

Agenda

Audit and governance committee

Date: **Tuesday 30 July 2019**

Time: **10.00 am**

Place: **The Council Chamber, The Shire Hall, St. Peter's
Square, Hereford, HR1 2HX**

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

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Agenda for the meeting of the Audit and governance committee

Membership

Chairperson **Councillor Nigel Shaw**
Vice-Chairperson **Councillor Christy Bolderson**

Councillor Peter Jinman
Councillor Bob Matthews
Councillor Roger Phillips
Councillor Alan Seldon
Councillor Diana Toynbee
Councillor Yolande Watson

Agenda

THE PUBLIC RIGHTS TO INFORMATION AND ATTENDANCE AT MEETINGS

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 declarations of interests in respect of Schedule 1, Schedule 2 or Other Interests from members of the committee in respect of items on the agenda.

4. MINUTES

To approve and sign the minutes of the meeting held on 19 March 2019

9 - 22

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 24 July 2019 (3 clear working days from date of meeting).

Accepted questions and answers will be published as a supplement prior to the meeting.

6. QUESTIONS FROM COUNCILLORS

To receive any questions from councillors.

Deadline for receipt of questions is 5.00 pm on 24 July 2019 (3 clear working days from date of meeting).

Accepted questions and answers will be published as a supplement prior to the meeting.

7. INTERNAL AUDIT ANNUAL REPORT AND OPINION 2018/19

The purpose of this report is to provide those charged with governance an opinion on the overall adequacy and effectiveness of the organisation's governance, risk management and internal control environment. The report provides independent assurance to the committee and enables the committee to determine any potential items for inclusion in its future work programme.

23 - 48

8. PROGRESS REPORT ON 2018/19 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. To enable the committee to monitor performance of the internal audit team against the approved plan.

49 - 78

9. EXTERNAL AUDIT FINDINGS REPORT - 2018/19 STATEMENT OF ACCOUNTS	79 - 110
To consider the external auditors audit finding report for the year ended 31 March 2019.	
10. ANNUAL GOVERNANCE STATEMENT 2018/19	111 - 168
To agree the annual governance statement 2018/19.	
11. SIGNING OF THE 2018/19 STATEMENT OF ACCOUNTS	169 - 288
To approve the 2018/19 statement of accounts and associated letter of representation to Grant Thornton, the external auditors.	
12. 2019/20 EXTERNAL AUDIT FEE	289 - 296
To approve the planned external audit fee and to note the outline timetable, as detailed in appendix 1, for 2019/20, to ensure that the council has effective statutory external audit arrangements in place as required in the council's constitution.	
13. NMITE ASSURANCE REVIEW	297 - 302
A briefing to enable the committee to provide assurance on the adequacy in regards of the risk framework on the measure the council is taking as the accountable body for the new model in technology & engineering (NMiTE) and the milestone payments from the Department for Education (DfE).	
14. WORK PROGRAMME UPDATE	303 - 308
To provide an update on the work programme for the committee for 2019/20.	

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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.
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- 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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Please note that the council will be making an official audio recording of this public meeting. These recordings form part of the public record of the meeting and are made available for members of the public via the council's website.

To ensure that recording quality is maintained, could members and any attending members of the public speak as clearly as possible and keep background noise to a minimum while recording is in operation.

Please also note that other attendees are permitted to film, photograph and record our public meetings provided that it does not disrupt the business of the meeting.

If you do not wish to be filmed or photographed, please identify yourself so that anyone who intends to record the meeting can be made aware.

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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 Nigel Shaw (Chairman)	Conservative
Councillor Christy Bolderson (Vice Chairwoman)	Conservative
Councillor Peter Jinman	Herefordshire Independents
Councillor Bob Matthews	True independents
Councillor Alan Seldon	It's Our County
Councillor Diana Toynbee	Green Party
Councillor Yolande Watson	Herefordshire Independents

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.
- (f) reviewing the corporate risk register

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 only entitled to speak at the discretion of the chairman.

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 19 March 2019 at 2.00 pm

Present: Councillor PD Newman OBE (chairperson)
Councillor ACR Chappell (vice-chairperson)

Councillors: CR Butler, E Chowns, EPJ Harvey, RJ Phillips and J Stone

Officers: Annie Brookes, Andy Churcher, Donna Etherton, Andrew Lovegrove, Jacqui Gooding and Gail Turner-Radcliffe

355. APOLOGIES FOR ABSENCE

There were no apologies for absence.

356. NAMED SUBSTITUTES (IF ANY)

There were no named substitutes.

357. DECLARATIONS OF INTEREST

There were no declarations of interests.

358. MINUTES

RESOLVED:

That the minutes of the meeting held on 23 January 2019 be confirmed as a correct record and signed by the chairperson.

359. QUESTIONS FROM MEMBERS OF THE PUBLIC (Pages 9 - 12)

Questions received and responses given are attached as appendix 1 to the minutes.

360. QUESTIONS FROM COUNCILLORS (Pages 13 - 14)

Questions received and responses given are attached as appendix 2 to the minutes.

361. PROGRESS REPORT ON 2018/19 INTERNAL AUDIT PLAN

The chairman used his discretion to move the progress report on the 2018/19 internal audit plan to the first item.

The head of internal audit presented the report and highlighted the following:

- 7 audits had been completed since the last update
- 2 audits were in draft

- 10 audits were in progress
- 6 audits were assessed as reasonable
- There were 3 priority 2 findings across 6 audits

Hoople

The priority 2 finding had been in connection with the calculation of a key performance indicators (KPIs) as not all KPIs had written methodologies in support of the KPI calculation. The recommendation had been accepted and there was a target completion date of 31 March 2019.

It was confirmed that without reviewing all the KPIs, it was not possible to confirm whether the issue with the Hoople KPIs would found in other KPI either within Hoople or elsewhere in the council.

With regard to the development regeneration partnership (DRP) KPIs, there was no reason to believe that there was an issue with the KPIs but a 100% guarantee could not be given.

Internal Control Improvement Board (Blueschool House)

The head of internal audit reported that pages 62 to 63 of the agenda pack provided an update on the internal control improvement board follow up review. The report was currently in draft and would be provided to committee members when it was finalised.

It was reported that the infrastructure was now in place to address the recommendations from the Blue School House audit report and provide a solid control framework. Training has been provided on the processes and they now needed to be embedded across the council.

During the discussion of the issue, the following points were raised:

- That the South Wye Transport Package (SWTP) was not currently on the new project management system (Verto). This was disappointing and frustrating for the committee as they were seeking assurance that a major project was following the project management processes now in place.
- The committee had requested assurance at its November meeting and again at its January meeting and it was only at this meeting that it was being reported that the assurance would not be possible because the project was not yet on Verto.
- The agreement to move to the Verto system had only been agreed in October 2018 and there was a phased approach to projects being loaded on the system.
- The SWTP would be subject to an internal audit in Q1 which would include governance compliance.
- Some committee members expressed concern that there may be an unauthorised overspend on a major project. The chief finance officer confirmed that he did not recognise that there was an overspend on the SWTP. A large amount of money had been spent and appropriately

reported in the public domain on this project. There had been a lot of examination of this project in a number of different forums.

- The chief finance officer and head of internal audit were unable to comment further on this project until the review had taken place.
- The SWTP was now moving into the next phase as the public inquiry had reached a conclusion.
- Other projects had been loaded onto the Verto system as they were incurring more spend than SWTP.
- As a result of the outcome of the public inquiry, the SWTP project would now be loaded onto Verto as there would be more spend on the project.
- There had been significant progress made in relation to the recommendations following the Blueschool House review. There were now checks and balances in place which would make it less likely that an incident like Blueschool House would occur again.
- It was confirmed that there had been spend on the SWTP from October to date but it was relatively small in terms of a project with a £35m spend. The SWTP was a long term project and during the next phase there would be a greater amount of spend.
- The committee were concerned that there was an unauthorised overspend on the project given the recent officer decision to move £1m from the existing road network budget to the SWTP. If there was no overspend, then why was £1m transferred from a different budget to the SWTP. It was explained that SWTP had a capital budget of £35m, £27m was from the Department of Transport (DoT) and £8m from the council. The chief finance officer again confirmed that he was not aware of any overspend on this project.

A member of the committee requested that there be no further spend on the SWTP project until there had been assurances given to the committee that this project was compliant with the current project management and governance process. The chief finance officer explained that as the approved project was now moving into the next phase, there would be expenditure incurred and he was unaware of any reason to delay that spend.

The chief finance officer confirmed that the DoT will pass the funding to the LEP which would then be passed to the council.

Compliance with contract and finance procedure rules - revenue

A member of the committee indicated that the findings of this audit appeared to parallel the issues with regard to the capital budget. In particular there was a lack of governance which appeared to replicate the issue of contract management for capital projects.

Following a query from a member of the committee, it was confirmed that the audit into the declarations of personal and business interests had been not removed but had been deferred and would need to be added to the 2019/20 internal audit plan. The reason for the deferment was that the implementation of a new process had been delayed for the declaration of those interests.

RESOLVED

That the report be noted.

362. INTERNAL AUDIT PLAN 2019-20

The head of internal audit presented the report.

Following a query from a member of the committee, it was confirmed that with the exception of one member of staff, none of the SWAP employees had previously been employed by Herefordshire Council.

With regard to the internal audit plan for 2019/20, the following points were raised during the discussion.

- The audit into the SWTP be the first audit of the plan.
- The audit into DRP projects be included and repeated as it was the largest capital expenditure over the next few years. It was confirmed that the governance arrangements for the DRP would be looked at during 2019/20. It was further noted that there were other councils working with Keepmoat and Engie and it would be sensible to see if the learning from those councils could be brought into the audit.
- The independent reviewing officer service (IRO) audit was a priority as it had been raised as a serious issue during the extraordinary council meeting.
- That the recruitment of social workers would be an appropriate topic for review.

RESOLVED

That

- (a) the proposed internal audit plan 2019-20 at appendix A be noted; and**
- (b) the internal audit charter at appendix B be approved**

363. EXTERNAL AUDIT PROGRESS REPORT

Grant Thornton presented the report and highlighted that there were no issues to report to the committee at this stage of the audit.

It was noted that as indicated at the January meeting of the committee, there had been change to the materiality levels. The materiality figure had been increased and had been signed off by the technical team at Grant Thornton.

Grant Thornton reported that the change of materiality was a pilot and that Herefordshire was the only council within the pilot. It was explained that in

comparison to other councils, Herefordshire had a large asset base compared to expenditure. Traditionally, materiality was based on expenditure which meant that more work was required on the Herefordshire external audit in relation to property, plant and equipment. The outcome of this pilot would be reported in the summer and if it was successful would be sent to the Financial Reporting Council (FRC) for approval for use across all councils who were clients of Grant Thornton and would potentially be adopted by other regulatory bodies.

A member of the committee requested that as Herefordshire would be the only council in the pilot that Herefordshire was not used and that the current materiality level was used.

A member of the committee indicated that there was little justification provided as to why there should be a change in the materiality level, especially as there was a 50% increase in materiality. It appeared that the only reason was that Grant Thornton had needed to undertake further work as part of the 2017/18 audit which had incurred a cost to the council.

It was noted that Grant Thornton's professional opinion was that the change in materiality was the best approach for Herefordshire. The committee agreed that it would be helpful if a training session on materiality could be arranged prior to the July meeting.

Grant Thornton confirmed that they had already undertaken some tests in this year's audit based on the new materiality levels.

It was confirmed that as part of the July report to the committee on the audit of the accounts, there would be a number of appendices which would include audit adjustments over £500k and non-adjustments to the accounts. Where there had been no adjustments, it would be at the committee's discretion as to whether there were amendments to the accounts.

The committee were advised that the determination of the level of materiality was a matter that rested with the External Auditor.

Councillor EJP Harvey proposed and Councillor EE Chowns seconded the following:

That Grant Thornton be asked to consider maintaining the level of materiality for 2018/19 accounts for reporting purposes at same level as previous years

Vote:

6 for
1 Against.

RESOLVED

That:

- (a) The report be noted; and**
- (b) Grant Thornton be asked to consider maintaining the level of materiality for 2018/19 accounts for reporting purposes at same level as previous years**

364. CERTIFICATE OF COMPLETION OF AUDIT

The chief finance officer and Grant Thornton presented the report.

It was noted that there had been progress but that the certificate of completion of the audit had still not been issued. Grant Thornton had issued an unqualified opinion with regard to the audit conclusions and value for money.

Grant Thornton confirmed that there were regular progress reports from the council and acknowledged that the process would take time. However, they would not be able to issue the certificates until the process had been completed.

It was noted that the issue was complex and reliant on external bodies to undertake work.

Members of the committee expressed concern that this issue was still unresolved and it appeared that there was nothing that they could do to expedite the matter.

The head of corporate governance reiterated the offer made at the January 2019 meeting that if the committee wished, a private meeting could be arranged so that members could receive an exempt report and briefing on the issue.

At 1619 hours Councillor EJP Harvey resigned from the committee with immediate effect and left the meeting.

Members of the committee indicated that they had shown patience with regard to this issue but they remained concerned and agreed that the audit and governance committee formed following the May 2019 local elections be briefed on the issue in private session.

RESOLVED

**That: (a) the report be noted; and
(b) that this committee recommends that the committee formed after the May 2019 election be briefed in private session on this issue.**

365. ANNUAL GOVERNANCE STATEMENT 2018/19

The head of corporate governance presented the report and highlighted:

- That the annual governance statement was the first draft;
- As the year end was 31 March 2019, there are a number of pieces of information which are not yet available.
- The draft statement will be updated before it is published at the end of May 2019 which is in line with statutory deadlines.
- The document was a high level statement of the council's arrangement and the assessment of the current performance against it.
- The committee will have an opportunity to comment on the document at its July 2019 before it is published.

- An action plan would form part of the statement which would be presented to the July meeting and a progress report would be presented at the January 2020 meeting.

Following a query from a member of the committee, it was confirmed that any changes to the arrangements for dealing with code of conduct complaints should form part of a future report. It was noted that a working group had recently made recommendations to the monitoring officer for changes to these arrangements. The head of corporate governance reported that since October 2018 to 19 March 2019, there had been no instances of code of conduct complaints being rejected without the views of the independent person being sought. As stated in the annual governance statement, this issue was considered to be low risk.

A member of the committee suggested that the lack of consultation on the capital programme should be looked at as part of the internal audit work programme.

Following a query from a member of the committee, it was confirmed that each time internal audit undertake a review, they do look at the strategies, policies relevant to that area and do make recommendations.

RESOLVED

That the committee notes the draft annual governance statement at appendix 1.

366. WORK PROGRAMME UPDATE

The work programme for 2019/20 was presented.

RESOLVED

That the updated work programme be agreed.

367. PROVISIONAL MEETING DATES FOR 2019/20

The provisional dates were noted.

The meeting ended at 4.46 pm

Chairperson

**PUBLIC QUESTIONS AND ANSWERS TO
AUDIT AND GOVERNANCE COMMITTEE
19 MARCH 2019**

Question 1

Mrs E Morawiecka, Breinton

£4.9million has been spent on professional fees in respect of the South Wye Transport Package (SWTP) when only £2.75million has been authorised by councillors to be spent on such fees. The SWAP review of capital spending on the SWTP was expected to come to the Audit & Governance meeting on two previous occasions. This matter has been deferred again, now due to the Strategic Capital Finance Manager saying that the “project was not at a point on its journey where it could be used to test compliance with the actions put in place following Blueschool House” The project is nearly 5 years old and 20% spent out, having already cost £6.9million. At what point in the lifetime of a capital project should compliance testing could be done so as to minimise financial risk?

Response

The council does not normally carry out 100% compliance testing as it places reliance on internal systems and processes. the council adopts a risk based approach to how it decides how best to deploy its internal audit resources so this means that for capital projects that cover a number of years it is likely that a number of elements of a project are examined by internal audit during the life of a project rather than a one off compliance test as mentioned in the question.

The Audit and Governance Committee approves the internal audit plan. On today’s agenda the committee is asked to approve next year’s plan.

Supplementary question

The project started in 2014 and by now well over £6m spent out and from the answer it indicates that a number of the elements of the project have already been examined by internal audit and checked for compliance. In view of that what was the outcome of these checks and why haven’t these checks been reported to this committee today?

Supplementary response

A written reply will be provided within 10 days.

Written response

The council uses a number of systems and processes to manage expenditure and commitments, these systems and processes are used for the South Wye Transport Package as well as other revenue and capital projects. The council gains assurance that these systems and processes are followed in a number of ways. Assurance as to the compliance with these systems and processes is provided by internal audit. The Council’s internal auditors follow an agreed plan of audits the plan is presented annually to the Audit and

Governance committee, and the committee receives regular reports of the findings of these audits. The plan and update reports are available on the council's website.

Question 2

Ms J Tonge, Hereford

After a number of years there is still no audit certificate for the Council's accounts for the year 2016/17. As the Council is handing public money when can we the public expect to receive a report as to why the audit certificate has been withheld for so long?

Response

There is an item on today's agenda that deals with the issue of the Council's External auditors issuing the completion certificate.

Supplementary question

When can we the public, especially those who are unable to attend today, and those who have to go back to work, expect to receive a written report as it is nearly 3 years late and its public money. When will it be available to us?

Supplementary response

A written reply will be provided within 10 days.

Written response

The agenda, reports and minutes of the Audit and Governance committee are published on the council's website along with audio recordings of the meetings, this enables people who are unable to attend meetings to follow the issues considered by the committee and to follow the committee's deliberations. The issue of the completion certificate was debated by the committee and it was recognised that at this point it is not possible to give an exact date when the matter will be resolved, however the committee agreed to the issue if it has not been resolved in the mean time being discussed at its next meeting.

Question 3

Mr R Stow, Rowlestone

In Taylor v Honiton Town Council [2016] EWHC 3307 (Admin), Mr Justice Edis considered the intention of Parliament in s 28 of the Localism Act 2011. He held that it was to be inferred from s 28(8) "that Parliament considered that the role of the Independent Person was of real importance" [29]. He also held that the duty to involve Independent Persons in decision-making was an "important safeguard" [33].

With respect to conduct complaints regarding members of Herefordshire Council, Herefordshire Council's officers are not independent and will not be perceived by the public as impartial.

Given the need to maintain public trust in councillors and local democracy, why does the

Audit & Governance Committee allow Herefordshire Council officers to reject conduct complaints against Herefordshire Councillors, acting without any consultation of the Independent Person?

Response

The council's arrangements for dealing with code of conduct complaints involves an initial assessment process to decide whether to accept or reject a complaint. This process is undertaken by council officers and it does provide the safeguard that the officer may seek the views of the independent person. This procedure is seen as a reasonable way to triage complaints when they are first received and provides the safeguard of involving the independent person. The Localism Act does not require the independent person to be involved at this stage but this council holds the independent check and balance that the role of the Independent person can provide as invaluable as did Mr Justice Edis in the case quoted and added this additional safeguard into our own arrangements.

When the standards panel met on 13 November 2019, they reviewed all 14 complaints rejected at the initial assessment, without the views of the independent person, and were satisfied that the approach for seeking the independent person's views was appropriate. Overall the conclusion of the panel was that the arrangements for dealing with code of conduct complaints are appropriate and consistency applied.

**MEMBERS QUESTIONS AND ANSWERS TO
AUDIT AND GOVERNANCE COMMITTEE
19 MARCH 2019**

Councillor EPJ Harvey, Ledbury North

Question

Given that the South Wye Transport Package is a capital programme which has been in existence since 2014 and has already spent more than £5m (15%) of its £35m capital budget, please will the Chairman seek clarification for this Committee from the Chief Executive regarding whether the Chief Executive considers it to be acceptable that this project is still judged not to be to be 'at a point on its journey' – whatever that means - when it may be used to test whether its delivery is in compliance with the professional project management practices required by council to which he personally committed himself in July 2018?"

Response

I understand from the Head of Internal Audit's report that the compliance testing was to ascertain the embedding of the new project management software system which has been introduced in response to the Blueschool House recommendations. That can only be tested once an existing project has been migrated to that system, and this is being done in a phased way. Any assumption that because a project hasn't yet been migrated to the new software it is not being managed appropriately would not be an appropriate assumption. The South Wye Transport Package has been and is being project managed and internal audit are scheduled to undertake a full audit of the project in the coming year

Supplementary question

I have made no assumptions in my carefully worded question as to the appropriateness or otherwise of the management of this project. I ask again since the committee gave clear notice at its meeting in November that this project which is 5 years old and over £5m spent on a £32m budget would be subject to assessment for its compliance with the project management and governance processes agreed by the chief executive back in July 2018. Do our internal auditor, monitoring officer, S151 officer and chief executive each consider it acceptable that no assurance has been provided yet again to this committee of the degree of this project's current compliance with adopted governance and project management practices?

Supplementary response

A written reply will be provided within 10 days.

Written response

I have asked the officers named in the question and they advise that the council places reliance on a range of controls and systems that provide assurance that the South Wye Transport package is well managed and complies with the council's governance and financial controls.

A risk based approach was used to decide the order in which projects were migrated to Verto, and as officers explained at the committee meeting Verto is designed to complement existing project management controls by holding pertinent information in one place.

The internal audit plan progress report presented to the committee provides an update on SWAP's work on the internal control improvement board. The committee agreed that when SWAP have completed their work the report will be circulated to members of the committee.

The committee approved the internal audit work plan for 2019/2020 which includes a scheduled review of the South Wye Transport Project. The committee was assured that the audit would be carried out in the first quarter of 2019/2020.



Meeting:	Audit and governance committee
Meeting date:	Tuesday 30 July 2019
Title of report:	Internal audit annual report and opinion 2018/19
Report by:	Chief finance officer / head of internal audit

Classification

Open

Decision type

This is not an executive decision

Wards affected

(All Wards);

Purpose and summary

The purpose of this report is to provide those charged with governance an opinion on the overall adequacy and effectiveness of the organisation's governance, risk management and internal control environment. The report provides independent assurance to the committee and enables the committee to determine any potential items for inclusion in its future work programme.

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, email: Jacqui.Gooding@swapaudit.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 2018/19.
3. The report 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 conclusion about the adequacy and effectiveness of the council's risk management, control and governance processes. 54% of completed audits received Substantial or Reasonable assurance opinions in relation to the control environment. Of the audits completed in 2018/19 (57 in total), there are 10 areas (18%) that have been awarded Partial assurance opinions in relation to their control environment (none of them Key Financial Control Systems). The findings within these audits have been accepted and appropriately addressed by management. No High Corporate risks were identified.
5. Although no areas of significant risk have been identified there have been findings where governance processes or guidance are not always followed to ensure compliance with existing procedures in place across the Council. Management is responsible for ensuring compliance to policies and procedures and should have oversight to address non-compliance. The Council has recognised Governance as an area for improvement and the new Council structure with a corporate services centre will assist in supporting managers and responsible officers to follow processes and address corporate oversight where there are gaps in control.
6. 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. 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.
7. The Annual Opinion informs the Review of Effectiveness within the Annual Governance Statement and weaknesses identified through audit reviews have been considered for inclusion in the Annual Governance Statement.

Community impact

8. 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.

Further information on the subject of this report is available from

Jacqui Gooding, email: Jacqui.Gooding@swapaudit.co.uk

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.

Resource implications

11. 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

12. 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.
13. 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

14. 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

15. None.

Appendices

Further information on the subject of this report is available from

Jacqui Gooding, email: Jacqui.Gooding@swapaudit.co.uk

Background papers

None identified.

In partnership with



Herefordshire Council

Annual Report and Opinion 2018-19

Appendix A

27

Contents

The contacts at SWAP in connection with this report are:

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➔	Summary:		
		Purpose	Page 1
		Scope	Page 2
		Annual Opinion	Page 3-5
➔	Summary of Audit Work:		
		High Corporate Risks	Page 5
		Partial Assurance Audit Summary	Page 6
		Summary of Control Assurance Opinions	Page 7
		Summary of Recommendations	Page 8
➔	Plan Performance:		
		Value Added	Page 9
		Team Performance	Page 10
➔	Appendix 1	Summary of Work Plan	Page 11-17
	Appendix 2	Annual Opinion Definitions	Page 18

The Head of Internal Audit is required to provide an opinion to support the Annual Governance Statement.

Purpose

The Head of Internal Audit (SWAP Assistant Director) should provide a written annual report to those charged with governance to support the Authority's Annual Governance Statement (AGS). This report should include the following:

- an opinion on the overall adequacy and effectiveness of the organisation's governance, risk management and internal control environment, including an evaluation of the following:
 - the design, implementation and effectiveness of the organisation's ethics-related objectives, programmes and activities;
 - whether the information technology governance of the organisation supports the organisation's strategies and objectives;
 - the effectiveness of risk management processes;
 - the potential for the occurrence of fraud and how the organisation manages fraud risk.
- 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 and the Annual Internal Audit Opinion given.

Three lines of defence

To ensure the effectiveness of an organisation's risk management framework, the Audit and Governance Committee and senior management need to be able to rely on adequate line functions – including monitoring and assurance functions – within the organisation.

The 'Three Lines of Defence' model is a way of explaining the relationship between these functions and as a guide to how responsibilities should be divided:

- the first line of defence – functions that own and manage risk.
- the second line of defence – functions that oversee or specialise in risk management, compliance.
- the third line of defence – functions that provide independent assurance.

Scope

The Internal Audit service for Herefordshire Council is provided by SWAP Internal Audit Services. The team's 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 Audit Standards (PSIAS) and the CIPFA Local Government Application Note. The work of the team is 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. Primarily the work of the service is based on the Annual Plan agreed by Senior Management and this Committee. This report summarises the activity of the Internal Audit team for the 2018/19 year against the Internal Audit Plan (approved by the Audit and Governance Committee on 21 March 2018).

The position of Internal Audit within an organisation's governance framework is best summarised in the three lines of defence model shown below.



Adapted from ECIIA/FERMA *Guidance on the 8th EU Company Law Directive, article 41*

The Head of Internal Audit is required to provide an opinion to support the Annual Governance Statement.

Annual Opinion

The Annual Opinion is made based on the following sources of information:

- Completed audits (during the year 2018/19) which evaluate risk exposures (including new and emerging risks) relating to the organisation's governance, operations and information systems, reliability and integrity of information, efficiency and effectiveness of operations and programmes, safeguarding of assets and compliance with laws and regulations.
- Observations from consultancy/advisory support.
- Follow up of previous audit activity, including agreed actions.
- Significant/material risk where management has not accepted the need for mitigating action.
- Notable changes to the organisation's strategy, objectives, processes or IT infrastructure.
- . assurances from other providers, including third parties, regulator reports etc.

Opinions are a balanced reflection not a snapshot in time. Information to support this assessment is obtained from multiple engagements and sources (including advice/ consultancy work). The results of these engagements, when viewed together, provide an understanding of the organisation's risk management processes and their effectiveness.

After considering the above, the Annual Opinion Definitions (which differ from assignment assurance definitions) are explained in Appendix 2.

This Annual Opinion informs the Review of Effectiveness within the Annual Governance Statement.

Internal Audit has not reviewed all risks and assurances relating to Herefordshire Council and cannot provide absolute assurance on the internal control environment. Senior Management and Members through the various committees are ultimately responsible for ensuring an effective system of internal control.

Over the year, the Internal Audit Team have found Senior Management of Herefordshire Council to be supportive of Internal Audit findings and responsive to the recommendations made. In addition,

Annual Opinion Continued

there is a good relationship with Management whereby they feel they can approach the Internal Audit Team openly in areas where they perceive potential problems.

Annual Opinion

Generally, the follow up work confirms the responsive nature of management at Herefordshire Council in implementing agreed recommendations to mitigate exposure to areas of significant risk. Follow up audits completed in the year have not identified any significant issues regarding non-implementation of recommendations.

54% of completed audits received Substantial or Reasonable assurance opinions in relation to the control environment. Of the audits completed in 2018/19 (57 in total), there are 10 areas (18%) that have been awarded Partial assurance opinions in relation to their control environment (none of them Key Financial Control Systems). The findings within these audits have been accepted and appropriately addressed by management. Any outstanding weaknesses in the governance, risk and control framework will continue to be followed up by Internal Audit as part of the 2019/20 Plan. Further details of audits with Partial assurance opinions can be found on page 8.

A small number of audits (5) remain at in review or are still in the process of being finalised.

A number of audits originally scheduled in the internal audit plan have been removed or deferred over the course of the year and are detailed in the Appendix to this report. A number of unplanned audits have been added to the plan over the year as the need arose and the risk environment altered. These changes have ensured audit resources have been focussed where it matters.

There are no specific concerns in relation to fraud risk at this time and there have been no fraud investigations in the year. Internal Audit have however completed assurance work for Treasury Management Counterparty, Section 20 Children Accommodated by the Local Authority and Honorarium, Market Forces and Standby and on call payments; plus further review of progress against the recommendations addressed by the Internal Control Improvement Board following concerns that were raised in these areas.

There will be occasions where audit make recommendations to mitigate risk exposure and after consideration of the recommendation, the service decide to accept the risk. In 2018/19, there have been no instances to bring to the attention of the Audit and Governance Committee.

Annual Opinion Continued

Definitions of Corporate Risk

High Risk

Issues that we consider need to be brought to the attention of both senior management and the Audit and Governance Committee.

Medium Risk

Issues which should be addressed by management in their areas of responsibility.

Low Risk

Issues of a minor nature or best practice where some improvement can be made.

Annual Opinion

Although no areas of significant risk have been identified there have been findings where governance processes or guidance are not always followed to ensure compliance with existing procedures in place across the Council. Management is responsible for ensuring compliance to policies and procedures and should have oversight to address non-compliance.

The Council has recognised Governance as an area for improvement and the new Council structure with a corporate services centre will assist in supporting managers and responsible officers to follow processes and address corporate oversight where there are gaps in control.

I have considered the balance of 2018/19 audit work, the sources of information referred to above and outcomes against this environment enhanced by the work of external agencies and am able to offer a **Reasonable Assurance** opinion in respect of the areas reviewed during the year.

High Corporate Risk

For those audits which have reached report stage through the year, none have been assessed as a 'High' Corporate Risk.

Assurance Definitions

Assurance Definitions	
None	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.
Partial	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.
Reasonable	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.
Substantial	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.

Partial or None Assurance Summary

The following audits received a Partial assurance opinion in respect of their control environments in 2018/19. Each audit will have a follow up audit in 2019-20.

Audit Name
Highways Projects – Financial Reporting
Special Educational Needs Transport
Schools Financial Value Standard - School 1
Schools Financial Value Standard - School 3
IT Access Controls –Mosaic and other systems used by AWB and CWB
Health and Safety
Use of regional framework for foster care (External Residential and Fostering Placements
Third Party Agreements (including Cloud)
EU General Data Protection Regulation
Prevention of Fraud School 3

There were no audits assessed with the assurance opinion None.

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

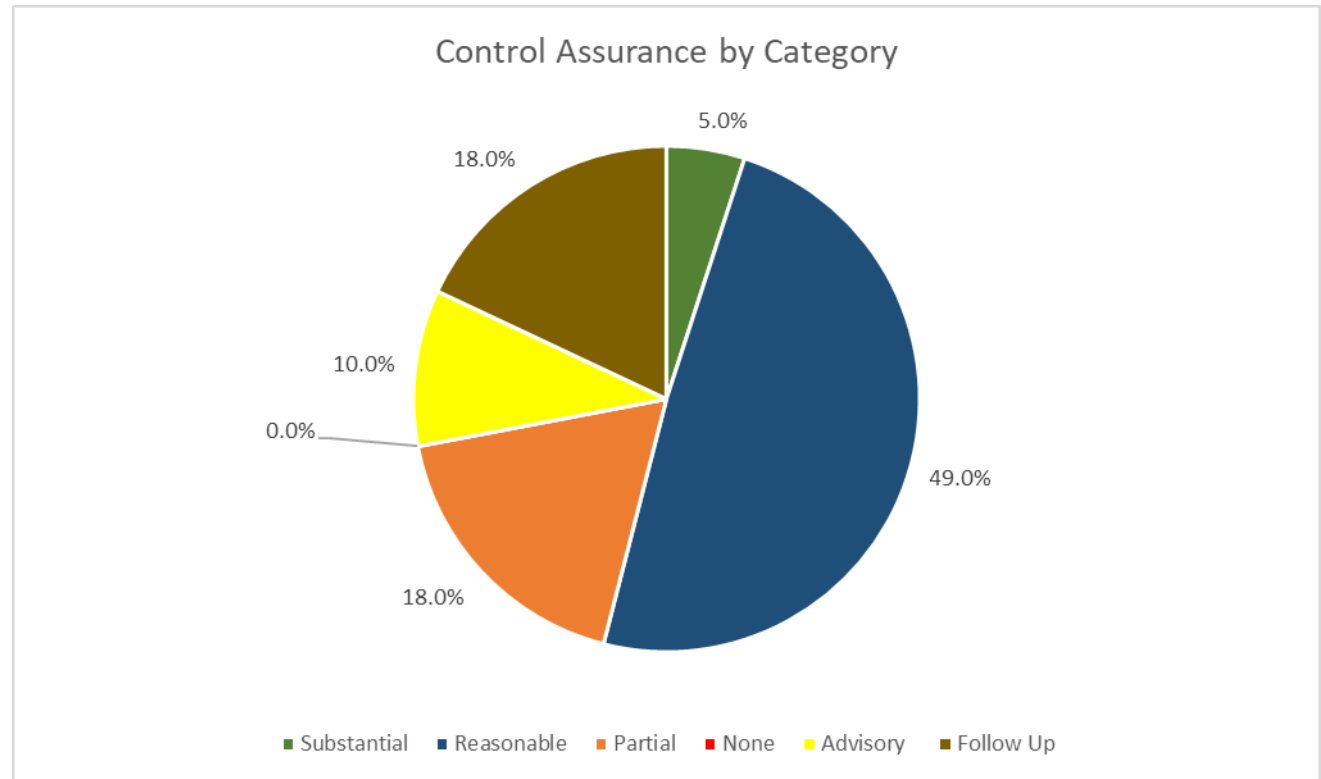
Assurance Definitions

None	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.
Partial	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.
Reasonable	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.
Substantial	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.

35

Summary of Control Assurance Opinions

Of the reviews that have a final report, the opinions offered are summarised below.



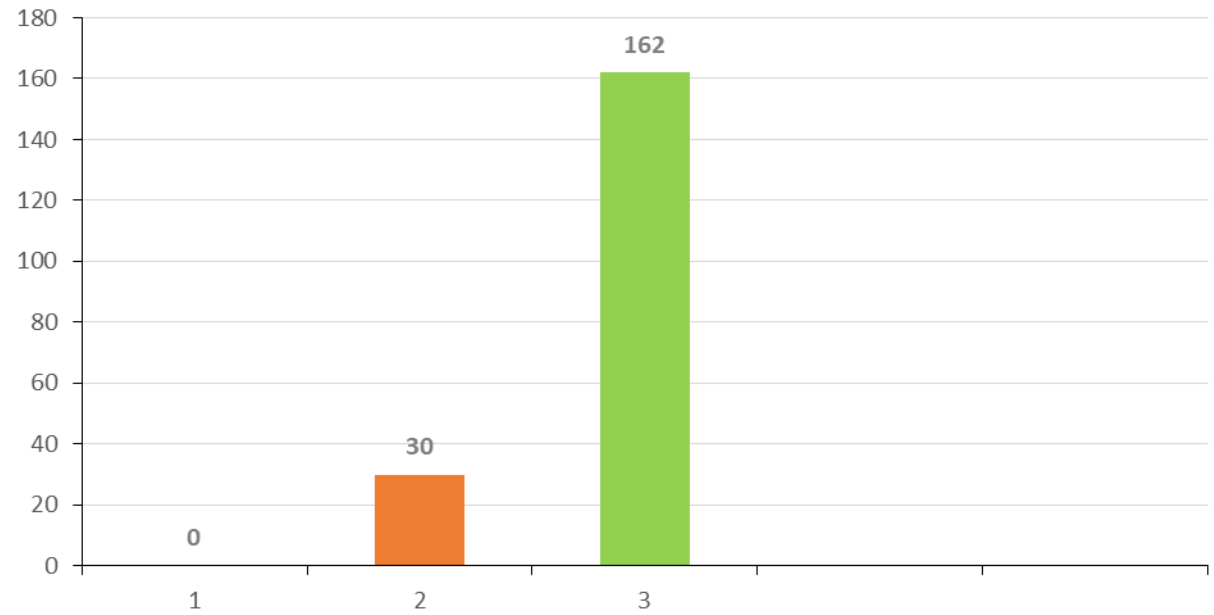
54% of audits resulted in a Substantial or Reasonable assurance opinion (2017/18: 48%); 18% in Partial assurance opinion (2017/18: 52%) and 0% in None assurance opinion (2017/18: 0%).

Summary of Audit Recommendations by Priority

We rank our recommendations on a scale of 1 to 3, with 3 being medium or administrative concerns to 1 being areas of fundamental concern requiring immediate corrective action.

Summary of Recommendations

Audit Recommendations by Priority



The number of Priority 2 (priority 4 in 2017-18) recommendations has reduced from 52 in 2017-18 to 30 for 2018-19. Priority 2 are more significant recommendations, important findings that need to be resolved by management. All recommendations made during 2018-19 have been accepted

by management who have provided a management response and target date for implementation.

Value Added

'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.'



Value Added

Throughout the year, Internal Audit has strived to add value wherever possible i.e. going beyond the standard expectations and providing something 'more' while adding little or nothing to the cost.

The section continues to provide advice and support on controls across the organisation and responds to requests to assist with specific pieces of work.

- *Attendance at working groups as required*
- *Participation in Knowledge Sharing and Benchmarking requests:*
 - *Building Control – requested by Herefordshire Council*
 - *SEN Transport – requested by Herefordshire Council*
 - *Electoral Registration*
 - *Sickness Management*
 - *Other Funding/Grants*
 - *Anti-Fraud and Corruption Policies & Strategies*
 - *Adult & Community Services Debt Management & Debt Recovery*
 - *Revenues Debt Recovery*
 - *Internal Communications – requested by Herefordshire Council*
 - *Elections*
 - *Parking Services*
- *Audited grant claims to ensure expenditure can be reclaimed from relevant bodies.*
- *Circulated Fraud alerts that we become aware of through professional networks.*

Internal audit is responsible for conducting its work in accordance with the Code of Ethics and Standards for the Professional Practice of Internal Auditing as set by the Institute of Internal Auditors and further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS).

Internal Audit Team Performance

SWAP's performance is subject to regular monitoring and review by both the SWAP Board and the SWAP Member Meetings. The respective outturn performance results for Herefordshire Council for the 2018/19 year are as follows;

Performance Target	Actual Performance
<u>Audit Plan – Percentage Progress</u>	
Final, Draft and Discussion 90%	98.4%
In progress/ Review	1.6%
Yet to start	0%
<u>Customer Satisfaction Questionnaire</u>	
Feedback 95%	99%

Internal audit is responsible for conducting its work in accordance with the Code of Ethics and Standards for the Professional Practice Framework of Internal Auditing as set by the Chartered Institute of Internal Auditors and further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS). Both standards require an Internal and External Assessments (Standard 1300) of the Internal Audit function.

The standards require an External Assessment to be carried out at least every five years. SWAP was found to be in conformance with the International Professional Practices Framework and the Public Sector Internal Auditing Standards (PSIAS). As a result of the External Assessment, 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.

39

The schedule below contains a list of audits agreed for inclusion in the Annual Audit Plan 2018/19 and the final outturn for the financial year.

At the conclusion of audit assignment work each review is awarded a “Control Assurance”, a summary of the assurance levels is as follows:

Assurance Definitions	
None	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.
Partial	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.
Reasonable	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.
Substantial	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.

40

Recommendations have been assigned a priority based on the following framework:

Categorisation of Recommendations	
In addition to the corporate risk assessment it is important that management know how important the recommendation is to their service. Each recommendation has been given a priority rating at service level with the following definitions:	
Priority 1	Findings that are fundamental to the integrity of the service’s business processes and require the immediate attention of management.
Priority 2	Important findings that need to be resolved by management.
Priority 3	Finding that requires attention.

