounts in note 10 which do not agree to the fixed asset register, these are: Buildings: Impairment Losses shown in note 10 as £3.1m and revaluation is £7.2m. The asset register shows these figures to be £2.4m and £6.9m respectively creating a difference of £0.7m and £0.3m respectively between the accounts and the supporting working papers (asset register).
7	Disclosure (unadjusted)	£various fair value disclosures	Note 11: Financial Instruments	In the previous year we highlighted that 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. However in the 2016/17 accounts there is reference to both the new loan rate and the premature repayment rate. Any reference to the premature repayment rate should be removed.

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Misclassifications and disclosure changes

The table below provides details of misclassification and disclosure changes identified

	Adjustment type	Value	Account balance	Impact on the financial statements
8	Misstatement (unadjusted)	£0.3m	Note 14	The cash flows for operating activities included the following adjustment for non-cash movements shows for the line depreciation, amortisation & impairment of non-current assets £26.1m. Deprecation is shown in note 15 as £16.2m, the remainder being reconciled to the supporting evidence to the MIRS, although there is a discrepancy of £0.3m. It is not clear the source of the imbalance and we have not asked officer to resolve due to the relative immateriality, although it is reported here as it is above trivial.
9	Misstatement (unadjusted)	£0.4975	PPE: note 10	Our testing of PPE incudes a test of ownership. We checked one asset: Walford school and understand that there is an ongoing dispute with the Land Registry around the land, dating back to the original deed of 1882. The Council does not technically own the land that the school sits on, even though they do own the school building and the land adjacent to the school. The value of the land is included in total PPE. We accept that it is not appropriate to adjust for this as the matter is unresolved.
10	Disclosure (unadjusted)	£1.7m	PPE note 10	Hereford Governors House Union Walk: Value as at prior year was £1.7m, now valued at £1,700. As per the Asset register this has created an impairment of £1.7m. The valuation certificate has been checked and it confirms that the value is £1,700, review of the valuation certificate shows that in the prior year the value was also £1,700. Therefore the impairment which has been included in the 2016/2017 year is a correction of the prior year where the valuation has been included as £1.7m instead of £1,700. This item was selected for testing and finance staff were unaware of the reason for the impairment, and was referred to the y the valuer for clarification. The accounting treatment is appropriate to adjust for an error in prior year accounts as it is not material and thus a PPA is not required. No specific reference is made to this in the accounts as it was not considered to be significant.

Misclassifications and disclosure changes

The table below provides details of misclassification and disclosure changes identified

	Adjustment type	Value	Account balance	Impact on the financial statements
11	Misstatement/ disclosure (adjusted)	£369k expenditure £200k income	Prior period adjustment CIES	The draft accounts did not include a note, as indicated in the code, to reflect the restatement of 2015/16. The revised draft did not agree to the prior year statements (gross or net) and were restated
12	Misstatement (adjusted)	tbc	EFA	The note presentation was not compliant with the code requirements. The revised draft was still not correct and was redrafted because: • The column net chargeable to the general fund did not reflect revised code requirement that the total general fund reflects both earmarked ad general fund balances and correctly reconcile to the MIRS i.e. reflecting a key feature of the 'Telling the Story' changes to the Code of Practice on local authority accounting. • The adjustments between funding and accounting basis and accounting basis did not agree to the MIRS
13	Disclosure (unadjusted)	£5.2m	MIRS/ EFA	The adjustments between funding and accounting basis is not supported by a separate note
14	Misstatement (adjusted)	£67m expenditure £47.7m income	CIES	Transferred to Economies, communities and corporate amounts that more appropriately is classified as income and expenditure under that heading, rather than corporate. Corporate line removed form the accounts and this now more reasonably reflects the segmental analysis required under the ‘telling the story’ changes to the code.
15	Disclosure (unadjusted)	£270,600	Related parties disclosure	Herefordshire have paid £270,600 to SWAP for internal audit work. The Chief Finance Officer (Andrew Lovegrove) is the Council's representative on SWAP. This is not disclosed within Note 24 as reported in 2015-16.
16	disclosure (un adjusted)	accounting policy	Note 23: Pooled budgets	An accounting policy has been added but no additional narrative to note 23 to clarify which elemest go through Herefordshire Council accounts
17	Misstatement (adjusted)		Note 23: Pooled budgets	The minimum revenue fund, capital pool, and additional revenue pool did not include prior year comparators. This is a standard requirements that all notes should contain prior year comparators.

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Misclassifications and disclosure changes

The table below provides details of misclassification and disclosure changes identified

	Adjustment type	Value	Account balance	Impact on the financial statements
18	Misstatement (adjusted)	£3.5m	Note 30: capital expenditure and capital financing	The following figures need to be changed in the Capital Expenditure and Capital Financing note: The figure for the PFI should be £11.4m and not £14.9m (investment) and the figure for Government grants and other contributions should be £30.1m and not £33.6m. (source of finance)
19	disclosure (adjusted)	numeric	Note 24:Officer remuneration	Employees on £50k+. Draft accounts total – 103 amended to 104 Some incorrect allocation of bandings Some incorrect split of termination benefits
20	misstatement (unadjusted)	£1.2m	Note 28: grant income	Note 28 to the accounts shows the grants which are credited to services. The department of Work and Pensions line represents the grant from the DWP in respect of benefit subsidy. Included in this amount is £1.258m for benefit overpayments, The note is £1.258m overstated. This also means that note 11 is overstated on the Government grants and contributions line by £1.258m. Given the other headings it appears reasonable that this should go in the fees, charges and other service income line.
21	Disclosure (unadjusted)	narrative	Annual governance statement	The AGS should make reference to the audit certificate remaining open for 2015/16
22	Disclosure (unadjusted)	narrative	Accounting policy: Interests in Companies and Other Entities	page 32 - interests in companies - states that Herefordshire Council has a 85% shareholding. Per companies house Herefordshire Council has a 71% shareholding
23	Disclosure (adjusted)	£3.6m	Note 11, note 40, note12	Reference is made to bad debt 'provisions. ' Under the code debtors as financial assets are subject to 'impairment'. Also each class of debtor in note 12 should be shown at its recoverable amount. Code para 5.3.4.2. If the Council wish to show impairments, then it should show the class of debtor less impairment then total of that class.

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 2016. AGN 03 identifies one single criterion for auditors to evaluate:

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

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 reported to you the outcome form our initial risk assessment in March 2017 and identified two significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated March 2017.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

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
- Financial sustainability

In common with many health and social care economies, integration continue to present considerable operational and financial challenges. Whilst this is also the case in Herefordshire we consider that the Council and its partners are taking reasonable steps to manage local arrangements in this challenging environment

It is well reported that the Council has to achieve considerable savings within the lifetime of the medium term financial plan. Nationally councils are struggling and this is reflected in increasing numbers of qualifications to vfm conclusions. We are satisfied that Herefordshire is planning appropriately and delivering the savings that it needs to achieve its MTFP.

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 seeking to deliver wide ranging changes and greater integration to ensure the financial sustainability of adult health and social care services. Working with partners from different organisations and service areas with potentially conflicting priorities, the project is complex and high profile.	We will follow up progress that the Council is making in relation to the 'One Herefordshire' plan.	**We have concluded that the Council and its partners are making progress in achieving transformation. During the year there has been focus on developing the Sustainability and transformation Plan (STP) across the Herefordshire and Worcestershire foot print. Priorities and work streams have been revisited and build on the One Herefordshire plan.** The STP process has prompted a refresh of the 'One Herefordshire' plan. There are now clearer priorities and expected outcomes of the STP / One Herefordshire process. It is still early in the implementation of the STP and it is still out to consultation, although work is progressing with some of the identified work streams, for example around urgent care. There has been some focus this year on strengthening governance arrangements. around these work streams. It is too early to assess how effective those arrangements are in practice. The Joint Commissioning Board (as part of the Better Care Fund Framework) and Health and Wellbeing Board specific areas. We do note that there is little representation by the providers in these forums. The partners have yet to finalise the Better Care Fund targets and budgets for 2017/18, which is indicative of the local pressures. Health partners are facing considerable financial pressures and operational challenges, including turnover of key senior management over the last year, making successfully progressing integration a challenge. This will be a continuing risk for the partners for the foreseeable future. Despite this, we consider that sufficient progress has been made this year for the risk to be sufficiently mitigated to not be a matter for the VFM conclusion.

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
Financial sustainability The Council has a challenging target of delivering £87m of savings between 2010 and 2020. Significant progress has been made towards delivering this target with an anticipated £69.5m of these savings to be achieved by 2016/17. As at January 2017 the Council is forecasting a moderate overspend of £250k. The 2017/18 budget (and update to MTFP) includes some changes in assumptions. The budget monitoring reports in year contain a number of variations on a detailed directorate report level.	We will gain an understanding of the financial settlement impact and the Council's response to it and what arrangement the Council has in place to remain financially sustainable in the medium to long term.	**We have concluded that the Council is financially sustainable for the foreseeable future.** The out-turn report for 2016/17 indicates that the Council achieved a moderate underspend against the revised budget for 2016/17. This budget incorporates planned savings of around £10m and thus is a fantastic achievement this year, particularly when considered in the context of the deficit positions of the Council's local NHS partners. The out-turn position reflects a relatively small overspend on children's wellbeing. 2017/18 monitoring reports indicate increases in the number of looked after children not previously reflected in the budget resulting in a forecast overspend for the year. This remains a continuing financial pressure, despite increased efforts made by the Council to reduce the number of children in care. The level of savings to be achieved by 2019/20 is broadly in line with the prior year medium term financial plan, reflecting the achievement of 2016/17 targets and the impact of the 2017/18 financial settlement. The remaining £17.4m of savings are to be achieved by the end of 2019/20. We have considered how the Council is agreeing to and monitoring savings within the directorates. We have seen that targets have been 'signed up to' by service managers and monitored through 'savings cards' with risks to delivery being highlighted in in- year monitoring These arrangements are appropriate. Inevitably there is some virement of budgets between services and directorates during the year and as savings are embedded within budgets there would be improved transparency if reporting is further enhanced by reporting of year end savings out-turn at scheme level.

Significant difficulties in undertaking our work

As already outlined in our report, we experienced some difficulty in completing our audit work this year and this has resulted in the audit being protracted and being completed later than planned.

The audit could have been completed earlier had officers in the Council been more engaged in the audit and committed to resolving matters when raised.

Significant matters discussed with management

We sought specific representation on the basis of the significant judgements disclosure on agricultural properties. These properties are treated as operational within the accounts based on 2013 valuation because they have ongoing tenancies until the end of the calendar year. We have not seen adequate evidence to support the position on these tenancies and have therefore sought written confirmation from management that this is the case.

Having considered management's response we concluded that this assumption is reasonable.

Any other matters

As referred to earlier in the report, other significant matters discussed with management included the valuation of the PFI asset and other matters associated with the valuation of property plan and equipment.

We are hopeful that these matters will be resolved soon enabling us to issue an unqualified opinion on the financial statements by the statutory deadline.

Section 4: Fees, non-audit services and independence

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

Fees

	Proposed fee £	Final fee £
Council audit	124,405	TBC
Audit of subsidiary company: Hoople Limited (audit not yet complete)	14,780	TBC
Audit of subsidiary company/ joint committee west Mercia Energy prorate £4,333 to HUA	13,000	TBC
Grant certification: Housing Benefits indicative (audit not yet complete)	5,415	TBC
Total audit fees (excluding VAT)	**144,600**	**TBC**

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The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA) The final fee will be confirmed when our audit work is competed. Fee variations will be agreed with officers and PSAA.

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'.

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

Fees for other services

Service	Fees £
Audit related services:	
Skills funding agency	3,000
Teachers pension	tbc
Non-audit services: Provision of advice to support HC procure a development partner to deliver schemes on a number of sites. An extension to this work was commissioned in 2017/18 and fees agreed are £12,000.	24,880
Hoople ltd; Tax compliance services to Hoople Ltd (not yet complete)	2,550

Please note that there is a discrepancy between these fees and those in Note 31 of the accounts as the accounts don't provide a separate disclosure of fees charged outside of the main external (PSAA) audit contract, as required by the Code. The advisory work is not included in the note to the accounts and the total audit fees in that note include Skills Funding Agency and the fee for the prior year teacher's pension.

Independence and non-audit services

We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place

	Service provided to	Fees	Threat?	Safeguard
	Herefordshire Council	£24,800	N	Fees are not material to either Herefordshire Council or Grant Thornton and thus self- interest not considered a risk The proposed work is objective analysis and any decision will be made by management. No self-review, management or advocacy threat.
	Hoople Ltd – tax compliance	£2,550	N	Proposal for work considered and approved by our ethics team. The fee and the value of tax in the accounts is not material and so no self review self interest management or advocacy threat.
	TOTAL	£27,430		

We are assured that the above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor.

Section 5: Communication of audit matters

Communication to those charged with governance

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.

This document, The Audit Findings, outlines those key issues and other matters arising from the audit, which we consider should be communicated in writing rather than orally, 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, or emphasis of matter		✓
Unadjusted misstatements and material disclosure omissions		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓

Appendices

A. Action plan

Priority

Rec no.	Recommendation	Priority	Management response	Implementation date and responsibility
1	Prior to the completion of the draft financial statements, senior officers should quality review the accounts including consideration of the Code of Practice and CIPFA LAAP bulletins. This will mitigate any risk of non-compliance with the disclosure requirements of the Code. This should be built into the closedown timetable. A similar recommendation was made in the 2015/16 AFR	high	Agreed – this will be added into the closedown timetable	Head of Corporate Finance May 2018
2	Officers should be more proactive in the commissioning of PPE valuation, ensuring that all relevant information is considered and shared with valuers as appropriate. Officers should review all changes for reasonableness prior to being reflected in the accounts. The cost of commissioning any valuations should not be a material consideration over ensuring compliance with code requirements.	medium	Agreed- an earlier programme will be agreed with the valuation experts following consultation with other councils.	Corporate Finance Manager April 2018
3	Officers should consider the good practice requirements of the code in relation to the narrative report in drafting the 2017/18 accounts. There are many good practice examples available. Rolling forward the prior year report and inserting this year's figures does not indicate that this matter has been given due consideration. As a minimum there should be better reference to important and significant transactions within the accounts, both in the narrative report and in supporting disclosures to notes to the accounts.	medium	The narrative report will be considered during the 2017/18 closedown process.	Chief Finance Officer 2018

Controls

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

A. Action plan

Priority

Rec no.	Recommendation	Priority	Management response	Implementation date and responsibility
4	The accounts contain some material figures that are provided by third parties. This includes the IAS19 disclosures and information around PFI. Officers should ensure that they have considered the key assumptions made by third parties and can demonstrate that they have considered the reasonableness of all information provided.	medium	Agreed. Already in place and will continue.	Head of Corporate Finance 2018
5	In the 2016/17 AFR we recommended that a note should be included on the LEP showing transactions. This was not included.	low	Noted. Shropshire Council have expanded their publicly available LEP reporting.	

Controls

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

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B: Audit opinion

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

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HEREFORDSHIRE COUNCIL

We have audited the financial statements of Herefordshire Council (the "Authority") for the year ended 31 March 2017 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 2016/17.

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 Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Finance Officer and auditor

As explained more fully in the Statement of Responsibilities, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, 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, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") 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 Chief Finance Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report, 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 2017 and of its expenditure and income for the year then ended; and
- the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report, the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the audited financial statements.

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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: Framework (2016)' published by CIPFA and SOLACE; or
- we have reported a matter in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Act.

We have nothing to report in respect of the above matters

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

Respective responsibilities of the Authority and auditor

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

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 for securing economy, efficiency and effectiveness in its use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, 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 this criteria as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.
We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether in all significant respects the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, we are satisfied that in all significant respects the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate for the Authority for the year ended 31 March 2016 in accordance with the requirements of the Act and the Code until we have:
completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2016, and
completed our consideration of other matters brought to our attention by the Authority.

We are satisfied that these matters do not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing value for money through economic, efficient and effective use of its resources.

[Signature]

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

Colmore Building
20 Colmore Circus
Birmingham
B4 6AT

[Date]

DRAFT

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Herefordshire Council

Meeting:	Audit and governance committee
Meeting date:	Wednesday 20 September 2017
Title of report:	Signing of 2016/17 statement of accounts
Report by:	Head of corporate finance

Classification

Open

Decision type

This is not an executive decision

Wards affected

(All Wards);

Purpose and summary

To approve the 2016/17 statement of accounts and to note the associated letter of representation from the external auditors, Grant Thornton.

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.

Recommendation(s)

That:

(a) the 2016/17 statement of accounts (at appendix a) be approved; or

(b) the committee delegates to the chief finance officer the approval of the statement of accounts to encompass the remaining asset valuation of the energy from waste plant if this remains outstanding on 20 September, following consultation with the chairman; and

(c) the letter of representation (at appendix b) is signed by the chairman of the

Further information on the subject of this report is available from Josie Rushgrove
Tel: 01432 261867, email: jrushgrove@herefordshire.gov.uk

committee and the chief finance 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.

Key considerations

2. The statement of accounts (appendix a) have 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.

3. The most significant matters in the 2016/17 accounts and a summary of the council's financial position are set out in the narrative report. Key points for 2016/17 include the following:

    a) in 2016/17 the council underspent by £0.6m.

    b) general fund reserves increased to £7.9m, 5% of its 2017/18 net revenue budget.

    c) specific reserves have been set aside totalling £44.7m to mitigate financial risks in future years.

2016/17 statement of accounts

4. 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

5. 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

6. Total usable reserves at 31 March 2017 were £58.4m compared with £37.5m at 31 March 2016, 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 2016	7.3	28.5	0.5	1.2	37.5

Further information on the subject of this report is available from Josie Rushgrove
Tel: 01432 261867, email: jrushgrove@herefordshire.gov.uk

Balance as at 31 March 2017	7.9	44.7	4.2	1.6	58.4
Increase/(decrease)	**0.6**	**16.2**	**3.7**	**0.4**	**20.9**

7. The general fund reserve balance increased by £0.6 as a result of the 2016/17 underspend. Details of the movements to and from earmarked reserves are shown on page 41 to the accounts with the main reason for the increase due to the interim success of ongoing litigation.

Unusable Reserves

8. 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). The unusable reserves totalled £60.9m at 31 March 2017 compared to £96.2m at 31 March 2016 with the main movement being an increase in the pension liability of £42.6m, reflecting the impact of the change in financial assumptions following the completion of a triannual valuation. The estimated pension deficit on Herefordshire's fund as at 31 March 2017 is £248m; this represents the difference between the estimated value of obligations and the fair value of the pension fund assets. Further details can be found on page 70 to the accounts.

Comprehensive income and expenditure statement

9. 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

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

11. At 31 March 2017 long term assets totalled £617.9m, compared to £564.8m at 31 March 2016. Long term assets include the current valuation of property, plant and equipment the council uses in the provision of its services and the inclusion of capital investment during the year.

12. Current assets totalled £29.7m at 31 March 2017, compared to £41.8m at 31 March 2016, with the decrease due to less assets being held for sale at the year end.

13. Current liabilities totalled £72.0m at 31 March 2017, compared to £83.2m at 31 March 2016 with short term borrowing decreasing by £11.7m which reflects the decreased need to borrow due to the increase in usable reserves at the year end.

14. Long term liabilities totalled £456.3m at 31 March 2017 compared to £389.7m at 31 March 2016, following an uplift in the pension's liability and PFI commitments following the recognition of the energy from waste plant becoming operational.

Cash flow statement

15. This statement represents a summary of all cash flowing in and out of the council during 2016/17, during 2016/17 there was a net increase in cash and cash equivalents of £0.8m.

The collection fund

16. Note 8 to the accounts details the collection fund. This fund includes income from council taxpayers and business ratepayers, which totalled £165.4m in 2016/17 compared to £157.9m in 2015/16. Expenditure includes precept payments to West Mercia Police (£12.7m), Hereford and Worcester Fire Authority (£5.7m) and parishes (£3.5m). These are paid from income collected from taxpayers on their behalf. In 2016/17 business rates of £23.8m were paid to central government representing 50% of business rate income collected.

Letter of representation

17. Attached at appendix b is the council's letter of representation confirming that, to the best of the council's 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 2016/17 and applicable law.

Community impact

18. Publication of the statement of accounts in accordance with statutory requirements helps the council to achieve its code of corporate governance commitment to behave with integrity, demonstrate strong commitment to ethical values, and respect the rule of law. The council is accountable for how it uses the resources under its stewardship, including accountability for outputs and outcomes achieved. In addition the council has an overarching responsibility to serve the public interest in adhering to the requirements of legislation and government policies.

Equality duty

19. Under section 149 of the Equality Act 2010, the 'general duty' on public authorities is set out as follows. A public authority must, in the exercise of its functions, have due regard to the need to -

   a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;

   b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;

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

20. The public sector equality duty (specific duty) requires us to consider how we can positively contribute to the advancement of equality and good relations, and demonstrate that we are paying 'due regard' in our decision making in the design of policies and in the delivery of services. As this is a decision is a mandatory finance functions, we do not believe that it will have an impact on our equality duty.

Resource 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. The statement of accounts were made available for public inspection between 3 July and 11 August 2017. The council receive one response to this invitation. No objections have been received.

Appendices

25. Appendix A - 2016/17 statement of accounts

26. Appendix B - letter of representation

Background papers

27. None identified.

Further information on the subject of this report is available from Josie Rushgrove
Tel: 01432 261867, email: jrushgrove@herefordshire.gov.uk

Appendix A

Herefordshire Council

Herefordshire Council Unaudited Statement of Accounts 2016/17

Herefordshire.gov.uk

Contents

Narrative Report 2016/17

Introduction by the Leader of the Council

Herefordshire's statement of accounts for 2016/17 set out the council's overall financial position for the year.

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.

2016/17 saw further significant budget reductions of £10m in addition to those achieved in previous years, but I am pleased to report that the council delivered these savings and continued to provide good services to the community. Further savings will be required in the coming years - £17.5m between now and 2019/20 to offset the impact of deteriorating public sector finances.

2016/17 saw the councils general reserve balance increase by £0.6m to £7.9m. Herefordshire's financial management strategy also includes maintaining specific reserves to deal with expenditure commitments in future years; these totalled £44.7m as at 31 March 2017.

The statements demonstrate the robust financial standing Herefordshire has and assurance in its ability to deliver the medium term financial strategy approved by Council in February 2017.

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

- **Understand the overarching financial position of the Council and the outturn for 2016/17**
- **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**

Councillor Tony Johnson
Leader of the Council

About Herefordshire

Herefordshire covers an area of 2,180 square kilometres (842 square miles), and is a predominantly rural county, with the 4th lowest population density in England (85 persons per square kilometre).

Herefordshire's population is about 186,100, with approximately a third of the population living in Hereford city, a third in the market towns and a third in rural areas.

As a whole, Herefordshire has relatively low levels of multiple deprivation. In general people are healthy, live longer compared to the national average and have positive experiences in 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.

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 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 the rest of the UK.

Corporate Plan

The Council approved its corporate plan for the period to 2019/20 in February 2017 setting 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 adopted its medium term financial strategy for the period to 2019/20 in February 2017 which sets out how we will continue to deliver valued services whilst continuing to deliver savings.

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**

Financial performance, economy, efficiency and effectiveness of use of resources in 2016/17

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 highly valued 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 continuing investment programme in the roads.

In April 2017 the Council put a proportion of its smallholding estate on the market.

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 costing 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 statements.

Council Members

The overall political composition of the council is as follows:

Party	Number of councillors
Conservative	29
Herefordshire Independents	7
It's OUR County!	11
Liberal Democrats	2
Green Party	3
Unaffiliated	1
Total	**53**

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

Members Allowances	2015/16 £m	2016/17 £m
Basic allowances	0.4	0.4
Special allowances	0.2	0.2
Total	**0.6**	**0.6**

Financial Performance 2016/17

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

Service	Outturn Budget £m	Outturn Actual £m	Outturn over/(under) £m
Adults and wellbeing	51.8	52.3	0.5
Children's wellbeing	21.9	22.1	0.2
Economy, communities and corporate (ECC)	45.7	44.8	(0.9)
Directorate outturn	**119.4**	**119.2**	**(0.2)**
Other budgets and reserves	28.6	28.2	(0.4)
Total	**148.0**	**147.4**	**(0.6)**

The 2016/17 statements demonstrate financial robustness with reserves proportionately comparable to similar councils, providing resilience as we face the challenges ahead.

Revenue expenditure and income

The council's net revenue budget of £148m was underspent by £0.6m, after transfers to and from specific reserves.

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

Capital Programme

Capital investment for 2016/17 totalled £55.8m and included:

- EnviRecover, energy from waste plant loan which became operational in year - £11.4m
- Hereford enterprise zone site investment works - £1.4m
- Improvements to Hereford, Ross, Bromyard and Leominster leisure centres - £2.0m

Future years' capital programme

The council maintains a rolling capital programme reflecting commitments, links to strategic plans and estimated sources of capital funding. The forecast capital programme detailed by the sources of funding for 2017/18 is set out in the table below.

	£000s
Expenditure	73,272
Financed by:	
Capital grants	(39,071)
Capital receipts	(9,745)
Prudential borrowing	(24,456)
Total	(73,272)

Funding the Council

Much of the council's investments are funded by grants however, when capital grants cannot fund a scheme in full, prudential borrowing can be used to fund the project and be repaid from future savings or repayments. In 2016/17 the council utilised £19.6m of prudential borrowing to fund the capital programme, including:

- Energy from waste plant loan, £11.4m, to be funded by future loan repayments
- Investment in the corporate estate of £1.1m
- Investment in leisure centres of £1.5m, to be financed by rental charges
- Investment of £1.2m in the new school under construction at Colwall

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 2016/17 the council secured £7.0m of new long-term borrowing. Principal debt repayments of £8.5m were paid to the Public Works Loan Board under existing maturity, annuity and EIP (equal instalments of principal) agreements. Total interest of £6.1m 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 2017 £28.0m of short-term loans from other local authorities were outstanding.

Total borrowing at the year end, including short-term loans, was £176.5m (compared to £196.4m as at 31 March 2016).

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

Net borrowing (after offsetting investments) was £173.5m as at 31 March 2017, compared to £188.9m as at 31 March 2016.

Council reserves

General reserves
As at 31 March 2017 the council held general reserves of £7.9m, providing resilience for the budget challenges ahead.

Earmarked reserves
As at 31 March 2017 the council held £44.7m of earmarked reserves, these are explained in more detail in the statements.

Significant provisions, contingencies and write-offs

The council held provisions of £5.6m at 31 March 2017.

The most significant provision is the rates appeal provision of £3.4m based on an assessment of the council's liability in relation to business rate appeals at 31 March 2017.

At 31 March 2017 the council also held a provision of £2.0m for independently assessed outstanding insurance commitments. Herefordshire Council pays the first £100 to £50k of most insurance claims (depending on the type or class of the claim), known as the excess. Due to the investment in highways by Herefordshire Council and BBLP (Balfour Beatty Living Places), whilst this will not affect part liabilities, it has reduced the cost of liabilities going forward.

A list of contingent liabilities are set out in 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), the pension's note starting on page 70 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 2017 is £247.0m. 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 (£1m at 31 March 2016).

