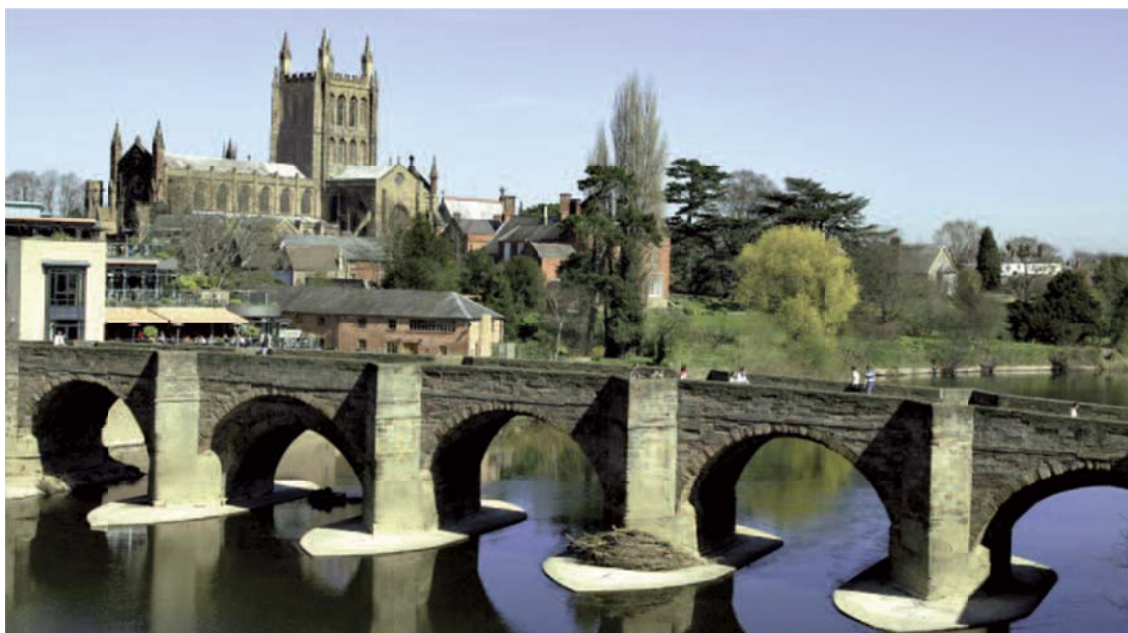


HEREFORDSHIRE COUNCIL



STATEMENT OF ACCOUNTS

2013-14

CONTENTS

Page

1	Introduction	1
2	Explanatory Foreword	2
3	Statement of Responsibilities	15
4	Movement in Reserves Statement	16
5	Comprehensive Income and Expenditure Statement	18
6	Balance Sheet	20
7	Cash Flow Statement	22
8	Notes to the Financial Statements	24
9	Collection Fund	101
10	Definitions	104

1. INTRODUCTION

- 1.1. The Statement of Accounts for 2013/14 presents the council's overall revenue and capital position for the year.
- 1.2. It was evident from the outset that 2013/14 was going to be a very challenging year and as the year progressed this proved to be the case. In 2013/14 Herefordshire's funding from central government saw a cash reduction of £5.5 million (6.9%). At the same time, the council not only faced economic challenges but the demands of an ageing population causing pressures within Adult Care. Herefordshire's rural nature presents additional challenges and costs of providing services to a sparsely distributed population.
- 1.3. The impact of reduced funding and increasing cost pressures required £12.9 million of cuts in Herefordshire Council's 2013/14 budget, bringing total savings of £34 million in the three financial years ending in 2013/14.
- 1.4. As the year progressed the financial position improved with the final out-turn on the council's revenue account showing a £397,000 underspend, bringing general reserves to £5.1 million at 31st March 2014 compared to £4.7 million at 31st March 2013. This means we exceed the policy requirement to hold a general fund reserve equivalent to a minimum of 3% of net budget (approximately £4.5 million). Herefordshire's financial management strategy is to maintain specific reserves to deal with the key corporate financial risks, which stood at £23.9 million at 31st March 2014.

Cllr Tony Johnson
Leader of the Council

2. EXPLANATORY FOREWORD

2.1 Introduction

2.1.1 The following Statement of Accounts for Herefordshire Council presents the overall financial position for the Authority for the year ended 31st March 2014 and has been produced in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14, published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The amounts presented in the financial statements and notes have been rounded to the nearest thousand.

2.1.2 There were a number of changes to the Code for the 2013/14 accounts. The main ones are;

- i. **Post employment benefits (pensions)** – revisions to the classification, recognition, measurement and disclosure requirements
- ii. **Business Rates retention** – From April 2013 the system of funding local authorities changed allowing council to retain a percentage of business rates. Prior to this the council would have acted as an agency and all the income collected would have been passed onto central government through the business rates pool. The council would have received a central government grant based on its entitlement. Through the rates retention scheme the council retains 49% (1% Fire authority) of the income collected and 50% is passed onto central government. This has the impact in the council's accounts as that now the collection fund will also report a surplus/deficit relating to business rates.

2.2 Revenue Expenditure and Income

2.2.1 The out-turn position on the council's revenue account was £397,000 underspend after transfers from reserves.

2.2.2 The following table summarises the overall position.

	Budget	Actual	Under/(Over)
	£000	£000	Spends £000
Directorate			
Adults Well-being	58,289	61,248	(2,959)
Children's Well-being	36,558	35,691	867
Economy, Communities and Corporate	50,877	50,310	567
Chief Executive and Organisational Development	673	364	309
Public Health	(66)	(84)	18
Directorate total	146,331	147,529	(1,198)
Treasury management	15,281	14,957	324
Other corporate budgets and reserves	(11,316)	(12,587)	1,271
Total	150,296	149,899	397

2.2.3 The budget and actual figures above reflect the requirement to allocate internal recharges to comply with CIPFA's Service Reporting Code of Practice (SERCOP). This makes the accounts comparable across all local authorities by ensuring services report their full costs including overheads and capital charges. It also includes technical accounting adjustments to comply with International Financial Reporting Standards (IFRS), including pensions, PFIs and holiday accruals, which have to be undertaken to complete the statutory accounts. These are different to the budgets monitored and reported through the year which reflect management responsibilities and accountabilities which is normal practice. A reconciliation between the directorate totals and amounts included in the Comprehensive Income and Expenditure Accounts is shown in note 8.26.

2.2.4 The most significant overspend related to commissioning of adult social care, which had been anticipated and included in budget monitoring reports throughout the year.

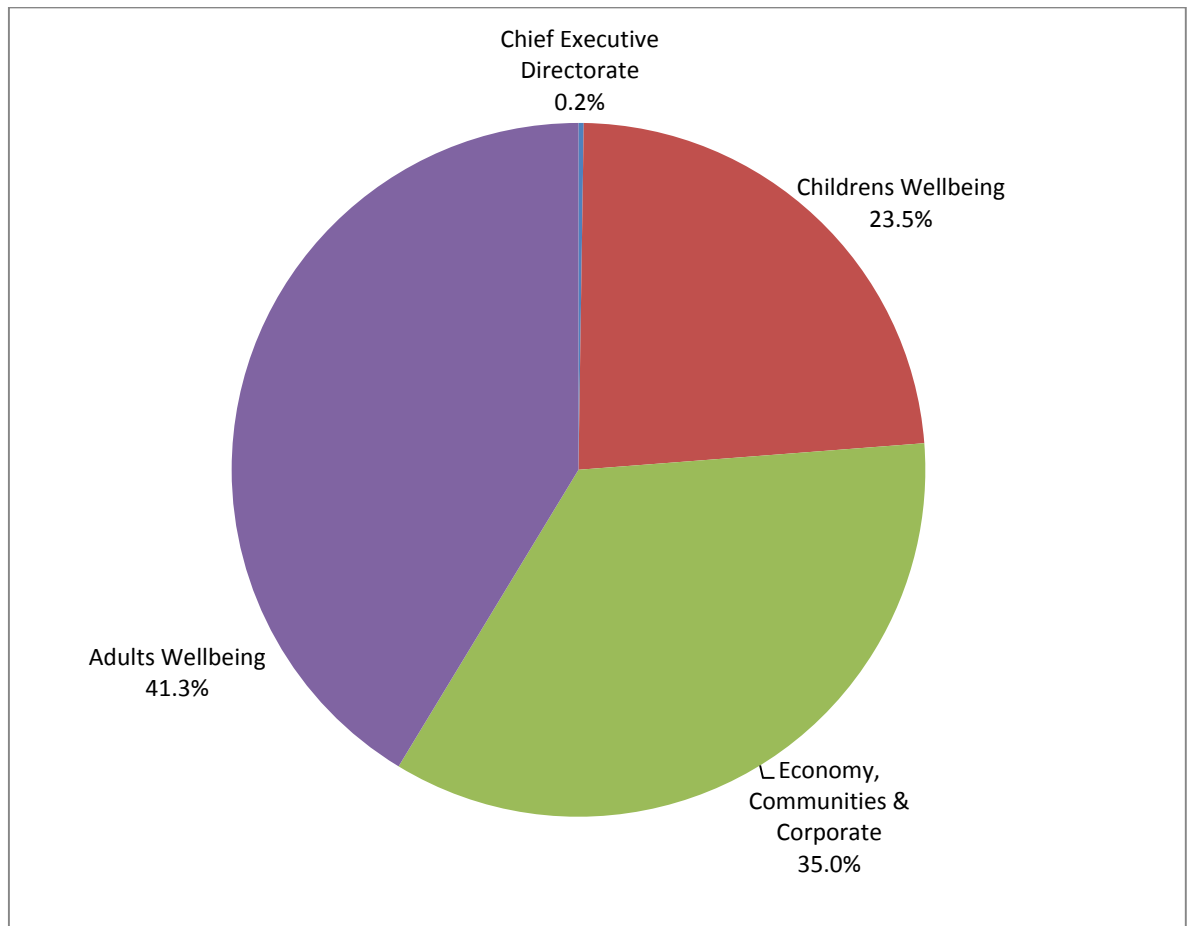
2.2.5 As part of the year end process the following new reserves were created;

Reserve	£000	Purpose
Risk mitigation	3,500	Unbudgeted risks in delivering savings on 2014/15 to 2016/17.
Business Rate smoothing	1,000	To cover fluctuations to be used in 15/16
Land charges	600	National dispute around land charges
Safeguarding	417	To support safeguarding improvements
ICT	387	Infrastructure and ICT development
Library services	260	To support delivery of 2014/15 savings
Herefordshire Local Plan	170	To deliver the Local Plan Core Strategy
HR	146	For transformation support and development
SEN	75	To support government programme
Section 256	55	Joint health and social care funding
Other small reserves	53	Unspent funds committed in 2014/15
Total	6,663	

2.3 Analysis of Revenue Expenditure and Income

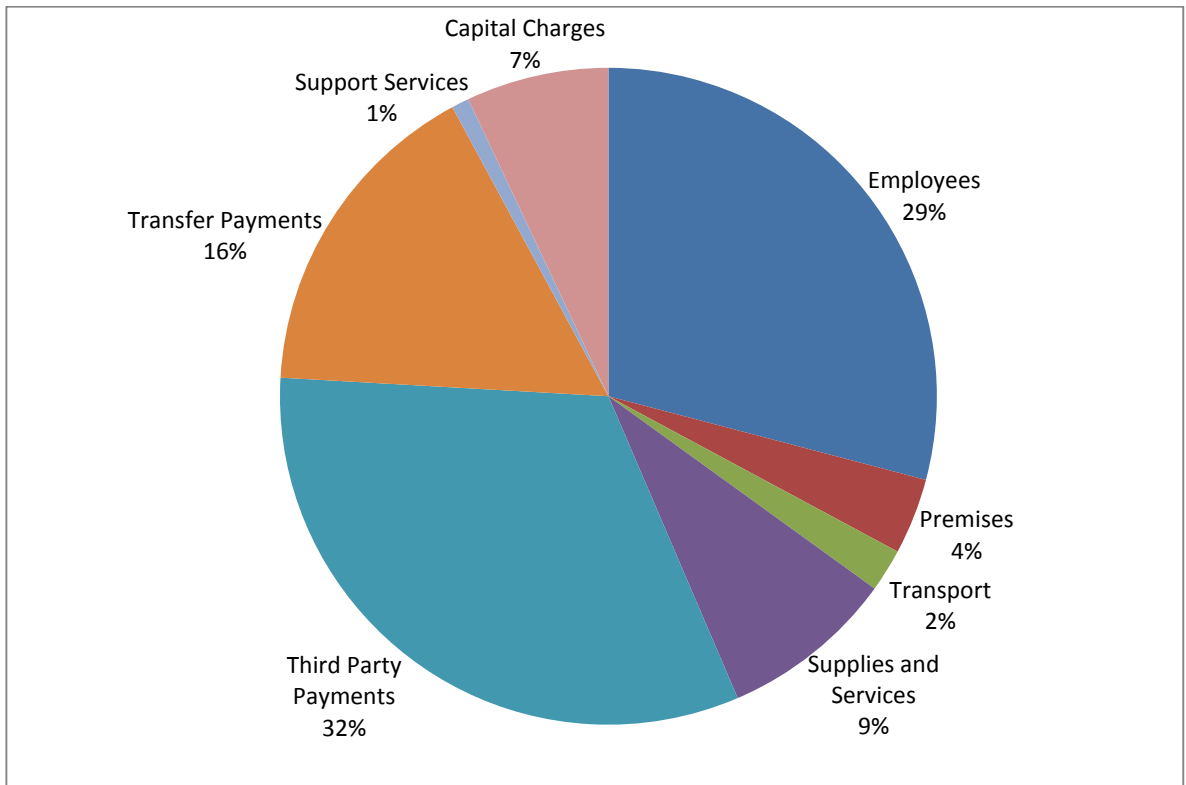
2.3.1 The net cost of services within the Income and Expenditure Account is £148.1 million, made up of the following directorates.

Analysis of Net Expenditure by Directorates



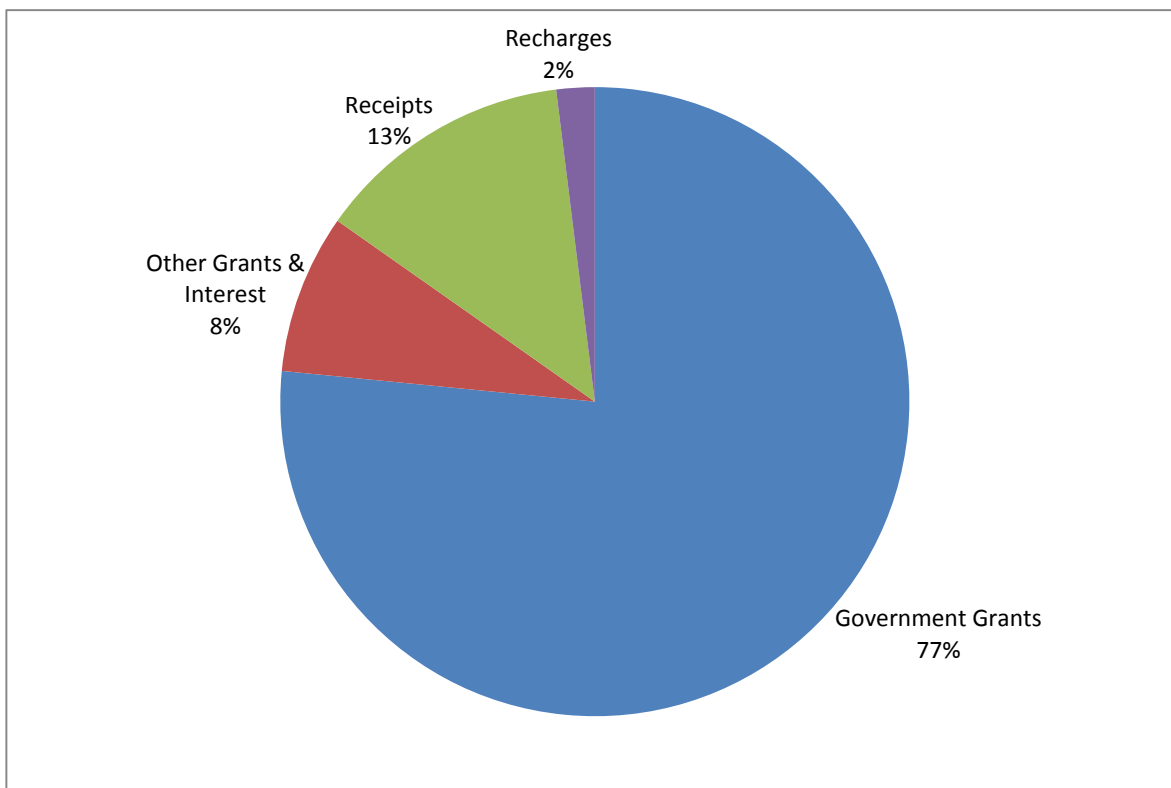
2.3.2 The gross cost of services was £344.3 million, spent on the following types of expenditure:

Analysis of Gross Service Expenditure



2.3.3 The gross income for the year for services was £196.2 million and came from the following sources:

Analysis of Income within Services

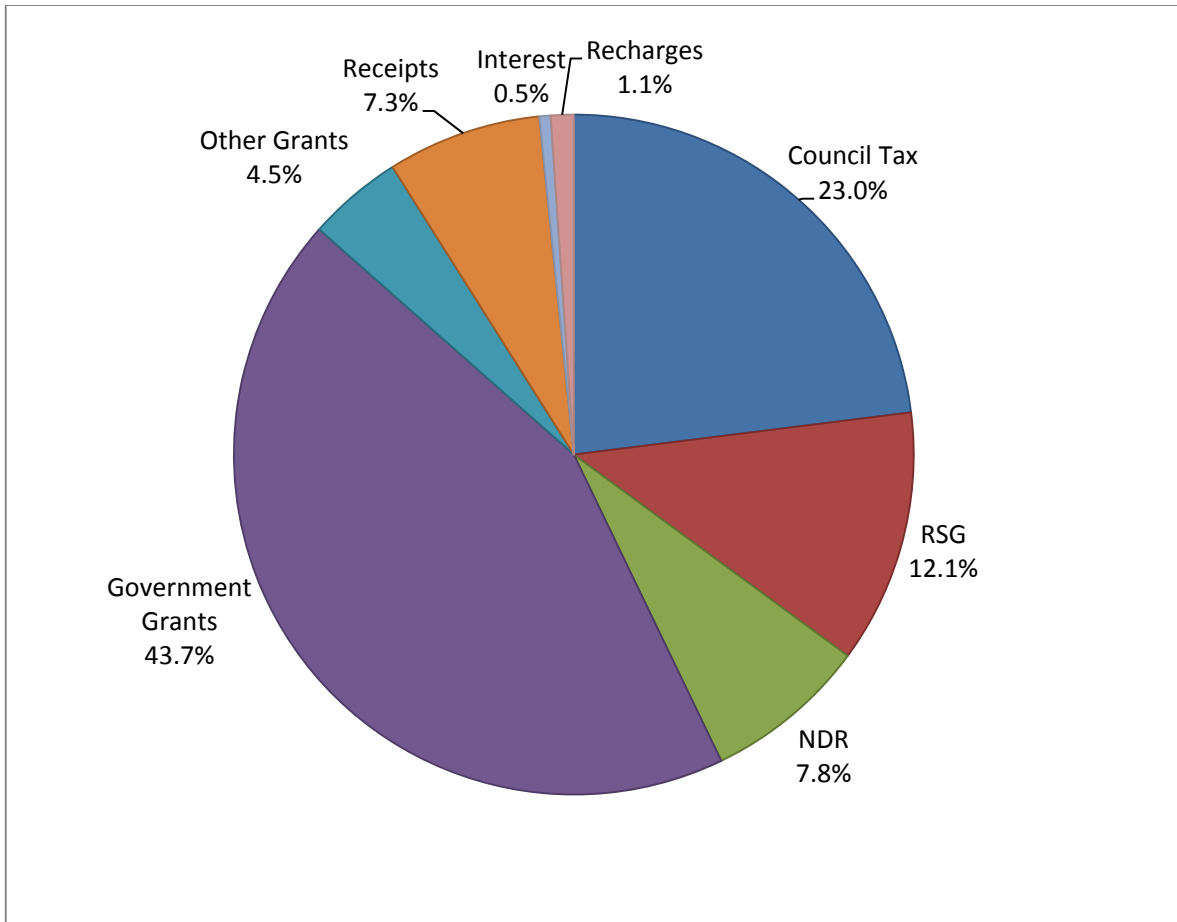


2.3.4 The figure for government grants includes £75.5 million Dedicated Schools Grant, which is a grant towards schools expenditure. The grants figure also includes £50.2 million in respect of the payment and administration of housing and council tax benefits.

