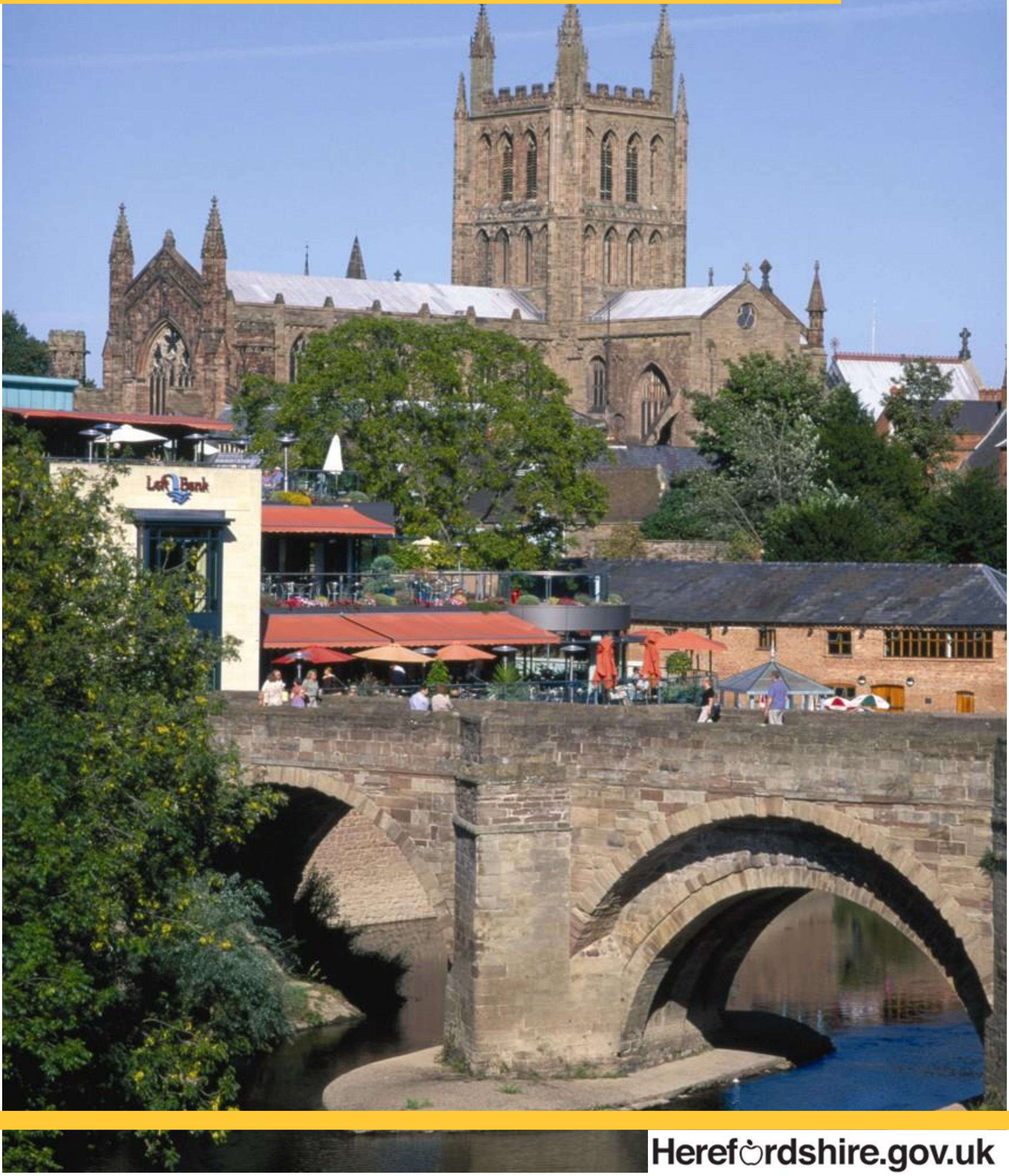
Herefordshire Council

Herefordshire Council

Statement of Accounts 2017/18



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

Narrative Report 2017/18

Introduction

Herefordshire Council's core statement of accounts for 2017/18 sets out the council's overall financial position and performance for the year. For the first time the council has prepared group accounts to report the position for the group, being Herefordshire Council and Hoople Limited. The group accounts combine the council's core financial statements with those of Hoople Limited. Hoople Limited is a subsidiary of the Council, due to the council holding a majority 85.54% shareholding in Hoople Limited. The council holds equal voting rights with the other shareholder, Wye Valley NHS Trust. Following the consideration of materiality the council has not prepared group accounts in previous years, the Council now considers that group accounts provide greater transparency of its overall activities to the county's residents.

Herefordshire is a rural county with an older demographic and, like other councils and the wider public sector, has faced significant financial challenges over recent years as central government funding has been reduced, while costs and demand increase. 2017/18 saw further significant budget reductions requiring the delivery of £7m of savings in addition to those achieved in previous years. The council delivered these savings whilst continuing to commit to providing priority services to the local community.

The council has approved a medium term financial strategy up to 2020/21 which identifies how savings will continue to be achieved. The need to work well with less continues to require adaption, change and re-prioritisation alongside the council's ambition to keep improving and delivering for and with Herefordshire residents.

2017/18 saw the councils general reserve balance remain at £7.9m. Herefordshire's medium term financial strategy includes a reserves policy and the reserve position is reviewed by Council on an annual basis. Specific earmarked reserves are set aside to deal with expenditure commitments in future years, these totalled £57.8m as at 31 March 2018.

This statement of accounts demonstrate the robust financial standing Herefordshire has and provides assurance in its ability to deliver the medium term financial strategy approved by Council in January 2018.

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

- **Understand the overarching financial position of the Council, its group undertakings and performance for 2017/18;**
- **Have confidence that the public money with which the Council has been entrusted has been used and accounted for in an appropriate manner; and**
- **Be assured that the financial position of the Council is sound and secure.**

About Herefordshire

Herefordshire covers an area of 2,180 square kilometres (842 square miles), and is a predominantly rural county, with the fourth lowest population density in England. Herefordshire's population is around 189,300 (2016), with 53% of the population living in rural areas.