The council has agreed with the Actuary that in order to recover the deficit over 18 years that the employer's deficit contribution decreases from £6.8m in 2016/17. The Actuary has confirmed that the future employers service contribution rate, which is paid as a percentage of current employees' gross pay, is to remain at 15.6% until 2019/20. The pension fund position is reviewed every three years and was revalued as at 31 March 2016.

Core Financial Statements and Explanatory Notes

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

Movement in Reserves Statement

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

Comprehensive Income and Expenditure Statement

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

Balance Sheet

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

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

Cash Flow Statement

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

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

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

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

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

Notes to the Financial Statements

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

The Collection Fund

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

The unaudited Statement of Accounts, which may be subject to change, take account of events up to 7th June 2017 have been authorised for issue on 7th June 2017 by the Section 151 Officer.

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

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 Chief Finance Officer (Section 151 Officer)

I confirm that the Statement of Accounts gives a true and fair view of the financial position of Herefordshire Council at 31 March 2017 and its income and expenditure for the year ended 31 March 2017.

Chief Finance Officer (section 151 officer)

Approval of Accounts

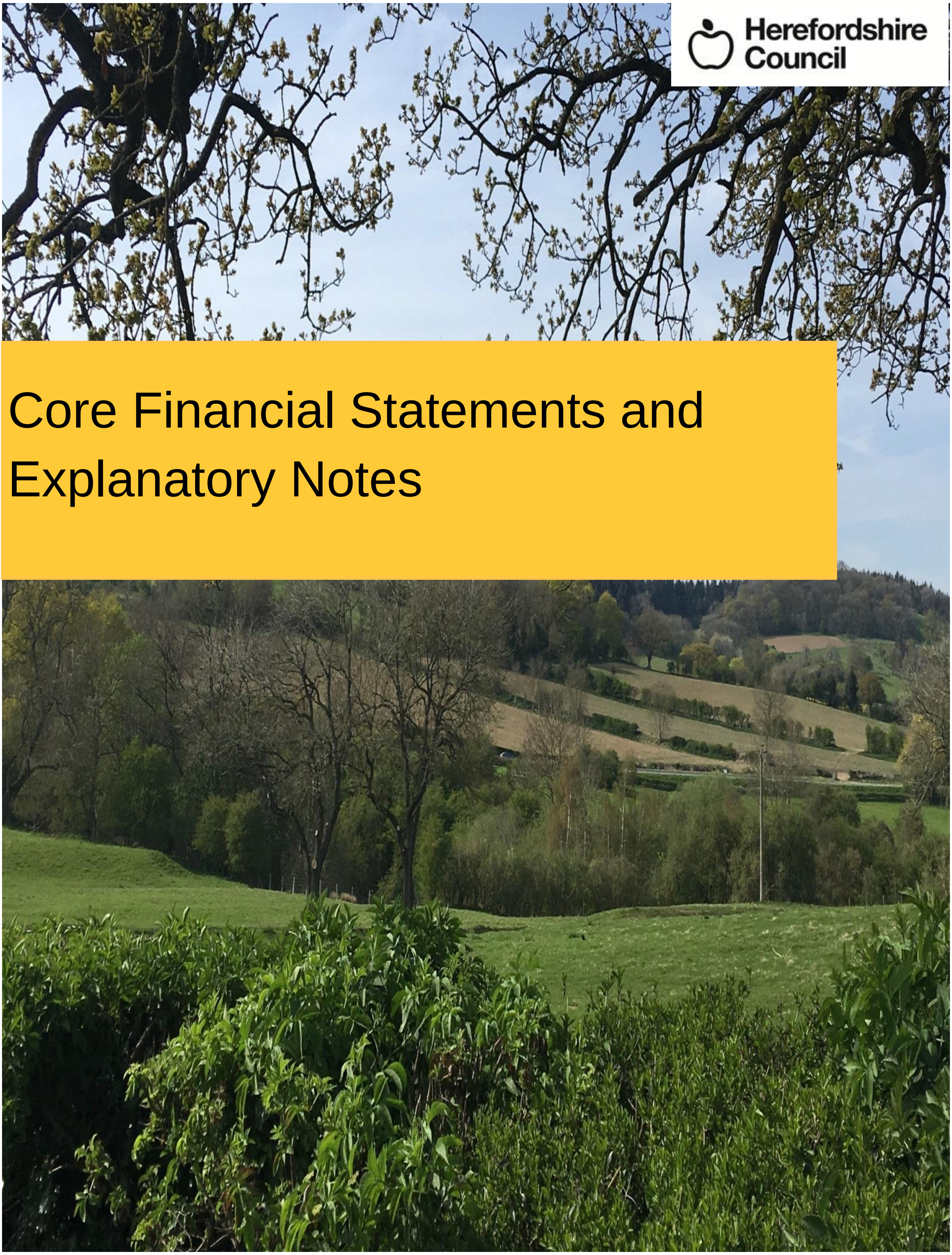
In accordance with the Accounts and Audit Regulations 2015, I confirm that the Statement of Accounts were approved by the audit committee on xx July 2017.

Chair of Audit Committee

INDEPENDENT AUDITORS REPORT TO THE MEMBERS OF HEREFORDSHIRE COUNCIL

The statements are currently unaudited and the independent auditors report will be inserted on completion of the audit. The independent auditors who will be conducting an audit of the statements are:

Grant Thornton UK LLP
Colmore Building
20 Colmore Circus
Birmingham
B4 6AT



Core Financial Statements and Explanatory Notes

Movement in Reserves Statement

2016/17	Notes	General Fund Balance	Earmarked Reserves	General Fund Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Useable Reserves	Unusable Reserves	Total reserves
		£m	£m	£m	£m	£m	£m	£m	£m
Balance brought forward		(7.3)	(28.5)	(35.8)	(0.5)	(1.2)	(37.5)	(96.2)	(133.7)
Surplus or deficit on the provision of services		(12.1)	-	(12.1)	-	-	(12.1)	-	(12.1)
Other comprehensive income and expenditure		-	-	-	-	-	-	26.5	26.5
Total comprehensive income and expenditure		(12.1)		(12.1)	-	-	(12.1)	26.5	14.4
Adjustments between accounting basis and funding basis under regulations	3	(4.7)	-	(4.7)	(3.7)	(0.4)	(8.8)	8.8	-
Net increase/decrease before transfers to earmarked reserves		(16.8)	-	(16.8)	(3.7)	(0.4)	(20.9)	35.3	14.4
Transfers to or from earmarked reserves	5	16.2	(16.2)	-	-	-	-	-	-
Decrease/(Increase) for the Year		(0.6)	(16.2)	(16.8)	(3.7)	(0.4)	(20.9)	35.3	14.4
Balance Carried Forward		(7.9)	(44.7)	(52.6)	(4.2)	(1.6)	(58.4)	(60.9)	(119.3)

Movement in Reserves Statement 2015/16 Comparative

2015/16 Comparative			Useable Reserves						
	Notes	General Fund balance £m	Earmarked Reserves £m	General Fund Reserves £m	Capital Receipts Reserve £m	Capital Grants Unapplied £m	Total Useable Reserves £m	Unusable Reserves £m	Total Reserves £m
Balance brought forward		**(7.1)**	**(26.7)**	(33.8)	**(4.4)**	**(2.5)**	(40.7)	**(78.9)**	**(119.6)**
Surplus or deficit on the provision of services		8.0	-	8.0	-	-	8.0	-	8.0
Other comprehensive income and expenditure		-	-	-	-	-	-	(22.1)	(22.1)
Total comprehensive income and expenditure		**8.0**	-	**8.0**	-	-	**8.0**	**(22.1)**	**(14.1)**
Adjustments between accounting basis and funding basis under regulations	9	(10.0)	-	(10.0)	3.9	1.3	(4.8)	4.8	-
Net increase/decrease before transfers to earmarked reserves		**(0.2)**	-	**(0.2)**	**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)**	**(2.0)**	**3.9**	**1.3**	**3.2**	**(17.3)**	**(14.1)**
Balance Carried Forward		**(7.3)**	**(28.5)**	**(35.8)**	**(0.5)**	**(1.2)**	**(37.5)**	**(96.2)**	**(133.7)**

Comprehensive Income and Expenditure Statement

2015/16 (restated)					2016/17		
Expenditure	Income	Net		Notes	Expenditure	Income	Net
£m	£m	£m			£m	£m	£m
84.2	(29.6)	54.6	Adults and wellbeing		83.5	(31.5)	52.0
124.7	(90.9)	33.8	Children's wellbeing		116.3	(93.0)	23.3
159.8	(79.6)	80.2	Economy, communities and corporate		127.1	(74.1)	53.0
368.7	**(200.1)**	**168.6**	**Net Cost of Services**	**2**	**326.9**	**(198.6)**	**128.3**
3.5	(0.4)	3.1	Other Operating Expenditure	7	6.4	-	6.4
16.3	(3.8)	12.5	Financing, Investment Income and Expenditure	8	37.8	(5.0)	32.8
-	(176.2)	(176.2)	Taxation and Non-Specific Grant Income	9	-	(179.6)	(179.6)
388.5	**(380.5)**	**8.0**	**Surplus or deficit on the provision of services**		**371.1**	**(383.2)**	**(12.1)**
-	-	(9.6)	Surplus or deficit in revaluation of non-current assets	10	-	-	(13.7)
-	-	(12.5)	Re-measurement of net defined Benefit Liability		-	-	40.2
-	**-**	**(22.1)**	**Other comprehensive income and expenditure**		**-**	**-**	**26.5**
		(14.1)	**Total comprehensive income and expenditure**				**14.4**

Balance Sheet

31 March 2016 £m		Notes	31 March 2017 £m
493.5	Property, Plant and Equipment	10	551.6
40.6	Investment Property	10	21.6
0.8	Intangible Assets	10	0.8
2.8	Heritage Assets	10	3.2
27.1	Long Term Debtors	11	40.7
564.8	**Long Term Assets**		**617.9**
2.5	Short-term Investments	11	-
0.2	Inventories		0.2
25.1	Short Term Debtors	12	21.7
7.7	Cash & Cash equivalents	13	6.2
6.3	Assets held for Sale	10	1.6
41.8	**Current Assets**		**29.7**
(46.2)	Short Term Borrowing	11	(34.5)
(29.3)	Short Term Creditors	18	(32.2)
(0.8)	Short Term Provisions	19	(2.1)
(5.5)	Cash & Cash equivalents	13	(3.2)
(1.4)	Capital Receipts in Advance		-
(83.2)	**Current Liabilities**		**(72.0)**
(4.9)	Long-term provisions	19	(3.6)
(152.0)	Long-term borrowing	11	(143.5)
(2.2)	Capital Grants Receipts in Advance		(3.4)
(230.6)	Other Long Term Liabilities	11	(305.8)
(389.7)	**Total Long-term Liabilities**		**(456.3)**
133.7	**Net Assets**		**119.3**
(37.5)	Usable Reserves	3	(58.4)
(96.2)	Unusable Reserves	4	(60.9)
(133.7)	**Total Reserves**		**(119.3)**

Cash Flow Statement

2015/16 £m		Notes	2016/17 £m
8.0	Net surplus or deficit on the provision of services		(12.1)
(28.0)	Adjust net surplus or deficit on the provision of services for non-cash movements	14	(42.8)
1.7	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	15	5.8
(18.3)	**Net cash flows from operating activities**		**(49.1)**
47.0	Net cash flows from investing activities	16	26.8
(30.8)	Net cash flows from financing activities	17	21.5
(2.1)	**Net increase or decrease in cash and cash equivalents**		**(0.8)**
(0.1)	Cash and cash equivalents at the beginning of the reporting period		(2.2)
(2.2)	Cash and cash equivalents at the end of the reporting period		(3.0)
(2.1)	**Net increase or decrease in cash and cash equivalents**		**(0.8)**

Prior period adjustment—restatement of 2015/16

The Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 now requires the service analysis in the CIES to be based on the organisational structure under which the Council operates and manages its services. Previously the presentation was based on the service expenditure analysis set out in CIPFA's Service Reporting Code of Practice for Local Authorities (SeRCOP). The 2015/16 comparative figures have been restated to reflect this change.

The following three tables - one each for Expenditure, Income and Net Expenditure – report the re-statement of the 2015/16 statements in accordance with the 2016/17 reporting structure. For each of the tables:

1. The rows represent the 2015/16 structure
2. The columns represent the 2016/17 structure

Gross Expenditure

				Directorates			
SERCOP Categories	Closing CIES	Recharge Adjustment	Revised CIES	Adults and Wellbeing £m	Children's Wellbeing £m	Economy, Communities & Corporate £m	Total Expenditure £m
Adult Social Care	77.8	(2.8)	75.0	71.6	-	3.4	75.0
Children's and education services	139.2	(5.6)	133.6	0.2	124.6	8.8	133.6
Cultural and Related Services	9.3	(1.3)	8.0	-	-	8.0	8.0
Environmental and Regulatory	25.9	(1.8)	24.1	-	-	24.1	24.1
Planning Services	17.2	(2.5)	14.7	(0.2)	-	14.9	14.7
Highways and Transport Services	25.2	(1.0)	24.2	-	-	24.2	24.2
Housing Services	55.9	(2.5)	53.4	4.0	-	49.4	53.4
Corporate and Democratic Core	1.7	0.0	1.7	-	-	1.7	1.7
Non Distributed Costs	2.4	0.0	2.4	-	-	2.4	2.4
Central Services to the Public	5.3	17.5	22.8	0.2	-	22.6	22.8
Public Health	8.8	0.0	8.8	8.8	-	-	8.8
Total Expenditure	368.7	0	368.7	84.6	124.6	159.5	368.7

Income

SERCOP Categories	Directorates: Adults and Wellbeing £m	Children's Wellbeing £m	Economy, Communities & Corporate £m	Total Expenditure £m
Adult Social Care	(19.1)	-	(0.1)	(19.2)
Children's and education services	-	(90.9)	(1.5)	(92.4)
Cultural and Related Services	-	-	(0.7)	(0.7)
Environmental and Regulatory	-	-	(4.3)	(4.3)
Planning Services	-	-	(12.0)	(12.0)
Highways and Transport Services	-	-	(5.8)	(5.8)
Housing Services	(1.8)	-	(50.7)	(52.5)
Corporate and Democratic Core	-	-	-	-
Non Distributed Costs	-	-	(0.7)	(0.7)
Central Services to the Public	-	-	(3.6)	(3.6)
Public Health	(8.8)	-	-	(8.8)
Total Expenditure	**(29.7)**	**(90.9)**	**(79.4)**	**(200.0)**

Net expenditure

SERCOP Categories	Directorates: Adults and Wellbeing £m	Children's Wellbeing £m	Economy, Communities & Corporate £m	Total Expenditure £m
Adult Social Care	52.5	-	3.3	55.8
Children's and education services	0.2	33.7	7.3	41.2
Cultural and Related Services	-	-	7.3	7.3
Environmental and Regulatory	-	-	19.8	19.8
Planning Services	(0.2)	-	2.9	2.7
Highways and Transport Services	-	-	18.4	18.4
Housing Services	2.2	-	(1.3)	0.9
Corporate and Democratic Core	-	-	-	-
Non Distributed Costs	(0.2)	-	(0.4)	(0.6)
Central Services to the Public	-	-	23.6	23.6
Public Health	-	-	-	-
Total Expenditure	**54.5**	**33.7**	**80.9**	**169.1**

1. 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 under section 21 of the 2003 Act primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 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 2.5% (based on market yields and other factors);

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

d) The change in the net pension's liability is analysed into six components;

   i. **Current service cost:** The increase in liabilities as a result of service earned in the year is allocated to the revenue account of the services for which the employee worked, within the Comprehensive Income and Expenditure Statement

   ii. **Past service cost:** The increase in liabilities arising from a scheme amendment or curtailment whose effect relates to service earned in earlier years is debited to the Net Cost of Services in the Comprehensive Income and Expenditure Statement.

iii. **Net Interest on the defined benefit liability:** The change during the period that arises from the passage of time is charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement.

iv. **Return on plan assets:** Charged to the Pensions Reserve as Other Comprehensive Income and Expenditure but excludes amounts included in net interest on defined benefit liability.

v. **Actuarial gains and losses:** Changes in the net pensions liability that arise because events have not coincided with assumptions previously made by the actuaries is included in Other Comprehensive Income and Expenditure.

vi. **Contributions paid to the pension fund:** Cash paid as employer's contributions to the pension fund.

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

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

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 statements.

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 in 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. Management look for a minimum return of 4% on investment asses.

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

Criteria	Tier Level
• 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

Overheads and support services are held within corporate services in accordance with the council's arrangements for accountability and financial performance.

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 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 cur 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

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

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.

Pooled budgets

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

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 Ltd. However, the council is not exposed to the direct risk of any loss through transactions or collapse, and therefore there is no requirement to complete group accounts.

The council holds an interest in a company called Hereford Futures Ltd, whose role was to facilitate development and regeneration within Hereford. This company did not trade in 2016/17.

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 £5.0m amounted to £1.0m at 31 March 2017.

The council holds 85% 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 2016 was £3.042m (the unaudited value as at 31 March 2017 is £3.97m) this is 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 2016/17 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

From 2017/18, the statements must be approved by the S151 Officer by 31 May 2018 (one month earlier than the current statutory deadline of 30 June), and the 2017/18 audited statements 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 7, 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 the accounts but it has been determined that there is no requirement for group accounts.
- Included in current assets are assets held for sale valued at £1.6m 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 2016/17. 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.
- The council has decided to continue to report its smallholding agricultural estate holding as an operational asset within property, plant and equipment. The estate forms an important part of the county's involvement in agriculture with operational tenancies in place during the 2016/17 year. The council has, however, made the policy decision that it is not in the business of farming as it does not meet its strategic priorities and some of the estate will be marketed for sale. Active marketing commenced during 2017/18, with the success of the marketing being unknown at the balance sheet date, these assets will be reclassified as assets held for sale in 2017/18, and valued accordingly. The element of stock not being marketed are being retained for future development opportunities and remain tenanted on retirement tenancy terms, the council will review the asset classification of this holding during 2017/18.

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 2017.

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 £10.8m. An increase of 0.1% in the inflation rate used would increase the stated liability by £11.0m. 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 £12m. However, the assumptions interact in complex ways. During 2016/17 the council's actuaries advised that the net pension's liability had increased by £42.9m 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.

Item	Uncertainties	Effect if actual results differ from assumptions
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.

2. Expenditure and Funding Analysis 2016/17

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

	Net chargeable to General Fund £m	Adjustments between the funding and accounting basis (1) £m	Net Expenditure in CIES £m
Adults and wellbeing	**52.2**	(0.2)	**52.0**
Children's wellbeing	**21.9**	1.4	**23.3**
Economy, communities and corporate	**43.5**	9.5	**53.0**
Net cost of services	**117.6**	**10.7**	**128.3**
Other operating expenditure	**(134.4)**	(6.0)	**(140.4)**
Total	**(16.8)**	**(4.7)**	**(12.1)**
Opening general fund	**(35.8)**		
Surplus/deficit in year	(16.8)		
Closing general fund	**(52.6)**		

	Pension adjustment	Depreciation /Impairment	REFCUS	MRP	RCCO	Profit/Loss on sales	Revaluation of investment assets	Capital grants	Other adjustments (2)	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Adults and wellbeing	0.5	0.1	0.2	-	-	-	-	-	(1.0)	(0.2)
Children's wellbeing	(0.4)	3.6		-	-	-	-	-	(1.8)	1.4
Economy, communities and corporate	(4.8)	22.1	1.0	-	-	-	-	-	(8.8)	9.5
Net cost of services	(4.7)	25.8	1.2	-	-	-	-	-	(11.6)	10.7
Other operating expenditure	7.1		-	(12.0)	(0.8)	2.6	13.5	(26.4)	10.0	(6.0)
Total	2.4	25.8	1.2	(12.0)	(0.8)	2.6	13.5	(26.4)	(1.6)	(4.7)

(1) Breakdown of adjustments between the funding and accounting basis

Notes to Expenditure and Funding Analysis (continued)

(2) Other adjustments include the following;

	Short term leave £m	Collection fund £m	PFI £m	Other £m	Total £m
Adults and wellbeing	-	-	(1.0)	-	**(1.0)**
Children's wellbeing	-	-	(1.8)	-	**(1.8)**
Economy, communities and corporate	-	-	(0.7)	(8.1)	**(8.8)**
Net cost of services	**-**	**-**	**(3.5)**	**(8.1)**	**(11.6)**
Other operating expenditure	0.3	(1.9)	3.5	8.1	**10.0**
Total	**0.3**	**(1.9)**	**-**	**-**	**(1.6)**

Expenditure and Funding Analysis 2015/16 Comparative figures

	Net chargeable to General Fund £m	Adjustments between the funding and accounting basis (1) £m	Net Expenditure in CIES £m
Adults and wellbeing	**53.9**	0.7	**54.6**
Children's wellbeing	**24.8**	9.0	**33.8**
Economy, communities and corporate	**50.7**	29.5	**80.2**
Net cost of services	**129.4**	**39.2**	**168.6**
Other operating expenditure	**(131.4)**	(29.2)	**(160.6)**
Total	**(2.0)**	**10.0**	**8.0**
Opening general fund	**(33.8)**		
Surplus/deficit in year	(2.0)		
Closing general fund	**(35.8)**		

Expenditure and Funding Analysis 2015/16 Comparative figures

Notes

(1) Breakdown of adjustments between funding and accounting basis

	Pensions adjustment	Depreciation/impairment	REFCUS	MRP	RCCO	Profit/loss on sale	Revaluation of investme	Capital grants	Other adjustments (2)	Total
Adults and wellbeing	(0.2)	1.3	0.7	-	-	-	-	-	(1.1)	0.7
Children's wellbeing	(0.6)	11.5	-	-	-	-	-	-	(1.9)	9.0
Economy, communities and corporate	(0.9)	30.1	0.1	-	-	-	-	-	0.2	29.5
Net cost of services	(1.7)	42.9	0.8	-	-	-	-	-	(2.8)	39.2
Other operating expenditure	6.8	-	-	(11.6)	(0.6)	(0.5)	(0.1)	(25.0)	1.8	(29.2)
Total	5.1	42.9	0.8	(11.6)	(0.6)	(0.5)	(0.1)	(25.0)	(1.0)	10.0

(2) Other adjustments include the following

	Short term leave £m	Collection fund £m	PFI £m	Other £m	Total £m
Adults and wellbeing	-	-	(1.1)	-	**(1.1)**
Children's wellbeing	-	-	(1.8)	(0.1)	**(1.9)**
Economy, communities and corporate	-	-	(0.6)	0.8	**0.2**
Net cost of services	**-**	**-**	**(3.5)**	**0.7**	**(2.8)**
Other operating expenditure	0.2	(1.2)	3.5	(0.7)	**1.8**
Total	**0.2**	**(1.2)**	**-**	**-**	**(1.0)**

Material Items of Income and Expense

There were no material items of income and expense included the Comprehensive Income and Expenditure Account for 2016/17.

Events after the Balance Sheet Date

The unaudited Statement of Accounts was authorised for issue on 9 June 2017 by the Section 151 Officer. Events taking place after this date are not reflected in the financial statements or notes.

Cabinet approved the future plans for the councils smallholding estate in October 2016, http://hc-modgov:9070/documents/s50041005/Smallholdings%20disposal%20plan%20-%20cover%20report.pdf , which included actively marketing the portfolio post the balance sheet date. The tendering process opened on 24 April 2017. These statement of accounts include the smallholding estate at its operational value of £8.5m, the external professional agent advised that the sale of the whole estate could generate a capital receipt in the region of £35m. The outcome of the tender process will be unknown ahead of the financial statements being authorised for issue with operational tenancies continuing until December 2017.

3. Movement in Usable Reserves

2016/17 Movements	General Fund Revenue £m	Earmarked Reserves £m	General Fund Reserves £m	Capital Receipts Reserve £m	Capital Grants Unapplied £m	Total Usable Reserves £m
Opening balance	**(7.3)**	**(28.5)**	**(35.8)**	**(0.5)**	**(1.2)**	**(37.5)**
(Surplus)/deficit on provision of services	(12.1)	-	**(12.1)**	-	-	**(12.1)**
Depreciation	(15.9)	-	**(15.9)**	-	-	**(15.9)**
Impairment	(9.9)	-	**(9.9)**	-	-	**(9.9)**
Net revenue expenditure funded by capital under statute	(1.2)	-	**(1.2)**	-	-	**(1.2)**
Net book value of assets sold	(8.4)	-	**(8.4)**	-	-	**(8.4)**
Capital receipts from assets sold	5.8	-	**5.8**	(5.8)	-	**-**
Net Gains/Losses on Value of Investment Assets	(13.5)	-	**(13.5)**	-	-	**(13.5)**
Adjustments for Council Tax and NDR Receivable	1.9	-	**1.9**	-	-	**1.9**
Short Term Leave Adjustment	(0.3)	-	**(0.3)**	-	-	**(0.3)**
Capital Financed by Receipts		-		2.1	-	**2.1**
Provision for the Redemption of Debt	12.0	-	**12.0**	-	-	**12.0**
Revenue Contribution to Capital Outlay	0.8	-	**0.8**	-	-	**0.8**
Reversal of IAS19 Pension Charges	(2.4)	-	**(2.4)**	-	-	**(2.4)**
Capital grants unapplied	0.8	-	**0.8**	-	(0.8)	**-**
Capital Financed by Grants and Contributions	25.6	-	**25.6**	-	0.4	**26.0**
Transfer to/from reserves	16.2	(16.2)	**-**	-	-	**-**
Total movement	**(0.6)**	**(16.2)**	**(16.8)**	**(3.7)**	**(0.4)**	**(20.9)**
Closing balance	**(7.9)**	**(44.7)**	**(52.6)**	**(4.2)**	**(1.6)**	**(58.4)**

Movement in Useable Reserves 2015/16 Comparative Movements

Comparative 2015/16 Movements	General Fund Revenue £m	Earmarked reserves £m	General Fund Reserves £m	Capital Receipts Reserve £m	Capital Grants Unapplied £m	Total Usable Reserves £m
Opening balance	**(7.1)**	**(26.7)**	**(33.8)**	**(4.4)**	**(2.5)**	**(40.7)**
(Surplus)/deficit on provision of services	8.0	-	8.0	-	-	**8.0**
Depreciation	(14.8)	-	(14.8)	-	-	**(14.8)**
Impairment	(28.1)	-	(28.1)	-	-	**(28.1)**
Net revenue expenditure funded by capital under statute	(0.8)	-	(0.8)	-	-	**(0.8)**
Net book value of assets sold	(1.3)	-	(1.3)	-	-	**(1.3)**
Capital receipts from assets sold	1.8	-	1.8	(1.8)	-	**-**
Net Gains/Losses on Value of Investment Assets	0.1	-	0.1	-	-	**0.1**
Adjustments for Council Tax and NDR Receivable	1.2	-	1.2	-	-	**1.2**
Short Term Leave Adjustment	(0.2)	-	(0.2)	-	-	**(0.2)**
Capital Financed by Receipts		-		5.7	-	**5.7**
Provision for the Redemption of Debt	11.6	-	11.6		-	**11.6**
Revenue Contribution to Capital Outlay	0.6	-	0.6	-	-	**0.6**
Reversal of IAS19 Pension Charges	(5.1)	-	(5.1)	-	-	**(5.1)**
Capital Financed by Grants and Contributions	25.0	-	25.0	-	1.3	**26.3**
Transfer to/from reserves	1.8	(1.8)	-	-	-	**-**
Total movement	**(0.2)**	**(1.8)**	**(2.0)**	**3.9**	**1.3**	**3.2**
Closing balance	**(7.3)**	**(28.5)**	**(35.8)**	**(0.5)**	**(1.2)**	**(37.5)**

v

4. Movement in unusable reserves analysis

2016/17 Movements	Short Term Absences Account	Capital Adjustment Account	Collection Fund Adjustment Account	Financial Instruments Adjustment Account	Pensions Reserve	Revaluation Reserve	Deferred Capital Receipts Reserve	Total Unusable Reserves
	£m	£m	£m	£m	£m	£m	£m	£m
Opening balance	2.2	(241.9)	1.1	0.4	205.4	(63.1)	(0.3)	(96.2)
Depreciation	-	15.9	-	-	-	-	-	15.9
Impairment	-	9.9	-	-	-	-	-	9.9
Net revenue expenditure funded by capital under statute	-	1.2	-	-	-	-	-	1.2
Net book value of assets sold	-	6.0	-	-	-	2.4	-	8.4
Net Gains/Losses on Value of investment assets	-	13.5	-	-	-	-	-	13.5
Adjustments for Council tax and NDR receivable	-	-	(1.9)	-	-	-	-	(1.9)
Short Term Leave Adjustment	0.3	-	-	-	-	-	-	0.3
Capital Financed by Receipts	-	(2.1)	-	-	-	-	-	(2.1)
Provision for the Redemption of Debt	-	(12.0)	-	-	-	-	-	(12.0)
Revenue Contribution to Capital Outlay	-	(0.8)	-	-	-	-	-	(0.8)
Reversal of IAS 19 Pensions Charges	-	-	-	-	2.4	-	-	2.4
Net movement on Revaluation Reserve	-	-	-	-	-	(13.7)	-	(13.7)
Actuarial Gain/Loss on Pensions	-	-	-	-	40.2	-	-	40.2
Capital Financed by Grants and Contributions	-	(26.0)	-	-	-	-	-	(26.0)
Depreciation Revaluation Adjustment	-	(1.2)	-	-	-	1.2	-	-
Total movement	0.3	4.4	(1.9)	-	42.6	(10.1)	-	35.3
Total Reserves	2.5	(237.5)	(0.8)	0.4	248.0	(73.2)	(0.3)	(60.9)

Movement in unusable reserves analysis 2015/16 comparative movements

2015/16 Movements	Short term Absences Account £m	Capital Adjustment Account £m	Collection Fund Adjustment Account £m	Financial Instruments Adjustment Account £m	Pensions reserve £m	Revaluation reserve £m	Deferred Capital Receipts Reserve £m	Total Unusable Reserves £m
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 and NDR 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 IAS 19 Pensions Charges	-	-	-	-	5.1	-	-	5.1
Net movement on 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	-	-
Total movement	**0.2**	**(0.4)**	**(1.2)**	-	**(7.3)**	**(8.6)**	-	**17.3**
Total reserves	**2.2**	**(241.9)**	**1.1**	**0.4**	**205.4**	**(63.1)**	**(0.3)**	**(96.2)**

5. Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the General Fund balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to the General Fund in 2016/17.