2.3.5 In addition to income generated by services and service specific grants, the council received £42.9 million Revenue Support Grant (RSG). This is the first year that councils have retained a percentage of non-domestic rates which amounted to £22.7 million plus £6.6 million top up from central government. Council tax income totalled £81.4 million in 2013/14, including parish and town councils' precepts of £2.5 million.

2.3.6 The total sources of income, including service income and income received centrally, is shown in the pie chart below. This excludes capital grants and contributions of £17 million, which are shown in the Comprehensive Income and Expenditure account but are reversed out through the Movement in Reserves Statement to fund capital schemes.

Total Revenue Income



2.4 Capital Programme

2013/14 Out-turn

2.4.1 £43.4 million was incurred on capital spending funded through the utilisation of grants of £26.2 million, prudential borrowing of £15 million, capital receipts reserve of £2 million and revenue contribution of £0.2 million.

Summary of Capital Expenditure

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

	£000
Leominster Primary School	4,562
The new Heritage Archive & Records Centre	3,400
Blackmarstons Special School improvements	2,981
The Connect 2 bridge crossing	1,984
Capitalised Change Management Costs	1,660
Hereford Enterprise Zone	1,353
Multi storey car park refurbishment	1,194
Road improvements	10,790
Other smaller schemes	15,479
	43,403

Capital Outturn Variance to Forecast

2.4.3 Outturn was £7.8m less than forecast, the majority of which will now be spent in 2014/15. No funding resources have been lost as a result of the re-profiling of spend. A full breakdown of changes to forecast is set out below:

- Fastershire Broadband £3.8m. BT re-profiled spending. Scheme delivery is still on track with deployment to complete by December 2016.
- Masters House £1m. The programme of improvement works continue to timescale with works due to complete in October 2014.
- New Link Road £0.8m. This scheme has been to public inquiry with agreements reached on all but one of the required property acquisitions. The outcome of the inquiry is expected to be published in Autumn 2014.
- Redundant Building Grant £0.8m. This is a two year external grant funded programme with funds being released following completion of all grant conditions.
- Car parking Strategy £0.8m. This budget was provided for the Rockfield site works which are now complete.
- Local Transport Plan £0.6m, as a result of changing contract in the year and severe weather disruption.

Prudential Borrowing

2.4.4 When capital grants cannot fund a scheme in full then the use of unsupported prudential borrowing can be considered. In 2013/14 the council utilised £15 million of prudential borrowing to fund the capital programme.

Future years' capital programme

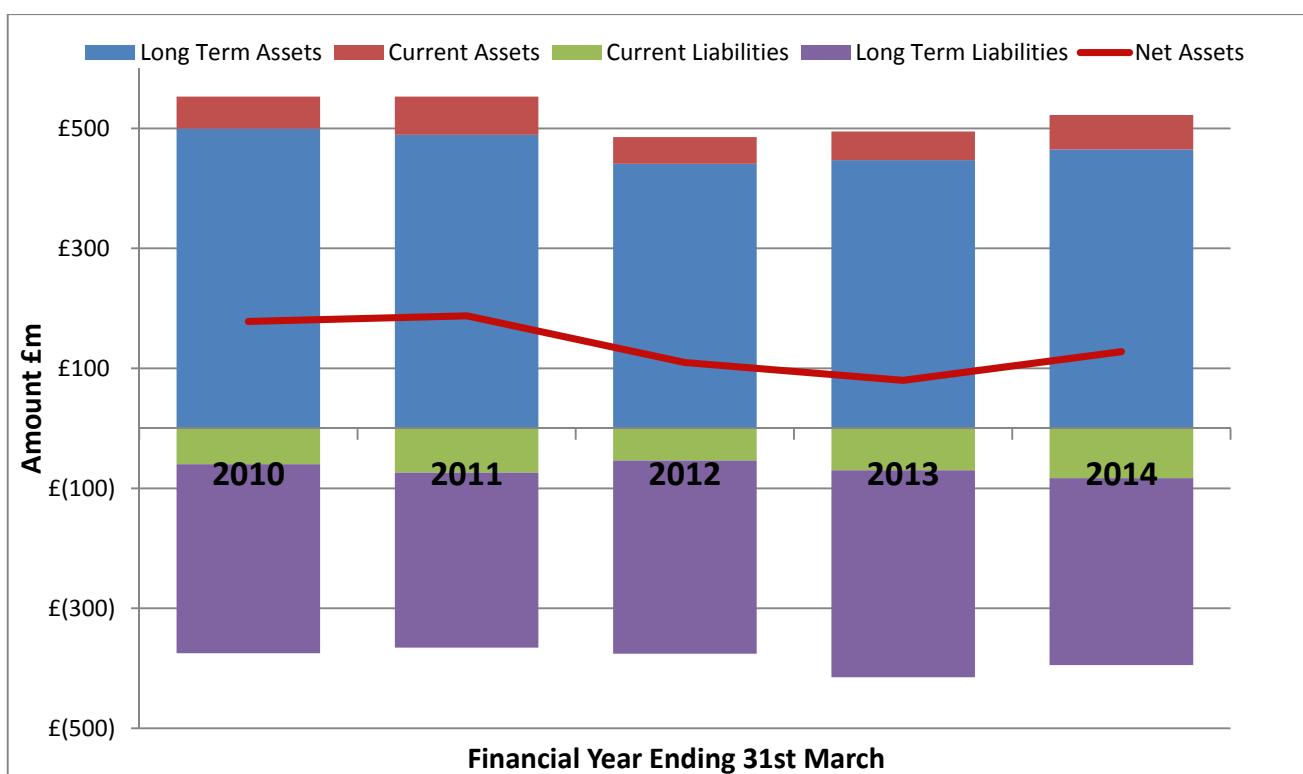
2.4.5 The council maintains as a minimum a full three-year rolling capital programme reflecting commitments, links to strategic plans and estimated sources of capital funding. The forecast capital programme detailed by the sources of funding is set out below.

	2014/15	2015/16	2016/17
	£000	£000	£000
Sources of Funding			
Grants and Contributions	24,905	634	666
Prudential Borrowing	57,237	37,371	20,770
Capital Receipts Reserves	3,209	1,904	0
Total Capital Expenditure	85,351	39,909	21,436

2.5 Balance Sheet

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

Balance Sheet Analysis - Comparison between financial years (2010 -2014)



2.5.2 The net assets on the balance sheet total £127.7 million (£79.7 million in 2012/13), an improvement of £48 million over the course of the year. This includes an increase in the value of long-term assets of £18 million and a reduction on the pensions liability of £28 million.

2.5.2 Over the period there has been a trend of falling net asset values, with a high of £187.4 million at 31st March 2011 to a low of £79.7 million at 31st March 2013, a fall of £107.7 million (57%). This was mostly due to the transfer of a number of schools to academies and increasing pension liabilities. The current year shows a welcome shift in direction.

2.5.3 In the last two years the increase in short term liabilities is the result of the treasury management strategy of using short-term borrowing to take advantage of low interest rates, reducing costs.

2.5.4 The fluctuation in long-term liabilities has mainly been caused by the pensions liability, which is assessed each year by the actuary and can vary significantly year on year as assumptions and forecasts change;

	Pension liability
	£m
31 st March 2010	163.4
31 st March 2011	131.8
31 st March 2012	159.3
31 st March 2013	187.4
31 st March 2014	159.4

2.6 The Council's Borrowing

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

borrowing is taken out to support the council's capital programme and borrowing limits are set in accordance with the Prudential Code for Capital Finance in Local Authorities.

- 2.6.2 In 2013/14 the council did not take out any new long-term borrowing.
- 2.6.3 Principal of £4 million was repaid to the Public Works Loan Board under existing annuity and EIP (equal instalments of principal) agreements. Interest of £5.7 million was paid on council borrowing during the year (including £5.1 million to the Public Works Loan Board), of which £0.3 million was capitalised and added to the cost of the associated fixed assets (see note 8.1.4).
- 2.6.4 During the year the council continued using short-term borrowing from other local authorities to cover liquidity requirements and capital spend. At 31st March 2014 £31.5 million of short-term loans from other local authorities were outstanding.
- 2.6.5 Total borrowing at the year end, including short-term loans, stood at £168 million (compared to £157 million as at 31st March 2013). Of this amount £12 million, relating to two potentially long-term bank loans, is shown as being repayable within one year. Accounting convention dictates that these two loans are shown as current liabilities because every six months, when the interest payments become due, the lenders have the option to increase the interest rates being charged. If a lender did increase the rate (from 4.5%) the council would then have the option to repay the loan.
- 2.6.6 The amounts noted above relate to principal outstanding at the end of the year. The borrowing figures in the Balance Sheet are higher as they include accrued interest and other accounting adjustments.
- 2.6.7 Net borrowing (after offsetting investments) was £144.7 million as at 31st March 2014, compared to £147 million as at 31st March 2013.
- 2.6.8 The council is only allowed to borrow to support capital projects. The borrowing supports fixed assets valued at £465 million at the balance sheet date.

2.7 The Council's Reserves

General reserves

- 2.7.1 In 2013/14 the council has a policy of maintaining a minimum of £4.5 million of general reserves as contingency against unforeseen emergencies and events. At the end of 2013/14 the council held general reserves of £5.1 million compared with a position of £4.7 million in 2012/13.

Earmarked reserves

- 2.7.2 Specific reserves totalled £23.9 million (£13.9 million in 2012/13), which are detailed in note 8.8 to the Statements.
- 2.7.3 The table below shows the level of reserves over the last 5 years;

Balance as at:	General Fund £000	Specific Reserves		Total £000
		Schools	Other	
31 st March 2010	5,349	5,497	13,745	24,591
31 st March 2011	6,349	6,002	11,570	23,921
31 st March 2012	6,113	5,789	7,669	19,571
31 st March 2013	4,656	5,535	8,433	18,624
31 st March 2014	5,053	6,345	17,598	28,996

2.8 Significant provisions, contingencies and write-offs

- 2.8.1 The council held provisions of £3.7 million at 31st March 2014, as detailed in note 8.22 to the Statements.
- 2.8.2 The most significant provision is the redundancy provision of £1.8 million, including schools and partner organisations, based on the number of planned redundancies at 31st March 2014.
- 2.8.3 At 31st March 2014 the council also held a provision of £1.3 million for insurance commitments. Herefordshire Council pays the first £5,000 to £50,000 of most insurance claims (depending on the type or class of the claim), known as the deductible. During 2011/12 the council commissioned a review of the insurance provision to include schools, which was also used as the basis of the provision for 2012/13 and 2013/14. A further review is to be undertaken in 2014/15.
- 2.8.4 The new business rates retention scheme was introduced in April 2013 and for the first time there is a requirement to make a provision for potential future appeals against rateable values, which could result in refunds against 2013/14 income and previous years. Legislation has been introduced that allows councils to spread the impact of appeals relating to periods before 2013/14 to be spread over 5 years. The rates appeals provision was £584,000 after taking account of spreading the liability over five years.
- 2.8.5 A list of contingent liabilities are set out in note 8.44 to the Statements. Although contingent liabilities are not required to be accounted for there is a reserve of £300,000 in the accounts as a general contingency against future spend. In addition specific reserves have been set up for the national land charges dispute (£600,000) and for risk mitigation (£3.5 million).
- 2.8.6 There were no significant write-offs of income to the General Fund in the year.

2.9 Pensions

- 2.9.1 In accordance with International Accounting Standard 19 on Retirement Benefits (IAS 19), Note 8.43 to the Statements sets out the council's assets and liabilities in respect of the Local Government Pension Scheme (LGPS). Herefordshire Council's non-teaching staff are members of the Worcestershire County Council Pension Fund. However, public health staff who transferred to the council in 2013/14 retained their NHS pensions.
- 2.9.2 Herefordshire's proportion of the net deficit on the Worcestershire County Council Pension Fund as at 31st March 2014 is £159.4 million, which is approximately 61% of the fair value of the assets (£187.4 million and 80% at 31st March 2013). Whilst this deficit does not have to be met immediately from the council's reserves, action must be taken over a period of years to eliminate it. In addition the balance sheet deficit also includes £1 million relating to ex-Hereford and Worcester teachers' unfunded benefits (£1.1 million at 31st March 2013).
- 2.9.3 The pension fund position is reviewed every three years and was last revalued as at 31st March 2013. The council has agreed with the Actuary that in order to recover the deficit over 21 years that the employer's deficit contribution increases from £4.2 million in 2013/14 to £7.6m by 2016/17. The Actuary has also requested that the element of the employer's contribution related to clearing the deficit is paid as an annual cash sum. The Actuary has confirmed that the future employers service contribution rate, which is paid as a percentage of current employees' gross pay, is to increase from 11.7% in 2013/14 to 14.6% by 2015/16.

2.10 Impact of Economic Climate

2.10.1 The economic climate has had an impact on the 2013/14 accounts in a number of areas:

2.10.2 **Children's Wellbeing:** The current economic climate continues to affect the lives of children and young people in Herefordshire. Financial pressures continue to affect all families and the changes to welfare benefits have yet to be fully assessed in terms of their impact on local authority services. Herefordshire has continued to see increased numbers of children needing to be looked after in 2013/14 creating cost pressures for the service. The transfer of responsibility for children in remand to the Local Authority has caused additional financial burdens.

In order to maintain provision for children's social care, additional cuts were made across the full range of other children's wellbeing in 2013/14 balancing the need to meet the increasing cost of providing children's social care. As a result there is an increasing focus on maintaining statutory and essential services. Cuts in early years' services will have an impact on children and young people in Herefordshire and may have an adverse longer term impact, resulting in higher costs at a later date. This is being mitigated by focusing integrating services within the council to support children, young people and their families making the most of initiatives such as Troubled Families and improving health initiatives.

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

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

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

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

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

2.10.5 **Treasury Management activities:** The Bank Base Rate has now been at 0.50% for more than five years and has significantly reduced the income that the council is able to earn on its investments. During the year deposit interest rates fell further with the average rate earned on the council's investments falling from 0.98% in 2012/13 to 0.75% in 2013/14.

However, the continuing low interest rate regime also meant that the cost of short-term finance remained favourable with the average interest rate payable on short-term borrowing from other local authorities being 0.40%, including brokers commission. It is currently council policy to utilise relatively cheap short-term finance rather than taking out new longer-term finance from the Public Works Loan Board. This strategy reduces interest rate risk (with reduced income from investments being offset by savings on loan interest) and results in a significantly lower cost of borrowing when compared to longer-term loans.

2.11 Academy schools

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

2.11.2 Many schools in Herefordshire have become Academies. At 31st March 2014 there were 26 Academies with 8,612 pupils (39% of total pupils).

2.11.3 With both Foundation Schools and Academies, the ownership of the school land and buildings is transferred from the council to the school by issuing a long-term lease at a peppercorn rent. The assets are removed from the Balance Sheet when the legal agreement is completed.

2.11.4 In 2013/14 the following five schools converted to Academies:

Barrs Court School
Mordiford CofE Primary School
Burghill Community Primary School
Marden Primary School
St Thomas Cantilupe CofE Primary School

2.11.8 As a result of the last three schools converting to academies £2.65 million has been written out of the council's Balance Sheet as fixed asset disposals. Barrs Court School and Mordiford CofE Primary School had previously converted to Foundation status and so their assets had already been removed from the Balance Sheet in previous years.

2.11.9 Fairfield High School converted to an academy after the year end and so its assets will be removed from the Balance Sheet in 2014/15. The net book value of the school's land and buildings as at 31st March 2014 is £2.58 million.

2.12 The 2013/14 Financial Statements

The council's accounts are detailed in the following pages and comprise:

Movement in Reserves Statement (page 15)

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

Comprehensive Income and Expenditure Statement (page 17)

2.12.2 This statement shows the accounting cost in the year of providing services, rather than the amount to be funded from council tax.

Balance Sheet (page 19)

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

Cash Flow Statement (page 21)

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

Notes to the Financial Statements (page 23)

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

The Collection Fund (page 98)

- 2.12.6 This statement shows all income collected from council taxpayers and business ratepayers (NNDR). Expenditure includes council tax precept payments to the West Mercia Police Authority and Hereford & Worcester Fire and Rescue Authority, representing income collected from council taxpayers on their behalf. Similarly the account distributes shares of the business rates collected between the council, central government and the Fire Authority.
- 2.12.7 The Statement of Accounts, which takes into account events up to 27th June 2014, was authorised for issue on 27th June 2014 by the Chief Financial Officer.
- 2.12.8 Further information about the council's finances is available from the Chief Financial Officer, Herefordshire Council, Brockington, 35, Hafod Road, Hereford, HR1 1SH.