The county has an older age population profile than England & Wales, with 24% of the population aged 65 or older compared to 18% nationally. If recent trends were to continue, natural ageing of the population structure would see the total population of Herefordshire increase by 9% by 2034; however, the working age population would fall by 3% in the same period, with almost the entire population increase being in people over the age of 75.

Herefordshire is an entrepreneurial county, with 15% of the population being self-employed. Although the largest industry in Herefordshire is 'agriculture, forestry and fishing' which accounts for 24% of total businesses, numbers of employees in this sector are low.

Unemployment in the county is low, but average earnings in the county are significantly below both the regional and national averages. Average house prices are high compared with elsewhere in the region. In 2016, Herefordshire's affordable housing ratio was the worst in the West Midlands, with houses at the lower end of the market, costing around 8.6 times the annual wage of the lowest earners.

While life expectancy for both males and females is higher and mortality rates are lower than the national average, there are pockets of deprivation within the county and there are notable differences in life expectancy and mortality in these areas, much of which is attributable to lifestyle related conditions such as circulatory or respiratory diseases or cancers.

About Herefordshire Council

In the past two years we have agreed a number of key strategies which set out our vision and plans for the future. These include: an adults and wellbeing plan; a public health plan; an economic vision for the county; a local plan core strategy and the local transport plan. All of these underpin the council's key priorities as stated in the council's corporate plan 2016 to 2020, which are to:

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

Every day the council helps to protect around 2,500 vulnerable adults and 1,000 children and young people (including 300 children in our care), our recent achievements include:

- A three year improvement in pupil attainment in all key stages,
- Improving early years' outcomes from amongst the lowest in England to the top quartile of performance,
- Significantly improved adult social care client satisfaction to among the best in the country,
- Achieved the highest specific target for reducing delayed transfers of care in 2017 of any county in the country,
- Working with external partners to produce a business case which secured £23m of government funding to establish a new university in Hereford, of which the Council is the accountable body, and
- During the year the council realised the majority of the sale of its smallholding estate and the Council has approved that these funds (in excess of £40m) will be reinvested in regeneration projects throughout the county.
- In June 2018 the council appointed two new development partners to deliver an ambitious development and regeneration programme which will bring to life plans contained within the adopted Core Strategy (the document that sets out Herefordshire's planning priorities until 2031). The first new homes expected to be delivered by late summer 2019.

Medium Term Financial Strategy (MTFS)

The Council adopted its medium term financial strategy for the period to 2020/21 in January 2018 which sets out how we will continue to deliver valued services whilst continuing to deliver savings.

The council's medium term financial strategy focuses on:

- Delivering organisational efficiencies, such as workplace rationalisation;
- Disinvesting from services or assets which are either not contributing to corporate priorities or which could be better delivered by others;
- Investing in technology to support a shift from face to face to digital service delivery where appropriate;
- Investing in infrastructure to support economic growth in the county;
- Changing models of service delivery to focus on self-help and early help and intervention to reduce the demand for higher cost interventions;
- Maximising commercial opportunities and ensuring, where possible, fees are set at levels which secure full cost recovery.

The MTFS has been set with regard to known funding reductions, additional cost pressures and identified savings of £19.2m for the period 2018/19 to 2020/21 using the following funding assumptions:

Funding Assumptions	2018/19 £000s	2019/20 £000s	2020/21 £000s
Council Tax	98,445	101,927	104,620
Locally Retained Business Rates	33,256	33,945	47,146
Revenue Support Grant (RSG)	5,370	620	-
New Homes Bonus (NHB)	2,540	1,760	-

Rural Services Delivery Grant (RSDG)	4,093	4,093	-
Collection Fund Surplus	420	-	-
Base Budget	**144,124**	**142,345**	**151,766**

Financial performance, economy, efficiency and effectiveness of use of resources in 2017/18

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

Given the national picture of reducing public finances and increasing demand, particularly in adults and wellbeing, there has been a high degree of focus on delivering more for less. Although it has not been possible to maintain all services the council historically delivered, the vast majority of savings have been achieved through internal efficiencies, workforce reduction, contract renegotiation and changes to the way in which services are delivered.

We have adopted a new care 'blueprint' which aims to keep people within their local communities, retaining choice and control over their lives. Services are being redesigned to focus on the strengths that individuals and their networks possess, and how these can be maximised. Care services aim to return individuals back into their communities to the greatest extent possible following a crisis.

We have developed a new social care pathway and a redesigned in-house Home First service, which seeks to maximise the extent to which service users are re-abled.

We work with a wide range of partners locally and regionally to deliver our vision for the county and achieve our corporate plan priorities. In addition to the statutory or long established partnership forums such as the Health and Wellbeing Board, Safeguarding Boards, and Community Safety Partnership, there are a number of key local partnerships through which the council seeks to develop consensus, co-ordinate activities or facilitate negotiation and discussion, particularly in relation to alignment of resources to meet shared priorities.

Risks

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

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

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

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

Corporate Peer Challenge

During 2017/18 the council invited the Local Government Association (LGA) to complete a corporate peer challenge. A report into its findings has been provided and includes acknowledgement of Herefordshire Council's significant successes, alongside recommendations for improvement to maximise impact and help residents understand the good work being done. The council is recognised as being in a relatively secure financial position over the medium term which provides a platform to realise the county's ambitions. Herefordshire Council is described as having a good understanding of the county and strong ambitions for Herefordshire, alongside an appetite to learn, a desire to improve, and an awareness of key areas for change. It also recognises that there is an engaged workforce that is proud to work for Herefordshire. Work continues to be done to identify how the LGA recommendations can be best implemented.