Reserve	31/03/16 £m	Transfer out £m	Transfer in £m	31/03/17 £m
AWB Invest to Save	(0.1)	0.2	(0.1)	-
Business Rate smoothing	(3.0)	0.1	(0.3)	(3.2)
Colwall Mobiles	(0.4)	0.2	-	(0.2)
ECC	-	0.5	(1.1)	(0.6)
Economic Development	(0.1)	-	-	(0.1)
Hereford Futures Ltd	(0.1)	-	(0.2)	(0.3)
Herefordshire Local Plan	(0.2)	-	-	(0.2)
Herefordshire Relief Road	(0.6)	0.6	(0.3)	(0.3)
ICT	(0.9)	0.1	-	(0.8)
Industrial Estates	(0.4)	-	-	(0.4)
Insurance	(0.2)	-	(0.1)	(0.3)
Library Services	(0.4)	-	-	(0.4)
Merton Meadow Car Park	(0.3)	0.3	-	0
Property Development Vehicle	(0.2)	0.2	(0.1)	(0.1)
Risk mitigation	(4.0)	16.4	(16.0)	(3.6)
School balances	(7.4)	-	-	(7.4)
Schools' sickness	(0.3)	-	(0.1)	(0.4)
Section 256	(0.1)	0.1	-	-
Settlement monies	-		(8.0)	(8.0)
Severe Weather Fund	(0.9)	-	(0.4)	(1.3)
Short Breaks	-	-	(0.3)	(0.3)
Sparsity Reserve	-	-	(4.5)	(4.5)
Special Educational Needs	(0.1)	0.1	(0.1)	(0.1)
Waste Disposal	(3.4)	-	(2.4)	(5.8)
Whitecross School PFI	(0.6)	-	(0.2)	(0.8)
Other small reserves	(0.5)	0.1	(0.2)	(0.6)
Unused grants carried forward	(4.3)	0.7	(1.4)	(5.0)
Total	**(28.5)**	**19.6**	**(35.8)**	**(44.7)**

6. Nature of Expenses Disclosure

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

2015/16 £m		2016/17 £m
	Income	
(47.7)	Fees, charges and other service income	(52.7)
(2.6)	Trading and investment income	(2.6)
(1.2)	Interest and investment income	(2.4)
(118.3)	Income from council tax and non-domestic rates	(123.3)
(210.2)	Government grants and contributions	(202.2)
(0.4)	Gains on disposal of non-current assets	-
(380.4)	**Total Income**	**(383.2)**
	Expenditure	
102.8	Employee benefits expenses	96.7
219.8	Other service expenses	202.8
3.3	Support service recharges (net)	4.9
-	Loss on disposal of non-current assets	2.6
42.9	Depreciation, amortisation and impairment	25.8
16.3	Trading and investment expenditure	34.5
3.3	Precepts and levies	3.8
388.4	**Total Expenditure**	**371.1**
8.0	**(Surplus) or Deficit on the Provision of Services**	**(12.1)**

Following the reporting requirements stipulated by the Code on accounting for schools, the local authority single entity financial statements include an analysis of the income and expenditure of the authority's maintained schools as if it were the expenditure of the authority. Voluntary aided (VA) and Trust school employees are not the employees of the authority but, as indicated above, are required to be consolidated into the single entity financial statements of the local authority (i.e. as employee expenditure). The total of employee expenses in respect of VA and Trust schools was £17.7m in 2016/17 (£17.3m in 2015/16)

7. Other Operating Expenditure

2015/16 £m		2016/17 £m
3.3	Parish Council precepts	3.6
0.2	Levies	0.2
(0.4)	(Gains)/losses on the disposal of non-current assets	2.6
3.1	**Total**	**6.4**

8. Financing and Investment Income and Expenditure

2015/16 £m		2016/17 £m
8.0	Interest payable and similar charges	8.1
6.8	Pensions net interest and admin charge	7.1
(0.8)	Interest receivable	(2.3)
(1.1)	Income and expenditure in relation to trading accounts/investment properties and changes to their fair value	6.5
(0.4)	Other investment income	(0.1)
12.5		**19.3**

9. Taxation and Non Specific Grant Income

2015/16 £m		2016/17 £m
(88.4)	Council tax income	(92.8)
(29.9)	Non domestic rates	(30.5)
(32.9)	Non-ring fenced government grants	(29.9)
(25.0)	Capital grants and contribution	(26.4)
(176.2)		**(179.6)**

10. Property, Plant and Equipment

Cost 2015/16	Buildings	Land	Intangibles	Vehicles, Plant, Furniture & Equipment	Investment Assets	Infrastructure Assets	Community Assets	Surplus assets	Assets Under Construction & WIP	Heritage Assets	Assets Held for Sale	Total Property, Plant & Equipment	PFI assets included in PPE
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Opening balance at 1 April 2016	223.5	77.7	2.9	6.8	40.6	261.5	2.6	0.7	5.0	2.8	6.3	630.4	15.2
Additions	39.0	-	-	1.9	0.1	23.7	-	-	3.7	-	-	68.4	33.5
Disposals	(2.5)	(1.3)	-	-	(0.5)	-	-	(0.3)	-	-	(4.2)	(8.8)	-
Impairment losses	(3.1)	(0.8)	-	-	(18.6)	-	(0.1)	(0.2)	-	-	(0.5)	(23.3)	-
Revaluation	12.3	0.8	-	-	-	-	-	0.3	-	0.4	-	13.8	-
Other movements	(8.4)	0.1	-	-	-	-	-	0.1	-	-	-	(8.2)	-
At 31 March 2017	260.8	76.5	2.9	8.7	21.6	285.2	2.5	0.6	8.7	3.2	1.6	672.3	48.7
Depreciation													
Opening balance at 1 April 2016	(30.5)	-	(2.1)	(2.4)	-	(51.4)	-	-	-	-	-	(86.4)	(2.6)
Adjustment	-	-	0.1	0.1	-	-	-	-	-	-	-	0.2	-
Charge for the year	(6.4)	-	(0.1)	(0.3)	-	(9.1)	-	-	-	-	-	(15.9)	-
Disposals	0.3	-	-	-	-	-	-	-	-	-	-	0.3	-
Impairment depreciation	0.1	-	-	-	-	-	-	-	-	-	-	0.1	-
Other movements	8.2	-	-	-	-	-	-	-	-	-	-	8.2	-
At 31 March 2017	(28.5)	-	(2.1)	(2.6)	-	(60.5)	-	-	-	-	-	(93.7)	(2.6)
Carrying amount at March 2017	232.5	76.5	0.8	6.1	21.6	224.7	2.5	0.6	8.7	3.2	1.6	578.8	46.1
Opening carrying amount at 1 April 2016	193.0	77.7	0.8	4.4	40.6	210.1	2.6	0.7	5.0	2.8	6.3	544.0	12.6

	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Opening balance at 1 April 2016	201.7	81.9	12.2	22.2	32.0	231.3	1.9	4.5	29.3	2.8	3.5	623.3	14.8
Additions	8.6	-	0.1	1.1	7.2	29.3	0.1	-	-	-		46.4	0.4
Disposals	(0.7)	-	-	-	-	-	-	-	(0.6)	-	(0.1)	(1.4)	-
Impairment losses	(3.8)	(2.4)	(9.4)	(16.6)	(1.6)	(4.2)	(0.2)	(0.6)	-	0.1	-	(38.7)	-
Revaluation	(21.9)	4.7	-	0.6	0.1	-	-	-	-	-	1.0	(15.5)	-
Other movements	39.6	(6.5)	-	(0.5)	2.9	5.1	0.8	(3.2)	(23.7)	(0.1)	1.9	16.3	-
At 31 March 2016	223.5	77.7	2.9	6.8	40.6	261.5	2.6	0.7	5.0	2.8	6.3	630.4	15.2
Depreciation													
Opening balance at 1 April 2016	(17.9)	-	(11.0)	(17.1)	-	(45.2)	-	-	-	-	-	(91.2)	(2.6)
Charge for the year	(6.3)	-	-	(0.1)	-	(8.3)	-	-	-	-	-	(14.7)	-
Disposals	0.1	-	-	-	-	-	-	-	-	-	-	0.1	-
Impairment depreciation	0.5	-	8.9	14.3	-	2.1	-	-	-	-	-	25.8	-
Other movements	(6.9)	-	-	0.5	-	-	-	-	-	-	-	(6.4)	-
At 31 March 2016	(30.5)		(2.1)	(2.4)	-	(51.4)	-	-	-	-	-	(86.4)	(2.6)
Carrying amount at March 2016	193.0	77.7	0.8	4.4	40.6	210.1	2.6	0.7	5.0	2.8	6.3	544.0	12.6
Opening carrying amount at 1 April 2015	183.8	81.9	1.2	5.1	32.0	186.1	1.9	4.5	29.3	2.8	3.5	532.1	12.2

Depreciation

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

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

Analysis of Capital Charges to Directorates

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

	Depreciation £m	Impairments/ £m	Total 2016/17 £m
Adults and Wellbeing	0.1	-	0.1
Children's Wellbeing	3.5	0.1	3.6
Economy, Communities and Corporate	12.6	9.8	22.4
Total	**16.2**	**9.9**	**26.1**

Capital Commitments

At 31 March 2017 the council did not have major capital commitments (31 March 2016 £0).

Revaluations

The council carries out a rolling programme that ensures all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. More frequent valuations are carried out if the rolling programme is insufficient to keep pace with material changes in value. Hub Professional Services Ltd complete all valuations. 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 and buildings held at 31 March, £583.5m, the effective date of revaluations are as follows:

Valued as at:	Land and Buildings £m
31 March 2017	56.3
31 March 2016	105.8
31 March 2015	122.8
31 March 2014	53.3
31 March 2013	61.4
Total	

Schools

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

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

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

Investment Properties

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

2015/16 £m		2016/17 £m
(0.9)	Rental income from investment property	(1.1)
0.1	Direct operating expenses arising from investment property	0.1
(0.8)	**Total**	**(1.0)**

Details of the council's investment properties and information about the fair value hierarchy as at March 2016 and March 2017 are as follows:

Recurring fair value measurements using:	Other significant observable inputs Level2 £m
Investment properties as at 31 March 2016	40.6
Investment properties as at 31 March 2017	21.6

11. Financial Instruments

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

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

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

2015/16			2016/17	
Per Balance Sheet £m	Financial Instruments £m		Per Balance Sheet £m	Financial Instruments £m
		Long-term debtors		
25.2	25.2	Loans	36.7	36.7
-	-	Sales invoices and contractual rights	1.9	1.9
1.9	-	PFI lifecycle costs	2.1	-
27.1	**25.2**	**Total**	**40.7**	**38.6**
		Investments		
2.5	2.5	Short-term investments	-	-
7.7	7.7	Cash and cash equivalents	6.2	6.2
10.2	**10.2**	**Total**	**6.2**	**6.2**
		Short-term debtors		
20.2	20.2	Sales invoices and contractual rights	16.0	16.0
6.5	-	Statutory debts (council tax, VAT etc.)	7.0	-
1.8	-	Prepayments	2.3	-
(3.4)	-	Bad debt provisions	(3.6)	-
-	-	Loans	-	-
25.1	**20.2**	**Total**	**21.7**	**16.0**

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

2015/16			2016/17	
Per Balance Sheet £m	Financial Instruments £m		Per Balance Sheet £m	Financial Instruments £m
5.5	5.5	**Cash and cash equivalents**	3.2	3.2
5.5	**5.5**	**Total**	**3.2**	**3.2**
		Short-term borrowing		
0.2	0.2	Bank loans	0.1	0.1
9.4	9.4	Public Works Loan Board	6.4	6.4
36.6	36.6	Borrowing from other local authorities	28.0	28.0
0.1	0.1	Other loans (Salix loan)	-	-
46.3	**46.3**	**Total**	**34.5**	**34.5**
		Short-term creditors		
18.4	18.4	Invoiced amounts and other contractual liabilities	15.9	15.9
2.8	-	Statutory liabilities (PAYE etc.)	7.0	-
7.6	2.2	Accruals and receipts in advance	9.0	2.5
0.5	-	Funds and deposits held	0.3	-
29.3	**20.6**	**Total**	**32.2**	**18.4**
		Long-term borrowing		
12.5	12.5	Bank loans	12.5	12.5
129.5	129.5	Public Works Loan Board	131.0	131.0
10.0	10.0	Borrowing from other local authorities	-	-
152.0	**152.0**	**Total**	**143.5**	**143.5**
		Other long-term liabilities		
25.3	25.3	PFI liabilities and finance leases	57.7	57.7
205.3	-	Pensions liability	248.0	-
230.6	**25.3**		**305.7**	**57.7**

Income, Expense, Gains and Losses

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

2015/16				2016/17		
Financial Liabilities at amortised cost £m	Financial assets: Loans and receivables £m	Total £m		Financial Liabilities at amortised cost £m	Financial assets: Loans and receivables £m	Total £m
			Interest payable and similar charges			
			Interest expense relating to:			
5.9	-	5.9	Loans	6.1	-	6.1
2.1	-	2.1	PFI liabilities	2.0	-	2.0
8.0	**-**	**8.0**	**Total expense in surplus on the provision of services**	**8.1**	**-**	**8.1**
			Interest receivable:			
-	(0.8)	(0.8)	On loans	-	(2.3)	(2.3)
-	**(0.8)**	**(0.8)**	**Total income in surplus on the provision of services**	**-**	**(2.3)**	**(2.3)**
8.0	**(0.8)**	**7.2**	**Net loss/(gain) for the year**	**8.1**	**(2.3)**	**5.8**

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 2016				31 March 2017		
Carrying amount £m	Fair value (using premature repayment rate) £m	Fair value (using new loan rate) £m		Carrying amount £m	Fair value (using premature repayment rate) £m	Fair value (using new loan rate) £m
198.1	248.6	224.1	Total borrowing	177.9	242.8	215.4

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 £57.6m and the fair value as at 31 March 2017 totals £63.3m. The statements have not been adjusted for this as the PFI schemes are set to continue until expiry.

31 March 2016				31 March 2017		
Carrying Amount £m	Fair Value (using premature repayment rate) £m	Fair Value (using new loan rate) £m		Carrying Amount £m	Fair Value (using premature repayment rate) £m	Fair Value (using new loan rate) £m
			Financial Assets			
-	-	-	Long-term investments	-	-	-
27.1	27.1	27.1	Long-term debtors	40.7	40.7	40.7
2.5	2.5	2.5	Short-term investments	-	-	-
7.7	7.7	7.7	Cash and cash equivalents	6.2	6.2	6.2
25.1	25.1	25.1	Short-term debtors	21.7	21.7	21.7
62.4	**62.4**	**62.4**	**Total Financial Assets**	**68.6**	**68.6**	**68.6**
			Financial Liabilities			
138.8	181.9	161.3	Public Works Loan Board	137.4	192.3	168.7
12.6	19.9	16.1	Bank loans (LOBOs)	12.5	22.4	18.6
46.6	46.7	46.7	Loans from other local authorities	28.0	28.0	28.0
0.1	0.1	0.1	Other loans (Salix loan)	-	-	-
29.3	29.3	29.3	Short-term creditors	32.2	32.2	32.2
25.3	39.5	39.5	PFI liabilities and finance leases	57.7	63.4	63.4
252.7	**317.4**	**293.0**	**Total Financial Liabilities**	**267.8**	**338.3**	**310.9**

31 March 2016 £m	Recurring fair value measurements	Input level in fair value hierarchy	Valuation technique used to measure fair value	31 March 2017 £m
	Assets			
24.4	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	35.8
0.8	Long-term debtor - Other	3	Valued at amortised cost due to absence of comparable evidence or principal market	2.9
1.9	PFI lifecycle costs	2	Discount contractual cash flows of the remaining term	2.0
27.1	**Subtotal long-term debtors**			**40.7**
35.3	Other - short-term	N/A	Fair value disclosure is not required for short-tern investments, short-term debtors or cash	27.8
62.4	**Total Assets**			**68.5**
	Liabilities			
161.4	PWLB and other debt	2	Discount contractual cash flows at the market rate for LA loans of the same remaining term	168.7
16.1	LOBO	2	Discount contractual cash flows at the market rate for LA loans of the same remaining term and add the value of the lenders' option from a market option pricing model	18.6
39.5	PFI Scheme Liabilities and Finance Lease Payables	2	Discount contractual cash flows of the remaining term	63.4
75.8	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	35.5
292.8	**Total Liabilities**			**286.2**

12. Debtors

31 March 2016 £m		31 March 2017 £m
4.2	Central government bodies	4.4
5.5	Other local authorities	0.8
2.5	NHS bodies	1.4
12.9	Other entities and individuals	15.1
25.1	**Total**	**21.7**

13. Cash and Cash Equivalents

31 March 2016 £m		31 March 2017 £m
2.7	Cash held by the council	3.2
5.0	Short-term deposits	3.0
7.7	**Total**	**6.2**
(5.5)	Bank current accounts	(3.2)
2.2	**Total Cash and Cash Equivalents**	**3.0**

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

2015/16 £m		2016/17 £m
0.1	Net movement in Inventories	-
21.8	Net movement in Debtors	10.2
(0.3)	Net movement in Creditors	(2.9)
(42.9)	Depreciation, amortisation and impairment of non-current assets	(25.8)
(1.3)	Net Gain/Loss on sale of non-current assets (net book value of assets)	(8.4)
(5.1)	Net charges made for retirement benefits in accordance with IAS19	(2.4)
0.1	Movement in the market value of Investment Properties	(13.5)
(0.4)	Net movement in Provisions	-
(28.0)	**Total**	**(42.8)**

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

2015/16 £m		2016/17 £m
1.7	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	5.8
1.7	**Total**	**5.8**

16. Investing Activities

2015/16 £m		2016/17 £m
46.4	Purchase of property, plant and equipment, investment property and intangible assets	34.8
(1.7)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(5.8)
2.3	Other receipts from investing activities	(2.2)
47.0	**Total**	**26.8**

17. Financing Activities

2015/16 £m		2016/17 £m
(154.0)	Cash receipts of short-term and long-term borrowing	(58)
1.1	Cash payments for the reduction of the outstanding liability relating to finance leases and on-balance sheet PFI contracts	1.3
122.1	Repayments of short and long-term borrowing	78.2
(30.8)	**Total**	**21.5**

18. Creditors

31 March 2016 £m		31 March 2017 £m
(4.8)	Central government bodies	(7.7)
(0.2)	Other local authorities	(1.3)
(1.4)	NHS bodies	(0.6)
(22.9)	Other entities and individuals	(22.6)
(29.3)	**Total**	**(32.2)**

19. Provisions

The movement on provisions from 1 April 2015 to 31 March 2017 is set out below:

	Long-term £m	Short-term £m	Total £m
Balance at 1 April 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 2015/16	-	0.9	0.9
Balance at 31 March 2016	**(4.9)**	**(0.8)**	**(5.7)**
Additional provisions made in 2016/17	-	(1.9)	(1.9)
Amounts used in 2016/17	0.4	0.6	1.0
Unused amounts reversed in 2016/17	1.0	-	1.0
Balance at 31 March 2017	**(3.5)**	**(2.1)**	**(5.6)**

The provisions held at 31 March 2017 are:

31/03/16 £m	Provision Name	Description	Additional Provisions £m	Amounts Used £m	Unused Amounts Reversed £m	31/03/17 £m
(0.6)	Redundancy	Based on the number of planned redundancies and staff identified at risk of redundancy at 31 March 2015 plus contractual commitments to cover redundancies for transferred staff partner organisations	-	0.5	-	(0.1)
(2.0)	Insurance	For potential future insurance claims based on external professional assessment	-	-	-	(2.0)
(0.1)	Special Schools	For high needs top-up funding from special schools, PRUs and home hospital service	-	-	-	(0.1)
(3.0)	NNDR Appeals	For future lodged and unlodged appeals against rating valuations.	(1.9)	0.5	1.0	(3.4)
(5.7)		**Total**	**(1.9)**	**1.0**	**1.0**	**(5.6)**

20. Pensions Reserve

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

2015/16 £m		**2016/17 £m**
212.7	**Balance at 1 April**	**205.4**
(12.5)	Re-measurement of the net defined benefit liability	40.2
17.6	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	16.7
(12.4)	Employer's pension contributions and direct payments to pensioners payable in the year	(14.3)
205.4	**Balance at 31 March**	**248.0**
204.4	Local Government pension scheme	247.0
1.0	Teachers	1.0
205.4	**Balance at 31 March**	**248.0**

21. Trading Operations

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

2015/16 £m		2016/17 £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)
0.7	Expenditure	0.3
0.1	(Surplus)/deficit	**(0.3)**
	Industrial Estates The council owns and manages a number of industrial estates in the county	
(1.3)	Turnover	(1.4)
0.6	Expenditure	1.7
(0.7)	(Surplus)/deficit	0.3
	Retail Properties The council owns retail premises in Hereford city centre from which it receives commercial rents	
(0.5)	Turnover	(0.5)
0.1	Expenditure	3.8
(0.4)	(Surplus)/deficit	3.3
(1.0)	**Total**	**3.3**

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

22. Agency Services

During 2016/17 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 2016/17 spend totalled £5.6m (2015/16 £10.2m) under the Fastershire project, of which £2.6m (2015/16 £4.1m) represents spend in the Gloucestershire area that is not shown in the council accounts as this spend is incurred under an agency arrangement.

23. Pooled Budgets

The council has two pooled budgets for 2016/17, the continuation of the complex needs solution pooled budget from 2015/16 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.

2015/16 £m		2016/17 £m
	Funding provided to the pooled budget	
(3.0)	Herefordshire Council	(3.0)
(0.5)	Herefordshire CCG	(0.5)
(3.5)	Total funding	**(3.5)**
	Expenditure met from the pooled budget	
3.2	Herefordshire Council	2.5
0.5	Herefordshire CCG	0.4
3.7	**Total expenditure**	**2.9**
0.2	**Net deficit/(surplus) on the pooled budget during the year**	**(0.6)**
0.2	**Council share of net deficit/(surplus)**	**(0.5)**

Better Care Fund

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

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

The Department of Health 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 the council services previously supported by NHS funding for the protection of social care, including social work staff, support to carers and helping meet demographic pressures.

2015/16 £m		2016/17 £m
	Funding provided to the pooled budget	
-	Herefordshire Council	-
(11.7)	Herefordshire CCG	(11.7)
(11.7)	Total funding	**(11.7)**
	Expenditure met from the pooled budget	
5.0	Herefordshire Council	5.0
6.7	Herefordshire CCG	6.7
11.7	Total expenditure	**11.7**
-	**Net surplus arising**	**-**
-	**Herefordshire Council share of surplus**	**-**

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

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		2016/17 £m
	Funding provided to the pooled budget	
(18.3)	Herefordshire Council	(19.4)
(8.7)	Herefordshire CCG	(9.3)
(27.0)	**Total funding**	**(28.7)**
	Expenditure met from the pooled budget	
18.4	Herefordshire Council	20.7
9.9	Herefordshire CCG	9.6
28.3	Total expenditure	**30.3**
(1.3)	**Net deficit arising**	**1.6**
(0.9)	**Herefordshire Council share of deficit**	**1.3**

24. 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 2016/17 salary banding information is set out below. Employees receiving remuneration for the year (excluding employer’s pension contributions) were paid the following amounts per pay band. These numbers include the employees shown in the senior employees disclosure note. Where no employees fell within a particular band the band is not shown in the table.

