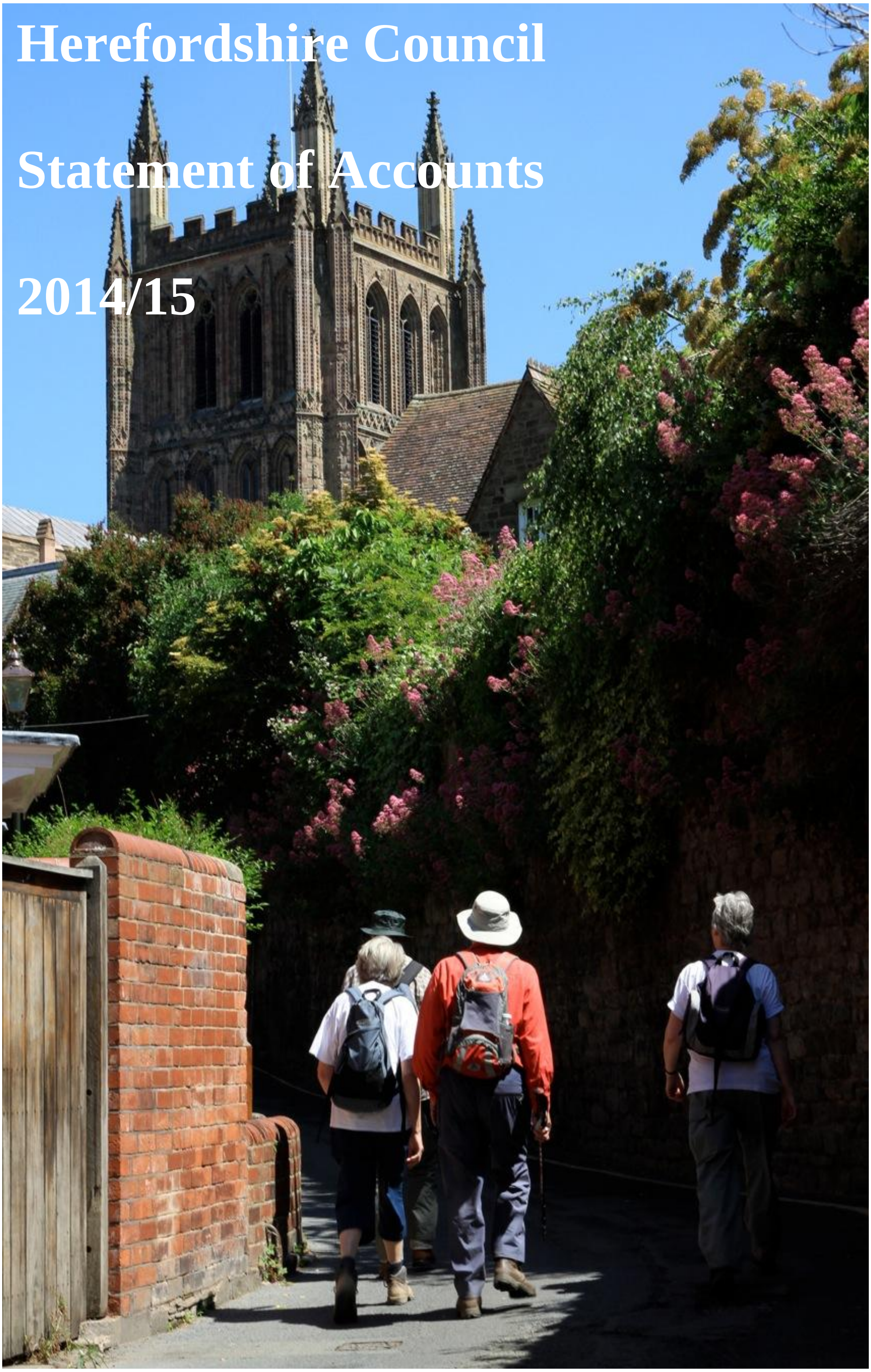
APPENDIX A

Herefordshire Council

Statement of Accounts

2014/15



Contents **Page**

1. Introduction

1.1. Herefordshire's statement of accounts for 2014/15 presents the council's overall financial position and performance for 2014/15.

1.2. 2014/15 was another challenging year where further savings where delivered against a back drop of continuing funding reductions and budget pressures. Despite this the council underspent its budget by £0.6m reflected throughout the year in its projections. The underspend included the delivery of £15.4m of savings, in addition to previous four years savings of £49.0m.

1.3. Further savings will be required in the coming years, £10.2m for 2015/16. The council is committed to achieve this alongside increasing demand for services from both an ageing and sparse population that provide a challenging environment.

1.4. 2014/15 saw the councils general reserve balance increase by £2.0m to £7.1m, 5% of its net revenue budget. This recognises the need for increased resilience when facing further budget reductions over the coming years. Herefordshire's financial management strategy includes maintaining specific reserves to deal with the key corporate financial risks, these totalled £26.7m as at 31st March 2015.

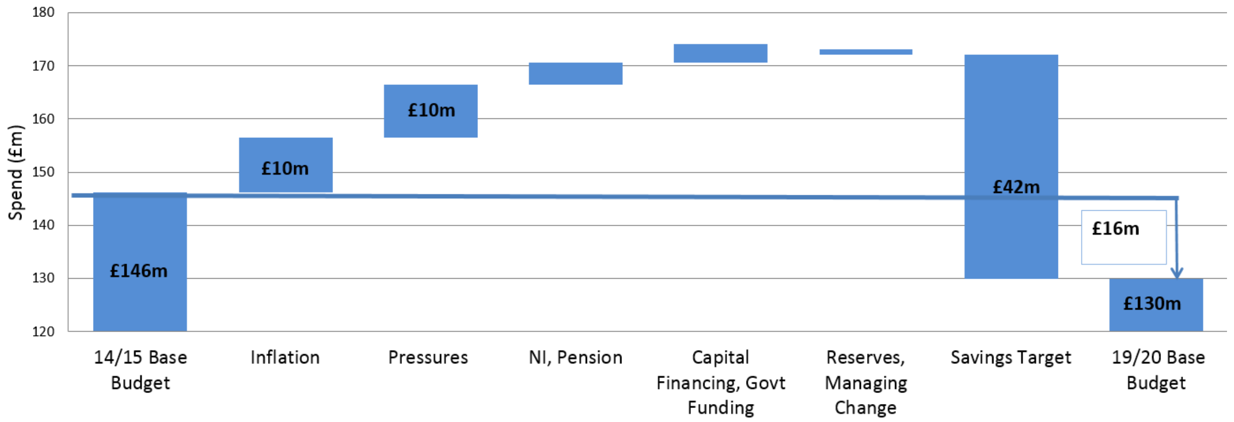
Councillor Tony Johnson
Leader of the Council