Council Members

Herefordshire Council is a unitary council formed in 1998. There are 53 elected members, each representing a single ward. The political composition of the council is currently:

Party	Number of councillors
Conservative	28
Herefordshire Independents	8
It's our County!	9
Liberal Democrats	2
Green Party	4
Unaffiliated	2
Total	**53**

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

Members Allowances	2017/18 £m	2016/17 £m
Basic allowances	0.4	0.4
Special allowances	0.2	0.2
Total	**0.6**	**0.6**

Financial Performance 2017/18

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

Service	Outturn Budget £m	Outturn Actual £m	Outturn over/(under) £m
Adults and wellbeing	51.9	52.0	0.1
Children's wellbeing	20.4	22.4	2.0
Economy, communities and corporate (ECC)	49.9	48.9	(1.0)
Directorate outturn	**122.2**	**123.3**	**1.1**
Other budgets and reserves	22.8	21.7	(1.1)
Total	**145.0**	**145.0**	**0**

Although there were overspends in children's wellbeing services there were underspends elsewhere delivering a balanced outturn position.

The overspend related to meeting children's needs in relation to safeguarding, including complex disability cases. A workforce action plan has been devised to address the challenges being faced in recruiting experienced social workers and agency fostering placements are being actively managed to mitigate pressure on the budget in the new financial year.

The underspend in economy, communities and corporate relates to the early delivery of savings, providing reassurance of the delivery of future year savings targets as set in the MTFS.

In addition there was a treasury management underspend from lower borrowing costs due to a combination of interest charges on short term loans being lower than budgeted and utilised less than expected.

Performance is reported to Cabinet on a quarterly basis and published on the council's website detailing information about performance specifically in relation to spending against budget. The 2017/18 detailed performance outturn was reported to Cabinet in June 2018.

The 2017/18 statements demonstrate financial robustness with reserves proportionately comparable to similar councils, providing resilience as we face the challenges ahead.

Revenue expenditure and income

The council's net revenue budget of £145m was matched with equivalent net spend, after transfers to and from specific reserves.

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

Capital Programme

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

- Improving schools
- Enhancing infrastructure
- Housing delivery and
- Creating job opportunities

Capital investment for 2017/18 totalled £49.2m. This was financed by capital grants £29.0m, prudential borrowing £15.7m, capital receipts £4.2m and revenue contributions of £0.3m. The investment included the following corporate priority schemes:

- Colwall Primary School which became operational in year - £4.1m
- Hereford enterprise zone site investment works - £1.8m
- Fatershire broadband rollout - £5.7m
- Hereford City Centre Transport Package - £6.1m
- Highway asset management & major infrastructure investment - £6.2m
- Local transport plan road improvement works - £13.7m

Future years' capital programme

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

Scheme Name	2018/19 budget £000	2019/20 budget £000	2020/21 budget £000	Total Scheme Budget £000	Capital receipts £000	Grant & funding cont £000	Prudential borrowing £000	Total £000
Economy, Communities and Corporate								
Hereford City Centre Transport Package	7,060	1,270	-	8,330	-	-	8,330	8,330
Local Transport Plan (LTP)	13,539	10,341	-	23,880	-	23,880	-	23,880
Fastershire Broadband	12,957	-	-	12,957	-	4,798	8,159	12,957
Hereford Enterprise Zone	7,682	-	-	7,682	7,682	-	-	7,682
Solar Photovoltaic Panels	1,631	-	-	1,631	-	-	1,631	1,631
Corporate Accommodation	509	-	-	509	-	-	509	509
ECC's S106	756	-	-	756	-	756	-	756
South Wye Transport Package	15,505	6,200	8,317	30,022	-	30,022	-	30,022

Marches business improvement grants	1,667	-	-	1,667	-	1,667	-	1,667
Property Estate Enhancement Works	1,414	500	-	1,914	-	-	1,914	1,914
Herefordshire Enterprise Zone Shell Store	6,816	500	-	7,316	-	4,494	2,822	7,316
Cyber Security Centre Project	3,500	-	-	3,500	1,500	-	2,000	3,500
Development Partnership activities	20,300	20,000	-	40,300	10,000	-	30,300	40,300
Highway asset management	12,835	7,000	-	19,835	-	16,590	3,245	19,835
Hereford Transport Package	2,960	-	-	2,960	-	-	2,960	2,960
Ross Enterprise Park (Model Farm)	6,770	300	-	7,070	3,535	-	3,535	7,070
Other ECC schemes below £500k	4,047	0	0	4,224	370	-	3,854	4,224
Total ECC Capital Projects	**119,949**	**46,111**	**8,317**	**174,554**	**23,087**	**82,208**	**69,259**	**174,554**
Children's wellbeing								
Schools Capital Maintenance Grant	1,716	-	-	1,716	-	1,664	52	1,716
Peterchurch Primary School	5,493	-	-	5,493	305	-	5,188	5,493
Expansion for Marlbrook school	4,988	1,000	-	5,988	-	1,000	4,988	5,988
SEN & DDA school improvements	710	-	-	710	-	-	710	710
Brookfield School Improvements	1,298	-	-	1,298	-	113	1,185	1,298
CYPD's S106	996	-	-	996	-	996	-	996
Preliminary works to inform key investment need throughout the county	2,015	-	-	2,015	-	-	2,015	2,015
Other CWB schemes below £500k	1,930	167	167	2,263	70	867	1,326	2,263
Total CWB Capital Projects	**19,147**	**1,167**	**167**	**20,480**	**375**	**4,640**	**15,465**	**20,480**
Adults and wellbeing								
Disabled facilities grant	1,853	-	-	1,853	-	1,853	-	1,853
Affordable Housing Grant	1,600	800	-	2,400	800	-	1,600	2,400
Hillside	1,500	-	-	1,500	-	-	1,500	1,500
Single Capital Pot	596	-	-	596	-	596	-	596
Other AWB schemes below £500k	493	-	-	493	493	-	-	493
Total AWB Capital Projects	**6,042**	**800**	**-**	**6,842**	**1,293**	**2,449**	**3,100**	**6,842**
Total	**145,137**	**48,078**	**8,484**	**201,876**	**24,755**	**89,297**	**87,824**	**201,876**

Funding the Council

Much of the council's investments are funded by grants however, when capital grants cannot fund a scheme in full, prudential borrowing can be used to fund the project and be repaid from future savings or repayments. In 2017/18 the council utilised £15.7m of prudential borrowing to fund the capital programme, including:

- Hereford City Centre Transport Package £6.1m
- Fastershire Broadband £4.9m

Council borrowing

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

In 2017/18 no new long term borrowing was undertaken. Principal debt repayments of £5.4m were paid to the Public Works Loan Board under existing maturity, annuity and EIP (equal instalments of principal) agreements. Total interest of £5.8m was paid on all council borrowing during the year.