2015/16			Remuneration Band	2016/17		
Non-school	School	Total		Non-school	School	Total
13	24	37	£50,000 - £55,000	12	24	36
9	16	25	£55,001 - £60,000	7	17	24
4	12	16	£60,001 - £65,000	6	9	15
2	4	6	£65,001 - £70,000	2	5	7
3	3	6	£70,001 - £75,000	3	3	6
2	1	3	£75,001 - £80,000	2	3	5
3	1	4	£80,001 - £85,000	2	1	3
-	1	1	£85,001 - £90,000	1	1	2
1	1	2	£90,001 - £95,000	-	-	-
-	-	-	£95,001- £100,000	-	1	1
-	-	-	£100,001 - £105,000	1	-	1
1	-	1	£105,001 - £110,000	1	-	1
1	-	1	£115,001 - £120,000	1	-	1
-	-	-	£120,001 - £125,000	1	-	1
1	-	1	£140,001 - £145,000	-	-	-
-	-	-	£145,001 - £150,000	1	-	1
40	**63**	**103**		**40**	**64**	**104**

The total number of employees at 31 March 2017 was 1,437 non-school staff (1,483 at March 2016) and 2,302 schools’ staff (2,472 at March 2016).

Post		Note	Salary, Fees & Allowances £000s	Compensation for loss of office £000s	Benefits in kind £000s	Pension contributions £000s	Total £000s
Chief Executive	2016/17		145	-	-	24	169
	2015/16		144	-	-	21	165
Director for Economy, Communities and Corporate	2016/17		120	-	1	20	141
	2015/16		119	-	-	18	137
Director for Children's Wellbeing	2016/17		109	-	-	18	127
	2015/16		108	-	-	16	124
Chief Finance Officer/ Section 151 Officer	2016/17	A	46	-	-	8	54
	2015/16		81	-	-	12	93
Director for Adults and Wellbeing	2016/17	B	120	-	-	20	140
	2015/16		69	-	-	10	79
Solicitor for the Council (Monitoring Officer)	2016/17	C	66	-	-	11	77
	2015/16		28		1	2	31

Senior Employees

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

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

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

C. The Solicitor for the Council started on 1 October 2015

The Director of Public Health statutory responsibilities are delivered by Shropshire Council through an interim shared services arrangement

25. Termination Benefits

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

In addition, the total cost of actuarial strain relating to 2016/17 terminations was £0.4m (£0.4m in 2015/16). The total amount of actuarial strain paid to Worcestershire County Council in 2016/17 was £0.5m (£1.1m in 2015/16).

Exit package cost band (including special payments	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17
	Number of compulsory redundancies		Number of other agreed departures		Total number of exit packages by cost band		Total cost of exit packages in each band	
							£000s	£000s
£0 - £20,000	19	10	47	28	66	39	505	232.7
£20,001 - £40,000	1	-	1	4	2	3	42	103.2
Total	**20**	**10**	**48**	**32**	**68**	**42**	**547**	**335.9**

26. External Audit Costs

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

2015/16 £m		2016/17 £m
0.1	Fees payable with regard to external audit services carried out by the appointed auditor	0.1
0.1	**Total**	**0.1**

27. Dedicated Schools Grant

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

Details of the deployment of Dedicated Schools Grant (DSG) receivable for 2016/17 are as follows:

Total 2015/16		Central Expenditure 2016/17	Individual Schools Budget 2016/17	Total 2016/17
£m		£m	£m	£m
115.5	Final DSG allocation before academy recoupment	-	-	116.6
(42.0)	Less academy figure recouped	-	-	(42.5)
73.5	Total DSG after academy recoupment for the year			74.1
1.5	Brought forward from previous year	-	-	1.6
(1.3)	Less carry forward to following year agreed in advance	-	-	(1.6)
73.7	Agreed budgeted distribution in the year	10.0	64.1	74.1
(9.6)	Less: Actual central expenditure	(9.9)	-	(9.9)
(63.8)	Less: Actual Individual Schools Budget deployed to schools	-	(64.0)	(64.0)
0.3	**Carried forward to following year**	**0.1**	**0.1**	**0.2**

A total DSG carry forward of £1.8m existed at 31 March 2017 being the carry forward to the following year agreed in advance of £1.6m plus the in-year under/overspend of £0.2m shown above.

28. Grant Income

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

2015/16 £m		2016/17 £m
	Credited to Taxation and Non Specific Grant Income	
26.7	Revenue Support Grant	17.5
6.2	Other non-ring fenced grants	12.4
88.4	Council Tax income	92.8
29.9	Business rates income	30.5
25	Capital grants	26.4
176.2	**Credited to Taxation and Non Specific Grant Income**	**179.6**
	Credited to Services	
79.8	Department for Education	79.9
5.3	Department for Communities and Local Government	4.6
50.4	Department for Work and Pensions	48.4
0.4	Department for Transport	1.2
6.2	Department for Culture, Media and Sport	0.7
0.5	Department for Environment, Food and Rural Affairs	0.1
9.3	Department of Health	10.3
0.4	Other	0.7
152.3	**Credited to Services**	**145.9**
328.5	**Total**	**325.5**

29. Related Parties

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

Central Government

Central government has effective control over the general operations of the council. It is responsible for providing the statutory framework within which the council operates and provides the majority of its funding in the form of grants.

Members

Members of the Council have direct control over the council's financial and operating policies. There are a number of Councillors who serve on outside bodies and school governing bodies either as a representative of the council or as a private individual. Details of these interests are recorded in the Register of Members' interests, which are updated annually. An examination of the Register indicates that the council's financial transactions with these bodies in 2016/17 are not material. One member was the employee of a care service provider to which the council made payments in the year of £0.9m.

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 £26.7m to Worcestershire County Council (£24.4m in 2015/16), including payments to the pension fund and for the joint waste disposal contract. Payments to the CCG in 2016/17 totalled £1.2m (£1.3m in 2015/16). A total of £4.0m was paid to Wye Valley NHS Trust (£3.0m in 2015/16) and £1.0m to 2Gether (£2.8m in 2015/16).

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 £25.9m to Balfour Beatty in 2016/17 (£34.7m in 2015/16).

FOCSA Services (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 £3.8m in 2016/17 (£3.9m in 2015/16).

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 2016/17 the council paid £0.4m to Halo Leisure Trust (£0.5m in 2015/16).

During the year the council made payments totalling £0.5m to Herefordshire Housing Ltd (£0.7m in 2015/16).

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 2016/17 to WME (£0.1m in 2015/16).

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 £6.8m in 2015/16, a similar value of £7.8m was transacted in 2016/17. There were no contingent liabilities existing with Hoople Ltd that would affect the council. There were no capital commitments outstanding at 31 March 2017 payable to Hoople Ltd.

Hoople Ltd delivered a profit before tax of £0.2m in 2015/16, the 2016/17 figure is not currently available. The council share of 74.7% (as of 2015/16) 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

At 31 March 2017 significant amounts due to and from related parties were:

2015/16		Related Party	2016/17	
Due to £m	Due from £m		Due to £m	Due from £m
-	-	Cabinet Office	0.3	-
1.1	0.1	Department for Communities and Local Government	3.6	1.7
-	1.4	Department for Culture, Media and Sport	-	-
1.0	0.6	Department for Education	0.5	0.4
0.1	-	Department for Work and Pensions	0.8	-
-	-	Doncaster CCG	0.1	-
0.3	-	FOCSA Services (UK) Limited	0.3	-
-	0.1	Hereford and Worcester Fire and Rescue Authority	0.1	0.1
1.1	1.2	Herefordshire CCG	0.5	1.4
-	0.6	Herefordshire Housing Ltd	-	0.6
0.2	-	Heritage Lottery Fund	-	-
-	-	Highways England	-	0.6
1.4	1.5	HM Revenue and Customs	1.5	1.7
-	-	Homes and Communities Agency	0.1	-
-	0.4	Home Office	0	0.1
0.4	0.8	Hoople Ltd	0.3	0.6
-	-	Gwynedd Council	-	0.2
-	-	Merthyr Tydfil Council	-	0.1
0.1	-	Ministry of Justice	-	-
-	0.4	NHS England	-	-
-	0.2	Powys County Council	-	0.1
-	0.1	Rural Payments Agency	-	-
1.2	4.3	Shropshire County Council	-	-
0.5	-	Skills Funding Agency	0.4	-
0.6	-	Teachers' Pensions	0.6	-
-	0.2	West Mercia Police	0	0.2
0.1	0.4	West Mercia Energy	0.1	0.1
0.1	-	Worcestershire County Council	1.3	-
0.2	0.8	Wye Valley NHS Trust	-	-
0.1	0.6	Gloucestershire County Council	-	-
-	0.1	2gether NHS Foundation Trust	-	-
8.5	**13.8**		**10.5**	**7.9**

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

30. Capital Expenditure and Capital Financing

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

2015/16 £m		2016/17 £m
244.3	**Opening capital financing requirement**	**264.9**
	Capital investment	
38.8	Property, Plant and Equipment	68.3
7.2	Investment Properties	0.1
9.6	Revenue expenditure funded from capital under statute	5.7
0.3	Assets acquired under PFI contracts	0.1
17.7	Long term debtors (including loans and PFI prepayments)	11.4
	Sources of finance	
(5.7)	Capital receipts	(2.1)
(35.1)	Government grants and other contributions	(30.1)
	Sums set aside from revenue:	
(0.6)	Direct revenue contributions	(0.5)
(11.6)	Minimum Revenue Provision (MRP)	(12.0)
264.9	**Closing capital financing requirement**	**305.8**
	Explanation of movements in year	
31.9	Increase in underlying need to borrow	19.6
0.3	Assets acquired under PFI contracts	0.1
(11.6)	Minimum Revenue Provision (MRP)	(12.0)
20.6	**Credited to Services**	**7.7**

31. Leases

<u>Council as Lessee</u>

Finance Leases

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

31 March 2016 £m		31 March 2017 £m
0.3	Other land and buildings	0.3
0.3	**Total**	**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 2016/17 £0.1m contingent rents were payable by the council (£0.1m in 2015/16).

Council as Lessor

Finance Leases

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

Operating leases

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

- Retail
- Industrial Use
- Farming
- Other Commercial Use

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

	Amounts Payable						Amounts Receivable	
	Minimum Lease Payments		Finance Lease Liabilities		Operating Leases		Operating Leases	
	2016/17 £m	2015/16 £m	2016/17 £m	2015/16 £m	2016/17 £m	2015/16 £m	2016/17 £m	2015/16 £m
Payable/receivable in the year	-	-	-	-	0.7	0.9	-	-
Not later than one year	-	-	-	-	0.6	0.7	1.4	1.1
Later than one year and not later than five years	0.1	0.1	-	-	1.3	1.6	4.1	3.0
Later than five years	1.7	1.7	0.3	0.3	0.5	0.8	34.0	33.3
Total due in future years	**1.8**	**1.8**	**0.3**	**0.3**	**3.1**	**4.0**	**39.5**	**37.4**

32. Private Finance Initiatives and Similar Contracts

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

Mercia Waste Management 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 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 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 were £3.8m in 2016/17 (£3.8m in 2015/16).

Assets

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

	Land	Buildings	Equipment	Total
	£m	£m	£m	£m
Balance at 1 April 2016	1.9	9.5	1.2	12.6
Additions	-	-	0.1	0.1
Balance at 31 March 2017	**1.9**	**9.5**	**1.3**	**12.7**

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:

2015/16		2016/17			
Total		Shaw Healthcare	Whitecross School	Waste Disposal	Total
£m		£m	£m	£m	£m
26.1	Balance outstanding at start of year	7.9	13.8	3.6	25.3
(1.1)	Payments during the year	(0.3)	(0.5)	(0.5)	(1.3)
0.3	Capital expenditure in the year	0	0.1	33.4	33.5
25.3	**Balance outstanding at year end**	**7.6**	**13.4**	**36.5**	**57.5**

Payments

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

	Service Charges £m	Lifecycle Costs £m	Finance Liability £m	Interest & Similar £m	Total £m
Within 1 year	8.7	0.3	2.3	4.1	15.4
Within 2 to 5 years	37.1	1.5	11.7	15.1	65.4
Within 6 to 10 years	25.6	2.0	10.1	10.9	48.6
Within 11 to 15 years	25.8	2.2	7.8	5.8	41.6
Within 16 to 20 years	9.5	0.1	2.4	1.4	13.4
Balance outstanding at year end	**106.7**	**6.1**	**34.3**	**37.3**	**184.4**

The PFI future year commitments total of £184.4m shown above includes inflation assumptions, without inflation the future year commitments would be £28.5m lower.

33. Capitalisation of Borrowing Costs

The council has a policy of capitalising borrowing costs on relevant projects i.e. where schemes lasting more than 12 months and with at least £10k of interest associated with the project. In 2016/17 no borrowing costs were capitalised (2015/16 £45k).

34. Pension Schemes accounted for as Defined Contribution Schemes

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

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 2016/17.

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

In 2016/17 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.

35. Defined Benefit Pension Schemes

Participation in Pension Schemes

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

Transactions Relating to Post-employment Benefits

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

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

Local Government Pension Scheme

2015/16 £m		2016/17 £m
	Comprehensive Income and Expenditure Statement	
	Cost of Services:	
10.0	Current service cost	9.1
0.7	(Gain)/loss from settlements and curtailments	0.5
	Financing and Investment Income and Expenditure:	
6.7	Net interest expense	7.0
0.1	Administration expenses	0.1
17.5	**Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services**	**16.7**
	Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	
(12.4)	Actuarial (gains) and losses arising on changes in financial assumptions	40.2
(12.4)	**Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement**	40.2
	Movement in Reserves Statement	
(17.5)	Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits	(16.7)
	Amount charged to the General Fund balance for pensions in the year	
12.4	Employer's contribution payable to the scheme	14.2

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to 31 March 2017 (since the introduction of the statement in the 2009/10 restated accounts) is a loss of £112.7m.

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

2015/16 £m		2016/17 £m
486.1	Present value of the defined benefit obligation	602.1
(281.7)	Fair value of plan assets	(355.1)
204.4	**Net liability arising from defined benefit obligation**	**247.0**

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

The table below shows the movement on the pension liability

2015/16 £m		2016/17 £m
500.0	**Opening balance**	**486.0**
10.0	Current Service Cost	9.1
16.3	Interest Cost	17.3
2.5	Contributions by Scheme Participants	2.5
	Re-measurement (gains) and losses	
(27.3)	Actuarial (gains)/losses arising from changes in assumptions	101.3
0.7	Losses/(gains) on curtailments	0.6
(16.2)	Benefits/transfers paid	(14.0)
0.0	Liabilities extinguished on settlements	(0.7)
486.0	**Closing balance**	**602.1**

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

The table below shows the movement on the pension assets

2015/16 £m		2016/17 £m
288.6	**Opening fair value of scheme assets**	**281.7**
9.5	Interest income	10.3
(14.9)	Re-measurement gain/(loss): the return on plan assets, excluding amount included in the net interest expense	61.1
-	Gains/(losses) on settlements	(0.5)
(0.1)	Administration expenses	(0.2)
12.3	Contribution from employer	14.2
2.5	Contributions from employees into the scheme	2.5
(16.2)	Benefits/transfers paid	(14.0)
281.7	**Closing fair value of scheme assets**	**355.1**

The actual return on scheme assets in the year was (£73.2m), 20.8% of the period end assets (2015/16 (£5.3m), 1.9%).

Local Government Pension Scheme assets (at fair value) comprised

31 March 2016 £m		Quoted (Y/N)	31 March 2017 £m
	Cash		
1.6	Cash instruments	Y	1.0
1.5	Cash accounts	Y	2.1
2.9	Net current assets	N	5.1
	Equity instruments		
2.1	UK quoted	Y	1.8
96.2	Overseas quoted	Y	99.2
78.9	Pooled investment vehicle - UK managed funds	N	95.7
56.0	Pooled investment vehicle - UK managed funds (overseas equities)	N	106.2
2.1	Pooled investment vehicle - overseas managed funds	N	0.0
	Property		
8.8	European property funds	N	10.0
3.3	UK property debt	N	3.3
0.6	Overseas property debt	N	1.8
	Alternatives		
10.4	UK infrastructure	N	9.6
	Bonds		
1.2	UK Corporate	Y	1.2
16.1	Overseas Corporate	Y	18.1
281.7	**Closing fair value of scheme assets**		**355.1**

Basis for estimating Assets and Liabilities

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

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

Beginning of the period (p.a.)		End of the period (p.a.)
	Mortality assumptions	
	Longevity at 65 for current pensioners	
23.5 years	Men	22.6
25.9 years	Women	25.6
	Longevity at 65 for future pensioners	
25.8 years	Men	24.8
28.2 years	Women	27.9
	Financial Assumption	
2.0%	Rate of CPI inflation	2.3%
3.5%	Rate of increase in salaries	3.8%
2.0%	Rate of increase in pensions	2.3%
3.6%	Rate for discounting scheme liabilities	2.5%

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	10.8
1 year increase in member life expectancy	12.0
0.1% increase in the salary increase rate	1.6
0.1% increase in the pension increase rate	11.0

Impact on the Councils Cash Flows

The council has agreed a strategy with the actuary to recover the deficit over 18 years, resulting in the employer's deficit contribution increasing from £4.2m in 2015/16 to £6.8m in 2016/17. 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 14.6% to 15.6%.

Total employer contributions expected to be made to the Local Government Pension Scheme by the council in the year ended 31 March 2018 is £13.3m.

Scheme History

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

36. Contingent Liabilities

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

37. Contingent Assets

The council has received a payment from Amey in relation to settling disputed items following the cessation of the Amey contract. This is currently being appealed and work is currently ongoing to resolve these disputes which will determine the appropriate outcome

38. Nature and Extent of Risks Arising from Financial Instruments

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

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 council's exposure to risk.

Credit Risk

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

During 2016/17 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 31 March 2017 £m	Historical experience of default %	Historical experience adjusted for market conditions at 31 March 2017 %	Estimated maximum exposure to default and uncollectability 31 March 2016 £m	Estimated maximum exposure to default and uncollectability 31 March 2017 £m
Deposits with banks and financial institutions	3.0	0	0	0.0	0.0
Customers	6.0	0.4	0.5	0.0	0.0

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

31 March 2016 £m		31 March 2017 £m
4.2	Less than 3 months	4.2
0.5	3 to 6 months	0.4
0.2	6 months to 1 year	1.3
1.7	More than 1 year	0.1
6.6	**Total**	**6.0**

Liquidity Risk

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

31 March 2016 £m		31 March 2017 £m
46.2	Less than 1 year	34.5
	More than 1 year	
15.5	Between 1 and 2 years	5.5
16.2	Between 2 and 5 years	13.1
24.1	Between 5 and 10 years	27.8
96.2	More than 10 years	97.1
198.2	**Total borrowing per balance sheet**	**178.0**

Market Risk

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

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

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

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

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

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

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

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

	1% increase in interest rates £m
Increase in interest payable on borrowing	0.4
Increase in interest receivable on investment balances	(0.1)

39. Trust Funds

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

	Balance at 31 March 2016 £m	Repayment of Trust Fund Balances £m	Balance at 31 March 2017 £m
Other Funds	0.1	-	0.1

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

Supplementary Financial Statements and explanatory notes

40. 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.

2015/16		2016/17		
Total		Council Tax	Business Rates	Total
£m		£m	£m	£m
	Amounts required to be credited to the Collection Fund			
105.9	Council Tax	111.2	-	111.2
48.6	Business Rates Income	-	49.0	49.0
	Contribution towards previous year's Deficit			
1.7	Central Government	-	2.6	2.6
-	Hereford and Worcester Fire Authority	-	2.5	2.5
1.7	Herefordshire Council	-	0.1	0.1
157.9	Total	111.2	54.2	165.4
	Amounts required to be debited from the Collection Fund			
	Precepts. Demands and Shares			
23.8	Central Government	-	23.8	23.8
5.5	Hereford and Worcester Fire Authority	5.2	0.5	5.7
107.3	Herefordshire Council	88.6	23.3	111.9
3.0	Parishes	3.5	-	3.5
0.3	Transitional Protection Payments Payable	-	-	-
12.2	West Mercia Police	12.7	-	12.7
	Contribution towards previous year's Surplus			
0.1	Hereford and Worcester Fire Authority	0.1	-	0.1
1.3	Herefordshire Council	1.2	-	1.2
0.2	West Mercia Police	0.2	-	0.2
	Charges to Collection Fund			
0.3	Cost of collection Allowance	-	0.3	0.3
0.2	Write offs of uncollectable debt	0.2	0.2	0.4
0.3	Increase/(decrease) of Bad Debt Provision	0.2	0.1	0.3
1.1	Increase/(decrease) of Appeals Provision	-	1.0	1.0
-	Other transfers to General Fund	-	0.2	0.2
(0.3)	Spreading of backdated appeals	-	-	-
155.3	Total	111.9	49.4	161.3
2.6	**Surplus/(Deficit) for the Year**	**(0.7)**	**4.8**	**4.1**
(5.9)	Balance brought forward	1.7	(5.0)	(3.3)
(3.3)	**Balance carried forward**	**1.0**	**(0.2)**	**0.8**

Notes to the Collection Fund

The total non-domestic rateable value at the year-end was £129.4m and the national non-domestic rate multiplier for 2016/17 was 49.7p

Non - Domestic Rates Income	2016/17 £m
Annual Debit	(62.6)
Less	
Empty Allowances	1.7
Discretionary Relief	0.6
Mandatory Relief	4.7
Small Business Rate Relief	6.2
Funded Reliefs	0.1
Enterprise Zone	0.3
Total	**(49.0)**

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 2016/17 was £1,644.79 including fire, police and parish precepts, with a range of between £1,592.43 and £1,728.76. The council tax base used for setting the council tax in 2016/17 was 66,873.00.

The Band D equivalents in each valuation band are shown in the table below:

Band	Valuation Range	Charge Factor	Band D Equivalent
A	Up to £40,000	6/9	5,146.86
B	£40,001 to £52,000	7/9	11,036.99
C	£52,001 to £68,000	8/9	11,811.69
D	£68,001 to £88,000	9/9	11,253.41
E	£88,001 to £120,000	11/9	12,577.63
F	£120,001 to £160,000	13/9	8,975.31
G	£160,001 to £320,000	15/9	5,470.40
H	Over £320,000	18/9	315.41
Crown			285.30
Total			**66,873.00**

Council Taxpayer Income	2016/17 £m
Council Tax debit at 1 April	(133.7)
Banding change	(1.7)
Less	
Discounts	10.7
Exemptions	2.8
Council Tax Reduction	10.7
Disablement Relief	0.2
Total	**(111.0)**

The Collection Fund (surplus) or deficit at 31 March 2017 is split as follows:

	Council Tax £m	Business Rates £m	Total £m
Central Government		(0.1)	(0.1)
Hereford and Worcester Fire Authority	-	-	-
Herefordshire Council	0.9	(0.1)	0.8
West Mercia Police	0.1	-	0.1
Total	**1.0**	**(0.2)**	**0.8**

41. 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.

Herefordshire Council

Economy, communities and corporate
Geoff Hughes

Phil W Jones
Engagement Lead
Grant Thornton UK LLP
Colmore Plaza
20 Colmore Circus
Birmingham
West Midlands
B4 6AT

Please ask for: Andrew Lovegrove

Direct Line / Extension 01432 383519

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

20 September, 2017

Dear Sirs

Herefordshire Council
Financial Statements for the year ended 31 March 2017

This representation letter is provided in connection with the audit of the financial statements of Herefordshire Council for the year ended 31 March 2017 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 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

i 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 2016/17 ("the Code") which give a true and fair view in accordance therewith.

ii 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.

iii 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.

iv We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

v Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

vi 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.

vii 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.

viii We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

ix Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the Code.

x All events subsequent to the date of the financial statements and for which the Code requires adjustment or disclosure have been adjusted or disclosed.

xi Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of the Code.

xii We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

xiii We have considered the unadjusted misstatements schedule included in your Audit Findings Report and attached. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Council and its financial position at the year-end .The financial statements are free of material misstatements, including omissions.

xiv We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xv We believe that the Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements.

Specific representations

xvi The accounts reflect the Council's pension obligations in respect of Hoople Ltd as funded until the point of transfer, in line with the treatment applied in previous years" and the formal agreement between the Council and Hoople Ltd at the date of transfer.

xvii The classification of the council's farming estate reflects the Council's view that these properties are 'operational assets' in line with the definitions within the CIPFA code and the Council's accounting policies.

xviii The £14m impairment of the Rotherwas Industrial Estate in the revised accounts is based on advice from the Council's valuer and reflects the Council's understanding of current market conditions.

Information Provided

xix 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.

xx We have communicated to you all deficiencies in internal control of which management is aware.

xxi All transactions have been recorded in the accounting records and are reflected in the financial statements.

xxii 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.

xxiii 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.

xxiv 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.

xxv 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.

xxvi 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.

xxvii 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

xxviii We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

xxix The disclosures within the Narrative Report fairly reflect our understanding of the Council's financial and operating performance over the period covered by the financial statements.

Approval

The approval of this letter of representation was minuted by the **Council's Audit Committee** at its meeting on **20 September 2017.**

Yours faithfully

Name	Andrew Lovegrove
Position	Chief Finance Officer
Date	20/09/2017

Name	Councillor PD Newman
Position	Chairman: Audit and Governance Committee
Date	20/09/2017

Signed on behalf of the Council

Herefordshire Council

Meeting:	**Audit and governance committee**
Meeting date:	**Wednesday 20 September 2017**
Title of report:	**Update on debt collection**
Report by:	**Head of corporate finance**

Classification

Open

Decision type

This is not an executive decision

Wards affected

(All Wards);

Purpose and summary

This report provides details of the committee on the debt collection and uncollectable debt write off arrangements between the council and Hoople Ltd.

Following a question at full Council regarding levels of delegation to Hoople on this matter the Leader of the Council asked the audit and governance committee to review delegations, contained within the council's financial procedure rules, to ensure they remain appropriate.

Approval of financial procedure rules has been delegated to the committee.

Recommendation(s)

That:

(a) the committee satisfies itself that the delegations to Hoople Ltd regarding write off of uncollectable debt, as specified at paragraph 4.7.31 of the financial procedure rules remain appropriate.

Alternative options

1. This report provides a briefing on the current debt collection arrangements and delegations in place re uncollectable debt.

Further information on the subject of this report is available from
Josie Rushgrove, Tel: 01432 261867, email: jrushgrove@herefordshire.gov.uk

2. It is open to the committee to determine different delegations in respect of write off of uncollectable debt, and should have regard to the advice of the council's section 151 officer in making any such determination. The council can change its debt write off processes as included in paragraph 4.7.31 of the financial procedure rules, which was approved on 10 May 2017 (http://councillors.herefordshire.gov.uk/documents/s50047341/Part%204%20Section%207%20Financial%20Procedures%20Rules.pdf), no reason has been highlighted that requires these to be changed, therefore this is not recommended.

Key considerations

3. The current debt recovery policy ensures that Hoople Ltd adopt and apply the debt recovery principles set by Herefordshire Council. The main sources of billed income to the council is the annual collection of £111.2m of Council Tax and £49.0m of business rates. The 2016/17 in year collection rates for these income streams were 97.97% and 98.59% respectively, above the national rates of 97% and 98.3%, with outstanding balances being collected in the following financial years.

4. The service level agreement with Hoople Ltd enables the revenues and benefits team to provide the following:

   a) The professional lead for advising on strategic activity and managing the implementation of legislative and policy changes.

   b) To provide an effective service for the collection and recovery of Council Tax including awarding Council Tax support, discounts and exemptions.

   c) Collection and recovery of business rate income, awarding appropriate reliefs and exemptions.

   d) To award accurate and timely housing benefits.

   e) The recovery of sundry debtor charges.