2. Explanatory Foreword

2.1 Message from the Chief Financial Officer

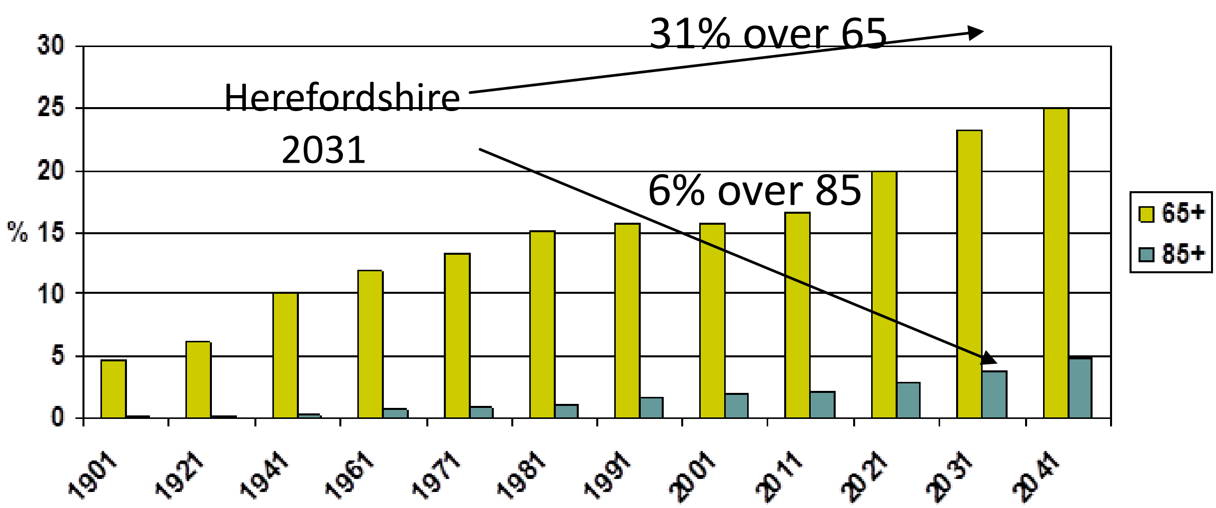
This year's Statement of Accounts are prepared a month earlier than previous years complying with new statutory guidance 12 months earlier than required. This will enable the finance team to concentrate on helping the council to address the challenges of further budget reductions, as well as review income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

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



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

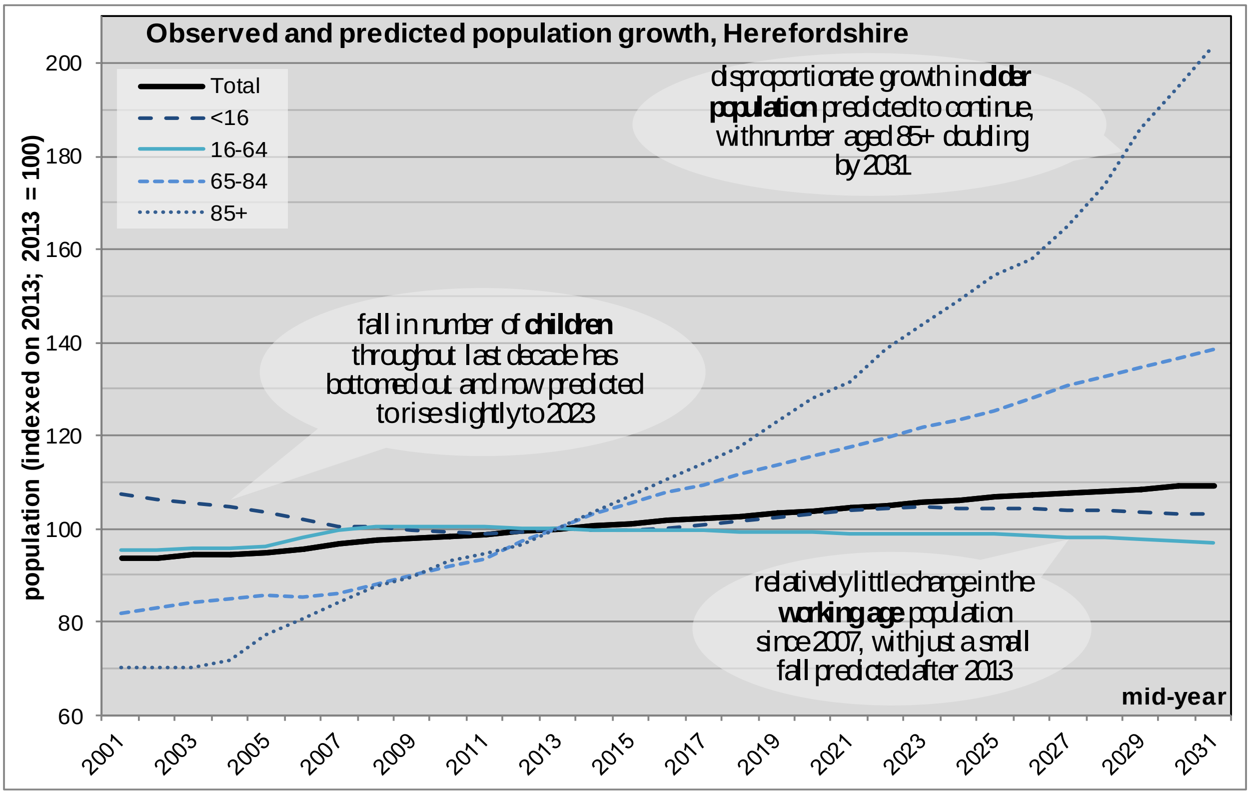
Predicted national demographics



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

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

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



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

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

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

2.2 Introduction to the accounts

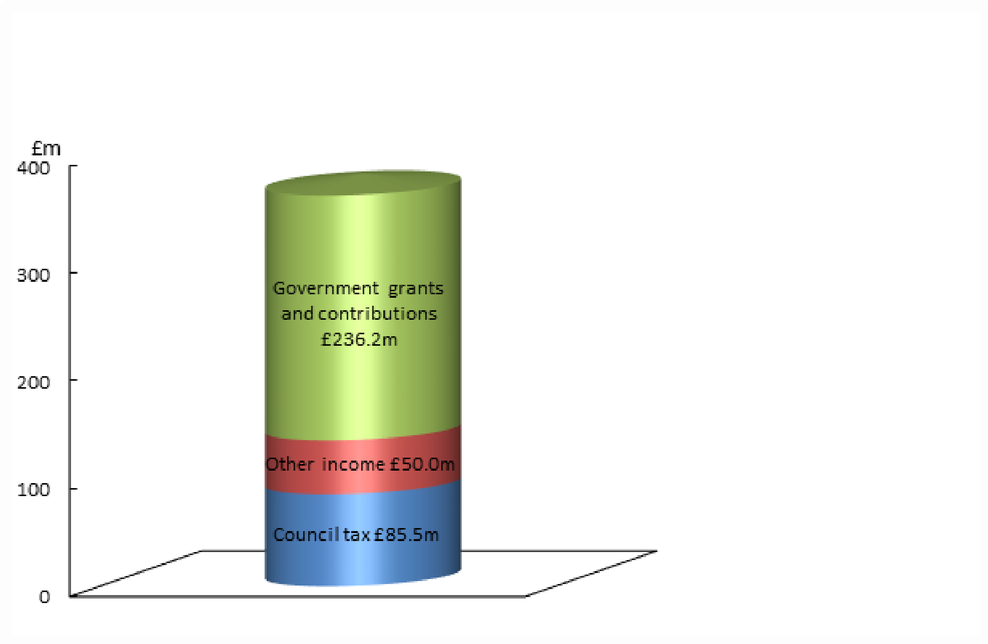
2.2.1 The Statement of Accounts for Herefordshire Council presents the overall financial position for the year ended 31st March 2015 and has been produced in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15, published by the Chartered Institute of Public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