Audit Type	Audit Area	Quarter	Status	Opinion Control Environment	No of Recs	1 = Major 2 = Moderate 3 = Minor		
						Recommendation		
						1	2	3
Completed Audits								
Governance, Fraud & Corruption	New Model in Technology and Engineering (NMITE) Project (University)	1	Completed	Reasonable	4	0	1	3
Governance, Fraud & Corruption	Joint Use Agreement - Ledbury Rugby Club	1	Completed	Advisory	2	0	0	2
Governance, Fraud & Corruption	Highways Projects – Financial Reporting	1	Completed	Partial	5	0	1	4
Operational	Building Control	1	Completed	Reasonable	7	0	0	7
Operational	Special Educational Needs Transport	1	Completed	Partial	7	0	4	3
Operational	Internal Communications	1	Completed	Reasonable	5	0	0	5
Operational	Records Management	1	Completed	Reasonable	3	0	0	3
Schools	Schools Financial Value Standard - School 1	1	Completed	Partial	13	0	5	8
Schools	Schools Financial Value Standard - School 2	1	Completed	Reasonable	5	0	1	4
Schools	Schools Financial Value Standard - School 3	1	Completed	Partial	8	0	2	6
Schools	Schools Financial Value Standard - School 4	1	Completed	Reasonable	7	0	0	7
Operational	Safer recruitment - Children's Wellbeing - Staff and Agency Staff	1	Completed	Reasonable	6	0	0	6

Audit Type	Audit Area	Quarter	Status	Opinion Control Environment	No of Recs	1 = Major 2 = Moderate 3 = Minor		
						Recommendation		
						1	2	3
ICT	Patch Management	1	Completed	Reasonable	4	0	0	4
ICT	IT Access Controls –Mosaic and other systems used by AWB and CWB	1	Completed	Partial	6	0	2	4
Key Control	Council Tax	2	Completed	Reasonable	2	0	0	2
Key Control	Housing Benefit and Council Tax Reduction	2	Completed	Reasonable	2	0	0	2
Governance, Fraud & Corruption	NMITE Project (University) End of July 18 assurance	2	Completed	Advisory	–	–	–	–
Governance, Fraud & Corruption	Corporate Peer Challenge	2	Completed	Reasonable	2	0	0	2
Grant Certification	Local Transport Block Funding – Grant Certification	2	Completed	Reasonable	1	0	0	1
Operational	Health and Safety	2	Completed	Partial	6	0	2	4
Operational	Compliance with contract and financial procedure rules – revenue	2	Completed	Reasonable	9	0	2	7
Operational	Hoople	2	Completed	Reasonable	5	0	1	4
Operational	Integrated Short Term Support and Care Pathway - Delayed Transfer of Care plan – Front Door Customer Service – Redirected.	2	Completed	Reasonable	5	0	0	5
Operational	Use of regional framework for foster care (External Residential and Fostering Placements)	2	Completed	Partial	7	0	1	6
ICT	Third Party Agreements (including Cloud)	2	Completed	Partial	6	0	2	4
Key Control	Accounts Payable	3	Completed	Reasonable	2	0	0	2

Audit Type	Audit Area		Quarter	Status	Opinion Control Environment	No of Recs	1 = Major 2 = Moderate 3 = Minor		
							Recommendation		
							1	2	3
Key Control	Main Accounting		3	Completed	Substantial	1	0	0	1
Key Control	Payroll		3	Completed	Reasonable	4	0	0	4
Key Control	Accounts Receivable		3	Completed	Reasonable	2	0	0	2
Key Control	Capital Accounting		3	Completed	Reasonable	2	0	0	2
Key Control	NNDR		3	Completed	Reasonable	5	0	0	5
Governance, Fraud & Corruption	NMITE Project (University) End of October 18 assurance		3	Completed	Advisory	-	-	-	-
Grant Certification	Troubled Families – Monthly assurance on claims to end of March 2019		3	Completed	Substantial	0	0	0	0
Operational	Integrated Short Term Support and Care Pathway - County Teams		3	Completed	Advisory	6	0	1	5
Governance, Fraud & Corruption	Section 20 Children Accommodated by the Local Authority		4	Completed	Reasonable	2	0	1	1
Governance, Fraud & Corruption	NMITE Project (University) End of January 19 assurance		4	Completed	Advisory	-	-	-	-
Governance, Fraud & Corruption	EU General Data Protection Regulation		4	Completed	Partial	7	0	2	5
Operational	Procurement Cards		4	Completed	Substantial	3	0	0	3
Governance, Fraud & Corruption	Treasury Management Counterparty		3	Completed	Advisory	-	-	-	-
Governance, Fraud & Corruption	Blue Badges		4	Completed	Reasonable	5	0	0	5
Operational	Development Regeneration Partnership		4	Completed	Reasonable	5	0	0	5
Schools	Prevention of	School 1	4	Completed	Reasonable	1	0	0	1

Audit Type	Audit Area		Quarter	Status	Opinion Control Environment	No of Recs	1 = Major 2 = Moderate 3 = Minor		
							Recommendation		
							1	2	3
	Fraud	School 2			Reasonable	4	0	0	4
		School 3			Partial	6	0	2	4
		School 4			Reasonable	7	0	0	7
Governance, Fraud & Corruption	Internal Control Improvement Board		4	Completed	Reasonable	-	-	-	-
Operational	Honorary, Market Forces and Standby and on call payments		4	Completed	Reasonable	3	0	0	3
Completed Follow Up Audits									
Follow Up	Deprivation of Liberties		1	Completed	Follow up	-	-	-	-
Follow Up	Internal Control Improvement Board		2	Completed	Follow Up	-	-	-	-
Follow Up	Serious and Organised Crime Audit checklist		4	Completed	Follow Up	-	-	-	-
Follow Up	Data Sharing Protocols with partners and third parties		4	Completed	Follow Up	-	-	-	-
Follow Up	Market Intelligence		4	Completed	Follow Up	-	-	-	-
Follow up	Emergency Planning - Public Health		4	Completed	Follow Up	-	-	-	-
Follow Up	Annual Care Assessment -Social Care Workforce Performance		4	Completed	Follow Up	-	-	-	-
Follow Up	Short Breaks - Children's Wellbeing		4	Completed	Follow Up	-	-	-	-
Follow Up	Data Quality - Decision Making Reports and Corporate Budget Performance Reports		4	Completed	Follow Up	-	-	-	-
Follow Up	Continuing Health Care Funding		4	Completed	Follow Up	-	-	-	-

44

Audit Type	Audit Area	Quarter	Status	Opinion Control Environment	No of Recs	1 = Major 2 = Moderate 3 = Minor		
						Recommendation		
						1	2	3
Audits in Progress								
Governance, Fraud & Corruption	Effectiveness of programme Boards for major system changes/projects	2	Discussion Document					
Operational	Brokers Service - formally Care Workforce Project – support to Domiciliary Care Agencies recruitment	4	Discussion Document					
Operational	Contract Monitoring	4	Draft Report					
Operational	AWB Contract Monitoring – Quality Assurance Framework	4	Draft Report					
Follow Up	Public Health Contracts	4	In Progress					
Audits Deferred/Removed								
Operational	Property Maintenance - Schools	1	Deferred					
Operational	Client finance System - Interface between all systems –	2	Deferred					
Governance, Fraud & Corruption	Declaration of personal and business interests	3	Removed					
Grant Certification	Redundant Building Grant Funding	3	Deferred					
Operational	Local population forecast using for future planning such as house building requirement	3	Removed					
Governance, Fraud & Corruption	Children’s centres – governance and financial control	3	Deferred					

Audit Type	Audit Area	Quarter	Status	Opinion Control Environment	No of Recs	1 = Major 2 = Moderate 3 = Minor		
						Recommendation		
						1	2	3
Operational	Mandatory Training	4	Deferred					
Operational	Homepoint - Review of new provider	4	Deferred					

Annual Opinion Definitions	
None	<p><i>A control framework is not in place to mitigate key risks. The organisation is exposed to abuse, significant error or loss and/or misappropriation. Objectives are unlikely to be met.</i></p> <p>serious systemic control weaknesses identified through aggregation of individual audit engagements significant number of critical and/or high risk rated weaknesses identified for isolated issues internal audit has serious concerns about managements approach to resolving identified issues.</p>
Partial	<p><i>The control framework is not operating effectively to mitigate key risks. A number of key controls are absent or are not being applied to meet business objectives.</i></p> <p>significant number of medium and/or critical risk rated weaknesses identified in individual audit engagements isolated critical and/or high risk rated weaknesses identified that are not systemic internal audit has concerns about managements approach to resolving identified issues</p>
Reasonable	<p><i>The control framework is adequate and controls to mitigate key risks are generally operating effectively, although a number of controls need to improve to ensure business objectives are met.</i></p> <p>medium risk rated weaknesses identified in individual audit engagements isolated high risk rated weaknesses identified for isolated issues no critical risk rated weaknesses were identified internal audit is broadly satisfied with management’s approach to resolving identified issues.</p>
Substantial	<p><i>There is a sound framework of control operating effectively to mitigate key risks, which is contributing to the achievement of business objectives.</i></p> <p>no individual audit engagement classed as limited or no assurance occasional medium risk rated weaknesses identified in individual audit engagements although mainly only low/efficiency weaknesses</p>

internal audit has confidence in managements attitude to resolving identified issues.



Meeting:	Audit and governance committee
Meeting date:	Tuesday 30 July 2019
Title of report:	Progress report on 2018/19 internal audit plan
Report by:	Chief finance officer / head of 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) **consider the assurances provided and the recommendations which the report makes, commenting on its content as necessary.**

Further information on the subject of this report is available from

Jacqui Gooding, email: Jacqui.Gooding@swapaudit.co.uk

Alternative options

1. There are no alternative recommendations; it is a function of the committee to consider 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, five priority 2 recommendations were made. A summary of the significant findings is provided in the report.
3. The annual plan summary and a glossary of terms is also provided in the report.

Community impact

4. 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

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 -

- (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.
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. 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.

Further information on the subject of this report is available from

Jacqui Gooding, email: Jacqui.Gooding@swapaudit.co.uk

Legal implications

8. None.

Risk management

9. Elsewhere on the agenda is the annual internal audit opinion. There is a regular active management and monitoring of progress against the agreed internal audit plan.
10. 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

11. None.

Appendices

Appendix A – SWAP Internal Audit plan progress report 2018-19 – quarter 4

Background papers

None identified.

Herefordshire Council

Report of Internal Audit Activity

Plan Progress 2018/19 Quarter 4

Contents

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➔	Role of Internal Audit	Page 1
➔	Internal Audit Work Programme – Summary of Partial Assurances	Page 2 -10
➔	Follow Up Audits	Page 11
➔	Added Value	Page 12
➔	Summary of Control Assurance and Summary of Recommendations	Page 13-14
➔	Approved Changes to the Audit Plan	Page 15
➔	Conclusion	Page 15
➔	Appendices:	
	Appendix B – Internal Audit Definitions	Page 16 - 17
	Appendix C – Internal Audit Work Plan	Page 18 - 22

Our audit activity is split between:

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



Role of Internal Audit

The Internal Audit service for Herefordshire Council is provided by SWAP Internal Audit Services (SWAP). SWAP is a Local Authority controlled Company. SWAP has adopted and works to the Standards of the Chartered Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS), and the CIPFA Local Government Application Note. The Partnership is also guided by the Internal Audit Charter approved by the Audit and Governance Committee at its meeting on 21 March 2018.

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
- Cross Cutting Governance Audits
- Annual Review of Key Financial System Controls
- IT Audits
- Grants
- Other Special or Unplanned Review

Outturn to Date



Internal Audit Work Programme

The schedule provided at Appendix C contains a list of all audits as agreed in the Annual Audit Plan 2018/19. 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.

Each completed assignment includes its respective “assurance opinion” rating together with the number and relative ranking of recommendations that have been raised with management. In such cases, the Committee can take assurance that improvement actions have been agreed with management to address these. The assurance opinion ratings have been determined in accordance with the Internal Audit “Audit Framework Definitions” as detailed in Appendix B of this document.

To assist the Committee in its important monitoring and scrutiny role, in those cases where weaknesses have been identified in service/function reviews that are considered to represent significant service risks, a summary of the key audit findings that have resulted in the audit receiving a ‘Partial Assurance Opinion’ is given as part of this report.

In circumstances where findings have been identified which are considered to represent significant corporate risks to the Council, due to their importance, these issues are separately summarised.

Internal Audit Plan Progress 2018/2019

Outturn to Date



Internal Audit Work Programme

This is the quarter 4 update for 2018-19. Sixteen audits have been completed since my last update and there are two audits at Discussion Document, two at Draft report and one in progress. Two audits were assessed as Substantial, eight as Reasonable assurance and three as Partial. One audit was an Advisory and two were Follow Up audits. Five priority 2 findings were identified across the three Partial audits.

The following audits have been completed since the last update:

Audit	Assurance
Corporate Peer Challenge	Reasonable
External Residential and Fostering Placements	Partial
NNDR	Reasonable
Troubled Families – Monthly assurance on claims to end of March 2019	Substantial
Integrated Short Term Support and Care Pathway - County Teams	Advisory
Section 20 Children Accommodated by the Local Authority	Reasonable
EU General Data Protection Regulation	Partial
P- Cards	Substantial
Development Regeneration Partnership	Reasonable
Internal Control Improvement Board	Reasonable
Prevention of Fraud School 1	Reasonable
Prevention of Fraud School 2	Reasonable
Prevention of Fraud School 3	Partial
Prevention of Fraud School 4	Reasonable
Serious and Organised Crime Audit checklist	Follow Up
Short Breaks - Children’s Wellbeing	Follow Up

57

Significant Corporate Risks

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



Significant Corporate Risks

We provide a definition of the 3 Risk Levels applied within audit reports. For those audits which have reached report stage through the year, I will report risks we have assessed as 'High'.

In this update there are no final reports included with 'High' corporate risks.

SWAP Performance - Summary of Partial Opinions

These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Audit and Governance Committee.



Summary of Partial Assurances and Significant Service Findings (Priority 1 and 2)

Three audits assessed as Partial assurance reported five significant findings. The significant findings have been summarised below.

External Residential and Fostering Placements – Partial

The Council's Children and Families Directorate commissioning teamwork in partnership with the 13 other authorities in the West Midlands to develop and implement a regional framework or similar commissioning arrangements. These include the West Midlands Regional Foster Care Framework for foster care and the West Midlands Flexible Contracting Arrangement for the Provision of Placements in Children's Homes for residential provision. All requests for placements within Children and Families Directorate Social Care Teams have to be made through the Placements Team. All placements have to have prior approval from a senior manager within Children and Families Directorate. There is a Quality Assurance process built into both the region's foster care framework and flexible contracting arrangement for residential children's homes, with intelligence shared across authorities.

The scope of the audit was to review that there was a pre-placement agreement (PPA) contract with suitable foster care providers and that there is an individual placement agreement (IPA) in place, prior to each child or young person being placed.

The audit found that there were good controls for maintaining a list of all current placements and current providers. Standard Pre-Placement Agreement and Individual Placement Agreement forms were found to be used for placements commissioned via framework or similar contractual arrangements and for those placements made outside of these arrangements (spot purchase), the relevant national contract is used. The Commissioning Officer attends regular meetings of the Officers for Commissioning and Contracts Group (OCCG), which consists of officers representing Councils who are officers from the West Midlands authorities.

There were six priority 3 findings and one priority two finding. The priority two finding is detailed below:

SWAP Performance - Summary of Partial Opinions

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.



Summary of Partial Assurances and significant service findings (Priority 1 and 2)

Not all placements reviewed had an Individual Placement Agreement (IPA) in place in the required timescale. Testing identified a control weakness, with 7 out of 11 of the sample not having a suitably authorised IPA in place prior to or within 10 days of a child or young person being placed in foster care.

Efforts have been made to address the lack of IPAs. However, work is still to be done in this area to ensure that each placement has a current IPA that has been signed by both the client and an authorised signatory within the Children and Families Directorate. The Placement Manager did advise that in practice 'we do not send an IPA/PPA prior to a placement as sometimes the child may not actually end up going into a placement and then have to retract the contract.'

A recommendation was made that an ongoing review of current placements is carried out to ensure that an IPA is set up for each client which has been signed off by the provider and an authorised signatory within Children and Families Directorate. The list should then be subject to periodic reviews (3-6 month) to ensure that all IPAs are in place and are current. Ongoing monitoring of completion of IPAs should be undertaken to avoid non-compliance with regulations.

The Head of Business Support confirmed that the outstanding backlog has been addressed, and that six monthly ongoing reviews will commence from June 2019.

EU General Data Protection Regulation – Partial

EU General Data Protection Regulation (GDPR) was enacted in May 2016 and came into force on the 25th of May 2018. The two years therefore allowed organisations a period in which to ensure that their current data processing activities are compliant with the requirements of the GDPR. The service design for the Information Governance (IG) Team is to provide policy, guidance, templates, awareness and training for services and the current operating model reflects this.

Internal Audit Plan Progress 2018/2019

SWAP Performance - Summary of Partial Opinions

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.



Summary of Partial Assurances and Significant Service Findings (Priority 1 and 2)

As part of the 2017-18 audit plan a review was undertaken on GDPR Readiness for Implementation. The objective of this audit was to review that the processes are now in place and to provide assurance that there is an effective work plan in place, which is being measured and reported on to ensure that the organisation will be compliant with GDPR.

Since 25 May 2018 when GDPR was enacted, the Information Governance (IG) Team have included the completion of the annual NHS Digital Data Security and Protection Toolkit in readiness for the deadline of final submission on 31 March 2019 and have also rolled out an Information Governance GDPR compliant training programme for all Council staff. In addition to this work the IG team have seen an increase in requests for information and in the period since 25th May 2018 they have processed and responded to 115 Subject Access Requests, 68 Police Requests and 127 data incidents. Work has also been done to advise and assist with further data sharing, information security, privacy notice and data protection impact assessment requests from teams.

The audit reported five priority 3 and two priority 2 findings. The priority two findings are detailed below:

Several Council contracts let since 25 May 2018 sampled were found not to include direct reference to GDPR.

14 Council contracts let since 25 May 2018 and 11 contracts let since January 2019 across all Directorates were tested against the following two documents provided by the IG Team as being the minimum clauses, terms required to be included within contracts to comply with GDPR contractual clauses and schedules of information inclusions for processing personal and/or sensitive information since 25 May 2018-

- Draft Schedule of Processing, Personal Data and Data Subjects
- Generic Standard GDPR Clauses

There was inconsistency across the inclusion of the minimum clauses, terms required in the contacts tested. Some contracts:

- did not have any mention of GDPR but did cover DPA 1998 with a paragraph on Data Protection
- some contracts did include details of (EU) GDPR 2016/679;
-

SWAP Performance - Summary of Partial Opinions

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.

Summary of Partial Assurances and Significant Service Findings (Priority 1 and 2)

- None of the sample of 14 contracts let since 25 May 2018 had Schedules of Processing, Personal Data and Data Subjects attached, there was however some improvement for the 11 contracts let since January 2019 where four contracts did have the schedules attached.

A recommendation was made that GDPR compliant clauses and processing templates are finalised, approved and signed off by senior management and included in standard contract terms and schedules for new contracts. The AD Corporate Support has agreed to finalise compliant clauses to be agreed as standard contract terms and schedules for new contracts and distribute to commissioners and include in procurement training with a target date of October 2019.

The Contracts Action plan identifying key activities in support of amending Council contracts to comply with GDPR has not been kept up to date.

The IG Team have in place a Contracts Action Plan. From the GRDP audits that took place services were given actions to complete. For the Contracts Action Plan 17 actions were required and at the time of the audit (May 2019) there were five Red outstanding actions and 11 Amber outstanding actions with dates for completion ranging from January 2018 through to April 2018.

Five Red Actions identified as still outstanding were:

- Implement clauses and processing template in standard contract terms and schedules for new contracts-March 2018
- Send out contract letter, variations and guidance to identified suppliers-April 2018
- Review frameworks and identify owners-no date identified

SWAP Performance - Summary of Partial Opinions

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.

- Future monitoring of Contracts to be agreed – guidance-no date identified
- Publish all guidance available for providers-April 2018

Summary of Partial Assurances and Significant Service Findings (Priority 1 and 2)

This has identified the absence of a central control to provide a corporate oversight. This was first identified in the Compliance with Financial, Procurement and Contract Procedure Rules Audit (January 2019) - 'A centralised control should be put into place in support of the governance process before the Commercial Team assist with the procurement process in order to formally establish that all of key governance requirements have been fully completed.

A further recommendation has been made - that the centralised control be extended to include oversight of and assurance that all relevant GDPR clauses and Schedules of Processing are being included in new contracts.

The Chief Finance officer has agreed that the work carried out by Corporate Governance and the Commercial Teams will be reviewed to ensure responsibility and accountability for this is clearly understood across the Council. The target date for implementation is 30 November 2019.

Prevention of Fraud School 3 (Voluntary Aided) – Partial

A themed review of arrangements to prevent fraud in schools was carried out. Themed school reviews focus on a particular area of risk across a sample of schools, with results being consolidated into a report for the Local

SWAP Performance - Summary of Partial Opinions

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.

Authority and Schools Forum. Where good practice or common weaknesses are identified, the Local Authority will disseminate the information to other schools to ensure weaknesses can be rectified and best practice shared.

There were two priority 2 findings:

The register of interest for all governors and staff who influence financial decisions was not complete.

A recommendation that the School ensures that a signed and dated declaration is obtained from all governors and all staff who are involved in financial decisions at the school was accepted by the Clerk of Governors and actioned immediately.

Summary of Partial Assurances and Significant Service Findings (Priority 1 and 2)

Nursery Income

The school receives Nursery income of £800 per month which is paid into the Governors Accounts. A payment of £800 per term i.e. £2400 per year is then paid into School official funds as a reimbursement of costs/overheads.

The school is voluntary aided, and it holds Governors Accounts (Voluntary Aided Funds accounts), which is used for capital works. Rental income from the Nursery is paid into the Governors Accounts with a small proportion reimbursed to the School official funds to cover costs/overheads.

Internal Audit Plan Progress 2018/2019

65

As the income is not paid directly into the School Official fund advice was sought from the Hoople Senior Finance Manager as to whether this was the appropriate process. The Hoople Senior Finance Manager is satisfied for the process to remain as it is currently but has advised the School to ensure they are not liable to pay tax on the income from the nursery.

The Chair of Governors has agreed for the Governing Body to seek further advice on the matter (with Diocesan board and then as advised) with regards to tax to ensure compliance with a target date End of Summer Term 2019.

Follow Up audits are completed where the auditor could only provide partial assurance.



Follow Up Audits

Follow Up Audits

Follow Up audits are completed where the auditor could only provide partial assurance. The follow-up audit is to provide assurance to the Director, Senior Management and the Audit and Governance Committee that the key risks have been mitigated to an acceptable level of risk. Evidence is obtained to demonstrate implementation and progress made in relation to all 2017-18 priority 4 and 5 recommendations (now Priority 1 and 2). For the priority 3 recommendations progress reported is based on self-assessment by relevant officers. The following table demonstrates progress against agreed actions at the time the follow up audits were completed.

Priority of recommendation	Complete	Overdue	Not yet due	In Progress	Superseded
Serious and Organised Crime					
4	1	0	0	0	0
3	5	1	0	0	0
Short Breaks – Children’s Wellbeing					
4	3	0	0	0	0
3	1	1	0	0	0

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 followings audits have provided a cross comparison survey for the SWAP Partners:

Lone Working Arrangements - As part of an audit of Lone Working Arrangements, SWAP requested information from all partners to confirm their approach to managing the safety of lone workers, with the aim being to compare arrangements and to identify examples of best practice.

Procurement - Following a request from one of our partners to support them in identifying solutions for the future delivery of their Procurement Service, a questionnaire was sent to all our partner sites to ascertain the approach taken to Procurement and Contract Management.

Fostering Allowances and Fees – the report provided a comparison of allowances and fees across several Councils.

Internal Communications – the report detailed the channels used by other partners to support internal communications across the council.

The findings of each survey have been shared with the SWAP Partners.

Internal Audit Plan Progress 2018/2019

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

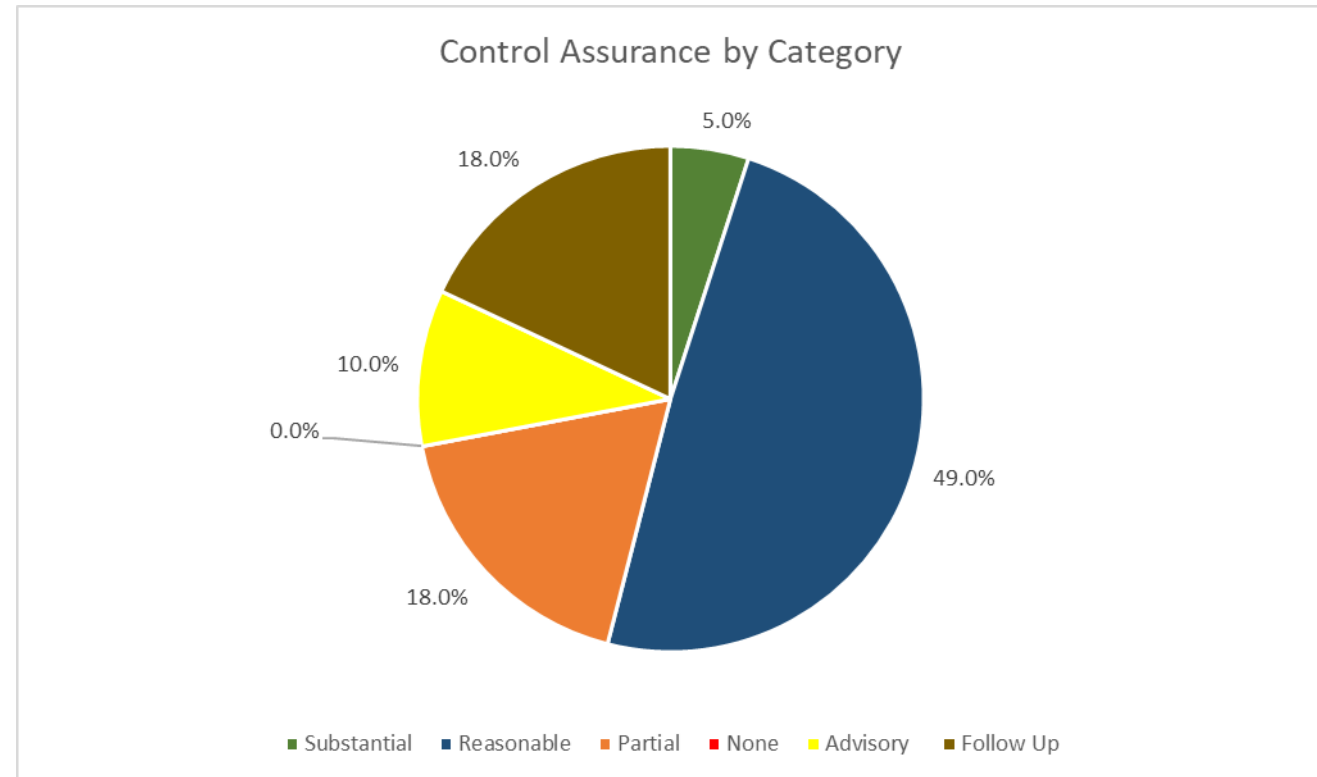
We also undertake Advisory / Non-Opinion work on a consultancy basis where we have been asked to look at a specific area of potential concern.

Where we follow up on a previous adverse audit opinion the opinion is stated as follow up.



Summary of Audit Opinion

Of the reviews that have a final report, the opinions offered are summarised below.



68

Internal Audit Plan Progress 2018/2019

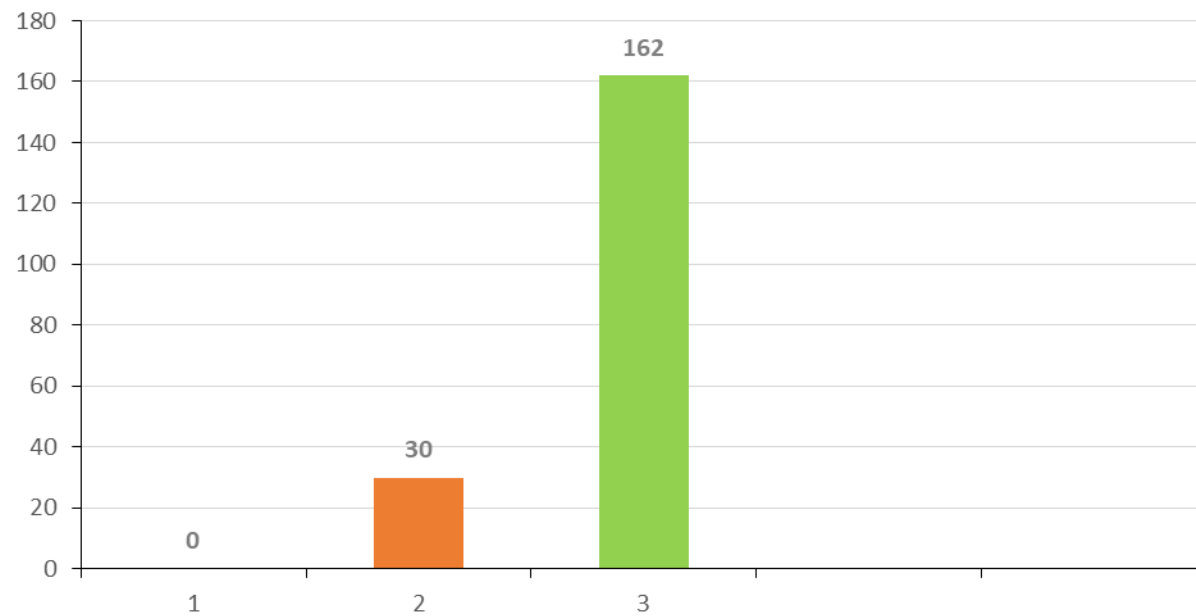
Summary of Audit Recommendations by Priority

We rank our recommendations on a scale of 1 to 3, with 3 being medium or administrative concerns to 1 being areas of fundamental concern requiring immediate corrective action.



Summary of Recommendations

Audit Recommendations by Priority



69

Internal Audit Plan Progress 2018/2019

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



Approved Changes to the Audit Plan

Unplanned work, special reviews or projects carried out on a responsive basis are requested through the Chief Finance Officer (Section 151 Officer). As new and emerging risks are identified, any changes to the plan will be subject to the agreement of the Chief Finance Officer (Section 151 Officer) and reported to this Committee.

The days for the Redundant Building Grant (RBG) Funding review remain in the 2018-19 plan. The scheme was due to complete its outputs in 2020/2021 but this has been achieved earlier. The RBG Project Officer has requested that the grant review is completed to coincide with close down of the scheme in July 2019.



Conclusion

Fifty-seven audits have been completed and there are four audits at report stage and one audit in progress. The completed audits are currently reporting 5% substantial assurance, 49% reasonable assurance and 18% partial assurance. There have been no significant corporate risks identified.

Recommendations have been made for improvement at service level and all findings have been accepted by management and a target date agreed for implementation. Although no areas of significant corporate risk have been identified there have been findings identified where Governance is not always followed to an acceptable level and corporate oversight is not in place. This has been recognised as an area for improvement and the Council new structure with a central corporate hub will assist in ensuring that adequate Governance and corporate oversight is implemented.

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. A score of 95% would reflect the fact that the client agreed that the review was delivered to a good standard of quality, i.e. agreed with the statement in the questionnaire and satisfied with the audit process and report. The current feedback score for the Council is 99%.

70

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

- Substantial
- Reasonable
- Partial
- None
- Advisory



Audit Framework Definitions

Control Assurance Definitions

Substantial	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	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	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	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.

Advisory - In addition, to our opinion-based work we will provide consultancy services. The advice offered by Internal Audit in its consultancy role may include risk analysis and evaluation, developing potential solutions to problems and providing controls assurance. Consultancy services from Internal Audit offer management the added benefit of being delivered by people with a good understanding of the overall risk, control and governance concerns and priorities of the organisation.

71

Recommendation are prioritised from 1 to 3 on how important they are to the service/area audited. These are not necessarily how important they are to the organisation at a corporate level.



Audit Framework Definitions

Risk	Reporting Implications
	In addition to the corporate risk assessment it is important that management 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. Each recommendation has been given a priority rating at service level with the following definitions:
Priority 1	Findings that are fundamental to the integrity of the service’s business processes and require the immediate attention of management.
Priority 2	Important findings that need to be resolved by management.
Priority 3	Finding that requires attention.

Each audit covers key risks. For each audit a risk assessment is undertaken whereby with management risks for the review are assessed at the Corporate inherent level (the risk of exposure with no controls in place) and then once the audit is complete the Auditors assessment of the risk exposure at Corporate level after the control environment has been tested. All assessments are made against the risk appetite agreed by the SWAP Management Board.

Definitions of Risk

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

72

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Major ↔ 3 = Medium Recommendation		
						1	2	3
						Governance, Fraud & Corruption	New Model in Technology and Engineering (NMiTE) Project (University)	1
Governance, Fraud & Corruption	Joint Use Agreement - Ledbury Rugby Club	1	Completed	Advisory	2	0	0	2
Governance, Fraud & Corruption	Highways Projects – Financial Reporting	1	Completed	Partial	5	0	1	4
Operational	Building Control	1	Completed	Reasonable	7	0	0	7
Operational	Special Educational Needs Transport	1	Completed	Partial	7	0	4	3
Operational	Property Maintenance - Schools	1	Deferred to 2019-20	-	-	-	-	-
Operational	Internal Communications	1	Completed	Reasonable	5	0	0	5
Operational	Records Management	1	Completed	Reasonable	3	0	0	3
Schools	Schools Financial Value Standard - School 1	1	Completed	Partial	13	0	5	8
Schools	Schools Financial Value Standard - School 2	1	Completed	Reasonable	5	0	1	4
Schools	Schools Financial Value Standard - School 3	1	Completed	Partial	8	0	2	6
Schools	Schools Financial Value Standard - School 4	1	Completed	Reasonable	7	0	0	7
Operational	Safer recruitment - Children's Wellbeing - Staff and Agency Staff	1	Completed	Reasonable	6	0	0	6
ICT	Patch Management	1	Completed	Reasonable	4	0	0	4
ICT	IT Access Controls –Mosaic and other systems used by AWB and CWB	1	Completed	Partial	6	0	2	4
Follow Up	Deprivation of Liberties	1	Completed	Follow Up	-	-	-	-

73

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Major ↔ 3 = Medium Recommendation		
						1	2	3
						Key Control	Council Tax	2
Key Control	Housing Benefit and Council Tax Reduction	2	Completed	Reasonable	2	0	0	2
Governance, Fraud & Corruption	NMITE Project (University) End of July 18 assurance	2	Completed	Advisory	-	-	-	-
Governance, Fraud & Corruption	Corporate Peer Challenge	2	Completed	Reasonable	2	0	0	2
Governance, Fraud & Corruption	Internal Control Improvement Board	2	Completed	Follow up	-	-	-	-
Grant Certification	Local Transport Block Funding – Grant Certification	2	Completed	Reasonable	1	0	0	1
Governance, Fraud & Corruption	Effectiveness of programme Boards for major system changes/projects	2	Discussion Document					
Operational	Health and Safety	2	Completed	Partial	6	0	2	4
Operational	Compliance with contract and financial procedure rules – revenue	2	Completed	Reasonable	9	0	2	7
Operational	Hoople	2	Completed	Reasonable	5	0	1	4
Operational	Integrated Short Term Support and Care Pathway – Delayed Transfer of Care plan – Front Door Customer Service – Redirected.	2	Completed	Reasonable	5	0	0	5
Operational	Client finance System - Interface between all systems –	2	Deferred to 2019-20	-	-	-	-	-
Operational	Use of regional framework for foster care (External Residential and Fostering Placements	2	Completed	Partial	7	0	1	6
ICT	Third Party Agreements (including Cloud)	2	Completed	Partial	6	0	2	4
Key Control	Accounts Payable	3	Completed	Reasonable	2	0	0	2
Key Control	Main Accounting	3	Completed	Substantial	1	0	0	1

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Major ↔ 3 = Medium Recommendation		
						1	2	3
Key Control	Payroll	3	Completed	Reasonable	4	0	0	4
Key Control	Accounts Receivable	3	Completed	Reasonable	2	0	0	2
Key Control	Capital Accounting	3	Completed	Reasonable	2	0	0	2
Key Control	NNDR	3	Completed	Reasonable	5	0	0	5
Governance, Fraud & Corruption	NMITE Project (University) End of October 18 assurance	3	Completed	Advisory	-	-	-	-
Governance, Fraud & Corruption	Declaration of personal and business interests	3	Removed	-	-	-	-	-
Grant Certification	Redundant Building Grant Funding	3	Request to move to the end of July 2019	-	-	-	-	-
Operational	Local population forecast using for future planning such as house building requirement	3	Removed	-	-	-	-	-
Grant Certification	Troubled Families – Monthly assurance on claims to end of March 2019	3	Completed	Substantial	0	0	0	0
Operational	Integrated Short Term Support and Care Pathway - County Teams	3	Completed	Advisory	6	0	1	5
Governance, Fraud & Corruption	Children's centres	3	Deferred to 2019-20	-	-	-	-	-
Governance, Fraud & Corruption	Section 20 Children Accommodated by the Local Authority	4	Completed	Reasonable	2	0	1	1
Operational	Brokers Service - formally Care Workforce Project – support to Domiciliary Care Agencies recruitment	4	Discussion Document					
Operational	Contract Monitoring	4	Draft Report					
Governance, Fraud & Corruption	NMITE Project (University) End of January 19 assurance	4	Completed	Advisory	-	-	-	-
Governance, Fraud & Corruption	EU General Data Protection Regulation	4	Completed	Partial	7	0	2	5

Audit Type	Audit Area		Quarter	Status	Opinion	No of Rec	1 = Major ↔ 3 = Medium Recommendation		
							1	2	3
							Operational	Procurement Cards	4
Operational	Mandatory Training	4	Deferred to 2019-20	-	-	-	-	-	
Governance, Fraud & Corruption	Treasury Management Counterparty	3	Completed	Advisory	-	-	-	-	
Governance, Fraud & Corruption	Blue Badges	4	Completed	Reasonable	5	0	0	5	
Operational	Development Regeneration Partnership	4	Completed	Reasonable	5	0	0	5	
Operational	Adult Well Being (AWB) Contract Monitoring – Quality Assurance Framework	4	Draft Report						
Governance, Fraud & Corruption	Quality Assurance Framework combined with AWB Contract Management	4	Replaced	-	-	-	-	-	
Operational	Homepoint - Review of new provider	4	Deferred to 2019-20	-	-	-	-	-	
Governance, Fraud & Corruption	Internal Control Improvement Board	4	Completed	Reasonable	-	-	-	-	
Schools	Prevention of Fraud (Schools)	School 1	4	Completed	Reasonable	1	0	0	1
		School 2			Reasonable	4	0	0	4
		School 3			Partial	6	0	2	4
		School 4			Reasonable	7	0	0	7
Follow Up	Serious and Organised Crime Audit checklist	4	Completed	Follow Up	-	-	-	-	
Follow Up	Data Sharing Protocols with partners and third parties	4	Completed	Follow Up	-	-	-	-	
Follow Up	Market Intelligence	4	Completed	Follow Up	-	-	-	-	
Follow up	Emergency Planning - Public Health	4	Completed	Follow Up	-	-	-	-	
Operational	Honorarium, Market Forces and Standby and on call payments	4	Completed	Reasonable	3	0	0	3	
Follow Up	Annual Care Assessment -Social Care Workforce Performance	4	Completed	Follow Up	-	-	-	-	

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Major ↔ 3 = Medium		
						Recommendation		
						1	2	3
Follow Up	Short Breaks - Children's Wellbeing	4	Completed	Follow Up	-	-	-	-
Follow Up	Public Health Contracts	4	In Progress	Follow Up	-	-	-	-
Follow Up	Data Quality - Decision Making Reports and Corporate Budget Performance Reports	4	Completed	Follow Up	-	-	-	-
Follow Up	Continuing Health Care Funding	4	Completed	Follow Up	-	-	-	-

77



Meeting:	Audit and governance committee
Meeting date:	Tuesday 30 July 2019
Title of report:	External audit findings report - 2018/19 statement of accounts
Report by:	Chief finance officer

Classification

Open

Decision type

This is not an executive decision

Wards affected

(All Wards);

Purpose and summary

To consider the external auditors audit finding report for the year ended 31 March 2019.

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.
2. It is open to the committee to determine its future work programme to enable it to provide assurance on the adequacy of the council's risk management, financial reporting and annual governance processes. It is also open to the committee to comment on the scope and depth of external audit work and to ensure it gives value for money.

Key considerations

3. The external audit findings report is attached at Appendix A and details the work and findings completed to date. Work will continue until the committee meeting on 30 July 2019.
4. The external auditor provides an independent opinion as to whether the group, being Herefordshire Council and Hoople Limited, financial statements give a true and fair view of the group's council's financial position and of the group and council's expenditure and income for the year, and have been properly prepared. Subject to completion of the outstanding work, Grant Thornton anticipate issuing an unqualified audit opinion at the Audit and Governance Committee meeting on 30 July 2019.
5. In addition the external auditor is required to determine if the council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion). Grant Thornton expect to be unable to issue a VFM conclusion at this time due to ongoing work.
6. As requested at the Audit and Governance Committee meeting on 19th March 2019 Grant Thornton have considered the level of materiality for the audit of the 2018/19 accounts. The Audit Findings Report provides detail on the approach and in addition Materiality was covered in the training session for members of the Audit and Governance Committee in July 2019.
7. Grant Thornton has concluded that Herefordshire Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources, it is unable to conclude the opinion however due to an emerging potential issue, full facts of which are not yet known.
8. The audit findings report includes an action plan agreed by the chief finance officer to enable improvements to be made for 2019/20.
9. Grant Thornton are not in position to issue the certificate of completion of the 2015/16 audit due to ongoing matter that is yet to be resolved, work to resolve this matter has been ongoing since the last committee meeting, however this is has not yet been concluded, and it is not currently possible to provide a timeline within which a conclusion will be reached.

Community impact

10. In accordance with the code of corporate governance 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. External audit contributes to effective accountability.

Equality duty

11. 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.
12. 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 report for information, we do not believe that it will have an impact on our equality duty.

Resource implications

13. There are no financial implications arising from this report. However, the annual audit fee is agreed at £96k and the agreed action plan is not expected to generate additional cost or resourcing. If any further charges were proposed by Grant Thornton this would be reported to the audit and governance committee

Legal implications

14. 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 Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and applicable law..
15. In accordance with section 20 of the Local Audit and Accountability Act 2014 (the Act) the external auditor must be satisfied (a) that the accounts comply with the requirements of the enactments that apply to them, (b) that proper practices have been observed in the preparation of the statement of accounts, and that the statement presents a true and fair view, and (c) that the authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
16. On conclusion of the audit the auditor must enter on the statement of accounts (a) a certificate that the auditor has completed the audit in accordance with the Act, and (b) the auditor's opinion on the statement.
17. The council must by not later than 31 July of any year publish (which must include publication on the authority's website), any certificate or opinion, entered by the auditor in accordance with section 20 of the Act. This deadline is expected to be met.

Risk management

18. 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 continues in this area, the audit findings report attached at appendix A details the conclusions on work completed to date.

Consultees

19. None

Appendices

Appendix A External audit findings report – 2018/19

Background papers

None identified

DRAFT



The Audit Findings for Herefordshire Council

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.

Year ended 31 March 2019

22 July 2019



Contents



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Section

	Page
1. Headlines	3
2. Financial statements	4
3. Value for money	17
4. Independence and ethics	18

Appendices

- A. Action plan
- B. Follow up of prior year recommendations
- C. Audit adjustments
- D. Fees
- E. Audit Opinion
- F. Management Letter of Representation

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

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Headlines

This table summarises the key findings and other matters arising from the statutory audit of Herefordshire Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2019 for those charged with governance.