Peter Robinson
Chief Financial Officer
(Section 151 Officer)

3. STATEMENT OF RESPONSIBILITIES

3.1 The Council's Responsibilities

3.1.1 The council is required to:

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

3.2 The Chief Financial Officer - Responsibilities

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

3.2.2 In preparing this statement of accounts, the Chief Financial Officer has:

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

3.2.3 The Chief Financial Officer has also:

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

Certificate of the Chief Financial Officer

I certify that the Statement of Accounts gives a true and fair view of the financial position of Herefordshire Council at 31st March 2014 and its income and expenditure for the year ended 31st March 2014.

Peter Robinson
Chief Financial Officer

4 MOVEMENT IN RESERVES STATEMENT

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

	Restated General fund balance £000	Earmarked reserves £000	Capital receipts reserve £000	Capital grants unapplied £000	Total usable reserves £000	Unusable reserves £000	Total reserves £000
Balance as at 31st March 2012	(6,113)	(13,458)	(2,769)	(15,679)	(38,019)	(71,664)	(109,683)
<u>Movement in reserves during 2012/13</u>							
Surplus or (deficit) on the provision of services	13,633				13,633		13,633
Other comprehensive income and expenditure					0	16,376	16,376
Total comprehensive income and expenditure	13,633	0	0	0	13,633	16,376	30,009
Adjustments between accounting basis and funding basis under regulations (note 8.7)	(12,686)		76	2,164	(10,446)	10,446	0
Net increase or decrease before transfers to earmarked reserves	947	0	76	2,164	3,187	26,822	30,009
Transfers to or from earmarked reserves (note 8.8)	510	(510)			0		0
(Increase) or decrease in 2012/13	1,457	(510)	76	2,164	3,187	26,822	30,009
Balance as at 31st March 2013	(4,656)	(13,968)	(2,693)	(13,515)	(34,832)	(44,842)	(79,674)

	General fund balance £000	Earmarked reserves £000	Capital receipts reserve £000	Capital grants unapplied £000	Total usable reserves £000	Unusable reserves £000	Total reserves £000
Balance as at 31st March 2013	(4,656)	(13,968)	(2,693)	(13,515)	(34,832)	(44,842)	(79,674)
<u>Movement in reserves during 2013/14</u>							
(Surplus) or deficit on the provision of services	(3,806)				(3,806)		(3,806)
Other comprehensive income and expenditure					0	(44,171)	(44,171)
Total comprehensive income and expenditure	(3,806)	0	0	0	(3,806)	(44,171)	(47,977)
Adjustments between accounting basis and funding basis under regulations (note 8.7)	(6,566)		(3,302)	7,165	(2,703)	2,703	0
Net increase or decrease before transfers to earmarked reserves	(10,372)	0	(3,302)	7,165	(6,509)	(41,468)	(47,977)
Transfers to or from earmarked reserves (note 8.8)	9,975	(9,975)			0		0
(Increase) or decrease in 2013/14	(397)	(9,975)	(3,302)	7,165	(6,509)	(41,468)	(47,977)
Balance as at 31st March 2014	(5,053)	(23,943)	(5,995)	(6,350)	(41,341)	(86,310)	(127,651)

5. COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

This Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement. The 2012/13 comparative figures have been adjusted to take account of the changes in accounting for post-employment benefits.

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

Restated 2012/13			2013/14			
Expenditure	Income	Net		Expenditure	Income	Net
£'000	£'000	£'000		£'000	£'000	£'000
74,246	(20,250)	53,996	Adult Social Care	73,397	(16,918)	56,479
135,209	(99,245)	35,964	Educational and Children Services	129,095	(94,250)	34,845
9,397	(1,431)	7,966	Cultural and Related Services	7,718	(1,163)	6,555
22,312	(5,248)	17,064	Environmental and Regulatory	22,319	(6,107)	16,212
14,424	(5,172)	9,252	Planning Services	10,883	(5,353)	5,530
24,146	(7,229)	16,917	Highways and Transport Services	25,261	(7,737)	17,524
58,087	(52,447)	5,640	Housing Services	47,806	(42,606)	5,200
11,118	(4,514)	6,604	Corporate and Democratic Core	6,638	(1,990)	4,648
(1,323)	(2)	(1,325)	Non-distributed Costs	(166)	(2)	(168)
15,518	(14,612)	906	Central Services to the Public	13,780	(12,350)	1,430
			Public Health	7,647	(7,753)	(106)
363,134	(210,150)	152,984	Cost of Services	344,378	(196,229)	148,149
22,762		22,762	Other operating expenditure (note 8.9)	11,492	(2,470)	9,022
16,535	(10,634)	5,901	Financing and investment income & expenditure (note 8.10)	19,494	(6,239)	13,255
	(168,014)	(168,014)	Taxation and non-specific grant income (note 8.11)		(174,232)	(174,232)
		13,633	(Surplus)/Deficit on the provision of services			(3,806)
		(8,035)	Surplus on revaluation of Property, Plant and Equipment assets			(9,314)
		24,411	Remeasurement of net defined benefit liability	(note 8.43)		(34,857)
		16,376	Other comprehensive income and expenditure			(44,171)
		30,009	Total comprehensive income and expenditure			(47,977)

6 BALANCE SHEET

- 6.1 The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the authority. The net assets of the authority (assets less liabilities) are matched by the reserves held by the authority. Reserves are reported in two categories.
- 6.2 The first category of reserves are usable reserves i.e. those reserves that the authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve may only be used to fund capital expenditure or repay debt).
- 6.3 The second category of reserves is those that the authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve) where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

BALANCE SHEET

31.3.13 £000		Notes	31.3.14 £000	31.3.14 £000
404,064	Property, plant and equipment	8.12	426,274	
2,805	Heritage Assets	8.13	2,805	
32,966	Investment property	8.14	30,245	
4,733	Intangible assets	8.15	2,918	
4	Long-term investments	8.16	4	
2,506	Long-term debtors	8.16	2,807	
447,078	Long-term Assets			465,053
8,541	Short-term Investments	8.16	17,564	
3,150	Assets held for sale	8.20	2,732	
287	Inventories	8.17	177	
32,845	Short-term Debtors	8.18	28,496	
228	Intangible current asset	8.15	0	
2,420	Cash and cash equivalents	8.19	8,412	
47,471	Current Assets			57,381
(1,652)	Cash and cash equivalents	8.19	(3,174)	
(33,855)	Short term borrowing	8.16	(49,228)	
(32,433)	Short-term creditors	8.21	(26,417)	
(622)	Capital grants receipts in advance	8.25	(2,144)	
(1,474)	Provisions	8.22	(2,095)	
(70,036)	Current Liabilities			(83,058)
(1,124)	Provisions	8.22	(1,587)	
(124,857)	Long-term borrowing	8.16	(120,760)	
(216,740)	Other long-term liabilities	8.16/ 43	(187,737)	
(2,118)	Capital grants receipts in advance	8.25	(1,641)	
(344,839)	Total Long-term liabilities			(311,725)
79,674	Net Assets			127,651
(34,832)	Usable reserves	8.23		(41,341)
(44,842)	Unusable reserves	8.24		(86,310)
(79,674)	Total reserves			(127,651)

7 CASH FLOW STATEMENT

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

CASH FLOW STATEMENT

2012/13 £000	2013/14 £000	2013/14 £000
Operating Activities		
Cash inflows		
(78,981) Taxation	(104,435)	
(213,719) Grants	(204,638)	
(334) Interest received	(304)	
(91,812) Other receipts from operating activities	(39,740)	(349,117)
(384,846) Cash inflows generated from operating activities		
Cash outflows		
105,487 Cash paid to and on behalf of employees	98,219	
47,955 Housing benefit paid out	49,068	
2,697 Precepts paid	2,499	
4 Payments to the Capital Receipts Pool	2	
7,876 Interest paid	7,546	
211,379 Other payments and operating activities	169,330	
375,398 Cash outflows generated from operating activities		326,664
(9,448) Net cash flows from operating activities		(22,453)
Investing Activities		
36,465 Purchase of PPE, investment property and intangible assets	41,152	
39,500 Purchase of investments (<i>not cash equivalents</i>)	63,690	
294 Other payments for investing activities	306	
(2,861) Proceeds from the sale of PPE, investment property and intangible assets	(4,226)	
(40,500) Proceeds from investments (<i>not cash equivalents</i>)	(54,690)	
(15,844) Other receipts from investing activities	(17,979)	
17,054 Net cash flows from investing activities		28,253
Financing Activities		
(44,004) Cash receipts of short and long term borrowing	(75,584)	
Cash payments for the reduction liabilities for finance leases and PFI contracts	1,063	
968		
31,513 Repayments of short and long term borrowing	64,152	
3,008 Other payments for financing activities	99	
(8,515) Net cash flows from financing activities		(10,270)
(909) Net decrease/(increase) in cash and cash equivalents		(4,470)
(141) Cash and cash equivalents at 1st April		768
768 Cash and cash equivalents at 31st March		5,238
(909) Net decrease/(increase) in cash and cash equivalents		(4,470)

8 NOTES TO THE FINANCIAL STATEMENTS

8.1. Accounting Policies

General Principles

- 8.1.1 The council is required to produce an annual Statement of Accounts by the Accounts and Audit Regulations 2011, which require the accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and the Service Reporting Code of Practice (SERCOP) 2013/14, supported by International Financial Reporting Standards.

Accruals of Income and Expenditure

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

Borrowing Costs

- 8.1.3 Borrowing costs that can be directly attributable to acquisition, construction or production of qualifying assets are capitalised as part of the cost of those assets. Qualifying assets are assets that take a substantial period of time to get ready, which is sufficiently long enough for a material balance of borrowing to accrue. This will be applied to schemes lasting more than 12 months and with at least £10,000 of interest associated with the project.
- 8.1.4 During 2013/14 £325,000 of borrowing costs have been capitalised relating to spend on the corporate accommodation programme, multi-storey car park improvements and link road enabling costs.

Cash and cash equivalents

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

Contingent assets

- 8.1.6 Contingent assets are not recognised in the financial statements but disclosed as a note to the accounts where an inflow of economic benefits or service potential is probable. If it becomes virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, then the debtor and related revenue are recognised in the financial statements in the year the change occurs.

Contingent liabilities

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

disclosed as a note to the accounts. If it becomes probable that an outflow of future economic benefits or service potential will be required then a provision is recognised in the year in which the probability occurs.

Employee benefits

Benefits payable during employment

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

Termination benefits

- 8.1.9 Termination benefits are payable as a result of either:

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

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

Post-employment benefits

- 8.1.10 Employees of the council are members of three separate pension schemes;
- a) The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education;
 - b) The NHS pension scheme (for Public Health transferred staff); and
 - c) The Local Government Pension Scheme administered by Worcestershire County Council.
- 8.1.11 Pension schemes are classed as either defined contribution or defined benefit plans. The above schemes provide defined benefits to members, built up during the time employees work for the council.
- 8.1.12 However, the arrangements for the Teachers' scheme mean that the liabilities for these benefits cannot be identified to the council. The scheme is therefore accounted for as if it were a defined contributions scheme – no liability for future payments of benefits is recognised in the balance sheet and the education service revenue account is charged with the employer's contributions payable to the Teachers' Pensions Scheme in the year. The scheme is therefore accounted for as if it were a defined contributions scheme
- 8.1.13 The NHS pension scheme, which transferred Public Health staff are members of, is an unfunded defined benefit scheme and is accounted for as a defined contribution plan by NHS bodies. Therefore, it would be extremely unlikely that local authorities would be able to identify the underlying scheme assets and liabilities for transferred staff.

8.1.14 The adoption of the 2011 amendments to IAS 19 Employee Benefits in the 2013 Code has resulted in a change in accounting policy from April 2013. There are new classes of components of defined benefit cost to be recognised in the financial statements (i.e.net interest on the net defined benefit liability and remeasurement of the net liability). The 2012/13 accounts have been restated to take account of these changes as follows:

	Original 2012/13 £000	Restated 2012/13 £000	Change £000
Net cost of services			
Current service	7,056	7,229	173
Curtailment, settlement and past service	(1,299)	(1,299)	0
Reverse actuals	(9,717)	(9,717)	0
	(3,960)	(3,787)	173
Net operating expenditure			
Interest	17,819	17,646	(173)
Admin costs	0	113	113
Return on assets	(12,875)	(10,126)	2,749
	4,944	7,633	2,689
Movement in Reserves			
Reverse IAS 19 adjustments	(10,701)	(13,563)	(2,862)
Restate actuals	9,717	9,717	0
	(984)	(3,846)	(2,862)
Net change to General Fund balance	0	0	0

8.1.15 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;
- c) Assets are included in the Balance Sheet at their fair value;
- d) The change in the net pension's liability is analysed into seven components;
 - i. **Current service cost:** The increase in liabilities as a result of service earned in the year is allocated to the revenue account of the services for which the employee worked, within the Comprehensive Income and Expenditure Statement.
 - ii. **Past service cost:** The increase in liabilities arising from a scheme amendment or curtailment whose effect relates to service earned in earlier years is debited to the Net Cost of Services in the Comprehensive Income and Expenditure Statement.

- iii. **Net Interest on the defined benefit liability:** The change during the period that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement.
- iv. **Return on plan assets:** Charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- v. **Actuarial gains and losses:** Changes in the net pensions liability that arise because events have not coincided with assumptions previously made by the actuaries is included in Other Comprehensive Income and Expenditure.
- vi. **Contributions paid to the pension fund:** Cash paid as employer's contributions to the pension fund.

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

8.1.17 Further information on accounting for the pension fund is set out in note 8.43 to the Statements.

Events after the balance sheet date

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

8.1.19 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.

Exceptional items

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

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

8.1.21 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.

8.1.22 In 2013/14 there was a change in the accounting policies for employee benefits. The impact is set out in note 8.1.14.

Financial Instruments

- 8.1.23 Financial instruments are contracts that give rise to a financial asset of one entity and a financial liability (or equity instrument, such as share capital) of another entity.

Financial liabilities

- 8.1.24 A financial liability is an obligation to deliver cash (or another financial asset) to another entity.
- 8.1.25 Financial liabilities are recognised on the Balance Sheet when the council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges for interest payable are based on the carrying amount of the liability, multiplied by the effective interest rate for the instrument and are charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised. For most of the borrowings that the council has, the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest) and interest charged is the amount payable for the year in the loan agreement. However, the council has two stepped interest rate loans, where the effective interest rate differs from the loan agreement.
- 8.1.26 Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down is spread over the life of the loan by an adjustment to the effective interest rate.
- 8.1.27 Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account through the Movement on Reserves Statement.

Financial Assets

- 8.1.28 A financial asset is a right to future economic benefits that is represented by cash, an equity instrument of another entity (e.g. shares held) or a contractual right to receive cash (or another financial asset) from another entity.
- 8.1.29 Financial assets are classified into two types:
- a. Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market; or
 - b. Available for sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

8.1.30 **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.

8.1.31 The council has no available-for-sale assets.

Government grants and other contributions

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

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

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

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

8.1.35 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.

Heritage assets

- 8.1.36 Heritage assets are assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held principally for their contribution to knowledge and culture.
- 8.1.37 Heritage assets continue to be recognised and measured (including the treatment of revaluation gains and losses) in accordance with the council's accounting policies on property, plant and equipment (see note 8.1.69).
- 8.1.38 The council has recognised as heritage assets the museum exhibits held by Heritage Services. The collection is shown in the balance sheet at open market value with the collection having been professionally valued in May 2012.
- 8.1.39 Additions to the collection are capitalised although, in line with the council's general capitalisation policy, purchases less than £10,000 are not recognised in the Balance Sheet.
- 8.1.40 As recommended in Financial Reporting Standard 30, operational assets continue to be recognised under Property, Plant and Equipment notwithstanding any historical or other heritage qualities.
- 8.1.41 Heritage assets, assumed to have indefinite lives, will not be depreciated although the carrying amount will be reviewed at least every five years to ensure that the valuation remains current.
- 8.1.42 In addition the carrying amount of an asset will be reviewed if there is evidence of impairment e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity.

Intangible assets

- 8.1.43 Expenditure on non-monetary assets that do not have physical substance but are identifiable and controlled by the council (e.g. computer software licences) is capitalised when it will bring benefits to the council for more than one financial year. Intangible assets are normally carried at cost less accumulated amortisation and impairment losses. Where an intangible asset is acquired by way of government grant, it is recognised initially at fair value.
- 8.1.44 An intangible asset with a finite useful life is amortised to the relevant service revenue account over its economic life to reflect the pattern of consumption of benefits. Gains or losses on derecognition of an intangible asset are recognised in the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.
- 8.1.45 Neither amortisation, gains nor losses are permitted to have an impact on the General Fund Balance and so all are reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account.

Inventories

- 8.1.46 Inventories are measured at the lower of cost and net realisable value, except where they are held for distribution at no charge in which case they are measured at the lower of cost and net current replacement cost.

Investment property

- 8.1.47 Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or is held for sale.
- 8.1.48 Investment property is measured initially at cost, and subsequently at market value. Properties are not depreciated but are revalued annually reflecting market conditions at the year end.
- 8.1.49 Gains and losses on revaluation are included in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. Gains or losses on disposal of an investment property are treated in the same way.
- 8.1.50 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 derecognition of an investment property the disposal proceeds are credited to the Capital Receipts Reserve and the carrying amount of the property is debited to the Capital Adjustment Account.
 - b) Gains or losses are reversed out to the Capital Adjustment Account.

Leases

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

8.1.52 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.

Operating leases

- 8.1.53
- 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 on a straight-line basis over the lease term.

Arrangements containing a lease

- 8.1.54 Arrangements that do not take the legal form of a lease but convey the right to use an asset in return for payments, are assessed under IFRIC 4 to determine

whether the arrangement contains a lease. This requires an assessment of whether;

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

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

Non-current assets held for sale

8.1.55 An asset is classified as held for sale if;

- a) The asset is available for immediate sale in its present condition
- b) The sale is highly probable.
- c) The asset is being actively marketed.
- d) The sale should be expected to be completed within one year

8.1.56 Assets held for sale are measured at the lower of the carrying amount and fair value less costs to sell and are not depreciated.

8.1.57 Assets held for sale are presented separately on the face of the Balance Sheet.

Overheads and Support Services

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

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

PFI schemes

8.1.59 Private Finance Initiative (PFI) contracts are agreements to receive services where the responsibility for making available the fixed assets 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 fixed assets will pass to the council at the end of the contracts for no additional charge, the council carries the fixed assets used under the contracts on the Balance Sheet.

8.1.60 The original recognition of these fixed assets is balanced by the recognition of a liability for amounts due to the scheme operator to pay for the assets.

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

8.1.62 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.
- 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 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 fixed assets when the contractor incurs the expenditure

8.1.63 Under the Shaw Healthcare contract the rent and service charges paid to Shaw by residents for the council's extra care flats at Leadon Bank have been treated as a contribution to the revenue costs of the units.