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

2.3 Revenue Expenditure and Income

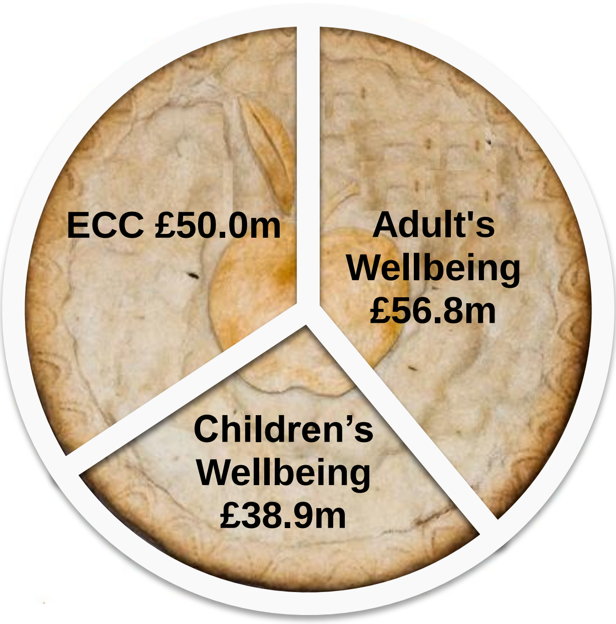
2.3.1 The outturn position on the council's revenue account was £0.6m underspend after transfers to and from reserves.

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



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

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



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

2.3.4 A detailed breakdown of reserves is provided in note 2.8, new reserves have been created for severe weather costs (£0.5m), invest to save (£0.3m) and infrastructure development fund (£0.2m).

2.4 Members' Allowances

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

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

2.5 Capital Programme

2014/15 Out-turn

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

Summary of Capital Expenditure

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

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

Capital Outturn Variance to Forecast

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

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

Prudential Borrowing

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

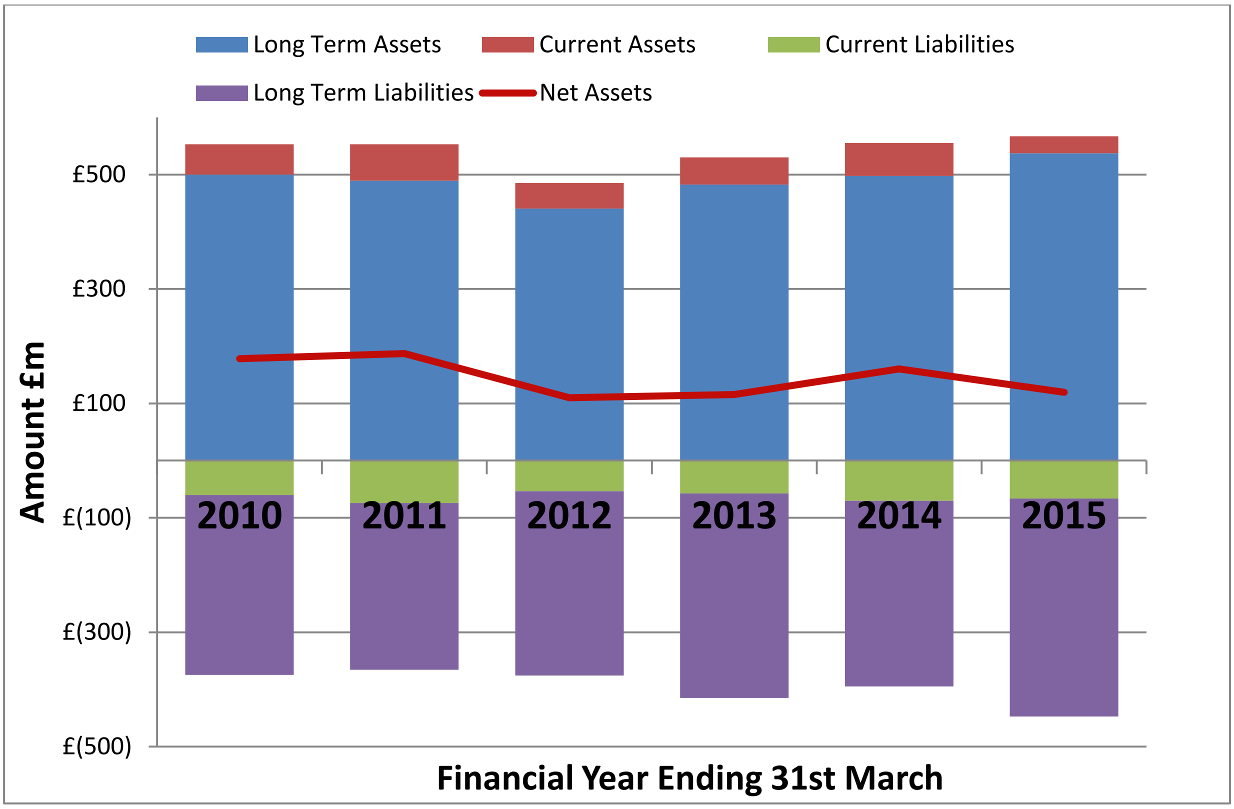
Future years' capital programme

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

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

2.6 Balance Sheet

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



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

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

2.7 Council borrowing

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

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

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

2.7.4 Total borrowing at the year end, including short-term loans, stood at £164.5m (compared to £168.0m as at 31st March 2014). Of this amount £12.0m relates to two bank loans. Every six months, when the interest payments become due, the lenders have the option to increase the interest rates being charged. If a lender did increase the rate (from 4.5%) the council would then have the option to repay the loan. These two bank loans were previously shown as being repayable within one year, however following advice from Arlingclose (treasury management advisors) they have been reclassified as long-term borrowing. This is because interest rates are forecast to remain low with the lenders unlikely to increase the interest rates charged and therefore it would be unlikely that the Council will repay these loans during 2015/16.

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

2.7.6 Net borrowing (after offsetting investments) was £161.8m as at 31st March 2015, compared to £144.7m as at 31st March 2014.

2.7.7 The council is only allowed to borrow to support capital projects. The borrowing supports property, plant and equipment valued at £528.2m at the balance sheet date.

2.8 Council reserves

General reserves

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

Earmarked reserves

2.8.2 Specific reserves totalled £26.7m (£23.9m in 2013/14), which are detailed in note 8.8 to the Statements.

2.8.3 The table below shows the level of revenue usable reserves over the last 5 years:

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

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

2.9 Significant provisions, contingencies and write-offs

2.9.1 The council held provisions of £5.3m at 31st March 2015, as detailed in note 8.18 to the Statements.

2.9.2 The most significant provision is the rates appeal provision of £2.6m based on an independent external assessment of the councils liability in relation to submitted business rate appeals at 31 March 2015.