<p>Financial Statements</p>	<p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the group and Council's financial statements:</p> <ul style="list-style-type: none"> • give a true and fair view of the financial position of the group and Council and the group and Council's income and expenditure for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. <p>We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>Our audit work commenced on site during June and as at the date of writing is still continuing. Our findings to date are summarised within this report. We have identified a number of adjustments to the financial statements. The financial impact of these adjustments has yet to be finalised. Audit adjustments to date are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.</p> <p>Our work is currently on-going and the audit is not yet complete. In addition to the completion of our audit, the following are also outstanding matters;</p> <ul style="list-style-type: none"> - receipt of management representation letter {– see appendix F}; and - review of the final set of financial statements. <p>We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited.</p> <p>Our anticipated audit report opinion will be unqualified, see Appendix E.</p>
<p>Value for Money arrangements</p>	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').</p>	<p>During the course of our work, we were alerted to a matter arising in a draft Internal Audit Report. This matter is of such potential significance to our work, we have decided to delay issuing our VFM Opinion, until the matter has reached its conclusion. In all other areas in our risk approach we were satisfied with the Council's arrangements.</p>
<p>Statutory duties</p>	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none"> • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • To certify the closure of the audit. 	<p>We have not exercised any of our additional statutory powers or duties.</p> <p>We have completed the majority of work under the Code but are unable to issue our completion certificate until one particular confidential issue has been brought to its conclusion.</p>

Acknowledgements

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

Summary

Overview of the scope of our audit

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

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, 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.

Audit approach

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

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

We have not had to alter or change our audit plan, as communicated to you on 24 January 2019 or the subsequent audit update report on 19 March 2019.

Conclusion

Our audit is not yet complete and therefore we anticipate issuing an updated Audit Findings Report to the Audit and Governance Committee on 30 July 2019.

Our approach to materiality

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

Materiality calculations remain the same as reported in our audit plan. We detail in the table below our determination of materiality for Herefordshire Council.

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	10,200,000	10,000,000	We determined materiality for the Group as a whole to be £10,200,000 which is 1.4% of the Group's assets in 2017/18.
Performance materiality	7,140,000	7,000,000	We used a lower level of materiality to determine the extent of our testing. We set this at 70% of financial statement materiality.
Trivial matters	510,000	500,000	We determined the threshold at which we would communicate misstatements to the Audit and Governance Committee at £510,000, which is 5% of financial statement materiality.
Materiality for senior officer remuneration	100,000	100,000	We have set a lower level of materiality for senior officer remuneration disclosures because we believe these disclosures are of specific interest to the reader of the accounts.

Significant findings – audit risks

Risks identified in our Audit Plan

Commentary

1

The revenue cycle includes fraudulent transactions

Under ISA240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.

Auditor commentary

Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:

- There is little incentive to manipulate revenue recognition
- Opportunities to manipulate revenue recognition are very limited
- The culture and ethical frameworks of local authorities, including Herefordshire Council, mean that all forms of fraud are seen as unacceptable

Therefore we do not consider this to be a significant risk for Herefordshire Council. No matters have arisen from our audit procedures.

2

87

Management override of controls

Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. The Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance. We identified management override of controls as a risk requiring special audit consideration.

Auditor commentary

We have:

- Gained an understanding of the accounting estimates, judgements and decisions made by management
- Tested journal entries
- Reviewed accounting estimates, judgements and decisions made by management
- Evaluated the rationale for any changes in accounting policies or significant unusual transactions.

Our work on journals, accounting policies and judgements is not yet complete.

Significant findings – audit risks

Risks identified in our Audit Plan

Commentary

3

Valuation of land and buildings

The Council revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Council and group financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used.

We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk.

Auditor commentary

We have:

- Reviewed management's processes and assumptions for the calculation of the estimate.
- Reviewed the competence, expertise and objectivity of any management experts used.
- Reviewed the instructions issue to valuation experts and the scope of their work.
- Reviewed the basis on which the valuation was carried out, challenging the key assumptions.
- Reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding.
- Tested revaluations made during the year to ensure they were input correctly into the Council's asset register.
- Evaluated 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.

We are currently finalising our work in this area and there are no significant issues to report to date.

88

4

Valuation of pension fund net liability

The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements and group accounts.

The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.

We therefore identified valuation of the Council's pension fund net liability as a significant risk.

The Council is a statutory member of the Hereford and Worcestershire Local Government Pension Scheme administered by Worcestershire County Council. Herefordshire Council remain responsible for the accuracy of disclosures within the accounts and this will include having a clear understanding of key assumptions within the estimate.

Auditor commentary

We have:

- Identified the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessed whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement.
- Evaluated the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation.
- Gain an understanding of the basis on which the IAS19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made.
- Checked the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary.
- Considered the implication's for the Council of the recent McCloud judgement - see significant findings.

We are currently finalising our work in this area and there are no significant issues to report to date.

Other audit risks

Risks identified in our Audit Plan

Commentary

5

Employee remuneration

Payroll expenditure represents a significant percentage of the Council's operating expenses.

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

Auditor commentary

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

- Evaluated the Council's accounting policy for recognition of payroll expenditure for appropriateness
- Documented our understanding of processes and key controls
- Undertaken walkthrough of key controls to assess whether those controls were in line with our documented understanding
- Obtained the year end payroll reconciliation and ensures that the amounts in the accounts reconcile to the ledger and through to payroll
- Agreed payroll related accruals (e.g. unpaid leave) to supporting documents and reviewed for reasonableness, and
- Performed substantive analytical procedure for M1 to M12, disaggregated by month.

We are currently finalising our work in this area and there are no significant issues to report to date.

8

6

Operating expenses

Non-pay expenses on other goods and services also represents a significant percentage (55%) of the Council's operating expenses. Management uses judgement to estimate accruals of non-invoiced costs.

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

We have:

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



We are currently finalising our work in this area and there are no significant issues to report to date.

Significant findings - other issues





This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

Issue	Commentary	Auditor view
<p data-bbox="69 520 103 544">1</p> <p data-bbox="147 512 685 536">Potential impact of the McCloud judgement</p> <p data-bbox="147 552 763 671">The Court of Appeal has ruled that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members.</p> <p data-bbox="147 687 763 807">The Government applied to the Supreme Court for permission to appeal this ruling, but this permission to appeal was unsuccessful. The case will now be remitted back to employment tribunal for remedy.</p> <p data-bbox="147 823 763 975">The legal ruling around age discrimination (McCloud - Court of Appeal) has implications not just for pension funds, but also for other pension schemes where they have implemented transitional arrangements on changing benefits.</p>	<p data-bbox="786 512 1435 600">Discussion is ongoing in the sector regarding the potential impact of the ruling on the financial statements of Local Government bodies.</p> <p data-bbox="786 616 1435 767">The Council has requested an estimate from its actuary of the potential impact of the McCloud ruling. The actuary's estimate was of a possible increase in pension liabilities of £5,970k, and an increase in service costs for the 2019/20 year of £1,395k.</p> <p data-bbox="786 783 1435 871">Management's view is that the impact of the ruling is not material for Herefordshire Council, and will be considered for future years' actuarial valuations.</p>	<p data-bbox="1480 552 2170 639">We have reviewed the analysis performed by the actuary, and consider that the approach that has been taken to arrive at this estimate is reasonable.</p> <p data-bbox="1480 655 2170 839">Although we are of the view that there is sufficient evidence to indicate that a liability is probable, we have satisfied ourselves that there is not a risk of material error as a result of this issue. We also acknowledge the significant uncertainties relating to the estimation of the impact on the Council's liability.</p> <p data-bbox="1480 855 1951 879">Our work in this area is not yet complete.</p>

Significant findings – key judgements and estimates

Accounting area	Summary of management's policy	Audit Comments	Assessment
Provisions	Our work is not yet complete in this area		
Land and Buildings – Council Housing	Our work is not yet complete in this area		

Assessment

-  We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
-  We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key judgements and estimates

	Summary of management’s policy	Audit Comments	Assessment
Land and Buildings – Other	Our work is not yet complete in this area		●

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider cautious
- We consider management’s process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key judgements and estimates

	Summary of management’s policy	Audit Comments	Assessment
Net pension liability	Our work is not yet complete in this area		●

93

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider cautious
- We consider management’s process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key judgements and estimates

	Summary of management’s policy	Audit Comments	Assessment
Level 2/3 investments	Our work is not yet complete in this area		●

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider cautious
- We consider management’s process and key assumptions to be reasonable

Significant findings – matters discussed with management

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

1	Significant matter	Commentary	Auditor view
	Significant events or transactions that occurred during the year	<ul style="list-style-type: none"> During the 2018/19 financial year, the pension liability of Hoople Ltd was passed back to the Council. 	<ul style="list-style-type: none"> Our work is currently on-going in this area <p>Management response</p> <ul style="list-style-type: none"> tbc

Significant findings - Going concern

Our responsibility

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) 570).

Going concern commentary

Management's assessment process

We have yet to receive managements assessments of going concern

Work performed

Our work in this area is therefore outstanding

Concluding comments

- tbc

Other communication requirements

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

	Issue	Commentary
①	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit and Governance Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures
②	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related parties or related party transactions which have not been disclosed
③	Matters in relation to laws and regulations	<ul style="list-style-type: none"> You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work, we have, however, continued to be appraised of the matter that has resulted in the withholding of the audit certificate for the last two years
④	Written representations	<ul style="list-style-type: none"> A letter of representation has been requested from the Council, including specific representations in respect of the Group, which is included in Appendix F Specific representations have been requested from management in respect of the significant assumptions used in making accounting estimates for the McCloud impact on the pension liability.
⑤	Confirmation requests from third parties	<ul style="list-style-type: none"> We requested from management permission to send confirmation requests to the holders of investments, loans and the Council bankers. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.
⑥	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements
⑦	Audit evidence and explanations/significant difficulties	<ul style="list-style-type: none"> All information and explanations requested from management was provided No issues were noted with accounts closedown, production of draft accounts and working papers

Other responsibilities under the Code

Issue	Commentary
1 Other information	<ul style="list-style-type: none"> We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. <p>No inconsistencies have been identified to date, however our work in this area is not yet complete. We plan to issue an unmodified opinion in this respect – refer to appendix E</p>
2 Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit If we have applied any of our statutory powers or duties <p>We have nothing to report on these matters</p>
3 Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. The Council does not exceed the threshold and so no procedures are required.</p>
4 Certification of the closure of the audit	<p>We will be unable to certify the completion of the 2018/19 audit of Herefordshire Council in our auditor's report, as detailed in Appendix E as there remain unresolved matters from the prior year. We have been updated by officers of progress on this matter during the year.</p>

Value for Money

Background to our VFM approach

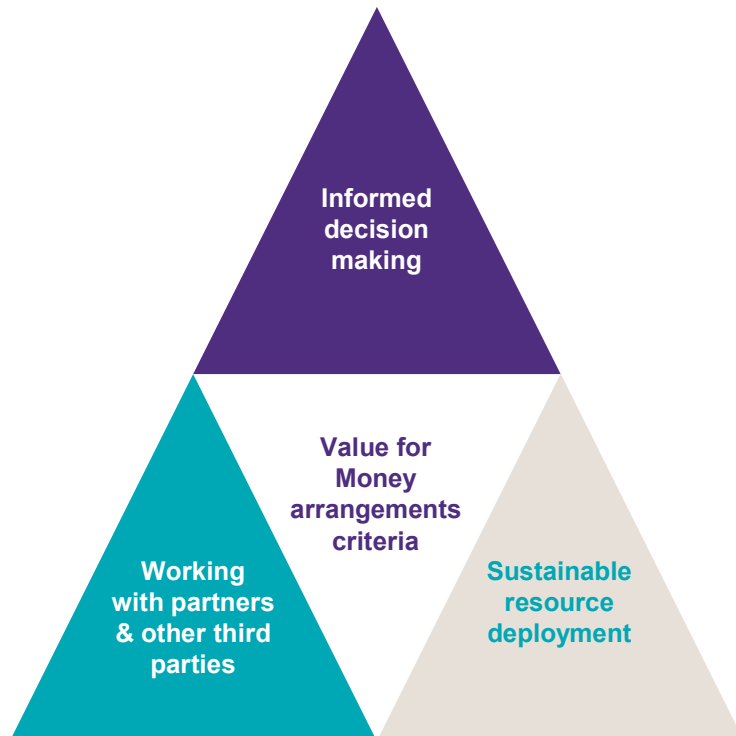
We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. 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."

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

6



Risk assessment

We carried out an initial risk assessment in January 2019 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated 23 January 2019.

Our work

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

Overall conclusion

During the course of our work, we were alerted to a matter arising in a draft Internal Audit Report. This matter is of such potential significance to our work, we have decided to delay issuing our VFM Opinion, until the matter has reached its conclusion. In all other areas in our risk approach we were satisfied with the Council's arrangements.

The text of our proposed report is not yet finalised.

Independence and ethics

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

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

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

Details of fees charged are detailed in Appendix D

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

100

	Fees £	Threats identified	Safeguards
Audit related			
Grant certification – housing benefits	5,806 tbc	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £5,806 in comparison to the total fee for the audit of £95,792 and in particular relative to Grant Thornton UK LLP's turnover overall.
Audit of Teachers Pension	6,000 tbc		
Audit of SFA grant	4,000 tbc		

These services are consistent with the group's policy on the allotment of non-audit work to your auditors. None of the services provided are subject to contingent fees.

Action plan

At the date of drafting this report, we have yet to finalise our action plan or discuss this with management. A further update will be provided in due course.

Controls

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

Follow up of prior year recommendations

At the date of drafting this report, we have yet to finalise our work in this area. A further update will be provided in due course

Audit Adjustments

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

Impact of adjusted misstatements

All adjusted misstatements found to date are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2019.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
1 During our grants testing, it was identified that £620k of Housing Benefits overpayments income had been miscategorised as DWP Grant instead of Other grants and contributions. The Other grants and contributions line will show £620k more income and the DWP grants line will show £620k less income. The total of the note is unchanged.	nil	nil	nil
103			
Overall impact	tbc	tbc	tbc

Misclassification and disclosure changes

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

Disclosure omission	Detail	Auditor recommendations	Adjusted?
Employee bandings	<ul style="list-style-type: none"> Two employees were in the wrong band for the employees earning over £50k. These had been disclosed in the £125-130k band instead of the £120-125k band 	<ul style="list-style-type: none"> The disclosure be updated to show the correct position 	✓

Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2018/19 audit to date which have not been made within the final set of financial statements. The Audit and Governance Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
1 Our testing of expenditure cut off discovered an accrual for Housing Benefits expenditure for 2018/19 that was paid out 2019/20 has not been made. From the items we tested this identified an error of £23,588, which when extrapolated across the population is £570,927.	(571)	(571)	(571)	As this is an extrapolated error we would not expect an adjustment
2 During our grants testing we identified a £25k credit to the fees and charges grants section was miscoded and should have been a credit to expenditure. Expenditure and income have therefore been overstated. The extrapolated error is £554,026.	nil	nil	nil	As this is an extrapolated error we would not expect an adjustment
Overall impact	tbc	tbc	tbc	

Impact of prior year unadjusted misstatements

There were no unadjusted misstatements identified during the prior year audit which had not been made within the final set of 2017/18 financial statements.

Fees

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

Audit Fees

	Proposed fee	Final fee	2017/18 fee
Council Audit	£95,792	tbc	£124,405
Potential additional fee, covering McCloud and PPE	tbc	tbc	-
Prior year audit overrun	£15,503	£15,503	£15,000
Audit of subsidiary company – Hoople Limited	Nil	Nil	£12,000
Grant Certification	£5,806 tbc	tbc	£5,806
£ Total audit fees (excluding VAT)	£95,792	£tbc	£157,211

The proposed fees for the year, have not yet been approved by PSAA.

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

Non Audit Fees

Fees for other services	Fees £'000
Audit related services:	
• Grant Certification – housing benefits	6 tbc
• Certification of Teachers Pension	6 tbc
• Skills funding agency audit	4 tbc
	16 tbc

Audit opinion



The wording of the Audit opinion is not yet finalised.

106

Audit opinion

The wording of the Audit opinion is not yet finalised

107

Management Letter of Representation

Our ref:
Your ref:

Grant Thornton UK LLP
2 Glass Wharf
Temple Quay
BRISTOL
BS2 0EL

[Date]

Dear Sirs

Herefordshire Council Financial Statements for the year ended 31 March 2019

This representation letter is provided in connection with the audit of the financial statements of Herefordshire Council and its subsidiary undertaking, Hoople Limited for the year ended 31 March 2019 for the purpose of expressing an opinion as to whether the group and parent Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and applicable law.

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

Group Financial Statements

We have fulfilled our responsibilities for the preparation of the Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

We have fulfilled our responsibilities for the preparation of the group and parent Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/19 ("the Code"); in particular the group and parent Council financial statements are fairly presented in accordance therewith.

We have complied with the requirements of all statutory directions affecting the group and parent Council and these matters have been appropriately reflected and disclosed in the group and parent Council financial statements.

The Council has complied with all aspects of contractual agreements that could have a material effect on the group and parent Council financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the group and parent Council financial statements in the event of non-compliance.

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

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

Except as disclosed in the financial statements:

- there are no unrecorded liabilities, actual or contingent
- none of the assets of the Council has been assigned, pledged or mortgaged
- there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

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.

Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

All events subsequent to the date of the group and parent Council financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

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

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

Management Letter of Representation

Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

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

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

109 **Any other matters that the auditor may consider appropriate**

Information Provided

We have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the group and parent Council financial statements such as records, documentation and other matters;
- additional information that you have requested from us for the purpose of your audit; and
- unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.

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

All transactions have been recorded in the accounting records and are reflected in the group and parent Council financial statements.

We have disclosed to you the results of our assessment of the risk that the group and parent Council financial statements may be materially misstated as a result of fraud.

We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the group and parent Council and involves:

management;
employees who have significant roles in internal control; or
others where the fraud could have a material effect on the group and parent Council financial statements.

We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the group and parent Council's financial statements communicated by employees, former employees, analysts, regulators or others.

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.

We have disclosed to you the identity of the group and parent Council's related parties and all the related party relationships and transactions of which we are aware.

We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the group and parent Council financial statements.

Annual Governance Statement

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

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

Approval

The approval of this letter of representation was minuted by the Council's Audit and Governance Committee at its meeting on 30 July 2019.



Meeting:	Audit and governance committee
Meeting date:	Tuesday 30 July 2019
Title of report:	Annual Governance Statement 2018/19
Report by:	Chief Finance Officer

Classification

Open

Decision type

This is not an executive decision

Wards affected

(All Wards);

Purpose and summary

To agree the annual governance statement 2018/19.

The council is required to publish a statement annually which explains to the community, service users, tax payers and other stakeholders our governance arrangements and how the controls we have in place manage risks of failure in delivering our outcomes and reflecting our particular features and challenges. In March 2019, Audit and Governance Committee approved the draft statement for publication with the draft statement of accounts.

The draft statement has been reviewed having regard to the external auditor's findings and the internal auditor's annual report and opinion, and includes a summary of progress made against actions agreed in response to the previous year's statement. The draft statement is attached at appendix 1 and, for ease of reference, appendix 2 tracks changes made since the draft statement was reviewed by the committee in March.

Recommendation(s)

That:

- (a) the annual governance statement 2018/19 at appendix 1 be approved.**

Alternative options

1. There are no alternatives to publishing an annual governance statement which is a requirement of the Accounts and Audit Regulations 2015.
2. It is open to the committee to propose amendments to the draft statement to ensure it accurately reflects the council's governance arrangements and their effectiveness, and to ensure that proposed actions are appropriate. The committee made no recommendations for change when approving the draft.

Key considerations

3. The council is required to publish a statement annually which explains to the community, service users, tax payers and other stakeholders our governance arrangements, how the controls we have in place manage risks of failure in delivering our outcomes, and reflecting our particular features and challenges.
4. At its meeting on 19 March 2019 Audit and Governance Committee approved a draft statement for publication with the draft statement of accounts at the end of May.
5. Since the draft was approved a number of amendments have been made reflecting updates made to take account on updated outturn data, any actions completed that have mitigated a previously identified risk, and new risks or improvement areas identified through the statutory officer and director assurance process or consultation. For clarity, these are all shown as tracked changes in the document at appendix 2.
6. The External Auditor's draft annual findings report states "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".
7. Following approval of the statement it will be signed by the Leader of the Council and the Chief Executive before being published on the council's website with the statement of accounts for 2018/19. The committee is scheduled to receive a report on implementation of the action plan within the statement at its meeting on 28 January 2020 in order to gain assurance that progress is being made to mitigate identified risks.

Community impact

8. Corporate governance is the term used to describe the systems, processes, culture and values the council has established to ensure we provide the right services, to the right people in a timely, open, and accountable way. Good corporate governance encourages better informed longer-term decision making using resources efficiently, and being open to scrutiny with a view to improving performance and managing risk.
9. The annual review ensures that our arrangements are effective in supporting achievement of the council's vision and corporate plan priorities.

Equality duty

10. 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.
11. 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. Compliance with our code of corporate governance ensures that we demonstrate how we are fulfilling this duty.

Resource implications

12. None associated with the recommendations. If the committee proposes further actions the resource implications of implementing those actions will need to be considered

Legal implications

13. The Accounts and Audit (England) Regulations 2015 include a requirement for all councils to produce an annual governance statement, and set out the timescales by which they must be published. Approval of the statement ensures that the council will comply with these requirements.

Risk management

14. The statement itself identifies any high level or strategic governance risks and the action plan provides mitigation to those risks

Consultees

15. The views of the council's internal and external auditors have informed the development of the statement. The council's appointed Independent Persons have been invited to provide their views on the robustness of the council's arrangements regarding standards, and any recommendations they would wish to be considered for improvement. Appendix 3 summarises the views and recommendations provided, and the proposed response to any recommendations.

Appendices

Appendix 1: Draft Annual Governance Statement 2018/19

Appendix 2: Draft Annual Governance Statement 2018/19 (with tracked changes showing)

Appendix 3: Independent Persons' views and recommendations.

Background papers

None identified

Further information on the subject of this report is available from
Annie Brookes, Tel: 01432 260605, email: ab1@herefordshire.gov.uk

Annual governance statement 2018/19

What is governance?

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

What is the annual governance statement?

2. The council is required by the Accounts and Audit Regulations 2015 to prepare and publish an annual governance statement, in order to report publicly on the extent to which we comply with our own [code of corporate governance](#), including how we have monitored the effectiveness of our arrangements in year and on any planned changes to our governance arrangements in the coming year.
3. In this document the council:
 - acknowledges its responsibility for ensuring that there is a sound system of governance;
 - summarises the key elements of the governance framework and the roles of those responsible for the development and maintenance of the governance environment;
 - describes how the council has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period;
 - provides details of how the council has responded to any issue(s) identified in last year's governance statement; and
 - reports on any key governance matters identified from this review and provides a commitment to addressing them.
4. The annual governance statement reports on the governance framework that has been in place for the year ended 31st March 2019.
5. It should be noted however, that any system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

Scope of responsibility

6. Herefordshire Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. The council also has a duty under the Local Government Act 1999 to continually review and improve the way we work, while at the same time offering value for money and efficient and effective services.
7. To meet these responsibilities the council has put in place proper arrangements for overseeing what we do. These arrangements are intended to make sure that we have the right people, doing the right things, at the right time, for the right reasons, and in the right way, in an open, inclusive and accountable manner.
8. The council has adopted a code of corporate governance that is consistent with the principles of the Chartered Institute of Public Finance and Accountancy (“CIPFA”)/Society of Local Authority Chief Executives (“SOLACE”) framework for delivering good governance in local government (2016).

The purpose of the governance framework

9. The governance framework comprises the systems, processes, culture and values by which the council is controlled, and also sets out how the council accounts to, engages with and leads the community.
10. The governance framework enables the council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate and cost-effective services.
11. The system of internal control is a significant part of that framework and is based on an ongoing process designed to:
 - identify and prioritise the risks to the achievement of the council’s policies, aims and objectives;
 - assess the likelihood and impact of the risks should they be realised; and
 - manage the risks efficiently, effectively and economically.
12. The framework operates at three levels:

Level 1 - Business and operational management. Operational management and staff delivering objectives, identifying risks and improvement actions, implementing controls, reporting progress, providing management assurance, and ensuring compliance: supported by

Level 2 - Oversight and support. Portfolio holders, scrutiny and audit and governance committees, senior managers and statutory officers provide strategic, policy and direction setting, decision-making, and assurance oversight; validated by

Level 3 - Independent assurance. Internal and external audit, inspection and review agencies, and regulators provide independent challenge and audit, reporting assurance, and audit opinion in relation to assurance levels.

How has the annual governance statement been prepared?

13. The statement has been prepared jointly by the Chief Finance Officer who is the council’s section 151 officer (a statutory role responsible for the proper administration of the council’s financial affairs), and the Solicitor to the Council who is the council’s monitoring officer (a statutory role responsible for maintaining the constitution, ensuring decision-making is fair and lawful, and for dealing with complaints that councillors have breached the councillor code of conduct). The process has:
- a) reviewed our existing governance arrangements against the guidance included in CIPFA/SOLACE ‘Delivering Good Governance in Local Government’ framework - 2016;
 - b) reviewed our code of corporate governance to ensure it reflects this guidance and includes the recommended seven principles of good governance; and
 - c) assessed the effectiveness of our governance arrangements against the code of corporate governance. The key sources of assurance that inform this review are set out in the following table.

117

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

Review of effectiveness

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

Principle A: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

- In May 2017 the council agreed a new [constitution](#) which sets out the council's [values](#), how the council operates, how decisions are made and the procedures to be followed to ensure adherence to these principles. The council's Audit and Governance Committee reviews the constitution biennially; during 2018/19 the constitution was subject to a working group review with Council adopting revisions to the constitution in May 2018. Revised financial and contract procedure rules were approved in November 2018.
- Councillors are expected to follow the council's adopted [code of conduct](#). The Monitoring Officer provides advice to members on the code, and reports on its effectiveness to the Audit and Governance Committee who regularly review the code. The council had only one Independent Person to assist the council in promoting high standards of conduct by elected and co-opted members of Herefordshire Council and town and parish councils. During 2018/19 a recruitment campaign was undertaken resulting in the appointment in February 2019 of a further eight independent persons, providing resilience to the arrangements. Registers of interest are maintained and regularly reviewed and declarations of interest are routinely sought and recorded at the start of meetings. The [standards procedure](#) supporting the code of conduct and the appeals procedure introduced in May 2018 have been reviewed, and a number of changes made to improve clarity and provide consistency of approach. A formal protocol between the Monitoring Officer and the police is in place to ensure that there is a clear and shared understanding of the approach to be taken in the event of a potential criminal breach of the code.
- During the year, the report "Local Government Ethical Standards" was published by the government's Committee on Standards in Public Life. Whilst the government's response to the review findings is awaited, the report identifies a number of areas of good practice. Local practice is being mapped against that recommended good practice, some of which is already in place in Herefordshire. As part of the annual code of conduct report scheduled for consideration by the Audit & Governance Committee in July 2019, options for implementation of remaining good practice recommendations will be set out.
- Employees are expected to follow the council's [employee code of conduct](#). A review of this code was undertaken in 2017 and a revised code was consulted on. Approval of a new code was given in July 2018, but implementation was delayed pending development of an online reporting system to support the declarations process and became effective from 1 April 2019. The revised code provides greater clarity about the standards of behaviour expected of employees. Implementation is being supported by improved processes for maintaining a register of employees' interests and a programme of communication and training for all employees.
- The required leadership employee behaviours and values are embedded into the council's employee Performance and Development Plan process which has been reviewed and refreshed during the year.
- A [member and officer relations code](#) is in place which provides guidance so that relationships are maintained in such a way as to ensure the smooth running of the council, that members receive impartial and objective advice, and officers are protected from accusations of bias or

undue influence from councillors. Training has been provided to managers, included within the member induction programme, and offered to political groups to support the maintenance of effective member officer relationships; this will continue.

- The council has an [Anti-Fraud, Bribery and Corruption Policy](#) which is reviewed every two years to ensure it remains fit for purpose. Training and awareness raising has been provided to finance and customer services staff, but wider promotion to all staff would be beneficial.
- The council has processes in place to [make a complaint](#), and to ensure complaints are investigated appropriately. All council members and employees are expected to deal with members of the public with dignity and respect at all times. This is embedded in the council's values, and codes of conduct. We also expect all members of the public to behave in a reasonable manner when dealing with representatives of the council, and has in place an [unreasonable behaviour policy](#).
- The council has a [Whistleblowing Policy](#) in place that has been reviewed, and a revised policy and procedure was approved by the Audit and Governance Committee in May 2018. The revised policy and procedure has been widely communicated to all employees and managers; numbers of issues raised under the policy have risen from five in 2017/18 to eleven in 2018/19 indicating a wider awareness of the policy. The largest proportion of concerns raised related to staff management concerns; additionally, a number of concerns related to children's services and were raised during periods heightened scrutiny during the period of court hearings and Ofsted inspections.
- The constitution sets out clearly who fulfils the various roles and responsibilities of the council including decision-making authority. The council ensures that advice is provided to decision makers to ensure compliance with the law and that the council can demonstrate how our decisions can support fulfilment of our public sector equality duty.
- There are processes in place to ensure that policies and procedures comply with the statutory requirements. A programme of periodic review has been established to ensure that they remain compliant and fit for purpose, although this programme has not been progressed at the pace expected and an improvement in the implementation of this review programme will be sought in the coming year.
- During 2017/18 a high court judgement found that some historic children's social care practice in relation to the application of s20 of the Children's Act 1989 had not been in compliance with the current application of law. Whilst the findings noted that improvements in practice had already been made it was also acknowledged that a number of further cases relating to the same period were likely. Two further child care judgements were issued in 2018/19, and the issues identified were subject to debate at an extraordinary meeting of Council. Improvement actions are being implemented and the Children and Young People's Scrutiny Committee has continued to provide challenge and focus for the improvement activity.
- Following a high profile legal ruling against another council relating to deprivation of liberty (DoL) a significant rise in DoL assessments nationally was reflected in Herefordshire. Although resource for this service was increased demand remains at a high level and, pending anticipated legislative changes, assessments are being prioritised on a risk basis.
- The council has yet to adopt and publish a Slavery and Human Trafficking Statement setting out what steps the organisation has taken to ensure modern slavery is not taking place in our business or supply chains. This will be addressed in the coming year.

- The council does not have policy on the employing ex-offenders; this will be addressed in the coming year.

Summary

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

- Implement training regarding the new employee code of conduct.
- Provide training on roles, responsibilities, decision making, and code of conduct to all members after the election in May 2019
- Develop options for implementation of the good practice recommended by the Committee on Standards in Public Life report “Local Government Ethical Standards”
- Adopt and publish a Slavery and Human Trafficking Statement.
- Approve and publish a policy on employing ex-offenders

Principle B: Ensuring openness and comprehensive stakeholder engagement

- The council has adopted openness as one of the values on which our culture is shaped and which underpin our work.
- The constitution includes a guide to [public participation](#) and provides opportunities for members of the public to ask questions at a public meeting of the council.
- The council’s planning and decision-making processes are designed to include consultation with stakeholders, and we have adopted government’s consultation principles within our [communications protocols](#)
- In order to achieve our vision for the county, the council works with a range of partners and has adopted a [partnerships’ governance framework](#) which sets out how we promote high governance standards in the partnerships we enter into and how we monitor the effectiveness of partnership governance arrangements. The degree to which the framework requirements are complied with and discussed with partners to maintain best practice has been variable, and an improvement in consistent compliance with the framework will be sought in the coming year.
- The [corporate peer challenge](#) undertaken in February 2018 identified that whilst the council recognised the importance of developing effective working relationships with key partners and communities, it would benefit from supporting this work in a more strategic and co-ordinated way. The recommendations of the peer challenge team were considered by Cabinet on 28 June 2018 and a [response](#) to the recommendations was agreed which ensures that the recommendations inform future planning and improvement; General Scrutiny Committee considered the progress made at its meeting on 6 March 2019 and the recommendations made by the committee are due to be considered by the executive before the summer. The council has instigated a series of ‘summit’ meetings with parish councils to facilitate improved engagement and

communications between the two tiers of local government in the county, however a strategic corporate approach to community engagement would strengthen governance in this area.

Summary

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

- Improvement in the consistency of application of the partnerships' governance framework.
- Develop a corporate approach to engagement

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

- Herefordshire Council has agreed a four year [Corporate Plan](#) that sets out our priorities and the economic, societal and environmental outcomes we expect to achieve; the plan is scheduled for review in 2019/20 following the local government elections in May 2019.
- In addition, a [register](#) is maintained of council strategies, policies and procedures. A programme of review is in place to ensure that all strategies and plans on the register are fit for purpose, and are clear about their intended outcome, although this programme has not been progressed at the pace expected and an improvement in the implementation of this review programme will be sought in the coming year.
- The council's planning and decision making processes are designed to ensure that expected outcomes and impacts are clear and that there are processes in place to measure how well they are achieved.
- The council has adopted a [performance, risk, and opportunity management framework](#) that provides the basis for the council to plan, monitor, and manage our performance to ensure we deliver the best service we can. It supports members and officers across the council to take responsibility for their own performance and lead the delivery of improved outcomes for residents. The framework is scheduled for review in the coming year.
- Social value is evaluated as part of our procurement arrangements.

Summary

The council complies with this principle by developing and communicating its intended outcomes. Although some older strategies and plans have less clearly defined outcomes there is a process in place for reviewing these, although the pace of review requires improvement. The following activity is planned:

- Improve pace of implementing the programme of strategy, policy and procedure reviews.
- Refresh the performance, risk and opportunity management framework.

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

- An annual [corporate delivery plan](#) sets out the key activities we will undertake to achieve the corporate plan priorities.
- The [medium term financial strategy and annual budget](#) demonstrate how the council's financial resources will be deployed to deliver the intended outcomes.
- The council's decision-making processes, including input from the scrutiny committees, ensure that decision makers receive objective and robust analysis of a variety of options indicating how intended outcomes will be achieved.
- The council's framework for partnerships' governance prompts consideration of the added value to be gained from working in partnership, and has been used to assess the effectiveness of delivery options during the year, for example informing the decision to enter into a joint venture with the University of Wolverhampton to deliver a cyber security centre.
- The 2018 [corporate peer challenge](#) identified that a strategic review of resources, and a more cross-council rather than directorate-led approach, may be beneficial to ensure that the potential to resource achievement of the council's vision and priorities over the medium term could be maximised. As a result the chief executive has reviewed and revised the structure of the organisation to establish a corporate centre to assist in driving cultural change. A review of base budgets has been undertaken to inform the setting of the 2019/20 budget and a further review will be undertaken in association with the planned corporate plan review in 2019/20.
- A peer review of children's safeguarding in spring 2018 informed developments in practice across children's social care and safeguarding; it also led to cabinet making additional investing in this area in 2018 and for the financial year 2019/20.
- The council's report templates, guidance and training for report authors and decision makers are designed to ensure that the principles of good decision making are upheld. The s151 officer has identified the need for a consistent approach to demonstrating value for money, particularly in relation to 'cost plus' contracts and work is planned for the forthcoming year to address this. A quality assurance process is in place regarding the drafting of reports to inform decision-making and there will be continued focus on ensuring that relevant information within reports is clearly explained.

Summary

The council complies with this principle by ensuring that decision makers are informed of alternative options and have objective and professional advice on the implications of those options. No significant governance weaknesses are apparent. The following activity is planned to continue improvement:

- A best practice review of establishing value for money will be undertaken to inform the council's approach.
- Improved approach to training for decision report authors to improve the quality and clarity of reports.
- A redesign of the 'Understanding Herefordshire' website to provide more accessible information to inform decision-making.

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

- Herefordshire Council works with a wide range of partners to deliver our vision for the county and our corporate plan priorities. Partnership arrangements are entered into where appropriate and when they have the potential to deliver the desired outcomes.
- Following a period of limited investment in training and development, a programme for manager development was implemented during 2018/19. Staff induction arrangements have been reviewed and a new programme was introduced in 2018/19. Mandatory training compliance is monitored by managers, and appropriate management action taken to address any individuals' non-compliance. There is some evidence to suggest that there is inconsistent understanding of governance issues, including roles, responsibilities and accountability, amongst managers and further consideration is being given to mandatory induction and refresher for all managers.
- Member induction arrangements have been reviewed and a revised programme agreed and implemented. All members have completed the identified mandatory training requirements. A draft member development programme had been developed for adoption in 2018/19, and is now scheduled for adoption following elections in May 2019.
- Having regard to the need to improve capacity in children's social work and legal services, additional resources were made available during the year. In addition, having regard to the recommendations of the corporate peer challenge, a corporate workforce and organisational development strategy has been developed to ensure that workforce resource is appropriately aligned to deliver the council's priorities. This strategy will be adopted and implemented early in the coming year. During 2018/19, Ofsted carried out a focussed visit and noted the improvements made regarding reductions in workload and increased stability since their previous visit; improvement activity in this regard continues, whilst pressures on resources remain a challenge.

- The capacity of the organisation to provide specialised legal, finance and property and commercial support to large scale procurements and/or alternative delivery arrangements such as public private partnerships or arms length companies would benefit from being strengthened as there is an over-reliance on interim or external specialist support.
- Information supplied through the manager assurance statement process suggests that there is inconsistent practice regarding the regularity of job description reviews, and action is planned to improve this.
- There is a continuous performance improvement programme in place that enables employees to put forward ideas, and embed continuous improvement as a culture in all our services.
- The council's performance and development plan process, which has been reviewed and revised, ensures that employees' development needs are identified including those relating to leadership, and behaviours.

Summary

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

- Adopt and implement a member development strategy and plan
- Adopt and implement a corporate workforce strategy
- Review manager training to ensure a mandatory induction and refresher element is included regarding governance and accountability.
- Strengthen specialist legal, finance, property and commercial support capacity
- Ensure that job descriptions are reviewed and accurately reflect the accountabilities and requirements of the role.

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

- The council has adopted a performance risk and opportunity management framework that provides the basis for the council to plan, monitor, and manage our performance and risks to that performance. The framework is periodically reviewed by Cabinet, and further improvements to the framework are to be considered in the coming year to ensure that risks are appropriately owned, considered and escalated.
- Risk registers are maintained at project, service, and directorate levels as well as corporately, and the Audit and Governance Committee monitors the effectiveness of the risk management arrangements.

- Performance (including financial management) is reported formally to Cabinet on a quarterly basis and published on the website. The council also published an [annual performance report](#) . In addition there are regular directorate performance challenge sessions which cabinet members, scrutiny chairs and political group leaders attend.
- The council is the accountable body for public funding directed to support the establishment of a new higher education institution in the county. Robust internal control arrangements agreed by the council's s151 officer are in place overseen by a robust partnership arrangement, to ensure effective oversight and management; these partnership arrangements are in the process of being reviewed to ensure they remain fit for purpose. During 2018/19 the Audit and Governance Committee received assurance reports regarding Hoople governance arrangements and NMiTE.
- In compliance with government requirements the Marches Local Enterprise Partnership has established itself as a legal entity in its own right and the council is no longer accountable for its governance, although will remain a partner on the new company board. Any new partnership arrangements will continue to be assessed against national guidelines established for local enterprise partnerships and the council's own framework for partnership governance
- The council has entered into a development partnership arrangement. The contractual arrangements include robust governance and reporting arrangements and as each project will be subject to its own governance approval before any commitment is entered into through the partnership arrangement, accountability and transparency will be evident.
- Responding to an identified need for additional project management capacity to support effective delivery of major capital projects such as those within the development partnership and major transport schemes including the component parts of the Hereford bypass, and transformation projects such as implementation of the Ofsted improvement plan, additional dedicated project management resource has been secured within the corporate centre and is deployed as required across the organisation. Those involved in management and delivery of capital projects and transformation programmes are required to undertake mandatory project management training. Given the increased focus on project management the governance arrangements for all boards are to be reviewed in the coming year, informed by internal audit activity, to ensure there is clarity regarding roles, responsibilities and accountability, and appropriate representation on each.
- Business continuity arrangements are in place for critical services and resilience arrangements regularly tested. The council has worked with regional and national resilience networks to prepare for the United Kingdom's departure from the European Union. There is inconsistent practice regarding business continuity arrangements for non-critical services and the corporate approach will be reviewed in the coming year.
- The Audit and Governance Committee has monitored and overseen the implementation of an improvement plan to address identified weaknesses in internal controls relating to capital project management and reporting. Whilst improvements in the project management lifecycle

and resourcing of project management support have been made it is too early to be assured that they have been consistently embedded across the council.

- The council has appointed a senior information risk officer (SIRO) who is responsible for ensuring arrangements are in place to maintain security of the council's information assets. Whenever a data breach occurs, the SIRO ensures that advice and training is provided to ensure the risk of a future data breach is mitigated.
- The council's internal audit function provides an independent view on the adequacy and effective operation of the council's internal control environment. They have identified improvement areas during the course of their work and action plans have been agreed with management to address them. Implementation of these actions is tracked and reported to the Audit and Governance Committee. The chief internal auditor has offered a "reasonable assurance" opinion in respect of the areas reviewed during the year, noting that although no areas of significant corporate risk had been identified there had been findings identified where governance was not always followed to an acceptable level and corporate oversight was not in place. This has been recognised as an area for improvement and the council new structure with a corporate support centre will assist in ensuring that adequate governance and corporate oversight is implemented.
- As referenced in the internal audit opinion above, a thread remains in internal audit findings, that there are some instances of policies and procedures either not being followed or being applied inconsistently. The council has a [register](#) of council strategies, policies and procedures. There is now an agreed programme, owned by each directorate, to review the documents and ensure they are fit for purpose, that there is a communication plan to support each document, and measures are in place to monitor compliance with and effectiveness of the policy, although this programme has not been progressed at the pace expected and an improvement in the implementation of this review programme will be sought in the coming year.
- The council had robust arrangements in place to prepare for the implementation of GDPR, identified risk areas, and agreed plans to mitigate those risks. Overarching data sharing agreements are in place with key partners. Data sharing requirements are included in relevant contract and procurement documentation and a rolling programme is in place linked to contract renewal to ensure data sharing arrangements are documented.
- During the year a misdirected treasury management investment was placed with an institution that was not on the council's approved counter party list. Although the investment in question, has been reviewed by the Chief Finance Officer and considered not a risk to the council, controls in place at the time did not prevent this investment from being actioned, despite all staff being aware that this should not be done. A review of processes has been carried out by internal audit to ascertain where controls need to be enhanced to prevent a repeat of this type of investment from being actioned in future.
- The council is committed to reviewing its performance and actively pursues opportunities to gain external input into that process.

- The manager assurance process informing the development of this annual governance statement has not been consistently followed across the organisation. The arrangements for completing statements will be reviewed to ensure they support the process with minimum bureaucracy and training will be provided to managers as part of their proposed training on accountability.