5. Hoople Ltd provides these services with engagement from service areas. The policy provides clarity on the enforcement regimes followed when the customer does not make arrangements for payment after the invoice and reminders are sent. Service areas are required to comply with the policy regime to ensure it works effectively. The policy states that Hoople Ltd will share monthly reports to officers.

6. Where debt collection fails paragraph 4.7.31 of the council's financial procedure rules stipulate the following approval levels for writing off uncollectable debt:

Amount	**Job Title**
Up to £150	Senior Revenues, Development and Debtors Team Leader
Between £151 and £500	Revenues and Development Operational Manager and Benefits Operational Manager (Hoople Ltd)
Between £501 and £2,000	Revenues and Benefits Service Manager (Hoople Ltd)

Between £2,001 & £20,000	Head of Corporate Finance and Deputy Section 151 Officer
Above £20,001	Chief Finance Officer

7. The chief finance officer is required to report annually to cabinet details of all debts exceeding £10k written off in the year. The report will provide the total number and value of debts written off split by reason for write off. The report for 2016/17 can be viewed here http://councillors.herefordshire.gov.uk/documents/s50047895/Appendix%20D%20-%20debt%20write-offs%201%20October%202016%20-%2031%20March%202017.pdf

Community impact

8. A principle of the council's code of corporate governance is that the council is committed to managing risks and performance through robust internal control and strong public financial management. Ensuring that delegations are at an appropriate level to manage risk whilst enable decision making to take place at the most efficient and effective level will assist in ensuring that good standards of corporate governance are maintained.

Equality duty

9. Under section 149 of the Equality Act 2010, the 'general duty' on public authorities is set out as follows:

A public authority must, in the exercise of its functions, have due regard to the need to -

(a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;

(b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;

(c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

10. The public sector equality duty (specific duty) requires us to consider how we can positively contribute to the advancement of equality and good relations, and demonstrate that we are paying 'due regard' in our decision making in the design of policies and in the delivery of services. As this is a decision on back office functions, we do not believe that it will have an impact on our equality duty. The approval of the debt recovery policy included an equality impact assessment that can be viewed here http://councillors.herefordshire.gov.uk/documents/s50035302/Appx%20B%20Debt%20Recovery%20Policy%20EIA.pdf. The policy provides a number of relief options, including hardship, discretionary and mandatory reliefs.

11. Following the debt recovery policy provides protection from claims of maladministration; an equality impact assessment was completed as part of the policy approval process.

Resource implications

12. Considering the value of income and delegations in place these appear to be adequate and proportionate in addressing issues regarding debt collection.

Legal implications

13. Debt recovery is an operational function of the council. Such decisions are legally able to be taken by officers in accordance with the scheme of delegation and the finance procedure rules. The delegation of the function to Hoople should be clearly set out in the service level agreement

Risk management

14. The debt write off authorisation levels as stated in the financial procedure rules include instances where consultation with directors and the chief finance officer are required. This is to minimise the risk of writing off collectable debts looking at the value of debt write offs over the previous years this appears to be working adequately.

Consultees

15. None.

Appendices

None.

Background papers

None identified.

Herefordshire Council

Meeting:	**Audit and governance committee**
Meeting date:	**Wednesday 20 September 2017**
Title of report:	**Accounting policy update**
Report by:	**Chief finance officer**

Classification

Open

Decision type

This is not an executive decision

Wards affected

(All Wards);

Purpose and summary

To confirm the council's accounting policy, which has informed the preparation of the 2016/17 financial statements, in relation to the pension deficit of previous employees transferred to Hoople Ltd.

The constitution provides that the audit and governance committee will review and approve the financial statements, the external auditor's opinion and reports to members and oversee management action in response to the issues raised by external audit. The recommendation of this report supports the committee in fulfilling this role.

Accounting for pension liabilities is a complex area and the council has sought independent expert advice in this area after the committee meeting on 4 July. Eversheads-Sutherland have advised that the most appropriate treatment of the Hoople Ltd Local Government Pension Scheme liability is to be shown on the balance sheet of Hoople Ltd. Therefore there is no need to amend the councils accounting policy for the treatment of pension liabilities.

Recommendation(s)

That:

(a) the accounting policy in relation to pension deficit valuation for Herefordshire Council and Hoople Ltd, is not changed.

Further information on the subject of this report is available from
Andrew Lovegrove, email: Andrew.Lovegrove@herefordshire.gov.uk

Alternative options

1. To amend the policy. This is not recommended as this could lead to the potential misstatement of the pension deficit.

Key considerations

2. Further to the paper presented to the committee on 4 July 2017 further advice has been sought in respect of the presentation of the Local Government Pension Scheme (LGPS) liability of Hoople Ltd. Grant Thornton in August confirmed that the council could not place reliance on the work they carried out in Autumn 2016 in respect of this matter, therefore Eversheads-Sutherland were commissioned to provide professional advice.

3. The advice from Eversheads-Sutherland has confirmed that the most appropriate accounting treatment of the Local Government Pension Scheme (LGPS) liability of Hoople Ltd is for the liability to be included on Hoople Ltd's balance sheet. As this is the historical treatment of this liability there is no requirement for the council to amend its accounting policy.

Community impact

4. To ensure clear and transparent processes are in place to govern how resources of the council are effectively managed supports the council's corporate plan objective to manage finances effectively and to demonstrate one of the council's values, namely to be open, transparent and accountable.

Equality duty

5. Under section 149 of the Equality Act 2010, the 'general duty' on public authorities is set out as follows:

   A public authority must, in the exercise of its functions, have due regard to the need to –

   - eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
   - advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
   - foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

6. The public sector equality duty (specific duty) requires us to consider how we can positively contribute to the advancement of equality and good relations, and demonstrate that we are paying 'due regard' in our decision making in the design of policies and in the delivery of services. As this is a decision on back office functions, we do not believe that it will have an impact on our equality duty.

Resource implications

7. Retaining the existing accounting policy does not impact on either the council or Hoople Ltd pre-existing financial liabilities in relation to each party's pension costs.

Legal implications

8. Section 62 of the local government pension scheme regulations 2013 requires the council to obtain an actuarial valuation of the assets and liabilities of each of its pension funds as at 31 March 2016 and on 31 March in every third year afterwards.

9. The Hoople Limited Admission Agreement entered into by the parties on 30 March 2011 contains specified wording from the council to the Fund. This guarantee would only be triggered in certain circumstances which do not require a change in the current accounting policy.

Risk management

10. The decision not to amend the accounting policy change does not result in new additional risks, the pension deficit valuation will continue to fluctuate based on the underlying assumptions used at each triannual valuation point.

Consultees

11. Hoople Ltd board have been consulted and are supportive of this update.

12. There has been continued engagement with the external auditor.

Appendices

None.

Background papers

None identified.

Meeting:	**Audit and governance committee**
Meeting date:	**Wednesday 20 September 2017**
Title of report:	**Appointment of councils external auditors**
Report by:	**Chief finance officer**

Classification

Open

Decision type

This is not an executive decision

Wards affected

(All Wards);

Purpose and summary

This report updates the committee on the outcome of the Public Sector Audit Appointments Limited (PSAA) procurement of external auditors for audits of the accounts from 2018/19.

Herefordshire Council has opted in to the PSAA auditor appointment arrangements, which proposes appointing Grant Thornton as the external auditor of Herefordshire Council.

Council primarily approved opting into PSAA external auditor appointment process to 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. In addition the costs of setting up the appointment arrangements and negotiating fees would be shared across all opt-in council and police bodies. The appointment process would also not be made by locally appointed independent panel members but instead a separate body acting in the collective interests of all opted-in.

Recommendation

That:

(a) it be recommended to full council that Grant Thornton be appointed as external

Further information on the subject of this report is available from
Josie Rushgrove, Tel: 01432 261867, email: jrushgrove@herefordshire.gov.uk

auditor for a period of 5 years from April 2018 at fees determined by PSAA.

Alternative options

1. Under the existing transitional arrangement PSAA appoint the auditors to all principal local government bodies in England. From 2018/19 the PSAA has been specified as an appointing person under the provisions of the Local Audit and Accountability Act 2014 and regulation 3 of the Local Audit (Appointing Person) Regulations 2015. For audits of the accounts from 2018/19, PSAA will appoint an auditor to councils that have opted into its national scheme. Appointments for 2018/19 must be made by 31 December 2017.

2. Herefordshire council accepted PSAA's invitation to opt in; this means it is opted in for the duration of the compulsory appointing period (five years from 2018/19).

3. The council can object to the proposed PSAA auditor appointment. This must be done in writing and the PSAA would consult the council on an alternative auditor appointment. Following their procurement process PSAA have access to the following auditor bodies:

    a. Grant Thornton LLP;

    b. EY LLP;

    c. Mazars LLP;

    d. BDO LLP;

    e. Deloitte LLP; and

    f. Moore Stephens LLP and Scott-Moncrieff LLP.

4. There are no reasons apparent for rejecting the proposal from PSAA therefore this alternative option is not recommended.

Key considerations

5. 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. 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 Local Government Association (LGA) with delegated authority form the Secretary of State CLG. The transitional arrangements for local government bodies includes the audit of the accounts for 2017/18.

6. The council's current external auditor is Grant Thornton, this appointment having been made under a contract let by the Audit Commission. Grant Thornton UK comprises around 4,500 employees delivering services to 40,000 clients. The UK Public Sector Assurance team employs 301 people, including 29 Key Audit Partners, based in designated 'centres of excellence', providing it with locally based public sector specialists across the country. The team is solely dedicated to public audit work in local government and the NHS, with contracts with PSAA, Audit Scotland and the Wales Audit Office. The Public Sector Assurance team is a regular commentator on issues facing the sector and

oversees the firm's development of appropriate thought leadership and support, such as its series of publications and workshops on income generation in councils. In addition, the team can draw on the commercial skills and experience of a wider assurance team of over 1,516 individuals, to reflect the changing assurance needs of local authorities and NHS bodies.

7. The current transitional arrangements come to an end on 31 March 2018. Following the decision by full Council in December 2016, Herefordshire Council has advised the LGA of its intention to opt in to PSAA's auditor appointment arrangements. PSAA has advised that following completion of the procurement process to let audit contracts from 2018/19. Grant Thornton (UK) LLP was successful in winning a contract in the procurement leading to the proposal to appoint this firm as the external auditor to the council.

8. The council can object to the proposed auditor by making its representations by email before Friday 22 September 2017. Representations can include matters that the council believes might be an impediment to the proposed firm's independence. The following examples may represent acceptable reasons to object:

    a. there is an independence issue in relation to the firm proposed as the auditor, which had not previously been notified to PSAA;

    b. there are formal and joint working arrangements relevant to the auditor's responsibilities, which had not previously been notified to PSAA; or

    c. there is another valid reason, for example a history of inadequate service from the proposed firm.

9. No reasons to submit an objection have been identified. If an objection was made and recognised then PSAA would consult the council on an alternative auditor appointment.

10. 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.

11. PSAA must, under regulation 13 of the Regulations, appoint an external auditor to each opted-in council and consult the council about the proposed appointment. In developing this appointment proposal, they have applied the following principles:

    - ensuring auditor independence, as we are required to do by the Regulations;
    - meeting our commitments to the firms under the audit contracts;
    - accommodating joint/shared working arrangements where these are relevant to the auditor's responsibilities;
    - ensuring a balanced mix of authority types for each firm;
    - taking account of each firm's principal locations; and
    - providing continuity of audit firm if possible, but avoiding long appointments.

12. The PSAA Board will consider all proposed auditor appointments at its meeting scheduled for 14 December 2017, following this they will write by email to all opted-in to confirm auditor appointments.

Community impact

13. The council is committed to maintaining high standards of corporate governance in order to achieve the council's vision of "people, organisations and businesses working together to bring sustainable prosperity and well-being for all, in the outstanding natural environment of Herefordshire." A principle of the council's code of corporate governance is to implement good practices in transparency, reporting, and audit to deliver effective accountability.

Equality duty

14. Under section 149 of the Equality Act 2010, the 'general duty' on public authorities is set out as follows:

A public authority must, in the exercise of its functions, have due regard to the need to -

(a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
(b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
(c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

15. The public sector equality duty (specific duty) requires us to consider how we can positively contribute to the advancement of equality and good relations, and demonstrate that we are paying 'due regard' in our decision making in the design of policies and in the delivery of services. As this is a decision on mandatory back office functions, we do not believe that it will have an impact on our equality duty.

Resource implications

16. The duty to prescribe scales of audit fees is a statutory function delegated to PSAA by the Secretary of State for Communities and Local Government. Before prescribing any scale of fees, PSAA have a statutory duty to consult councils. Following consultation, PSAA publish the work programme on their website each year with the scale fee for each audited body. The PSAA will consult on scale fees for 2018/19 and will publish confirmed scale fees for 2018/19 for opted-in bodies on their website in March 2018. The council's current external audit fees are £124k per annum. The results of the audit procurement indicate that a reduction in scale fees in the region of approximately 18 per cent could be possible for 2018/19, based on the individual scale fees applicable for 2016/17.

17. The scale fees for individual audited bodies are normally based on the scale fee for the previous year, reflecting the auditor's assessment of audit risk and complexity. PSAA can approve proposed variations to the scale fee for an individual audited body, to reflect changes in circumstances. Scale fees are based on the expectation that audited bodies are able to provide the auditor with complete and materially accurate financial statements, with supporting working papers, within agreed timeframes.

18. PSAA will charge fees for considering objections from the point at which auditors accept an objection as valid, or any special investigations such as those arising from disclosures under the Public Interest Disclosure Act 1998, as a variation to the scale fee.

Legal implications

19. 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 for a financial year not later than 31 December in the preceding year.

20. Local Audit (Appointing Person) Regulations 2015 specifies the PSAA as an appointed person. By opting into this arrangement the council has conferred to the PSAA the appointment of the auditors and before doing so the PSAAA must consult with the council about the proposals.

Risk management

21. By accepting the PSAA recommendation the procurement and auditor requirement risks are minimised, PSAA are committed to ensuring that the quality of the audit work provided is of the highest standards. To promote transparency and encourage best practice, they provide a number of reports on the assessments made, namely the Quality Review Programme annual report, an annual regulatory compliance and quality report and a regime compliance monitoring report. Details can be viewed here: http://www.psaa.co.uk/audit-quality/

Consultees

22. None.

Appendices

None.

Background papers

None identified.

Further information on the subject of this report is available from
Josie Rushgrove, Tel: 01432 261867, email: jrushgrove@herefordshire.gov.uk

Herefordshire Council

Meeting:	**Audit and governance committee**
Meeting date:	**Wednesday 20 September 2017**
Title of report:	**Progress report on 2017/18 internal audit plan**
Report by:	**Head of corporate finance / internal audit**

Classification

Open

Decision type

This is not an executive decision

Wards affected

(All Wards);

Purpose and summary

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.

To enable the committee to monitor performance of the internal audit team against the approved plan.

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.

Recommendation(s)

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.

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.

Key considerations

2. The internal audit progress report is attached at appendix A. In the period covered by the report, one priority 4 recommendation was made as part of a special review. As it is part of a special review the full detail of the recommendation is not provided.

3. The special investigation for Blueschool House refurbishment is provided as a separate report elsewhere on the agenda.

4. The annual plan summary is provided at appendix C, and a glossary of terms provided at appendix B.

Community impact

5. The council's code of corporate governance commits the council to managing risks and performance through robust internal control and strong public financial management and to implementing good practices in transparency, reporting, and audit to deliver effective accountability. 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

6. Under section 149 of the Equality Act 2010, the 'general duty' on public authorities is set out as follows:

> A public authority must, in the exercise of its functions, have due regard to the need to –
>
> (a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
> (b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
> (c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

7. The public sector equality duty (specific duty) requires us to consider how we can positively contribute to the advancement of equality and good relations, and demonstrate that we are paying 'due regard' in our decision making in the design of policies and in the delivery of services. As this is a decision on back office functions, we do not believe that it will have an impact on our equality duty.

Resource 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. Progress on implementation of agreed actions is reported to this committee every six months.

Consultees

12. None.

Appendices

13. Appendix A – SWAP plan progress report 2017-18

14. Appendix B – Summary of control assurance definitions, categorisation of recommendations and risk levels

15. Appendix C – Audit Plan Status 2017-18

Background papers

16. None identified.

Further information on the subject of this report is available from Jacqui Gooding,

email: Jacqui.Gooding@southwestaudit.co.uk

Appendix A

SOUTH WEST AUDIT PARTNERSHIP

Delivering Audit Excellence

Herefordshire Council

Report of Internal Audit Activity

Plan Progress 2017-18 Quarter 1

Internal Audit ▪ Risk ▪ Special Investigations ▪ Consultancy

Contents

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

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

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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 21 March 2017.

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 Chief Finance Officer (Section 151 Officer) following consultation with the Senior Management Team. This year's (2017/18) Plan was presented to this Committee on 21 March 2017.

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

Update 2016-17

Completed Audit Assignment in the Period

Audit Plan Progress

The summary of the Annual Plan for 2017/18 (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'.

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.

The following audits have been progressed to date:

Operational:

- In Progress, 8 reviews
- Audit Initiation, 5 reviews
- Not Started, 12 reviews

Governance, Fraud and Corruption:

- Draft Report, 1 review
- Discussion Document, 1 review
- In Progress, 3 reviews

Follow Up Reviews:

- Completed - 1 review
- In progress - 1 review
- Not Started, 7 reviews

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Update 2016-17

Completed Audit Assignment in the Period

Audit Plan Progress

Special reviews:

- Completed - 2 reviews

School Themes –: Protection of Fraud

- Draft Report, 3 schools

Key Control:

- Not Started – 8 reviews

Grants:

- In Progress, 1 claim
- Not Started, 1 claim

ICT:

- Completed, 1 review (Reasonable)
- In Progress, 1 review
- Not Started, 1 review

Completed Audit Assignments in the Period

Audit Plan Progress

Audits completed to final report since my last update are:

Special reviews:

- Blueschool House Refurbishment
- Data Sharing Breach

ICT:

- Firewall Security Management (Reasonable)

In quarter 1 five additional reviews were requested and this has impacted on the progress against audits planned for quarter1.

The additional reviews are:

- Small Holdings Phase 1
- Small Holdings Phase 2
- Land in Public Ownership
- Data Security Breach
- Blueschool House Refurbishment

Two were special reviews and both are complete; the remaining three are Advisory reviews – one is at Draft report and one is at Discussion document, both reports are with the client for management response. The remaining review is in progress.

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, no audits 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) and no audits assessed to have a ‘High’ corporate risk.

Data Sharing Breach

The purpose of the special review was to provide a report of the events leading to an exchange of data between two services. The report provided a basis for the Information Access and Records Manager to review whether a data security breach had occurred. Two recommendations were made:

1) To review access to the system for officers that change job roles (priority 4)
2) To provide refresher awareness training on data sharing

Blueschool House Refurbishment

The investigation has been completed and the report will be presented to this committee.

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

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".

SWAP has not completed any additional cross cutting reviews to date.

Special Reviews

Unplanned work, special reviews or projects carried out on a responsive basis are requested through the Chief Finance Officer (Section 151 Officer).

In quarter 1, two special reviews were requested:

- Data Security Breach
- Blueschool House Refurbishment

The days for the reviews have come from the plan contingency days.

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

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.

Three additional reviews have been requested:

- Small Holdings Phase 1
- Small Holdings Phase 2
- Land in Public Ownership

As with the special reviews the days for the reviews have come from the plan contingency days.

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

Conclusion

This is the first update for 2017-18. As stated above in quarter 1 five additional reviews were requested and this has impacted on the progress against audits planned for quarter 1. There are only three audits at completion two of which are the special reviews and the ICT audit - Firewall Security Management.

Where low to medium control or administrative weaknesses are identified normal expectation is for reviewed areas to be assessed into the 'Reasonable' category of assurance. However, where the assessed area falls below 'Reasonable', management is expected to address the risks identified as a matter of priority and monitor their progress against the agreed action plan. The Firewall Security Management audit was assessed as 'Reasonable'.

Special reviews are not given an audit opinion however there were a number of significant findings identified particularly in the Blueschool House Refurbishment review. These findings are included in the report that will be presented to this Committee under a separate agenda item.

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
No significant findings to report					

Client	Directorate/Service	Audit Type	Audit Name	Quarter	MK Status	Opinion	No of Recommendations (Priority)					
							Total	1	2	3	4	5
Herefordshire Council	Council Property	Governance, Fraud & Corruption	Small Holdings Phase 1	April 2017	Discussion Document							
Herefordshire Council	Council Property	Governance, Fraud & Corruption	Small Holdings Phase 2	April 2017	In Progress							
Herefordshire Council	*Information and communication technology	Governance, Fraud & Corruption	Project assurance - (Q1 to Q4) Procurement of a Wide Area Network contract	April 2017	In Progress	Ongoing during 2017-18						
Herefordshire Council	*Information and communication technology	Governance, Fraud & Corruption	Project assurance - (Q1 to Q4) - Mosaic Board Governance	April 2017	In Progress	Ongoing during 2017-18						
Herefordshire Council	*Information and communication technology	ICT	Firewall Security management	April 2017	Completed	Reasonable	4	0	0	4	0	0
Herefordshire Council	*Adult care services	Operational	Annual Care Assessment Process	April 2017	In Progress							
Herefordshire Council	*Adult care services	Operational	Areas - Business Support Function	April 2017	Fieldwork complete							
Herefordshire Council	*Adult care services	Operational	Help 2 Live @ Home (H2L@H) - Market Intelligence	April 2017	In Progress							
Herefordshire Council	*Adult care services	Operational	Safeguarding	April 2017	In Progress							
Herefordshire Council	*Information management	Operational	Data Sharing Protocols	April 2017	In Progress							
Herefordshire Council	*Legal services	Operational	Land in public ownership	April 2017	In Progress							
Herefordshire Council	*Education and skills	School	Schools - prevention of fraud	April 2017	Draft Report							
Herefordshire Council	*Council property	Special Investigation	Blueschool Refurbishment	April 2017	Completed	Special Investigation	13	_	_	_	_	_
Herefordshire Council	*Finance	Special Investigation	Data Sharing Breach	April 2017	Completed	Special Review	2	_	_	1	1	_
Herefordshire Council	*Information and communication technology	Follow Up	Protection from Malicious Code	July 2017	Completed	Follow Up	_	_	_	_	_	_
Herefordshire Council	*Finance	Governance, Fraud & Corruption	Serious and Organised Crime Audit Checklist	July 2017	In Progress							
Herefordshire Council	*Finance	Grant Certification	Local Transport Block Funding	July 2017	In Progress							
Herefordshire Council	*Information and communication technology	ICT	Domain Administration	July 2017	In Progress							
Herefordshire Council	*Adult care services	Operational	Residential and Nursing Care	July 2017	Not Started							
Herefordshire Council	*Adult care services	Operational	Integrated Short Term Support and Care Pathway - review of each pathway and advisory	July 2017	Audit In Development							
Herefordshire Council	*Adult care services	Operational	Integration – Clinical Commissioning Group (Adults and Children's)	July 2017	Not Started							
Herefordshire Council	*Children and families services	Operational	Children, young people and families - Part time timetables	July 2017	Not Started							
Herefordshire Council	*Democracy	Operational	Healthy Organisation	July 2017	Not Started							

Herefordshire Council	*Housing	Operational	On-line choice based letting scheme - Homepoint (Home Hunt)	July 2017	In Progress							
Herefordshire Council	*Information management	Operational	Electronic Signatures (Corporate)	July 2017	In Progress							
Herefordshire Council	*Management	Operational	New Communications Strategy	July 2017	Audit Initiation							
Herefordshire Council	*Public Health	Operational	Emergency Planning - Public Health	July 2017	Audit Initiation							
Herefordshire Council	*Public Health	Operational	Public Health Contracts	July 2017	Audit Initiation							
Herefordshire Council	*Education and skills	Follow Up	SVFS - Schools Follow Up	October 2017	Not Started							
Herefordshire Council	*Adult care services	Follow Up	Brokerage Follow up	October 2017	In Progress							
Herefordshire Council	*Finance	Follow Up	Client Finances Follow up	October 2017	Not Started							
Herefordshire Council	*Information management	Follow Up	Car parking Income and Enforcement Follow up	October 2017	Not Started							
Herefordshire Council	*Finance	Grant Certification	Troubled Families	October 2017	Not Started							
Herefordshire Council	*Information and communication technology	ICT	PSN Submission	October 2017	Not Started							
Herefordshire Council	*Finance	Key Control	Accounts Payable	October 2017	Not Started							
Herefordshire Council	*Finance	Key Control	Accounts Receivable	October 2017	Not Started							
Herefordshire Council	*Finance	Key Control	Capital Accounting	October 2017	Not Started							
Herefordshire Council	*Finance	Key Control	Main Accounting	October 2017	Not Started							
Herefordshire Council	*Finance	Key Control	Council Tax	October 2017	Not Started							
Herefordshire Council	*Finance	Key Control	NNDR - Business Rates Avoidance	October 2017	Not Started							
Herefordshire Council	*Finance	Key Control	Payroll - Review of IR35	October 2017	Not Started							
Herefordshire Council	*Children and families services	Operational	Short breaks	October 2017	Not Started							
Herefordshire Council	*Adult care services	Operational	Disabled facilitates Grants	October 2017	Audit In Development							
Herefordshire Council	*Information management	Operational	EU General Data Protection Regulation readiness	October 2017	Not Started							
Herefordshire Council	*Finance	Follow Up	Property Services - Accounts Payable Follow Up	January 2018	Not Started							
Herefordshire Council	*Information and communication technology	Follow Up	Hardware & Software Asset Management	January 2018	Not Started							
Herefordshire Council	*Procurement	Follow Up	Catering Contract Follow up	January 2018	Not Started							
Herefordshire Council	*Transport and infrastructure	Follow Up	Recruitment Contracts Follow up	January 2018	Not Started							
Herefordshire Council	*Finance	Key Control	Housing and Council Tax Benefits	January 2018	Not Started							
Herefordshire Council	*Adult care services	Operational	Carers (Support for) inc WISH	January 2018	Not Started							
Herefordshire Council	*Council property	Operational	Maintenance of property including School Property Maintenance	January 2018	Not Started							

Herefordshire Council	*Human resources	Operational	Mandatory Training	January 2018	Not Started							
Herefordshire Council	*Information and communication technology	Operational	Fastershire BDUK	January 2018	Not Started							
Herefordshire Council	*Information and communication technology	Operational	ICT client management	January 2018	Not Started							
Herefordshire Council	*Information management	Operational	Data Quality	January 2018	Not Started							

Herefordshire Council

Meeting:	**Audit and governance committee**
Meeting date:	**Wednesday 20 September 2017**
Title of report:	**Internal audit annual report and opinion 2016/17**
Report by:	**Head of corporate finance / internal audit (South West Audit Partnership)**

Classification

Open

Decision type

This is not an executive decision

Wards affected

(All Wards);

Purpose and summary

The purpose of this report is to enable the committee to provide independent assurance on the adequacy of the risk management framework together with the internal control of the financial reporting and annual governance processes by considering the head of internal audit's annual report and opinion, and the level of assurance it gives over the council's corporate governance arrangements.

The annual report is attached at appendix A and provides a reasonable assurance opinion.