2.9.3 At 31 March 2015 the council also held a provision of £2.1m for independently assessed outstanding insurance commitments. Herefordshire Council pays the first £5k to £50k of most insurance claims (depending on the type or class of the claim), known as the excess. During

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

2.9.4 A list of contingent liabilities are set out in note 8.38 to the Statements. Although contingent liabilities are not required to be accounted for there is a reserve of £0.3m in the accounts as a general contingency against future spend. In addition specific reserves have been set up for the national land charges dispute (£0.5m) and for risk mitigation (£4.5m).

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

2.10 Pensions

2.10.1 In accordance with International Accounting Standard 19 on Retirement Benefits (IAS 19), Note 8.37.5 to the Statements sets out the council's assets and liabilities in respect of the Local Government Pension Scheme (LGPS). Herefordshire Council's non-teaching staff are members of the Worcestershire County Council Pension Fund. Occupational therapists who transferred during 2014/15 retained their NHS pensions.

2.10.2 Herefordshire's proportion of the net deficit on the Worcestershire County Council Pension Fund as at 31st March 2015 is £211.4m. Whilst this deficit does not have to be met immediately from the council's reserves, action must be taken over a period of years to eliminate it. In addition the balance sheet deficit also includes £1.3m relating to ex-Hereford and Worcester teachers' unfunded benefits (£1.0m at 31 March 2014).

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

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

2.11 Impact of economic climate

2.11.1 The economic climate has had an impact on the 2014/15 accounts in a number of areas:

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

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

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

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

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

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

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

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

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

2.12 Academy schools

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

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

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

2.12.4 In 2014/15 the following schools converted to Academies:

- Brookfield Special School
- Fairfield High School

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

Core Financial Statements and Explanatory Notes

2.13 2014/15 Financial Statements

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

Movement in Reserves Statement (page 15)

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

Comprehensive Income and Expenditure Statement (page 17)

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

Balance Sheet (page 19)

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

Cash Flow Statement (page 21)

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

Notes to the Financial Statements (page 23)

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

The Collection Fund (page 86)

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

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

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

Peter Robinson

Chief Financial Officer

(Section 151 Officer)

Statements to the accounts

3. Statement of Responsibilities

3.1 The Council's Responsibilities

3.1.1 The council is required to:

a. Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Financial Officer.

b. Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and

c. Approve the statement of accounts.

3.2 The Chief Financial Officer - Responsibilities

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

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

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

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

c. Complied with the local authority Code.

3.2.3 The Chief Financial Officer has also:

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

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

Certificate of the Chief Financial Officer

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

Peter Robinson
Chief Financial Officer.

Core financial statements
and explanatory notes

Core Financial Statements and Explanatory Notes

4 Movement in Reserves Statement

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

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

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

5. Comprehensive Income and Expenditure Statement

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

Comprehensive Income and Expenditure Statement

Restated 2013/14				2014/15		
Expenditure	**Income**	**Net**		**Expenditure**	**Income**	**Net**
£m	**£m**	**£m**		**£m**	**£m**	**£m**
73.4	(16.9)	56.5	Adult Social Care	71.5	(17.7)	53.8
129.9	(94.3)	35.6	Educational and Children Services	135.9	(91.9)	44.0
7.7	(1.1)	6.6	Cultural and Related Services	7.7	(1.1)	6.6
22.3	(6.1)	16.2	Environmental and Regulatory	20.6	(5.4)	15.2
10.9	(5.4)	5.5	Planning Services	14.2	(8.9)	5.3
25.3	(7.7)	17.6	Highways and Transport Services	20.8	(6.0)	14.8
47.8	(42.6)	5.2	Housing Services	55.7	(52.5)	3.2
6.6	(2.0)	4.6	Corporate and Democratic Core	3.8	(1.7)	2.1
(0.2)		(0.2)	Non-distributed Costs	1.9	(1.0)	0.9
13.8	(12.4)	1.4	Central Services to the Public	3.0	(1.9)	1.1
7.6	(7.7)	(0.1)	Public Health	7.9	(8.0)	(0.1)
345.1	**(196.2)**	**148.9**	**Cost of Services**	**343.0**	**(196.1)**	**146.9**
13.2	(2.5)	10.7	Other operating expenditure (note 8.9)	7.4		7.4
19.5	(6.3)	13.2	Financing, investment income & expenditure (note 8.10)	15.2	(3.1)	12.1
	(174.2)	(174.2)	Taxation and non-specific grant income (note 8.11)		(173.4)	(173.4)
		(1.4)	**(Surplus) on the provision of services**			**(7.0)**
		(9.3)	Surplus on revaluation of PPE			(0.9)
		(35.4)	Extraordinary item – recognition of school assets			0.0
		(34.8)	Re-measurement of net defined benefit liability (note 8.37.3)			48.8
		(79.5)	**Other comprehensive income and expenditure**			**47.9**
		(80.9)	**Total comprehensive income and expenditure**			**40.9**

6 Balance Sheet

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

6.2 The first category of reserves are usable reserves i.e. those reserves that the authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve may only be used to fund capital expenditure or repay debt).

6.3 The second category of reserves is those that the authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve) where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

Balance Sheet

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

7 Cash flow Statement

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

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

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

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

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

Cash Flow Statement

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

8 Notes to the accounts

8.1 Accounting Policies

General Principles

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

Accruals of Income and Expenditure

8.1.2 Revenue and capital transactions are accounted for on an accruals basis where above the de-minimus threshold of £10k. This means that all revenue income is recorded when the debt has been established rather than when money has been received. Similarly, expenditure is recorded when it is owed rather than when the payment is made. Customer and client receipts are accounted for in the period to which they relate. The cost of supplies and services are accrued and accounted for in the period during which they were consumed or received. Interest payable on external borrowings and interest income is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract. Debtors and creditors are included in the accounts on an actual basis where known, or on an estimated basis where precise amounts are not established at the year-end.

Borrowing Costs

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

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

Cash and cash equivalents

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

Contingent assets

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

Contingent liabilities

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

Employee benefits

Benefits payable during employment

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

Termination benefits

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

a) An employer's decision to terminate an employee's employment; or

b) An employee's decision to accept voluntary redundancy

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

Post-employment benefits

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

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

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

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

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

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

8.1.13 Staff transferred with a NHS pension is an unfunded defined benefit scheme. It is accounted for as a defined contribution plan by NHS bodies. Therefore, it would be extremely unlikely that local authorities would be able to identify the underlying scheme assets and liabilities for transferred staff.