During the year the council continued using short term borrowing from other local authorities to cover liquidity requirements and capital spend. At 31 March 2018 £5.0m of short term loans from other local authorities were outstanding.

Total borrowing at the year end, including short term loans, was £148.1m (compared to £176.5m as at 31 March 2017).

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

Net borrowing (after offsetting investments) was £133.9m as at 31 March 2018, compared to £173.5m as at 31 March 2017.

Minimum revenue provision

The Minimum Revenue Provision (MRP) is the method by which councils charge their revenue accounts over time with the cost of their capital expenditure that was originally funded by borrowing regardless of whether that borrowing has actually been taken up. It is intended to provide a public demonstration of the costs of capital expenditure.

During 2017/18 Herefordshire revised its MRP Policy, this changed the notional debt repayment calculation basis to an annuity loan repayment method. This matches the flow of benefits generated by the assets funded from borrowing to the annual MRP charge in the revenue budget. Linking MRP to the average useful life of an asset reflects the economic benefit the council receives from using the asset to deliver services over its useful life, representing a fairer cost charge to current and future council tax payers. Council tax payers are being charged each year in line with asset usage and avoiding current council tax payers meeting the cost of future usage or future council tax payers being burdened with charges relating to assets that are no longer in use.

Property, plant and equipment

During 2017/18 the council instructed a substantial valuation of its asset base, the effects of this, and the underlying the assumptions used by the independent professional valuer can be seen in the accounts increasing asset values, the unusable revaluation reserve and capital entries disclosed in the comprehensive income and expenditure statement.

Council reserves

General reserves

As at 31 March 2018 the council held general reserves of £7.9m, this fund is held above its minimum level to provide resilience in facing future year budget challenges.

Earmarked reserves

As at 31 March 2018 the council held £57.8m of earmarked reserves, these are explained in more detail in the statements.

Significant provisions, contingencies and write-offs

The council held provisions of £6.1m at 31 March 2018.

The most significant provision is the business rates appeal provision of £3.2m based on an assessment of the council's liability in relation to business rate appeals at 31 March 2018. This assessment is made independently and considers the appeals both lodged with the Valuation Office Agency and those yet to be registered.

At 31 March 2018 the council also held a provision of £2.0m for independently assessed outstanding insurance commitments. Herefordshire Council pays the first £100 to £50k of most insurance claims (depending on the type or class of the claim), known as the excess.

There are no contingent liabilities set out in the Statements, although there is a risk reserve of £3.6m held as a general contingency against future spend.

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

Pensions

In accordance with International Accounting Standard 19 on Retirement Benefits (IAS 19), the pension's note, note 34, sets out the council's assets and liabilities in respect of the Local Government Pension Scheme (LGPS). Herefordshire Council's non-teaching staff are members of the Worcestershire County Council Pension Fund.

Herefordshire's proportion of the net deficit on the Worcestershire County Council Pension Fund as at 31 March 2018 is £225.1m (2016/17 £247.0m). Whilst this deficit does not have to be met immediately it requires recovering over a period of future years. In addition the balance sheet deficit also includes £0.9m relating to ex Hereford and Worcester teachers' unfunded benefits (£1m at 31 March 2017).

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

Core Financial Statements and Explanatory Notes

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

Movement in Reserves Statement

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

The net increase/decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the council.

Comprehensive Income and Expenditure Statement

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

Balance Sheet

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

Reserves are reported in two categories.

- The first category of reserves are usable reserves i.e. those reserves that the council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use.

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

Cash Flow Statement

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

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

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

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

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

Notes to the Financial Statements

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

Statement of Group Accounts

This section reports the performance of the Group, being Herefordshire Council and its subsidiary Hoople Limited.

The Collection Fund

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

Statement of Responsibilities

The Council's Responsibilities

The council is required to:

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

The Section 151 Officer - Responsibilities

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

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

a. Selected suitable accounting policies and then applied them consistently

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

c. Complied with the local authority Code of Practice

The Section 151 Officer has also:

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

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

Certificate of the Chief Finance Officer (Section 151 Officer)

I confirm that the Statement of Accounts gives a true and fair view of the financial position of Herefordshire Council at 31 March 2018 and its income and expenditure for the year ended 31 March 2018.

Andrew Lovegrove, Chief Finance Officer (section 151 officer)