Recommendation(s)

That:

(a) **having regard to the assurance provided by the annual report the committee determine any potential items for inclusion in its future work programme.**

Further information on the subject of this report is available from Jacqui Gooding
Tel: 01432 260294, email: Jacqui.Gooding@southwestaudit.co.uk

Alternative options

1. There are no alternative recommendations. This summary of the findings of internal audit and the opinion are not matters which the committee may alter.

Key considerations

2. The annual report is required to ensure that the committee is informed of the internal audit work undertaken in 2016/17.

3. The report also provides an overall opinion, reached in light of the work undertaken, on the adequacy and effectiveness of the council's governance, risk management and control processes. The work of internal audit informs the development of the annual governance statement and action plan.

4. Sufficient internal audit work has been carried out to enable the head of internal audit to draw a reasonable conclusion about the adequacy and effectiveness of the council's risk management, control and governance processes.

5. In the opinion of the head of internal audit, and having considered the balance of audit work, the assurance levels provided and outcomes together with the response from senior management and the audit and governance committee, the head of internal audit can offer 'reasonable assurance' in respect of the areas reviewed during the year, as most were found to be adequately controlled. Generally, risks are well managed but some areas require the introduction or improvement of internal controls to ensure the achievement of objectives. Where this is the case, there has been a positive response to ensuring that action is taken to improve the adequacy of controls.

Community impact

6. The council's adopted code of corporate governance includes a commitment to implementing good practices in transparency, reporting, and audit to deliver effective accountability.

7. Herefordshire Council must ensure that those making decisions and delivering services are accountable for them. To support effective accountability the council is committed to reporting on actions completed and outcomes achieved, and ensuring stakeholders are able to understand and respond as the council plans and carries out its activities in a transparent manner. Both external and internal audit contribute to effective accountability.

Equality duty

8. Under section 149 of the Equality Act 2010, the 'general duty' on public authorities is set out as follows:

   A public authority must, in the exercise of its functions, have due regard to the need to –

   (a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
   (b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;

(c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

9. The public sector equality duty (specific duty) requires us to consider how we can positively contribute to the advancement of equality and good relations, and demonstrate that we are paying 'due regard' in our decision making in the design of policies and in the delivery of services. As this is a decision on back office functions, we do not believe that it will have an impact on our equality duty.

Resource implications

10. 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

11. Section 5 of the Accounts and Audit Regulations 2015 require the council to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.

12. It is a function of this committee, under 3.5.10 (a) of the council's constitution to consider the Head of Internal Audit's annual report and opinion, and the level of assurance it can give over the Council's corporate governance arrangements.

Risk management

13. Risks identified by internal audit are mitigated by actions proposed by management in response.

Consultees

14. None.

Appendices

15. Appendix A – Internal Audit Annual Report and Opinion 2016-17

Background papers

16. None identified.

Further information on the subject of this report is available from Jacqui Gooding
Tel: 01432 260294, email: Jacqui.Gooding@southwestaudit.co.uk

Herefordshire Council

Report of Internal Audit Activity

Annual Opinion Report 2016/17

Internal Audit ▪ Risk ▪ Special Investigations ▪ Consultancy

Contents

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Summary

The Assistant Director is required to provide an opinion to support the Annual Governance Statement.

Purpose

The Accounts and Audit Regulations (England) 2015 requires public authorities to publish an Annual Governance Statement (AGS). The Statement is an annual review of the Systems of Internal Control and gathers assurance from various sources to support it. One such source is Internal Audit. The Head of Internal Audit should provide a written annual report to those charged with governance to support the AGS. This report should include the following:

- An opinion on the overall adequacy and effectiveness of the organisation's risk management systems and internal control environment
- Disclose any qualifications to that opinion, together with the reasons for the qualification
- Present a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies
- Draw attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the Annual Governance Statement
- Compare the work actually undertaken with the work that was planned and summarise the performance of the internal audit function against its performance measures and criteria
- Comment on compliance with these standards and communicate the results of the internal audit quality assurance programme.

The purpose of this report is to satisfy this requirement and Members are asked to note its content.

Summary

The Assistant Director is required to provide an opinion to support the Annual Governance Statement.

Background

The Internal Audit service for Herefordshire Council is provided by the 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). The Partnership is also guided by the Internal Audit Charter which is reviewed annually. Internal Audit provides an independent and objective opinion on the Authority's control environment by evaluating its effectiveness through the work based on the Annual Plan agreed by Senior Management and this Committee.

Internal Audit Annual Opinion 2016/17

The Assistant Director is required to provide an opinion to support the Annual Governance Statement.

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Annual Opinion

For the 2016-17 audit plan for Herefordshire Council 58 reviews have been delivered. In agreement with management, and previously reported to this Committee, eight reviews were 'removed'. All eight were replaced with additional reviews.

All audits have been completed to Final report.

At the close of each audit review a Customer Satisfaction Questionnaire is sent out to the Service Manager or nominated officer. The aim of the questionnaires is to gauge satisfaction against timeliness, quality and professionalism. As part of the Balanced Scorecard presented to the SWAP Boards, a target of 85% is set where 80% would reflect the fact that the client agreed that the review was delivered to a good standard of quality. For Herefordshire Council, the average feedback score was 87%.

Of the 38 Reviews that have an Assurance Opinion, 2 (5%) have received Substantial assurance, 18 (47.5%) Reasonable assurance and 18 (47.5%) Partial Assurance. None received No Assurance.

For reviews with no audit opinion there were 13 Follow Up reviews, 2 Special Reviews and 5 'Advisory' reviews when the work is requested to provide consultancy to help the service move forward.

For those areas not covered by the Annual Internal Audit Plan, the Chief Finance Officer seeks assurance from Service Managers as to the adequacy of the internal control environment for their service areas. Any matters arising are reported in the Council's Annual Governance Statement.

The changes to the plan agreed throughout the year reflect the ever-changing environment and challenges that local authority managers are facing.

The number of Advisory reviews has reduced from 2015-16; however, it is positive that requests for these reviews reflects an organisation that is keen to involve internal audit to help address possible problem areas and this can be seen as a positive commitment to improving governance arrangements.

In comparison to last year the number of reviews with a Partial assurance has increased by seven. This is more

The Assistant Director is required to provide an opinion to support the Annual Governance Statement.

than I would like to see however it is also reflective that the Council ensures that the internal audit focus in on higher risk areas and in particular there is good coverage across both Children and Adult services where inherently, risks are higher. I am encouraged by the management response and readiness to accept and address the matters raised in audit reports; and reviews that are assessed as Partial or No assurance are subject to a follow up review to provide assurance that priority 4 and 5 findings have been implemented.

The Council has introduced a monitoring system using SWAPs audit automation system MKInsight to monitor all audit recommendations and reports priority 4 and 5, the more significant recommendations that have not been completed by their agreed target date, to this Committee.

Service Managers are positive in their approach to internal audit planning and do not hesitate to assist in pointing internal audit resource to those areas in greatest need of review. I take a positive view in that it indicates the success of our planning and risk assessment process.

I believe that the Senior Management of Herefordshire Council has worked hard to cooperate with the audit process and while there have been difficulties in progressing some audits expediently, I recognise the pressures they face through managing the changing environment.

I have considered the balance of audit work, the assurance levels provided and outcomes together with the response from Senior Management and the Audit Committee and feel confident to offer:

'**Reasonable Assurance'** in respect of the areas reviewed during the year, as most were found to be adequately controlled. Generally, risks are well managed but some areas require the introduction or improvement of internal controls to ensure the achievement of objectives.

Summary of Audit Work 2016/17

Our audit activity is split between:

- **Operational Audits**
- **Key Control Audits**
- **Governance, Fraud & Corruption Audits**
- **IT Audits**
- **Special Reviews**
- **Follow-up**

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Internal Audit Work Programme

The schedule provided on pages 14-18 contains a list of all audits agreed for inclusion in the Annual Audit Plan 2016-17 and the final outturn for the financial year. It is important that Members are aware of the status of all audits and that this information helps them place reliance on the work of Internal Audit and its ability to complete the plan as agreed.

In total, 55 audits were agreed for the 2016-17 audit plan and 58 audits have been delivered as follows:

Type of audit	2016-17 original plan	2016-17 revised plan
• Operational Audits	23	18
• Information Systems	5	4
• Key Control	8	8
• Governance, Fraud & Corruption	3	3
• Grants	5	4
• Special Reviews	0	2
• Follow Up	5	13
• Schools	6	6
• TOTAL	55	58

Significant Corporate Risks

Identified Significant Corporate Risks should be brought to the attention of the Audit Committee.

Significant Corporate Risks

We provide a definition of the 4 Risk Levels applied within audit reports. For those audits which have reached report stage through the year, we have assessed the following risks as 'High'.

Review/Risks	Auditors Assessment
Pre Paid Cards – Direct Payments Inefficiencies in office practice cause delay in care provision.	**High**

The audit identified that there was a significant risk with the security of personal and sensitive data managed by the Card Provider on behalf of the Council. There were concerns around the current practices for the transfer of data between the Card Provider and the Council, and at the time a possible increase in system users, due to be extended to the managed account providers.

The Joint Team Manager: Welfare and Financial Assessment has provided the following update:
The pre-paid card contract has been transferred to another provider and the system went live on 13th July 2017. The contract with the new Provider has incorporated all relevant data security clauses and was developed in conjunction with information governance team. All the Direct Payments team staff have access to Egress secure e-mail to be used when transmitting sensitive data to the card company (if required). System user access within the new system is currently being reviewed as further guidance is needed from the provider in setting up user profiles. User access is being monitored by the Direct Payments Team leader as part of system admin checks. Managed account providers have yet to be set-up on the new Provider portal. When this is done a new user agreement will be drafted in conjunction with PFS and the information governance team to ensure relevant controls are in place.

Summary of Audit Work 2016/17

SWAP Performance - Summary of Audit Opinions

At the conclusion of audit assignment work each review is awarded a "Control Assurance Definition";

- **Substantial**
- **Reasonable**
- **Partial**
- **None**

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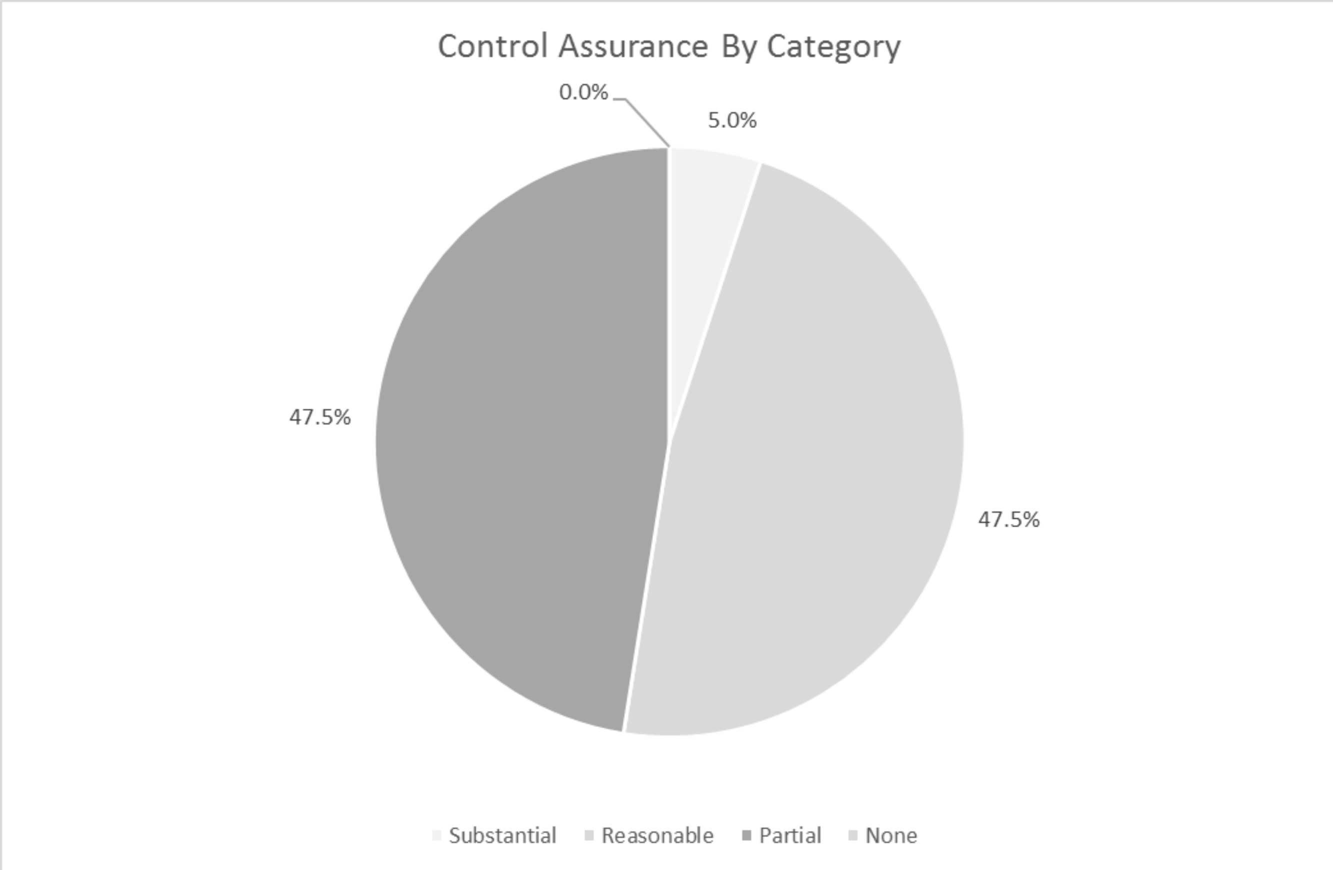
Summary of Audit Opinion

Of the 38 reviews with an audit opinion that have a final report, the opinions offered are summarised below.



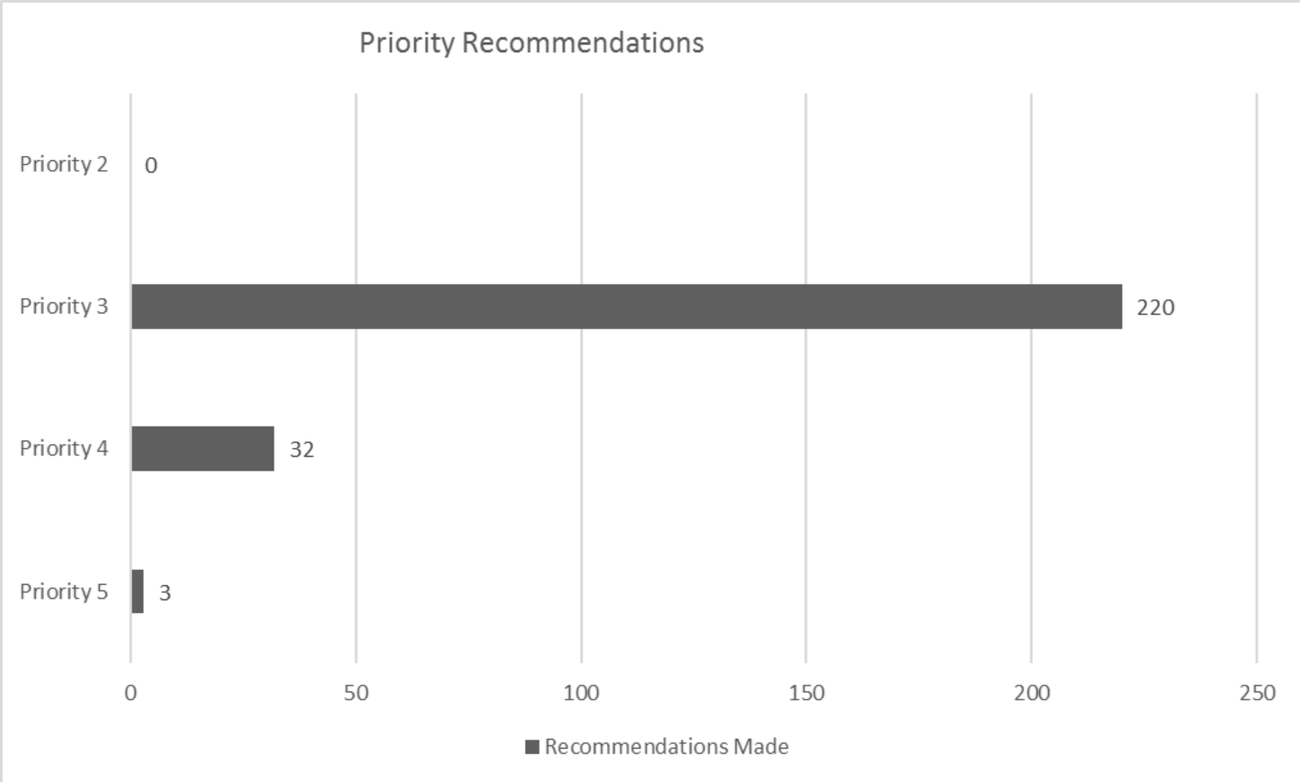
Summary of Audit Work 2016/17

SWAP Performance - Summary of Audit Recommendations by Priority

We rank our recommendations on a scale of 1 to 5, with 1 being minor or administrative concerns to 5 being areas of major concern requiring immediate corrective action

Priority Actions

At the request of the Audit Committee, where a review has been assessed as 'Partial' or 'No' assurance I provide further details to inform Members of the key issues identified. I normally summarise those actions where the Auditor has assessed the recommendation priority to be a level 4 (Medium/High) or 5 (High). For those reviews where a final report has been issued there have been 255 agreed actions for improvement; three of these were rated at a level 5, 32 at a level 4 and 220 at level 3.



Added Value

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.

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”.

The following are examples of where Added Value has been provided for the Council or across the Partnership during 2016/17: -

- Sharing findings from the recent Pensions Board audit that reviewed the regional group
- Regular fraud awareness bulletins - as attempted frauds are identified through both our partners and nationally
- Audit Committee Member Training offered to all SWAP partners
- Pest Control audit - a survey was conducted within the SWAP Partnership to establish how pest control services are being delivered with regard to costs, resources and performance monitoring
- Audit Committee Workplans
- Equality Impact Assessment process comparison
- Fees and Charges – comparisons with other Partners
- Cyber Security Awareness – Best practice shared
- Partnering and Voluntary Organisation benchmarking
- Revenues and Benefits service - benchmarking how the service is being delivered with regard to costs, resources and performance monitoring

Plan Performance 2016/17

The Assistant Director for SWAP reports performance on a regular basis to the SWAP Management and Partnership Boards.

SWAP Performance

SWAP now provides the Internal Audit service for 24 Partner Organisations and also many subsidiary bodies. SWAP performance is subject to regular monitoring and review by both the Board and the Member Meetings. The respective outturn performance results for Herefordshire Council for the 2016-17 year are as follows;

Performance Target	Average Performance
Audit Plan – Percentage Progress Final, Draft and Discussion Fieldwork Completed awaiting report In progress	 100% 0% 0%
Draft Reports Issued within 5 working days	55%
Final Reports Issued within 10 working days of draft report	32%
Quality of Audit Work Customer Satisfaction Questionnaire	87%

Plan Performance 2016/17

The Assistant Director for SWAP reports performance on a regular basis to the SWAP Management and Partnership Boards.

SWAP Performance

Under the Accounts and Audit (England) Regulations 2011 there was a requirement for an annual review of the effectiveness of the Internal Audit Function; the 2015 Regulations are much less prescriptive.

However, the International Professional Practice Standards of the Institute of Internal Auditors, further supplemented by the Public Sector Internal Auditing Standards require both Internal and External Assessments (Standard 1300) of the Internal Audit function.

SWAP carried out such an assessment in 2012 and at that time agreed that it would be best practice to complete such a review every three year and therefore we commissioned our next review to take place in September 2015. This review was completed and again confirmed SWAP to be in full conformance to the International Professional Practices Framework and the PSIAS. (See Appendix A)

As a result of the quality review, a Quality Assessment Improvement Plan (QAIP) is produced. This document is a live document, reviewed regularly by the SWAP Board to ensure continuous improvement.

And finally, just like any other Company and Herefordshire Council itself, our accounts are subject to both Internal and External Audit Review. The auditor confirmed that the audit did not find any areas of concern and the auditor was confident that the processes in place are adequate to support SWAP's annual report and financial statements.

Internal Audit Definitions

At the conclusion of audit assignment work each review is awarded a "Control Assurance Definition";

- **Substantial**
- **Reasonable**
- **Partial**
- **None**

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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.

Internal Audit Definitions

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

Audit Framework Definitions

- 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.

Internal Audit Work Plan 2016/17

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ↔ 5 = Major Recommendation 1	2	3	4	5
Grant Certification	Heat Network Delivery Units	April 2016	Removed	–	–	–	–	–	–	–
Special Review	Link Road Scheme (LEP & HC)	April 2016	Completed	Non-Opinion	1	0	0	1	0	0
Grant Certification	Redundant Building Grant Scheme - Round 4	April 2016	Completed	Grant Certification	–	–	–	–	–	–
Operational	Brokerage	April 2016	Completed	Partial	7	0	0	3	4	0
Operational	Client Finances	April 2016	Completed	Partial	10	0	0	10	0	0
Operational	Car Parking Income/Enforcement	April 2016	Completed	Partial	18	0	0	16	2	0
Operational	Cash Handling & Collection	April 2016	Completed	Reasonable	9	0	0	8	1	0
Operational	Recruitment - Contracts	April 2016	Completed	Partial	10	0	0	10	0	0
Operational	FWI EDRMS/Mosaic Upgrade - Implementation & Assurance -	April 2016	Completed	Advisory	–	–	–	–	–	–
School	SFVS (School Financial Value Standard) Governance - Bridstow Primary School	April 2016	Completed	Partial	9	0	0	8	1	0
School	SFVS (School Financial Value Standard) Governance - Pembridge CE Primary School	April 2016	Completed	Reasonable	5	0	0	4	1	0
School	SFVS (School Financial Value Standard) Governance - Weobley Primary School	April 2016	Completed	Reasonable	9	0	0	9	0	0
School	SFVS (School Financial Value Standard) Governance - Ameley Primary School	April 2016	Completed	Reasonable	7	0	0	7	0	0

Internal Audit Work Plan 2016/17

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ↔ 5 = Major Recommendation 1	2	3	4	5
School	SFVS (School Financial Value Standard) Governance - Peterchurch Primary School	April 2016	Completed	Partial	8	0	0	7	1	0
School	SFVS (School Financial Value Standard) Governance - St Marys RC High School	April 2016	Completed	Partial	14	0	0	12	2	0
Special Review	Special Review	April 2016	Completed	Non-Opinion	–	–	–	–	–	–
Follow Up	Modern Records follow up	July 2016	Completed	Follow Up	–	–	–	–	–	–
Grant Certification	Local Transport Block Funding	July 2016	Completed	Grant Certification	–	–	–	–	–	–
Operational	Residential & Nursing Care	July 2016	Removed	–	–	–	–	–	–	–
Operational	Deferred Payments	July 2016	Completed	Partial	9	0	0	6	3	0
Operational	Pre Paid Cards (Direct Payments)	July 2016	Completed	Partial	9	0	0	5	2	2
Operational	Public Health Contracts	July 2016	Completed	Reasonable	7	0	0	6	1	0
Operational	Children Missing Education (Safeguarding)	July 2016	Draft Report	Partial	7	0	0	5	1	1
Operational	Food Safety	July 2016	Completed	Reasonable	7	0	0	7	0	0
Operational	Property Services - Accounts Payable	July 2016	Completed	Advisory	4	0	0	4	0	0
Follow Up	Use of Agency	July 2016	Completed	Follow Up	–	–	–	–	–	–
Operational	Protection from Malicious Code	July 2016	Completed	Reasonable	4	0	0	4	0	0

Internal Audit Work Plan 2016/17

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor		↔		5 = Major
						Recommendation				
						1	2	3	4	5
Operational	Performance Management Framework - Performance Indicators Corporate	July 2016	Completed	Reasonable	6	0	0	6	0	0
Operational	S106 Agreements	July 2016	Completed	Reasonable	7	0	0	7	0	0
Operational	Concessionary Fares	July 2016	Completed	Partial	1	0	0	0	1	0
Operational	Catering Contract	October 2016	Completed	Advisory	–	–	–	–	–	–
Follow Up	Licensing	October 2016	Completed	Follow Up	–	–	–	–	–	–
Follow Up	Treasury Management	October 2016	Completed	Follow up	–	–	–	–	–	–
Follow Up	Changes to Role & Exit - ICT Access Controls	October 2016	Completed	Follow Up	–	–	–	–	–	–
Follow Up	Home to School Transport	October 2016	Completed	Follow Up	–	–	–	–	–	–
Governance, Fraud & Corruption	NFI	October 2016	Completed	Advisory	–	–	–	–	–	–
Grant Certification	Troubled Families	October 2016	Completed	Substantial	3	0	0	3	0	0
Key Control	Accounts Payable	October 2016	Completed	Reasonable	5	0	0	5	0	0
Key Control	Accounts Receivable	October 2016	Completed	Partial	2	0	0	1	1	0
Key Control	Capital Accounting	October 2016	Completed	Reasonable	1	0	0	1	0	0
Key Control	Main Accounting	October 2016	Completed	Reasonable	5	0	0	5	0	0

Internal Audit Work Plan 2016/17

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Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ↔ 5 = Major Recommendation 1	2	3	4	5
Key Control	Council Tax	October 2016	Completed	Reasonable	4	0	0	4	0	0
Key Control	Housing & Council Tax Benefits	October 2016	Completed	Partial	7	0	0	7	0	0
Follow Up	NNDR - follow up	October 2016	Completed	Follow Up	–	–	–	–	–	–
Key Control	Payroll	October 2016	Completed	Partial	7	0	0	2	5	0
Key Control	Pensions - Auto enrolment	October 2016	Completed	Reasonable	2	0	0	2	0	0
Operational	Public Services Network Submission Assurance	October 2016	Completed	Substantial	1	0	0	1	0	0
Follow Up	Financial Assessments	January 2017	Completed	Follow Up	–	–	–	–	–	–
Follow Up	Better Care Fund	January 2017	Completed	Follow Up	–	–	–	–	–	–
Operational	Contracts & Contract Management	January 2017	Removed	–	–	–	–	–	–	–
Operational	Hospital Discharges	January 2017	Removed	–	–	–	–	–	–	–
Operational	Telecare - Living Aids & Equipment	January 2017	Removed	–	–	–	–	–	–	–
Operational	Transitions	January 2017	Removed	–	–	–	–	–	–	–
Operational	Complex Care (LD)	January 2017	Removed	–	–	–	–	–	–	–
Operational	Looked After Children	January 2017	Completed	Partial	8	0	0	8	0	0

Internal Audit Work Plan 2016/17

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ↔ 5 = Major Recommendation 1	2	3	4	5
Operational	Early Years Funding	January 2017	Completed	Reasonable	4	0	0	4	0	0
Operational	Direct Payment/Personal Budgets (Children's) - HC	January 2017	Completed	Partial	10	0	0	9	1	0
Operational	Business Continuity/Disaster Recovery Processes - Data Centre	January 2017	Completed	Partial	15	0	0	12	3	0
Operational	Nottingham Rehab Contract Review	January 2017	Removed	–	–	–	–	–	–	–
Follow Up	PCI Data Security Standard Compliance	January 2017	Completed	Follow Up	–	–	–	–	–	–
Follow up	Mobile Phone Usage and Strategy	January 2017	Completed	Follow Up	–	–	–	–	–	–
Follow up	Direct Payments (Adults)	January 2017	Completed	Follow Up	–	–	–	–	–	–
Follow Up	Midland Heart	January 2017	Completed	Advisory	–	–	–	–	–	–
Operational	Continuing Healthcare Funding	February 2017	Completed	Partial	7	0	0	5	2	0
Operational	Integrated Short Term Support and Care Pathway - Reablement	February 2017	Discussion Document	Advisory	6	0	0	6	0	0
Grant Certification	Troubled Families	Mar-17	Completed	Grant Certification	–	–	–	–	–	–

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Appendix A – SWAP Performance

The below is the key summary from the recent External Quality Assessment of SWAP Internal Audit Activity, carried out by the Devon Audit Partnership:

As requested by Gerry Cox, Chief Executive of SWAP, Devon Audit Partnership conducted an external quality assessment of the internal audit activity of the South West Audit Partnership (SWAP). The principal objectives of the quality assessment were to assess the internal audit activity's conformance to The Institute of Internal Auditors' (IIA's) International Standards for the Professional Practice of Internal Auditing (Standards), evaluate the internal audit activity's effectiveness in carrying out its mission (as set forth in its charter to its partners), and identify opportunities to enhance its management and work processes.