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

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

b) Liabilities are discounted to their value at current prices using a discount rate of 3.3% (based on market yields and other factors);

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

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

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

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

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

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

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

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

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

8.1.16 Further information on accounting for the pension fund is set out in note 8.37 to the Statements.

Events after the balance sheet date

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

8.1.18 There are two types;

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

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

Extraordinary items

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

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

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

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

Balance Sheet

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

Comprehensive Income and Expenditure Statement

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

Financial Instruments

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

Financial liabilities

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

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

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

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

Financial assets

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

8.1.27 Financial assets are classified into two types:

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

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

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

Government grants and other contributions

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

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

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

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

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

- Where conditions of the grant are outstanding at the balance sheet date, they are recognised as Capital Grants Receipts in Advance. Once the conditions have been met the grant or contribution is transferred to the Comprehensive Income and Expenditure Statement.

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

Investment property

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

8.1.35 Investment property is measured initially at cost, and subsequently at market value. Properties are not depreciated but are revalued annually reflecting market conditions at the year end.

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

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

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

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

8.1.39 **Finance leases**

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

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

8.1.40 **Operating leases**

a) Where the council is **lessee** – an operating lease is recognised as an expense on a straight line basis over the lease term.

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

Arrangements containing a lease

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

a) The arrangement depends on use of a specific asset

b) The arrangement conveys the right to use the asset.

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

Overheads and Support Services

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

a. **Corporate and Democratic Core**: The costs relating to the council's status as a multi-functional, democratic organisation; and

b. **Non Distributed Costs**: The cost of discretionary benefits awarded to employees retiring early and capital charges on non-operational assets.

PFI schemes

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

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

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

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

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

b) Finance cost – a percentage interest charge on the outstanding Balance Sheet liability, debited to interest payable and similar charges in the Comprehensive

Income and Expenditure Statement under Financing, investment income & expenditure.

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

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

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

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

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

Property, plant and equipment

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

Recognition

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

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

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

8.1.51 Costs meeting the definition of recognition include initial costs of acquisition and construction and subsequent costs to enhance or replace part of the asset. The costs arising from day-to-day servicing of an asset are not capitalised as this does not add to the future economic benefits or service potential of the asset. The council does not capitalise property, plant and equipment costing less than £10k.

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

Schools

8.1.53 In line with accounting standards and the Code, maintained schools are now considered to be under the Council's control (i.e. under the responsibility of the Council's Section 151 Officer) so the income, expenditure, current assets, liabilities and reserves are consolidated into the Council's accounts and included within the figures disclosed in the Statement of Accounts. Any reserves attributable to the school are earmarked and disclosed separately. As a result Community schools, Voluntary Aided schools, Voluntary Controlled schools and Foundation schools are all consolidated into the Council's single entity accounts. However, once a school transfers to Academy status it is no longer under the control of the Council and, therefore, its income, expenditure, assets, liabilities and reserves are no longer consolidated into the Council's accounts.

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

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

Measurement

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

a) purchase price;

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

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

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

a) **Infrastructure** – depreciated historic cost.

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

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

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

Revaluations

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

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

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

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

Depreciation

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

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

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

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

Impairments

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

a) A significant decline in an asset's value during the year, which is specific to the asset

b) Evidence of obsolescence or physical damage of an asset

c) A commitment by the council to undertake a significant re-organisation

d) A significant adverse change in the statutory or other regulatory environment in which the council operates.

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

8.1.66 At the end of each financial year an assessment shall take place as to whether there is any indication that an impairment loss recognised in earlier periods for an asset may no longer exist or have decreased. The reversal of an impairment loss previously recognised in the Surplus or Deficit on the Provision of Services shall not exceed the carrying amount that would have been determined had no impairment loss been recognised. Any excess above the carrying amount is treated as a revaluation gain and credited to the Revaluation Reserve.

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

Disposals

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

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

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

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

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

Provisions

8.1.70 A provision is recognised when:

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

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

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

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

Reserves

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

Unusable reserves

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

Revenue funded from capital under statute

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

Charges to revenue for non-current assets

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

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

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

Value added tax

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

Revenue recognition

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

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

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

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

c) the amount of revenue can be measured reliably.

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

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

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

a) the amount of revenue can be measured reliably;

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

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

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

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

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

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

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

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

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

Interests in Companies and Other Entities

8.1.83 An assessment of the councils interests has been carried out in accordance with the Cipfa Code of Practice to determine the group relationships that exist. Inclusion in the group is dependent upon the extent of the councils control over the entity demonstrated through ownership such as a shareholding in an entity or representation on an entity's board of directors and materiality. The production of group accounts are not required. These accounts have been prepared on a single entity basis with the interests in companies and other entities recorded as financial assets at cost, less any provision for losses, or at valuation as appropriate.

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

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

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

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

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

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

Council Tax

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

8.1.90 NDR, Top-up and Council Tax income will be recognised in the Comprehensive Income and Expenditure Statement within the Taxation and Non-Specific Grant Income line. As a billing Authority, the difference between the NDR and Council Tax included in the Comprehensive Income and Expenditure Statement and the amount required by regulation credited to the General Fund is taken to the Collection Fund Adjustment Account and reported in the Movement in Reserves Statement. Each major preceptors share of the accrued NDR and

Council Tax income is available from the information that is required to be produced in order to prepare the Collection Fund Statement.

8.1.91 NDR and Council Tax income is recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the Council, and the amount of revenue can be measured reliably.

8.1.92 Revenue relating to Council Tax and general rates, is measured at the full amount receivable (net of any impairment losses) as they are non-contractual, non-exchange transactions and there can be no difference between the delivery and payment dates.

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

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

8.2.2 For 2014/15 these are IFRS 13 Fair Value Measurement and IFRIC21 Levies. There are also annual improvements to IFRSs but these are minor and usually for clarification purposes so will not have a material impact on the Statement of Accounts.

IFRS 13 Fair Value Measurement

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

IFRIC 21 Levies

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

8.3 Critical judgements in applying accounting policies

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

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

- The inclusion of all school assets, liabilities, reserves, income and expenditure where the school is not an academy or free school. The council has determined it has deemed rights, obligations, controls and risks with to consolidate into the council accounts. This means all maintained school assets will be included in the balance sheet unless a notice of intention to discontinue the school has been issued. If a school were to convert to an academy or free school its assets are treated as disposal for nil proceeds and all transactions are excluded from these accounts from the date of transfer.

- The council is deemed to control the services provided by Shaw Healthcare under the contract for the development and provision of residential homes and day care centres. The accounting policies for PFI schemes and similar contracts have been applied to the arrangement with the associated non-current assets included in the balance sheet with a corresponding finance liability.

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

- The Council is providing part of the project finance to build EnviRecover, an Energy for Waste Plant, through a variation to the waste PFI agreement. The loan balance outstanding is included on the balance sheet as long term debtor with repayments due from 2017/18. The effective interest rate is used to calculate the interest receivable which is credited to the comprehensive income and expenditure account.