8.1.64 The council has two traditional PFI contracts, one in partnership with Worcestershire County Council for the provision of waste management services and the other for the provision of Whitecross secondary school. The council also has one contract that falls within the definition of a similar contract to a PFI, which is the Shaw Healthcare contract for the provision of residential care services

Property, plant and equipment

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

Recognition

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

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

8.1.67 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 fixed assets costing less than £10,000.

8.1.68 Where a component is replaced or enhanced, the carrying amount of the old component is derecognised and the new component reflected in the carrying amount.

Measurement

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

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

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

- a) **Infrastructure, community assets and assets under construction** – historical cost.
- b) **Land and buildings** – fair value. Where there is no market-based evidence of fair value because of the specialist nature of the asset fair value may need to be estimated using a depreciated replacement cost approach (DRC).
- c) **Vehicles, plant and equipment** – depreciated historical cost (as a proxy for fair value)

Revaluations

8.1.71 Assets included in the Balance Sheet at fair value are revalued where there have been material changes in the value, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. The Revaluation Reserve was created with a zero balance on 31 March 2007. Gains may be credited to the Provision of Services where they arise from the reversal of an impairment loss or revaluation decrease previously charged to a service revenue account.

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

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

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

Depreciation

8.1.75 Depreciation is provided for on all assets classified as property, plant and equipment by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite

useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

- 8.1.76 The valuer makes a professional assessment of the economic life remaining based on the age, condition and suitability of the asset. For the purposes of depreciation a nil residual value is assumed for all building assets. New assets are not subject to a depreciation charge in the year of acquisition.
- 8.1.77 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 £3 million and over for componentisation and treats components worth at least 20% of the asset value as being significant. This applies to enhancement expenditure and revaluations carried out from 1 April 2010. Where a component is replaced or restored, the carrying amount of the old component is derecognised.
- 8.1.78 Depreciation charged to the Surplus or Deficit on the Provision of Services is not a proper charge to the General Fund and is transferred to the Capital Adjustment Account. This is reported in the Movement in Reserves Statement. Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Impairments

- 8.1.79 An impairment loss is the amount by which the carrying amount of an asset exceeds its recoverable amount. At the end of each financial year assets are assessed for any indications of impairment and if there are then the recoverable amount shall be estimated. Circumstances that indicate an impairment may have occurred include;
- a) A significant decline in an asset's value during the year, which is specific to the asset
 - b) Evidence of obsolescence or physical damage of an asset
 - c) A commitment by the council to undertake a significant re-organisation
 - d) A significant adverse change in the statutory or other regulatory environment in which the council operates.
- 8.1.80 General Fund service revenue accounts, central support services and trading accounts are charged with impairment losses (in excess of any balance on the revaluation reserve). An impairment on revalued assets is recognised in the Revaluation Reserve to the extent that the impairment does not exceed the amount in the Revaluation Reserve for the same asset and thereafter in the Surplus or Deficit on the Provision of Services. An impairment loss on a non-revalued asset shall be recognised in the Surplus or Deficit on the Provision of Services.
- 8.1.81 At the end of each financial year an assessment shall take place as to whether there is any indication that an impairment loss recognised in earlier periods for an asset may no longer exist or have decreased. The reversal of an impairment loss previously recognised in the Surplus or Deficit on the Provision of Services shall not exceed the carrying amount that would have been determined had no impairment loss been recognised. Any excess above the carrying amount is treated as a revaluation gain and credited to the Revaluation Reserve.

- 8.1.82 Impairment losses and subsequent reversals are charged to the Surplus or Deficit on the Provision of Services, they are not proper charges to the General Fund. These amounts are transferred to the Capital Adjustment Account and reported in the Movement in Reserves Statement.

Disposals

- 8.1.83 The carrying amount of an asset is derecognised on disposal and the gain or loss on disposal of the asset is included in the Surplus or Deficit on the Provision of Services. This is not a proper charge to the General Fund and is reversed out by;
- a) Crediting the Capital Receipts Reserve with the disposal proceeds; and
 - b) Debiting the Capital Adjustment Account with the carrying amount of the asset on disposal.

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

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

Provisions

- 8.1.85 A provision is recognised when:
- a) An authority has a present obligation (legal or constructive) as a result of a past event;
 - b) It is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
 - c) A reliable estimate can be made of the amount of the obligation.
- 8.1.86 Provisions are charged to the cost of services when the authority becomes aware of the obligation, based on the best estimate of the likely settlement. When payments are made they are charged to the provision set up in the balance sheet.

Reserves

- 8.1.87 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.

Revenue funded from capital under statute

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

Value added tax

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

Revenue recognition

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

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

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

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

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

- 8.1.93 **Interest;** revenue is recognised when;

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

- 8.1.94 **Non-exchange transactions;** revenue is recognised when;

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

Interests in Companies and Other Entities

- 8.1.95 The council has 33% voting rights with Herefordshire Housing. However, the council is not exposed to the direct risk of any loss through transactions or collapse, and therefore there is no requirement to complete group accounts.
- 8.1.96 The council has an interest in a company called Hereford Futures, whose role is to facilitate development and regeneration within Hereford. This is a company limited by guarantee and the council is a member. However, this relationship does not require group accounts as the company provides an independent role in the redevelopment. Contracts with third parties are entered into by the council and the financial transactions relating to these are included in the council's accounts. This company will be wound down in 2014/15.
- 8.1.97 West Mercia Energy (WME) operates as a joint arrangement with Herefordshire, Shropshire, Worcestershire and Telford and Wrekin councils. The financial advantage of bulk purchasing arrangements is reflected in the Income and Expenditure Account. The council's share is not considered material to the accounts. At 19.8%, based on the estimated proportion of the surplus attributable to the council, the council's share of WME net liabilities of £1.4 million amounted to £276,000 at 31 March 2014.
- 8.1.98 The council holds 74.7% shareholding in Hoople Ltd, which increased from 62% in the previous year after the demise of the PCT. This is a joint venture which the council entered into with Wye Valley NHS Trust and Herefordshire Primary Care Trust in 2011. The purpose of the joint venture was to increase efficiency and reduce back office costs for all partners. However, the balance sheet value of Hoople Ltd at 31 March 2014 was insignificant to justify the preparation of group accounts.
- 8.1.99 On 1 April 2013 Public Health staff and services were transferred from Primary Care Trusts (PCTs) to local authorities. With the transfer brought a number of commissioning responsibilities for the Council, together with overall responsibility for improving health at local level. The national Public Health Outcomes Framework has been developed, which sets out key outcomes of interest for partners in improving health including some mandatory services including:- the National Child Measurement Programme; NHS health check assessments; comprehensive sexual health services (including testing and treatment for sexually transmitted infections, contraception outside of the GP contract and sexual health promotion and disease prevention) and drug and alcohol intervention.

To discharge the new public health responsibilities, the Council was provided with a ring-fenced public health grant. A new 'Public Health' line has been included in the Comprehensive Income and Expenditure Statement and this has been credited with this income. Public Health expenditure has also been charged to this line.

Under the new arrangements for Public Health, staff performing Public Health functions who were compulsorily transferred from the PCTs to local authorities and who had access to the NHS Pension Scheme on 31 March 2013 retained access to that scheme on transfer at 1 April 2013. Further details regarding this can be found in Note 8.42.

No material assets or liabilities were transferred.

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

8.2.1 Authorities are required to disclose the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted in the CIPFA Accounting Code of Practice for the relevant financial year.

8.2.2 For 2013/14 these are;

- IFRS 10 Consolidated Financial Statements (May 2011),
- IFRS 11 Joint Arrangements (May 2011),
- IFRS 12 Disclosure of Interests in Other Entities (May 2011),
- IFRS 13 Fair Value Measurement (May 2011)
- IAS1 Presentation of Financial Statements (as amended in May 2011). This is a presentational issue only.
- IAS 27 Separate Financial Statements (as amended May 2011). This outlines the accounting and disclosure requirements for 'separate financial statements', which are financial statements prepared by a parent, or an investor in a joint venture or associate. This is not applicable to Herefordshire Council's accounts.
- IAS 28 Investments in Associates and Joint Ventures (as amended in May 2011). This sets out how to account for investments in associates and joint ventures. This is not applicable to Herefordshire Council's accounts.
- IAS 32 Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities (as amended in December 2011). This standard outlines the accounting requirements for the presentation of financial instruments, particularly as to the classification of such instruments into financial assets, financial liabilities and equity instruments.

IFRS 10 Consolidated Financial Statements

8.2.3 This standard introduces a new control test for consolidating accounts. An investor is deemed to have control over an investee when it has;

- Power over the investee
- Exposure or rights to variable returns
- Ability to use the power to affect the amounts of investor's returns

8.2.4 It is not anticipated that this will impact on Herefordshire Council's accounts.

IFRS 11 Joint Arrangements

8.2.5 Under this standard joint arrangements are now classified into 2 models, joint ventures and joint operations. The focus is no longer on the legal structure but on how rights and obligations are shared by parties to the arrangements.

8.2.6 It is not anticipated that this will impact on Herefordshire Council's accounts.

IFRS 12 Disclosure of Interests in Other Entities

8.2.7 This is a new standard aimed at improving the disclosure of interests in other entities. The objective is to enable users of the financial statements to evaluate:

- The nature of, and risks associated with, its interests in other entities; and
- The effects of those interests on its financial position, financial performance and cash flows.

IFRS 13 Fair Value Measurement

8.2.8 Fair value is deemed to be the price that would be received to sell an asset or paid to transfer a liability between market participants. Property, plant and equipment (PPE) assets are to be measured at 'highest and best use'. For operational assets needed to provide services directly to the public the measurement should be based on existing use value. Assets not subject to service or other constraints should be measured at fair values under IFRS 13.

8.2.9 Under this standard some assets are likely to require re-measurement.

8.3 Critical Judgements in Applying Accounting Policies

8.3.1 In applying the accounting policies set out in note 8.1, the Authority has had to make certain judgements about complex transactions or those involving uncertainty about future events.

8.3.2 The critical judgements made in the Statement of Accounts are:

- The 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.
- The council has relationships with a number of companies as detailed in note 8.1 but it has been determined that there is no requirement for group accounts.

8.4 Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

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

8.4.2 There is a significant risk of material adjustment in the forthcoming financial year for the following items in the council's Balance Sheet at 31 March 2014:

Item	Uncertainties	Effect if actual results differ from assumptions
Pensions liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. The pension fund actuary Mercer Ltd is employed by the pension fund to provide expert advice about the assumptions to be applied.	Changes in any of the assumptions can have a significant effect on the pensions liability shown in the accounts. An increase in the discount rate of 0.1% would decrease the liability by £7.6m, an increase of 0.1% inflation would be an additional £7.7m and 1 year increase in life expectancy would represent £8.2m.

Property, plant, equipment and investment properties	Full valuation involving an inspection is carried out every 5 years. An impairment and valuation review is carried out as a desk exercise for properties not valued in the year.	There is a risk of an adjustment in the year when the property is revalued. An assessment of the risk was carried out in 2013/14 based on the movement in property indices over the last 5 years. This quantified the potential risk to be around £2.5m.
---	--	---

8.5 Material Items of Income and Expense

8.5.1 There were no material item of income and expense in the Comprehensive Income and Expenditure Account for 2013/14.

8.6 Events after the Balance Sheet Date

8.6.1 The Statement of Accounts was authorised for issue on 27th June 2014 by the Chief Financial Officer. Events taking place after this date are not reflected in the financial statements or notes.

8.6.2 Many schools in Herefordshire have become Academies. It is council policy to remove the associated fixed assets from the Balance Sheet on the date that the assets are legally transferred. In 2013/14 £2.65 million was removed from the Balance Sheet due to schools converting to Academy status. In 2014/15 fixed assets will fall by at least a further £2.58 million as Fairfield High School became an academy after the year end.

8.6.3 In May 2014 the council entered a waste PFI contract variation for the building of an energy from waste plant. The future years unitary payments commitments have been updated to reflect the effect of this contract variation.

8.7 Adjustments between Accounting Basis and Funding Basis under Regulations

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

2013/14

	Usable Reserves			Unusable reserves
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	£000
Adjustments involving the Capital				
Adjustment Account:				
<u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</u>				
Charges for depreciation on non-current assets	(13,801)			13,801

Revaluation losses and impairment on Property, Plant and Equipment	(4,486)		4,486
Movements in the market value of investment properties	(388)		388
Amortisation of intangible assets	(2,204)		2,204
Capital grants and contributions	16,445		(16,445)
Revenue expenditure funded from capital under statute	(1,927)		1,927
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(10,772)		10,772
<u>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</u>			
Statutory provision for the financing of capital investment	10,748		(10,748)
Capital expenditure charged against the General Fund balance	503		(503)
Adjustments primarily involving the Capital Grants Unapplied Account:			
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	476	(476)	
Application of grants to capital financing transferred to the Capital Adjustment Account		7,641	(7,641)
Adjustments involving the Capital Receipts Reserve:			
Transfer of sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	5,280	(5,280)	
Use of the Capital Receipts Reserve to finance new capital expenditure		1,979	(1,979)
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool.	(1)	1	
Transfer from Deferred Capital Receipts Reserve upon receipt of cash		(2)	2
Adjustments involving the Financial Instruments Adjustment Account:			
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(4)		4
Adjustments involving the Pensions Reserve:			
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure	(16,627)		16,627

Statement (see Note 8.43)				
Employer's pensions contributions and direct payments to pensioners payable in the year	9,841			(9,841)
Adjustments involving the Collection Fund Adjustment Account:				
Amount by which council tax and non-domestic rates income credited to the Comprehensive Income and Expenditure Statement is different from income calculated for the year in accordance with statutory requirements	(558)			558
Adjustment involving the Accumulated Absences Account				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	909			(909)
Total Adjustments	(6,566)	(3,302)	7,165	2,703

2012/13 Comparative Figures (restated)

	Usable Reserves			Unusable reserves £000
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	
Adjustments involving the Capital Adjustment Account:				
<u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</u>				
Charges for depreciation on non-current assets	(12,981)			12,981
Revaluation losses and impairment on Property, Plant and Equipment	(9,029)			9,029
Movements in the market value of investment properties	6,479			(6,479)
Amortisation of intangible assets	(1,695)			1,695
Capital grants and contributions	15,909			(15,909)
Revenue expenditure funded from capital under statute	(236)			236
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(22,651)			22,651
<u>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</u>				
Statutory provision for the financing of capital investment	10,812			(10,812)
Capital expenditure charged against the General Fund balance	294			(294)
Adjustments primarily involving the Capital Grants Unapplied Account:				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	1,588		(1,588)	
Application of grants to capital financing transferred to the Capital Adjustment Account			3,752	(3,752)
Adjustments involving the Capital Receipts Reserve:				
Transfer of sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	2,820	(2,820)		
Use of the Capital Receipts Reserve to finance new capital expenditure		2,898		(2,898)
Contribution from the Capital Receipts Reserve towards administrative costs of non current asset disposals				
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool.	(4)	4		
Recognition of new deferred capital receipts				
Transfer from Deferred Capital Receipts Reserve upon receipt of cash			(6)	6

Adjustments involving the Financial Instruments Adjustment Account:				
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	18			(18)
Adjustments involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 8.43)	(13,563)			13,563
Employer's pensions contributions and direct payments to pensioners payable in the year	9,826			(9,826)
Adjustments involving the Collection Fund Adjustment Account:				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(373)			373
Adjustment involving the Accumulated Absences Account				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	100			(100)
Total Adjustments	(12,686)	76	2,164	10,446

8.8 Transfers to/from Earmarked Reserves

8.8.1 This note sets out the amounts set aside from the General Fund balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to the General Fund in 2013/14

	31 Mar 2013	Transfer out 2013/14	Transfer (in) 2013/14	31 Mar 2014
	£000	£000	£000	£000
School balances	(5,535)	847	(1,657)	(6,345)
Industrial Estates	(431)	81		(350)
Schools Insurance	(497)	77		(420)
Schools sickness	(141)		(25)	(166)
Waste Disposal	(2,407)			(2,407)
Contingent liabilities	(306)			(306)
Hereford Futures	(213)		(23)	(236)
Whitecross school PFI	(339)		(35)	(374)
Economic Development	(127)			(127)
Three Elms Ind. Estate	(241)		(123)	(364)
Community Equipment	(110)			(110)
Community Social Care	(116)			(116)
Change management	(142)	142		0
Insurance	0		(105)	(105)
Risk mitigation	0		(3,500)	(3,500)
Business Rate smoothing	0		(1,000)	(1,000)
Land charges	0		(600)	(600)
Safeguarding	0		(417)	(417)
ICT	0		(387)	(387)
Library services	0		(260)	(260)
Herefordshire Local Plan	0		(170)	(170)
HR	0		(146)	(146)
Special Educational Needs	0		(75)	(75)
Section 256	0		(55)	(55)
Other small reserves	(60)	10	(75)	(125)
Unused grants carried forward	(3,303)	1,883	(4,362)	(5,782)
	(13,968)	3,040	(13,015)	(23,943)

8.9 Other Operating Expenditure

	2013/14	2012/13
	£000	£000
Parish council precepts	2,788	2,697
Levies	195	189
Payments to the Government Housing Capital Receipts Pool	1	4
(Gains)/losses on the disposal of non-current assets	6,038	19,872
Total	9,022	22,762

8.10 Financing and Investment Income and Expenditure

	2013/14	Restated
	£000	2012/13
		£000
Interest payable and similar charges	7,844	7,768
Pensions net interest and admin charge	7,916	17,759
Pension Return on Assets	0	(10,126)
Interest receivable	(332)	(283)
Income and expenditure in relation to trading accounts/investment properties and changes in their fair value	(1,242)	(8,060)
(Gains)/losses on the disposal of investment properties	(547)	0
Other investment income	(384)	(1,157)
Total	13,255	5,901

The 2012/13 figures have been adjusted for the change in accounting for pensions.