Summary

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

- Strengthen internal controls in respect of treasury management investments.
- Refresh corporate business continuity arrangements.
- Improve timeliness of strategy, policy and procedure reviews.
- Refresh the performance risk and opportunity management framework to ensure risks are owned, and managed appropriately
- Ensure all project and programme board terms of reference are accurate and appropriate.
- Review higher education partnerships' governance arrangements
- Review manager assurance statement process.

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

- The council publishes information about the [decisions](#) it takes on its website; where there is a justification for withholding information or excluding the public from a meeting of the council in accordance with the [access to information rules](#) the reason for doing this is explained. During 2018/19 there were no meetings of cabinet from which the public were excluded.
- We explain what information we hold and how to [access](#) that information on our website, including publication of [open data](#) in accordance with the local government transparency code.
- The council has a performance challenge process through which directorate performance is regularly reviewed and challenged by senior managers and elected members including cabinet members, scrutiny chairpersons and political group leaders. Through the director assurance process, a need has been identified for improvements to the quality of performance data in the children and families directorate.
- An annual review of the adequacy of the council's governance arrangements is undertaken and reported to senior managers and to the Audit and Governance Committee. A checklist for service managers to complete to inform the assessment and to inform directors assurance

statements and service improvement plans was implemented last year. To improve the efficiency of this process and enable compliance monitoring this process has been digitised for 2018/19.

- The council has strengthened its scrutiny function by moving from two to three committees enabling additional focus to be given to the children and young people area of activity. Each committee determines its own workplan. All executive decisions, including those taken by officers under delegation are subject to the council's call in procedures. Of the 98 recommendations made to the executive which have been considered in 2018/19 only one has been rejected, demonstrating the value of scrutiny input to policy development, performance challenge, and robust decision making.
- In their annual finding report for 2018/19 the External Auditor identified[to be added when received]
- A specific historic issue has prevented the external auditor from issuing the certificate of accounts since 2016/17; this has not affected the external auditor's opinion of the accounts in any year. The external auditor continues to work with the council to bring the matter to a resolution.
- Financial reporting arrangements are sound in relation to revenue but less well developed in relation to capital projects. Under the leadership of the council's s151 officer, a programme of improvements to capital reporting has been led by the Strategic Capital Finance Manager. This post is working closely with capital project budget managers and capital project managers providing advice, support and challenge. Council adopted a capital strategy in February 2019.
- The council's framework for partnerships governance requires a periodic assessment of the effectiveness of the governance arrangements for partnerships. Following reviews undertaken during 2017/18 that highlighted some potential to provide greater transparency of decisions taken by a small number of partnerships; we have secured improved transparency in relation to decisions taken by our partner Hoople; work with health partners continues to evolve with the changing national health and social care environment. Discussions are ongoing with partners regarding the transparency of West Mercia Energy decision-making.
- The process of assessing the effectiveness of partnership arrangements has not been consistently applied; to improve consistency the process is being moved from paper-based to digital in early 2019/20.
- In line with government requirements, changes in the governance arrangements for Local Enterprise Partnerships (LEP) had to be implemented by May 2019, with the establishment of the Marches LEP as a stand-alone legal entity. The Marches LEP will continue to be invited to attend the relevant scrutiny committee to account for its performance and to enable the committee to inform policy development.
- Internal audit undertook a 'Healthy Organisation' review to provide an objective assessment of the management control framework. The review looked at eight thematic areas and provided a high level of assurance in relation to financial, risk and information management, and medium

assurance overall; there were no areas of low assurance. The areas for attention identified in the review are informing senior managers improvement plans.

- The council has been working closely with health partners to further develop an integrated care system through locality working and aligning front line services to improve transfers of care and reduce admissions into hospitals. Officers have been supporting the system to progress a single finance health control total, which does not have a direct effect on the council's budget but any future changes to health provision could have an impact.
- The highest risk to the council for health and social care integration and partnerships is the future funding uncertainty of the Better Care Fund (BCF). National guidance and conditions have yet to be published on the future of the BCF post 2020, which poses a financial risk of £11m to Herefordshire Council. To manage this uncertainty officers continue to monitor national policy developments, identify risks through appropriate risk registers, plan mitigating actions where required and work closely with health partners on the future of integration.

Summary

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

- Adopt and implement a revised process to close down the annual accounts including improving the processes for valuation of assets.
- Continue to implement improvements to capital reporting processes to improve transparency.
- Agree and implement arrangements to provide greater transparency of partnership decision-making by West Mercia Energy
- Ensure that partnership arrangements with health bodies are compliant with the framework for partnerships' governance
- Improve consistency of assessments regarding effectiveness of partnership arrangements

Progress against actions agreed in response to the 2017/18 annual governance statement

15. The table below shows progress made at the end of the 2018/19 year. Any actions not yet completed have been rolled forward to the 2019/20 action plan.

	Improvement required	Action planned	By when	Owner	Progress	Status*
1.	Members and officers modelling the values and behaviours expected and clear about the processes to follow if they have concerns.	Deliver a programme of training and awareness raising to support implementation of the revised employee code of conduct.	end August 2018 Revised date end March 2019	Head of HR and OD	Completed. The code of conduct has been launched with a series of briefings for staff and managers. A code of conduct e-learning module has also been written and is ready for launch from 1 Oct (so that we can test understanding and assess the impact of the new code of conduct after it has been in place for 6 months).	
		Promote the revised whistleblowing policy and procedure	September 2018	Solicitor to the Council	Completed. Management Board advised and cascaded to their own teams. Corporate communication via newscore and posters in council offices.	
		Promote the member and officer relations code through development sessions with members and employees	October 2018 Revised date for employees end February 2019 and members end June 2019	Head of HR and OD and Head of Corporate Governance	Completed. Development sessions for employees were delivered in January and February 2019, and are now scheduled quarterly as part of a regular staff development programme. Development sessions for members were included in the approved member induction programme implemented following the May 2019 elections and political group leaders have been offered briefings/development sessions on this subject for their groups, on request.	

	Improvement required	Action planned	By when	Owner	Progress	Status*
		a) Implement and promote a revised standards procedure for complaints against councillors. b) re engage with the police regarding a joint protocol.	September 2018	Solicitor to the Council	a) Completed. Revised procedure implemented and promoted. Following first six months of operation and having regard to the views of a working group of Audit and Governance Committee members and the Independent Person(s) further refinement of the procedure will be undertaken to ensure it is clear and operating as intended. b) Completed. Protocol in place	
2.	Links between the various visions, budget and service planning and commissioning, risk management, performance and value for money are not consistently demonstrated or measured	Revised commercial and commissioning strategy adopted, communicated and monitored to ensure contractual arrangements reflect the council's priorities and can demonstrate value for money. Options appraisal to establish whether a course of action represents best use of resources, to be a consistent element of business cases informing decisions	July 2018 June 2018	Assistant Director Corporate Support Chief Finance Officer	Completed. The revised procurement and commissioning strategy decision in July 2018 (link), and strategy posted on the council webpages. Promoted in News Core with training in procurement taken place in 2018 and monthly in 2019 including outlining the requirements of the strategy. Completed. The business case templates have been revised to incorporate a number of issues including value for money and best value.	
3.	The level of awareness of fraud risk and potential mitigation is low in	Communication and training of the revised Anti-fraud, bribery and corruption policy will be delivered	August 2019	Chief Finance Officer	Initial training completed now an ongoing programme. On line training has been completed by the customer services team. Financial management training includes a	

	Improvement required	Action planned	By when	Owner	Progress	Status*
	areas outside of financial transaction service areas.				section on “Serious and Organised Crime – your prevention role” confirming the council’s policy along with confirming the single point of contact details. A rolling programme of awareness raising communications for all staff is to be implemented. This action will be rolled forward to the 2019/20 action plan.	
4.	Further develop the capacity of the organisation and individuals within it	Adopt and implement a member development strategy and plan	March, 2019 Revised to September 2019	Democratic Services Manager	In progress. As part of phase 1 of this work an induction and role specific training plans have been produced and will be deployed after local elections in May. As part of a phase two a strategy setting out the ways in which councillors will be supported, including the types of training given, the variety of methods used, and how the training and development needs will be assessed will be brought forward together with a proposed annual training and development programme. This action will be rolled forward to the 2019/20 action plan.	
Adopt and implement a manager development programme		October 2018	Head of HR and OD	Completed. A management development programme has been designed and procured. The programme has been launched in the council and the first two cohorts have been nominated by the leadership team. The delegates have now received their joining instructions.		
Adopt and implement a corporate workforce strategy		March 2019 Revised to December 2019	Head of HR and OD	On going The workforce strategy has been drafted, and the chief executive and management board have been consulted. Formal adoption of the draft strategy is scheduled for cabinet member decision at the end of July 2019, and		

	Improvement required	Action planned	By when	Owner	Progress	Status*
					this action will be rolled forward to the 2019/20 annual governance statement action plan.	
5.	Strengthen internal controls and financial management	Implement the actions in response to internal audit's recommendations re Blueschool House	March 2019	Chief Finance Officer	Completed. A series of changes have been made in response to the internal audit recommendations in respect of the joint services hub. At the request of the Audit & Governance Committee a follow up review was completed and reported to the committee in March 2019, In addition a range of reviews have been scheduled in the internal audit work plan.	
		Implement improvements to capital reporting	July 2018	Chief Finance Officer	Completed. A revised reporting process has been implemented that brings greater transparency to financial reporting of capital schemes.	
6.	Enhance transparency in relation to significant partnerships	Review joint committee governance where governance support is not provided by Herefordshire Council	September 2019	Solicitor to the Council	Ongoing. An audit has been undertaken of current arrangements. The views of partner councils' monitoring officers are being sought regarding potential improvements to transparency.	
		Review and publish schemes of delegation in respect of decisions to be taken by Hoople employees, and in discussion with the Hoople Board review the processes in place to support effective transparency and communication.	October 2018	Acting Director Economy and Place	Completed. Schemes of delegation for Economy and Place and Corporate Support have been reviewed following corporate restructure and reference decisions taken by Hoople employees. Schemes of Delegation will continue to be kept under review to ensure they remain up to date. The Hoople Board considered a report in relation to transparency and communications at its meeting in September 2018. The Board decided to publish minutes of its meetings on	

	Improvement required	Action planned	By when	Owner	Progress	Status*
					the Hoople website starting with those of the meeting in September 2018.	
		In consultation with health partners review the governance arrangements in place to ensure they support effective transparency and communication whilst respecting the respective partners distinctive governance processes	November 2018	Director for Adults and Communities	Ongoing - governance arrangements for partnership boards are reviewed annually, although the partnership register has not been updated to reflect the outcome of these reviews. Current board structures and arrangements have been considered and the role of council representation in terms of decision making recognises distinctive governance process. Council officers who make representation at partnership boards have also been briefed to ensure that effective transparency and communications are in place and are fed back through appropriate council governance arrangements. This action will be rolled forward to the 2019/20 action plan.	

* Status key: Green = action completed; amber = action partially completed; red = action not progressed or significantly delayed.

Key governance actions planned

16. In response to the issues identified during the review of effectiveness, the following draft action plan has been developed which includes outstanding actions from the previous year's plan (above). The Audit and Governance Committee will receive a six-monthly report in order on progress made in delivering this action plan in 2019/20.

	Improvement required	Action planned	By when	Owner	Progress	Status
1.	Support the maintenance of high ethical standards.	Provide member induction training on roles responsibilities, code of conduct and decision making.	July 2019	Solicitor to the Council	Completed. Similar induction training will be provided for any new members joining the council.	
		Implement training re Employee Code of Conduct	March 2020	Assistant Director People		
		Develop options for implementation of the good practice recommended in the "Local Government Ethical Standards" report	September 2019	Solicitor to the Council		
2.	The level of awareness of fraud risk and potential mitigation is low in areas outside of financial transaction service areas.	Communication and awareness of the current Anti-fraud, bribery and corruption policy will be delivered to all staff	August 2019	Head of Corporate Finance		
3.	Further develop the capacity of the organisation and individuals within it	Adopt and implement a member development strategy and programme	September 2019	Democratic Services Manager		
		Adopt and implement a corporate workforce strategy	December 2019	Assistant Director People		
		Improve the approach to training for decision report authors	October 2019	Solicitor to the Council		
		Review manager training to ensure a mandatory induction and refresher element regarding governance and accountability	August 2019	Assistant Director People		

	Improvement required	Action planned	By when	Owner	Progress	Status
		Strengthen specialist legal, finance, property and commercial support capacity, with particular reference to major procurements and arms length delivery arrangements.	January 2020	Chief Executive		
		Provide guidance to managers for all job descriptions to be reviewed each year and accurately reflect accountabilities and requirements of the role.	September 2019	Assistant Director People		
4.	Enhance transparency in relation to significant partnerships	Review West Mercia Energy joint committee governance	September 2019	Solicitor to the Council	.	
		Review the governance arrangements in place between the council and health bodies to ensure they support effective transparency and communication whilst respecting the respective partners distinctive governance processes	TBC	Director for Adults and Communities		
		Review partnership governance arrangements between the council and higher education bodies	December 2019	Director for Economy and Place		
		Improve consistent corporate compliance with the framework for partnerships' governance	January 2020	Assistant Director Corporate Support		

	Improvement required	Action planned	By when	Owner	Progress	Status
5.	There is evidence of good community engagement work by particular service areas but no clearly identifiable strategic approach to community engagement	Develop a strategic corporate approach to community engagement	October 2020	Director for Adults and Communities		
6.	Maintain robust internal controls by strengthening clarity and consistency of some arrangements and assurance processes	Strengthen internal controls in respect of treasury management investments	TBC	Chief Finance Officer		
		Refresh corporate business continuity arrangements	March 2020	Assistant Director People		
		Improve timeliness of strategy, policy and procedure reviews	January 2020	Assistant Director Corporate Support		
		Refresh the performance, risk and opportunity management framework	February 2020	Assistant Director Transformation and Performance		
		Ensure programme and project board terms of reference are accurate and appropriate	September 2020	Assistant Director Transformation and Performance		
		Review the manager assurance statement process	December 2020	Assistant Director Corporate Support		
		Adopt and implement a revised process for close down of accounts including valuation of assets	TBC	Chief Finance Officer		

	Improvement required	Action planned	By when	Owner	Progress	Status
7.	Further improve the quality and clarity of data informing decisions.	Continue to implement improvements to capital reporting	TBC	Chief Finance Officer		
		Undertake a best practice review of establishing value for money	TBC	Chief Finance Officer		
		Deliver improvements in the accuracy of performance data within Children and Families	December 2019	Head of Corporate Performance		
		Redesign the 'Understanding Herefordshire' website to provide more accessible information to inform decision-making	July 2019	Assistant Director Transformation and Performance	Completed. The re-designed website is live and will continue to be refreshed as data is updated.	
8.	Ensure compliance with legislative requirements	Adopt and publish a Slavery and Human Trafficking Statement	December 2019	Head of Corporate Services		
		Approve and publish a policy on employing ex-offenders, and include the council's approach in a new recruitment training programme.	March 2020	Assistant Director People		

Statement and opinion

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

Signed:

Councillor David Hitchiner
Leader of the Council

Date:

Alistair Neill
Chief Executive

Date:

Annual governance statement 2018/19

What is governance?

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

What is the annual governance statement?

2. The council is required by the Accounts and Audit Regulations 2015 to prepare and publish an annual governance statement, in order to report publicly on the extent to which we comply with our own [code of corporate governance](#), including how we have monitored the effectiveness of our arrangements in year and on any planned changes to our governance arrangements in the coming year.
3. In this document the council:
 - acknowledges its responsibility for ensuring that there is a sound system of governance;
 - summarises the key elements of the governance framework and the roles of those responsible for the development and maintenance of the governance environment;
 - describes how the council has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period;
 - provides details of how the council has responded to any issue(s) identified in last year's governance statement; and
 - reports on any key governance matters identified from this review and provides a commitment to addressing them.
4. The annual governance statement reports on the governance framework that has been in place for the year ended 31st March 2019.
5. It should be noted however, that any system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

Scope of responsibility

6. Herefordshire Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. The council also has a duty under the Local Government Act 1999 to continually review and improve the way we work, while at the same time offering value for money and efficient and effective services.
7. To meet these responsibilities the council has put in place proper arrangements for overseeing what we do. These arrangements are intended to make sure that we have the right people, doing the right things, at the right time, for the right reasons, and in the right way, in an open, inclusive and accountable manner.
8. The council has adopted a code of corporate governance that is consistent with the principles of the Chartered Institute of Public Finance and Accountancy (“CIPFA”)/Society of Local Authority Chief Executives (“SOLACE”) framework for delivering good governance in local government (2016).

The purpose of the governance framework

9. The governance framework comprises the systems, processes, culture and values by which the council is controlled, and also sets out how the council accounts to, engages with and leads the community.
10. The governance framework enables the council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate and cost-effective services.
11. The system of internal control is a significant part of that framework and is based on an ongoing process designed to:
 - identify and prioritise the risks to the achievement of the council’s policies, aims and objectives;
 - assess the likelihood and impact of the risks should they be realised; and
 - manage the risks efficiently, effectively and economically.
12. The framework operates at three levels:

Level 1 - Business and operational management. Operational management and staff delivering objectives, identifying risks and improvement actions, implementing controls, reporting progress, providing management assurance, and ensuring compliance: supported by

Level 2 - Oversight and support. Portfolio holders, scrutiny and audit and governance committees, senior managers and statutory officers provide strategic, policy and direction setting, decision-making, and assurance oversight; validated by

Level 3 - Independent assurance. Internal and external audit, inspection and review agencies, and regulators provide independent challenge and audit, reporting assurance, and audit opinion in relation to assurance levels.

How has the annual governance statement been prepared?

13. The ~~process~~ statement has been prepared, jointly led by the [Chief Finance Officer who is the council's section 151 officer \(a statutory role responsible for the proper administration of the council's financial affairs\)](#), and the [Solicitor to the Council who is the council's monitoring officer \(a statutory role responsible for maintaining the constitution, ensuring decision-making is fair and lawful, and for dealing with complaints that councillors have breached the councillor code of conduct\)](#). The process has:
- a) reviewed our existing governance arrangements against the guidance included in CIPFA/SOLACE 'Delivering Good Governance in Local Government' framework - 2016;
 - b) reviewed our code of corporate governance to ensure it reflects this guidance and includes the recommended seven principles of good governance; and
 - c) assessed the effectiveness of our governance arrangements against the code of corporate governance. The key sources of assurance that inform this review are set out in the following table.

143

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

Review of effectiveness

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

Principle A: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

- In May 2017 the council agreed a new [constitution](#) which sets out the council's [values](#), how the council operates, how decisions are made and the procedures to be followed to ensure adherence to these principles. The council's Audit and Governance Committee reviews the constitution biennially; during 2018/19 the constitution was subject to a working group review with Council adopting revisions to the constitution in May 2018. Revised financial and contract procedure rules were approved in November 2018.
- Councillors are expected to follow the council's adopted [code of conduct](#). The Monitoring Officer provides advice to members on the code, and reports on its effectiveness to the Audit and Governance Committee who regularly review the code. The council had ~~only ones an~~ Independent Person to assist the council in promoting high standards of conduct by elected and co-opted members of Herefordshire Council and town and parish councils. During 2018/19 ~~maintained a~~ recruitment campaign was undertaken resulting in the appointment in February 2019 of a further eight independent persons, providing resilience to the arrangements. Registers of interest are maintained and regularly reviewed and declarations of interest are routinely sought and recorded at the start of meetings. The [standards procedure](#) supporting the code of conduct and the appeals procedure introduced in May 2018 have been reviewed, and a number of changes made to improve clarity and provide consistency of approach. ~~Responding to concerns raised by the Independent Person the development of a~~ formal protocol between the Monitoring Officer and the police ~~continues to be explored and there is ongoing dialogue between the two parties is in place~~ to ensure that there is a clear and shared understanding of the [issues approach to be taken in the event of a potential criminal breach of the code](#).
- During the year, the report "Local Government Ethical Standards" was published by the government's Committee on Standards in Public Life. Whilst the government's response to the review findings is awaited, the report identifies a number of areas of good practice. Local practice is being mapped against that recommended good practice, some of which is already in place in Herefordshire. As part of the annual code of conduct report scheduled for consideration by the Audit & Governance Committee in July 2019, options for implementation of remaining good practice recommendations will be set out.
- Employees are expected to follow the council's [employee code of conduct](#). A review of this code was undertaken in 2017 and a revised code was consulted on. Approval of a new code was given in July 2018, but implementation ~~has been was~~ delayed pending development of an online reporting system to support the declarations process and ~~will be became~~ effective from 1 April 2019. The revised code provides greater clarity about the standards of behaviour expected of employees. [Implementation is being](#) supported by improved processes for maintaining a register of employees' interests and a programme of communication and training for all employees.
- The required leadership employee behaviours and values are embedded into the council's employee Performance and Development Plan process which has been reviewed and refreshed during the year.

- A [member and officer relations code](#) is in place which provides guidance so that relationships are maintained in such a way as to ensure the smooth running of the council, that members receive impartial and objective advice, and officers are protected from accusations of bias or undue influence from councillors. Training has been provided to managers, [included within the member induction programme](#), and offered to political groups to support the maintenance of effective member officer relationships; this will continue.
- The council has an [Anti-Fraud, Bribery and Corruption Policy](#) which is reviewed every two years to ensure it remains fit for purpose. [Training and awareness raising has been provided to finance and customer services staff, but wider promotion to all staff would be beneficial.](#)
- The council has processes in place to [make a complaint](#), and to ensure complaints are investigated appropriately. All council members and employees are expected to deal with members of the public with dignity and respect at all times. This is embedded in the council's values, and codes of conduct. We also expect all members of the public to behave in a reasonable manner when dealing with representatives of the council, and has in place an [unreasonable behaviour policy](#).
- The council has a [Whistleblowing Policy](#) in place that has been reviewed, and a revised policy and procedure was approved by the Audit and Governance Committee in May 2018. The revised policy and procedure has been widely communicated to all employees and managers; numbers of issues raised under the policy have ~~to be updated at year end when numbers and trends known~~ [risen from five in 2017/18 to eleven in 2018/19 indicating a wider awareness of the policy. The largest proportion of concerns raised related to staff management concerns; additionally, a number of concerns related to children's services and were raised during periods heightened scrutiny during the period of court hearings and Ofsted inspections.](#)
- The constitution sets out clearly who fulfils the various roles and responsibilities of the council including decision-making authority. The council ensures that advice is provided to decision makers to ensure compliance with the law and that the council can demonstrate how our decisions can support fulfilment of our public sector equality duty.
- There are processes in place to ensure that policies and procedures comply with the statutory requirements. A programme of periodic review has been established to ensure that they remain compliant and fit for purpose, although this programme has not been progressed at the pace expected and an improvement in the implementation of this review programme will be sought in the coming year.
- During 2017/18 a high court judgement found that some historic children's social care practice in relation to the application of s20 of the Children's Act 1989 had not been in compliance with the current application of law. Whilst the findings noted that improvements in practice had already been made it was also acknowledged that a number of further cases relating to the same period were likely. Two further child care judgements were issued in 2018/19, and the issues identified were subject to debate at an extraordinary meeting of Council. Improvement actions are being implemented and the Children and Young People's Scrutiny Committee has continued to provide challenge and focus for the improvement activity.
- Following a high profile legal ruling against another council relating to deprivation of liberty (DoL) a significant rise in DoL assessments nationally was reflected in Herefordshire. Although resource for this service was increased demand remains at a high level and, pending anticipated legislative changes, assessments are being prioritised on a risk basis.

- [The council has yet to adopt and publish a Slavery and Human Trafficking Statement setting out what steps the organisation has taken to ensure modern slavery is not taking place in our business or supply chains. This will be addressed in the coming year.](#)
- [The council does not have policy on the employing ex-offenders; this will be addressed in the coming year.](#)

Summary

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

- Implement ~~the training regarding the new~~ revised employee code of conduct.
- Provide ~~code of conduct~~ training [on roles, responsibilities, decision making, and code of conduct](#) to all members after the election in May 2019.
- [Develop options for implementation of the good practice recommended by the Committee on Standards in Public Life report “Local Government Ethical Standards”](#)
- [Adopt and publish a Slavery and Human Trafficking Statement.](#)
- [Approve and publish a policy on employing ex-offenders](#)

Principle B: Ensuring openness and comprehensive stakeholder engagement

- The council has adopted openness as one of the values on which our culture is shaped and which underpin our work.
- The constitution includes a guide to [public participation](#) and provides opportunities for members of the public to ask questions at a public meeting of the council.
- The council's planning and decision-making processes are designed to include consultation with stakeholders, and we have adopted government's consultation principles within our [communications protocols](#)
- In order to achieve our vision for the county, the council works with a range of partners and has adopted a [partnerships' governance framework](#) which sets out how we promote high governance standards in the partnerships we enter into and how we monitor the effectiveness of partnership governance arrangements. [The degree to which the framework requirements are complied with and discussed with partners to maintain best practice has been variable, and an improvement in consistent compliance with the framework will be sought in the coming year.](#)
- The [corporate peer challenge](#) undertaken in February 2018 identified that whilst the council recognised the importance of developing effective working relationships with key partners and communities, it would benefit from supporting this work in a more strategic and co-ordinated way. The recommendations of the peer challenge team were considered by Cabinet on 28 June 2018 and a [response](#) to the recommendations was agreed which ensures that the recommendations inform future planning and improvement; [General Scrutiny Committee considered the progress made at its meeting on 6 March 2019 and the recommendations made by the committee are due to be considered by the executive before the summer.](#) The council has instigated a series of 'summit' meetings with parish councils to facilitate improved engagement and communications between the two tiers of local government in the county, [however a strategic corporate approach to community engagement would strengthen governance in this area.-](#)

Summary

The council complies with this principle by engaging with local people, stakeholders and partners. Although engagement could be strengthened further through the development of a more strategic and co-ordinated approach, no significant governance weaknesses are identified. [The following activity is planned in the coming year:](#)

- [Improvement in the consistency of application of the partnerships' governance framework.](#)
- [Develop a corporate approach to engagement](#)

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

- Herefordshire Council has agreed a four year [Corporate Plan](#) that sets out our priorities and the [economic, societal and environmental](#) outcomes we expect to achieve; the plan is scheduled for review in 2019/20 following the local government elections in May 2019.
- In addition, a [register](#) is maintained of council strategies, policies and procedures. A programme of review is in place to ensure that all strategies and plans on the register are fit for purpose, and are clear about their intended outcome, although this programme has not been progressed at the pace expected and an improvement in the implementation of this review programme will be sought in the coming year.
- The council's planning and decision making processes are designed to ensure that expected outcomes and impacts are clear and that there are processes in place to measure how well they are achieved.
- The council has adopted a [performance, risk, and opportunity management framework](#) that provides the basis for the council to plan, monitor, and manage our performance to ensure we deliver the best service we can. It supports members and officers across the council to take responsibility for their own performance and lead the delivery of improved outcomes for residents. [The framework is scheduled for review in the coming year.](#)
- Social value is evaluated as part of our procurement arrangements.

Summary

The council complies with this principle by developing and communicating its intended outcomes. Although some older strategies and plans have less clearly defined outcomes there is a process in place for reviewing these, although the pace of review requires improvement. The following activity is planned:

- [Improve pace of implementing the programme of strategy, policy and procedure reviews.](#)
- [Refresh the performance, risk and opportunity management framework.](#)

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

- An annual [corporate delivery plan](#) sets out the key activities we will undertake to achieve the corporate plan priorities.
- The [medium term financial strategy and annual budget](#) demonstrate how the council's financial resources will be deployed to deliver the intended outcomes.
- The council's decision-making processes, including input from the scrutiny committees, ensure that decision makers receive objective and robust analysis of a variety of options indicating how intended outcomes will be achieved.

- The council's framework for partnerships' governance prompts consideration of the added value to be gained from working in partnership, and has been used to assess the effectiveness of delivery options during the year, for example informing the decision to enter into a joint venture with the University of Wolverhampton to deliver a cyber security centre.
- The 2018 [corporate peer challenge](#) identified that a strategic review of resources, and a more cross-council rather than directorate-led approach, may be beneficial to ensure that the potential to resource achievement of the council's vision and priorities over the medium term could be maximised. As a result the chief executive has reviewed and revised the structure of the organisation to establish a corporate centre to assist in driving cultural change. A review of base budgets has been undertaken to inform the setting of the 2019/20 budget and a further review will be undertaken in association with the planned corporate plan review in 2019/20.
- [A peer review of children's safeguarding in spring 2018 informed developments in practice across children's social care and safeguarding; it also led to cabinet making additional investing in this area in 2018 and for the financial year 2019/20.](#)
- The council's report templates, guidance and training for report authors and decision makers are designed to ensure that the principles of good decision making are upheld. The s151 officer has identified the need for a consistent approach to demonstrating value for money, particularly in relation to 'cost plus' contracts and work is planned for the forthcoming year to address this. [A quality assurance process is in place regarding the drafting of reports to inform decision-making and there will be continued focus on ensuring that relevant information within reports is clearly explained.](#)

Summary

The council complies with this principle by ensuring that decision makers are informed of alternative options and have objective and professional advice on the implications of those options. No significant governance weaknesses are apparent. The following activity is planned to continue improvement:

- [A best practice review of establishing value for money will be undertaken to inform the council's approach.](#)
- [Improved approach to training for decision report authors to improve the quality and clarity of reports.](#)
- [A redesign of the 'Understanding Herefordshire' website to provide more accessible information to inform decision-making.](#)

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

- Herefordshire Council works with a wide range of partners to deliver our vision for the county and our corporate plan priorities. Partnership arrangements are entered into where appropriate and when they have the potential to deliver the desired outcomes.
- Following a period of limited investment in training and development, a programme for manager development was implemented during 2018/19. Staff induction arrangements have been reviewed and a new programme was introduced in 2018/19. Mandatory training compliance is monitored by managers, and appropriate management action taken to address any individuals' non-compliance. [There is some evidence to suggest that there is inconsistent understanding of governance issues, including roles, responsibilities and accountability, amongst managers and further consideration is being given to mandatory induction and refresher for all managers.](#)
- Member induction arrangements have been reviewed and a revised programme agreed and implemented. All members have completed the identified mandatory training requirements. A draft member development programme had been developed for adoption in 2018/19, and is now scheduled for adoption following elections in May 2019.
- Having regard to the need to improve capacity in children's social work and legal services, additional resources were made available during the year. In addition, having regard to the recommendations of the corporate peer challenge, a corporate workforce and organisational development strategy has been developed to ensure that workforce resource is appropriately aligned to deliver the council's priorities. This strategy will be adopted and implemented early in the coming year. During 2018/19, Ofsted carried out a focussed visit and noted the improvements made regarding reductions in workload and increased stability since their previous visit; improvement activity in this regard continues, [whilst pressures on resources remain a challenge.](#)
- [The capacity of the organisation to provide specialised legal, finance and property and commercial support to large scale procurements and/or alternative delivery arrangements such as public private partnerships or arms length companies would benefit from being strengthened as there is an over-reliance on interim or external specialist support.](#)
- [Information supplied through the manager assurance statement process suggests that there is inconsistent practice regarding the regularity of job description reviews, and action is planned to improve this.](#)
- There is a continuous performance improvement programme in place that enables employees to put forward ideas, and embed continuous improvement as a culture in all our services.
- The council's performance and development plan process, which has been reviewed and revised, ensures that [employees'](#) development needs are identified including those relating to leadership, and behaviours.

Summary

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

- Adopt and implement a member development strategy and plan
- Adopt and implement a corporate workforce strategy
- [Review manager training to ensure a mandatory induction and refresher element is included regarding governance and accountability.](#)
- [Strengthen specialist legal, finance, property and commercial support capacity](#)
- [Ensure that job descriptions are reviewed and accurately reflect the accountabilities and requirements of the role.](#)

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

- The council has adopted a performance risk and opportunity management framework that provides the basis for the council to plan, monitor, and manage our performance and risks to that performance. The framework is periodically reviewed by Cabinet, and further improvements to the framework are ~~being considered~~ [to be considered in the coming year](#) to ensure that risks are appropriately owned, considered and escalated.
- Risk registers are maintained at project, service, and directorate levels as well as corporately, and the Audit and Governance Committee monitors the effectiveness of the risk management arrangements.
- Performance (including financial management) is reported formally to Cabinet on a quarterly basis and published on the website. The council also published an [annual performance report](#) ~~annual performance report~~. In addition there are regular directorate performance challenge sessions which cabinet members, scrutiny chairs and political group leaders attend.
- The council is the accountable body for public funding directed to support the establishment of a new higher education institution in the county. Robust internal control arrangements agreed by the council's s151 officer are in place overseen by a robust partnership arrangement, to ensure effective oversight and management; these partnership arrangements are in the process of being reviewed to ensure they remain fit for purpose. During 2018/19 the Audit and Governance Committee received assurance reports regarding Hoople governance arrangements and NMiTE.
- [In compliance with government requirements the Marches Local Enterprise Partnership has established itself as a legal entity in its own right and the council is no longer accountable for its governance, although will remain a partner on the new company board. Any new partnership arrangements will continue to be assessed against national guidelines established for local enterprise partnerships and the council's own framework for partnership governance](#)

- The council has entered into a development partnership arrangement. The contractual arrangements include robust governance and reporting arrangements and as each project will be subject to its own governance approval before any commitment is entered into through the partnership arrangement, accountability and transparency will be evident.
- Responding to an identified need for additional project management capacity to support effective delivery of major capital projects such as those within the development partnership and major transport schemes including the component parts of the Hereford bypass, and transformation projects such as implementation of the Ofsted improvement plan, additional dedicated project management resource has been secured within the corporate centre and is deployed as required across the organisation. [Those involved in management and delivery of capital projects and transformation programmes are required to undertake mandatory project management training. Given the increased focus on project management the governance arrangements for all boards are to be reviewed in the coming year, informed by internal audit activity, to ensure there is clarity regarding roles, responsibilities and accountability, and appropriate representation on each.](#)
- Business continuity arrangements are in place for critical services and resilience arrangements regularly tested. The council has worked with regional and national resilience networks to prepare for the United Kingdom's departure from the European Union. [There is inconsistent practice regarding business continuity arrangements for non-critical services and the corporate approach will be reviewed in the coming year.](#)
- The Audit and Governance Committee has monitored and overseen the implementation of an improvement plan to address identified weaknesses in internal controls relating to capital project management and reporting. Whilst improvements in the project management lifecycle and resourcing of project management support have been made it is too early to be assured that they have been consistently embedded across the council.
- The council has appointed a senior information risk officer ([SIRO](#)) who is responsible for ensuring arrangements are in place to maintain security of the council's information assets. [Whenever a data breach occurs, the SIRO ensures that advice and training is provided to ensure the risk of a future data breach is mitigated.](#)
- The council's internal audit function provides an independent view on the adequacy and effective operation of the council's internal control environment. They have identified improvement areas during the course of their work and action plans have been agreed with management to address them. Implementation of these actions is tracked and reported to the Audit and Governance Committee. The [chief internal auditor has offered a "reasonable assurance" opinion in respect of the areas reviewed during the year, noting that although no areas of significant corporate risk had been identified there had been findings identified where governance was not always followed to an acceptable level and corporate oversight was not in place. This has been recognised as an area for improvement and the council new structure with a corporate support centre will assist in ensuring that adequate governance and corporate oversight is implemented. opinion for 2018/19 \[to be added once received\].](#)
- [As referenced in the internal audit opinion above, a](#) thread remains in internal audit findings, that there are some instances of policies and procedures either not being followed or being applied inconsistently. The council has a [register](#) of council strategies, policies and procedures.

There is now an agreed programme, owned by each directorate, to review the documents and ensure they are fit for purpose, that there is a communication plan to support each document, and measures are in place to monitor compliance with and effectiveness of the policy, although this programme has not been progressed at the pace expected and an improvement in the implementation of this review programme will be sought in the coming year.

- The council had robust arrangements in place to prepare for the implementation of GDPR, identified risk areas, and agreed plans to mitigate those risks. Overarching data sharing agreements are in place with key partners. Data sharing requirements are included in relevant contract and procurement documentation and a rolling programme is in place linked to contract renewal to ensure data sharing arrangements are documented.
- During the year a misdirected treasury management investment was placed with an institution that was not on the council's approved counter party list. Although the investment in question, has been reviewed by the Chief Finance Officer and considered not a risk to the council, controls in place at the time did not prevent this investment from being actioned, despite all staff being aware that this should not be done. A review of processes has been carried out by internal audit to ascertain where controls need to be enhanced to prevent a repeat of this type of investment from being actioned in future.
- The council is committed to reviewing its performance and actively pursues opportunities to gain external input into that process.
- The manager assurance process informing the development of this annual governance statement has not been consistently followed across the organisation. The arrangements for completing statements will be reviewed to ensure they support the process with minimum bureaucracy and training will be provided to managers as part of their proposed training on accountability.

Summary

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

- ~~Complete implementation and embed actions in response to the Internal Audit findings re Blueschool House.~~
- Strengthen internal controls in respect of treasury management investments.
- Refresh corporate business continuity arrangements.
- Improve timeliness of strategy, policy and procedure reviews.
- Refresh the performance risk and opportunity management framework to ensure risks are owned, and managed appropriately
- Ensure all project and programme board terms of reference are accurate and appropriate.
- Review higher education partnerships' governance arrangements

- [Review manager assurance statement process.](#)

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

- The council publishes information about the [decisions](#) it takes on its website; where there is a justification for withholding information or excluding the public from a meeting of the council in accordance with the [access to information rules](#) the reason for doing this is explained. During 2018/19 there were no meetings of cabinet from which the public were excluded.
- We explain what information we hold and how to [access](#) that information on our website, including publication of [open data](#) in accordance with the local government transparency code.
- The council has a performance challenge process through which directorate performance is regularly reviewed and challenged by senior managers and elected members including cabinet members, scrutiny ~~chairmen~~ [chairpersons](#) and political group leaders. [Through the director assurance process, a need has been identified for improvements to the quality of performance data in the children and families directorate.](#)
- An annual review of the adequacy of the council's governance arrangements is undertaken and reported to senior managers and to the Audit and Governance Committee. A checklist for service managers to complete to inform the assessment and to inform directors assurance statements and service improvement plans was implemented last year. To improve the efficiency of this process and enable compliance monitoring this process has been digitalised for 2018/19.
- The council has strengthened its scrutiny function by moving from two to three committees enabling additional focus to be given to the children and young people area of activity. Each committee determines its own workplan. All executive decisions, including those taken by officers under delegation are subject to the council's call in procedures. Of the ~~TFBC~~98 recommendations made to the executive which have been considered in 2018/19 ~~TFBC~~ [have only one has](#) been rejected, demonstrating the value of scrutiny input to policy development, performance challenge, and robust decision making.
- In their annual finding report for 2018/19 the External Auditor identified[to be added when received]
- A specific historic issue has prevented the external auditor from issuing the certificate of accounts since 2016/17; this has not affected the external auditor's opinion of the accounts in any year. The external auditor continues to work with the council to bring the matter to a resolution.
- Financial reporting arrangements are sound in relation to revenue but less well developed in relation to capital projects. Under the leadership of the council's s151 officer, a programme of improvements to capital reporting has been led by the Strategic Capital Finance Manager. This

post is working closely with capital project budget managers and capital project managers providing advice, support and challenge. The Council adopted a capital strategy in February 2019.

- The council's framework for partnerships governance requires a periodic assessment of the effectiveness of the governance arrangements for partnerships. Following reviews undertaken during 2017/18 that highlighted some potential to provide greater transparency of decisions taken by a small number of partnerships; we have secured improved transparency in relation to decisions taken by our partner Hoople; work with health partners continues to evolve with the changing national health and social care environment. Discussions are ongoing with partners regarding the transparency of West Mercia Energy decision-making.
- The process of assessing the effectiveness of partnership arrangements has not been consistently applied; to improve consistency the process is being moved ~~from paper~~from paper-based to digital in early 2019/20.
- In line with government requirements, changes in the governance arrangements for Local Enterprise Partnerships (LEP) must be implemented by May 2019, with the establishment of the Marches LEP as a ~~stand alone~~stand-alone legal entity. The Marches LEP will continue to be invited to attend the relevant scrutiny committee to account for its performance and to enable the committee to inform policy development.
- Internal audit undertook a 'Healthy Organisation' review to provide an objective assessment of the management control framework. The review looked at eight thematic areas and provided a high level of assurance in relation to financial, risk and information management, and medium assurance overall; there were no areas of low assurance. The areas for attention identified in the review are informing senior managers improvement plans.
- The council has been working closely with health partners to further develop an integrated care system through locality working and aligning front line services to improve transfers of care and reduce admissions into hospitals. Officers have been supporting the system to progress a single finance health control total, which does not have a direct effect on the council's budget but any future changes to health provision could have an impact.
- The highest risk to the council for health and social care integration and partnerships is the future funding uncertainty of the Better Care Fund (BCF). National guidance and conditions have yet to be published on the future of the BCF post 2020, which poses a financial risk of £11m to Herefordshire Council. To manage this uncertainty officers continue to monitor national policy developments, identify risks through appropriate risk registers, plan mitigating actions where required and work closely with health partners on the future of integration.