It is our overall opinion that the internal audit activity generally conforms with the Standards and Code of Ethics. We have identified some opportunities for further improvement, details of which are provided in this report, but none of these issues represent a failure to meet with the Standards.

The IIA's Quality Assessment Manual suggests a scale of three ratings, "Generally Conforms," "Partially Conforms," and "Does Not Conform." "Generally Conforms" means that an internal audit activity has a charter, policies, and processes that are judged to be in conformance with the Standards. "Partially Conforms" means deficiencies in practice are noted that are judged to deviate from the Standards, but these deficiencies did not preclude the internal audit activity from performing its responsibilities in an acceptable manner. "Does Not Conform" means deficiencies in practice are judged to be so significant as to seriously impair or preclude the internal audit activity from performing adequately in all or in significant areas of its responsibilities.

SWAP is a well-established provider of professional internal audit services to a number of public sector organisations. The internal audit activity meets the Standards and SWAP management regularly look to ways to improve the service they provide (e.g. by developing the "healthy organisation" approach) and add value to all their partners and clients. A well-developed Quality Assurance Improvement Plan is in place that captures areas for development and provides a good record of progress against targets. Consequently, our comments and recommendations are intended to build on an already efficient and effective internal audit provider.

Herefordshire Council

Meeting:	**Audit and governance committee**
Meeting date:	**Wednesday 20 September 2017**
Title of report:	**Annual report on code of conduct complaints**
Report by:	**Monitoring officer**

Classification

Open

Decision type

This is not an executive decision

Wards affected

(All Wards);

Purpose and summary

To enable the committee to be assured that high standards of conduct continue to be promoted and maintained.

Recommendation(s)

That:

(a) the annual report on code of conduct complaints be reviewed and any areas for further work be identified for inclusion in the work programme.

(b) The monitoring officer be authorised to agree a protocol for handling disclosable pecuniary interest (DPI) complaints with West Mercia Police

Alternative options

1. There are no alternative options as the report provides a factual summary of the work undertaken in the last year.

Further information on the subject of this report is available from Caroline Marshall, Claire Ward
Tel: 01432 260249, Tel: 01432 260657, email: caroline.marshall3@herefordshire.gov.uk, Claire.Ward@herefordshire.gov.uk

Key considerations

2. The monitoring officer is responsible for dealing with allegations that councillors have failed to comply with the members' code of conduct and for administering the local standards framework.

3. Herefordshire Council, and all parish and town councils in the county, have a statutory duty in the Localism Act 2011 to "promote and maintain high standards of conduct by members and co-opted members of the authority.

4. The committee is responsible for conducting an annual review of the complaints received.

5. This report covers the municipal year 2016/17.

Code of Conduct

6. In accordance with the provisions the Localism Act 2011 the council has adopted a code of conduct, and this has also been made available to all parish councils in the county to inform the adoption of their own code. This report considers the code as was adopted prior to May 2017.

Independent Persons

7. The Act also requires that the council appoint "at least one independent person" whose views are sought and taken into account before it makes its decision on an allegation of a breach of the code of conduct. Their view may also be sought in dealing with allegations which have not been investigated and they may be asked to provide support to subject members who are the subject of an allegation. During 2016/17 the council had two independent persons, John Sharman and Richard Stow. The monitoring officer is grateful for the time and commitment these independent members have given. John Sharman has been appointed for 4 years and is especially thanked for his time as his term of office has now expired. Recruitment for further independent persons will be commenced.

Arrangements

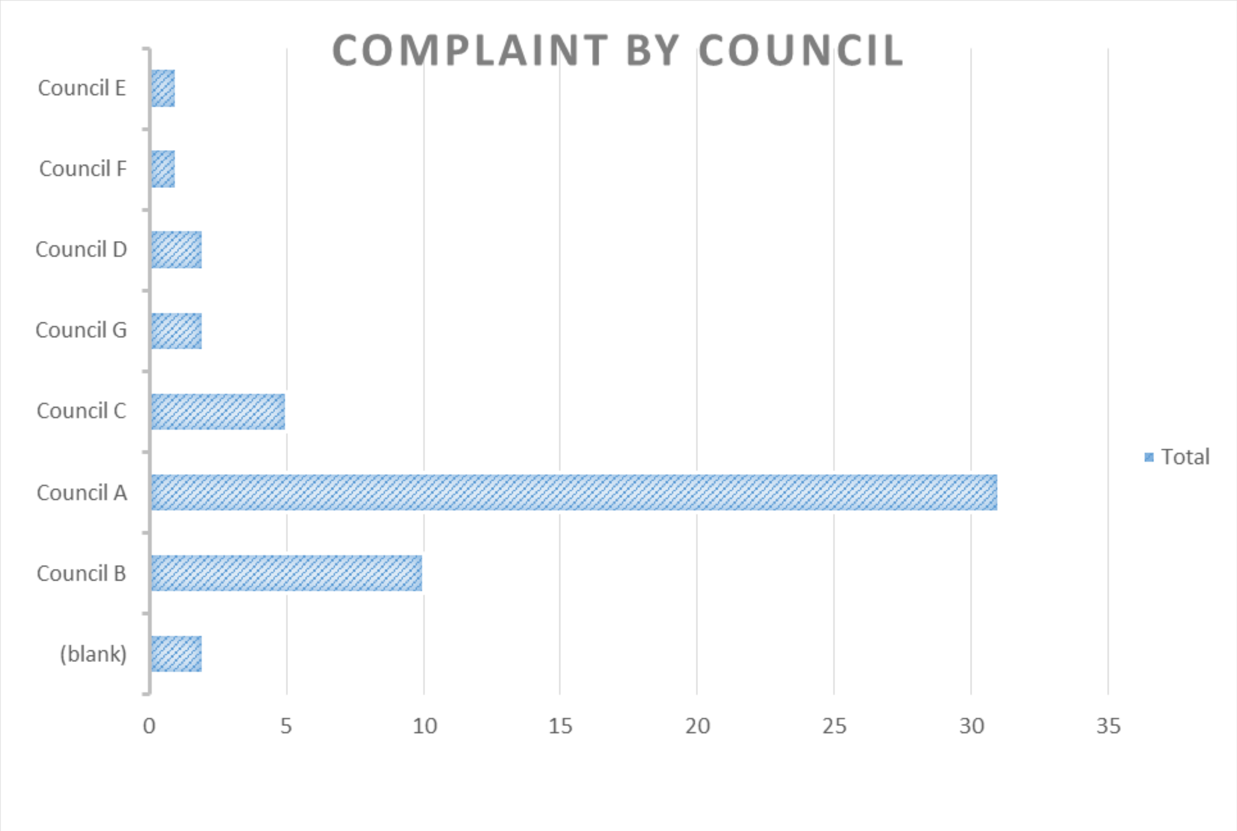
8. A revised standards procedure was approved by the committee on 9 May 2016 to investigate code of conduct complaints subject to the views of parish councils being received by 6 October 2016. Two parish councils responded and the new standards procedure (live link) was adopted on 1 December 2016.

Register of interests

9. The council maintains a register of interests for members of Herefordshire Council and parish councillors; these declarations are published on the Herefordshire Council website (parish councils and Herefordshire Council).

Standards complaints 2016/2017

During the period 30 April 2016 to 1 May 2017, there were 54 standards complaints. This represents a significant increase from 2015/16 when 36 complaints were received.



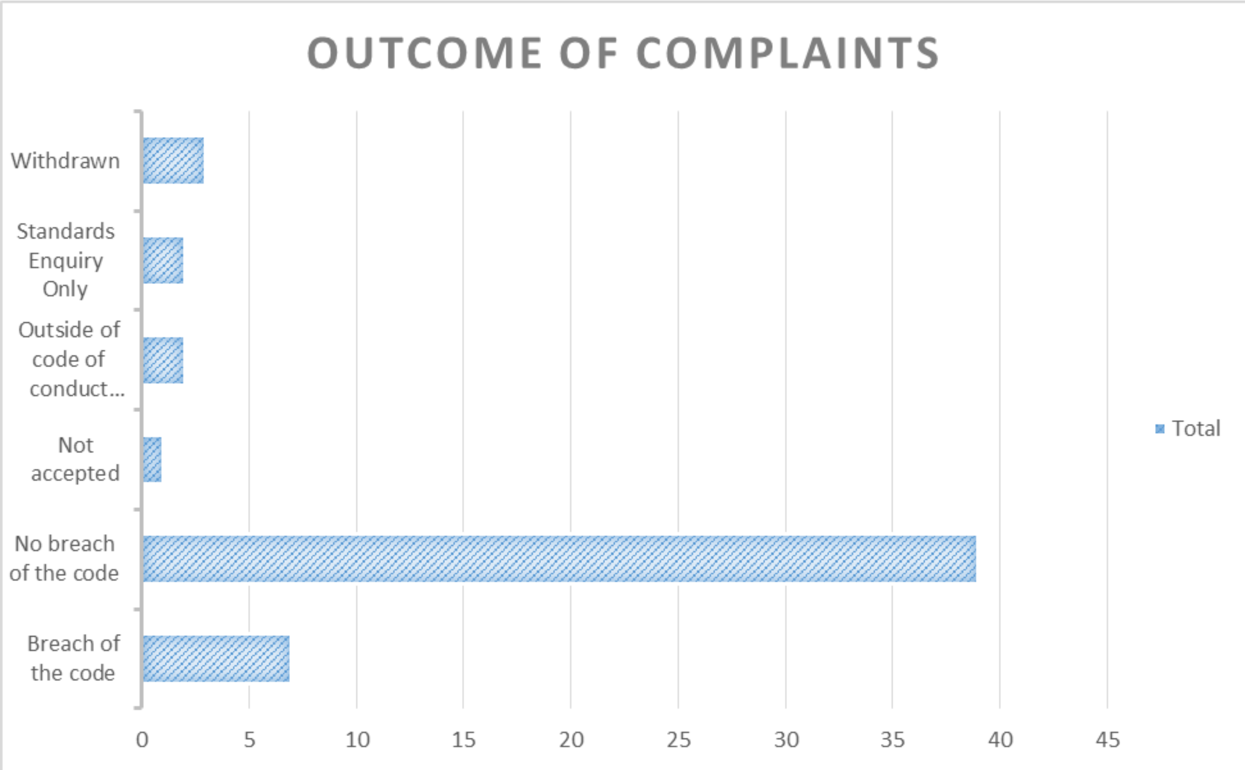
10. Of the 54 complaints received during the year, 9 related to Herefordshire ward councillors and the remaining 45 were against parish councillors. Below are details of the number of complaints received since the introduction of Localism Act 2011 and the breakdown of complaints between Herefordshire ward councillors and parish councillors. As can be seen from the figures, the majority of complaints received are against parish councillors.

Year	Total no of complaints received	No of complaints against Herefordshire ward councillors	No of complaints against parish councillors
2013/14	36	16	20
2014/15	11	3	8
2014/15	36	12	24
2015/16	54	9	45

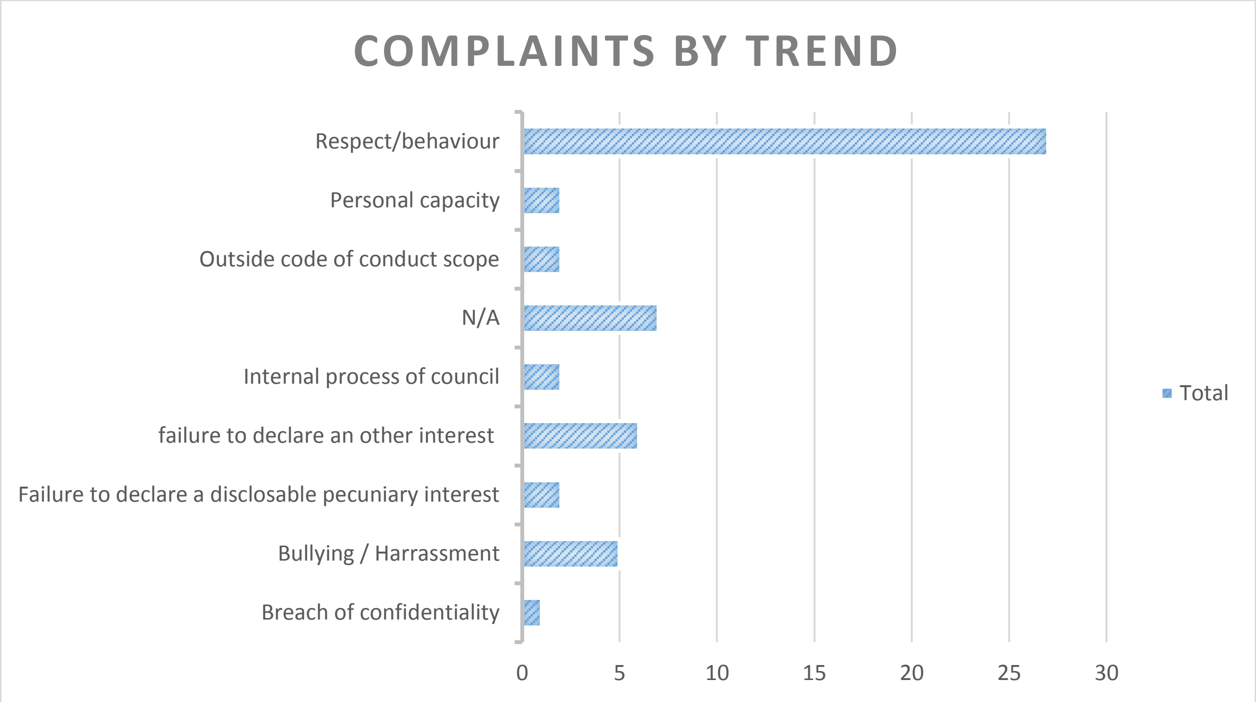
11. Due to the high number of complaints being received about one council during the latter part of 2014/15 and the beginning of 2015/16, an external firm was appointed to investigate the allegations of breaches of the code of conduct. The investigation

concluded on 10 May 2017 and all councillors and complainants involved have been informed of the outcome of the complaints.

12. There were no standards panel held during the year and all complaints were dealt with by monitoring officer resolution. Of these complaints, the outcome for 39 was no breach of the code and for 7 a breach of the code. One breach of the code of conduct related to a Herefordshire ward councillor. Where a breach of the code was identified, the monitoring officer recommended an apology or a revised register of interest to be completed. The remaining 8 complaints were either withdrawn, not accepted by the monitoring officer or were standards enquiries.



13. On analysis of all complaints received, 50% complaints relate to a lack of respect which includes behaviour at meetings, email correspondence and social media. During the last quarter of 2016/17, there was an increase in the number of complaints in relation to councillors failing to declare an interest, whether disclosable or non disclosable. Of those complaints where a breach was found the monitoring officer reminded the subject member to take care when other interests may need to be declared and if necessary to seek advice before the meeting or requested that a new register of interests form was completed. Further training in these areas might be of benefit to both local and parish councillors and will be covered in the annual training.



14. Of the complaints received during the year, 28 complaints were received from councillors complaining about other councillors and 26 complaints were made by members of the public.

15. A new code has been adopted by this council and recommended to all town and parish councils.

16. The Committee on Standards in Public Life published its annual report (live link) and has stated that a review of the standards will be taking place during 2018 and the findings and recommendations will be published during the latter part of 2018 so further changes may be necessary.

17. The monitoring officer is aware that the current arrangements do not stipulate how a failure to declare a disclosable pecuniary interest which may be a criminal offence should be dealt with. Although the arrangements are an operational matter for the monitoring officer to determine, any comments on the first draft of a protocol would be appreciated which is attached at appendix 1.

Community impact

18. This report provides information about the council's performance in relation to the code of conduct.

19. Having an effective process for dealing with code of conduct complaints upholds principle A and G of the code of corporate governance by ensuring that councillors behave with integrity and that councillors are accountable for their actions. This should provide reassurance to the community that councillors are behaving in the best interests of their communities.

Equality duty

20. Under section 149 of the Equality Act 2010, the 'general duty' on public authorities is set out as follows:

    A public authority must, in the exercise of its functions, have due regard to the need to -

    (a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;

    (b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;

    (c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

21. The public sector equality duty (specific duty) requires us to consider how we can positively contribute to the advancement of equality and good relations, and demonstrate that we are paying 'due regard' in our decision making in the design of policies and in the delivery of services. As this is a decision on back office functions, we do not believe that it will have an impact on our equality duty.

Resource implications

22. There are no resource implications arising directly from this report which is for information.

23. The council has a statutory duty in the Local Government and Housing Act 1989 to provide the monitoring officer with sufficient resources to allow them to perform their duties.

24. The Independent Persons receive no allowances and are only reimbursed their travel expenses for meetings with the monitoring officer.

25. .

26. The cost of the external investigation mentioned in paragraph 11 cost £14,000 (exclusive of VAT). The external investigation was funded by the monitoring officer budget and is not recoverable from the relevant council.

Legal implications

27. The review evidences that the council complies with the duties required under the Localism Act 2011.

Risk management

28. There are no risks arising directly from the report which is for information. Maintaining high standards of conduct mitigates risks to the reputation of the council. How the arrangements are managed can be cause for complaint and are dealt with by the chief executive. The fact that only recommendations can be made exposes the council to risk of criticism, this is a result of the national framework which the committee in public life will be considering.

Consultees

29. The Independent Person has been consulted on the draft report and their views have been incorporated within the report. However he expressed concern that the report should not be published without individual parish councils named. The committees working groups for standards have previously discussed naming of councillors and parishes/town councils involved in complaints and deemed it appropriate for such details to only be published when a standards panel is convened.

Appendices

30. Appendix 1 – draft protocol for dealing with potential criminal offences.

Background papers

31. None identified.

Further information on the subject of this report is available from Caroline Marshall, Claire Ward
Tel: 01432 260249, Tel: 01432 260657, email: caroline.marshall3@herefordshire.gov.uk, Claire.Ward@herefordshire.gov.uk

Protocol for dealing with potential criminal offences

Purpose – how the monitoring officer reports potential criminal offences arising from the failure to register or declare disclosable pecuniary interests or from speaking and voting where a Member has a disclosable pecuniary interest and has not first sought a dispensation

1) In the event that the Monitoring Officer receives a complaint regarding a potential DPI offence the following steps will be taken.

2) The subject member may be asked for comments or a meeting may be arranged.

3) The independent persons will be provided with the information and meet with the monitoring officer to decide if the matter should be referred to the police as an alternative course of action and not dealt with under the code of conduct arrangements.

4) A referral will only be made where the monitoring officer is of the opinion that the member has acted without reasonable excuse.

Meeting:	**Audit and governance committee**
Meeting date:	**20 September 2017**
Title of report:	**Work programme for 2017/18**
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 2017/18.

Recommendation(s)

THAT:

Subject to any updates made by the committee, the work programme for 2017/18 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.

Reasons for recommendations

2 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.

3 The committee is asked to consider any further adjustments.

Further information on the subject of this report is available from
Caroline Marshall, democratic services officer on Tel (01432) 260249

Key Considerations

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

Community impact

5 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

6 This report does not impact on this area.

Financial implications

7 There are no financial implications.

Legal implications

8 The work programme reflects any statutory or constitutional requirements.

Risk management

9 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

10 The chief finance and S151 officer and monitoring officer have contributed to the work programme

Appendices

Appendix A – audit and governance work programme 2017-18

Background papers

- None identified.

Further information on the subject of this report is available from
Caroline Marshall, democratic services officer on Tel (01432) 260249

Appendix 1

Audit and Governance Work Programme
2017/18

Function area	Report	Purpose
November 2017		
External audit (annual)	Annual audit letter	To review the annual audit letter
External audit	External auditor report	To note the timetable for completion of the 2017/18 audit; 2016/17 audit cycle and current issues update.
Internal audit	Progress report on 2017/18 internal audit plan	To update members on the progress of internal audit work and to bring to their attention any key internal control issues arising from work recently completed.
Governance (annual)	Raising Concerns at Work policy	To review and approve, if necessary, any changes to the policy.
Governance (annual)	Information governance review	To review the council's information governance requirements to include all complaints (inc. children's social care), information requests, breaches of Data Protection Act, corporate governance and Regulation of Investigatory Powers Act.
Internal audit (Bi-annual)	Internal tracking of audit recommendations	Monitor implementation of action plans agreed in response to recommendations made by internal audit
Internal/external audit (annual)	Review of performance of internal and external audit	• To consider a report dealing with the management and performance of the providers of internal audit services • **Ensure that there are effective relationships between external and internal audit and that the value of the combined internal and external audit process is maximised.**
Governance (Quarterly)	Corporate risk register	To consider the quarterly status of the council's corporate risk register in order to monitor the effectiveness of the performance, risk and opportunity management framework.
Governance	Overview of council's constitution	To propose a process for reviewing the constitution
Governance (as and when there are working groups)	Working group update	To provide an update

Appendix 1

Audit and Governance Work Programme
2017/18

Function area	Report	Purpose
January 2018		
External audit	Grant Certification Letter	• Report on grant claims completed in 2016/17 plus update on fees
External audit	External auditor report	• Timetable for completion of 2017/18 and current issues update.
Governance (Annual)	Annual governance statement progress	• Review of the effectiveness of the council's governance process and system of internal control. • Update on the progress of the annual governance statement
Governance (Annual)	Constitution Review	Conduct an overview of the council's constitution and recommendation to council of any changes
Governance (Annual)	Contract procedure rules, finance procedure rules and the anti-fraud and corruption strategy	Review of procedure rules/strategy and approve any amendments to the rules.
Governance (as and when there are working groups)	Working group update	To provide an update.
Governance (Quarterly)	Corporate risk register	To consider the quarterly status of the council's corporate risk register in order to monitor the effectiveness of the performance, risk and opportunity management framework.
Governance (every meeting)	Work programme	To note the current work programme of the committee
March 2018		
External audit (Annual)	External auditors annual plan	Review and agree the external auditors annual plan, including the annual audit fee and annual letter.
External audit	Informing the risk assessment	Report setting out risks and council's approach to managing risks in key areas.
External audit	External auditor report	Timetable for completion of 2017/18 and current issues update.
Internal audit (Annual)	Internal audit plan for 2018/19	To consider the internal audit plan for 2018/19.
Internal audit	Progress report on 2017/18 internal audit plan	To update members on the progress of internal audit work and to bring to their attention any key internal control issues arising from work recently completed.

Appendix 1

Audit and Governance Work Programme
2017/18

Function area	Report	Purpose
Governance (as and when there are working groups)	Working Group Update	To note progress of the working group
Governance (Bi-annual)	Internal tracking of audit recommendations	Monitor implementation of action plans agreed in response to recommendations made by internal audit
Governance (Annual)	Future work programme for 2018/19	To note the work programme for 2018/19.
Governance (Quarterly)	Corporate risk register	To consider the quarterly status of the council's corporate risk register in order to monitor the effectiveness of the performance, risk and opportunity management framework.

Herefordshire Council

Meeting:	Audit and governance committee
Meeting date:	Wednesday 20 September 2017
Title of report:	Internal audit report re project management of the joint customer services hub (Blueschool House) capital project.
Report by:	Chief finance officer

Classification

Open

Decision type

This is not an executive decision

Wards affected

(All Wards);

Purpose and summary

To enable the committee to consider the findings of an internal audit report on the project management of the refurbishment of Blueschool House and the main issues arising and to provide assurance that action has been taken where necessary.

Following an identified and unauthorised overspend on the capital project to refurbish Blueschool House to provide a joint customer services hub, as reported to the May 2017 Audit and Governance Committee, the section 151 officer requested internal audit to investigate the circumstances which led to the overspend and identify any improvements to processes and procedures in order to maintain effective financial controls and ensure value for money. Cabinet received a report on the expenditure and revised business case in July 2017, approved a new financial package, and requested that audit and governance committee identify and recommend improvement actions to strengthen property capital project management and control.

Further information on the subject of this report is available from Andrew Lovegrove Tel: 01432 383519
email: Andrew.Lovegrove@herefordshire.gov.uk

Recommendation(s)

That:

(a) the committee identifies any further recommendations it wishes to make to strengthen capital project management and control;

(b) a further report be provided in January 2018 on progress re agreed actions; and

(c) when the project board has implemented the recommendations SWAP be invited to carry out a further review to report back to the committee.

Alternative options

1. To not receive the report; this is not recommended as it is a function of the committee to consider summaries of specific internal audit reports and the main issues arising and seek assurance that action has been taken where necessary, in order to provide assurance about the effectiveness of the council's system of internal controls.

Key considerations

2. SWAP were appointed to carry out a special investigation into the scheme to develop a joint customers service hub at a refurbished Blueschool House their report is attached at appendix A to this paper. The report has not been redacted, it is presented in full to this committee.

3. The report has been considered by management board and the recommendations accepted in full. A project board has been established to oversee implementation of the agreed actions and the approved terms of reference are attached at appendix B for information.

4. Following implementation of the recommendations internal audit will carry out a further review. The work of the project board is designed to change processes and safeguards and embed necessary culture change to enable the committee to get assurance in future. The committee is invited to identify any further recommendations to be considered as part of this process to improve internal controls.

5. In line with the council's employment policies a formal investigation has been commissioned to investigate the behaviours and actions of current and former officers.

6. The report at appendix A and the subsequent SWAP report following the project board implementing the recommendations will inform the committee's planned review of the constitution.

Community impact

7. To ensure clear and transparent processes are in place to govern how resources of the council are effectively managed support the council's corporate plan objective to manage finances effectively and to demonstrate one of the council's values, namely to be open, transparent and accountable.

8. Through its adopted code of corporate governance Herefordshire Council is committed to: behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law; managing risks and performance through robust internal

control and strong public financial management; and implementing good practices in transparency, reporting, and audit to deliver effective accountability. The council is committed to promoting a positive working culture that accepts, and encourages constructive challenge. To support effective accountability the council is committed to reporting on actions completed and outcomes achieved, and ensuring stakeholders are able to understand and respond as the council plans and carries out its activities in a transparent manner. Internal audit contributes to effective accountability.