8.11 Taxation and Non Specific Grant Income

	2013/14	2012/13
	£000	£000
Council tax income	(81,825)	(89,068)
Non domestic rates	(27,639)	(55,539)
Non-ringfenced government grants	(47,847)	(5,887)
Capital grants and contributions	(16,921)	(17,520)
Total	(174,232)	(168,014)

8.12 Property, Plant and Equipment

8.12.1 Movements on Balances

Movements in 2013/14:

	Land & buildings £000	Vehicles, plant, furniture & equip £000	Infra structure assets £000	Community assets £000	Surplus assets £000	Assets under construction £000	Total PPE £000	PFI assets incl. in PPE £000
Cost or Valuation								
At 1 April 2013	244,530	20,841	182,541	1,600	3,998	14,785	468,295	10,527
Additions	13,986	611	11,580	232	0	12,703	39,112	160
Revaluation increases/(decreases) recognised in the Revaluation Reserve	9,314	0	0	0	0	0	9,314	0
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(4,432)	0	0	0	0	(55)	(4,487)	0
Adjustment to write back depreciation on revalued assets	(3,711)	0	0	0	0	0	(3,711)	0
Disposals	(3,864)	(841)	0	0	(3,505)	0	(8,210)	(61)
To held for sale	(132)	0	0	0	0	0	(132)	0
Other reclassifications	4,228	-	4,193	69	3,719	(12,209)	0	0
At 31 March 2014	259,919	20,611	198,314	1,901	4,212	15,224	500,181	10,626
Accumulated Depreciation and Impairment								
At 1 April 2013	(16,419)	(13,636)	(34,176)	0	0	0	(64,231)	(2,600)
Depreciation on cost (net of any impairments)	(4,480)	(2,609)	(5,334)	0	0	0	(12,423)	(338)
Depreciation on revalued amount in excess of cost	(1,379)	0	0	0	0	0	(1,379)	0
Depreciation written back on revalued assets	3,711	0	0	0	0	0	3,711	0
Disposals	19	396	0	0	0	0	415	0
At 31 March 2014	(18,548)	(15,849)	(39,510)	0	0	0	(73,907)	(2,938)
Net Book Value								
At 31 March 2014	241,371	4,762	158,804	1,901	4,212	15,224	426,274	7,688
At 31 March 2013	228,111	7,205	148,365	1,600	3,998	14,785	404,064	7,927

Comparative Movements in 2012/13:

	Land & buildings	Vehicles, plant, furniture & equip	Infra structure assets	Communi assets	Surplus assets	Assets under construction	Total PPE	PFI assets incl. in PPE
	£000	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation								
At 1 April 2012	260,351	21,288	170,582	901	2,989	2,953	459,064	28,663
Additions	8,000	2,179	11,944	699	1,343	11,879	36,044	13
Revaluation increases/(decreases) recognised in the Revaluation Reserve	8,366	0	0	0	(331)	0	8,035	0
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(8,396)	0	0	0	(511)	0	(8,907)	0
Adjustment to write back depreciation on revalued assets	(2,115)	0	0	0	(3)	0	(2,118)	0
Disposals	(20,054)	(2,626)	0	0	(135)	0	(22,815)	(18,149)
Assets reclassified as Held for Sale	0	0	0	0	0	0	0	0
Reclassifications from/(to) Investment Properties	0	0	0	0	0	0	0	0
Other reclassifications	(1,622)	0	15	0	646	(47)	(1,008)	0
At 31 March 2013	244,530	20,841	182,541	1,600	3,998	14,785	468,295	10,527
Accumulated Depreciation and Impairment								
At 1 April 2012	(14,353)	(12,899)	(28,851)	0	(3)	0	(56,106)	(4,641)
Depreciation on cost (net of any impairments)	(4,648)	(2,268)	(5,325)	0	0	0	(12,241)	(327)
Depreciation on revalued amount in excess of cost	(740)	0	0	0	0	0	(740)	(11)
Depreciation written back on revalued assets	2,115	0	0	0	3	0	2,118	0
Disposals	1,207	1,531	0	0	0	0	2,738	2,379
At 31 March 2013	(16,419)	(13,636)	(34,176)	0	0	0	(64,231)	(2,600)
Net Book Value								
At 31 March 2013	228,111	7,205	148,365	1,600	3,998	14,785	404,064	7,927
At 31 March 2012	245,998	8,389	141,731	901	2,986	2,953	402,958	24,022

8.12.2 Depreciation

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

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

8.12.3 Analysis of Capital Charges to Directorates

Capital charges included in the Comprehensive Income and Expenditure Statement relating to tangible fixed assets are analysed by directorate below:

Directorate	Depreciation £000	Impairments £000	Total for 2013/14 £000
Adults Well-being	591	55	646
Children's Well-being	6,295	997	7,292
Economy, Communities and Corporate	6,690	3,434	10,124
Chief Executive and Organisational Development	225	0	225
Total	13,801	4,486	18,287

8.12.4 Capital Commitments

At 31 March 2014 the council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2014/15 and future years budgets. Major commitments totalled £7.3 million in relation to the Leominster Primary School and Corporate Accommodation programme.

8.12.5 Revaluations

The council carries out a rolling programme that ensures all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. More frequent valuations are carried out if the rolling programme is insufficient to keep pace with material changes in value. This year an external company, Hub Professional Services Ltd, carried out the majority of the valuations with only the lower value assets (less than £5,000) being reviewed by the in-house valuation team. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Valuations of vehicle, plant and equipment is based on depreciated costs as a proxy for fair value.

8.12.6 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. As a result Community schools, Voluntary Aided schools, Voluntary Controlled

schools and Foundation schools are all consolidated into the Council's accounts. However, once a school transfers to Academy status it is no longer under the control of the Council and, therefore, its income, expenditure, assets, liabilities and reserves are no longer consolidated into the Council's accounts.

In respect of any Plant, Property and Equipment associated with schools the Council has determined that Community schools and Voluntary Controlled schools should be on balance sheet but that Voluntary Aided school buildings (excluding playing fields), Foundation schools and Academy schools should not. Voluntary Aided schools long term assets are not included as ownership and control of the assets lies with the school.

The fair value of schools is estimated using a Depreciated Replacement Cost approach i.e. the valuation 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.

Whether or not the value of a school is included in the balance sheet depends upon the type of school. The different types of school and their accounting treatment is summarised below.

Type of School (excluding Pupil Referral Units)	Number of Schools	Net Book Value 31/3/14 £'000
Community Schools owned and controlled by the council. Land and buildings recognised in the Balance Sheet.	34	105,102
Voluntary – Controlled Land and buildings owned by a foundation or trust (usually a Christian group) but all costs met by central government. Similar to a community school in the degree of control exercised by the council. In order to accurately reflect the assets that the council controls and maintains (and which the council has a duty to provide) the land and buildings are included in the Balance Sheet. This is interpreted as being in accordance with FRS5 (substance over legal form).	12	11,501
Voluntary – Aided Ownership as above except with the difference that the schools are not fully funded by the government (with the school meeting part of the cost of capital works) and have more autonomy. Only the value of playing fields is included in the Balance Sheet, where these are required to be provided by the council.	22	1,114
Foundation Schools Land and buildings legally transferred to the school. Because a foundation school has more freedom than a community school in how it is managed the school assets are written out of the balance Sheet.	2	0
Academies	26	0

As foundation schools above.		
Total	96	117,717

The Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 includes an updated Appendix which outlines that all assets of local authority maintained schools (all schools excluding academies) are under the control of the local authority (unless it can specifically prove otherwise) and therefore all income, expenditure, assets, liabilities and reserves should be consolidated into the local authorities accounts. It is expected that this will materially increase the value of the Plant, Property and Equipment in the 2014/15 accounts.

8.13 Heritage Assets

8.13.1 The carrying value of heritage assets shown in the Balance Sheet is calculated as follows:

	2013/14	2012/13
	£000	£000
Balance at start of the year	2,805	2,820
Additions:		
Reclassification	0	(15)
Balance at end of the year	2,805	2,805

- 8.13.2 The council's heritage assets consist of the museum, archive and local studies holdings, together with some individual items held by other departments.
- 8.13.3 Heritage assets that have not been included in the new category include items such as sculptures and war memorials in the county. These items have been excluded on the basis that identification and valuation of these items is considered impractical and the additional work involved would not be commensurate with the benefit to the user of the accounts. In addition, ownership of assets such as war memorials is often difficult to establish without detailed research.
- 8.13.4 The heritage assets held by the council were professionally valued in May 2012 by James Glennie of Art and Antiques Appraisals Ltd (James Glennie has 30 years valuing and auctioneering experience and worked for the international auction house Bonhams for 14 years).

Summary of Collections

The valuation of the heritage assets can be analysed as follows:

	£000
Paintings and prints	1,383
Ceramics and glass	170
Furniture	144
Costumes and textiles	65
Arms, armour, firearms, weapons etc	42
Archaeology	171
Natural history and sciences	81
Documents, photographs and archives	218
Clocks, watches, scientific instruments and cameras	67
Sculpture	38
Silver, jewellery, coins, medals, tokens etc	61
Transport and carriages	52
Social history	36
Hereford Public Library reference section	277
Total	2,805

- 8.13.5 Excluding archives and items held by local studies, the museum itself holds an estimated 120,000 objects.

- 8.13.6 As can be seen from the above, nearly half of the valuation of the exhibits relates to paintings and prints which comprise more than 3,500 works of art. The Fine Art collection features a significant number of early English watercolours, mainly landscapes, dating from the 18th to mid 19th centuries. It has a rich selection of work by artists with local connections, such as the work of First World War artist Brian Hatton.
- 8.13.7 The Costume and Textile collection is of national importance with items from the 17th century to the present day.
- 8.13.8 Amongst the Natural History collection the geology, herbarium and parts of the invertebrate collections are the most important. There are good local entomological specimens and a local collection of vertebrates including a fine sturgeon caught in the River Wye in the mid 19th century (valued today at £20,000).
- 8.13.9 The Archaeological collections are primarily of Herefordshire origin and are particularly strong in the Iron Age and Roman periods from the county. Stone Age material from King Arthur's Cave is of national significance, and there are some fine groups of prehistoric flint and stone tools in the collections.
- 8.13.10 The Social History collection is large and diverse, including local crafts, trades, agricultural implements, wheeled vehicles and numerous domestic artefacts. The collection is largely of 19th- 20th century date, but there is some 17th and 18th century material including an important group of ironwork. A collection of photographic equipment and items belonging to Alfred Watkins, a Victorian antiquarian, inventor and author of the Ley Line theory, is of local and national relevance.
- 8.13.11 The collection of photographs is an important resource for local imagery and past trades and date from the mid-19th century to the present day.
- 8.13.12 The collection of currency is greatest in the area of Roman coinage, with two large hoards and coins from the Roman town of Magna at Kenchester. Arms and armour includes some fine Medieval and Civil War pieces including the famous Roaring Meg Mortar and its associated shell from the siege of Goodrich Castle.

Preservation and Management

- 8.13.13 One of the main purposes of Herefordshire Museum Services is to collect and preserve in perpetuity, objects that celebrate and enhance the lives and environment of the people of Herefordshire and to provide access for everyone to this exciting resource.
- 8.13.14 The museum service has been accredited by the Arts Council. Registration under the Arts Council Museums Accreditation Scheme indicates that the museum has achieved a nationally approved standard in management, collection care and delivery of information and visitor services.
- 8.13.15 The central storage facility for the county's museum collections is the Museum Resource and Learning Centre. This is a modern purpose-built state of the art facility where the climate controlled stores provide the optimum temperature and humidity to keep the objects in good condition.

- 8.13.16 By definition the museum has a long-term purpose and there is a strong presumption against the disposal of items, except for sound curatorial reasons such as deterioration or damage.
- 8.13.17 The collection is increased by both passive collection (through objects offered by members of the public and occasionally institutions, including via the Treasure Act 1996) and active collection. Items will only be considered for collection if:
- The object has been legally acquired and the donor has proper title;
 - It fills a gap in the existing collection;
 - It represents a category of artefact where it is important to have all surviving examples retained for posterity, or
 - It is a complete, or more complete, example of an object already represented in the collection.

All members of the Collections Team are consulted over potential acquisitions in all collecting areas and a consensus reached.

Access to the Collection

- 8.13.18 Herefordshire Museum Services operates five sites across the county together with an award winning mobile museum service, Museum on the Move. Three sites are in Hereford – these are the Hereford Museum and Art Gallery, the Old House and the Museum Resource and Learning Centre. The other two centres are the Market House Visitor Centre in Ross-on-Wye and Ledbury Heritage Centre. Admission to museums, galleries and heritage centres is generally free of charge.
- 8.13.19 Museum on the Move is a fully accessible bus run by Herefordshire Museum Services in partnership with Staffordshire Council's Museum Service. Museum on the Move exists to provide access to the collection for different communities in the county, such as day care centres, village fetes and after-school clubs.
- 8.13.20 The centres in Ross-on-Wye and Ledbury provide insights into the past of these historic towns and also host a wide range of frequently changing community exhibitions, in addition to open days and other activities.
- 8.13.21 The Old House is a well preserved 17th century timber-framed building situated in the commercial centre of Hereford. It has been a museum since 1929 and is furnished in Jacobean style. For those unable to climb the stairs a virtual tour is available on the fully accessible ground floor.
- 8.13.22 Hereford Museum and Art Gallery has been exhibiting artefacts and works of art connected with the local area since 1874. The Art Gallery is host to changing exhibitions and changeovers happen approximately every eight weeks.
- 8.13.23 As noted above, the Museum Resource and Learning Centre is the central storage facility for the county's museum collections. The Centre needs to balance preservation with public access. Access to the collections is provided by:
- Rotating items on show at the Hereford Museum and Art Gallery;
 - Holding open days twice a month to enable the public to meet the curators and receive advice on their own items or to tour the facility;
 - Allowing access at other times, for longer periods of research or for group visits to see behind the scenes, by appointment;
 - Running regular family friendly events, workshops and lectures;

- o Exceptionally, by loaning items to other museums or groups.

8.14 Investment Properties

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

	2013/14 £000	2012/13 £000
Rental income from investment property	(2,713)	(2,107)
Direct operating expenses arising from investment property	673	647
Net gain	<u>(2,040)</u>	<u>(1,460)</u>

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

	2013/14 £000	2012/13 £000
Balance at start of the year	32,966	26,954
Additions:		
Enhancement expenditure	93	223
Disposals	(2,426)	(1,713)
Net gains/(losses) from fair value adjustments	(388)	6,479
Transfers to Property, Plant and Equipment	0	1,023
Balance at end of the year	<u>30,245</u>	<u>32,966</u>

8.15 Intangible Assets

8.15.1 The council accounts for its software as intangible assets. Software is amortised over three to five years in equal annual instalments. Most of the amortisation was charged to the IT administration centre and then absorbed as an overhead across all services in the Net Expenditure of Services. It is not possible to quantify exactly how much of the amortisation is attributable to each service heading.

8.15.2 The movement on Intangible Asset balances during the year is as follows:

	2013/14 Software £000	2012/13 Software £000
Balance at start of year:		
Gross carrying amounts	11,789	11,228
Accumulated amortisation	(7,056)	(5,361)
Net carrying amount at start of year	4,733	5,867
Additions:	389	563
Amortisation for the period	(2,204)	(1,695)
Disposals	0	(2)
Net carrying amount at end of year	2,918	4,733
Comprising:		
Gross carrying amounts	12,178	11,789
Accumulated amortisation	(9,260)	(7,056)
	2,918	4,733

8.16 Financial Instruments

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

8.16.2 Categories of Financial Instruments

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

8.16.3 Financial Assets

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

	2013/14		2012/13	
	Per Balance Sheet £'000	Financial Instruments £'000	Per Balance Sheet £'000	Financial Instruments £'000
Long-term investments				
Treasury stock etc	4	4	4	4
Long-term debtors				
Loans	1,296	1,296	1,225	1,225
PFI lifecycle costs	1,511	-	1,281	-
	2,807	1,296	2,506	1,225

Investments				
Short-term investments	17,564	17,564	8,541	8,541
Cash and cash equivalents	8,412	8,412	2,420	2,420
	25,976	25,976	10,961	10,961
Short-term debtors				
Sales invoices and contractual rights	18,829	18,829	20,636	20,636
Statutory debts (council tax, VAT etc)	8,983	-	7,837	-
Prepayments	2,417	-	6,061	-
Bad debt provisions	(1,733)	-	(1,689)	-
	28,496	18,829	32,845	20,636

8.16.4 Financial Liabilities

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

	2013/14		2012/13	
	Per Balance Sheet £'000	Financial Instruments £'000	Per Balance Sheet £'000	Financial Instruments £'000
Cash and cash equivalents (unpresented items)	3,174	3,174	1,652	1,652
Short-term borrowing:				
Bank loans	12,611	12,611	12,615	12,615
Public Works Loan Board	4,927	4,927	5,099	5,099
Borrowing from other local authorities	31,541	31,541	16,011	16,011
Other loans (Salix loan)	149	149	130	130
	49,228	49,228	33,855	33,855
Short-term creditors				
Invoiced amounts and other contractual liabilities	17,578	17,578	22,373	22,373
Obligations under finance leases	-	-	1	1
Statutory liabilities (PAYE etc)	3,598	-	3,893	-
Accruals and receipts in advance	5,077	-	5,939	-
Funds and deposits held	164	-	227	-
	26,417	17,578	32,433	22,374

Long-term borrowing				
Public Works Loan Board	120,523	120,523	124,535	124,535
Other loans (Salix loan)	237	237	322	322
	120,760	120,760	124,857	124,857
Other long-term liabilities				
PFI liabilities and finance leases	27,306	27,306	28,238	28,238
Pensions liability	160,431	-	188,502	-
	187,737	27,306	216,740	28,238

18.16.5 Income, Expense, Gains and Losses

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

	2013/14			2012/13		
	Financial Liabilities at amortised cost £000	Financial assets: Loans and receivables £000	Total £000	Financial Liabilities at amortised cost £000	Financial assets: Loans and receivables £000	Total £000
<u>Interest payable and similar charges:</u>						
Interest expense relating to:						
Loans	5,406	0	5,406	5,366	0	5,366
PFI liabilities	2,125	0	2,125	2,185	0	2,185
Finance leases	33	0	33	39	0	39
Brokers commission	11	0	11	5	0	5
Impairment losses (bad debts)	0	269	269	0	173	173
Total expense in Surplus or Deficit on the Provision of Services	7,575	269	7,844	7,595	173	7,768
<u>Interest receivable:</u>						
On investments	0	(332)	(332)	0	(283)	(283)
Total income in Surplus or Deficit on the Provision of Services	0	(332)	(332)	0	(283)	(283)
Net loss/(gain) for the year	7,575	(63)	7,512	7,595	(110)	7,485

8.16.6 Fair Values of Assets and Liabilities

Financial liabilities and financial assets represented by loans and receivables and long-term debtors and creditors are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present

value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

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

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

	31 March 2014		31 March 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
	£000	£000	£000	£000
Total borrowing	169,988	190,959	158,712	191,601

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 terminated the PFI schemes as at the balance sheet date. The total PFI carrying amount is £27 million and the fair value as at 31.03.14 totals £42 million. The accounts have not been adjusted for this as the PFI schemes are set to continue until expiry.