Summary

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

- Adopt and implement a revised process to close down the annual accounts including improving the processes for valuation of assets.
- Continue to implement improvements to capital reporting processes to improve transparency.
- Agree and implement arrangements to provide greater transparency of partnership decision-making by West Mercia Energy, and
- Ensure that partnership arrangements with health bodies are compliant with the framework for partnerships' governance
- Improve consistency of assessments regarding effectiveness of partnership arrangements

Progress against actions agreed in response to the 2017/18 annual governance statement

15. The table below shows progress made as at the end of the 2018/19 year. Any actions not yet completed will be rolled forward to the 2019/20 action plan, reported to the Audit and Governance Committee in January 2019. [to be updated for final report]

	Improvement required	Action planned	By when	Owner	Progress	Status*
1.	Members and officers modelling the values and behaviours expected and clear about the processes to follow if they have concerns.	Deliver a programme of training and awareness raising to support implementation of the revised employee code of conduct.	end August 2018 Revised date end March 2019	Head of HR and OD	<u>Completed. The code of conduct has been launched with a series of briefings for staff and managers. A code of conduct e-learning module has also been written and is ready for launch from 1 Oct (so that we can test understanding and assess the impact of the new code of conduct after it has been in place for 6 months). This has been delayed so that the launch of the code of conduct can be supported by a new electronic process for declaring gifts, hospitality and interests via business world. The business world build is complete and is currently being tested for launch in the new year. The completion of the business world declaration will be mandatory for all employees and in completing it they must confirm they have read and understood the new code of conduct. This will be supported by an online mandatory training module in the code of conduct and communications throughout the council. Project management support to launch the new products has been identified to ensure future timescales are met.</u>	
		Promote the revised whistleblowing policy and procedure	September 2018	Solicitor to the Council	Completed. Management Board advised and cascaded to their own teams. Corporate communication via newscore and posters in council offices.	
		Promote the member and officer relations code through development sessions with members and employees	October 2018 Revised date for employees end February 2019 and	Head of HR and OD and Head of Corporate Governance	<u>The implementation date has been delayed to accommodate finalisation of the manager development programme and revised employee code of conduct. Completed.</u>	

	Improvement required	Action planned	By when	Owner	Progress	Status*
			members end June 2019		Development sessions for employees are now scheduled were delivered in January and February 2019, <u>and are now scheduled quarterly as part of a regular staff development programme.</u> Development sessions for members have been built into were included in the planned approved member induction programme to be implemented following the May 2019 elections and political group leaders have been offered briefings/development sessions on this subject for their groups, on request.	
		a) Implement and promote a revised standards procedure for complaints against councillors. b) re engage with the police regarding a joint protocol.	September 2018	Solicitor to the Council	a) Completed. Revised procedure implemented and promoted. Following first six months of operation and having regard to the views of a working group of Audit and Governance Committee members and the Independent Person(s) further refinement of the procedure will be undertaken to ensure it is clear and operating as intended.	
2.		c)			b) In progress Completed. Draft p Protocol is with West Mercia police in place	
3.	Links between the various visions, budget and service planning and commissioning, risk management, performance and value for money are not consistently demonstrated or measured	Revised commercial and commissioning strategy adopted, communicated and monitored to ensure contractual arrangements reflect the council's priorities and can demonstrate value for money.	July 2018	Assistant Director Corporate Support	Completed. The revised procurement and commissioning strategy decision in July 2018 (link), and strategy posted on the council webpages. Promoted in News Core with training in procurement taken place in 2018 and monthly in 2019 including outlining the requirements of the strategy.	
		Options appraisal to establish whether a course of action represents best use of	June 2018	Chief Finance Officer	Completed. The business case templates have been revised to incorporate a number of issues including value for money and best value.	

	Improvement required	Action planned	By when	Owner	Progress	Status*
		resources, to be a consistent element of business cases informing decisions				
4.	The level of awareness of fraud risk and potential mitigation is low in areas outside of financial transaction service areas.	Communication and training of the revised Anti-fraud, bribery and corruption policy will be delivered	June 2018 August 2019	Chief Finance Officer	Initial training completed now an ongoing programme. On line training has been completed by the customer services team. Financial management training includes a section on “Serious and Organised Crime – your prevention role” confirming the council’s policy along with confirming the single point of contact details. A rolling programme of awareness raising communications for all staff is being to be implemented . This action will be rolled forward to the 2019/20 action plan.	
5.	Further develop the capacity of the organisation and individuals within it	Adopt and implement a member development strategy and plan	March, 2019 Revised to September 2019	Democratic Services Manager	In progress. As part of phase 1 of this work an induction and role specific training plans have been produced and will be deployed after local elections in May. As part of a phase two development of the a strategy democratic services will set setting out the ways in which councillors will be supported, including the types of training given, the variety of methods used, and how the training programme and development needs will be assessed will be evaluated brought forward together with a proposed annual training and development programme . This action will be rolled forward to the 2019/20 action plan.	
		Adopt and implement a manager development programme	October 2018	Head of HR and OD	Completed. A management development programme has been designed and procured. The programme has been launched in the council and the first two cohorts have been nominated by the leadership team. The delegates have now received their joining instructions.	
		Adopt and implement a corporate workforce strategy	March 2019	Head of HR and OD	On going The workforce strategy has been drafted, and the chief executive and management board have	

	Improvement required	Action planned	By when	Owner	Progress	Status*
			Revised to December 2019		been consulted. Formal adoption of the draft strategy is scheduled for cabinet member decision at the end of July 2019, and this action will be rolled forward to the 2019/20 annual governance statement action plan. On target. The workforce strategy is in draft and has been thorough consultation with directors and the leadership team. It is on course to be implemented by the end of March 2019	
6.	Strengthen internal controls and financial management	Implement the actions in response to internal audit's recommendations re Blueschool House	March 2019	Chief Finance Officer	Completed. A series of changes have been made in response to the internal audit recommendations in respect of the joint services hub. At the request of the Audit & Governance Committee a follow up review is scheduled to be completed by was completed and reported to the committee the end of March 2019, In addition a range of reviews have been scheduled in the internal audit work plan.	
		Implement improvements to capital reporting	July 2018	Chief Finance Officer	Completed. A revised reporting process has been implemented that brings greater transparency to financial reporting of capital schemes.	
7.	Enhance transparency in relation to significant partnerships	Review joint committee governance where governance support is not provided by Herefordshire Council	TBC September 2019	Solicitor to the Council	Ongoing. The implementation date has been delayed; meetings with relevant partner councils' monitoring officers are to be rescheduled in 2019 An audit has been undertaken of current arrangements. The views of partner councils' monitoring officers are being sought regarding potential improvements to transparency.	
		Review and publish schemes of delegation in respect of decisions to be taken by Hoople employees, and in discussion with the Hoople Board review the processes in place to support effective transparency and communication.	October 2018	Acting Director Economy and Place	Completed. Schemes of delegation for Economy and Place and Corporate Support have been reviewed following corporate restructure and reference decisions taken by Hoople employees. Schemes of Delegation will continue to be kept under review to ensure they remain up to date. The Hoople Board considered a report in relation to transparency and communications at its	

	Improvement required	Action planned	By when	Owner	Progress	Status*
					meeting in September 2018. The Board decided to publish minutes of its meetings on the Hoople website starting with those of the meeting in September 2018.	
8.		In consultation with health partners review the governance arrangements in place to ensure they support effective transparency and communication whilst respecting the respective partners distinctive governance processes	November 2018	Director for Adults and Communities	Ongoing - governance arrangements for partnership boards are reviewed annually, although the partnership register has not been updated to reflect the outcome of these reviews. Current board structures and arrangements have been considered and the role of council representation in terms of decision making recognises distinctive governance process. Council officers who make representation at partnership boards have also been briefed to ensure that effective transparency and communications are in place and are fed back through appropriate council governance arrangements. This action will be rolled forward to the 2019/20 action plan.	

* Status key: Green = action completed; amber = action partially completed; red = action not progressed or significantly delayed.

Key governance actions planned

16. In response to the issues identified during the review of effectiveness, the following draft action plan has been developed which includes outstanding actions from the previous year's plan (above). The Audit and Governance Committee will receive a six-monthly report in order on progress made in delivering this action plan [in 2019/20](#).

	Improvement required	Action planned	By when	Owner	Progress	Status
1.	Support the maintenance of high ethical standards.	Provide member induction training on roles responsibilities, code of conduct and decision making.	July 2019	Solicitor to the Council	Completed. Similar induction training will be provided for any new members joining the council.	

	<u>Improvement required</u>	<u>Action planned</u>	<u>By when</u>	<u>Owner</u>	<u>Progress</u>	<u>Status</u>
		<u>Implement training re Employee Code of Conduct</u>	<u>March 2020</u>	<u>Assistant Director People</u>		
		<u>Develop options for implementation of the good practice recommended in the "Local Government Ethical Standards" report</u>	<u>September 2019</u>	<u>Solicitor to the Council</u>		
<u>2.</u>	<u>The level of awareness of fraud risk and potential mitigation is low in areas outside of financial transaction service areas.</u>	<u>Communication and awareness of the current Anti-fraud, bribery and corruption policy will be delivered to all staff</u>	<u>August 2019</u>	<u>Head of Corporate Finance</u>		
<u>3.</u>	<u>Further develop the capacity of the organisation and individuals within it</u>	<u>Adopt and implement a member development strategy and programme</u>	<u>September 2019</u>	<u>Democratic Services Manager</u>		
		<u>Adopt and implement a corporate workforce strategy</u>	<u>December 2019</u>	<u>Assistant Director People</u>		
		<u>Improve the approach to training for decision report authors</u>	<u>October 2019</u>	<u>Solicitor to the Council</u>		
		<u>Review manager training to ensure a mandatory induction and refresher element regarding governance and accountability</u>	<u>August 2019</u>	<u>Assistant Director People</u>		
		<u>Strengthen specialist legal, finance, property and commercial support capacity, with particular reference to major procurements and arms length delivery arrangements.</u>	<u>January 2020</u>	<u>Chief Executive</u>		
		<u>Provide guidance to managers for all job descriptions to be reviewed each year and accurately reflect accountabilities and requirements of the role.</u>	<u>September 2019</u>	<u>Assistant Director People</u>		

	<u>Improvement required</u>	<u>Action planned</u>	<u>By when</u>	<u>Owner</u>	<u>Progress</u>	<u>Status</u>
4.	<u>Enhance transparency in relation to significant partnerships</u>	<u>Review West Mercia Energy joint committee governance</u>	<u>September 2019</u>	<u>Solicitor to the Council</u>		
<u>Review the governance arrangements in place between the council and health bodies to ensure they support effective transparency and communication whilst respecting the respective partners distinctive governance processes</u>		<u>March 2020TBC</u>	<u>Director for Adults and Communities</u>			
<u>Review partnership governance arrangements between the council and higher education bodies</u>		<u>Dec 2019TBC</u>	<u>Director for Economy and Place</u>			
<u>Improve consistent corporate compliance with the framework for partnerships' governance</u>		<u>January 2020</u>	<u>Assistant Director Corporate Support</u>			
5.	<u>There is evidence of good community engagement work by particular service areas but no clearly identifiable strategic approach to community engagement</u>	<u>Develop a strategic corporate approach to community engagement</u>	<u>October 2020</u>	<u>Director for Adults and Communities</u>		
6.	<u>Maintain robust internal controls by strengthening clarity and consistency of some arrangements and assurance processes</u>	<u>Strengthen internal controls in respect of treasury management investments</u>	<u>Sept 2019TBC</u>	<u>Chief Finance Officer</u>		
		<u>Refresh corporate business continuity arrangements</u>	<u>March 2020</u>	<u>Assistant Director People</u>		
		<u>Improve timeliness of strategy, policy and procedure reviews</u>	<u>January 2020</u>	<u>Assistant Director Corporate Support</u>		

	<u>Improvement required</u>	<u>Action planned</u>	<u>By when</u>	<u>Owner</u>	<u>Progress</u>	<u>Status</u>
		<u>Refresh the performance, risk and opportunity management framework</u>	<u>February 2020</u>	<u>Assistant Director Transformation and Performance</u>		
		<u>Ensure programme and project board terms of reference are accurate and appropriate</u>	<u>September 2020</u>	<u>Assistant Director Transformation and Performance</u>		
		<u>Review the manager assurance statement process</u>	<u>December 2020</u>	<u>Assistant Director Corporate Services</u>		
		<u>Adopt and implement a revised process for close down of accounts including valuation of assets</u>	<u>Dec2019TBC</u>	<u>Chief Finance Officer</u>		
<u>7.</u>	<u>Further improve the quality and clarity of data informing decisions.</u>	<u>Continue to implement improvements to capital reporting</u>	<u>Sept 2019TBC</u>	<u>Chief Finance Officer</u>		
		<u>Undertake a best practice review of establishing value for money</u>	<u>March 2020TBC</u>	<u>Chief Finance Officer</u>		
		<u>Deliver improvements in the accuracy of performance data within Children and Families</u>	<u>December 2019</u>	<u>Head of Corporate Performance</u>		
		<u>Redesign the 'Understanding Herefordshire' website to provide more accessible information to inform decision-making</u>	<u>July 2019</u>	<u>Assistant Director Transformation and Performance</u>	<u>Completed. The re-designed website is live and will continue to be refreshed as data is updated.</u>	
<u>8.</u>	<u>Ensure compliance with legislative requirements</u>	<u>Adopt and publish a Slavery and Human Trafficking Statement</u>	<u>December 2019</u>	<u>Head of Corporate Services</u>		
		<u>Approve and publish a policy on employing ex-offenders, and include the council's approach in</u>	<u>March 2020</u>	<u>Assistant Director People</u>		

	<u>Improvement required</u>	<u>Action planned</u>	<u>By when</u>	<u>Owner</u>	<u>Progress</u>	<u>Status</u>
		a new recruitment training programme.				

Statement and opinion

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

Signed:

Councillor David Hitchiner
Leader of the Council

Date:

Alistair Neill
Chief Executive

Date:

Independent Persons' Views/Recommendations

	Views/Recommendation	Proposed Response
1.	Both the member and employee codes of conduct reference an expectation to adhere to and uphold the standards; this is insufficiently robust and "expected" should be replaced with "required" as being a mandatory obligation on both elected councillors and appointed members of staff. What sanction do you have for someone who falls short of 'expectations'? It would be more sensible to have a range of options for sanction, should someone have derogated from required standards of behaviour or conduct.	It is open to the committee to recommend to Council (re the member code) and the Chief Executive (re the employee code) that the wording is adjusted to change "expected" to "required". However in practice each code and accompanying procedure, make clear the range of sanctions that may be applied in the event that standards fall below expected levels.
2.	Some explanation should be provided about who and what the S151 officer and Monitoring Officer are.	This has been included in the text of the statement at paragraph 13.
3.	In paragraph 1 "Governance " is defined but does not refer to "influence".	The summary definition is drawn from the adopted code of corporate governance; it is open to the committee to recommend to Council an amendment to that code.
4.	Concern expressed that appointed Independent Persons are required to complete a register of interests and make declarations of interest.	Whilst Independent Persons are neither elected members or employees of the council they nonetheless hold public office and it is therefore appropriate that they too are demonstrably upholding the principles of public life.
5.	In respect of principle F, concern expressed that is the Senior Information Risk Officer provides advice in respect of a data breach, that advice may be ignored without consequence.	If an officer fails to follow advice and guidance provided in respect of any council policy or process, the matter may be addressed appropriately through the council's employee performance management processes.
6.	The overall framework appears to be fit for purposes and demonstrates the council's desire to ensure a robust governance environment. The actions taken and those proposed appear appropriate although more timely closure could be beneficial.	No response required.
7.	Quite rightly, the document points out that not all risk can be eliminated, however, does the Cabinet/Council set any kind of Risk Appetite framework in which to operate?	The current Performance Risk and Opportunity Management (PROM) Framework does not establish any risk appetite, but does inform decision taking. The PROM is scheduled for review

	Views/Recommendation	Proposed Response
		this year and consideration will be given as to whether a risk appetite framework would be beneficial.
8.	Does the Cabinet and/or the appropriate Committees receive Key Performance Indicators aligned to the 7 principles?	There are no specific key performance indicators aligned to the seven principles within the code of corporate governance. However data related to member standards, information governance and complaints is reported annually to the Audit and Governance Committee.
9.	Have the council considered mandatory testing of staff against the code of conduct?	This will be considered within the context of the training and development programme to be implemented in the coming year.
10.	How does the council ensure that its partners adhere to standards at least as high as it own pre contract and on an ongoing basis?	The framework for partnership governance includes a focus on standards, and includes a process for annual risk assessment. It is recognised in the statement that further work is needed to ensure the process is effectively embedded.
11.	Does the council adhere to ISO standards e.g. the ISO2700 series for Information Technology?	The council's IT service is provided by Hoople who are accredited to this standard; because the statement is intended to be a high-level summary it does not document quality assurance standards at a service level.
12.	If any element of remuneration (particularly for senior managers) is performance related, is this linked to the achievement and maintenance of the codes and governance framework?	The council does not have any element of performance related pay.



Meeting:	Audit and governance committee
Meeting date:	Tuesday 30 July 2019
Title of report:	Signing of the 2018/19 statement of accounts
Report by:	Chief finance officer

Classification

Open

Decision type

This is not an executive decision

Wards affected

(All Wards);

Purpose and summary

To approve the 2018/19 statement of accounts and associated letter of representation to Grant Thornton, the external auditors.

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 31 May and then approved by the audit and governance committee by 31 July.

Changes to the statement of accounts following the external audit are listed in the audit findings report. The letter of representation attached at appendix b confirms that the group and parent council financial statements are free of material misstatements, including omissions.

Recommendation(s)

That:

- (a) the 2018/19 statement of accounts (at appendix a) be approved; and**
- (b) the letter of representation (at appendix b) be signed by the chairman of the 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 2018/19 accounts and a summary of the council's financial position are set out in the narrative report. Key points for 2018/19 include the following:
 - a) the council delivered an overall underspend in 2018/19 of £0.6m despite an overspend in the children and families directorate;
 - b) this underspend increased the council's general reserve balance to £8.5m;
 - c) during 2018/19 no new borrowing was required;
 - d) specific reserves have been set aside totalling £67.0m to mitigate financial risks in future years;
 - e) the council underwent a directorate restructure during 2018/19; and

2018/19 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. The s151 officer is satisfied that the statement of accounts presents a true and fair view.

Movement in reserves statement

5. The movement in reserves statement shows the movements in reserves during the year, analysed into the different funds held by the Council and classified as either "usable" reserves, which can be used to fund future expenditure, or "unusable" reserves which are maintained to meet specific statutory responsibilities.

Usable reserves

6. Total usable reserves as at 31 March 2019 were £121.4m, an overall increase of £10.4m from 31 March 2018. A summary is provided in the table below. The main reason for the overall increase is due to the increase in earmarked reserves as detailed in note 5 to the accounts. Earmarked reserves are reviewed annually by Cabinet with the next review falling due in September 2019.

	General Fund £m	Earmarked reserves £m	Capital receipts reserve £m	Capital Grants Unapplied £m	Total Usable reserves £m
Balance as at 31 March 2019	8.5	67.0	41.5	4.4	120.8
Balance as at 31 March 2018	7.9	57.8	42.6	2.7	111.0
Overall increase (decrease) in 2018/19	0.6	9.2	(1.1)	1.7	9.8

Unusable Reserves

7. 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).
8. The unusable reserves totalled £112.2m at 31 March 2019 compared to £139.6m at 31 March 2018 with the main movement being an increase in the pension reserve of £43.1m mainly due to a £28.0m movement in valuation of the pension deficit as at 31 March 2019. The valuation of the pension deficit is completed by external actuary Mercer with movements in the year being due to changes in the financial assumptions when completing the valuation.

Comprehensive income and expenditure statement (CIES)

9. This statement shows the net cost of providing services when calculated in line with generally accepted accounting practice. The Expenditure Funding Analysis compares the CIES with levels of income and expenditure which are taken into account setting the annual budget and council tax requirement, since certain amounts are disregarded by statute. The adjustments to reconcile the CIES statement to the amount to be funded from council tax are included in the movement in reserves statement. The impact of property, plant and equipment asset valuations completed in 2018/19 is reflected in the CIES.

Balance Sheet

10. The balance sheet summarises the council's assets, liabilities and reserves at the end of the financial year. Net assets are matched by reserves which may be "usable" or "unusable", see above.
11. At 31 March 2019 long term assets totalled £692.9m, compared to £674.1m at 31 March 2018. 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 spend during the year.
12. Current assets totalled £63.4m at 31 March 2019, compared to £52.3m at 31 March 2018. The main increase representing an increase in cash balances held at the year-end.

13. Current liabilities totalled £55.0m at 31 March 2019, compared to £47.9m at 31 March 2018. The increase mainly being due to an increase in creditor balances at the year end with the increase in those mainly falling due to a substantial central government collection fund creditor balance.
14. Long term liabilities totalled £467.7m at 31 March 2019 compared to £427.9m at 31 March 2018. This is mainly due to an increase in the long term pension liability of £28.0m due to a change in financial assumptions applied by the actuary.

Cash flow statement

15. The cashflow statement shows how the Council generates and uses cash and cash equivalents, and explains the reasons for changes in cash balances during the year. During 2018/19 there was a net increase in cash and cash equivalents of £4.2m.

Group accounts

16. The group accounts consolidate the performance of the Council with its subsidiary Hoople Limited in 2018/19. The impact of the consolidation increases the council's reserves position by £1.9m which includes a minority interest reserve balance of £0.3m.

The collection fund

17. The collection fund demonstrates how income raised from local taxpayers has been re-distributed to the Council and to other precepting authorities for the provision of services. Collection fund income from council taxpayers and business ratepayers totalled £170.5m in 2018/19 compared to £163.0m in 2017/18. Expenditure includes precept payments to West Mercia Police (£13.4m), Hereford and Worcester Fire Authority (£6.1m) and parishes (£4.3m). These are paid from income collected from taxpayers on their behalf. In 2018/19 business rates income of £23.0m were paid to central government representing 50% of business rate income collected.

Annual Governance Statement

18. The draft Annual Governance Statement appears as a separate item elsewhere on the committee agenda; once approved the statement will be added to the statement of accounts at page 103 of appendix 1.

Letter of representation

19. 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 2018/19 and applicable law.

Community impact

20. 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

21. 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.
22. 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 statement of factual information, we do not believe that it will have an impact on our equality duty.

Resource implications

23. Contained in the report.

Legal implications

24. Regulation 9 of the Accounts and Audit Regulations 2015 require the following;

- The s151 officer must sign and date the statement of accounts, and confirm that he is satisfied that it presents a true and fair view of the financial position of the council at the end of the financial year to which it relates together with the income and expenditure for that financial year. This was completed on 31 May.
- The period of the exercise of public rights for the inspection of the accounts commenced on 3 June and was notified to the local auditor on 31 May.
- Following the conclusion of the period for inspection, the committee must approve the statement of accounts by a resolution and ensure that the statement of accounts is signed and dated by the person presiding at the committee. In order for the committee to do so the s151 officer has re-confirmed that he is satisfied that the statement of accounts presents a true and fair view as detailed in paragraph 4 above.

Risk management

25. The risk is that the external auditors will not issue an unqualified opinion on the statement of accounts by the 31 July. The deadline risk is mitigated by providing working papers and officer time to help external auditors form an appropriate judgement on the statement of accounts by 31 July. The unqualified opinion risk is mitigated by employing appropriately trained staff and ensuring an adequate system of control is in operation.
26. The council is required to make arrangements for the proper administration of its financial affairs and to secure that the chief financial officer has the responsibility for the administration of those affairs. The council is also required to secure economic, efficient and effective use of resources which Grant Thornton provide a value for money opinion, this is reported under the audit findings report being presented separately at the same meeting.

Consultees

27. The statement of accounts were made available for public inspection between 3 June and 12 July 2019. No representations or objections were received.

Appendices

Appendix 1 - Statement of accounts for 2018/19

Appendix 2 - Letter of representation for 2018/19

Background papers

None identified

Herefordshire Council Statement of Accounts 2018/19



Contents	Page
Narrative report 2018/19	2
Statement of Responsibilities	13
Independent Auditors Report	14
Movement in Reserves Statement	16
Comprehensive Income and Expenditure Statement	18
Balance Sheet	19
Cash Flow Statement	20
1 - 40. Notes to the Core Accounts	21
41. Statement of Group Accounts	86
42. Collection Fund	100
43. Annual Governance Statement	103
44. Definitions	124

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

Narrative Report 2018/19

Introduction

This narrative report provides information about Herefordshire including the key issues affecting the council and its accounts. It provides a summary of the council's performance during 2018/19 and of its financial position as at 31 March 2019 including:

- An introduction to Herefordshire
- The councils performance during 2018/19
- Financial performance during 2018/19 and financial position as at 31 March 2019
- Principal risks and uncertainties
- An explanation of the financial statements
- Annual governance statement

Herefordshire Council is a unitary council formed in 1998. The council's responsibilities are wide ranging and include education, adult social care, road maintenance and waste collection and disposal services.

There are 53 elected members, each representing a single ward. The political composition of the council is as follows, following council elections held on 2 May 2019:

Party	Number of councillors	Position prior to 2 May election
Conservative	13	26
Green Party	7	4
Herefordshire Independents	13	9
It's Our County!	7	9
Liberal Democrats	7	2
True Independents	5	2
Vacant seats	1	1
Total	53	53

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

Members Allowances	2018/19 £m	2017/18 £m
Basic allowances	0.4	0.4
Special allowances	0.2	0.2
Total	0.6	0.6

An introduction to Herefordshire

Herefordshire is situated in the south-west of the West Midlands region bordering Wales. The city of Hereford lies in the middle of the county and other principal locations are the five market towns of Leominster, Ross-on-Wye, Ledbury, Bromyard and Kington. The county has beautiful unspoilt countryside with remote valleys and rivers and a distinctive heritage.

Herefordshire covers 2,180 square kilometres (842 square miles). 95 per cent of the land area is 'rural' and 53 per cent of the population live in rural areas. Being a predominantly rural county presents opportunities in, for example, tourism and agriculture, but also presents challenges, such as in geographical barriers to services.

Herefordshire's population is around 189,300 (2016). Herefordshire has an older age structure than England and Wales, with 24 per cent of the population aged 65 years or above (44,800 people), compared to 18 per cent nationally.

At around £450 per week in 2017 (£23,400 per year), average earnings for employees working in Herefordshire

Herefordshire Council Unaudited Statement of Accounts 2018/19

remain significantly lower than nationally and regionally, the fourth lowest of all 113 council areas in England. This links to Herefordshire remaining the worst area within the West Midlands region for housing affordability with house prices at the lower end of the housing market being 8.6 times higher than lower quartile annual earnings.

Possible reasons for the persistently low wages in the county include relatively high levels of employment in traditionally low value industries, a relatively high rate of part-time working and a relatively high number of people in Herefordshire who are self-employed – 15 per cent of all working age people (16-64) compared to 11 per cent in England.

The estimated unemployment rate amongst 16-64 year-olds in Herefordshire was 3.1 per cent (3,000 people) in the year to December 2017, statistically significantly lower than both regionally (5.4 per cent) and nationally (4.4 per cent) and the number and rate of people who are claiming Job Seekers Allowance remains lower in Herefordshire (0.6 per cent of 16-64s compared to 1.0 per cent for England and 1.5 per for the West Midlands region).



Performance

The council aligns its plans and objectives and monitors its performance against the council's key underlying priorities which are stated in the council's corporate plan 2016 to 2020, being:

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

Every day the council helps to protect around 2,500 vulnerable adults and 1,000 children and young people (including 300 children in our care). We work with a wide range of partners locally and regionally to deliver our vision for the county and achieve our corporate plan priorities. In addition to the statutory or long established partnership forums such as the Health and Wellbeing Board, Safeguarding Boards, and Community Safety Partnership, there are a number of key local partnerships through which the council seeks to develop consensus, co-ordinate activities or facilitate negotiation and discussion, particularly in relation to the alignment of resources to meet shared priorities.

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

Performance against these measures is regularly reported to Cabinet; during 2018/19 these updates included the following (more details can be found on the council's website):-

1. Cabinet approved the preferred route for further scheme development for a Hereford bypass.
2. Good progress has been made with the delivery of major infrastructure projects, the South Wye Transport Package and Southern Link Road.
3. Cabinet adopted a joint strategy for people with Learning Disabilities to focus on ensuring the best outcomes

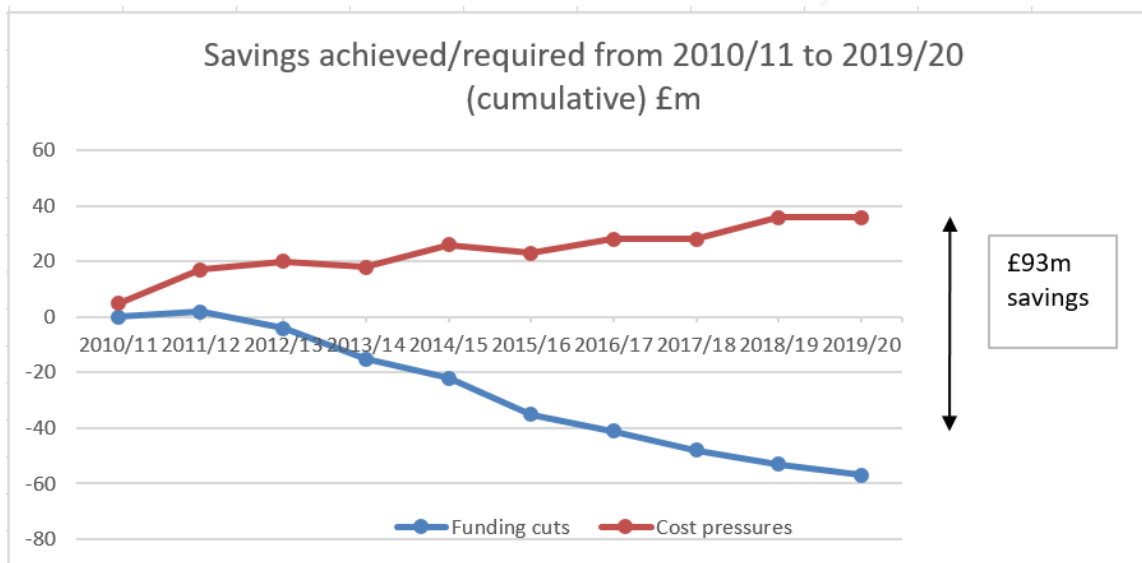
for this group of vulnerable people.

4. The council has implemented a Care Workforce Development project and website to support providers and the caring workforce in recognition of the staffing pressures being faced.
5. A significant improvement in educational outcomes has taken place in Herefordshire over the past 5 years. The county is performing in either the top or second quartile of all councils in the vast majority of performance indicators.
6. The council is committed to supporting schools to develop inclusive practice that will enable more pupils to remain in mainstream schooling. The county ranks below the national average trend of children temporarily excluded.
7. Increased assessments means that more families are being supported earlier before they reach the need to require an intervention from statutory services.
8. The number of children subject to a child protection plan is below the statistical neighbour's average.
9. The creation of a joint venture with the University of Wolverhampton to deliver and operate a Centre for Cyber Security at Hereford's Enterprise Zone.
10. Support for student accommodation on Station Approach.
11. Delivery of 203 affordable dwellings.
12. An Ofsted inspection into children's safeguarding took place in June 2018 with an outcome of requiring improvement overall. Cabinet approved an action plan and a focused visit in January 2019 verified our improvements.

Financial performance

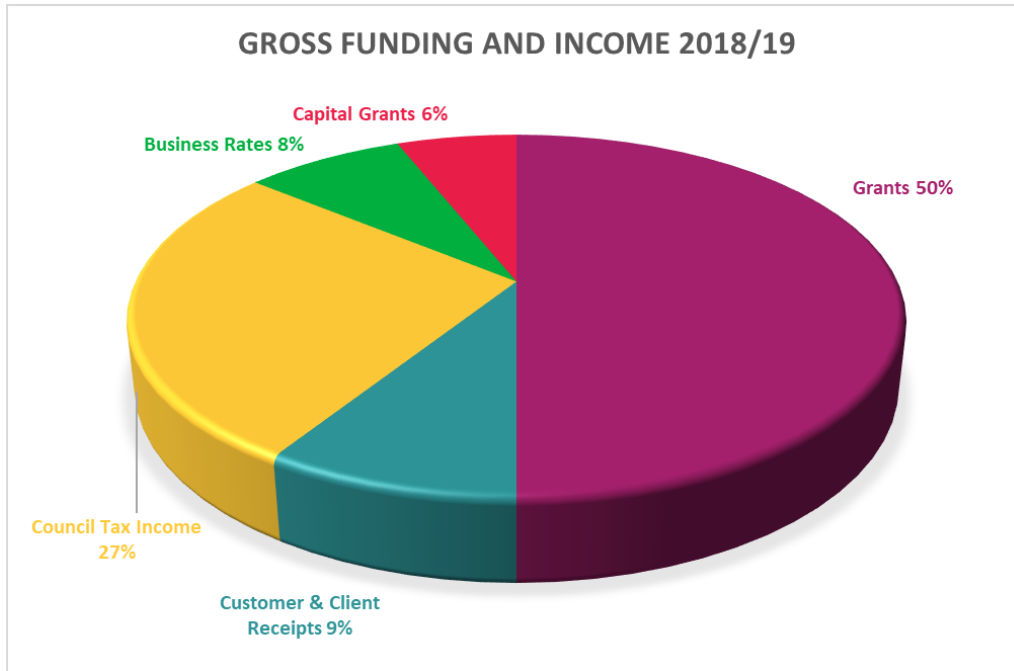
Herefordshire is a rural county with an older demographic and, like other councils and the wider public sector, has faced significant financial challenges over recent years as central government funding has been reduced, while costs and demand increase.

The chart below demonstrates the savings delivery required to bridge the funding gap.

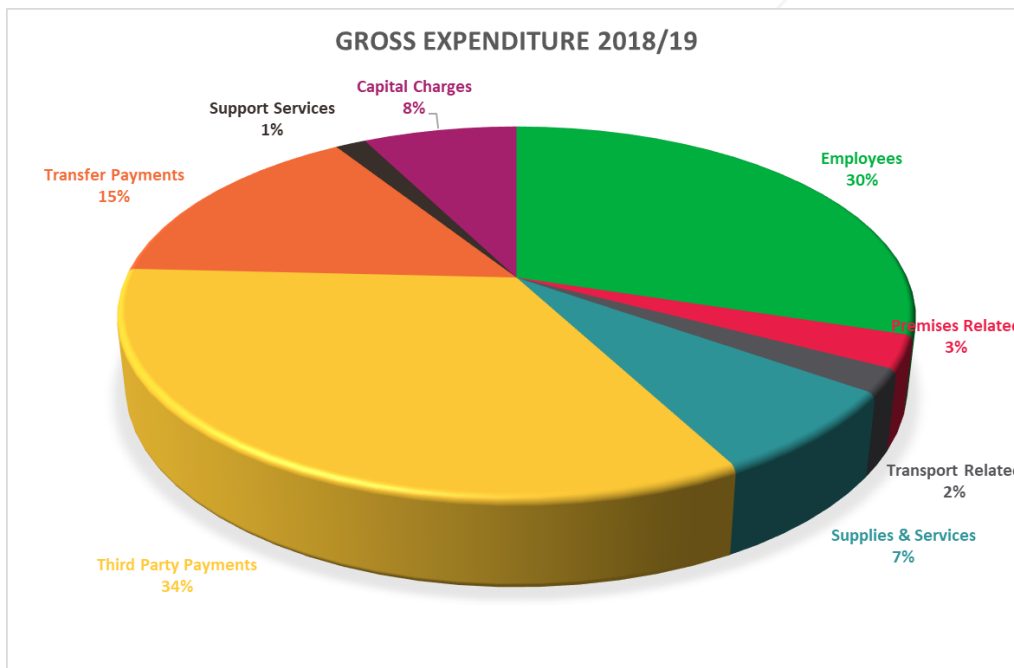


Herefordshire Council Unaudited Statement of Accounts 2018/19

The main categories of council expenditure and sources of funding are shown in the charts below:



The Herefordshire Council element of the Council Tax Band D equivalent was set at £1,443.95, including £79.53 relating to the ring-fenced Adult Social Care precept.



Other key resources are the 3,377 members of staff (including schools) and the current value of property, plant and equipment used in day to day service delivery, £612.9m.

2018/19 delivered a balanced outturn by delivering £7m of savings in addition to those achieved in previous years. The council continues to direct its resources to deliver key services required by residents while reducing overall costs, demonstrating efficiency and good use of resources.

Herefordshire Council Unaudited Statement of Accounts 2018/19

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

Service	Outturn Budget	Outturn Actual	Outturn over/(under)
	£m	£m	£m
Adults and communities	50.4	50.2	(0.2)
Children and families	24.6	26.1	1.5
Economy and place	32.2	32.6	0.4
Corporate	14.8	14.8	-
Directorate outturn	122.0	123.7	1.7
Central, treasury management, capital financing and reserves	22.1	19.8	(2.3)
Total	144.1	143.5	(0.6)

Although there were overspends in children and families, there were underspends elsewhere delivering an overall underspend that increased the general reserve value at the year end.

The outturn position for Adults and Communities is a net underspend of £0.2m. The overspend in children and families is due to the spend on looked after children's placements being higher than budgeted for, as well as spend to employ the necessary number of social workers. The outturn for Economy and place is an overspend of £0.4m. Special Educational Needs transport and home to school/college transport caused more pressure than forecast and waste disposal costs were also higher than forecast.

The treasury management budget underspend was mainly due to a lower minimum revenue provision cost. Minimum revenue provision is the cost set aside to finance capital expenditure financed by prudential borrowing. Due to capital spend in prior years being lower than forecast this resulted in a minimum revenue provision underspend. In addition, there was a delayed need to borrow due to capital receipt cash funds and at the same time, the forecast interest earned was higher reflecting the increase in the bank base rate in the year.

The 2018/19 detailed performance outturn was reported to Cabinet in June 2019.

In addition to revenue spend the council delivered significant capital investment including:-

- ❖ Fastershire is a partnership tasked with bringing faster broadband to the county. Phase 1 aimed to provide 90 per cent of Gloucestershire and Herefordshire with fibre broadband with a minimum speed of 2Mbps by 2016 and Phase 2 will extend fibre coverage further across the counties. The ultimate aim is that by the end of 2019/20 there will be access to fast broadband for all who need it. Fastershire won the top prize at the national Connected Britain awards.
- ❖ The Herefordshire Local Transport Plan sets out programmes of work for achieving the council's objectives for transport. Development of the Hereford Transport Package (HTP) is underway, including public consultation. The HTP sets out a suite of transport and infrastructure improvements with the objectives of facilitating economic growth, improving regional connectivity, encouraging sustainable lifestyles, encouraging sustainable development, providing network resilience, improving air quality and reducing noise, reducing severance and improving safety. A planned Hereford Relief Road (HRR) will provide an alternative route for through traffic
- ❖ The recently opened City Link Road will unlock brownfield land for new affordable housing and regeneration in the centre of Hereford. New developments starting in 2019/20 are the new GP hub and student accommodation on the Station Approach car park site. The council is working with their development partners to develop a master plan for the area which will see further schemes in the near future.
- ❖ The recent announcement of the compulsory purchase and side road orders for the Southern Link Road (South Wye Transport Package - SWTP) was announced in March 2019 by the Secretary of State for Transport. The southern link road will be constructed from the A49 to A465 and link the B4349 Clehonger Road. The aim is to provide easier access to the Hereford Enterprise Zone and to reduce congestion on current routes and increase capacity at key junctions, bringing significant improvement especially to the

Belmont and Lower Bullingham areas.

- ❖ Hereford Enterprise Zone has continued with investment in infrastructure within the Zone, this will enable future business growth and employment opportunities in the Enterprise Zone over the next few years.
- ❖ The council recently made a strategic site acquisition of a site known as College Road Campus in Hereford. Purchase of the Southern Campus, Venn's Lane creates an opportunity for the council to develop a Further and Higher Education campus in Hereford, which would support the council's objectives and long-term aspirations to support the provision of Further and Higher Education in Herefordshire.

Risks and uncertainties

Council approved a medium term financial strategy, treasury management strategy and capital strategy in January 2019 for the period ahead. Herefordshire council continues to rise to the financial and demand challenges it faces by developing strategies and plans to continue to provide valued services to its residents.

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

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

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

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

As at the balance sheet date England remained in the European Union (EU) and its exit (Brexit) is expected to occur in October 2019. The exit deal is yet to be agreed however the impact of an EU exit may lead to increased volatility in economic stability and reduced access to funds. To mitigate this the councils medium term financial strategy reduces reliance on grant funding in all directorates. At the same time it supports increasing local economic and social investment to increase its core income sources.

Significant provisions, contingencies and write-offs

The council held provisions of £6.4m at 31 March 2019.

The most significant provision is the business rates appeal provision of £4.3m based on an assessment of the council's liability in relation to business rate appeals at 31 March 2019. This assessment is made independently and considers the appeals both lodged with the Valuation Office Agency and those yet to be registered.

At 31 March 2019 the council also held a provision of £2m for independently assessed outstanding insurance commitments. Herefordshire Council pays the first £100 to £50k of most insurance claims (depending on the type or class of the claim), known as the excess.

There are no contingent liabilities set out in the Statements and there were no significant general fund income write-offs in the year.

Pensions

In accordance with International Accounting Standard 19 on Retirement Benefits (IAS 19), the pension's note, note 36, sets out the council's assets and liabilities in respect of the Local Government Pension Scheme (LGPS).

Herefordshire Council's non-teaching staff are members of the Worcestershire County Council Pension Fund.

Herefordshire's proportion of the net deficit on the Worcestershire County Council Pension Fund as at 31 March 2019 is £268.3m. Whilst this deficit does not have to be met immediately, it requires recovering over a period of future years. In addition the balance sheet deficit also includes £0.9m relating to ex Hereford and Worcester teachers' unfunded benefits.

The council has agreed with the Actuary contributions to recover the deficit over a number of years, a deficit repayment of £7.2m (including schools) will be paid in 2019/20.

The pension fund position is reviewed every three years and was last revalued as at 31 March 2016, a tri annual valuation of the position as at 31 March 2019 is underway, the outcome of this will be reflected during the 2020/21 budget setting programme.



An explanation of the financial statements

The 2018/19 statement of accounts which follow set out the council's income and expenditure for the year and its financial position as at 31 March 2019. The format and content of the statements is prescribed by CIPFAs Code of Practice on Local Authority Accounting in the United Kingdom 2018/19. This is based on International Financial Reporting Standards adapted for use in a public sector context. The statement of accounts comprises:

Movement in reserves	This shows the movements in reserves during the year, analysed into the different funds held by the Council and classified as either "usable" reserves, which can be used to fund future expenditure, or "unusable" reserves which are maintained to meet specific statutory responsibilities.
Comprehensive Income and Expenditure Statement (CIES)	This shows the net cost of providing services when calculated in line with generally accepted accounting practice. The Expenditure Funding Analysis compares the CIES with levels of income and expenditure which are taken into account setting the annual budget and council tax requirement, since certain amounts are disregarded by statute. Note 6 also provides a subjective analysis of the CIES.
Balance Sheet	The Balance Sheet shows the councils assets and liabilities as at the year end. Net assets are matched by reserves which may be "usable" or "unusable", see above.
Cash flow statement	This shows how the Council generates and uses cash and cash equivalents, and explains the reasons for changes in cash balances during the year.
Statement of accounting policies	Sets out the accounting policies that have been followed in preparing the statements and how Code requirements have been met in practice.
Disclosure notes	These provide more detail about individual transactions and balances.
Statement of group accounts	The group financial statements consolidate the accounts of the Council with those of its subsidiary undertaking, Hoople Limited.
Collection Fund	This account demonstrates how income raised from local taxpayers has been re-distributed to the Council and to other precepting authorities for the provision of services.