Approval of Accounts

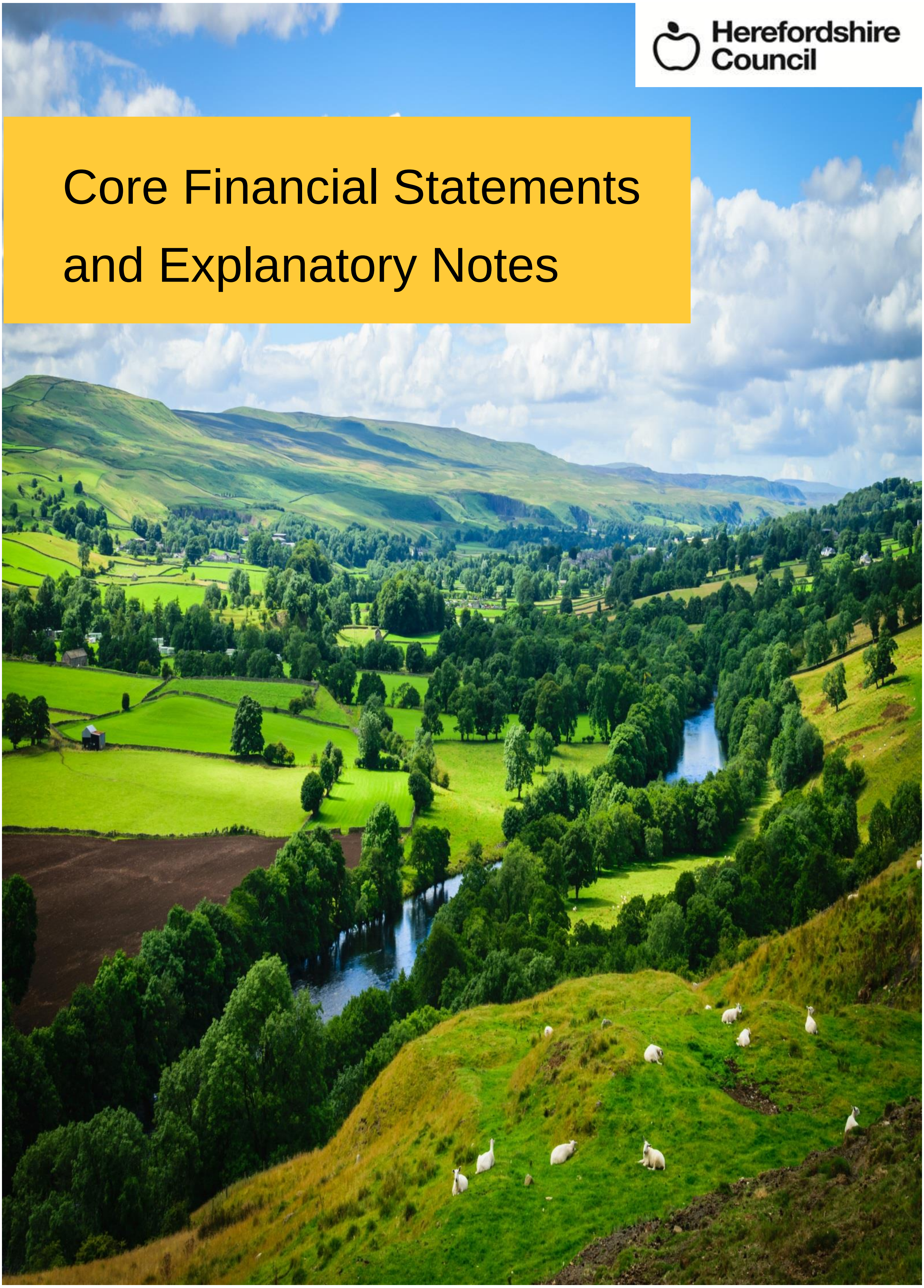
In accordance with the Accounts and Audit Regulations 2015, I confirm that the Statement of Accounts were approved on 30 July 2018.

Councillor Paul Newman, Chair of Audit Committee

Independent Auditors Report

This will follow the completion of the audit.

Core Financial Statements and Explanatory Notes



Movement in Reserves Statement

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

Movement in Reserves Statement 2016/17 Comparative

2016/17 Comparative	Notes	General Fund Balance £m	Earmarked Reserves £m	Total General Fund Balance £m	Capital Receipts Reserve £m	Capital Grants Unapplied £m	Total Usable Reserves £m	Unusable Reserves £m	Total Reserves £m
Balance brought forward		**(7.3)**	**(28.5)**	**(35.8)**	**(0.5)**	**(1.2)**	**(37.5)**	**(96.2)**	**(133.7)**
(Surplus) / deficit on the provision of services		(11.3)	-	(11.3)	-	-	(11.3)	-	(11.3)
Other comprehensive income and expenditure		-	-	-	-	-	-	29.7	29.7
Total comprehensive income and expenditure		**(11.3)**		**(11.3)**	**-**	**-**	**(11.3)**	**29.7**	**18.4**
Adjustments between accounting basis and funding basis under regulations	3	(5.5)	-	(5.5)	(3.7)	(0.4)	(9.6)	9.6	-
Net (increase)/decrease before transfers to earmarked reserves		**(16.8)**	**-**	**(16.8)**	**(3.7)**	**(0.4)**	**(20.9)**	**39.3**	**18.4**
Transfers (to) or from earmarked reserves		16.2	(16.2)	-	-	-	-	-	-
(Increase) / decrease for the Year		**(0.6)**	**(16.2)**	**(16.8)**	**(3.7)**	**(0.4)**	**(20.9)**	**39.3**	**18.4**
Balance carried forward		**(7.9)**	**(44.7)**	**(52.6)**	**(4.2)**	**(1.6)**	**(58.4)**	**(56.9)**	**(115.3)**

Comprehensive Income and Expenditure Statement

2016/17				2017/18			
Expenditure £m	Income £m	Net £m		Notes	Expenditure £m	Income £m	Net £m
83.5	(31.5)	52.0	Adults and wellbeing		91.2	(37.0)	54.2
116.3	(93.0)	23.3	Children's wellbeing		121.8	(94.4)	27.4
127.9	(74.1)	53.8	Economy, communities and corporate		148.8	(70.5)	78.3
327.7	**(198.6)**	**129.1**	**Net Cost of Services**	**2**	**361.8**	**(201.9)**	**159.9**
6.4	-	6.4	Other Operating Expenditure	7	4.0	(1.1)	2.9
37.8	(5.0)	32.8	Financing, Investment Income and Expenditure	8	7.7	(4.9)	2.8
-	(179.6)	(179.6)	Taxation and Non-Specific Grant Income	9	-	(179.1)	(179.1)
371.9	**(383.2)**	**(11.3)**	**(Surplus) / deficit on the provision of services**		**373.5**	**(387.0)**	**(13.5)**
-	-	(10.5)	(Surplus) / deficit in revaluation of non- current assets	10	-	-	(93.3)
-	-	40.2	Re-measurement of net defined Benefit Liability		-	-	(28.4)
-	**-**	**29.7**	**Other comprehensive (income) / expenditure**		**-**	**-**	**(121.7)**
		18.4	**Total comprehensive (income) / expenditure**				**(135.2)**