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

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

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

8.4.2 There is a significant risk of material adjustment in the forthcoming financial year for the following items in the council's Balance Sheet at 31 March 2015:

Item	Uncertainties	Effect if actual results differ from assumptions
Pensions liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. The pension fund actuary Mercer Ltd is employed by the pension fund to provide expert advice about the assumptions to be applied.	Changes in any of the assumptions can have a significant effect on the pensions liability shown in the accounts. An increase in the discount rate used of 0.1% would decrease the liability stated by £9.0m. An increase of 0.1% in the inflation rate used would increase the stated liability by £9.2m. A one year increase in the assumed life expectancy would increase the stated liability by £9.8m. However, the assumptions interact in complex ways. During 2014/15 the Authority's actuaries advised that the net pensions liability had increased by £52m as a result of the updating of assumptions.
Non-current assets - depreciation	Non-current assets held on the Balance Sheet have an estimated useful life. This is based the professional judgement of our external valuers.	Depreciation is applied on a straight line basis over the useful life of the asset. Variations to the useful life will alter the amount of depreciation charged to the Comprehensive Income and

		Expenditure Statement. The impact of this is minimised by a review of the useful life of an asset being undertaken at each valuation. As at 31 March 2015, the carrying value of accumulated depreciation is £80.2m.
Provisions	A reliable estimate of sums falling due in future years have been included as year-end provisions, the most significant being in relation to insurance claims and rate appeals.	Actual settlements could differ from the professionally valued estimate provided for. Where the actual settlement is less unused provisions are released to the Comprehensive Income and Expenditure Statement. Where settlements exceed the provision value specific set aside reserve funding is used. The carrying amount of provisions increased by £1.6m to £5.3m as at 31 March 2015.
Property, plant, equipment and investment properties	Full valuation in accordance with professional standards of the Royal Institution of Chartered Surveyors is carried out every 5 years. In addition 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. The risk of value misstatement of a fair value to its carrying value is reviewed annually and amended where considered significant. The carrying value of fixed assets as at 31 March 2015 is £492.6m.

8.5 Material Items of Income and Expense

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

8.6 Events after the Balance Sheet Date

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

8.7 Adjustments between Accounting Basis and Funding Basis under Regulations

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

2014/15

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

of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement				
Use of the Capital Receipts Reserve to finance new capital expenditure		3.6		(3.6)
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool.				
Transfer from Deferred Capital Receipts Reserve upon receipt of cash				
Adjustments involving the Financial Instruments Adjustment Account:				
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements				
Adjustments involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 8.37.3)	(13.8)			13.8
Employer's pensions contributions and direct payments to pensioners payable in the year	10.4			(10.4)
Adjustments involving the Collection Fund Adjustment Account:				
Amount by which council tax and non-domestic rates income credited to the Comprehensive Income and Expenditure Statement is different from income calculated for the year in accordance with statutory requirements	(0.6)			0.6
Adjustment involving the Accumulated Absences Account				
Amount by which charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(0.3)			0.3
Total Adjustments	**2.2**	**1.6**	**3.8**	**(7.6)**

2013/14 Comparative Figures (restated)

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

<u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement</u>:				
Charges for depreciation on non-current assets	(14.5)			14.5
Revaluation losses and impairment on Property, Plant and Equipment	(4.5)			4.5
Movements in the market value of investment properties	(0.3)			0.3
Amortisation of intangible assets	(2.2)			2.2
Capital grants and contributions	16.4			(16.4)
Revenue expenditure funded from capital under statute	(1.9)			1.9
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(12.5)			12.5
<u>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</u>				
Statutory provision for the financing of capital investment	10.7			(10.7)
Capital expenditure charged against the General Fund balance	0.5			(0.5)
Adjustments primarily involving the Capital Grants Unapplied Account:				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	0.5		(0.5)	
Application of grants to capital financing transferred to the Capital Adjustment Account			7.7	(7.7)
Adjustments involving the Capital Receipts Reserve:				
Transfer of sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	5.3	(5.3)		
Use of the Capital Receipts Reserve to finance new capital expenditure		2.0		(2.0)
Contribution from the Capital Receipts Reserve towards administrative costs of non current asset disposals				
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool.				
Recognition of new deferred capital receipts				
Transfer from Deferred Capital Receipts Reserve upon receipt of cash				
Adjustments involving the Financial Instruments Adjustment Account:				
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from				

finance costs chargeable in the year in accordance with statutory requirements				
Adjustments involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 8.37.3)	(16.6)			16.6
Employer's pensions contributions and direct payments to pensioners payable in the year	9.8			(9.8)
Adjustments involving the Collection Fund Adjustment Account:				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(0.6)			0.6
Adjustment involving the Accumulated Absences Account				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	0.9			(0.9)
Total Adjustments	**(9.0)**	**(3.3)**	**7.2**	**5.1**

8.8 Transfers to/from Earmarked Reserves

8.8.1 This note sets out the amounts set aside from the General Fund balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to the General Fund in 2014/15:

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

8.9 Other Operating Expenditure

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

8.10 Financing and Investment Income and Expenditure

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

8.11 Taxation and Non Specific Grant Income

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

8.12 Property, Plant and Equipment

8.12.1 Movements in 2014/15:

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

Comparative Movements in 2013/14:

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

8.12.2 Depreciation

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

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

8.12.3 Analysis of Capital Charges to Directorates

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

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

8.12.4 Capital Commitments

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

8.12.5 Revaluations

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

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

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

8.12.6 Schools

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

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

8.13 Investment Properties

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

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

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

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

8.14 Financial Instruments

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

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

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

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

8.14.4 **Financial Liabilities**

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

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

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

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

8.14.5 Income, Expense, Gains and Losses

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

2013/14 Financial Liabilities at amortised cost £m	Financial assets: Loans and receivables £m	Total £m		Financial Liabilities at amortised cost £m	Financial assets: Loans and receivables £m	**2014/15** Total £m
			Interest payable and similar charges:			
			Interest expense relating to:			
5.4		5.4	Loans	5.1		5.1
2.1		2.1	PFI liabilities	2.1		2.1
	0.3	0.3	Impairment losses (bad debts)			
7.5	0.3	7.8	**Total expense in surplus on the provision of services**	7.2	0.0	7.2
			Interest receivable:			
			On loans		(0.2)	(0.2)
	(0.3)	(0.3)	On investments		(0.2)	(0.2)
0.0	(0.3)	(0.3)	**Total income in surplus on the provision of services**	0.0	(0.4)	(0.4)
7.5	**0.0**	**7.5**	**Net loss/(gain) for the**	**7.2**	**(0.4)**	**6.8**

year

8.14.6 Fair Values of Assets and Liabilities

Financial liabilities and financial assets represented by loans and receivables and long-term debtors and creditors are carried in the Balance Sheet at amortised cost. Their fair value is determined depending on whether an active market exists. If an active market exists than the fair value is obtained from reference to published price quotations. Where no active market exists a valuation technique is used. The fair value has been assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

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

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

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

The fair value is higher than the carrying amount because the council's portfolio of longer-term loans are all fixed rate and the interest rates payable on these loans are generally higher than the relatively low rates prevailing at the Balance Sheet date. Therefore the fair value includes a premium that the council would have to pay if the lender agreed to early repayment of the loans. None of the council's investments are for a period exceeding 364 days and so the fair value of investments will not be significantly different to the carrying amount.