A glossary of terms is also included at the end of the statements.

Capital Investment Budget

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

- Improving schools
- Enhancing infrastructure
- Supporting housing delivery and
- Creating job opportunities

Capital investment for 2018/19 totalled £47.0m. This was financed by capital grants £23.3m, prudential borrowing £10.7m, capital receipts £8.5m and revenue contributions of £4.5m. The investment included the following corporate priority schemes:

- Commencement of Marlbrook Primary School Extension - £0.4m
- Hereford Enterprise Zone site investment works - £2.5m
- Fastershire broadband rollout - £0.1m
- Development Regeneration Partnership - £5.7m
- Hereford Transport Package - £2.9m
- South Wye Transport Package - £2.0m
- Highway asset management & major infrastructure investment - £10.8m
- Local transport plan road improvement works - £11.5m

Future years' capital programme

The council maintains a rolling capital programme reflecting commitments, links to strategic plans and estimated sources of capital funding. The council's capital strategy was approved at the same time as the capital programme. The current capital programme detailed by the sources of funding is set out in the table below.

Scheme Name	2019/20 £000	2020/21 £000	2021/22 £000	Capital receipts £000	Grant & funding £000	Prudential borrowing £000
Economy & Place						
Hereford City Centre Transport Package	2,046	5,438	-	-	-	7,484
South Wye Transport Package	19,569	8,250	197	-	28,016	-
Hereford City Centre Improvements (HCCI)	1,500	2,000	2,000	-	-	5,500
Hereford Transport Package	3,702	-	-	-	-	3,702
Local Transport Plan (LTP)	12,875	12,272	-	-	25,147	-
E & P's S106	399	-	-	-	399	-
Highway asset management	3,843	3,750	4,250	-	6,250	5,593
Hereford Enterprise Zone	5,231	-	-	5,231	-	-
Herefordshire Enterprise Zone Shell Store	7,233	-	-	-	4,494	2,739
Ross Enterprise Park (Model Farm)	7,059	-	-	3,524	-	3,535
Marches business improvement grants	1,623	-	-	-	1,623	-
Affordable Housing Grant	1,599	800	-	799	-	1,600
Community Housing Fund	141	-	-	141	-	-
Revolving Loans	55	-	-	55	-	-
Development Partnership	34,558	-	-	4,312	-	30,246
Corporate Property Schemes	9,237	4,368	1,624	230	1,694	13,305
Corporate						
Fastershire Broadband	16,295	2,463	-	-	10,600	8,159
PC Replacement	473	385	397	-	-	1,255
Children centre changes	263	-	-	203	-	60
Children's & Families						
Colwall Primary School	85	-	-	-	-	85
Schools Capital Maintenance Grant	2,152	1,200	1,200	-	4,552	-
Peterchurch Primary School	493	5,000	-	305	-	5,188
Expansion for Marlbrook school	5,614	-	-	-	626	4,988
SEN & DDA school improvements	710	-	-	-	-	710
Brookfield School Improvements	1,298	-	-	-	113	1,185
C & F's S106	915	-	-	-	915	-
Special Provision Capital Fund	682	167	-	-	849	-

Herefordshire Council Unaudited Statement of Accounts 2018/19

Healthy Pupils	99	-	-	-	99	-
Individual Pupil Needs	119	-	-	-	-	119
Short Breaks Capital	118	-	-	-	118	-
Blackmarston SEN	54	-	-	-	-	54
Replacement Leominster Primary	36	-	-	-	-	36
Basic Needs Funding	2,058	6,833	-	-	8,629	262
2 Year Old Capital Funding	31	-	-	-	31	-
Preliminary works to inform key investment need throughout the county	2,010	-	-	-	-	2,010
Temporary school accommodation replacement	815	-	-	-	-	815
Adults & Communities						
Disabled facilities grant	1,853	1,853	1,853	-	5,559	-
Hillside	2,550	-	-	2,550	-	-
Single Capital Pot (Inc. Waverley House)	919	-	-	-	451	468
Private sector housing improvements	199	-	-	199	-	-
Total	150,511	54,779	11,521	17,548	100,165	99,098

Funding capital investment

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 investment and the capital financing costs may be repaid from future savings generated by the investment. In 2018/19 the council utilised £10.7m of prudential borrowing to fund the capital investment budget, including:

- Hereford City Centre Transport Package £0.8m
- Hereford Transport Package - £2.9m
- Cyber Security Centre Project - £3.5m
- Property Estate Works - £0.4m

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 2018/19 no new long term borrowing was undertaken. This is due, in part, to the cash balances held, including those in the capital receipts reserve, deferring the need to borrow. Principal debt repayments of £5.6m were paid to the Public Works Loan Board under existing maturity, annuity and EIP (equal instalments of principal) agreements. Total interest of £5.6m was paid on all council borrowing during the year.

Total borrowing at the year end, including short term loans, was £137.5m (compared to £148.1m as at 31 March 2018).

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 £109.4m as at 31 March 2019, compared to £133.9m as at 31 March 2018.

Council reserves

2018/19 saw the councils general reserve balance increase to £8.5m. Herefordshire's medium term financial strategy includes a reserves policy and the reserve position is reviewed by Council on an annual basis. Specific earmarked reserves are set aside to deal with expenditure commitments in future years, these totalled £66.4m (this includes £8.9m school balances) as at 31 March 2019.

Annual governance statement

The Council is required by statute to provide an Annual Governance Statement which is a formal statement that covers all significant corporate systems, processes and controls, spanning the whole range of its activities. It is approved by the Audit and Governance Committee and signed by the Councils Chief Executive and the Leader of the Council. A copy is provided at the end of this publication.



Statement of Responsibilities

The Council's Responsibilities

The council is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this council, that officer is the Section 151 Officer
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- Approve the statement of accounts

The Section 151 Officer - Responsibilities

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

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

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

The Section 151 Officer has also:

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

Certificate of the Chief Finance Officer (Section 151 Officer)

I confirm that the Statement of Accounts gives a true and fair view of the financial position of Herefordshire Council and its group as at 31 March 2019 and its income and expenditure for the year ended 31 March 2019.

Andrew Lovegrove, Chief Finance Officer (section 151 officer)

Approval of Accounts

To follow the external audit.

Independent Auditors Report

This will follow the completion of the audit.



Core Financial Statements and Explanatory Notes



Movement in Reserves Statement

2018/19	Notes	General Fund Balance £m	Earmarked Reserves £m	Total General Fund Balance £m	Capital Receipts Reserve £m	Capital Grants Unapplied £m	Total Usable Reserves £m	Unusable Reserves £m	Total Reserves £m
Balance brought forward		(7.9)	(57.8)	(65.7)	(42.6)	(2.7)	(111.0)	(139.6)	(250.6)
(Surplus) / deficit on the provision of services		(14.3)	-	(14.3)	-	-	(14.3)	-	(14.3)
Other comprehensive income and expenditure		-	-	-	-	-	-	31.3	31.3
Total comprehensive income and expenditure		(14.3)	-	(14.3)	-	-	(14.3)	31.3	17.0
Adjustments between accounting basis and funding basis under regulations	3	4.5	-	4.5	1.1	(1.7)	3.9	(3.9)	-
Net (increase) /decrease before transfers to earmarked reserves		(9.8)	-	(9.8)	1.1	(1.7)	(9.8)	27.4	17.0
Transfers (to) or from earmarked reserves	5	9.2	(9.2)	-	-	-	-	-	-
(Increase) / decrease for the Year		(0.6)	(9.2)	(9.8)	1.1	(1.7)	(9.8)	27.4	17.0
Balance carried forward		(8.5)	(67.0)	(75.5)	(41.5)	(4.4)	(121.4)	(112.2)	(233.6)

Movement in Reserves Statement 2017/18 Comparative

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

Comprehensive Income and Expenditure Statement

Restated 2017/18				2018/19			
Expenditure £m	Income £m	Net £m		Notes	Expenditure £m	Income £m	Net £m
91.2	(37.0)	54.2	Adults and Communities		90.6	(39.0)	51.6
121.8	(94.4)	27.4	Children and Families		126.1	(97.8)	28.3
69.4	(21.5)	47.9	Economy and Place		61.2	(23.5)	37.7
79.4	(49.0)	30.4	Corporate and Central Services		72.1	(45.5)	26.6
361.8	(201.9)	159.9	Net Cost of Services	2	350.0	(205.8)	144.2
4.0	(1.1)	2.9	Other Operating Expenditure	7	4.5	-	4.5
7.7	(4.9)	2.8	Financing, Investment Income and Expenditure	8	17.9	(6.2)	11.7
-	(179.1)	(179.1)	Taxation and Non-Specific Grant Income	9	-	(174.7)	(174.7)
373.5	(387.0)	(13.5)	(Surplus) / deficit on the provision of services		372.4	(386.7)	(14.3)
		(93.3)	(Surplus) / deficit in revaluation of non-current assets	4			(3.6)
		(28.4)	Re-measurement of net defined Benefit Liability				34.9
		(121.7)	Other comprehensive (income) / expenditure				31.3
		(135.2)	Total comprehensive (income) / expenditure				(17.0)

Note 40 prior period adjustment of net cost of services provides a reconciliation of the 2017/18 restated comprehensive income and expenditure statement following a directorate restructure in 2018/19.

Balance Sheet

31 March 2018 £m		Notes	31 March 2019 £m
596.9	Property, Plant and Equipment	10	612.9
34.6	Investment Property	10	34.2
0.1	Intangible Assets	10	-
3.2	Heritage Assets	10	3.2
39.3	Long Term Debtors	11	42.6
674.1	Long Term Assets		692.9
5.0	Short Term Investments	11	10.1
0.1	Inventories		0.1
24.6	Short Term Debtors	12	24.9
14.4	Cash & Cash equivalents	13	22.5
8.2	Assets held for Sale	10	5.8
52.3	Current Assets		63.4
(11.8)	Short Term Borrowing	11	(8.5)
(33.2)	Short Term Creditors	18	(40.5)
(2.5)	Short Term Provisions	20	(1.7)
(0.4)	Cash & Cash equivalents	13	(4.3)
(47.9)	Current Liabilities		(55.0)
(3.6)	Long Term provisions	20	(4.7)
(138.0)	Long Term borrowing	11	(130.7)
(4.7)	Capital Grants Receipts in Advance	19	(9.9)
(281.6)	Other Long Term Liabilities	11	(322.4)
(427.9)	Total Long Term Liabilities		(467.7)
250.6	Net Assets		233.6
(111.0)	Usable Reserves	3	(121.4)
(139.6)	Unusable Reserves	4	(112.2)
(250.6)	Total Reserves		(233.6)

The unaudited accounts were authorised for issue by the Chief Finance Officer on 29 May 2019

Cash Flow Statement

2017/18 £m		Notes	2018/19 £m
(13.5)	Net (surplus) or deficit on the provision of services		(14.3)
(71.5)	Adjust net (surplus) or deficit on the provision of services for non-cash movements	14	(42.3.8)
42.5	Adjust for items included in the net (surplus) or deficit on the provision of services that are investing and financing activities	15	7.4
(42.5)	Net cash flows from operating activities		(49.2)
1.0	Net cash flows from investing activities	16	32.1
30.5	Net cash flows from financing activities	17	12.9
(11.0)	Net (increase) or decrease in cash and cash equivalents		(4.2)
(3.0)	Cash and cash equivalents at the beginning of the reporting period		(14.0)
(14.0)	Cash and cash equivalents at the end of the reporting period		(18.2)
(11.0)	Net (increase) or decrease in cash and cash equivalents		(4.2)

1. Notes to the Accounts - Accounting Policies

1.1 General Principles

The council is required to produce an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which require the accounts to be prepared in accordance with proper accounting practices. These practices under section 21 of the 2003 Act primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 supported by International Financial Reporting Standards. The core statements and the statement of group accounts have consistently applied the accounting policies below, where applicable, the statement of group accounts include additional accounting policies specific to the council's subsidiary undertaking, Hoople Limited.

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

1.2 Accruals of Income and Expenditure

Revenue and capital transactions are accounted for on an accruals basis where above the de-minimis thresholds, currently £5k. This means that all revenue income is recorded when the debt has been established rather than when money has been received. Similarly, expenditure is recorded when it is owed rather than when the payment is made.

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

1.3 Borrowing Costs

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

1.4 Cash and cash equivalents

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

1.5 Contingent liabilities

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

Employee benefits

1.6 Benefits payable during employment

Employment benefits are accounted for according to the principles of accruals of expenditure. Short term compensated absences, such as annual leave, are recognised when employees render services that increase their entitlement to future compensated absences. These are measured as the additional amount that the council expects to pay as a result of unused entitlement at the balance sheet date, including employer's national insurance and

pension contributions. The accumulated benefits are included in the balance sheet as a provision for accumulated absences. The amounts charged to the General Fund are reversed out through the Movement in Reserves Statement to the accumulated absences account in the balance sheet.

1.7 Termination benefits

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

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

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

1.8 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 that employees work for the council.

The arrangements for the Teachers' scheme however 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 2.4% (based on market yields and other factors);
- c) Assets are included in the Balance Sheet at their fair value determined through market or bid prices or using professional valuations;
- d) The change in the net pension's liability is analysed into six components;
 - i. **Current service cost:** The increase in liabilities as a result of service earned in the year is allocated to the revenue account of the services for which the employee worked, within the Comprehensive Income and Expenditure Statement
 - ii. **Past service cost:** The increase in liabilities arising from a scheme amendment or curtailment whose effect relates to service earned in earlier years is debited to the Net Cost of Services in the Comprehensive Income and Expenditure Statement.
 - iii. **Net interest on the defined benefit liability:** The change during the period that arises from the passage of time is charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement.
 - iv. **Return on plan assets:** Charged to the Pensions Reserve as Other Comprehensive Income and Expenditure but excludes amounts included in net interest on defined benefit liability.

- v. **Actuarial gains and losses:** Changes in the net pensions liability that arise because events have not coincided with assumptions previously made by the actuaries is included in Other Comprehensive Income and Expenditure.
- vi. **Contributions paid to the pension fund:** Cash paid as employer's contributions to the pension fund.

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

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

1.9 Events after the balance sheet date

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

There are two types;

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

1.10 Extraordinary items

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

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

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

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

1.12 Financial Instruments

Financial instruments are contracts that give rise to a financial asset of one entity and a financial liability (or equity instrument, such as share capital) of another entity. They are valued in line with the requirements of IFRS 13, the fair value policy below provides more detail, the recognition and measurement of Financial Instruments is reported in accordance with IFRS 9.

1.13 Financial liabilities

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

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

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

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

1.14 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.

Following the adoption of IFRS9 in 2018/19 financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cash flow characteristics. There are three main classes of financial assets measured at:

- amortised cost
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI)

The Council's business model is to hold investments to collect contractual cash flows i.e. payments of interest and principal. Most of the Council's financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument).

Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost 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. 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 (CIES) for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the Council, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

Financial Assets Measured at Fair Value through Profit of Loss

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

The fair value measurements of the financial assets are based on the following techniques:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the accounting policy set out in section 1.17 Fair Value Measurement Policy.

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

IFRS 9 Financial Instruments sets out that investments in equity should be classified as fair value through profit and loss unless there is an irrevocable election to recognise changes in fair value through other comprehensive income. The Council will assess each investment on an individual basis and assign an IFRS 9 category. The assessment will be based on the underlying purpose for holding the financial instrument.

Any changes in the fair value of instruments held at fair value through profit or loss will be recognised in the net cost of service in the CIES and will have a General Fund impact.

Financial Assets measured at Fair Value through other Comprehensive Income (FVOCI)

The Council has no equity instruments designated at fair value through other Comprehensive Income (FVOCI). These were previously classified as an Available For Sale assets as at 31 March 2018.

Expected Credit Loss Model

The Council recognises expected credit losses on all of its financial assets held at amortised cost (or where relevant FVOCI), either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the Council.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

1.15 Government grants and other contributions

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

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

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

Grants and contributions funding capital expenditure that have been credited to the Comprehensive Income and

Expenditure Statement are not proper income to the General Fund according to the capital control regime. These amounts are accounted for as follows;

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

1.16 Investment property

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

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

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

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

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

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

1.17 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.

Herefordshire Council Unaudited Statement of Accounts 2018/19

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

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

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

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

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

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

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

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

1.18 Leases

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

1.19 Finance leases

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

1.20 Operating leases

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

1.21 Arrangements containing a lease

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

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

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

1.22 Overheads and Support Services

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

1.23 PFI schemes

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

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

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

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

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

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

1.24 Property, plant and equipment

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

1.25 Recognition

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

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

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

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

1.26 Schools

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

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

1.27 Measurement

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

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

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

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

1.28 Revaluations

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

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

Services.

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

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

1.29 Depreciation

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

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

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

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

1.30 Impairments

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

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

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

1.31 Asset held for sale

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

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

1.32 Disposals

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

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

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

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

1.33 Revenue Expenditure Funded from Capital under Statute (REFCUS)

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

1.34 Agency arrangements

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

1.35 Pooled budgets

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

1.36 Provisions

A provision is recognised when:

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

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

1.37 Reserves

The council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred it is charged to the appropriate revenue account and included in the Cost of Services. The

reserve is then appropriated back through the Movement in Reserves Statement so that there is no charge against council tax for the expenditure.

1.38 Unusable reserves

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

1.39 Charges to revenue for non-current assets

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

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

1.40 Minimum Revenue Provision (MRP)

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

The minimum revenue provision is calculated as follows:-

- Capital expenditure funded by historic supported borrowing is repaid through a 2% annuity rate, and
- Capital expenditure funded by prudential borrowing previously is repaid on a 3% annuity loan repayment profile.

1.41 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.

1.42 Revenue recognition

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

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

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

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

- a. the amount of revenue can be measured reliably

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

Interest; revenue is recognised when;

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

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

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

1.43 Interests in Companies and Other Entities

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

West Mercia Energy

West Mercia Energy (WME) operates as a joint arrangement with Herefordshire, Shropshire, Worcestershire and Telford and Wrekin councils. The Joint Agreement states that each Member Authority takes an equal share, being 25%, of any liabilities of the Joint Committee, at £1.4m this is considered not material. The financial advantage of bulk purchasing arrangements is reflected in the Comprehensive Income and Expenditure Statement.

South West Audit Partnership

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 24 local authorities' partner bodies. Upon joining SWAP each partner can nominate a director to the board, Herefordshire Council have done this. This represents the ability to work with other partners to provide feedback on services received. During 2018/19 Herefordshire Council paid SWAP £0.2m for their internal audit services (2017/18 £0.2m).

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

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

1.45 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.

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

The council has carried out a possible impact assessment of accounting changes that will be required by new accounting standards that have been issued but not yet been adopted.

IFRS 16 Leases. This standard introduces new presentation and disclosure requirements in relation to arrangements that convey the right to use an asset. The standard requirements will become applicable from 1 April 2020 and will result in lessee arrangements being disclosed as finance leases. The impact of this change is expected to be immaterial in value.

Other accounting changes relate to:

- Amendments to IAS 40 Investment Property: Transfers of Investment Property
- Annual Improvements to IFRS Standards 2014 - 2016 Cycle
- IFRIC 22 Foreign Currency Transactions and Advance Consideration
- IFRIC 23 Uncertainty over Income Tax Treatments
- Amendments to IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation

The nature of the impending change or changes in the above accounting policies to be adopted 1 April 2019 are expected to have no or minimal impact on the councils financial statements.

1.47 Critical judgements in applying accounting policies

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

The critical judgements made in these Statement of Accounts are:

- The council is deemed to control the services provided by Shaw Healthcare under the contract for the development and provision of residential homes and day care centres. The accounting policies for PFI schemes and similar contracts have been applied to the arrangement with the associated non-current assets included in the balance sheet with a corresponding finance liability.
- The council has relationships with a number of companies as detailed in the accounts and it has been determined that it will prepare group accounts to report its group position for the Council and its subsidiary, Hoople Limited.
- The council has determined that its accountable body status between the new Hereford University - the New Model in Technology & Engineering (NMiTE), and the Department of Education represents an agency arrangement and has disclosed this in note 23.
- The council accounts include all transactions made by schools, and the assets utilised by these schools unless the school is an academy or a free school, these entities are excluded.

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

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

materially different from the assumptions and estimates made.

This means that there is a significant risk of material adjustment in the forthcoming financial year for the following items in the council's Balance Sheet at 31 March 2019.

Item	Uncertainties	Effect if actual results differ from assumptions
Pensions liability	<p>Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. The pension fund actuary Mercer Limited is employed by the pension fund to provide expert advice about the assumptions to be applied.</p>	<p>Changes in any of the assumptions can have a significant effect on the pension liability shown in the accounts.</p> <p>An increase in the discount rate used of 0.1% would decrease the liability stated by £11.8m.</p> <p>An increase of 0.1% in the inflation rate used would increase the stated liability by £12.1m.</p> <p>An increase of 0.1% in the rate of pay growth used would increase the stated liability by £1.1m.</p> <p>A one year increase in the assumed life expectancy would increase the stated liability by £13.2m.</p> <p>However, the assumptions interact in complex ways. During 2018/19 the council's actuaries advised that the net pension's liability had increased by £29.1m as a result of the updating of assumptions.</p>
Non-current assets - depreciation	<p>Non-current assets held on the Balance Sheet have an estimated useful life. This is based the professional judgement of officers and external valuers.</p>	<p>Depreciation is applied on a straight line basis over the useful life of the asset. Variations to the useful life will alter the amount of depreciation charged to the Comprehensive Income and Expenditure Statement. The impact of this is minimised by a review of the useful life of an asset being undertaken at each valuation.</p>
Provisions	<p>A reliable estimate of sums falling due in future years have been included as year-end provisions, the most significant being in relation to insurance claims and business rate appeals.</p>	<p>Actual settlements could differ from the independent, professionally valued estimate provided for. Where the actual settlement is less unused provisions are released to the Comprehensive Income and Expenditure Statement. Where settlements exceed the provision value earmarked reserve funding is released.</p>
Property, plant, equipment and investment properties	<p>A full valuation of assets held is completed in accordance with the professional standards of the Royal Institution of Chartered Surveyors at least every 5 years.</p> <p>In addition an annual impairment and valuation review is carried out for</p>	<p>There is a risk of an adjustment in the year when the property is revalued.</p> <p>The risk of value misstatement of a fair value to its carrying value is reviewed annually and amended where considered significant.</p>

	properties not valued in the year.	All assets requiring an independent professional valuation were valued in 2017/18 or 2018/19 therefore the risk of a value misstatement is considered to be low.
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2. Expenditure and Funding Analysis 2018/19

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

2018/19	Adjustments between the funding and accounting basis					Net Expenditure in CIES £m
	Net expenditure chargeable to the General Fund £m	Adjustments for capital purposes (1) £m	Net change for pension adjustments £m	Other adjustments (2) £m	Total £m	
Adults and Communities	50.2	0.6	1.2	(0.4)	1.4	51.6
Children and Families	26.1	3.9	1.4	(3.1)	2.2	28.3
Economy and Place	32.6	15.7	1.5	(12.1)	5.1	37.7
Corporate Services	34.6	(8.0)	(1.6)	1.6	(8.0)	26.6
Net cost of services	143.5	12.2	2.5	(14.0)	0.7	144.2
Other income and expenditure	(153.3)	(21.9)	5.8	10.9	(5.2)	(157.9)
Total (surplus) / deficit	(9.8)	(9.7)	8.3	(3.1)	(4.5)	(14.3)
Opening general fund balance as at 1 April 2018	(65.7)					
(Surplus) / deficit on general fund	(9.8)					
Closing general fund balance as at 31 March 2019	(75.5)					

2017/18	Net expenditure chargeable to the General Fund £m	Adjustments between the funding and accounting basis				Total £m	Net Expenditure in CIES £m
		Adjustments for capital purposes (1) £m	Net change for pension adjustments £m	Other adjustments (2) £m			
Adults and Communities	52.0	1.0	1.2	-	2.2	54.2	
Children and Families	22.4	6.4	1.1	(2.5)	5.0	27.4	
Economy and Place	48.9	13.0	1.5	(15.5)	(1.0)	47.9	
Corporate Services	21.7	8.6	0.5	(0.4)	8.7	30.4	
Net cost of services	145.0	29.0	4.3	(18.4)	14.9	159.9	
Other income and expenditure	(158.1)	(36.1)	2.1	18.7	(15.3)	(173.4)	
Total (surplus) or deficit	(13.1)	7.1	6.4	0.3	(0.4)	(13.5)	
Opening general fund balance as at 1 April 2017	(52.6)						
(Surplus)/deficit on general fund	(13.1)						
Closing general fund balance as at 31 March 2018	(65.7)						

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

2018/19	Depreciation £m	REFCUS £m	MRP £m	RCCO £m	Other £m	Revaluations £m	Capital grants £m	Total £m
Adults and Communities	0.2	0.1	-	-	-	0.3	-	0.6
Children and Families	5.1	-	-	-	-	(1.2)	-	3.9
Economy and Place	12.0	0.3	-	-	-	3.4	-	15.7
Corporate Services	1.8	-	(6.7)	(4.5)	-	1.4	-	(8.0)
Net cost of services	19.1	0.4	(6.7)	(4.5)	-	3.8	-	12.2
Other operating expenditure	-	-	-	-	(0.3)	-	(21.6)	(21.9)
Total	19.1	0.4	(6.7)	(4.5)	(0.3)	3.8	(21.6)	(9.7)

Herefordshire Council Unaudited Statement of Accounts 2018/19

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

2017/18	Depreciation / impairment £m	REFCUS £m	MRP £m	RCCO £m	Profit/loss on sale £m	Revaluation of investment assets £m	Capital grants £m	Total £m
Adults and Communities	1.0	-	-	-	-	-	-	1.0
Children and Families	6.3	0.1	-	-	-	-	-	6.4
Economy and Place	7.4	5.6	-	-	-	-	-	13.0
Corporate Services	8.6	-	-	-	-	-	-	8.6
Net cost of services	23.3	5.7	-	-	-	-	-	29.0
Other operating expenditure	0.4	-	(8.2)	(0.5)	(1.0)	(0.3)	(26.5)	(36.1)
Total	23.7	5.7	(8.2)	(0.5)	(1.0)	(0.3)	(26.5)	(7.1)

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

2017/18					2018/19			
Total £m	PFI £m	Other £m	Collection fund £m		Recharges & movements £m	Collection Fund £m	PFI £m	Total £m
-	(0.9)	0.9	-	Adults and Communities	0.5	-	(0.9)	(0.4)
(2.5)	(1.8)	(0.7)	-	Children and Families	(1.3)	-	(1.8)	(3.1)
(15.5)	(3.6)	(11.9)	-	Economy and Place	(8.4)	-	(3.7)	(12.1)
(0.4)	-	(0.4)	-	Corporate Services	1.6	-	-	1.6
(18.4)	(6.3)	(12.1)	-	Net cost of services	(7.6)	-	(6.4)	(14.0)
18.7	6.3	12.1	0.3	Other operating expenditure	7.6	(0.4)	3.7	10.9
0.3	-	-	0.3	Total	-	(0.4)	(2.7)	(3.1)

Material Items of Income and Expense

There were no material items of income and expense included the Comprehensive Income and Expenditure Account for 2018/19.

Events after the Balance Sheet Date

The unaudited Statement of Accounts was authorised for issue on 29 May 2019 by the Section 151 Officer. Events taking place after this date are not reflected in the financial statements or notes.

3. Movement in Usable Reserves Analysis

2018/19 Movements	General Fund Revenue	Earmarked Reserves	Revenue Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves
	£m	£m	£m	£m	£m	£m
Opening balance	(7.9)	(57.8)	(65.7)	(42.6)	(2.7)	(111.0)
(Surplus)/deficit on provision of services	(14.3)	-	(14.3)	-	-	(14.3)
Depreciation	(19.1)	-	(19.1)	-	-	(19.1)
Impairment / downwards revaluation	(3.9)	-	(3.9)	-	-	(3.9)
Net revenue expenditure funded by capital under statute	(0.5)	-	(0.5)	-	-	(0.5)
Net book value of assets sold	(7.3)	-	(7.3)	-	-	(7.3)
Capital receipts from assets sold	7.4	-	7.4	(7.4)	-	-
Adjustments for Council Tax and NDR Receivable	0.4	-	0.4	-	-	0.4
Capital Financed by Receipts	-	-	-	8.5	-	8.5
Minimum Revenue Provision (MRP)	9.1	-	9.1	-	-	9.1
Revenue Contribution to Capital Outlay	4.9	-	4.9	-	-	4.9
Reversal of IAS19 Pension Charges	(8.2)	-	(8.2)	-	-	(8.2)
Capital grants unapplied	4.0	-	4.0	-	(4.0)	-
Reversal of unusable reserve	(0.3)	-	(0.3)	-	-	(0.3)
Capital Financed by Grants and Contributions	18.0	-	18.0	-	2.3	20.3
Transfer to/from reserves	9.2	(9.2)	-	-	-	-
Total movement	(0.6)	(9.2)	(9.2)	1.1	(1.7)	(9.8)
Closing balance	(8.5)	(67.0)	(74.9)	(41.5)	(4.4)	(121.4)

Movement in Usable Reserves 2017/18 Comparative Movements

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

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

4. Movement in Unusable Reserves Analysis

2018/19 Movements	Short Term Absences Account	Capital Adjustment Account	Collection Fund Adjustment Account	Financial Instruments Adjustment Account	Pensions Reserve	Revaluation Reserve	Deferred Capital Receipts Reserve	Total Unusable Reserves
	£m	£m	£m	£m	£m	£m	£m	£m
Opening balance	2.5	(243.4)	(0.5)	0.4	226.0	(124.3)	(0.3)	(56.9)
Recognition of subsidiary liability	-	-	-	-	6.9	-	-	6.9
Depreciation	-	19.1	-	-	-	-	-	19.1
Revaluations and Impairments	-	3.9	-	-	-	-	-	3.9
Net revenue expenditure funded by capital under statute	-	0.5	-	-	-	-	-	0.5
Net book value of assets sold	-	1.1	-	-	-	6.2	-	7.3
Adjustments for Council tax and NDR receivable	-	-	(0.4)	-	-	-	-	(0.4)
Capital Financed by Receipts	-	(8.5)	-	-	-	-	-	(8.5)
Provision for the Redemption of Debt	-	(9.1)	-	-	-	-	-	(9.1)
Revenue Contribution to Capital Outlay	-	(4.9)	-	-	-	-	-	(4.9)
Reversal of IAS 19 Pensions Charges	-	-	-	-	8.2	-	-	8.2
Net movement on Revaluation Reserve	-	-	-	-	-	(3.6)	-	(3.6)
Actuarial Gain/Loss on Pensions	-	-	-	-	28.0	-	-	28.0
Capital Financed by Grants and Contributions	-	(20.3)	-	-	-	-	-	(20.3)
Reversal of unusable reserve	-	-	-	-	-	-	0.3	0.3
Depreciation Revaluation Adjustment	-	(4.6)	-	-	-	4.6	-	-
Total movement	-	(22.8)	(0.4)	-	43.2	7.2	0.3	27.4
Total Reserves	2.5	(266.2)	(0.9)	0.4	269.1	(117.1)	-	(112.2)

Movement in unusable reserves analysis 2017/18 comparative movements

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

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 2018/19.

Reserve	01/04/18 £m	Transfer out £m	Transfer in £m	31/03/19 £m
Business Rate smoothing	(6.0)	-	(1.3)	(7.3)
Collection Fund Surplus	(1.5)	-	-	(1.5)
Hereford Enterprise Zone	(0.4)	-	-	(0.4)
Education Redundancy	(0.6)	0.4	-	(0.2)
Three Elms Trading Estate	(0.4)	-	(0.2)	(0.6)
ICT	(0.8)	0.2	-	(0.6)
Industrial Estates	(0.4)	-	-	(0.4)
Insurance	(0.3)	-	-	(0.3)
Library Services	(0.3)	0.2	-	(0.1)
Financial Resilience	(5.1)	1.2	(6.1)	(10.0)
Pensions Risk	(0.9)	-	(0.3)	(1.2)
Remedial Road Works	-	2.8	(4.5)	(1.7)
Risk mitigation	(3.6)	0.3	-	(3.3)
School balances	(8.1)	8.1	(8.9)	(8.9)
Schools' sickness	(0.5)	0.5	(0.3)	(0.3)
Settlement monies	(8.0)	4.8	(1.8)	(5.0)
Severe Weather Fund	-	0.2	(1.4)	(1.2)
Short Breaks	(0.5)	-	-	(0.5)
Social Care Contingency	-	-	(2.0)	(2.0)
Sparsity Reserve	(6.4)	6.4	(0.9)	(0.9)
Waste Disposal	(5.7)	0.9	(2.9)	(7.7)
Whitecross School PFI	(1.0)	-	(0.2)	(1.2)
Other small reserves	(1.6)	2.1	(5.6)	(5.1)
Unused grants carried forward	(5.7)	0.6	(1.5)	(6.6)
Total	(57.8)	28.7	(37.6)	(67.0)

The note above incorporates the recommendations from the annual review of the earmarked reserves reported to Cabinet in June 2018.

6. Nature of Expenses Disclosure

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

2017/18 £m		2018/19 £m
	Income	
(53.9)	Fees, charges and other service income	(55.2)
(2.3)	Trading and investment income	(2.3)
(2.6)	Interest and investment income	(4.0)
(129.7)	Income from council tax and non-domestic rates	(135.2)
(197.5)	Government grants and contributions	(190.0)
(1.0)	Gains on disposal of non-current assets	-
(387.0)	Total Income	(386.7)
	Expenditure	
100.0	Employee benefits expenses	107.2
216.1	Other service expenses	213.9
4.7	Support service recharges (net)	5.2
-	Loss on disposal of non-current assets	-
41.0	REFCUS, depreciation, amortisation and impairment	23.7
(8.0)	Trading and investment expenditure	2.8
15.7	Interest Expenditure	15.1
4.0	Precepts and levies	4.5
373.5	Total Expenditure	372.4
(13.5)	(Surplus) or Deficit on the Provision of Services	14.3)

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 £16.5m in 2018/19 (£17.6m in 2017/18)

7. Other Operating Expenditure

2017/18 £m		2018/19 £m
3.8	Parish Council precepts	4.3
0.2	Levies	0.2
(1.1)	(Gains)/losses on the disposal of non-current assets	-
2.9	Total	4.5

8. Financing and Investment Income and Expenditure

2017/18 £m		2018/19 £m
9.7	Interest payable and similar charges	9.3
6.1	Pensions net interest and admin charge	5.8
(2.3)	Interest receivable	(3.9)
(10.4)	Income and expenditure in relation to trading accounts/investment properties and changes to their fair value, note 22	0.6
(0.3)	Other investment income	(0.1)
2.8		11.7

The significant movement in financing and investment income and expenditure total is due to the impact of the revaluation of investment assets, £2.7m in 2018/19 compared to (£8.7m) in 2017/18.

9. Taxation and Non Specific Grant Income

2017/18 £m		2018/19 £m
(97.5)	Council tax income	(103.5)
(32.2)	Non domestic rates	(31.7)
(22.9)	Non-ring fenced government grants	(17.9)
(26.5)	Capital grants and contribution	(21.6)
(179.1)		(174.7)

10. Property, Plant and Equipment

Cost 2018/19	Land & Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus assets	Assets Under Construction & WIP	Sub total	Investment Assets	Intangibles & Other Assets	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 2018	362.4	9.1	312.9	2.4	3.6	-	690.4	34.6	2.9	3.2	8.2	739.3	44.1
Additions	3.0	0.4	27.9	5.7	-	0.1	37.1	2.8	-	-	-	39.9	0.3
Disposals	(0.9)	-	-	-	-	-	(0.9)	(0.1)	-	-	(6.3)	(7.3)	-
Revaluation	(1.4)	-	-	-	0.3	-	(1.1)	(2.6)	-	-	3.4	(0.3)	1.5
Reverse Acc dep'n	(23.8)	-	-	-	-	-	(23.8)	-	-	-	-	(23.8)	-
Asset Transfers	(0.5)	-	-	-	-	0.5	-	(0.5)	-	-	0.5	-	-
Other movements	-	(0.3)	-	-	-	-	(0.3)	-	(2.8)	-	-	(3.1)	-
At 31 March 2019	338.8	9.2	340.8	8.1	3.9	0.6	701.4	34.2	0.1	3.2	5.8	744.7	45.9
Depreciation/ Amortisation													
Opening balance at 1 April 2018	(18.8)	(4.3)	(70.4)	-	-	-	(93.5)	-	(2.8)	-	-	(96.3)	(4.1)
Charge for the year	(6.9)	(1.9)	(10.3)	-	-	-	(19.1)	-	-	-	-	(19.1)	(1.6)
Disposals Reversal	-	-	-	-	-	-	-	-	-	-	-	-	-
Reverse Acc dep'n	23.8	0.3	-	-	-	-	24.1	-	2.7	-	-	26.8	(0.1)
At 31 March 2019	(1.9)	(5.9)	(80.7)	-	-	-	(88.5)	-	(0.1)	-	-	(88.6)	(5.8)
Carrying amount at March 2019	336.9	3.3	260.1	8.1	3.9	0.6	612.9	34.2	-	3.2	5.8	656.1	40.1
Opening carrying amount at 1 April 2018	343.6	4.8	242.5	2.4	3.6	-	596.9	34.6	0.1	3.2	8.2	643.0	40.0

222

Herefordshire Council Unaudited Statement of Accounts 2018/19

Cost 2017/18	Land & Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus assets	Assets Under Construction & WIP	Sub total	Investment Assets	Intangibles	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 2017	332.9	8.7	285.3	2.6	0.6	8.7	638.8	21.5	2.9	3.2	1.6	668.0	48.7
Additions	8.6	0.8	27.6	-	0.1	-	37.1	1.8	-	-	1.2	40.1	0.2
Disposals	(1.4)	-	-	-	(0.2)	(0.1)	(1.7)	(0.5)	-	-	(39.4)	(41.6)	-
Revaluation	39.8	(0.3)	-	-	(1.3)	-	38.2	8.3	-	-	42.1	88.6	(4.8)
Reverse Acc dep'n	(15.7)	(0.1)	-	-	-	-	(15.8)	-	-	-	-	(15.8)	-
Asset Transfers	(1.8)	-	-	(0.2)	4.4	(8.6)	(6.2)	3.5	-	-	2.7	-	-
At 31 March 2018	362.4	9.1	312.9	2.4	3.6	-	690.4	34.6	2.9	3.2	8.2	739.3	44.1
Depreciation/ Amortisation													
Opening balance at 1 April 2017	(27.9)	(2.6)	(60.7)	-	-	-	(91.2)	-	(2.1)	-	-	(93.3)	(2.6)
Charge for the year	(6.6)	(1.7)	(9.7)	-	-	-	(18.0)	-	(0.7)	-	-	(18.7)	(1.5)
Disposals Reversal	1.2	-	-	-	-	-	1.2	-	-	-	-	1.2	-
Reverse Acc dep'n	14.5	-	-	-	-	-	14.5	-	-	-	-	14.5	-
At 31 March 2018	(18.8)	(4.3)	(70.4)	-	-	-	(93.5)	-	(2.8)	-	-	(96.3)	(4.1)
Carrying amount at March 2018	343.6	4.8	242.5	2.4	3.6	-	596.9	34.6	0.1	3.2	8.2	643.0	40.0
Opening carrying amount at 1 April 2017	305.0	6.1	224.6	2.6	0.6	8.7	547.6	21.5	0.8	3.2	1.6	574.7	46.1

223

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	Revaluations £m	Total 2018/19 £m
Adults and Communities	0.2	0.2	0.4
Children and Families	5.1	(1.2)	3.9
Economy and Place	12.0	3.4	15.4
Corporate and Central Services	1.8	1.4	3.2
Total	19.1	3.8	22.9

Capital Commitments

At 31 March 2019 the council had no major capital commitments (31 March 2018 £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. Wilks, Head and Eve LLP completed all valuations in 2018/19. The council made the decision to value all property assets that hadn’t been valued in 2017/18. Valuations of land and buildings are carried out in accordance with the methodologies and bases for estimation as set out in the professional standards of the Royal Institution of Chartered Surveyors. Valuations of vehicle, plant and equipment are based on depreciated costs as a proxy for fair value.

The carrying amount of assets on the rolling programme held at 31 March 2019 total £384.1m. The effective date of the revaluations are as follows:

Valued as at:	Carrying amount of revalued assets £m
31 March 2019	297.9
31 March 2018	83.0
31 March 2016	3.2
Total	384.1

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.

2017/18 £m		2018/19 £m
(2.3)	Rental income from investment property	(2.4)
0.2	Direct operating expenses arising from investment property	0.2
(2.1)	Total	(2.2)

Details of the council’s investment properties and information about the fair value hierarchy as at March 2018 and March 2019 are as follows (fair value method disclosed in accounting policies note 1):

Recurring fair value measurements using:	Other significant observable inputs Level2 £m
Investment properties as at 31 March 2018	34.6
Investment properties as at 31 March 2019	34.2

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.

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. Following the adoption of IFRS9 in 2018/19 the loans and receivables held are classified at amortised cost.