8.17 Inventories

	2013/14	2012/13
	£000	£000
Balance outstanding at start of year	287	342
Purchases	617	636
Recognised as an expense in the year	(414)	(486)
Written off balances	(313)	(205)
Balance outstanding at year-end	177	287

8.18 Debtors

	31 March 2014 £000	31 March 2013 £000
Central government bodies	10,464	11,603
Other local authorities	903	439
NHS bodies	4,990	4,728
Public corporations and trading funds	23	0
Other entities and individuals	13,849	17,764
	<hr/>	<hr/>
	30,229	34,534
Provision for Bad Debts	(1,733)	(1,689)
	<hr/>	<hr/>
Total	28,496	32,845

8.19 Cash and Cash Equivalents

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

	31 March 2014 £000	31 March 2013 £000
Cash held by the Authority	2,575	1,448
Short-term deposits	5,837	972
	<hr/>	<hr/>
	8,412	2,420
Bank current accounts	(3,174)	(1,652)
	<hr/>	<hr/>
Total Cash and Cash Equivalents	5,238	768

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

8.20 Assets Held for Sale

	2013/14 £000	2012/13 £000
Balance outstanding at start of year	3,150	4,132
Reclassified	0	0
Assets newly classified as held for sale	132	0
Revaluation losses	0	(122)
Assets sold	(550)	(860)
	<hr/>	<hr/>
Balance outstanding at year-end	2,732	3,150

All assets held for sale are categorised as current assets

8.21 Creditors

	31 March 2014 £000	31 March 2013 £000
Central government bodies	(3,788)	(4,022)
Other local authorities	(4,152)	(3,024)
NHS bodies	(1,130)	(511)
Other entities and individuals	(17,347)	(24,876)
Total	(26,417)	(32,433)

8.22 Provisions

8.22.1 The movement on provisions from 1st April 2012 to 31st March 2014 is set out below;

	Long-term £000	Short-term £000	Total £000
Balance at 1 April 2012	(1,124)	(424)	(1,548)
Additional provisions made in 2012/13	(540)	(1,474)	(2,014)
Amounts used in 2012/13	540	224	764
Unused amounts reversed in 2012/13	0	200	200
Balance at 31 March 2013	(1,124)	(1,474)	(2,598)
Additional provisions made in 2013/14	(463)	(1,526)	(1,989)
Amounts used in 2013/14	0	905	905
Balance at 31 March 2014	(1,587)	(2,095)	(3,682)

8.22.2 The provisions held at 31st March 2014 are;

Provision	£000	
Redundancy	1,780	Based on the number of planned redundancies and staff identified at risk of redundancy at 31 st March 2014 plus contractual commitments to cover redundancies for transferred staff in partner organisations
Insurance	1,258	For potential future insurance claims based on external professional assessment
Data breaches	60	Estimated costs relating to data breach fines and claims
NNDR appeals	584	For future appeals against rating valuations which will affect rating income due for 2013/14 and prior years. This figure is after spreading the impact of appeals affecting pre April 2013, as allowed by legislation.
	3,682	

8.23 Usable Reserves

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

8.23.1 Earmarked Reserves

The movement in earmarked reserves are detailed in Note 8.8.

8.23.2 Capital receipts reserve

	31 March 2014 £000	31 March 2013 £000
Balance at 1 April	(2,693)	(2,769)
Received during the year	(5,349)	(2,872)
Applied during the year	1,979	2,898
Admin costs of sales	67	46
Set aside during the year	1	4
Balance at 31 March	(5,995)	(2,693)

8.23.3 Capital grants unapplied

	31 March 2014 £000	31 March 2013 £000
Balance at 1 April	(13,515)	(15,679)
Received during the year	(476)	(1,588)
Applied during the year	7,641	3,752
Balance at 31 March	(6,350)	(13,515)

8.24 Unusable Reserves

Summary

	31 March 2014 £000	31 March 2013 £000
Revaluation reserve	(55,339)	(48,942)
Capital Adjustment Account	(194,938)	(188,283)
Financial Instruments Adjustment Account	402	398
Deferred Capital Receipts Reserve	(287)	(289)
Pensions Reserve	160,431	188,502
Collection Fund Adjustment Account	1,692	1,134
Accumulated Absences Account	1,729	2,638
Total unusable reserves	(86,310)	(44,842)

8.24.1 Revaluation Reserve

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

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through

depreciation, or

- disposed of and the gains are realised.

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

	2013/14	2012/13
	£000	£000
Balance at 1 April	(48,942)	(42,782)
(Surplus) or Deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	(9,314)	(8,035)
Difference between fair value depreciation and historical cost depreciation	1,380	718
Accumulated gains on assets sold or scrapped	1,537	1,157
Balance at 31 March	<u>(55,339)</u>	<u>(48,942)</u>

8.24.2 Capital Adjustment Account

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

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

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

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

	2013/14 £000	2013/14 £000 (188,283)	2012/13 £000 (192,856)
Balance at 1 April			
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:			
Charges for depreciation on non-current assets	13,801		12,981
Revaluation losses and impairment on Property, Plant and Equipment	4,486		9,029
Amortisation of intangible assets	2,204		1,695
Revenue expenditure funded from capital under statute	1,928		236
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	10,772		21,494
		33,191	45,435
Adjusting amounts written out of the Revaluation Reserve		(2,917)	(740)
Prior year adjustments to Revaluation Reserve			22
Net written out amount of the cost of non-current assets consumed in the year		30,274	44,717
Capital financing applied in the year:			
Use of the Capital Receipts Reserve to finance new capital expenditure	(1,979)		(2,898)
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(16,445)		(15,909)
Application of grants to capital financing from the Capital Grants Unapplied Account	(7,642)		(3,752)
Statutory provision for the financing of capital investment charged against the General Fund balance	(10,748)		(10,812)
Capital expenditure charged against the General Fund balance	(503)		(294)
		(37,317)	(33,665)
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		388	(6,479)
Balance at 31 March		(194,938)	(188,283)

8.24.3 Financial Instruments Adjustment Account

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

The opening balance mainly relates to the council's two "stepped interest" bank loans where the interest paid in the first two years was much lower than the rate subsequently charged. The charge in the Comprehensive Income &

Expenditure Statement is based on the effective (or average) rate over the period of the loan and so in the first two years the charge was increased by debiting the differential in the Movement in Reserves Statement and crediting the FIAA. This latter reserve is then reversed out over the remaining period of the loan to give a consistent effective rate of interest.

Another adjustment is required for 2013/14 relating to the discount received on the early repayment of loans to the Public Works Loan Board in 2010/11. Discount of £83,000 was received and this amount included in the Comprehensive Income & Expenditure Statement. However, for accounting purposes this amount needs to be spread over ten years, so £78,000 was transferred to the FIAA and is credited to revenue over 10 years (i.e. £8,000 per annum).

	2013/14 £000	2012/13 £000
Balance at 1 April	398	416
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(4)	(4)
Discounts received in the year carried forward to future accounting periods	8	8
Reversal of interest adjustment for soft loans		(22)
Balance at 31 March	402	398

8.24.4 Pensions Reserve

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

There has been an adjustment to the liability resulting to a change in the liability in respect of staff who transferred to Hoople in 2011.

	2013/14	Restated
	£000	2012/13
		£000
Balance at 1 April	188,502	160,354
Actuarial (gains) or losses on pensions assets and liabilities	(38,034)	24,411
Business combination	3,177	0
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	16,627	13,563
Employer's pensions contributions and direct payments to pensioners payable in the year	(9,841)	(9,826)
Balance at 31 March	160,431	188,502

8.24.5 Deferred Capital Receipts Reserve

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

	2013/14	2012/13
	£000	£000
Balance at 1 April	(289)	(295)
Transfer to the Capital Receipts Reserve upon receipt of cash	2	6
Balance at 31 March	(287)	(289)

8.24.6 Collection Fund Adjustment Account

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

	2013/14	2012/13
	£000	£000
Balance at 1 April	1,134	761
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(1,176)	373
Amount by which non-domestic rates income credited to the Comprehensive Income and Expenditure Statement is different from rates income calculated for the year in accordance with statutory requirements	1,734	0
Balance at 31 March	1,692	1,134

8.24.7 Accumulated Absences Account

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

	2013/14 £000	2012/13 £000
Balance at 1 April	2,638	2,738
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(909)	(100)
Balance at 31 March	<u>1,729</u>	<u>2,638</u>

8.25 Capital Grants Receipts in Advance

8.25.1 Under IFRS grants and contributions given towards an authority's capital investment are retained in this account whilst conditions remain attached to the financial assistance.

	2013/14 £000	2012/13 £000
Balance at 1 April	(2,740)	(4,015)
Additional amounts received in the year	(1,599)	(534)
Amounts transferred to the Comprehensive Income and Expenditure Account in the year	554	1,809
Balance at 31 March	<u>(3,785)</u>	<u>(2,740)</u>

The amounts are split between long-term and short-term liabilities at the balance sheet date.

8.26 Amounts Reported for Resource Allocation Decisions

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

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

8.26.2 Directorate Income and Expenditure

The income and expenditure of the council's directorates and corporate spend as reported to Cabinet in the 2013/14 out-turn report is as follows;

Directorate Income and Expenditure	Adults Wellbeing	Children's Wellbeing	Economy, Communities & Corporate	Chief Exec & Organisational Development	Public Health	Total
<u>2013/14 figures</u>	£'000	£'000	£'000	£'000	£'000	£'000
Fees, charges & other service income	17,624	12,081	18,496	470	51	48,722
Government grants	1,571	82,393	58,503	0	7,753	150,220
Total Income	19,195	94,474	76,999	470	7,804	198,942
Employee expenses	7,292	71,795	18,846	1,273	1,243	100,449
Other service expenses	69,118	49,159	109,151	8,255	6,443	242,126
Support services	4,033	9,211	(688)	(8,694)	34	3,896
Total Expenditure	80,443	130,165	127,309	834	7,720	346,471
Net Expenditure	61,248	35,691	50,310	364	(84)	147,529

The following table shows the restated comparative figures for 2012/13:

Directorate Income and Expenditure	Adults Wellbeing	Children's Wellbeing	Economy, Communities & Corporate	Chief Exec & Organisational Development	Public Health	Total
<u>2012/13 Comparative figures</u>	£'000	£'000	£'000	£'000	£'000	£'000
Fees, charges & other service income	17,297	11,428	9,039	12,310	481	50,555
Government grants	5,228	88,277	68,631	0	0	162,136
Total Income	22,525	99,705	77,670	12,310	481	212,691
Employee expenses	3,512	75,944	20,308	2,236	206	102,206
Other service expenses	74,081	50,864	123,898	9,142	46	258,031
Support services	4,447	8,789	(11,273)	1,779	230	3,972
Total Expenditure	82,040	135,597	132,933	13,157	482	364,209
Net Expenditure	59,515	35,892	55,263	847	1	151,518

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

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

	2013/14	Restated
	£000	2012/13
		£000
Net expenditure in the Directorate Analysis	147,529	151,518
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Account	620	1,466
Cost of services in the Comprehensive Income and Expenditure Statement	148,149	152,984

8.26.4 Reconciliation to Subjective Analysis

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

2013/14	Directorate Analysis	Amounts not Included in I & E	Cost Of Services	Corporate Items	Total
	£000	£000	£000	£000	£000
Fees, charges & other service income	48,722	(2,713)	46,009	0	46,009
Financing and investment income	0	0	0	1,958	1,958
Income from council tax	0	0	0	81,825	81,825
Government grants and contributions	150,220	0	150,220	92,407	242,627
Total Income	198,942	(2,713)	196,229	176,190	372,419
Employee expenses	100,449	(217)	100,232	0	100,232
Other service expenses	242,126	(738)	241,388	0	241,388
Support Service recharges	3,896	(938)	2,958	0	2,958
Financing and investment expenditure	0	0	0	15,760	15,760
Precepts & Levies	0	(200)	(200)	2,983	2,783
Payments to Housing Capital Receipts Pool	0	0	0	1	1
Gain or Loss on Disposal of Fixed Assets	0	0	0	5,491	5,491
Total expenditure	346,471	(2,093)	344,378	24,235	368,613
(Surplus) or deficit on the provision of services	147,529	620	148,149	(151,955)	(3,806)

The following table shows the comparative figures for 2012/13;

2012/13	Directorate Analysis	Amounts not Included in I & E	Cost Of Services	Corporate Items	Total
	£000	£000	£000	£000	£000
Fees, charges & other service income	50,555	(2,542)	48,013	0	48,013
Financing and investment income	0	0	0	9,500	9,500
Income from council tax	0	0	0	89,068	89,068
Government grants and contributions	162,136	0	162,136	78,946	241,082
Total Income	212,691	(2,542)	210,149	177,514	387,663
Employee expenses	102,206	(220)	101,986	0	101,986
Other service expenses	258,031	(680)	257,351	0	257,351
Support Service recharges	3,972	19	3,991	0	3,991
Financing and investment expenditure	0	0	0	15,401	15,401
Precepts & Levies	0	(195)	(195)	2,886	2,691
Payments to Housing Capital Receipts Pool	0	0	0	4	4
Gain or Loss on Disposal of Fixed Assets	0	0	0	19,872	19,872
Total expenditure	364,209	(1,076)	363,133	38,163	401,296
(Surplus) or deficit on the provision of services	151,518	1,466	152,984	(139,351)	13,633

8.27 Trading Operations

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

		2013/14 £000	2012/13 £000
Markets			
The council owns and manages open and closed markets, generating income from letting of premises and market stalls.	Turnover	(805)	(754)
	Expenditure	521	533
	(Surplus)/deficit	(284)	(221)
Industrial Estates			
The council owns and manages a number of industrial estates in the county.	Turnover	(1,382)	(1,442)
	Expenditure	520	581
	(Surplus)/deficit	(862)	(861)
Retail Properties			
The council owns retail premises in Hereford City centre from which it receives commercial rents.	Turnover	(526)	(520)
	Expenditure	42	20
	(Surplus)/deficit	(484)	(500)

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

8.28 Agency Services

8.28.1 During 2013/14 the council incurred spend in relation to the Golden Valley Fastershire capital project to provide improved broadband speeds throughout the rural areas of Herefordshire and Gloucestershire. In 2013/14 spend totalled £674,000 under the Fastershire project, of which £467,000 represents spend in the Gloucestershire area that is not shown in the council accounts as this spend is incurred under an agency arrangement.

8.29 Pooled Budgets

8.29.1 The council is party to 2 pooled budget arrangements;

Integrated Community Equipment Store

8.29.2 A joint equipment store service is provided as a partnership between Herefordshire Council, Herefordshire CCG (PCT in previous years) and Wye Valley Trust. Its aim is to promote independence and enable individuals to remain in their home.

	2013/14 £000's	2012/13 £000's	
Funding provided to the pooled budget:			
Herefordshire Council	(474)	(274)	
Wye Valley Trust	(110)		
Herefordshire CCG	(164)		
Herefordshire PCT	<u>(748)</u>	<u>(274)</u>	(548)
Expenditure met from the pooled budget:			
Herefordshire Council	1,048	744	
Net deficit arising on the pooled budget during the year	<u>300</u>	<u>196</u>	
Council share of the net deficit	<u>300</u>	<u>137</u>	

CNS Complex Needs Solution

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

	2013/14 £'000	2012/13 £'000	
Funding provided to the pooled budget:			
Herefordshire Council	(2,965)	(2,719)	
Herefordshire CCG	(494)		
Herefordshire PCT	<u>(3,459)</u>	<u>(453)</u>	(3,172)
Expenditure met from the pooled budget:			
Herefordshire Council	3,019	2,578	
Herefordshire CCG	503		
Herefordshire PCT	<u>3,522</u>	<u>429</u>	3,007
Net surplus arising on the pooled budget during the year	<u>63</u>	<u>(165)</u>	
Council share of the net surplus	<u>54</u>	<u>(141)</u>	

8.30 Members' Allowances

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

	2013/14 £000	2012/13 £000
Basic allowances	421	418
Special allowances	186	195
Travel and subsistence	36	44
Total	643	657

8.31 Officers' Remuneration

8.31.1 The Accounts and Audit Regulations set out the requirements for publishing information about employee remuneration disclosures in the statement of accounts. 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).

8.31.2 The 2013/14 banding information is set out below. For the banding note remuneration excludes employer's pension contributions. Where no employees fell within a particular band, this band is not shown in the table;

From	To	<u>No of employees</u>		<u>2013/14</u>		<u>2012/13</u>	
		<u>2013/14</u>	<u>2012/13</u>	<u>Non School</u>	<u>School</u>	<u>Non School</u>	<u>School</u>
£50,000	£55,000	47	51	11	36	15	36
£55,000	£60,000	16	21	6	10	9	12
£60,000	£65,000	10	10	2	8	3	7
£65,000	£70,000	10	9	3	7	1	8
£70,000	£75,000	3	3	1	2	2	1
£75,000	£80,000	5	9	4	1	8	1
£80,000	£85,000	3	3	1	2	0	3
£85,000	£90,000	2	3	1	1	2	1
£90,000	£95,000	2	2	1	1	2	0
£95,000	£100,000	1	0	1	0	0	0
£100,000	£105,000	1	0	1	0	0	0
£105,000	£110,000	0	1	0	0	1	0
£110,000	£115,000	1	0	1	0	0	0
£115,000	£120,000	1	0	1	0	0	0
£120,000	£125,000	0	2	0	0	2	0
£125,000	£130,000	0	1	0	0	1	0
£140,000	£145,000	1	0	1	0	0	0
£255,000	£260,000	0	1	0	0	1	0
		103	116	35	68	47	69

8.31.3 The regulations require details to be disclosed for senior employees whose salary is £50,000 or more. For senior employees whose full-time equivalent salary is between £50,000 and £150,000 the disclosure is by way of job title and for those whose salary is £150,000 or more they are identified by name.

8.31.4 For the purposes of the regulations a 'senior employee' is defined as an employee whose remuneration is at least £50,000 and who is:

- a) The designated head of paid service or chief officer; or
- b) Any person having responsibility for the management of the relevant body to the extent that the person has power to direct or control the major activities of the body, in particular activities involving the expenditure of money, whether solely or collectively with other persons.

8.31.5 The disclosure for the council for 2013/14 is set out below. The employees included are Directors and staff who report to Directors who are employed on Head of Service pay grades. These staff are also included in the table above. For this note employer's pension contributions are included.