Balance Sheet

31 March 2017 £m		Notes	31 March 2018 £m
547.6	Property, Plant and Equipment	10	596.9
21.5	Investment Property	10	34.6
0.8	Intangible Assets	10	0.1
3.2	Heritage Assets	10	3.2
40.7	Long Term Debtors	11	39.3
613.8	**Long Term Assets**		**674.1**
-	Short Term Investments	11	5.0
0.2	Inventories		0.1
21.7	Short Term Debtors	12	24.6
6.2	Cash & Cash equivalents	13	14.4
1.6	Assets held for Sale	10	8.2
29.7	**Current Assets**		**52.3**
(34.5)	Short Term Borrowing	11	(11.8)
(32.2)	Short Term Creditors	18	(33.2)
(2.1)	Short Term Provisions	19	(2.5)
(3.2)	Cash & Cash equivalents	13	(0.4)
(72.0)	**Current Liabilities**		**(47.9)**
(3.5)	Long Term provisions	19	(3.6)
(143.5)	Long Term borrowing	11	(138.0)
(3.4)	Capital Grants Receipts in Advance		(4.7)
(305.8)	Other Long Term Liabilities	11	(281.6)
(456.2)	**Total Long Term Liabilities**		**(427.9)**
115.3	**Net Assets**		**250.6**
(58.4)	Usable Reserves	3	(111.0)
(56.9)	Unusable Reserves	4	(139.6)
(115.3)	**Total Reserves**		**(250.6)**

The unaudited accounts were authorised for issue on 31 May 2018 and the audited accounts were authorised for issue on 30 July 2018.

Chief Finance Officer (section 151 officer)

Chair of Audit Committee

Cash Flow Statement

2016/17 £m		Notes	2017/18 £m
(11.3)	Net (surplus) or deficit on the provision of services		(13.5)
(43.6)	Adjust net (surplus) or deficit on the provision of services for non-cash movements	14	(71.5)
5.8	Adjust for items included in the net (surplus) or deficit on the provision of services that are investing and financing activities	15	42.5
(49.1)	**Net cash flows from operating activities**		**(42.5)**
26.8	Net cash flows from investing activities	16	1.0
21.5	Net cash flows from financing activities	17	30.5
(0.8)	**Net (increase) or decrease in cash and cash equivalents**		**(11.0)**
(2.2)	Cash and cash equivalents at the beginning of the reporting period		(3.0)
(3.0)	Cash and cash equivalents at the end of the reporting period		(14.0)
(0.8)	**Net (increase) or decrease in cash and cash equivalents**		**(11.0)**

1. Notes to the Accounts Accounting Policies

1.1 General Principles

The council is required to produce an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which require the accounts to be prepared in accordance with proper accounting practices. These practices under section 21 of the 2003 Act primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 supported by International Financial Reporting Standards. The core statements and the statement of group accounts have consistently applied the accounting policies below, where applicable, the statement of group accounts include additional accounting policies specific to the council's subsidiary undertaking, Hoople Limited.

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

1.2 Accruals of Income and Expenditure

Revenue and capital transactions are accounted for on an accruals basis where above the de-minimis thresholds, currently £25k. This means that all revenue income is recorded when the debt has been established rather than when money has been received. Similarly, expenditure is recorded when it is owed rather than when the payment is made.

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

1.3 Borrowing Costs

Borrowing costs that can be directly 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 annual interest cost associated with the project.

1.4 Cash and cash equivalents

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

1.5 Contingent assets

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

1.6 Contingent liabilities

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

Employee benefits

1.7 Benefits payable during employment

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

1.8 Termination benefits

Termination benefits are recognised in the surplus or deficit on the provision of services at the earlier of when the council can no longer withdraw an offer of benefits, or when the council recognises the costs of restructuring. Termination benefits are payable as a result of either:
a) An employer's decision to terminate an employee's employment; or
b) An employee's decision to accept voluntary redundancy.
Termination benefits are recognised immediately in the Surplus or Deficit on the Provision of Services.

1.9 Post-employment benefits

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

a) The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education;
b) The NHS pension scheme (for Public Health transferred staff); and
c) The Local Government Pension Scheme administered by Worcestershire County Council

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

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

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

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

a) The liabilities are included in the Balance Sheet on an actuarial basis using the projected unit method, that is, an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees;
b) Liabilities are discounted to their value at current prices using a discount rate of 2.6% (based on market yields and other factors);
c) Assets are included in the Balance Sheet at their fair value determined through market or bid prices or using professional valuations;
d) The change in the net pension's liability is analysed into six components;

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

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

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

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

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

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

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

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

1.10 Events after the balance sheet date

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

There are two types;

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

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

1.11 Extraordinary items

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

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

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

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

1.13 Financial Instruments

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

1.14 Financial liabilities

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

Financial liabilities are recognised on the Balance Sheet when the council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost.

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

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

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

1.15 Financial assets

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

Financial assets are classified into two types:

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

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

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

1.16 Government grants and other contributions

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

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

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

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

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

- Where the capital grant or contribution has been recognised in the Comprehensive Income and Expenditure Statement, no conditions remain outstanding and the expenditure has been incurred at the Balance Sheet date, the grant or contribution is transferred from the General Fund to the Capital Adjustment Account. This reflects the application of capital resources to finance expenditure and is reported in the Movement in Reserves Statement.

- Where the capital grant or contribution has been recognised in the Comprehensive Income and Expenditure Statement, but the expenditure to be financed has not been incurred at the Balance Sheet date, the grant or contribution is transferred to the Capital Grants Unapplied Account. When the expenditure is incurred the grant or contribution is transferred from the Capital Grants Unapplied Account to the Capital Adjustment Account, reflecting the application of capital resources to finance expenditure.