2017/18			2018/19	
Per Balance Sheet £m	Financial Instruments £m		Per Balance Sheet £m	Financial Instruments £m
		Long term debtors		
37.0	37.0	Loans	40.1	40.1
2.3	-	PFI lifecycle costs	2.5	-
39.3	37.0	Total	42.6	40.1
		Investments		
5.0	5.0	Short term investments	10.1	10.1
12.8	12.8	Cash and cash equivalents	22.5	22.5
17.8	17.8	Total	32.6	32.6
		Short term debtors		
21.0	21.0	Sales invoices and contractual rights	21.0	21.0
8.5	-	Statutory debts (council tax, VAT etc.)	8.0	-
1.4	-	Prepayments	1.4	-
(4.7)	-	Bad debt provisions	(5.5)	-
26.2	21.0	Total	24.9	21.0

Financial Liabilities

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

2017/18			2018/19	
Per Balance Sheet	Financial Instruments		Per Balance Sheet	Financial Instruments
£m	£m		£m	£m
0.4	0.4	Cash and cash equivalents	4.3	4.3
0.4	0.4	Total	4.3	4.3
		Short term borrowing		
0.2	0.2	Bank loans	0.2	0.2
6.6	6.6	Public Works Loan Board	8.3	8.3
5.0	5.0	Borrowing from other local authorities	-	-
11.8	11.8	Total	8.5	8.5
		Short term creditors		
16.3	16.3	Invoiced amounts and other contractual liabilities	23.1	23.1
7.3	-	Statutory liabilities (PAYE etc.)	4.7	-
9.4	2.4	Accruals and receipts in advance	11.1	2.5
0.2	-	Funds and deposits held	1.6	-
33.2	18.7	Total	40.5	25.6
		Long term borrowing		
12.5	12.5	Bank loans	12.5	12.5
125.5	125.5	Public Works Loan Board	118.2	118.2
138.0	138.0	Total	130.7	130.7
		Other long term liabilities		
55.6	55.6	PFI liabilities and finance leases	53.3	53.3
226.0	-	Pensions liability	269.1	-
281.6	55.6		322.4	53.3

Income, Expense, Gains and Losses

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

2017/18				2018/19		
Financial Liabilities at amortised cost	Financial assets: Loans and receivables	Total		Financial Liabilities at amortised cost	Financial assets: Loans and receivables	Total
£m	£m	£m	£m	£m	£m	
			Interest payable and similar charges			
			Interest expense relating to:			
5.8	-	5.8	Loans	5.6	-	5.6
0.1	-	0.1	Finance Leases	-	-	-
3.8	-	3.8	PFI liabilities	3.7	-	3.7
9.7	-	9.7	Total expense in surplus on the provision of services	9.3	-	9.3
			Interest receivable:			
-	(2.1)	(2.1)	On loans	-	(3.8)	(3.8)
-	(2.1)	(2.1)	Total income in surplus on the provision of services	-	(3.8)	(3.8)
9.7	(2.1)	7.6	Net loss/(gain) for the year	9.3	(3.8)	5.5

Fair Values of Assets and Liabilities

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

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

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

31 March 2018				31 March 2019		
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
149.6	210.0	183.7	Total borrowing	139.0	201.7	175.9

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

The carrying amounts of other long term financial assets and liabilities in the balance sheet include commitments falling due under PFI schemes. The fair value of these commitments exceeds the carrying amount and represents the additional cost that could fall due if we were to terminate the PFI schemes as at the balance sheet date. The total PFI carrying amount is £53.3m and the fair value as at 31 March 2019 totals £74.5m. The statements have not been adjusted for this as the PFI schemes are set to continue until expiry.

31 March 2018				31 March 2019		
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			
39.3	39.3	39.3	Long term debtors	42.6	42.6	42.6
5.0	5.0	5.0	Short term investments	10.1	10.1	10.1
14.4	14.4	14.4	Cash and cash equivalents	22.5	22.5	22.5
24.6	24.6	24.6	Short term debtors	24.9	24.9	24.9
83.3	83.3	83.3	Total Financial Assets	100.1	100.1	100.1
			Financial Liabilities			
132.1	182.8	160.6	Public Works Loan Board	126.5	179.1	157.4
12.5	22.2	18.1	Bank loans (LOBOs)	12.5	22.6	18.5
5.0	5.0	5.0	Loans from other local authorities	-	-	-
33.2	33.2	33.2	Short term creditors	40.5	40.5	40.5
55.6	77.1	77.1	PFI liabilities and finance leases	53.3	74.5	74.5
238.4	320.3	294.0	Total Financial Liabilities	232.8	316.7	290.9

31 March 2018 £m	Recurring fair value measurements	Input level in fair value hierarchy	Valuation technique used to measure fair value	31 March 2019 £m
	Assets			
36.0	Long term debtors - 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	35.6
1.0	Long term debtor - Other	3	Valued at amortised cost due to absence of comparable evidence or principal market	4.6
2.3	PFI lifecycle costs	2	Discount contractual cash flows of the remaining term	2.4
39.3	Subtotal long-term debtors			42.6
44.0	Other – short term	N/A	Fair value disclosure is not required for short term investments, short-term debtors or cash	57.5
83.3	Total Assets			99.5
	Liabilities			
160.6	PWLB and other debt	2	Discount contractual cash flows at the market rate for LA loans of the same remaining term	157.4
18.1	Bank loans (LOBOs)	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	18.5
77.1	PFI Scheme Liabilities and Finance Lease Payables	2	Discount contractual cash flows of the remaining term	74.5
38.2	Other including Short Term Loans	N/A	Fair value disclosure is not required for short term liabilities that are held on the balance sheet at amortised cost	40.5
294.0	Total Liabilities			290.9

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

Amounts arising from expected credit losses

The councils investments exposure to credit losses has been assessed as negligible therefore no allowance for credit losses has been made.

12. Debtors

31 March 2018 £m		31 March 2019 £m
6.0	Central government bodies	3.4
2.3	Other local authorities	2.2
1.6	NHS bodies	1.6
14.7	Other entities and individuals	17.7
24.6	Total	24.9

13. Cash and Cash Equivalents

31 March 2018 £m		31 March 2019 £m
5.3	Cash held by the council	4.3
9.1	Short term deposits	18.2
14.4	Total	22.5
(0.4)	Bank current accounts	(4.3)
14.0	Total Cash and Cash Equivalents	18.2

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

2017/18 £m		2018/19 £m
(0.1)	Net movement in Inventories	-
1.5	Net movement in Debtors	3.5
(1.1)	Net movement in Creditors	(7.3)
(23.7)	Depreciation, amortisation and impairment of non-current assets	(23.0)
(41.5)	Net Gain/Loss on sale of non-current assets (net book value of assets)	(7.0)
(6.4)	Net charges made for retirement benefits in accordance with IAS19	(8.2)
0.3	Movement in the market value of Investment Properties	-
(0.5)	Net movement in Provisions	(0.3)
(71.5)	Total	(42.3.8)

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

2017/18 £m		2018/19 £m
42.5	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	7.4
42.5	Total	7.4

16. Investing Activities

2017/18 £m		2018/19 £m
39.8	Purchase of property, plant and equipment, investment property and intangible assets	39.6
(42.5)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(7.4)
3.7	Other receipts from investing activities	(0.1)
1.0	Total	32.1

17. Financing Activities

2017/18 £m		2018/19 £m
(10.0)	Cash receipts of short term and long term borrowing	-
2.2	Cash payments for the reduction of the outstanding liability relating to finance leases and on-balance sheet PFI contracts	2.2
38.3	Repayments of short and long term borrowing, as shown below	10.7
30.5	Total	12.9

Reconciliation of liabilities arising from financing activities

	Long term borrowings	Short term borrowings	Total
1 April 2018	138.0	11.9	149.9
Cashflows: Repayment, note 17 above	(7.3)	(3.4)	(10.7)
31 March 2019	130.7	8.5	139.2

18. Creditors

31 March 2018 £m		31 March 2019 £m
(7.7)	Central government bodies	(11.2)
(2.2)	Other local authorities	(3.3)
(1.2)	NHS Bodies	(0.9)
(22.1)	Other entities and individuals	(23.8)
-	Monies due to agency NMITE	(1.3)
(33.2)	Total	(40.5)

19. Capital Grants Receipts in Advance

31 March 2018 £m		31 March 2019 £m
(0.7)	Central government bodies	(1.7)
-	Other local authorities	(0.8)
(4.0)	Other grants and contributions	(7.4)
(4.7)	Total	(9.9)

20. Provisions

The movement on provisions from 1 April 2018 to 31 March 2019 is set out below:

	Long term £m	Short term £m	Total £m
Balance at 1 April 2017	(3.5)	(2.1)	(5.6)
Additional provisions made in 2017/18	(0.1)	(1.0)	(1.1)
Amounts used in 2017/18	-	0.6	0.6
Unused amounts reversed in 2017/18	-	-	-
Balance at 31 March 2018	(3.6)	(2.5)	(6.1)
Additional provisions made in 2018/19	(1.1)	(0.4)	(1.5)
Amounts used in 2018/19	-	1.1	1.1
Unused amounts reversed in 2018/19	-	0.1	0.1
Balance at 31 March 2019	(4.7)	(1.7)	(6.4)

Herefordshire Council Unaudited Statement of Accounts 2018/19

The provisions held at 31 March 2019 are:

31/03/18 £m	Provision Name	Description	Additional Provisions £m	Amounts Used £m	Unused Amounts Reversed £m	31/03/19 £m
(0.1)	Redundancy	Based on the number of planned redundancies and staff identified at risk of redundancy at 31 March 2018	(0.1)	0.1	-	(0.1)
(2.0)	Insurance	For potential future insurance claims based on external professional assessment	-	-	-	(2.0)
(0.8)	Provisions for children's services	Expected payments relating to children for schools, high needs and early years funding	-	0.7	0.1	-
(3.2)	NNDR Appeals	For future lodged and unlogged appeals against rating valuations.	(1.4)	0.3	-	(4.3)
(6.1)		Total	(1.5)	1.1	0.1	(6.4)

21. Pensions Reserve

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

The re-measurement of net Defined Benefit Liability for the group entity represents the novation of the Local Government Pension Scheme (LGPS) deficit in Hoople Limited to Herefordshire Council. This follows a deed of amendment to the admission agreement during 2018/19 to correctly reflect the intention of Herefordshire Council to guarantee any shortfall. Whilst this guarantee is in place Hoople Limited and the council will be treated as a single entity for the purpose of determining the contributions and payments that are due to the LGPS.

2017/18 £m		2018/19 £m
248.0	Balance at 1 April	226.0
-	Recognition of subsidiary undertaking liability	6.9
(28.4)	Re-measurement of the net defined benefit liability	28.0
20.1	Reversal of items relating to retirement benefits debited or credited to the (Surplus) / Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	22.4
(13.7)	Employer's pension contributions and direct payments to pensioners payable in the year	(14.2)
226.0	Balance at 31 March	269.1
225.1	Local Government pension scheme	268.2
0.9	Teachers	0.9
226.0	Balance at 31 March	269.1

22. 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.

2017/18 £m		2018/19 £m
	Markets The council generates income from letting of premises and market stalls	
(0.5)	Turnover	(0.5)
(1.0)	Asset revaluation movement	(0.3)
0.2	Expenditure	0.2
(1.3)	(Surplus)/deficit	(0.6)
	Industrial Estates The council owns and manages a number of industrial estates throughout the county	
(1.3)	Turnover	(1.4)
(5.4)	Asset revaluation movement	2.4
-	Expenditure	-
(6.7)	(Surplus)/deficit	1.0
	Retail Properties The council owns retail premises in Hereford city centre from which it receives commercial rents	
(0.5)	Turnover	(0.5)
(2.3)	Asset revaluation movement	0.6
-	Expenditure	-
(2.8)	(Surplus)/deficit	0.1
(10.8)	Total	0.5

The trading accounts are incorporated into the Comprehensive Income and Expenditure Statement as part of the line 'Financing, investment income and expenditure', note 8.

23. Agency Services

During 2018/19 the council incurred spend in relation to the Fastershire capital project to provide improved broadband speeds throughout the rural areas of Herefordshire, Gloucestershire, Shropshire and Telford and Wrekin. In 2018/19 spend included £0.3m (2017/18 £2.2m) outside of Herefordshire that is not shown in the council accounts as this spend is incurred under an agency arrangement.

During 2018/19 Herefordshire Council acted as an intermediary in the pass through of Department of Education grant funding towards the establishment of a new Hereford University – the New Model in Technology & Engineering (NMiTE). This totalled £5.4m (2017/18 £4.8m) and is not included in the council's accounts as the council is acting as an agent only. A year end creditor balance of £1.3m (2017/18 £nil) is include in the balance sheet representing monies received and not yet released onto NMiTE.

24. Pooled Budgets

The council has three pooled budgets for 2018/19, the pooled budget arrangement for the Better Care Fund, the pooled budget for services for children, and the pooled budget for the Integrated Community Equipment Store. All of the pooled budgets are covered by a section 75 agreement.

Better Care Fund

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

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

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

Minimum Revenue Pool

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

2017/18 £m		2018/19 £m
	Funding provided to the pooled budget	
-	Herefordshire Council	-
(12.0)	Herefordshire CCG	(12.2)
(12.0)	Total funding	(12.2)
	Expenditure met from the pooled budget	
4.4	Herefordshire Council	5.1
6.7	Herefordshire CCG	6.9
11.1	Total expenditure	12.0
(0.9)	Net (surplus) arising	(0.2)
(0.9)	Herefordshire Council share of (surplus)	(0.2)

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.

Herefordshire Council Unaudited Statement of Accounts 2018/19

2017/18 £m		2018/19 £m
	Funding provided to the pooled budget	
(1.9)	Herefordshire Council	(2.1)
-	Herefordshire CCG	-
(1.9)	Total funding	(2.1)
	Expenditure met from the pooled budget	
1.9	Herefordshire Council	2.1
-	Herefordshire CCG	-
1.9	Total expenditure	2.1
-	Net (surplus) / deficit arising	-
-	Herefordshire Council share of (surplus) / deficit	-

Additional Revenue Pool

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

2017/18 £m		2018/19 £m
	Funding provided to the pooled budget	
(20.1)	Herefordshire Council	(21.3)
(8.6)	Herefordshire CCG	(9.6)
(28.7)	Total funding	(30.9)
	Expenditure met from the pooled budget	
21.1	Herefordshire Council	23.2
8.9	Herefordshire CCG	9.6
30.0	Total expenditure	32.8
1.3	Net deficit arising	1.9
1.0	Herefordshire Council share of deficit	1.9

Improved Better Care Fund

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

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

A recipient local authority must:

- pool the grant funding into the local Better Care Fund, unless an area has written Ministerial exemption;

Herefordshire Council Unaudited Statement of Accounts 2018/19

- b) work with the relevant Clinical Commissioning Group and providers to meet national condition four (Managing Transfers of Care) in the Integration and Better Care Fund Policy Framework and Planning Requirements 2017-19; and
- c) provide quarterly reports as required by the Secretary of State.

2017/18 £m		2018/19 £m
	Funding provided to the pooled budget	
(3.6)	Herefordshire Council	(4.7)
-	Herefordshire CCG	-
(3.6)	Total funding	(4.7)
	Expenditure met from the pooled budget	
3.6	Herefordshire Council	4.7
-	Herefordshire CCG	-
3.6	Total expenditure	4.7
-	Net (surplus) / deficit arising	-
-	Herefordshire Council share of (surplus) / deficit	-

Children's Services

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

2017/18 £m		2018/19 £m
	Funding provided to the pooled budget	
(3.6)	Herefordshire Council	(3.6)
(0.6)	Herefordshire CCG	(0.6)
(4.2)	Total funding	(4.2)
	Expenditure met from the pooled budget	
3.3	Herefordshire Council	3.1
0.5	Herefordshire CCG	0.5
3.8	Total expenditure	3.6
(0.4)	Net (surplus) / deficit on the pooled budget during the year	(0.6)
(0.3)	Herefordshire Council share of net (surplus) / deficit	(0.6)

Integrated Community Equipment Store

Herefordshire Council and Herefordshire Clinical Commissioning Group are required to provide an integrated service for provision of community equipment. Both partners have entered into a joint contract for provision of community

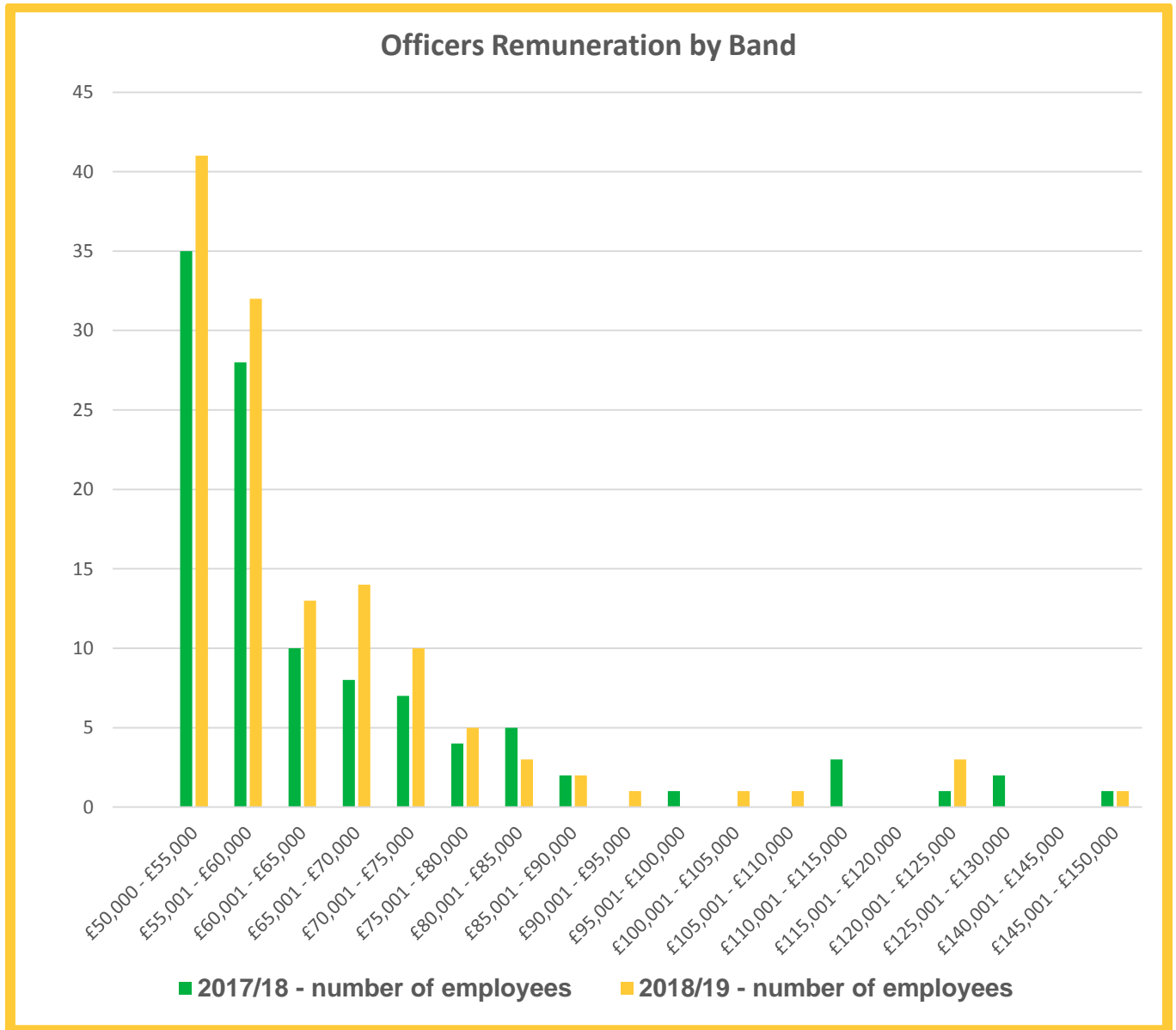
equipment with an agreed split of the costs of equipment.

2017/18 £m		2018/19 £m
	Funding provided to the pooled budget	
(0.4)	Herefordshire Council	(0.4)
(0.7)	Herefordshire CCG	(0.6)
(1.1)	Total funding	(1.0)
	Expenditure met from the pooled budget	
0.4	Herefordshire Council	0.4
0.7	Herefordshire CCG	0.8
1.1	Total expenditure	1.2
	- Net (surplus) / deficit on the pooled budget during the year	0.2
	- Council share of net (surplus) / deficit	0.1

25. Officers' Remuneration

Officers' remuneration is defined as 'all amounts paid to or receivable by a person, and includes sums due by way of expenses allowances (so far as those sums are chargeable to UK income tax), and the estimated money value of any other benefits received by an employee other than in cash (e.g. benefits in kind). Benefits in kind are salary sacrificed amounts for the provision of car parking and bicycles.

The 2018/19 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.



The total number of employees at 31 March 2019 was 1,208 non-school staff (1,220 at 31 March 2018) and 2,169 schools' staff (2,239 at 31 March 2018).

Post	Note	Salary, Fees & Allowances £000s	Compensation for loss of office / Benefits in kind £000s	Pension contributions £000s	Total £000s
Chief Executive - A Neill	2018/19	149	-	24	173
	2017/18	147	-	23	170
Director for Economy, Communities and Corporate	2018/19	61	-	10	71
	2017/18	121	-	19	140
Director for Children and Families	2018/19	123	-	19	142
	2017/18	113	-	18	131
Chief Finance Officer/ Section 151 Officer	2018/19	100	-	16	116
	2017/18	99	-	16	115
Director for Adults and Communities	2018/19	121	-	19	140
	2017/18	121	-	19	140
Solicitor for the Council (Monitoring Officer)	2018/19	72	-	11	83
	2017/18	70	-	11	81
Director of Public Health	2018/19	51	-	1	52
	2017/18	-	-	-	-
Director of Economy and Place	2018/19	71	-	11	82
	2017/18	-	-	-	-

Notes:

1. The Director for Economy, Communities and Corporate retired on 30 September 2018
2. The Director for Economy and Place started on 10 September 2018
3. The Director for Children and Families was previously called the Director for Children's Wellbeing but was changed following a restructure in September 2018
4. The Director for Adults and Communities was previously called the Director for Adults Wellbeing but was changed following a restructure in September 2018
5. During 2017/18 the Director of Public Health statutory responsibilities were delivered by Shropshire Council through an interim shared service arrangement.

26. 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 2018/19 terminations was £0.2m (£0.2m in 2017/18). The total amount of actuarial strain paid to Worcestershire County Council in 2018/19 was £0.2m (£0.2m in 2017/18).

Exit package cost band (including special payments)	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19
	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	7	7	31	15	38	22	172.8	130.2
£20,001 - £40,000	1	1	5	2	6	3	153.4	91.1
Total	8	8	36	17	44	25	326.2	221.3

27. External Audit Costs

The council incurred the following fees relating to external audit.

2017/18 £m		2018/19 £m
0.1	Fees payable with regard to external audit services carried out by the appointed auditor	0.1
0.1	Total	0.1

In addition to the audit fee payable grant certification fees (£16k) and non-audit service fees (£3k) have been incurred, these are disclosed in the audit findings report.

28. Dedicated Schools Grant

The council's expenditure on schools is funded by the Dedicated Schools Grant (DSG) provided by the Department for Education. DSG is a ring-fenced grant and can only be applied to meet expenditure properly included in the Schools Budget. The Schools Budget includes elements for a restricted range of services provided on a council- wide basis and for the Individual Schools Budget, which is divided into a budget share for each school. Over and under spends on the two elements are required to be accounted for separately. Details of the deployment of DSG receivable for 2018/19 are as follows:

Total 2017/18		Central Expenditure 2018/19	Individual Schools Budget 2018/19	Total 2018/19
£m		£m	£m	£m
120.0	Final DSG allocation before academy recoupment			121.5
(43.3)	Less academy figure recouped			(42.4)
76.7	Total DSG after academy recoupment for the year			79.1
1.8	Brought forward from previous year			2.1
(1.8)	Less carry forward to following year agreed in advance			(2.0)
76.7	Agreed budgeted distribution in the year	11.4	67.8	79.2
(10.8)	Less: Actual central expenditure	(11.0)	(0.2)	(11.2)
(65.6)	Less: Actual Individual Schools Budget deployed to schools	-	(67.5)	(67.5)
0.3	Add: Surplus 2018/19	0.4	0.1	0.5
2.1	Carried forward to following year			2.5

As at 31 March 2019 total DSG reserves were £2.5m which included £0.8m committed to early years for additional speech and language services provider training and prenatal advice to parents.

Additional DSG was announced by government in December 2018 to help local authorities meet increasing high needs expenditure. Herefordshire's share was £0.4m and this amount is included in the total net DSG of £79.1m. Expenditure plans were not revised and the additional grant is included in the 2018/19 surplus of £0.5m.

29. Grant Income

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

2017/18 £m		2018/19 £m
	Credited to Taxation and Non Specific Grant Income	
10.1	Revenue Support Grant	5.4
12.8	Other non-ring fenced grants	12.5
97.5	Council Tax income	103.5
32.2	Business rates income	31.7
26.5	Capital grants	21.6
179.1	Credited to Taxation and Non Specific Grant Income	174.7
	Credited to Services	
81.5	Department for Education	85.4
8.4	Ministry for Housing, Communities and Local Government	9.7
45.9	Department for Work and Pensions	41.8
0.3	Department for Transport	0.6
0.8	Department for Culture, Media and Sport	0.1
0.1	Department for Environment, Food and Rural Affairs	0.2
10.2	Department of Health	11.7
22.6	Other grants and contributions	23.3
169.8	Credited to Services	172.8
348.9	Total	347.5

30. 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 2018/19 are not material.

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 £29.7m to Worcestershire County Council (£27.6m in 2017/18), including payments to the pension fund and for the joint waste disposal contract. Payments to the CCG in 2018/19 totalled £2.5m (£0.8m in 2017/18). A total of £3.1m was paid to Wye Valley NHS Trust (£3.0m in 2017/18) and £0.0m to 2Gether (£0.8m in 2017/18).

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 £39.2m to Balfour Beatty in 2018/19 (£31.5m in 2017/18).

FOCSA Services (UK) Limited

In 2009 the council entered into a 7 year contract with FOCSA for the collection of household, recycling and commercial waste, this has been extended by a further 7 years to end in 2023. The value of the contract over 7 years is around £30.5m. Payments to FOCSA Services (UK) Limited totalled £4.0m in 2018/19 (£3.9m in 2017/18).

Other organisations – West Mercia Energy

West Mercia Energy (WME) is a Purchasing Consortium which is constituted as a Joint Committee (JC). Herefordshire Council is one of four constituent authorities, the other three Councils are Worcestershire County Council, Telford and Wrekin Council and Shropshire Council.

Herefordshire Council has reviewed the accounting treatment that should be applied and has concluded that WME is a Joint Venture. Under International Accounting Standards, Group Accounts should be prepared unless it is considered not to be material.

The conclusion of the Council is that the exclusion of its share of WME's assets, liabilities, income, expenditure and cash flows from the Council's own accounts will not be material to the fair presentation of the financial position and transactions of the Council and to the understanding of the Statement of Accounts by a reader.

However, in the interests of transparency and accountability an extract of the unaudited 2018/19 WME accounts are included below, along with a disclosure of this Council's proportion of those balances.

WEST MERCIA ENERGY		
EXTRACT FROM DRAFT ACCOUNTS		
AS AT 31 MARCH 2019		
	31-Mar-19	Herefordshire Council share
	£m	£m
Short term debtors	10.5	2.2
Cash and cash equivalents	5.8	1.2
Current assets	16.3	3.4
Short term creditors	(15.0)	(3.1)
Current liabilities	(15.0)	(3.1)
Net current assets	1.3	0.3
Other long term liabilities	(6.8)	(1.7)
Long term liabilities	(6.8)	(1.7)
Net liabilities	(5.5)	(1.4)
Financed by:		
General Fund	0.7	0.1
Result for year	0.7	0.2
Pensions reserve	(7.0)	(1.7)
Total reserves	(5.5)	(1.4)
INCOME		
Turnover	(66.3)	(1.4)

Subsidiary group undertaking

Hoople Limited is a company created in April 2011 to deliver business support services to clients across the public and private sector. During the review period Hoople Limited was wholly owned by Herefordshire Council and Wye Valley NHS Trust. Herefordshire Council is the majority shareholder and included in this statement of accounts is a statement of group accounts section that reports the performance of the group for 2018/19.

31. 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.

2017/18 £m		2018/19 £m
305.8	Opening capital financing requirement	313.6
	Capital investment	
38.0	Property, Plant and Equipment	37.3
1.8	Investment Properties	2.8
9.3	Revenue expenditure funded from capital under statute	3.4
0.3	Assets acquired under PFI contracts	0.3
-	Long term debtors (including loans and PFI prepayments)	3.5
	Sources of finance	
(4.2)	Capital receipts	(8.5)
(29.0)	Government grants and other contributions	(23.3)
	Sums set aside from revenue	
(0.2)	Direct revenue contributions	(4.5)
(8.2)	Minimum Revenue Provision (MRP)	(9.1)
313.6	Closing capital financing requirement	315.5
	Explanation of movements in year	
15.7	Increase in underlying need to borrow	10.7
0.3	Assets acquired under PFI contracts	0.3
(8.2)	Minimum Revenue Provision (MRP)	(9.1)
7.8	Credited to Services	1.9

32. Leases

Council as Lessee

Finance Leases

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

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

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2018/19 £0.1m contingent rents were payable by the council (£0.1m in 2017/18).

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 and other uses.

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	
	2018/19 £m	2017/18 £m	2018/19 £m	2017/18 £m	2018/19 £m	2017/18 £m	2018/19 £m	2017/18 £m
Payable/receivable in the year	-	-	-	-	0.7	0.7	-	-
Not later than one year	-	-	-	-	0.5	0.6	1.7	1.4
Later than one year and not later than five years	0.1	0.1	-	-	1.5	0.9	5.9	4.5
Later than five years	1.7	1.7	0.3	0.3	2.1	0.3	37.9	36.0
Total due in future years	1.8	1.8	0.3	0.3	4.8	2.5	45.5	41.9

33. Private Finance Initiatives and Similar Contracts

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

Mercia Waste Management Limited – Waste Management PFI contract

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

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

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

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

Stepnell Limited – School PFI Contract

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

Shaw Homes

The council has a contract with Shaw Healthcare for the development and provision of residential homes and day care centres previously operated directly by the council. The contract expires in 2033/34 for all homes. The level of payments are dependent on the volume and nature of service elements and Shaw Healthcare's performance in providing services. The payments in respect of this contract were £3.9m in 2018/19 (£3.7m in 2017/18).

Assets

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

	Land & Buildings £m	Equipment £m	Total £m
Balance at 1 April 2018	39.2	0.8	40.0
Additions	0.2	0.1	0.3
Revaluations	1.5	-	1.5
Depreciation	(0.9)	(0.8)	(1.7)
Balance at 31 March 2019	40.0	0.1	40.1

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:

2017/18		2018/19			
		Shaw Healthcare	Whitecross School	Waste Disposal	Total
Total		£m	£m	£m	£m
57.4	Balance outstanding at start of year	7.3	12.8	35.2	55.3
(2.3)	Payments during the year	(0.3)	(0.6)	(1.6)	(2.5)
0.2	Capital expenditure in the year	-	-	0.2	0.2
55.3	Balance outstanding at year end	7.0	12.2	33.8	53.0

Payments

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

	Service Charges	Lifecycle Costs	Finance Liability	Interest & Similar	Total
	£m	£m	£m	£m	£m
Within 1 year	11.0	0.3	2.8	3.8	17.9
Within 2 to 5 years	36.5	1.5	37.3	13.3	88.6
Within 6 to 10 years	24.0	2.1	7.3	6.3	39.7
Within 11 to 15 years	23.9	1.5	6.7	3.5	35.6
Within 16 to 20 years	1.4	-	0.2	0.3	1.9
Balance outstanding at year end	96.8	5.4	54.3	27.2	183.7

The PFI future year commitments total of £183.7m shown above includes inflation assumptions, without inflation the future year commitments would be £65.5m lower.

34. Capitalisation of Borrowing Costs

The council has a policy of capitalising borrowing costs on relevant projects i.e. where schemes last more than 12 months and with at least £10k of interest associated with the project. In 2018/19 no borrowing costs were capitalised (2017/18 £-).

35. Pension Schemes accounted for as Defined Contribution Schemes

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

In 2018/19 the council paid employer contributions of £4.6m (2017/18 £4.5m) in respect of teachers' pension costs. In addition, the council is responsible for all pension payments relating to added years it, or its predecessor authority has awarded, together with the related increases, this cost is £0.2m per annum. The liability to former Hereford and Worcester teachers' unfunded added years' benefits of £0.8m is included in the pension fund liability in the balance sheet in 2018/19 (£0.9m in 2017/18).

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 2018/19 the council paid employer contributions of £0.1m (2017/18 £0.1m) in respect of NHS pension costs for public health staff.

36. 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

2017/18 £m		2018/19 £m
	Comprehensive Income and Expenditure Statement	
	Cost of Services:	
13.7	Current service cost	13.6
0.3	(Gain)/loss from settlements and curtailments	0.2
-	Past service cost	2.8
	Financing and Investment Income and Expenditure:	
5.9	Net interest expense	5.6
0.2	Administration expenses	0.2
20.1	Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	22.4
	Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	
(28.4)	Actuarial (gains) and losses arising on changes in financial assumptions	28.0
(28.4)	Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	28.0
	Movement in Reserves Statement	
(20.1)	Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post-employment benefits	(19.6)
	Amount charged to the General Fund balance for pensions in the year	
13.6	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 2019 (since the introduction of the statement in the 2009/10 restated accounts) is a loss of £116.2m.

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

2017/18 £m		2018/19 £m
594.6	Present value of the defined benefit obligation	661.9
(369.5)	Fair value of plan assets	(393.6)
225.1	Net liability arising from defined benefit obligation	268.3

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

The table below shows the movement on the pension liability

2017/18 £m		2018/19 £m
602.1	Opening balance	594.6
-	Recognition of subsidiary undertaking	17.3
13.7	Current Service Cost	13.7
-	Past Service Cost	2.8
14.9	Interest Cost	15.2
2.6	Contributions by Scheme Participants	2.7
	Re-measurement (gains) and losses	
(24.0)	Actuarial (gains)/losses arising from changes in assumptions	33.3
0.3	Losses/(gains) on curtailments	0.2
(15.0)	Benefits/transfers paid	(18.0)
594.6	Closing balance	661.8

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

The table below shows the movement on the pension assets

2017/18 £m		2018/19 £m
355.1	Opening fair value of scheme assets	369.5
-	Recognition of subsidiary undertaking	10.3
9.0	Interest income	9.7
4.4	Re-measurement gain/(loss): the return on plan assets, excluding amount included in the net interest expense	5.3
(0.2)	Administration expenses	(0.2)
13.6	Contribution from employer	14.2
2.6	Contributions from employees into the scheme	2.7
(15.0)	Benefits/transfers paid	(18.0)
369.5	Closing fair value of scheme assets	393.5

Herefordshire Council Unaudited Statement of Accounts 2018/19

The actual return on scheme assets in the year was £15.4m, 4.4% of the period end assets (2017/18 £13.4m, 3.6%).

Local Government Pension Scheme assets (at fair value) comprised

31 March 2018 £m		Quoted (Y/N)	31 March 2019 £m
	Cash		
1.1	Cash instruments	Y	1.6
2.2	Cash accounts	Y	3.1
1.1	Net current assets	N	4.3
	Equity instruments		
1.5	UK quoted	Y	0.8
105.7	Overseas quoted	Y	103.9
90.5	Pooled investment vehicle - UK managed funds	N	52.7
121.5	Pooled investment vehicle - UK managed funds (overseas equities)	N	125.5
	Property		
9.2	European property funds	N	10.2
3.0	UK property debt	N	3.5
1.8	Overseas property debt	N	2.4
1.5	UK property funds	N	8.7
	Alternatives		
12.6	UK infrastructure	N	14.2
-	- European Infrastructure	N	7.5
-	- US Infrastructure	N	1.2
-	- UK Stock Options	N	2.7
	Bonds		
1.5	UK Corporate	Y	1.2
16.3	Overseas Corporate	Y	18.1
-	- UK Government Fixed	Y	31.9
369.5	Closing fair value of scheme assets		393.5

Basis for estimating Assets and Liabilities

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

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

Beginning of the period (p.a.)		End of the period (p.a.)
	Mortality assumptions	
	Longevity at 65 for current pensioners (years)	
22.7	Men	22.8
25.7	Women	25.8
	Longevity at 65 for future pensioners (years)	
24.9	Men	25.1
28.0	Women	28.2
	Financial Assumption	
2.1%	Rate of CPI inflation	2.2%
3.6%	Rate of increase in salaries	3.7%
2.2%	Rate of increase in pensions	2.3%
2.6%	Rate for discounting scheme liabilities	2.4%

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

	Increase / (decrease) in assumption £m
0.1% increase in real discount rate	(11.8)
1 year increase in member life expectancy	12.1
0.1% increase in the salary increase rate	1.1
0.1% increase in the inflation increase rate	13.2

Impact on the Councils Cash Flows

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

Total employer contributions expected to be made to the Local Government Pension Scheme by the council in the year ended 31 March 2020 is £13.1m.

Scheme History

Scheme History	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
	£m	£m	£m	£m	£m	£m	£m
Present value of liabilities	(422.8)	(419.6)	(500.0)	(486.0)	(602.1)	(594.6)	(661.9)
Value of Scheme assets	235.4	260.2	288.6	281.7	355.1	369.5	393.6
(Deficit) in scheme	(187.4)	(159.4)	(211.4)	(204.3)	(247.0)	(225.1)	(268.3)

37. Contingent Liabilities

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

38. Nature and Extent of Risks Arising from Financial Instruments

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

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

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

Credit Risk

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

During 2018/19 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.

Herefordshire Council Unaudited Statement of Accounts 2018/19

	Amount at 31 March 2019 £m	Historical experience of default %	Historical experience adjusted for market conditions at 31 March 2019 %	Estimated maximum exposure to default and uncollectability 31 March 2018 £m	Estimated maximum exposure to default and uncollectability 31 March 2019 £m
Deposits with banks and financial institutions	23.1	-	-	-	-
Customers	8.7	0.5	0.5	-	-

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

31 March 2018 £m		31 March 2019 £m
5.5	Less than 3 months	3.9
0.5	3 to 6 months	0.6
1.4	6 months to 1 year	1.9
2.1	More than 1 year	2.3
9.5	Total	8.7

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 2018 £m		31 March 2019 £m
11.7	Less than 1 year	8.4
	More than 1 year	
7.2	Between 1 and 2 years	3.5
12.4	Between 2 and 5 years	11.7
26.2	Between 5 and 10 years	24.4
92.2	More than 10 years	91.2
149.7	Total borrowing per balance sheet	139.2

Market Risk

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

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

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

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

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

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

39. Trust Funds

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

	Balance at 31 March 2018 £m	Repayment of Trust Fund Balances £m	Balance at 31 March 2019 £m
Other Funds	0.1	-	0.1

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

40. Prior Period Adjustment of Net Cost of Services

This note restates the 2017/18 Net Cost of Services within the Comprehensive Income and Expenditure Statement into the new Directorate Headings presented in the 2018/19 Accounts. The Net Cost of Services for 2017/18 have been restated to present comparatives in line with 2018/19. Adults and Communities, and Children and Families have only had a change in name.

	As reported in the Comprehensive Income and Expenditure Statement 2017/18	Adjustments due to changes in New Directorate Structure	As Restated 2017/18
Net Expenditure	£m	£m	£m
Adults and Communities	54.2	-	54.2
Children and Families	27.4	-	27.4
Economy, communities and corporate	78.3	(78.3)	-
Economy and Place	-	47.9	47.9
Corporate and Central Services	-	30.4	30.4
Net Cost of Services	159.9	-	159.9
Gross Expenditure	£m	£m	£m
Adults and Communities	91.2	-	91.2
Children and Families	121.8	-	121.8
Economy, communities and corporate	148.8	(148.8)	-
Economy and Place	-	69.4	69.4
Corporate and Central Services	-	79.4	79.4
	361.8	-	361.8
Gross Income	£m	£m	£m
Adults and Communities	(37.0)	-	(37.0)
Children and Families	(94.4)	-	(94.4)
Economy, communities and corporate	(70.5)	70.5	-
Economy and Place	-	(21.5)	(21.5)
Corporate and Central Services	-	(49.0)	(49.0)
	(201.9)	-	(201.9)

Statement of Group Accounts and Explanatory Notes



41. Statement of Group Accounts

Introduction

The statement of group accounts consolidates the Herefordshire Council Core accounts and those of its subsidiary undertaking, Hoople Limited.

Hoople Limited specialises in providing support services to the public sector: IT, Training and recruitment, HR, Finance, Revenues and Benefits and Reablement. Herefordshire Council is a majority shareholder of Hoople Limited and considers the business to be a subsidiary undertaking due to the controlling influence it can and does exercise.

Hoople Limited had revenue of £13.2m in 2018/19 (2017/18: £13.5m). This included revenue from services provided to Herefordshire Council of £7.2m in 2018/19 (2017/18: £7.8m). The council provided services to Hoople Limited of £1.0m in 2018/19 (2017/18: £0.8m). These transactions were all made on an arms-length basis.

The group accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (The Code) published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The aim of the statement of group accounts is to provide the reader with an overall view of the material economic activities of the Group. The statement of group accounts provides a summary of the group's financial position and details of material items that have impacted on the accounts during the year. The statement of group accounts has been prepared using uniform accounting policies.

Within the notes to the Group accounts, the Council reports the group balance sheet headings where the difference between the core and group totals exceeds £1m.

Basis of Consolidation

In 2018/19 Herefordshire Council held 84% (2017/18 85.54%) of the ordinary share capital of Hoople Limited. Each partner's share is calculated with reference to Hoople Limited turnover from shareholders. The 2018/19 review concluded with a reallocation of 83 shares, 70 to Herefordshire Council and 13 to Wye Valley NHS Trust .

The council effectively controlled and controls Hoople Limited and as such, it is accounted for as a subsidiary undertaking. It holds equal voting rights with the other shareholder, Wye Valley Trust NHS . In accordance with IAS 27 and IFRS 10, income and expenditure and assets and liabilities have been consolidated with the Council's accounts on a line-by-line basis, eliminating inter-organisational transactions and year end balances.

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

Group Comprehensive Income & Expenditure Statement

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

There were no acquisitions or discontinued operations in the two years.