Post holder information			Salary (inc. fees and allowances)	Compensation for loss of office	Benefits in kind	Total remuneration excluding pension contributions	Pension contributions	Total remuneration including pension contributions
	Notes	Year	£	£	£	£	£	£
Employees with salaries £150,000 or more								
Chief Executive - C Bull	45% recharge to the PCT Left 31/10/12	2012/13	107,173	150,629	0	257,802	23,364	281,166
Employees with salaries between £50,000 and £150,000								
Chief Executive	Started 01/03/2013	2013/14 2012/13	143,887 12,083	0	0	143,887 12,083	32,625 2,634	176,512 14,717
Deputy Chief Executive	45% recharge to the PCT in 2012/13. Left 09/06/2013	2013/14 2012/13	24,916 130,000	0 0	0 0	24,916 130,000	5,606 28,340	30,522 158,340
Director for Children's Wellllbeing		2013/14 2012/13	111,904 120,000	0 0	0 0	111,904 120,000	25,200 26,160	137,104 146,160
Director for Economy, Communities and Corporate		2013/14 2012/13	119,284 120,000	0 0	181 81	119,465 120,081	27,000 26,160	146,465 146,241
Chief Officer – Finance and Commercial	Left 30/09/2013	2013/14 2012/13	44,798 90,000	0 0	0 0	44,798 90,000	10,125 19,620	54,923 109,620
Chief Financial Officer - Section 151 Officer	0.2FTE1, started 13/09/2013	2013/14	18,040	0	0	18,040	4,342	22,382
Assistant Director, Law, Governance & Resilience	Left 12/04/2013	2013/14 2012/13	3,000 90,000	34,952 0	0 0	37,952 90,000	675 19,620	38,627 109,620
Assistant Director – People, Policy & Partnerships		2013/14 2012/13	82,510 78,231	0 0	0 0	82,510 78,231	17,777 17,054	100,287 95,285
Assistant Director, - Education and Commissioning		2013/14 2012/13	78,406 78,231	0 0	0 0	78,406 78,231	17,777 17,054	96,183 95,285
Assistant Director – Safeguarding and Early Years	Left 05/11/2013	2013/14 2012/13	46,582 78,231	0 0	0 0	46,582 78,231	10,617 17,054	57,199 95,285

Post holder information								
			Salary (inc. fees and allowances)	Compensation for loss of office	Benefits in kind	Total remuneration excluding pension contributions	Pension contributions	Total remuneration including pension contributions
	Notes	Year	£	£	£	£	£	£
Head of Service - Adult Services	Left 14/04/2013	2013/14	3,072	28,506	0	31,578	691	32,269
		2012/13	78,231	0	0	78,231	17,054	95,285
Head of Special Projects	Left 31/12/2013	2013/14	65,726	30,000	706	96,432	12,309	108,741
		2012/13	72,228	0	699	72,927	15,745	88,672
Assistant Director Economic, Environment & Cultural Services		2013/14	78,406	0	0	78,406	17,777	96,183
		2012/13	76,176	0	0	76,176	16,606	92,782
Assistant Director, Homes and Community Services		2013/14	78,311	0	0	78,311	17,777	96,088
		2012/13	76,176	0	0	76,176	16,606	92,782
Assistant Director Place Based Commissioning		2013/14	78,311	0	0	78,311	17,777	96,088
		2012/13	76,176	0	0	76,176	16,606	92,782
Assistant Director, Customer Services and Communications		2013/14	0	0	0	0	0	0
		2012/13	45,635	42,116	0	87,751	9,948	97,699
Director of Public Health	TUPE Transfer 01/04/2013	2013/14	100,879	0	200	101,079	14,136	115,215
Solicitor to the Council	Started 07/05/2013	2013/14	69,547	0	0	69,547	15,804	85,351

- 1 Additional Services for financial transformation are procured separately under a contract (further details are set out in the report to the employment panel 3rd June 2014)

8.32 External Audit Costs

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

	2013/14 £000	2012/13 £000
Fees payable with regard to external audit services carried out by the appointed auditor	165	187
Fees payable for the certification of grants claims and returns	18	29

8.33 Dedicated Schools Grant

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

8.33.2 Details of the deployment of DSG receivable for 2013/14 are as follows:

	Central Expenditure 2013/14 £000	Individual Schools Budget 2013/14 £000	Total 2013/14 £000	Total 2012/13 £000
Final DSG allocation before Academy Recoupment			109,869	107,378
Less Academy figure recouped for 2013/14			(34,410)	(30,287)
Total DSG after Academy recoupment for 2013/14			75,459	77,091
Brought forward from previous year			459	840
2012/13 Sponsored Academy deficit reserve – unused amount reversed			485	0
Less Carry Forward to 2014/15 agreed in advance			(485)	0
Agreed budgeted distribution in year	10,374	65,544	75,918	77,931
Actual central expenditure	9,733		9,733	5,774
Actual Individual School Budget deployed to schools		65,631	65,631	71,698
Carry forward	641	(87)	554	459

8.33.3 Due to national funding changes from 1st April 2013 regarding schools and high needs there has been a net transfer of £3.9 million from the Individual Schools Budget to central expenditure in order to fund individual pupil high needs. Previously such funding was delegated to schools at the beginning of each year. Place only funding of £3.2 million is recorded in the 2013/14 Individual Schools Budget compared to £7.1 million in 2012/13. The accounting treatment is set out in the School and Early Years Finance (England) Regulations 2013.

8.34 Grant Income

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

	2013/14 £'000	2012/13 £'000
Credited to Taxation and Non Specific Grant Income		
Revenue Support Grant	42,861	1,374
Redistributed NNDR	0	55,539
Other non-ringfenced Grants	4,986	4,514
Capital Grants	16,921	17,519
	64,768	78,946
Credited to Services		
Department for Education	83,481	92,259
Department for Communities and Local Government	2,478	2,480
Department for Work and Pensions	50,420	62,170
Young People's Learning Agency	658	727
Department for Transport	490	644
Defra	1,889	815
Department of Health	7,967	3,962
English Heritage	16	0
Home Office	15	58
Arts Council	7	0
	147,421	163,115
Total	212,189	242,061

8.35 Related Parties

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

Central Government

- 8.35.2 Central government has effective control over the general operations of the council. It is responsible for providing the statutory framework within which the council operates and provides the majority of its funding in the form of grants. Details of income received from government departments are set out in note 8.34.

Members

- 8.35.3 Members of the council have direct control over the council's financial and operating policies. There are a number of Councillors who serve on outside bodies and school governing bodies either as a representative of the council or as a private individual. Details of these interests are recorded in the Register of Members' interests, which are updated annually. An examination of the Register indicates that the council's financial transactions with these bodies in 2013/14 are not material. One member was the employee of a care home to which the council made payments in the year of £1.2 million.

Officers

- 8.35.4 A number of senior officers are members of professional bodies, governors at local schools and colleges, and are involved in local organisations and partnerships, such as Hoople Ltd, Hereford Futures, and the Robert Owen Society.

Other Public Bodies

- 8.35.5 During the year the council made payments of £23.9 million to Worcestershire County Council (£26.4 million in 2012/13), including payments to the pension scheme and for the joint waste disposal contract. The council works in partnership with the CCG having taken on some of the responsibilities of the Primary Care Trust (PCT) upon their abolition in April 2013. Payments to the CCG in 2013/14 totalled £ 0.5 million. A total of £6.7 million was also paid to Wye Valley NHS Trust (£11.8 million in 2012/13) and £3.6 million to 2Gether (£2.1 million in 2012/13).

Significant long-term contracts

- 8.35.6 The council awarded the public realm services contract to Balfour Beatty Living Places on 1st September 2013.
- 8.35.7 The contracted services include highways maintenance and improvement, street lighting, traffic signals, street cleaning, parks and public rights of way, fleet maintenance and professional consultancy services. The council paid £9.3 million to Balfour Beatty in 2013/14.
- 8.35.8 In total the council paid £12 million to Amey Wye Valley in 2013/14 (£38.5 million in 2012/13). The contract terminated at the end of September 2013.

8.35.9 Fosca UK Limited

In 2009 the council entered into a 7 year contract with Fosca for the collection of household, recycling and commercial waste. The value of the contract over 7 years is around £30.5 million. Payments to Fosca totalled £4.3 million in 2013/14 (£4.7 million in 2012/13).

Other organisations

- 8.35.10 The council pays a management fee to Halo Leisure Trust for the provision of leisure facilities, including swimming pools and leisure centres. In 2013/14 the council paid £1.1 million to Halo Leisure Trust (£2.5 million in 2012/13). In 2013/14 the council paid £246,000 to the Courtyard Trust (£284,000 in 2012/13).

The council has a commissioning agreement with the Trust based on agreed outcomes.

8.35.11 During the year the council made payments totalling £297,000 to Herefordshire Housing Ltd (£296,000 in 2012/13) including £162,500 of Supporting People Funding (£229,000 in 2012/13)

8.35.12 The council has an interest in company called Hereford Futures, whose role is to facilitate development and regeneration within Hereford. Payments were made to Hereford Futures amounting to £391,000 (£384,000 in 2012/13).

8.35.13 West Mercia Energy (WME) operates as a joint arrangement between Herefordshire, Shropshire, Worcestershire and Telford and Wrekin Councils. Payments of £619,000 were made in 2013/14 to WME (£544,000 in 2012/13).

Jointly controlled organisation

8.35.14 Hoople Ltd is a unique young company created in April 2011 to deliver business support services to clients across the public and private sector. During the review period Hoople Ltd was wholly owned by Herefordshire Council, and Wye Valley NHS Trust. Each authority has two directors on the Board of the company, as well as two independent board members.

8.35.15 The inter-organisation transaction between the council and Hoople Ltd amounted to £7.398 million (£9.295 million in 2012/13). There were no contingent liabilities existing with Hoople Ltd that would affect the council. There were no capital commitments outstanding at 31st March 2014 payable to Hoople Ltd.

8.35.16 The draft year-end result of Hoople Ltd, prior to adjustments for pensions, was a profit before tax of £346,679 (£131,079 comprehensive profit in 2012/13). The council share of 74.7% is equivalent to £258,969 (£97,914 in 2012/13). In view of the immateriality of the share of balance sheet value, the council has opted not to prepare the Group Accounts.

More information on Hoople Ltd can be found on www.hoopleltd.co.uk

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

Outstanding balances with related parties

8.35.18 As at 31st March 2014 significant amounts due to and from related parties were :

Related Party	2013/14		2012/13	
	Due to £000	Due from £000	Due to £000	Due from £000
Amey Wye Valley	383	0	6,069	2,374
Academy Schools	11	48	0	0
Balfour Beatty	3,090	176	0	0
Birmingham CC	44	12	0	0
Courtyard Trust	0	0	0	6
Dept of Culture Media and Sport	0	557	0	0
DCLG	204	2,897	0	0
DEFRA	0	77	0	0
Dept for Transport	21	380	0	0
Dept for education	127	68	0	0
Education Funding Agency	558	0	0	0
DWP	0	854	0	0
FOCSA	368	0	364	0
Gloucestershire CC	19	20	0	164
Halo	0	83	0	969
Hereford and Worcs Fire	0	163	41	156
Hereford CCG	742	955	0	0
Herefordshire Housing	4	13	0	496
Herefordshire PCT	0	70	501	2,568
Hereford Futures	0	25	0	0
Heritage Lottery Fund	217	752	0	0
HM Courts Service	0	46	0	0
HM Revenue & Customs	2,027	4,780	1,766	4,916
Hoople Ltd	333	977	2,336	438
Monmouth CC	33	27	0	0
Ministry of Defence	34	0	0	0
NHS England	0	3,163	0	0
Powys	11	61	0	0
Shaw Healthcare	22	293	0	0
Shropshire CC	33	124	40	3
Teachers Pensions`	566	0	0	0
West Mercia Police	4	242	99	379
West Mercia Energy	121	340	64	296
Worcestershire County Council	3,828	108	3,813	25
Wye Valley Trust	145	688	1,938	964
YOS Worcestershire	0	93	0	0
2gether	223	98	3	221

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

8.35.20 In addition, there were capital grants of £6.3 million from government departments held in the Capital Grants Unapplied Reserve not yet applied to capital spend.

8.36 Capital Expenditure and Capital Financing

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

	2013/14 £000	2012/13 £000
Opening capital financing requirement	212,212	208,730
Capital investment		
Property, Plant and Equipment	38,952	35,828
Investment Properties	93	223
Intangible Assets	389	563
Revenue expenditure funded from capital under statute	3,970	1,949
Assets acquired under PFI contracts	84	4
Long term debtors (including PFI prepayments)	304	294
Sources of Finance		
Capital Receipts	(1,979)	(2,898)
Government grants and other contributions	(26,129)	(21,375)
Sums set aside from revenue:		
Direct revenue contributions	(503)	(294)
MRP	(10,748)	(10,812)
Closing capital financing requirement	216,645	212,212
Explanation of movements in year		
Increase in underlying need to borrowing (unsupported by government financial assistance)	15,013	13,757
Salix interest free loan	84	533
Assets acquired under PFI contracts	84	4
MRP	(10,748)	(10,812)
Increase/(decrease) in Capital Financing Requirement	4,433	3,482

8.37 Leases

Authority as Lessee

Finance Leases

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

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

	31 March 2014 £000	31 March 2013 £000
Other land and buildings	506	534
Vehicles, plant, furniture and equipment	0	13
	506	547

8.37.3 The council is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the property and finance costs that will be payable by the council in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

	31 March 2014 £000	31 March 2013 £000
Finance lease liabilities (net present value of minimum lease payments):		
• current	0	2
• non current	320	320
Finance costs payable in future years	1,956	1,989
Minimum lease payments	2,276	2,311

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

	Minimum lease payments		Finance lease liabilities	
	31 March 2014 £000	31 March 2013 £000	31 March 2014 £000	31 March 2013 £000
Not later than one year	0	2	31	33
Later than one year and not later than five years	0	0	126	126
Later than five years	320	320	1,799	1,830
	320	322	1,956	1,989

8.37.5 The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2013/14 £116,000 contingent rents were payable by the authority (2012/13 £116,000).

Operating leases

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

	31 March 2014 £000	31 March 2013 £000
Not later than one year	399	867
Later than one year and not later than five years	1,462	1,671
Later than five years	55	870
	1,916	3,408

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

	2013/14 £000	2012/13 £000
Minimum lease payments	442	900

Authority as Lessor

Finance Leases

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

Operating leases

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

- Retail
- Industrial Use
- Farming
- Other Commercial Use

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

	31 March 2014 £000	31 March 2013 £000
Not later than one year	265	1,836
Later than one year and not later than five years	482	4,986
Later than five years	6,938	36,541
	7,685	43,363

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

8.38 Private Finance Initiatives and Similar Contracts

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

Mercia Waste Management Ltd – waste management PFI contract

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

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

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

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

Stepnell Ltd – School PFI Contract

8.38.6 The Whitecross High School PFI project has delivered a fully equipped 900-place secondary school with full facilities management services. The contract with Stepnell Ltd has an overall value of £74 million and lasts for 25 years. During the 12/13 financial year the school transferred to Academy status but the obligations under the PFI contract remain with the council.

Shaw Homes

8.38.7 The council has a contract with Shaw Healthcare for the development and provision of residential homes and day care centres previously operated directly by the council. The contract expires in 2033/34 for all homes. The level of payments are dependent on the volume and nature of service elements and Shaw Healthcare’s performance in providing services. The payments in respect of this contract was £3.6 million in 2013/14 (£3.5 million in 2012/13).

Assets

8.38.8 The property, plant and equipment used to provide the PFI services are recognised on the council’s balance sheet, with the exception of Whitecross school, which was written out of the balance sheet when it became an Academy in 2012/13. Movements in asset values over the year are detailed in Note 8.12.1– Movement on Balances on Property, Plant and Equipment.

Liabilities

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

	2013/14	2012/13
	£000	£000
Balance outstanding at start of year	27,918	28,870
Payments during the year	(1,016)	(956)
Capital expenditure in the year	84	4
Balance outstanding at year-end	<u>26,986</u>	<u>27,918</u>

Payments

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

	Service Charges £000	Lifecycle Costs £000	Finance liability £000	Interest & similar £000	Total £000
Within one year	12,301	363	1,104	2,062	15,830
Within two to five years	52,566	1,534	5,074	7,836	67,010
Within six to ten years	62,978	2,107	7,714	8,349	81,148
Within eleven to fifteen years	25,093	2,338	7,592	6,502	41,525
Within sixteen to twenty years	25,003	1,665	5,940	4,650	37,258
Within twenty-one to twenty-five years	1,453	-	233	314	2,000

8.38.10 The PFI future year commitments total of £245m shown above includes inflation assumptions, without inflation the future year commitments would be £39m lower.

8.39 Impairment Losses

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

2013/14				2012/13		
Impairments	Reversals	Net Total		Impairments	Reversals	Net Total
£000	£000	£000		£000	£000	£000
5,075	(643)	4,432	Land and buildings	9,859	(1,463)	8,396
0	0	0	Surplus assets	511	0	511
55	0	55	Assets under construction	0	0	0
0	0	0	Assets held for sale	184	(62)	122
<u>5,130</u>	<u>(643)</u>	<u>4,487</u>	Total	<u>10,554</u>	<u>(1,525)</u>	<u>9,029</u>

8.39.2 In 2013/14 the largest impairment (£3.3 million) related to the change of use of assets expected to form part of the proposed link road.

8.40 Capitalisation of Borrowing Costs

8.40.1 The council has a policy of capitalising borrowing costs on relevant projects i.e. where schemes lasting more than 12 months and with at least £10,000 of interest associated with the project. In 2013/14 there were six capital schemes which fell into this category and therefore £0.3 million borrowing costs were capitalised.

8.41 Termination Benefits

8.41.1 The following table summarises the redundancies which occurred in 2013/14, with comparative numbers for 2012/13;

	Compulsory redundancies	Other agreed departures	Total
2013/14			
Number	102	121	223
Total Cost	£747,900	£1,183,368	£1,931,268
Average	£7,332	£9,780	£8,660
2012/13			
Number	60	20	80
Total Cost	£801,630	£310,291	£1,111,921
Average	£13,361	£15,515	£13,899

8.41.2 In addition, the total cost of actuarial strain relating to 2013/14 terminations was £345,000 (£346,000 in 2012/13). This is paid to the pension fund over 3 years. The actual amount of actuarial strain paid to Worcestershire County Council in 2013/14 was £818,000 (relating to retirements in 2011/12, 2012/13 and 2013/14).

8.41.3 A redundancy provision of £1.8 million was also set up, including schools and partner organisations, based on the number of planned redundancies at 31st March 2014.

8.41.4 The number and total cost per band of exit packages analyses between compulsory and other redundancies are set out in the table below. This includes exit packages agreed in the year although not yet actioned at the year end. The table does not include actuarial strain paid to the pension fund (see 8.41.2)

Exit package cost band (including special payments)	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	
	2013 /14	2012 /13	2013 /14	2012 /13	2013 /14	2012 /13	2013/14	2012/13
£0 - £20,000	96	47	110	15	206	62	1,418,649	437,897
£20,001 - £40,000	5	12	11	4	16	16	457,619	476,673
£40,001 - £60,000	1	0	0	1	1	1	55,000	46,722
£150,001 - £200,000	0	1	0	0	0	1	0	150,629
Total	102	60	121	20	223	80	1,931,268	1,111,921

8.42 Pension Schemes accounted for as Defined Contribution Schemes

8.42.1 Teachers employed by the council are members of the Teachers' Pension Scheme, which is a defined benefit scheme administered by the Teachers Pensions Agency. Although the scheme is unfunded, a notional fund is used as a basis for calculating the employers' contribution rate. It is not possible for the

council to identify its share of the underlying liabilities in the scheme attributable to its own employees, and therefore for the purposes of the statement of accounts it is accounted for on the same basis as a defined contribution scheme, that is, actual costs are included in the revenue accounts, with no assets and liabilities in the balance sheet.