1.17 Investment property

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

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

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

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

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

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

1.18 Fair Value Measurement Policy

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

A definition of fair value is the price that would be received to sell an asset, or paid to transfer a liability, between market participants in an orderly transaction at the measurement date under current market conditions.

A fair value measurement takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The concept of highest and best use applies only when determining the fair value of non-financial assets, e.g. surplus assets or investment property. They do not apply to financial assets or to financial liabilities on the basis that financial assets or financial liabilities do not have alternative uses.

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

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

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

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

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

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

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

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

1.19 Leases

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

1.20 Finance leases

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

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

1.21 Operating leases

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

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

1.22 Arrangements containing a lease

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

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

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

1.23 Overheads and Support Services

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

1.24 PFI schemes

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

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

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

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

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

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

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

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

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

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

1.25 Property, plant and equipment

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

1.26 Recognition

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

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

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

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

1.27 Schools

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

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

1.28 Measurement

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

a) purchase price;

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

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

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

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

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

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

1.29 Revaluations

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

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

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

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

1.30 Depreciation

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

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

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

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

1.31 Impairments

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

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

b) Evidence of obsolescence or physical damage of an asset

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

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

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

1.32 Asset held for sale

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

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

1.33 Disposals

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

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

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

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

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

1.34 Revenue Expenditure Funded from Capital under Statute (REFCUS)

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

1.35 Agency arrangements

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

1.36 Pooled budgets

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

1.37 Provisions

A provision is recognised when:

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

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

1.38 Reserves

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

1.39 Unusable reserves

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

1.40 Charges to revenue for non-current assets

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

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

1.41 Minimum Revenue Provision (MRP)

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

During 2017/18 the Council changes it methodology for calculating MRP producing a saving of £5.1m that has been placed into a specific reserve. This change is to reflect a consistent overall annual borrowing cost, being:-

- Capital expenditure funded by historic supported borrowing previously written down on a 4% reducing balance basis is now repaid on a 2% annuity rate, and
- Capital expenditure funded by prudential borrowing previously written down on a straight line basis is now repaid on a 3% annuity loan repayment profile.

The appropriateness of this calculation of MRP is to be reviewed at least every five years to ensure it continues to reflect the loan repayment rates available.

1.42 Value added tax

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

1.43 Revenue recognition

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

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

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

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

a. the amount of revenue can be measured reliably

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

Interest; revenue is recognised when;

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

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

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

1.44 Interests in Companies and Other Entities

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

West Mercia Energy (WME) operates as a joint arrangement with Herefordshire, Shropshire, Worcestershire and Telford and Wrekin councils. The Joint Agreement states that each Member Authority takes an equal share, being 25%, of any liabilities of the Joint Committee, at £1.2m this is considered not material. The financial advantage of bulk purchasing arrangements is reflected in the Comprehensive Income and Expenditure Statement.

Herefordshire Council has an internal audit function provided by the South West Audit Partnership (SWAP). SWAP is a not-for-profit organisation providing internal audit services to 19 local authorities' partner bodies. Upon joining SWAP each partner can nominate a director to the board, Herefordshire Council have done this. This represents the ability to work with other partners to provide feedback on services received. During 2017/18 Herefordshire Council paid SWAP £0.2m for their internal audit services.

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

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

1.46 Council Tax

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

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

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

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

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

IFRS 9 Financial Instruments. This standard will implement changes to the accounting for local authority investments which includes collective investment vehicles by introducing a new model for financial assets including new classifications. Due to the low level of investment balances held by Herefordshire the impact is expected to be limited.

IFRS 15 Revenue from Contracts with Customers. This standard will require local authorities to recognise revenue in such a way that it represents the transfer of promised goods or services to the service recipient (customer) in an amount that reflects the consideration to which the authority expects to be entitled in exchange for those goods or services, due to the consistent nature of the councils income streams this should not have a substantial effect on Herefordshire.

IFRS 16 Leases. This standard introduces new presentation and disclosure requirements in relation to arrangements that convey the right to use an asset. The standard requirements will become applicable from 1 April 2019 and the council has started to gather and review its lease information to ensure the standard is correctly adopted and applied.

1.48 Critical judgements in applying accounting policies

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

The critical judgements made in these Statement of Accounts are:

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

- The council has relationships with a number of companies as detailed in the accounts and it has been determined that it will prepare group accounts to report its group position for the Council and its subsidiary, Hoople Limited.

- The council has determined that its accountable body status between the new Hereford university, NMiTE, and the Department of Education represents an agency arrangement and has disclosed this in note 22.

- The council accounts include all transactions made by schools, and the assets utilised by these schools unless the school is an academy or a free school, these entities are excluded.

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

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

This means that there is a significant risk of material adjustment in the forthcoming financial year for the following items in the council's Balance Sheet at 31 March 2018.

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 Limited is employed by the pension fund to provide expert advice about the assumptions to be applied.	Changes in any of the assumptions can have a significant effect on the pensions liability shown in the accounts. An increase in the discount rate used of 0.1% would decrease the liability stated by £10.6m. An increase of 0.1% in the inflation rate used would increase the stated liability by £10.8m. An increase of 0.1% in the rate of pay growth used would increase the stated liability by £1.1m. A one year increase in the assumed life expectancy would increase the stated liability by £11.9m. However, the assumptions interact in complex ways. During 2017/18 the council's actuaries advised that the net pension's liability had decreased by £28.4m as a result of the updating of assumptions.
Non current assets - depreciation	Non current assets held on the Balance Sheet have an estimated useful life. This is based the professional judgement of our external valuers.	Depreciation is applied on a straight line basis over the useful life of the asset. Variations to the useful life will alter the amount of depreciation charged to the Comprehensive Income and Expenditure Statement. The impact of this is minimised by a review of the useful life of an asset being undertaken at each valuation.
Provisions	A reliable estimate of sums falling due in future years have been included as year-end provisions, the most significant being in relation to insurance claims and business rate appeals.	Actual settlements could differ from the independent, professionally valued estimate provided for. Where the actual settlement is less unused provisions are released to the Comprehensive Income and Expenditure Statement. Where settlements exceed the provision value earmarked reserve funding is released.
Property, plant, equipment and investment properties	A full valuation of assets held is completed in accordance with the professional standards of the Royal Institution of Chartered Surveyors at least every 5 years. In addition an annual impairment and valuation review is carried out 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 majority of assets held were independently professionally valued in 2017/18 resulting in fluctuations partly due to changes in underlying assumptions in relation to investment property yields being applied