2017/18					2018/19			
Net Core £m	Group entities £m	Adjs £m	Group £m		Net Core £m	Group entities £m	Adjs £m	Group £m
54.2	-	(0.8)	53.4	Adults and Communities	51.6	-	(0.6)	51.0
27.4	-	(0.4)	27.0	Children and Families	28.3	-	(0.5)	27.8
47.9	-	-	47.9	Economy and Place	37.7	-	-	37.7
30.4	0.2	1.2	31.8	Corporate and Central Services	23.8	0.2	1.1	25.1
159.9	0.2	-	160.1	Net Cost of Services	141.4	0.2	-	141.6
2.9	-	-	2.9	Other Operating Expenditure	4.5	-	-	4.5
2.8	0.2	-	3.0	Financing, Investment Income and Expenditure	12.3	0.1	-	12.4
(179.1)	-	-	(179.1)	Taxation and Non-Specific Grant Income	(174.7)	-	-	(174.7)
(13.5)	0.4	-	(13.1)	(Surplus) or deficit on the provision of services	(16.5)	0.3	-	(16.2)
(93.3)	-	-	(93.3)	(Surplus) / deficit in revaluation of non-current assets	(3.6)	-	-	(3.6)
(28.4)	(0.6)	-	(29.0)	Re-measurement of net Defined Benefit Liability	34.1	(5.8)	-	28.3
(121.7)	(0.6)	-	(122.3)	Other comprehensive (income) / expenditure	30.5	(5.8)	-	24.7
(135.2)	(0.2)	-	(135.4)	Total comprehensive (income) / expenditure	14.0	(5.5)	-	8.5

The re-measurement of net Defined Benefit Liability for the group entity represents the novation of the Local Government Pension Scheme (LGPS) deficit in Hoople Limited to Herefordshire Council. This follows a deed of amendment to the admission agreement during 2018/19 to correctly reflect the intention of Herefordshire Council to guarantee any shortfall. Whilst this guarantee is in place Hoople Limited and the council will be treated as a single entity for the purpose of determining the contributions and payments that are due to the LGPS.

The Surplus on the Provision of Services of £16.2m includes a Surplus of £0.1m attributable to the Minority Interest (2017/18: Deficit £0.1m)

The Total comprehensive (income) / expenditure attributable to the Minority Interest is £0.9m income (2017/18: (£0.1m) income)

These Minority Interests represent 16% (2017/18 14.46%) of the Income and Expenditure of Hoople Limited, the subsidiary undertaking.

Group Movement in Reserves Statement

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

2018/19	General Fund Balance	Earmarked Reserves	Revenue Fund Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Usable Reserves	Unusable Reserves	Total Council Reserves	Council's share of Reserves of subsidiary	Total Group Reserves
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Balance brought forward	(7.9)	(57.8)	(65.7)	(42.6)	(2.7)	(111.0)	(139.6)	(250.6)	3.6	(247.0)
(Surplus) or deficit on the provision of services	(10.3)	-	(10.3)	-	-	(10.3)	-	(10.3)	(5.9)	(16.2)
Other comprehensive income and expenditure	-	-	-	-	-	-	30.5	30.5	(5.8)	24.7
Total comprehensive income and expenditure	(10.3)	-	(10.3)	-	-	(10.3)	30.5	20.2	(11.7)	8.5
Adjustments between Group accounts and authority accounts	(6.2)	-	(6.2)	-	-	(6.2)	-	(6.2)	6.2	-
Net (increase)/decrease before transfers	(16.5)	-	(16.5)	-	-	(16.5)	30.5	14.0	(5.5)	8.5
Adjustments between accounting basis and funding basis under regulations	7.3	-	7.3	1.1	(1.7)	6.7	(6.7)	-	-	-
Net (increase)/decrease before transfers to earmarked reserves	(9.2)	-	(9.2)	1.1	(1.7)	(9.8)	23.8	14.0	(5.5)	8.5
Transfers to or from earmarked reserves	8.6	(8.6)	-	-	-	-	-	-	-	-
Decrease/(Increase) for the Year	(0.6)	-	(9.2)	1.1	(1.7)	(9.8)	23.8	14.0	(5.5)	8.5
Balance Carried Forward	(8.5)	(66.4)	(74.9)	(41.5)	(4.4)	(120.8)	(115.8)	(236.6)	(1.9)	(238.5)

Total Group Reserves at 31 March 2019 includes Minority Interest in the subsidiary undertaking of £0.3m.

Group Movement in Reserves Statement 2017/18 Comparative

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

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

Group Balance Sheet

Summarised

The Group Balance Sheet shows the assets and liabilities recognised by the Group at 31 March 2019 and the reserves the company holds which are split into usable and unusable in accordance with CIPFA requirements. A detailed balance sheet may be found on the next page.

2017/18			2018/19	
Core £m	Group £m		Core £m	Group £m
674.1	674.1	Long term assets	692.3	692.3
52.3	56.4	Current assets	63.4	67.3
(47.9)	(50.5)	Current liabilities	(55.0)	(57.0)
(427.9)	(433.0)	Long term liabilities	(464.1)	(464.1)
250.6	247.0	Net Assets	236.6	238.5
		Represented by:		
(111.0)	(107.3)	Usable reserves	(120.8)	(122.7)
(139.6)	(139.6)	Unusable reserves	(115.8)	(115.8)
(250.6)	(247.0)	Total Group Reserves	(236.6)	(238.5)

The Minority Interest share of subsidiary reserves represents an Unusable reserve to the Council in 2018/19 of £0.3m (2017/18: £0.5m).

The audited 2018/19 financial statements of Hoople Limited will be filed with Companies House before the statutory due date of 31 December 2019. Further details of the financial performance of that company will be contained therein. The financial performance of Hoople Limited, as consolidated into these group accounts may be found within note G2 to these accounts.

The unaudited group accounts were authorised for issue on 29 May 2019.

Chief Finance Officer (section 151 officer)

Chair of Audit Committee

Group Balance Sheet

Detailed

The Group Balance Sheet shows the assets and liabilities recognised by the Group at 31 March 2019 and the reserves the company holds which are split into usable and unusable in accordance with CIPFA requirements.

31 March 2018 £m		Notes	31 March 2019 £m
569.9	Property, Plant and Equipment		612.9
34.6	Investment Property		34.2
0.1	Intangible Assets		-
3.2	Heritage Assets		3.2
39.3	Long Term Debtors		42.0
674.1	Long Term Assets		692.3
5.0	Short term Investments		10.1
0.1	Inventories		0.1
25.4	Short Term Debtors		25.6
17.7	Cash & Cash equivalents	G5	25.7
8.2	Assets held for Sale		5.8
56.4	Current Assets		67.3
(11.8)	Short Term Borrowing		(8.5)
(35.8)	Short Term Creditors	G6	(42.2)
(2.5)	Short Term Provisions		(2.0)
(0.4)	Cash & Cash equivalents	G5	(4.3)
(50.5)	Current Liabilities		(57.0)
(3.6)	Long term provisions		(4.7)
(138.0)	Long term borrowing		(130.7)
(4.7)	Capital Grants Receipts in Advance		(9.9)
(286.7)	Other Long Term Liabilities		(318.8)
(433.0)	Total Long Term Liabilities		(464.1)
247.0	Net Assets		238.5
(107.4)	Usable Reserves		(122.7)
(139.6)	Unusable Reserves		(115.8)
(247.0)	Total Reserves		(238.5)

Group Cash Flow Statement

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

2017/18 £m		Notes	2018/19 £m
(13.1)	Net (surplus) or deficit on the provision of services		(16.2)
(72.7)	Adjust net (surplus) or deficit on the provision of services for non-cash movements		(42.0)
42.5	Adjust for items included in the net (surplus) or deficit on the provision of services that are investing and financing activities		7.4
(43.3)	Net cash flows from operating activities		(50.8)
1.0	Net cash flows from investing activities		33.8
30.5	Net cash flows from financing activities		12.9
(11.8)	Net (increase) or decrease in cash and cash equivalents		(4.1)
(5.5)	Cash and cash equivalents at the beginning of the reporting period	G5	(17.3)
(17.3)	Cash and cash equivalents at the end of the reporting period	G5	(21.4)
(11.8)	Net (increase) or decrease in cash and cash equivalents		(4.1)

Notes to the statement of group accounts**G1. Group Accounting Policies****General Principles**

The council is required to produce an annual statement of group accounts in accordance with the Accounts and Audit Regulations 2015, which requires the accounts to be prepared in accordance with proper accounting practices. These practices under section 21 of the 2003 Act primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 "The Code", supported by International Financial Reporting Standards.

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

Consolidation of subsidiaries, associate companies and joint operations

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

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

The accounting policies applied to the statement of group accounts are therefore consistent with those set out in Note 1 to the core Herefordshire Council notes to the accounts on page 21.

Taxation

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

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

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

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

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

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

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

G2. Financial performance of group undertaking

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

	2017/18	2018/19
Statement of comprehensive income	£m	£m
Turnover	(13.5)	(13.2)
(Profit) / Loss on ordinary activities before taxation	0.4	0.3
Tax on profit on ordinary activities	-	-
(Profit) / Loss for the financial year after taxation	0.4	0.3
Other comprehensive (income) / expenditure	(0.6)	(5.8)
Total comprehensive (income) / expenditure for the year	(0.2)	(5.5)

	2017/18	2018/19
Statement of financial position	£m	£m
Non-current assets	-	-
Current assets	5.0	4.7
Liabilities due within one year	(3.5)	(2.8)
Liabilities due after one year	(5.1)	-
Net Liabilities and Reserves	(3.6)	1.9

Other comprehensive (income) / expenditure relates to the novation of the LPGS pension.

Liabilities due after one year relate to the pension deficit in 2017/18 that has been transferred to Herefordshire Council in 2018/19 (see note G4 below).

G3. Group Nature of Expenses Disclosure

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

2017/18 £m		2018/19 £m
	Income	
(58.8)	Fees, charges and other service income	(59.6)
(2.3)	Trading and investment income	(2.3)
(2.8)	Interest and investment income	(3.4)
(129.7)	Income from council tax and non-domestic rates	(135.2)
(197.5)	Government grants and contributions	(190.6)
(1.0)	Gains on disposal of non-current assets	-
(392.1)	Total Income	(391.1)
	Expenditure	
110.4	Employee benefits expenses	107.4
211.2	Other service expenses	216.1
4.7	Support service recharges (net)	5.2
-	Loss on disposal of non-current assets	-
41.0	Depreciation, amortisation and impairment	23.7
(8.0)	Trading and investment expenditure	2.8
15.7	Interest expenditure	15.2
4.0	Precepts and levies	4.5
379.0	Total Expenditure	(374.9)
(13.1)	(Surplus) / Deficit on the Provision of Services	(16.2)

G4. Pensions

The Herefordshire Council core pension note 35 may be found from page 75 onwards.

The following note relates solely to the pensions of Hoople Limited.

Hoople Limited staff are members one of the following pensions:

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

Hoople Limited Defined Benefit pensions scheme – Local Government Pension Scheme

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

The LGPS pension charge is set by the schemes actuary (Mercer Limited) and employer contributions Employer's pension cost contributions are charged to operating expenses as and when they become due.

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

Herefordshire Council Unaudited Statement of Accounts 2018/19

guarantee in relation to Hoople Limited. A deed of amendment to the admission agreement occurred in 2018/19 to correctly reflect this intention. Whilst this guarantee is in place Hoople Limited and the council will be treated as a single entity for the purpose of determining the contributions and payments that are due to the LGPS. The longer term liability is reflected in the Councils core financial statements and the scheme is accounted for as a defined contribution scheme in Hoople Limited accounts.

Employer contribution rates are capped in the admission variation agreement at 15.2%. The total contribution made for the year ended 31 March 2019 was £0.8m of which employer's contributions totalled £0.6m (2017/18 £0.6m) and employees contributions totalled £0.2m (2017/18 £0.3m).

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

2017/18 £m		2018/19 £m
	Comprehensive Income and Expenditure Statement	
	Cost of Services:	
1.2	Current service cost	1.1
-	(Gain)/loss from settlements and curtailments	0.1
	Financing and Investment Income and Expenditure:	
0.1	Net interest expense	0.1
-	Administration expenses	-
1.3	Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	1.3
	Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	
0.6	Actuarial (losses) / gains arising on changes in financial assumptions	(1.1)
0.6	Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	(1.1)
	Amount charged to the Comprehensive Income and Expenditure Statement for pensions in the year	
0.6	Employer's contribution payable to the scheme	0.6

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

The table below shows the movement on the pension liability

2017/18 £m		2018/19 £m
12.9	Opening balance	14.2
1.2	Current Service Cost	1.1
0.3	Interest Cost	0.4
0.3	Contributions by Scheme Participants	0.3
	Re-measurement (gains) and losses	
(0.5)	Actuarial (gains)/losses arising from changes in assumptions	1.2
-	- Losses/(gains) on curtailments	0.1
-	- Transfer to parent core financial statements	(17.3)
14.2	Closing balance	-

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

The table below shows the movement on the pension assets

2017/18 £m		2018/19 £m
8.0	Opening fair value of scheme assets	9.1
0.2	Interest income	0.3
0.1	Re-measurement gain/(loss): the return on plan assets, excluding amount included in the net interest expense	0.1
0.6	Contribution from employer	0.6
0.2	Contributions from employees into the scheme	0.2
-	- Transfer to parent core financial statements	(10.3)
9.1	Closing fair value of scheme assets	-

The actual return on scheme assets in the year was £0.4m of the period end assets (2017/18 £0.2m).

NHS Pension Scheme

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

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

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

The employer contribution rate is set through a process known as the scheme valuation. A scheme valuation is

Herefordshire Council Unaudited Statement of Accounts 2018/19

carried out every four years and it measures the full cost of paying pension benefits (to current pensioners). The most recent 2016 scheme valuation identified the need to increase the employer contribution from 14.3% to 20.6% from 1 April 2019.

Hoople Limited Defined Contribution pensions scheme

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

2017/18 £m		2018/19 £m
0.1	Employees' contributions	0.1
0.1	Employers' contributions	0.2
0.2	Total	0.3

G5. Group Cash and Cash Equivalents

31 March 2018 £m		31 March 2019 £m
8.6	Cash held by the Group	7.5
9.1	Short term deposits	18.2
17.7	Total	25.7
(0.4)	Bank current accounts	(4.3)
17.3	Total Cash and Cash Equivalents	21.4

Hoople Limited held £3.2m of short term cash balances as at 31 March 2019 (31 March 2018: £3.3m)

G6. Group Short Term Creditors

31 March 2018 £m		31 March 2019 £m
(8.3)	Central government bodies	(11.1)
(2.4)	Other local authorities	(4.3)
(2.1)	NHS bodies	(0.9)
(23.0)	Other entities and individuals	(24.6)
-	Monies due to agency NMiTE	(1.3)
(35.8)	Total	(42.2)

Hoople Limited had short term liabilities totalling £2.8m as at 31 March 2019 (31 March 2018: £3.5m). These included Trade creditors, Accruals and VAT liability in line with normal business activities.

G7. External audit costs

2017/18 £m		2018/19 £m
0.1	Fees payable with regard to external audit services carried out by the appointed auditor	0.1
0.1	Total	0.1

The above fees included £17k in respect of Hoople Limited (2017/18: £15k).

Supplementary Accounts- Collection Fund



42. 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.

2017/18		2018/19		
		Council Tax £m	Business Rates £m	Total £m
	Amounts required to be credited to the Collection Fund			
116.1	Council Tax	123.0	-	123.0
46.9	Business Rates Income	-	47.5	47.5
-	Transitional Protection Payments Receivable	-	0.8	0.8
	Contribution towards previous year's Deficit			
-	Central Government	-	0.4	0.4
-	Hereford and Worcester Fire Authority	-	0.4	0.4
-	Herefordshire Council	-	-	-
163.0	Total	123.0	49.1	172.1
	Amounts required to be debited from the Collection Fund			
	Precepts, Demands and Shares			
22.4	Central Government	-	23.0	23.0
5.8	Hereford and Worcester Fire Authority	5.6	0.5	6.1
115.1	Herefordshire Council	98.4	22.6	121.0
3.8	Parishes	4.3	-	4.3
12.8	West Mercia Police	13.4	-	13.4
0.2	Transitional Protection Payments Payable	-	-	-
	Contribution towards previous year's Surplus			
0.5	Central Government	-	-	-
0.1	Hereford and Worcester Fire Authority	-	-	-
1.5	Herefordshire Council	0.4	-	0.4
0.1	West Mercia Police	0.1	-	0.1
	Charges to Collection Fund			
0.3	Cost of collection Allowance	-	0.3	0.3
0.4	Write offs of uncollectable debt	0.3	0.2	0.5
0.1	Increase/(decrease) of Bad Debt Provision	0.1	-	0.1
(0.3)	Increase/(decrease) of Appeals Provision	-	2.0	2.0
0.2	Other transfers to General Fund	-	0.3	0.3
163.0	Total	122.6	48.9	171.5
-	Surplus/(Deficit) for the Year	0.4	0.2	0.6
0.8	Balance brought forward	0.6	0.2	0.8
0.8	Balance carried forward	1.0	0.4	1.4

Notes to the Collection Fund

The total non-domestic rateable value at the year-end was £134.66m and the national non-domestic rate multiplier for 2018/19 was 49.3p

Non - Domestic Rates Income	2018/19 £m
Annual Debit	(66.8)
Less	
Empty Allowances	2.3
Transitional Relief	2.3
Discretionary Relief	0.6
Mandatory Relief	4.7
Small Business Rate Relief	8.7
Funded Reliefs	0.4
Enterprise Zone	0.3
Total	(47.5)

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 2018/19 was £1,785.47 including fire, police and parish precepts, with a range of between £1,722.92 and £1,890.21. The council tax base used for setting the council tax in 2018/19 was 68,177.57. 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	5,299.51
B	£40,001 to £52,000	7/9	11,316.04
C	£52,001 to £68,000	8/9	12,019.07
D	£68,001 to £88,000	9/9	11,417.80
E	£88,001 to £120,000	11/9	12,791.62
F	£120,001 to £160,000	13/9	9,195.74
G	£160,001 to £320,000	15/9	5,537.46
H	Over £320,000	18/9	313.43
Crown			286.90
Total			68,177.57

Council Taxpayer Income	2018/19 £m
Council Tax debit at 1 April	(147.1)
Banding change	(1.9)
Less	
Discounts	11.7
Exemptions	3.2
Council Tax Reduction	10.9
Disablement Relief	0.2
Total	(123.0)

The Collection Fund surplus or (deficit) at 31 March 2019 is split as follows:

	Council Tax £m	Business Rates £m	Total £m
Central Government	-	0.2	0.2
Hereford and Worcester Fire Authority	-	-	-
Herefordshire Council	0.9	0.2	1.1
West Mercia Police	0.1	-	0.1
Total	1.0	0.4	1.4

43. Annual governance statement 2018/19

To follow



44. Definitions

Accounting Policies

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

Accumulated Absences Account

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

Assets

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

Borrowing costs

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

Capital Adjustment Account

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

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

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

Carrying amount

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

Contingent Liability

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

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

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

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

Creditors

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

Collection Fund Adjustment Account

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

Core

The single entity, being Herefordshire Council.

Debtors

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

Deferred Capital Receipts Reserve

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

Depreciation

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

Exchange Transactions

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

Fair value

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

Finance lease

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

Financial Instruments Adjustment Account

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

Financial Instrument

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

Grants and contributions

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

Historical cost

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

IFRIC

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

IFRS

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

Impairment loss

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

Intangible Asset

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

Inventories

These are assets;

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

Investment property

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

Liabilities

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

Material

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

Minimum Revenue Provision (MRP)

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

Non-Exchange Transactions

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

Operating lease

A lease other than a finance lease

Property, plant and equipment

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

Provision

A liability of uncertain timing or amount.

Related Party

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

Revaluation Reserve

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

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

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

Revenue

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

Soft loan

A loan at less than the market interest rate.

Grant Thornton UK LLP
2 Glass Wharf
Temple Quay
BRISTOL
BS2 0EL

Dear Sirs

Herefordshire Council

Financial Statements for the year ended 31 March 2019

This representation letter is provided in connection with the audit of the financial statements of Herefordshire Council and its subsidiary undertaking, Hoople Limited for the year ended 31 March 2019 for the purpose of expressing an opinion as to whether the group and parent council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and applicable law.

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

Group Financial Statements

We have fulfilled our responsibilities for the preparation of the Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

We have fulfilled our responsibilities for the preparation of the group and parent Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 ("the Code"); in particular the group and parent Council financial statements are fairly presented in accordance therewith.

We have complied with the requirements of all statutory directions affecting the group and parent Council and these matters have been appropriately reflected and disclosed in the group and parent Council financial statements.

The Council has complied with all aspects of contractual agreements that could have a material effect on the group and parent Council financial statements in the event of non-compliance.

There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the group and parent Council financial statements in the event of non-compliance.

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

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

Except as disclosed in the financial statements:

- there are no unrecorded liabilities, actual or contingent
- none of the assets of the Council has been assigned, pledged or mortgaged
- there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

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.

Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

All events subsequent to the date of the group and parent Council financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

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

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

Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

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

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

Information Provided

We have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the group and parent Council financial statements such as records, documentation and other matters;
- additional information that you have requested from us for the purpose of your audit; and
- unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.

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

All transactions have been recorded in the accounting records and are reflected in the group and parent Council financial statements.

We have disclosed to you the results of our assessment of the risk that the group and parent council financial statements may be materially misstated as a result of fraud.

We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the group and parent Council and involves:

- management;
- employees who have significant roles in internal control; or
- others where the fraud could have a material effect on the group and parent council financial statements.

We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the group and parent Council's financial statements communicated by employees, former employees, analysts, regulators or others.

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.

We have disclosed to you the identity of the group and parent Council's related parties and all the related party relationships and transactions of which we are aware.

We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the group and parent Council financial statements.

Annual Governance Statement

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

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

Approval

The approval of this letter of representation was minuted by the Council's Audit and Governance Committee at its meeting on 30 July 2019.

Yours faithfully

Name	Andrew Lovegrove
Position	Chief Finance Officer
Date	30 July 2019

Name	Councillor Nigel Shaw
Position	Chairman, Audit and Governance Committee
Date	30 July 2019

Signed on behalf of the Governing Body



Meeting:	Audit and governance committee
Meeting date:	Tuesday 30 July 2019
Title of report:	2019/20 external audit fee
Report by:	Chief executive

Classification

Open

Decision type

This is not an executive decision

Wards affected

(All Wards);

Purpose and summary

To approve the planned external audit fee and to note the outline timetable, as detailed in appendix 1, for 2019/20, to ensure that the council has effective statutory external audit arrangements in place as required in the council's constitution.

For opted in bodies like Herefordshire, Public Sector Audit Appointments Ltd (PSAA) is responsible for setting audit fees and has set the 2019/20 fee scale at the same level as 2018/19, unless there are specific circumstances which require otherwise which is not the case for Herefordshire.

The outline 2019/20 external audit timetable is in line with the 2018/19 timetable.

Recommendation(s)

That:

subject to any changes the committee wish to recommend, the external audit outline timetable and main audit fee of £96k for 2019/20 at appendix 1 be approved.

Alternative options

1. There are no alternatives to approving a plan and fee, external audit is a statutory requirement, the auditor appointment has been confirmed and the associated fee is set by the regulatory body, Public Sector Audit Appointments Ltd (PSAA).
2. The committee may request changes to the timetable and/or additions to the workplan. If it were to do so these changes would need to be agreed with Grant Thornton and follow the relevant council's contract, financial and governance processes.

Key considerations

3. The Local Audit and Accountability Act 2014 (the Act) provides the framework for local public audit. Public Sector Audit Appointments Ltd (PSAA) has been specified as an appointing person under the Act and the Local Authority (Appointing Person) Regulations 2015 and had the power to make auditor appointments for audits of opted-in local government bodies from 2018/19. Herefordshire opted into these arrangements as approved at the Council meeting dated 13 October 2017.
4. For opted-in bodies PSAA's responsibilities also include setting fees and monitoring the quality of auditors' work. PSAA published the 2019/20 scale fees for opted-in bodies at the end of March 2019, following a consultation process. Individual scale fees have been maintained at the same level as in 2018/19, unless there were specific circumstances which required otherwise. As outlined at appendix 1, Herefordshire's scale fee for 2019/20 has been set by PSAA at £96k which is the same as in 2018/19.
5. The audit planning process for 2019/20, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated if considered necessary as Grant Thornton's work progresses.
6. There are no changes to the overall external audit work programme for audits of local government audited bodies for 2019/20. Under the provisions of the Local Audit and Accountability Act 2014, the National Audit Office (NAO) is responsible for publishing the statutory Code of Audit Practice and guidance for auditors. Audits of the accounts for 2019/20 will be undertaken under this Code.
7. The scale fee covers:
 - The audit of the financial statements
 - The value for money conclusion
 - The whole of government accounts return (if applicable).
8. PSAA is responsible for appointing auditors, setting audit fees, overseeing the delivery of consistent, high quality and effective audit services to local public bodies, and ensuring effective management of the contracts with the audit firms. PSAA will agree fees for considering objections from the point at which auditors accept an objection as valid, or any special investigations, as a variation to the scale fee.
9. Grant Thornton will undertake audit planning and interim audit procedures in October to March 2020. Upon completion of this a detailed audit plan will be issued. Progress against the plan will be reported to the committee as stated in the committee's work plan.

Community impact

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

10. In accordance with its adopted code of corporate governance, 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. External audit contributes to effective accountability.
11. An efficient and effective audit service supports the council in demonstrating progress towards achievement of our corporate plan priority to secure better services, quality of life and value for money.

Equality duty

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.
12. 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

13. Public Sector Audit Appointments Ltd (PSAA) published the external audit scale fees for opted in bodies (Herefordshire Council is an opted in body) for 2019/20 in March 2019.
14. Individual scale fees have remained the same for 2019/20 as is 2018/19. This is funded in the 2019/20 base budget and there are adequate resources internally to support the audit plan.

Legal implications

15. The Local Audit and Accountability Act 2014 states that the accounts of a relevant authority for a financial year must be audited:
 - (a) in accordance with the Act and provision made under it, and
 - (b) by an auditor (a "local auditor") appointed in accordance with the Act or provision made under it.
16. A local auditor must, in carrying out the auditor's functions in relation to the accounts comply with the code of audit practice applicable to the council that is for the time being in

force. The current code of practice for UK Local Government is the Code of Audit Practice issued by the National Audit Office in April 2015.

17. The code requires under section 1.17 that the auditor should share and discuss their audit plan at an early stage with the audited body.

Risk management

18. The proposed fee is set independently. There is a risk that the actual external audit cost may increase if the planned audit work is not adequately supported through the provision of materially correct financial statements and working papers within the agreed timeframes. The audit plan and progress reports will provide the committee with updates on this risk, currently this risk is assessed as low.

Consultees

None

Appendices

Appendix 1 Proposed 2019/20 external audit fee and outline timetable

Background papers

None identified

Our ref: JR/GTR/2020FEE
Your ref:

Andrew Lovegrove
Chief Finance Officer and S151 Officer
Herefordshire Council
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9 April 2019

Dear Andrew

Planned audit fee for 2019/20

The Local Audit and Accountability Act 2014 (the Act) provides the framework for local public audit. Public Sector Audit Appointments Ltd (PSAA) has been specified as an appointing person under the Act and the Local Authority (Appointing Person) Regulations 2015 and had the power to make auditor appointments for audits of opted-in local government bodies from 2018/19.

For opted-in bodies PSAA's responsibilities also include setting fees and monitoring the quality of auditors' work. Further information on PSAA and its responsibilities are available on the [PSAA website](#).

All grant work, including housing benefit certification, falls outside the PSAA contract, as PSAA no longer has the power to make appointments for assurance on grant claims and returns. Any assurance engagements will therefore be subject to separate engagements agreed between the grant-paying body, the Council and ourselves and separate fees agreed with the Council.

Scale fee

PSAA published the 2019/20 scale fees for opted-in bodies at the end of March 2019, following a consultation process. Individual scale fees have been maintained at the same level as in 2018/19, unless there were specific circumstances which required otherwise. Further details are set out on the [PSAA website](#). The Council's scale fee for 2019/20 has been set by PSAA at £95,792 which is the same as in 2018/19.

PSAA prescribes that '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'.

The audit planning process for 2019/20, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary as our work progresses.

Scope of the audit fee

There are no changes to the overall work programme for audits of local government audited bodies for 2019/20. Under the provisions of the Local Audit and Accountability Act 2014, the National Audit Office (NAO) is responsible for publishing the statutory Code of Audit Practice and guidance for auditors. Audits of the accounts for 2019/20 will be undertaken under this Code. Further information on the NAO Code and guidance is available on the [NAO website](#).

The scale fee covers:

- our audit of your financial statements;
- our work to reach a conclusion on the economy, efficiency and effectiveness in your use of resources (the value for money conclusion); and
- our work on your whole of government accounts return (if applicable).

PSAA will agree fees for considering objections from the point at which auditors accept an objection as valid, or any special investigations, as a variation to the scale fee.

Value for Money conclusion

The Code requires us to consider whether 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.

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

The NAO guidance identifies one single criterion for auditors to evaluate:

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

Billing schedule

Fees will be billed as follows:

Main Audit fee	£
September 2019	23,948
December 2019	23,948
March 2020	23,948
June 2020	23,948
Total	95,792

Outline audit timetable

We will undertake our audit planning and interim audit procedures in October to March 2020. Upon completion of this phase of our work we will issue a detailed audit plan setting out our findings and details of our audit approach. Our final accounts audit and work on the VfM conclusion will be completed in July 2020 and work on the whole of government accounts return in July 2020 also.

Phase of work	Timing	Outputs	Comments
Audit planning and interim audit	October to January – planning	Audit plan	The plan summarises the findings of our audit planning and our approach to the audit of
	January to March - Interim	Update report	

Phase of work	Timing	Outputs	Comments
			the Council's accounts and VfM. We will provide an update on our interim work and early substantive testing in our progress report.
Final accounts audit	June to July	Audit Findings (Report to those charged with governance)	This report sets out the findings of our accounts audit and VfM work for the consideration of those charged with governance.
VfM conclusion	January to July	Audit Findings (Report to those charged with governance)	As above
Whole of government accounts	July	Opinion on the WGA return	This work will be completed alongside the accounts audit.
Annual audit letter	September	Annual audit letter to the Council	The letter will summarise the findings of all aspects of our work.

Our team

The key members of the audit team for 2019/20 are:

	Name	Phone Number	E-mail
Key Audit Partner	Jon Roberts	0117 305 7699	jon.roberts@uk.gt.com
Engagement Manager	Gail Turner-Radcliffe	029 2034 7546	gail.turner-radcliffe@uk.gt.com
In Charge Auditor	Zarak Zaman	0121 232 5392	zarak.s.zaman@uk.gt.com

Additional work

The scale fee excludes any work requested by the Council that we may agree to undertake outside of our Code audit. Each additional piece of work will be separately agreed, and a detailed project specification and fee agreed with the Council.

Quality assurance

We are committed to providing you with a high quality service. If you are in any way dissatisfied or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively, you may wish to contact Mark Stocks, our Public Sector Assurance regional lead partner, via mark.c.stocks@uk.gt.com.

Yours sincerely

Signature


Jon Roberts
Key Audit Partner
Grant Thornton UK LLP



Meeting:	Audit and governance committee
Meeting date:	Tuesday 30 July 2019
Title of report:	NMiTE assurance review
Report by:	Chief finance officer

Classification

Open

Decision type

This is not an executive decision

Wards affected

(All Wards);

Purpose and summary

A briefing to enable the committee to provide assurance on the adequacy in regards of the risk framework on the measure the council is taking as the accountable body for the new model in technology & engineering (NMiTE) and the milestone payments from the Department for Education (DfE).

Recommendation(s)

That:

- (a) **the committee having regard to the assurance provided and actions proposed to mitigate any risks, can determine any recommendations it wishes to make to secure greater assurance.**

Alternative options

1. There are no alternative recommendations; it is a function of the committee to consider if the measures taken meet the risk management framework.

Key considerations

2. On the 14 December 2017 Cabinet agreed that the council would act as the accountable body for public funding allocated to the new Hereford University, NMiTE, during its establishment phase.
3. Accountable body status means that the council will be accountable for funding allocated to the new university project by central government. Accountability involves receiving funds from central government, ensuring those funds are allocated and spent in accordance with any funding conditions specified, and providing reports on that expenditure.
4. The purpose of the agreement between the council and NMiTE is to enable compliance with the terms of the grant determinations set by the DfE, to enable the milestone payments to be passed on the NMiTE.
5. The council's head of management accounts and NMiTE's head of financial management discuss and review on a monthly basis the management accounts that are presented to the NMiTE board, review the cashflow position, select a sample of invoices for review, and seek assurance on the development of the finance function and audit controls.
6. The Section 151 Officer attends to the Finance and infrastructure board meetings as an observer. The section 151 officer and SWAP have agreed with NMiTE the management accounts pack required which includes the management accounts, weekly cashflow, payables, receivables and capital expenditure.
7. South West Audit Partnership have been engaged to complete quarterly audits and to provide an annual letter of assurance on the DfE grant which has been sent to the DfE. The latest of these covering the period to 10 July 2019 (attached at appendix A) provides partial assurance. The audit work undertaken to inform the letter of assurance provided a low partial assurance opinion. Internal audit made seven recommendations regarding the development of policies, procedures and templates to support consistent record keeping and reporting of information; these recommendations are to be implemented and their effectiveness will be assessed as part of the next assurance review.
8. The auditors of NMiTE, Thorne Widgery accountants are completing a quarterly review under NMiTE's instruction on the grant funding assurance review (March 2019). SWAP and Thorne Widgery are meeting independently to discuss their findings, they are able to take some assurance for this report, and will seek to evidence progress on the report's recommendations. NMiTE has also provided an executive milestone monitoring document, which sets out the fundraising strategy to achieve the matched funding required.
9. The milestone payments for 2019 totaled £5,379,000, the payment has been split payable in two tranches based on the conditions being met, payments have been made and are planned as set out below, if a partial assurance is provided again then the milestone payment due to be paid in September may not be possible.

Date	Amount £s
29/3/2019	4,035,000
2/9/2019	1,344,000

Further information on the subject of this report is available from
Audrey Clements, email: audrey.clements@herefordshire.gov.uk

Community impact

10. Acting as the accountable body is helping to support the establishment of NMiTE which supports the council's corporate plan priorities of giving young people a great start in life and support the growth of our economy.
11. The opportunity of attending a new university in Hereford could also help to promote the life chances of those children we, as the council, are parents to.
12. In accordance with the council's code of corporate governance effective financial management and risk management is an important element of the overall performance management system.

Equality duty

13. 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.
14. 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.

Resource implications

15. No council funds will be payable to NMiTE, however the management of the flow of funds between the accountable body and NMiTE and the discharging of the obligations of being an accountable body and project accountable body requires resourcing. The staffing is provided through current resources. The cost of resourcing these additional operational tasks is to be financed from a share of the grant allocation.

Legal implications

16. Before taking the decision to be the accountable body the cabinet sought the views of the General Scrutiny Committee. One of the scrutiny recommendations was to put in place a robust and appropriate governance framework to supervise the discharge of its responsibility as the accountable body.
17. This committee's role is to monitor the operation of risk management and the effectiveness of the internal control systems in relation to the council's work as accountable body for DFE funding of NMiTE.

Risk management

18. Ultimately the DfE could require the council to repay the grant funding that it has received and which has been paid to NMiTE. Whilst this obligation will also be passed down to NMiTE through the flow-down agreement, it is possible that NMiTE would not be able to make any required repayment, which would therefore leave the council out of pocket. The risk of any claw-back is being managed / mitigated by ensuring compliance with the grant funding terms through the monitoring and reporting obligations that are in place.
19. These risks are identified and monitored by the section 151 officer within the corporate finance risk register.

Consultees

20. None.

Appendices

Appendix A – SWAP Auditors Report and Opinion

Background papers

NMiTE Milestone monitoring document: exempt from publication in accordance with the Access to Information Rules being: information relating to the financial or business affairs of any particular person

Abbey Manor Business Centre
Preston Road
Yeovil
BA20 2EN
Direct Line: 01935 848540
15 July 2019

Auditors Report and Opinion

Applicant Name: New Model in Technology & Engineering (NMI TE)

Grant Name: NMI TE Grant Determination (2017/18): Nos 31/3151 and 31/3152

1. We have examined the NMI TE Grant Determination (2017/18): Nos 31/3151 and 31/3152. We have examined the records of NMI TE as necessary and obtained such explanations and carried out such tests as we consider necessary.
2. To the best of our knowledge and belief, and having carried out appropriate investigations and checks, in our opinion, with the exception of Appendix C and in significant respects only, the conditions attached to NMI TE Nos 31/3151 and 31/3152 have been complied with.

We can confirm that:

- a. During the period from the issue of Instalments 3 and 4 through to 10th July 2019, NMI TE has incurred and defrayed monies in accordance with NMI TE Flow-Through Agreement dated 18 Jan 2018-
 - Appendix A - Grant Determinations
 - Appendix B - Payment Schedule
 - Appendix D - Memorandum of Understanding between The Secretary of State for the Department of Education, Herefordshire Council and NMI TE for 2017/18-2019/20
- b. Only eligible expenditure has been included.
- c. NMI TE have undertaken to keep all original papers connected with payments and receipts relating to this Grant in an accessible place so that they can be referred to or inspected for 6 years from the date of the final payment of grant.

Qualification

This report provides an audit opinion from Herefordshire Council's chief internal auditor that only partial assurance can be provided that, in all material respects, the NMI TE Flow-Through Agreement dated 18 January 2018 has been complied with in accordance with the definitions and conditions contained therein for Appendix C.

We remain concerned with compliance to the conditions outlined within Appendix C- Conditions of Payment and Milestones, due to a number of issues highlighted from our audit work conducted throughout the last year. We would like to see further evidence underpinning the HM Treasury Guidance on Managing Public Money via the use of an effective control framework following value for money (vfm) principles in support of effective management of public money.

Further, we have some concern with regard to the lack of detailed evidence supplied in support of achievement of each and every milestone cited within NMiTE Capital Grant Determination (2017/18): No 31/3151 and NMiTE Revenue Grant Determination (2017/18): No 31/3152 grant conditions and also the lack of continuity in financial reporting over the last year.

Finally, we remain concerned on how spend on consultants; calculations made to monetise volunteering and partnerships and what is being raised as financial donations is being reported accurately on a monthly basis.

I confirm that I hold the appropriate qualification to complete the report and am independent of the expenditure being claimed.

Signature:



Name: Jacqui Gooding

Job Title: Assistant Director, SWAP Audit Partnership

Professional Qualifications: CMIIA, QIAL, CIA, ACFE

Signature:



Name: Alistair Neill

Job Title: Chief Executive, Herefordshire Council

Statement of Responsibility

Please note that this report has been prepared and distributed in accordance with 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.



Meeting:	Audit and governance committee
Meeting date:	Tuesday 30 July 2019
Title of report:	Work programme for 2019/20
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 2019/20.

Recommendation(s)

THAT:

Subject to any updates made by the committee, the work programme for 2019/20 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.

Reasons for recommendations

- 2 The work programme is recommended as the committee is required to define and make known its work. 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 officer and monitoring officer have contributed to the work programme

Appendices

Appendix 1 – audit and governance work programme 2019/20.

Background papers

- None identified.

**Audit and Governance Work Programme
2019/20**

Function area	Report	Purpose
July 2019		
Governance	Annual governance statement	To approve the annual governance statement
Accounts (Annual)	Statement of account	To approve the statement of account and includes the signing of the letter of representation
External audit	External auditor report	Presentation of the Audit Findings Report for consideration by the Committee before approval of the statutory accounts. The report will contain the external audit draft opinion on the accounts, draft value for money conclusion and a summary of the key findings for the financial year.
Internal audit (Annual)	SWAP Internal audit annual opinion report	To consider SWAP's annual report and opinion, and a summary of the internal audit activity and the level of assurance it can give over the council's corporate governance arrangements
Governance (Annual)	University Report	To act as the accountability body for the Department for Education funding for the University
Governance (Annual)	Accounting policies update	To approve any amendments to the accounting policies
Internal audit	Progress report on 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 (every meeting)	Work programme	To note the current work programme of the committee
September 2019		
Code of conduct (Annual)	Code of Conduct complaints Annual Report	To receive the annual code of conduct report
Governance (Every two years)	Anti-fraud and corruption strategy	To maintain an overview and approve changes to the strategy
Internal audit	Progress report on 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

**Audit and Governance Work Programme
2019/20**

Function area	Report	Purpose
External audit (annual)	Annual audit letter	To review the annual audit letter
Governance	Biennial review of constitution	To agree the arrangements for the review of the Constitution due in 2020.
Waste contract (Annual)	Energy from waste (EFW) Loan Update	To provide assurance to the audit and governance committee on the status of the energy from waste (EfW) loan arrangement.
Governance (six monthly)	Corporate risk register	To consider the status of the council's corporate risk register in order to monitor the effectiveness of the performance, risk and opportunity management framework (Q4/end of year)
Internal and external audit (Six monthly)	Tracking of internal and external audit recommendations	To monitor implementation of action plans agreed in response to recommendations made by internal and external audit
Governance (Every two years)	Updates to anti-fraud, bribery, corruption and anti-money laundering policies	To maintain an overview and approve any changes
Governance (every meeting)	Work programme	To note the current work programme of the committee
November 2019		
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 Act.
Governance (every meeting)	Work programme	To note the current work programme of the committee
January 2020		
Internal audit	Progress report on 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)	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

**Audit and Governance Work Programme
2019/20**

Function area	Report	Purpose
External audit	Annual Certification Letter	Report on the grant claims completed in 2017/18 plus an update on fees.
External audit (Annual)	External auditors annual plan	Review and agree the external auditors annual plan, including the annual audit fee and annual letter.
Governance (Annual)	Contract procedure rules, finance procedure rules	Review of procedure rules and approve any amendments to the rules.
Internal and external audit (Every six months)	Tracking of internal and external audit recommendations	Monitor implementation of action plans agreed in response to recommendations made by internal and external audit
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 (Q2).
Governance (every meeting)	Work programme	To note the current work programme of the committee
March 2020		
External audit	External audit progress update	Update on progress to date in order to comment on the scope and depth of external audit work and ensure that it gives value for money and includes interim audit findings and the informing the risk assessment document.
Internal audit (Annual)	Internal audit plan for 2020/21	To consider the internal audit plan for 2020/21.
Internal audit	Progress report on 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.
Internal audit (annual)	Internal audit charter	To approve the internal audit charter
Code of Conduct	Remuneration of independent persons	To consider whether or not the appointed independent persons should be remunerated
Governance (Annual)	Future work programme for 2020/21	To note the work programme for 2020/2021.