The carrying amounts of other long-term financial assets and liabilities in the balance sheet include commitments falling due under PFI schemes. The fair value of these commitments exceeds the carrying amount and represents the additional cost that could fall due if we were to terminate the PFI schemes as at the balance sheet date. The total PFI carrying amount is £26m and the fair value as at 31.03.15 totals £44m. The accounts have not been adjusted for this as the PFI schemes are set to continue until expiry.

8.15 Debtors

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

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

8.16 Cash and Cash Equivalents

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

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

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

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

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

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

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

8.16.5 Interest received and paid:

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

8.17 Creditors

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

8.18 Provisions

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

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

8.18.2 The provisions held at 31st March 2015 are;

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

8.19 Usable Reserves

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

8.19.1 Capital receipts reserve

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

8.19.2 Capital grants unapplied

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

8.19.3 Usable reserves summary

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

8.20 Unusable Reserves and Unrealised Liabilities Summary

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

8.20.1 Revaluation Reserve

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

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

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

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

8.20.2 Capital Adjustment Account

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

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

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

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

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

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

8.20.3 **Financial Instruments Adjustment Account**

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

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

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

8.20.4 Pensions Reserve

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

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

8.20.5 Deferred Capital Receipts Reserve

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

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

8.20.6 Collection Fund Adjustment Account

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

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

1.7	**Balance at 31 March**	**2.3**

8.20.7 Accumulated Absences Account

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

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

8.21 Amounts Reported for Resource Allocation Decisions

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

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

8.21.2 Directorate Income and Expenditure

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

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

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

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

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

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

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

8.21.4 Reconciliation to Subjective Analysis

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

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

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

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

8.22 Trading Operations

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

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

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

8.23 Agency Services

8.23.1 During 2014/15 the council incurred spend in relation to the Golden Valley Fastershire capital project to provide improved broadband speeds throughout the rural areas of Herefordshire and Gloucestershire. In 2014/15 spend totalled £8.0m (2013/14 £0.7m) under the Fastershire project, of which £5.4m (2013/14 £0.5m) represents spend in the Gloucestershire area that is not shown in the council accounts as this spend is incurred under an agency arrangement.

8.24 Pooled Budgets

8.24.1 The council is party to one pooled budget arrangements;

CNS Complex Needs Solution

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

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

8.25 Officers' Remuneration

8.25.1 Officers' remuneration is defined as 'all amounts paid to or receivable by a person, and includes sums due by way of expenses allowances (so far as those sums are chargeable to UK income tax), and the estimated money value of any other benefits received by an employee other than in cash' (e.g. benefits in kind). Benefits in kind are salary sacrificed amounts for the provision of car parking and bicycles.

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

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

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

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

1 The Chief Executive started on the 1st March 2013

2 45% of the Deputy Chief Executive salary cost was recharged to the PCT in 2012/13. The Deputy chief Executive left on the 9th June 2013

3 The Chief Officer – Finance and Commercial left on the 30th September 2013

4 The Chief Financial Officer – Section 151 Officer started on the 13th September 2013. The post is equivalent to 0.2 FTE, additional Services for financial transformation are procured separately under a contract (further details are set out in the report to the employment panel 3rd June 2014). The post was filled on a FTE permanent basis from 1st July 2015 (further details are set out in the report to the employment panel 31st March 2015).

5 The Assistant Director, Law, Governance & Resilience left on the 12th April 2013

6 The Assistant Director – People, Policy & Partnerships left on the 5th May 2014

7 The Assistant Director – Safeguarding and Early Years left on the 5th November 2013

8 The Head of Service - Adult Services left on the 14th April 2013

9 The Head of Special Projects left on the 31st December 2013

10 The Director of Public Health left on the 30th June 2014

11 The Solicitor to the Council started on the 7th May 2013

8.26 Termination Benefits

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

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

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

8.26.3 The number and total cost per band of exit packages analyses between compulsory and other redundancies are set out in the table below. This includes exit packages agreed in the year although not yet actioned at the year end. The table does not include actuarial strain paid to the pension fund (see 8.37.2)

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

8.27 External Audit Costs

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

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

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

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

8.28 Dedicated Schools Grant

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

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

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

8.29 Grant Income

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

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

8.30 Related Parties

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

Central Government

8.30.2 Central government has effective control over the general operations of the council. It is responsible for providing the statutory framework within which the council operates and provides the majority of its funding in the form of grants. Details of income received from government departments are set out in note 8.29.

Members

8.30.3 Members of the council have direct control over the council's financial and operating policies. There are a number of Councillors who serve on outside bodies and school governing bodies either as a representative of the council or as a private individual. Details of these interests are recorded in the Register of Members' interests, which are updated annually. An examination of the Register indicates that the council's financial transactions with these bodies in 2014/15 are not material. One member was the employee of a care home to which the council made payments in the year of £0.7m.

Officers

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

Other Public Bodies

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

Significant long-term contracts

8.30.6 The council awarded the public realm services contract to Balfour Beatty Living Places on 1st September 2013.

8.30.7 The contracted services include highways maintenance and improvement, street lighting, traffic signals, street cleaning, parks and public rights of way, fleet maintenance and professional consultancy services. The council paid £42.0m to Balfour Beatty in 2014/15 (£9.3m in 2013/14).

8.30.8 In 2009 the council entered into a 7 year contract with Fosca for the collection of household, recycling and commercial waste. The value of the contract over 7 years is around £30.5m. Payments to Fosca totalled £4.3m in 2014/15 (£4.3m in 2013/14).

Other organisations

8.30.9 The council pays a management fee to Halo Leisure Trust for the provision of leisure facilities, including swimming pools and leisure centres. In 2014/15 the council paid £0.7m to Halo Leisure Trust (£1.1m in 2013/14). In 2014/15 the council paid £0.2m to the Courtyard Trust (£0.2m in 2013/14). The council has a commissioning agreement with the Trust based on agreed outcomes.

8.30.10 During the year the council made payments totalling £0.6m to Herefordshire Housing Ltd (£0.3m in 2013/14).

8.30.11 The council held an interest in a company called Hereford Futures, whose role was to facilitate development and regeneration within Hereford. Payments were made to Hereford Futures amounting to £0.2m partially to support its the closedown process (£0.4m in 2013/14).

8.30.12 West Mercia Energy (WME) operates as a joint arrangement between Herefordshire, Shropshire, Worcestershire and Telford and Wrekin Councils Payments of £1.8m were made in 2014/15 to WME (£0.6m in 2013/14).

Jointly controlled organisation

8.30.13 Hoople Ltd is a company created in April 2011 to deliver business support services to clients across the public and private sector. During the review period Hoople Ltd was wholly owned by Herefordshire Council and Wye Valley NHS Trust.

8.30.14 The inter-organisation transaction between the council and Hoople Ltd amounted to £7.1m (£7.4m in 2013/14). There were no contingent liabilities existing with Hoople Ltd that would affect the council. There were no capital commitments outstanding at 31st March 2015 payable to Hoople Ltd.

8.30.15 The draft year-end result of Hoople Ltd, prior to adjustments for pensions, was a profit before tax of £0.4m (£0.3m in 2013/14). The council share of 74.7% is equivalent to £0.3m (£0.3m in 2013/14). In view of the immateriality of the share of balance sheet value, the council has opted not to prepare the Group Accounts.