Equality duty

9. Under section 149 of the Equality Act 2010, the ‘general duty’ on public authorities is set out as follows:

   A public authority must, in the exercise of its functions, have due regard to the need to

   - eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
   - advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
   - foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

10. The public sector equality duty (specific duty) requires us to consider how we can positively contribute to the advancement of equality and good relations, and demonstrate that we are paying ‘due regard’ in our decision making in the design of policies and in the delivery of services. As this is a decision on back office functions, we do not believe that it will have an impact on our equality duty.

Resource implications

11. There are no resource implications arising directly as a result of recommendations (a) to (c) above. However, the recommendations identified in the SWAP report (appendix A) reflect best practice for governance and project management of major projects. Adopting these measures and ensuring best practice is adhered to at all times will ensure that the council achieves best value for its projects.

Legal implication

12. There are no legal implications arising directly as a result of recommendations (a) to (c) above. However, the recommendations identified in the SWAP report (appendix A) ensures the council complies with legal requirements.

Risk management

13. The report does not result in new additional risks.

Consultees

14. None.

Appendices

15. Appendix A – SWAP report Blueschool House Refurbishment Special Investigation

16. Appendix B – Project board terms of reference

Background papers

17. None identified,

Herefordshire Council

SWAP
SOUTH WEST AUDIT PARTNERSHIP
Delivering Audit Excellence

Blueschool House Refurbishment – Special Investigation 2017/18

Final Report

Issue Date: 14 August 2017

Working in Partnership to Deliver Audit Excellence

Contents

Executive Summary

- This section provides an overview for senior management to understand the main conclusions of this special investigation, including the conclusion, and significant findings.

Findings

- This section contains the more detailed findings identified during this review for consideration by managers.

Appendices:

- Support and Distribution
- Statement of Responsibility

Executive Summary

Background

The scheme to develop a joint customers services hub at a refurbished Blueschool House is part of the approved corporate property strategy 2016-2020. By working with the Department of Work and Pensions (DWP) the joint customer service hub project will offer improved service and convenience to customers and a better return from the council's investment. The intention is that Blueschool House will become a facility that will draw people to an area that is currently under used. This could potentially encourage further development in the neighbouring area.

The establishment of a joint customer services hub at a refurbished Blueschool House with a total capital cost of £950k was agreed as a key decision on 2 June 2016.

The investigation has reviewed the Blueschool House refurbishment project from the key decision in June 2016 to current date to determine if the substantive increase in costs from £950K to the current cost of £1.92M was appropriately approved. A timeline of events has been documented to review whether the key parties involved informed and escalated issues as required during the project.

The investigation was requested by Andrew Lovegrove – Chief Finance Officer.

The scope has included the background to the key decision, the Procurement of the contract, changes to the original scope of refurbishment work, an understanding of the escalation of costs and how changes to the contract and refurbishment were authorised.

Officers still in post were interviewed as part of the investigation and for officers no longer in post I requested the email correspondence in relation to Blueschool House for each officer for the period 01 May 2016 to 31 March 2017. There were approximately 445 e-mails and each email was reviewed to establish the involvement of these officers in the Blueschool House refurbishment.

The information held on the Asset Management and Property Services system (AMPS) used by Property services to record project information was also reviewed for Blueschool House. Approximately 909 files relevant to Blueschool House were reviewed.

<u>Capital Programme Background</u>

The Capital Programme plays a key role in delivering the Council's broader ambitions to drive economic growth in the county and the delivery of more jobs and homes. It builds on the foundations provided by the recently adopted core strategy and is aligned with both the Marches strategic economic plan and the Council's corporate plan.

Capital proposals are invited and ranked by the capital strategy group; a senior officer group chaired by the Director of Resources. Expressions of interest were submitted in August 2015 and if the request aligned with corporate priorities business cases were completed and reviewed in October 2015.

The Capital Programme was approved on 18 December 2015 and a budget of £1.1m was allowed for 2016/17 for Corporate Accommodation with a further budget of £600K for 2017/18. The scheme was summarised in the following way: "*to purchase, adapt & refurbish new premises & enable the sale of existing premises.*"

The following figures were taken from Appendix 2 'Capital Proposals' that accompanied the 'Proposed Capital Programme' report that went to Council in December 2015.

2016/17	*£1,100,000*
2017/18	*£600,000*
Total Cost	*£1,700,000*
Total Funding	*-£300,000*
Net Cost	*£1,400,000*

On the 11 February 2016, the 'Corporate Property Strategy 2016-2020' was taken to Cabinet for approval - taken from the Corporate Property Programme this report stated that "*The capital costs of refurbishment & exiting surplus premises of £1.3m are included in the £1.7m capital expenditure for the corporate accommodation programme approved as part of the 2016/17 capital programme.*"

Neither the report taken to Cabinet or the Corporate Property Strategy was clear on the breakdown of the how the £1.7 million budget would be spent or included any specific information in relation to the refurbishment of Blueschool House.

The proposal for a customer services hub in Hereford was developed in partnership with senior officers of the Department for Work and Pensions (DWP) regional team. A detailed scheme was developed that will accommodate both the Council's front facing services and the DWP Job Centre Plus operation, currently located at St Nicholas House in Hereford.

Blueschool House is located within the Edgar Street Grid (ESG) area, The Council owns the freehold to the property; however, the Homes and Communities Agency (HCA) have a retained interest as they provided the money for its purchase in 2007. Since then the Council has paid rent to the HCA for using the building. This rent has been held on the HCAs behalf for reinvestment to support the ESG delivery plan and now totals £300k. HCA investment in Blueschool House is included in the ESG delivery plan and is designed to act as a catalyst to prompt the further regeneration of that part of Blueschool Street leading from the Old Market to Franklin House.

The financial model included in the 'Joint Customer Services Hub' business case (13 May 2016) outlines the following funding available for the project with an identified remaining net capital requirement:

	£000
Gross Capital Expenditure	£950
DWP capital contribution	-£400
HCA Capital contribution	-£300
Net capital requirement	£250

Objective

To identify a timeline of events of the Blueschool House Refurbishment and to determine if the key parties involved, informed and escalated issues as required.

Conclusion

The business case for the Joint Customer Services Hub (Blueschool House) was signed as approved by the Director of Resources on 13 May 2016 and the key decision taken on 2 June 2016 was approved by the Cabinet Member Contracts and Assets. The decision stated that '*the director of resources be authorised to take all operational decisions necessary to implement the project* ***within the agreed financial envelope***'.

Overall the council's normal governance processes have not been followed by key officers involved in the Blueschool House refurbishment. The key decision did follow the correct governance process however the business case to support the key decision lacked clarity over what works would be included in the £950K agreed financial envelope. It would appear that key staff including senior officers at Director level were aware of the council processes and procedures but these have not been applied during this project and there is evidence that officers have knowingly disregarded council process and procedure.

The contracts procedure rules in place at the time are clear that any material variation in cost/timescale for a capital project must be reported to Cabinet. Project costs escalating and spend going beyond the approved budget was identified as a major risk in the Business Case. The mitigation for this was to obtain a fixed price quote from the framework provider at the earliest opportunity. Although there were early indications from the framework provider that the project could not be delivered within the financial envelope even with value engineering, key officers including Officer J and Officer F failed to report this to Cabinet.

The rationale for the selection of the contractor cannot be demonstrated as there are no records to support this. The property services team has responded to client requests without providing robust challenge, and has not followed the council procedure rules in relation to procurement.

The relationship between the property services team and contractors appears to be informal for a capital project of this value and throughout the project there is little evidence that value for money can be demonstrated.

In line with the capital guidance, major projects should be overseen by a project board. The Accommodation Programme Board had oversight of the overall accommodation strategy until November 2016 however, there was no project board for the Blueschool House refurbishment project.

The timescale of the project was identified as a major risk in the Business Case as the project was subject to a time constraint pressure due to the DWP serving notice on their current property. This was a key factor in ensuring the project was progressed and has contributed to the overall poor governance.

This investigation provides management with the detail to support where failings in the process have been identified and those officers who were involved with the process failures. It is for management to consider and determine whether any further action such as disciplinary action, should be taken against individual officers as it is clear there has been disregard for processes and procedures which has resulted in a significant overspend on the project.

The key findings are recorded below and all detailed findings and evidence to support the key findings have been provided to the Chief Finance Officer to support him in making his decision on the best way forward for the Council.

Key Findings

Key decision and budget

The budget included in the business case and the key decision was £950K however, the report provided limited information on what would be included within that figure.

The basis for part of the budget is from the funding agreed by the DWP (£400K) and the HCA (£300K) and it would seem that the remaining £250K would be a capital contribution as part of the wider accommodation strategy. At the point, the key decision was made the only costing that had been completed was an elemental estimate based on square foot cost, by Officer B in January 2016 which was revisited in February 2016 with both costings slightly in excess of £950K. At this point Officer B confirmed to the DWP, Officer H and Officer J that the £950K can be achieved with value engineering.

Prior to the key decision Hub Professional Services were procured in April 2016 to develop the design for Blueschool House and submit for Planning and Building Control. Hub provided a cost of £1,060,000 on 14 June 2016 to exclude a new roof; this was however after the key decision had been taken. As Hub were engaged as early as April 2016 to provide a more detailed estimate of the costs of the works it is difficult to understand why the key decision was not delayed until the costing had been provided. The Council paid £102,747 to Hub Professional Services to develop the design and provide a costing for the project.

Procurement of the Design stage

Officer B confirmed that the Council's normal approach to similar projects would be to use the same company for both the design and build stage. For Blueschool House, Hub was used for the design stage only. In his opinion, this was out of the ordinary, to use two separate companies i.e. Hub for design stages (via integral) and Kier for the build stages. Officer B also confirmed that Hub had not been used before for a project of this size.

The instruction to use Hub was from Officer H. There is no evidence to support the rationale for using Hub however, the company is a property and design consultant and a member of the British Institute of Architects so the expectation would be that the Council was using a professional service. There is also no evidence to support that Contracts Procedure Rules were followed for the procurement of Hub, or that a contract was in place with Hub, and therefore value for money cannot be demonstrated.

Procurement of Build Stage

A 'Contractor Selection Options' document was put together in July 2016 by Officer B and Officer J. The purpose of the document was to list the pros and cons of different procurement routes. When this was presented to the accommodation programme board, the Minutes record that 'Officer M expressed concern that the note was not a procurement strategy as requested and did not include a recommendation supported by appropriate evidence to ensure value for money. In the opinion of Officer M, the low level of contingency within the estimates for the work also indicated that there was a significant risk that the proposals cannot be delivered within the approved budget.'

A revised procurement strategy was requested setting out the impact on value for money and timescales together with a recommendation for approval. The notes from this meeting included an action for Officer J to produce a revised procurement strategy with input from legal and procurement, for approval by the Board, prior to the works being commissioned.

Even at this stage, after the key decision and prior to the procurement of the build stage, concern was raised over the demonstration of value for money and the risk was identified that with the low level of contingency within the estimates the project cannot be delivered within the approved budget.

However, there is no evidence to support that this was completed. The next meeting, which was scheduled for 1st September 2016, should have received a revised procurement strategy but this meeting did not take place and the notes on the following meeting (20th October 2016) do not make any reference to a revised procurement strategy. There is no evidence that Officer J produced a revised procurement strategy or that the Accommodation Programme Board challenged that a revised document had not been produced as requested. Officer M confirmed in an email on 2nd August 2017 that 'as far as I can recall the board was not presented with an update; I don't believe a revised document was provided to the board'.

<u>Selection of Kier</u>

Both Kier, via the Scape framework, and Balfour Beatty Living Places (BBLP) were able to meet the timescale of the project when initially asked by Officer B in September 2016. However, there appears to be no clear evidence to support how the decision to select Kier was made. There is email evidence to suggest that as early as May 2016 there was an intention to use Kier for Blueschool House; this was prior to the key decision and prior to any Contractor Selection Options. This email was from Officer J.

The instruction to use Kier was issued in an email by Officer J on 21st September 2016 following a meeting with legal services the previous day. I have not been able to find any record of a meeting with legal services and Officer E has informed me there are no case notes and there are no diary entries in anyone's calendar to identify that this meeting did indeed take place on 20th September 2016.

It is a fact that on the 20th September 2016 (evidenced in an email) BBLP were still expecting to be asked to tender for Blueschool House.

I cannot conclude that for certainty Officer J made this decision without appropriate consultation with senior officers however, the lack of evidence to support that this decision was taken in consultation with others would point to this.

Officer H having been informed of the decision instantly felt there may be some comeback from BBLP – which could indicate that an appropriate selection process was not followed. This is evidenced in an email sent by Officer H on 21 September 2016.

<u>Use of the Scape Framework -Kier</u>

Kier were used under the Scape Framework. For minor works (works </= £4million) Kier is the single supplier on the framework. It is an expectation that where Kier subcontract 'trades' as part of the tender; value for money is demonstrated by obtaining three quotes. For three key elements of the contract:

- Mechanical, Electrical and Plumbing - Melcon
- External Works and Structural - SC Joseph

- General Works – Bourne Decorators

Officer B allowed Kier to only provide one quote and from a provider that Kier had suggested. This is evidenced by emails between Officer B and Kier. The Council cannot, in accordance with its procedures, demonstrate value for money has been achieved. Although the time constraints seem to have been a driving factor in agreeing to this, it is difficult to understand that if the specification for each of these three elements was available to the providers used by Kier, why the specification could have not have been provided at the same time to other providers to enable the Council and Kier to demonstrate that value for money had been considered and can be demonstrated during the tender process.

This would not seem to be isolated to the original tender submission as later, during the contract provision, both Officer D and Officer B agreed to accept one quote again from a provider suggested by Kier for works to 'roof ALWRITA single ply roof with insulation to meet current Building Regulations'.

Officer B said at interview that Kier had not yet provided the quotes to demonstrate value for money when in fact he had already agreed with Kier to accept only one quote for three key elements.

The contracts procedure rules in place at the time stated that the number of approved contractors on a Framework can vary but the minimum number should be three. There was a lack of awareness of this requirement as the framework for minor works (works </= £4million) was a single supplier framework. The contracts procedure rules have since been updated to state that single supplier frameworks can no longer be used. This however will not resolve the issue of officers agreeing to accept one quote from a provider suggested by the contractor.

<u>Kier Tender</u>
Hub provided two costings for the refurbishment of Blueschool House £1,060,000 on the 14 June 2016 and a revised figure after value engineering of £896,000 on 16 June 2016.

The original tender valuation from Kier on 02 November 2016 was £1,426,883.38 significantly higher than the Hub costing and the budget for the works. At this point Kier stated that although the project was costed higher this was based on a lower specification than Hub had estimated for.
Kier had highlighted on receipt of the tender documents in September 2016 that the works would not be achievable within the Hub costing; this was confirmed by Officer B when interviewed in May 2017. He explained that as soon as Kier saw the tender documents they immediately identified that it would not be achievable in the Hub estimated costs. Kier also raised concerns that clarification was needed on the preliminary documents and alerting Officer B early to a number of issues Kier had relating to the documents provided by the Hub and their alignment with the Scape Framework through which this project was being procured. The tender documentation was also sent out by Officer B as received from the Hub without it being checked as confirmed in an email on 29 September 2016

As a result of the Kier tender and in their opinion that the Hub costing was unrealistic, Officer B informed me that the Council rejected the Hub costing and decided not to use them to project manage any further; at this point the responsibility for managing the project was brought back in house. I have been unable to find any evidence to support who made this decision but would assume it was discussed between Officer J and Officer B.

Hub had been appointed for the design phase of the project and paid £102,747. As the Council had already committed in excess of £100,000 to Hub for their professional services, I would expect to find clear documentation as to why this decision was made, who made the decision and on what basis the decision was made.

On the 2nd December 2016, Hub provided a tender evaluation summary recommendation on the tender submitted by Kier to Officer B. In summary, ''the recommendation was that the bid as proposed by Kier Construction does not represent value for money based on the criterion as set out in the tender and order of cost documents provided by ourselves, bearing in mind that we were not engaged during the tender process and therefore did not have access to any information or discussions held between yourselves and Kier during this period and therefore have based our summation purely on the figures provided''.

Hub stated that: "Although some areas were identified as offering potential cost savings, given the large disparity between the budget cost and the submitted tender, these savings are unlikely to bring the bid within the prescribed budget. Our conclusion and recommendation therefore is that the bid be rejected as not representing value for money."

There is no evidence to demonstrate that the tender evaluation summary from Hub was discussed or shared with other officers despite Hub clearly concluding that the bid from Kier should be rejected. There is no evidence that the Kier tender was reviewed in the light of this information or that the Hub tender evaluation summary of the Kier bid was properly considered; it would seem to have been completely disregarded.

Officers have failed to demonstrate good governance as both the Hub tender evaluation summary and the Kier bid should have at this stage been subject to review and scrutiny before progressing any further with the project.

<u>Authorisation of project overspend.</u>
Kier provided five costings for their tender submission with the final submission on 19 December 2016 of £1,383,128.77. It was obvious at this stage and even when Kier submitted their first tender on 02 November 2016 that the project could not be achieved within the financial envelope of £950K.

There are numerous emails between officers within the Council about the increase in costs and how this could be funded. These included emails from Officer F, Officer J, Officer A, Officer C and Officer B. Briefing papers that supported emails and even the content of some emails was not always shared openly. Officer C sent an email on 6 December 2016 to Officer F requesting that a briefing paper was reviewed before being shared with Officer A as Officer C was not sure if the position of Blueschool House should be shared. Officer A has confirmed that he did have sight of this document which was sent on 7th December 2016. Officer A explained that his impression of this report was that yes, it has come back more expensive, but value engineering would be done to ensure the cost was reduced.

There does seem to be some confusion over the approved financial envelope for the Blueschool House Refurbishment and the overall accommodation project budget by some officers. However, Officer F in an email on 1 December 2016 clearly identified that the accepted tender price was outside of the approved financial envelope budget and therefore the project could not proceed.

However, on the 13th December, Officer B informed Officer F and Officer J that a revised figure for Blueschool House had been obtained. This costing plan identified costs at £1,497,480.90 (this was a cost of £1,422,480.90 plus £75,000 risk for roof and LED lighting). Officer B highlights there is only £1,530,000 in funding and an overall project cost of £1,761,980. Officer F responded: ''Good result Officer B, we just need to confirm the overall funding package remains within the total accommodation strategy envelope but I think we can instruct to start by tomorrow…..Officer F

- Ps unless a showstopper arises!"

This is the only evidence of approval to go forward with the scheme and accept the overall project costs of £1,761,980. This was clearly a decision by Officer F who was acting outside of his delegated authority of the key decision – which states '*the director of resources be authorised to take all operational decisions necessary to implement the project within the agreed financial envelope*'- *the financial envelope being £950K*

Once it was known the project cost was outside the agreed financial envelope a report should have gone back to Cabinet for review and decision on how to proceed. This was a failing on the part of Officer F who had delegated responsibility for this key decision and Officer B who in his email on 13th December implied that the overall project cost was approx. £200,000 above the £1,530,000 funding. At this point it would appear both officers were in fact working within the overall accommodation project budget which was incorrect. This does not make the approval of this capital spend acceptable as it does not comply with the council's contracts procedure rules which all officers and directors are expected to follow.

On 9th February 2017, Officer G identified there was no budget in Agresso for the Blueschool House refurbishment and asked Officer B whether he had heard anything and also asked Officer J if there was written confirmation of the decision. She also requested confirmation from Officer F where the refurbishment was being funded from. Officer F confirmed that the Accountant has all the details and a journal is needed to move revenue support income to the budget to keep it in line.

In an email on the 14th February, from Officer J it would appear there was a general feeling that the correct process had not been followed. The email states that there was no clear written approval although it could be the paper that was taken to Councillor Bramer and that the Cabinet Member briefing notes may be enough, he concludes that he can see governance getting hold of this and requiring a cabinet member report to be done retrospectively once you (Officer F) leaves.

<u>Signing of the Contract</u>

The start date for Kier on site has been evidenced as 16 January 2016; this is prior to the contract being signed. There is no evidence to confirm that Legal Services were involved in the contract stages of this project. Officer A stated that he signed the contract based on verbal assurance from Officer F that the appropriate governance and budget was in place and that it was within the approved financial envelope. At this stage, there is a possibility that Officer F was referring to the overall Accommodation Strategy budget and not the individual cost of the Blueschool House refurbishment.

On the 3rd March 2017, Officer B emailed the Legal Support Officer informing her that he had two copies of the contract with Kier for the refurbishment works on Blueschool House, signed by Officer A but a second signature from Legal was required. On the 17th March, Officer K forwarded the email trail to the Officer L to highlight that another high value contract was in place that the legal department had no knowledge of. Under Contracts Procedure Rules the Commercial Services Team and the Solicitor to the Council must be consulted on all Framework contract procurements.

Compensation event approval

There is no evidence that any form of appropriate approval was sought for the compensation events. All compensation events have been authorised by Officer B who has no delegated authority to do so; he has signed off compensation events currently to a value of £319,112.58.

Compensation events, can be approved by the individual responsible for the contract in this case this would have been Officer F as it states in the 'Joint Customer Services Report' "the director of resources be authorised to take all operational decision necessary to implement the project within the agreed financial envelope". However, he only had authority to do this if it was within the agreed budget; in this case the £950K. As the project was outside of the financial envelope as soon as the Kier tender was accepted then all compensation events were also outside of the financial envelope.

Budgets/costings

The budget and costings for the project right from the elemental estimates in February 2016 have been subject to numerous changes with attempts to value engineer the project to bring the costing down on both Hub and Kier costings.

There was a lack of good record keeping and recording of decisions on additional costs and there is some uncertainty whether certain elements were included in the Kier tender or not.

There would appear to be a disconnect between the team responsible for budget monitoring and the property services team. This resulted in a number of briefing papers where figures were not always consistent from one briefing to the next, leading to poor budget management throughout this project. Even when the approval had been given by Officer F; Officer G was questioning where the funding was coming from.

Accommodation Programme Board

An Accommodation Programme Board was in place from April 2016 until November 2016. During this time, there was some oversight of Blueschool House however it is clear that when the request for further information to be brought back to the Board was made, these requests were not always actioned and the Board did not ensure this was followed through. A key point in the Blueschool House project is covered in design of the build stage above where a revised procurement strategy was not provided.

In line with the capital guidance, major projects should be overseen by a project board, generally chaired by the project sponsor at director or assistant director level. Such project boards should involve representatives from legal, finance, and procurement teams as well as relevant service professionals, and should have access to a governance advisor. The Accommodation Programme Board was attended by 10 officers including one director, one interim director and two assistant directors, however there was no representation from legal or procurement.

The Accommodation Programme Board had oversight of the overall accommodation strategy until November 2016 however there was no project board for the Blueschool House refurbishment after the Accommodation Programme Board ceased.

Recommendations

1) The Council should ensure there is a clear audit trail to show how budget figures have been derived and what the budget is based on.
2) Key decision reports and supporting business cases should contain all relevant information for an informed decision to be made including on what basis the budget was determined and what the budget includes.
3) The gross cost of a capital project should be costed prior to a proposal being submitted to the Capital Strategy Group.
4) When an external consultant is appointed to provide costing for a project this costing should be reviewed prior to the agreement of funding for a project.
5) Officers must ensure that Contracts Procedure Rules are followed for all procurement
6) The rationale for decision to use two separate companies for the design and build stages or to use one company for both should be clearly documented at the outset of the project.
7) Actions from project/programme boards should be completed by the relevant officer and the board should ensure that there is adequate governance oversight that actions are completed prior to any further decision being made on a project.
8) The decision of Contractor selection to invite to tender must be clearly documented and consultation with key officers must be followed in line with Contracts Procedures Rules.
9) Officers must ensure that that value for money can be demonstrated as part of a tender submission and for any additional works during the project.
10) If a tender submission is significantly different to the costing provided at the design stage or outside of the budget agreed as part of the key decision; the tender should be subject to scrutiny and challenge prior to proceeding with the project and the relevant officer should take the decision back to Cabinet.
11) Compensation events should only be authorised by an officer with the relevant delegated authority.
12) There should be robust budget monitoring and clear documentation of changes to a project as it progresses so there is a clear audit trail to support financial commitment.
13) Project Boards must be presented with full and accurate information to ensure informed decisions can be made and actions recommended must be completed with a clear audit trail to show the action has been completed.

Support and Distribution

Report Authors

This report was produced and issued by:

Jacqui Gooding, Assistant Director

Support

We would like to record our thanks to all the officers who supported and helped us in the delivery of this special investigation.

Distribution List

This report has been distributed to the following individual:

Andrew Lovegrove, Chief Finance Officer

Working in Partnership with

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Statement of Responsibility

Conformance with Professional Standards

SWAP work is completed to comply with the International Professional Practices Framework of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Auditing Standards.

SWAP Responsibility

Please note that this report has been prepared and distributed in accordance with the agreed Audit Charter and procedures. The report has been prepared for the sole use of the Partnership. No responsibility is assumed by us to any other person or organisation.

Name of group:	Internal controls improvement board
Purpose:	To oversee development and implementation of an improvement plan to ensure effective internal controls in respect of capital spend, project management and contract management are in place and complied with across the council.
Composition and roles:	• Chief finance officer – (S151 accountabilities and chair) • Assistant director AWB – to ensure issues and actions identified by the board are communicated and implemented in the directorate and to bring forward directorate specific issues/ideas • Assistant director CWB – to ensure issues and actions identified by the board are communicated and implemented in the directorate and to bring forward directorate specific issues/ideas • Assistant director ECC – to ensure issues and actions identified by the board are communicated and implemented in the directorate and to bring forward directorate specific issues/ideas • Head of HR and OD – to advise on training requirements and actions/communications necessary to support the culture change and ensure actions are effectively embedded • Head of law and governance – to ensure actions identified align to the commercial and commissioning strategy • Head of corporate governance – to ensure actions ensure a system of internal control that is compliant with the council's code of corporate governance • Head of internal audit
Authority:	The project board is an officer working group and has no delegated authority beyond the operational delegations held by its constituent members. Any formal decisions necessary to implement decisions of the group will follow the relevant governance process in accordance with the council's constitution.
Reporting:	The project board will report monthly to management board. In addition, a report will be provided to audit and corporate governance committee in January 2018.
Subsidiary groups:	None.
Interdependent groups:	The capital strategy working group – responsible for developing and implementing processes for assessment and prioritisation of bids and overseeing monitoring and implementation of the agreed capital programme.
Responsibilities:	The board will be responsible for: • Developing and implementing an action plan to address recommendations made in internal audit reports and other reviews or investigations; • Identifying mechanisms that will enable the council to gain assurance that actions have had the intended effect and are effectively embedded across the organisation • Maximise use of the CPiP programme to ensure effective continuous improvement in this area
Key performance indicators/milestones:	Xx % of recommendations implemented Measures of assurance identified by xx

Meeting arrangements:	The board will meet not less than monthly. Administrative support will be provided by the resources service. Agendas will normally be distributed electronically at least three working days before the meeting.
Date terms of reference approved by management board:	29 August 2017
Review date for terms of reference:	19 December 2017