- 8.42.2 However, in addition to the current scheme the council is contributing to former Hereford and Worcester teachers' unfunded added years' benefits. The liability of £1 million is included in the pension fund liability in the balance sheet in 2013/14.
- 8.42.3 In 2013/14 the council paid employer contributions of £4.39 million in respect of teachers' pension costs, which represented 14.1% of teachers' pensionable pay. In addition, the council is responsible for all pension payments relating to added years it, or its predecessor authority, has awarded, together with the related increases. In 2013/14 these amounted to £106,000 representing 0.34% of pensionable pay. At the year-end there were contributions of £569,000 remaining payable, which related to the March 2014 contributions paid to the scheme in April 2014.
- 8.42.4 Under the new arrangements for Public Health, a number of staff performing public health functions transferred from the former PCT to the council. Those who had access to the NHS pension scheme on 31 March 2013 retained access to the scheme on transfer at 1 April 2013. The NHS scheme is an unfunded, defined benefit scheme that covers NHS employers and is a multi-employer defined benefit scheme. However, in the NHS it is accounted for as if it were a defined contribution scheme. As the NHS bodies account for the scheme as a defined contribution plan it is being accounted for in the same way for transferred public health staff as local authorities are unable to identify the underlying scheme assets and liabilities for those employees.
- 8.42.5 In 2013/14 the council paid employer contributions of £101,000 in respect of NHS pension costs for public health staff, which represented 14% of their pensionable pay.

8.43 Defined Benefit Pension Schemes

Participation in Pension Schemes

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

Transactions Relating to Post-employment Benefits

- 8.43.2 Under IAS 19 the cost of retirement benefits is included in the Cost of Services when it is earned by employees, rather than when it is paid as pensions. However, the charge required to be made against council tax is based on the cash payable in the year, so the real cost of the retirement benefits is reversed out via the Movement in Reserves Statement.
- 8.43.3 The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

	Local Government pension scheme	
	2013/14 £000	Restated 2012/13 £000
Comprehensive Income and Expenditure Statement		
Cost of services:		
• current service cost	8,904	7,229
• past service cost/(gain)	31	63
• (gain)/loss from settlements	(224)	(1,362)
Financing and Investment Income and Expenditure:		
• Net interest expense	7,767	7,520
• Admin expenses	149	113
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	16,627	13,563
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement		
• actuarial (gains) and losses arising on changes in demographic assumptions	2,795	4,065
• actuarial (gains) and losses arising on changes in financial assumptions	(40,835)	20,237
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	(38,040)	37,865
Movement in Reserves Statement		
Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits	(16,627)	(13,563)
Amount charged to the General Fund Balance for pensions in the year		
Employer's contribution payable to the scheme	9,735	9,717

8.43.4 The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to 31 March 2014 (since the introduction of the statement in the 2009/10 restated accounts) is a loss of £36.3 million.

Pensions Assets and Liabilities Recognised in the Balance Sheet

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

	Local Government pension scheme	
	2013/14 £000	2012/13 £000
Present value of the defined benefit obligation	419,603	422,823
Fair value of plan assets	(260,172)	(235,421)
Net liability arising from defined benefit obligation	159,431	187,402

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

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

	2013/14	2012/13
	£000	£000
Opening balance 1 st April	422,823	367,577
Current Service Cost	8,904	7,229
Interest Cost	18,186	17,646
Contributions by scheme participants	2,401	2,535
Remeasurement (gains) and losses;		
• Actuarial (gains)/losses arising from changes in demographic assumptions	2,795	4,065
• Actuarial (gains)/losses arising from changes in financial assumptions	(36,964)	40,643
Past service cost	31	63
Losses/(gains) on curtailment	944	422
Liabilities assumed on entity combinations	17,870	
Benefits paid	(16,219)	(15,387)
Liabilities extinguished on settlements	(1,168)	(1,970)
Closing balance 31 st March	<u>419,603</u>	<u>422,823</u>

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

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

	2013/14	2012/13
	£000	£000
Opening fair value of scheme assets	235,421	208,323
Interest income	10,419	10,126
Remeasurement gain: The return on plan assets, excluding amount included in the net interest expense	3,871	20,406
Administration expenses	(149)	(113)
Settlements	0	(186)
Liabilities assumed on entity combinations	14,693	0
Contribution from employer	9,735	9,717
Contributions from employees into the scheme	2,401	2,535
Benefits Paid	(16,219)	(15,387)
Closing fair value of scheme assets	<u>260,172</u>	<u>235,421</u>

The actual return on scheme assets in the year was £12.4 million (2012/13 £30.4 million)

8.43.8 **Local Government Pension Scheme assets comprised:**

	Quoted (Y/N)	Fair value of scheme assets	
		31 Mar 2014	31 Mar 2013
		£000	£000
Cash			
Cash instruments	Y	2,081	3,767
Cash accounts	Y	1,561	942
Net current assets	N	2,602	4,002
Equity instruments			
UK quoted	Y	67,385	58,384
Overseas quoted	Y	93,662	91,108
Pooled investment vehicle - UK managed funds	N	30,440	26,367
Pooled investment vehicle - UK managed funds (overseas equities)	N	44,489	32,253
Pooled investment vehicle - overseas managed funds	N	1,561	3,767
Bonds			
UK Corporate	Y	1,821	1,883
Overseas Corporate	Y	14,570	12,948
Total assets		260,172	235,421

Basis for estimating Assets and Liabilities

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

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

The principal assumptions used by the actuary have been;

	Beginning of period (p.a.)	End of period (p.a.)
<i>Long-term expected rate of return on assets in the scheme:</i>		
Equity investments	7.0%	7.0%
Government Bonds	2.8%	3.4%
Other bonds	3.9%	4.3%
Cash/liquidity	0.5%	0.5%
Property	5.7%	6.2%
<i>Mortality assumptions</i>		
Longevity at 65 for current pensioners:		
• Men	22.5 years	23.3 years
• Women	25.0 years	25.7 years
Longevity at 65 for future pensioners:		
• Men	24.3 years	25.5 years
• Women	27.0 years	28.0 years

Rate of inflation	2.4%	2.4%
Rate of increase in salaries	3.9%	3.9%
Rate of increase in pensions	2.4%	2.4%
Rate for discounting scheme liabilities	4.2%	4.5%

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

	Increase in assumption £000
Longevity (1 year increase in life expectancy)	8,182
Rate of inflation (increase by 1%)	7,730
Rate of increase in salaries (increase by 1%)	1,376
Rate for discounting scheme liabilities (increase by 1%)	(7,590)

Impact on the Authorities Cash Flows

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

8.43.13 Total employer contributions expected to be made to the Local Government Pension Scheme by the council in the year ended 31 March 2015 is £9.6 million.

8.43.14 Scheme History

	2009/10	2010/11	2011/12	2012/13	2013/14
	£m	£m	£m	£m	£m
Present value of liabilities	(379.5)	(361.0)	(367.6)	(422.8)	(419.6)
Value of Scheme assets	216.1	229.2	208.3	235.4	260.2
Surplus/(Deficit) in scheme	<u>(163.4)</u>	<u>(131.8)</u>	<u>(159.3)</u>	<u>(187.4)</u>	<u>(159.4)</u>

History of Experience Gains and Losses

8.43.15 The actuarial gain or loss identified within the movements on the pensions reserve can be analysed into the following categories, measured as a percentage of assets or liabilities at 31st March:

	2009/10	2010/11	2011/12	Restated 2012/13	2013/14
	%	%	%	%	%
Differences between the expected and actual return on assets – gains/(losses)	27.0	(2.4)	(9.4)	8.7	1.5
Experience gains and (losses) on liabilities	0	4.7	0	0	(0.4)

8.44 Contingent Liabilities

- 8.44.1 Local authorities are required to maintain a register of land charges in so far as they affect properties within their county or district. The purchasers of land within the county or district must obtain a search of the local land charges register. Historically councils have charged varying rates for the provision of land charge searches. A national debate has arisen as to whether this information could or should be provided under the FOI Act or EIR at lesser or indeed no cost to the purchaser. Litigation has been threatened against the council in connection with this issue and may be in receipt of legal proceeding. If the claim succeeded it is estimated to cost the council around £600,000.
- 8.44.2 The council has the obligation for the after care of a number of closed landfill sites. No reliable estimate can be made of the future costs involved. However, as capital works are identified they are included in the capital programme.
- 8.44.3 There is a risk in relation to disputed items in the Amey contract. Work is ongoing to resolve these disputes and determine the appropriate outcome.
- 8.44.4 No estimate for losses of business rates income can be made for future appeals that have not been lodged with the VOA as they have not yet occurred.
- 8.44.5 There is outstanding litigation from a care home provider following an adverse external inspection.

8.45 Contingent Assets

- 8.45.1 Following a policy review Her Majesty's Revenues and Customs (HMRC) consider the provision of trade waste collection services to be a non-business activity and excluded from VAT. The council has submitted a claim to HMRC to reclaim VAT previously paid over to HMRC on waste collection and bags, the outcome of the claim is outstanding.

8.46 Nature and Extent of Risks Arising from Financial Instruments

- 8.46.1 The council's activities expose it to a variety of financial risks:
- a. **Credit risk:** The possibility that other parties may fail to pay amounts owing to the council.
 - b. **Liquidity risk:** The possibility that the council may have insufficient funds available to meet its financial commitments.
 - c. **Market risk:** The possibility that the council may suffer financial loss as a result of economic changes such as interest rate fluctuations.
- 8.46.2 The council has adopted CIPFA's Treasury Management in the Public Services Code of Practice in setting out a Treasury Management Policy and strategies to control risks to financial instruments.
- 8.46.3 During the year the council's exposure to liquidity risk and market risk was considered to be no greater than previous years. However, the weak economy and the ongoing financial crisis in the Eurozone meant that exposure to credit risk increased. Treasury management sought to control this risk by only investing in the strongest financial institutions and by reducing the length of any term deposits made.

Credit Risk

8.46.4 Credit risk arises from deposits with banks and other financial institutions, as well as credit exposures to the council's customers. Investments are only made in institutions recommended by Arlingclose, the council's treasury adviser. For credit rated counterparties, the council looks at the lowest long-term rating assigned by the three main credit rating agencies and the minimum criteria for UK institutions during 2013/14 was as follows:

Long-term minimum: A- (Fitch); A3 (Moody's); A- (Standard & Poor's)

8.46.5 The minimum criteria for UK institutions was A+ for 2011/12 but this was reduced for 2012/13 due to the downgrade below A+ of many institutions considered to be systemically important to the financial system.

8.46.6 During 2013/14 the council continued to restrict investments to only the largest and strongest of the UK banks, the Nationwide building society, other local authorities and instant access Money Market Funds.

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

	Amount at 31 st March 2014	Historical experience of default	Historical experience adjusted for market conditions at 31 st March 2014	Estimated maximum exposure to default and uncollectability 31 Mar 2014	Estimated maximum exposure to default and uncollectability 31 Mar 2013
	£000	%	%	£000	£000
Deposits with banks and financial institutions	23,401	0	0	0	0
Customers	18,829	0.37%	0.45%	85	72

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

	31 March 2014	March 2013
	£000	£000
Less than 3 months	14,334	16,995
3 to 6 months	967	675
6 months to 1 year	1,387	1,335
More than 1 year	2,141	1,631
	<u>18,829</u>	<u>20,636</u>

Liquidity Risk

8.46.8 The council has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements happen, the council has ready access to borrowings from the money markets and the PWLB. There is no significant risk that it will be unable to raise finance to meet its commitments. Instead the risk is that the council will need to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. Therefore the strategy is to spread the maturity of the council's loans so that a

significant proportion does not require repayment or refinancing at the same time. The maturity analysis of the loan debt is as follows:

	31 March 2014 £000	31 March 2013 £000
Less than 1 year	49,228	33,855
More than one year:		
Between 1 and 2 years	8,385	4,139
Between 2 and 5 years	15,266	19,533
Between 5 and 10 years	15,316	18,015
More than 10 years	81,793	83,170
Total borrowing per Balance Sheet	<u>169,988</u>	<u>158,712</u>

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

Market Risk

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

- 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

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

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

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

8.46.13 If interest rates had been 1% higher, with all other variables held constant, the financial impact on the council's borrowings and investments in 2013/14 would have been as follows:

**1% Increase in
Interest Rates
£000**

Increase in interest payable on new borrowing 294

Increase in interest receivable on investment balances 433

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

8.47 Trust Funds

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

	Balance at 31/03/13	Revenue Transactions		New funds, Investment Sales and Revaluations	Balance at 31/03/14
	£	£	£	£	£
Education (small funds)	4,503	129	(424)	69	4,277
Sylvia Short Trust	1,217,608	45,000	(50,000)	5,000	1,217,608
Buchanan Trust	1,801,929	73,275	(84,536)		1,790,668
Other Funds	47,634	1,486			49,120
	<u>3,071,674</u>	<u>119,890</u>	<u>(134,960)</u>	<u>5,069</u>	<u>3,061,673</u>

8.47.2 The Sylvia Short Educational Charity was established to provide children with learning experience outside the curriculum. An independent investment manager administers the fund and the accounts are prepared by an external accountant appointed by the trustees. The 2013/14 accounts are not yet available and so the above figures for income and expenditure are estimates based upon the previous year.

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

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

8.47.5 Assets and liabilities on the funds at 31st March were:

	2013/14	2012/13
	£000	£000
Fixed Assets	774	774
Investments	1,260	1,270
Creditors	(36)	(36)
Debtors	21	21
Bad debt provision	(1)	(1)
Cash temporarily invested with Herefordshire Council	1,044	1,043
	<u>3,062</u>	<u>3,072</u>
Represented by Trust Funds	<u>3,062</u>	<u>3,072</u>

9. COLLECTION FUND

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

2012/13	2013/14 Council Tax £000	Business Rates £000	Total £000
Amounts required to be credited to the Collection Fund			
94,191	98,176	0	98,176
13,081	0	0	0
44,573	0	44,740	44,740
Contribution towards previous year's Deficit			
0	761	0	761
0	45	0	45
0	110	0	110
151,845	99,092	44,740	143,832
Amounts required to be debited to the Collection Fund			
Precepts, Demands and Shares			
12,865	11,485	0	11,485
5,301	4,732	463	5,195
89,441	81,410	22,711	104,121
44,275	0	23,175	23,175
0	0	181	181
Charges to collection fund			
298	0	299	299
132	71	136	207
(23)	(16)	80	64
0	0	524	524
0	0	1,603	1,603
0	0	(935)	(935)
0	0	42	42
152,289	97,682	48,279	145,961
444	(1,410)	3,539	2,129
915	1,359	0	(1,359)
1,359	(51)	3,539	3,488

9.2 Notes to the Collection Fund

1. The total non-domestic rateable value at the year-end was £123,731,055 and the national non-domestic rate multiplier for 2013/14 was 47.1p

	£000	£000
Non-Domestic Rates Income		
Annual Debit		58,051
Add:		
Re-debits	14,056	
Valuation Changes	752	14,808
Less:		
Empty Allowances	1,969	
Valuation Changes – Reductions	16,003	
Transitional Relief	33	
Discretionary Relief	628	
Mandatory Relief	4,167	
Small Business Rate Relief	5,254	
Enterprise Zone	60	
Interest	5	28,119
		<u>44,740</u>

2. Council tax income is derived from charges raised according to the value of residential properties, which have been classified into eight valuation bands. Estimated values at 1st April 1991 are used for this specific purpose. Individual charges are calculated by estimating the amount of income required to be taken from the collection fund by the council, West Mercia Police and Hereford & Worcester Fire & Rescue Authority, and dividing this by the council tax base (the total number of properties in each band adjusted by a proportion to convert the number to a Band D equivalent and adjusted for discounts etc.). The amount of council tax for a Band D property is multiplied by a specified proportion to give an amount due for other property valuation bands. The average council tax for a Band D property in 2013/14 was £1,519.24 including fire, police and parish precepts, with a range of between £1,480.35 and £1,591.55. The council tax base used for setting the council tax in 2013/14 was 64,260.20.

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

Band	Valuation Range	Charge Factor	Band D Equivalent
A	Up to £40,000	6/9	4,668.80
B	£40,001 to £52,000	7/9	10,392.80
C	£52,001 to £68,000	8/9	11,412.80
D	£68,001 to £88,000	9/9	10,980.10
E	£88,001 to £120,000	11/9	12,199.80
F	£120,001 to £160,000	13/9	8,678.90
G	£160,001 to £320,000	15/9	5,328.00
H	Over £320,000	18/9	313.50
Crown			285.50
	Council Tax Base		<u>64,260.20</u>

Council Taxpayer Income	£000	£000
Council Tax debit at 1 st April		121,691
Add:		
Redebits	80,166	
Banding Change	207	
Additional – Second Properties	595	
Additional – Empty Properties	491	
Additional – Property Discounts	601	82,060
		<hr/>
Less:		
Discounts	11,070	
Exemptions	2,227	
Council Tax Reduction	12,420	
Disablement Relief	116	
Transitional Relief	(2)	
Void Assessments	1	
Empty Assessments	79,743	105,575
		<hr/>
		98,176
		<hr/>

3. The Collection Fund (surplus) or deficit as at 31st March 2014 is split as follows;

	Council Tax	Business Rates
	£000	£000
Hereford Council	(42)	1,734
West Mercia Police	(6)	0
Hereford & Worcester Fire Authority	(3)	35
Central government	0	1,770

10. DEFINITIONS

Accounting Policies

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

Assets

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

Borrowing costs

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

Carrying amount

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

Contingent Liability

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

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

- (a) it is not probable that an outflow of resources embodying economic benefits or
- (b) services potential will be required to settle the obligation, or
- (c) the amount of the obligation cannot be measured with sufficient reliability.

Creditors

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

Debtors

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

Depreciation

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

Exchange Transactions

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

Fair value

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

Finance lease

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

Financial Instrument

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

Grants and contributions

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

Historical cost

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

IFRIC

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

Impairment loss

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

Intangible Asset

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

Inventories

These are assets;

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

Investment property

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

Liabilities

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

Material

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

Non-Exchange Transactions

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

Operating lease

A lease other than a finance lease

Property, plant and equipment

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

Provision

A liability of uncertain timing or amount.

Related Party

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

Revenue

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

Soft loan

A loan at less than the market interest rate.