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

Outstanding balances with related parties

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

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

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

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

8.31 Capital Expenditure and Capital Financing

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

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

8.32 Leases

<u>Authority as Lessee</u>

Finance Leases

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

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

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

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

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

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

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

8.32.5 The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2014/15 £116,000 contingent rents were payable by the authority (£116,000 in 2013/14).

Operating leases

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

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

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

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

<u>Authority as Lessor</u>

Finance Leases

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

Operating leases

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

- Retail
- Industrial Use
- Farming
- Other Commercial Use

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

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

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

8.33 Private Finance Initiatives and Similar Contracts

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

Mercia Waste Management Ltd – waste management PFI contract

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

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

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

8.33.5 Both councils will be providing circa 82% of the project finance requirement from their own planned borrowing from the Public Works and Loans Board with the remaining 18% being provided by the equity shareholders of Waste Mercia Management Services. The loan is shown under long term debtors on the balance sheet and the effective interest rate is shown under financial investments on the Comprehensive Income and Expenditure Statement.

Stepnell Ltd – School PFI Contract

8.33.6 The Whitecross High School PFI project has delivered a fully equipped 900 place secondary school with full facilities management services. The contract with Stepnell Ltd has an overall value of £74m and lasts for 25 years. During the 2012/13 financial year the school transferred to Academy status but the obligations under the PFI contract remain with the council.

Shaw Homes

8.33.7 The council has a contract with Shaw Healthcare for the development and provision of residential homes and day care centres previously operated directly by the council. The contract expires in 2033/34 for all homes. The level of payments are dependent on the volume and nature of service elements and Shaw Healthcare's performance in providing services. The payments in respect of this contract was £3.7m in 2014/15 (£3.6m in 2013/14).

Assets

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

Liabilities

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

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

Payments

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

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

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

8.34 Impairment Losses

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

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

			buildings			
0.1		0.1	Assets under construction			
5.2	(0.6)	4.6	Total	12.5	(5.7)	6.8

8.35 Capitalisation of Borrowing Costs

8.35.1 The council has a policy of capitalising borrowing costs on relevant projects i.e. where schemes lasting more than 12 months and with at least £10,000 of interest associated with the project. In 2014/15 there were three capital schemes which fell into this category and £0.6m borrowing costs were capitalised.

8.36 Pension Schemes accounted for as Defined Contribution Schemes

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

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

8.36.3 In 2014/15 the council paid employer contributions of £4.1m in respect of teachers‟ pension costs, which represented 14.1% of teachers‟ pensionable pay. In addition, the council is responsible for all pension payments relating to added years it, or its predecessor authority, has awarded, together with the related increases. In 2014/15 these amounted to £0.1m representing 0.36% of pensionable pay. At the year-end there were contributions of £0.3m remaining payable, which related to the March 2015 contributions paid to the scheme in April 2015.

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

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

8.37 Defined Benefit Pension Schemes

Participation in Pension Schemes

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

Transactions Relating to Post-employment Benefits

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

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

Local Government pension scheme

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

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

Pensions Assets and Liabilities Recognised in the Balance Sheet

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

Local Government pension scheme

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

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

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

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

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

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

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

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

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

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

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

Basis for estimating Assets and Liabilities

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

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

The principal assumptions used by the actuary have been;

	Beginning of period (p.a.)	End of period (p.a.)
Mortality assumptions		
Longevity at 65 for current pensioners:		
• Men	23.3 years	23.4 years
• Women	25.7 years	25.8 years
Longevity at 65 for future pensioners:		
• Men	25.5 years	25.6 years
• Women	28.0 years	28.1 years
Rate of CPI inflation	2.4%	2.0%
Rate of increase in salaries	3.9%	3.5%
Rate of increase in pensions	2.4%	2.0%
Rate for discounting scheme liabilities	4.5%	3.3%

Long-term expected rate of return on assets in the scheme:

Equity investments	6.5%
Government Bonds	2.2%
Other bonds	2.9%
Cash/liquidity	0.5%
Property	5.9%

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

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

	Increase in assumption £m

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

Impact on the Authorities Cash Flows

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

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

8.37.14 Scheme History

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

8.38 Contingent Liabilities

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

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

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

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

8.39 Nature and Extent of Risks Arising from Financial Instruments

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

a. **Credit risk:** The possibility that other parties may fail to pay amounts owing to the council.

b. **Liquidity risk:** The possibility that the council may have insufficient funds available to meet its financial commitments.

c. **Market risk:** The possibility that the council may suffer financial loss as a result of economic changes such as interest rate fluctuations.

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

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

Credit Risk

8.39.4 Credit risk arises from deposits with banks and other financial institutions, as well as credit exposures to the council's customers. Investments are only made in institutions recommended by Arlingclose, the council's treasury adviser. For credit rated counterparties, the council looks at the lowest long-term rating assigned by the three main credit rating agencies and the minimum criteria for UK institutions during 2014/15 was as A- for long-term minimum as rated by Fitch, Moody's and Standard & Poor's.

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

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

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

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

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

Liquidity Risk

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

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

NB All trade and other payables are due to be paid in less than 1 year.
LOBO bank loans were classed as short-term borrowing in 2013/14, but have been re-classed as long-term borrowing in 2014/15 following advice from Arlingclose (treasury management advisors).

Market Risk

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

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

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

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

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

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

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

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

8.40 Trust Funds

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

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

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

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

Supplementary Financial Statement and explanatory notes

9. Collection Fund

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

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

9.2 Notes to the Collection Fund

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

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

9.2.2 Council tax income is derived from charges raised according to the value of residential properties, which have been classified into eight valuation bands. Estimated values at 1st April 1991 are used for this specific purpose. Individual charges are calculated by estimating the amount of income required to be taken from the collection fund by the council, West Mercia Police and Hereford & Worcester Fire & Rescue Authority, and dividing this by the council tax base (the total number of properties in each band adjusted by a proportion to convert the number to a Band D equivalent and adjusted for discounts etc.). The amount of council tax for a Band D property is multiplied by a specified proportion to give an amount due for other property valuation bands. The average council tax for a Band D property in 2014/15 was £1,552.36 including fire, police and parish precepts, with a range of between £1,508.66 and £1,630.76. The council tax base used for setting the council tax in 2014/15 was 64,942.04.

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

Band	Valuation Range	Charge Factor	Band D Equivalent
A	Up to £40,000	6/9	4,838.33
B	£40,001 to £52,000	7/9	10,565.18
C	£52,001 to £68,000	8/9	11,537.75
D	£68,001 to £88,000	9/9	11,021.76
E	£88,001 to £120,000	11/9	12,275.30
F	£120,001 to £160,000	13/9	8,757.54
G	£160,001 to £320,000	15/9	5,348.77
H	Over £320,000	18/9	312.01
Crown			285.40
	Council Tax Base		64,942.04

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

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

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

Other statements

10. DEFINITIONS

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

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

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

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

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

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

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

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

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

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

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.