2. Expenditure and Funding Analysis 2017/18

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

		Adjustments between the funding and accounting basis				
2017/18	**Net expenditure chargeable to the General Fund**	**Adjustments for capital purposes (1)**	**Net change for pension adjustments**	**Other adjustments (2)**	**Total**	**Net Expenditure in CIES**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Adults and wellbeing	**52.0**	1.0	1.2	-	**2.2**	**54.2**
Children's wellbeing	**22.4**	6.4	1.1	(2.5)	**5.0**	**27.4**
Economy, communities and corporate	**70.6**	21.6	2.0	(15.9)	**7.7**	**78.3**
Net cost of services	**145.0**	**29.0**	**4.3**	**(18.4)**	**14.9**	**159.9**
Other income and expenditure	**(158.1)**	(36.1)	2.1	18.7	**(15.3)**	**(173.4)**
Total (surplus) / deficit	**(13.1)**	**(7.1)**	**6.4**	**0.3**	**(0.4)**	**(13.5)**
Opening general fund balance as at 1 April 2017	**(52.6)**					
(Surplus) / deficit on general fund	(13.1)					
Closing general fund balance as at 31 March 2018	**(65.7)**					

2. Comparative EFA 2016/17

2016/17	Net expenditure chargeable to the General Fund	Adjustments between the funding and accounting basis: Adjustments for capital purposes (1)	Net change for pension adjustments	Other adjustments (2)	Total	Net Expenditure in CIES
	£m	£m	£m	£m	£m	£m
Adults and wellbeing	**52.2**	0.3	0.5	(1.0)	**(0.2)**	**52.0**
Children's wellbeing	**21.9**	3.6	(0.4)	(1.8)	**1.4**	**23.3**
Economy, communities and corporate	**43.5**	23.9	(4.8)	(8.8)	**10.3**	**53.8**
Net cost of services	**117.6**	**27.8**	**(4.7)**	**(11.6)**	**11.5**	**129.1**
Other income and expenditure	**(134.4)**	(23.1)	7.1	10.0	**(6.0)**	**(140.4)**
Total (surplus) or deficit	**(16.8)**	**4.7**	**2.4**	**(1.6)**	**5.5**	**(11.3)**
Opening general fund balance as at 1 April 2017	**(35.8)**					
(Surplus)/deficit on general fund	(16.8)					
Closing general fund balance as at 31 March 2018	**(52.6)**					

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

2017/18	Depreciation / impairment	REFCUS	MRP	RCCO	Profit/loss on sale	Revaluation of investment assets	Capital grants	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Adults and wellbeing	1.0	-	-	-	-	-	-	**1.0**
Children's wellbeing	6.3	0.1	-	-	-	-	-	**6.4**
Economy, communities and corporate	16.0	5.6	-	-	-	-	-	**21.6**
Net cost of services	**23.3**	**5.7**	**-**	**-**	**-**	**-**	**-**	**29.0**
Other operating expenditure	0.4	-	(8.2)	(0.5)	(1.0)	(0.3)	(26.5)	**(36.1)**
Total	**23.7**	**5.7**	**(8.2)**	**(0.5)**	**(1.0)**	**(0.3)**	**(26.5)**	**(7.1)**

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

2016/17	Depreciation / impairment £m	REFCUS £m	MRP £m	RCCO £m	Profit/loss on sale £m	Revaluation of investment assets £m	Capital grants £m	Total £m
Adults and wellbeing	0.1	0.2	-	-	-	-	-	**0.3**
Children's wellbeing	3.6	-	-	-	-	-	-	**3.6**
Economy, communities and corporate	22.9	1.0	-	-	-	-	-	**23.9**
Net cost of services	**26.6**	**1.2**	**-**	**-**	**-**	**-**	**-**	**27.8**
Other operating expenditure	-	-	(12.0)	(0.8)	2.6	13.5	(26.4)	**(23.1)**
Total	**26.6**	**1.2**	**(12.0)**	**(0.8)**	**2.6**	**13.5**	**(26.4)**	**4.7**

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

2016/17						2017/18			
Total £m	PFI £m	Other £m	Collection fund £m	Short term leave £m		Collection fund £m	Other £m	PFI £m	Total £m
(1.0)	(1.0)	-	-	-	Adults and wellbeing	-	0.9	(0.9)	**-**
(1.8)	(1.8)	-	-	-	Children's wellbeing	-	(0.7)	(1.8)	**(2.5)**
(8.8)	(0.7)	(8.1)	-	-	Economy, communities and corporate	-	(12.3)	(3.6)	**(15.9)**
(11.6)	**(3.5)**	**(8.1)**	**-**	**-**	**Net cost of services**	**-**	**(12.1)**	**(6.3)**	**(18.4)**
10.0	3.5	8.1	(1.9)	0.3	**Other operating expenditure**	0.3	12.1	6.3	**18.7**
(1.6)	**-**	**-**	**(1.9)**	**0.3**	**Total**	**0.3**	**-**	**-**	**0.3**

Material Items of Income and Expense

There were no material items of income and expense included the Comprehensive Income and Expenditure Account for 2017/18.

Events after the Balance Sheet Date

The audited Statement of Accounts was authorised for issue on 30 July 2018 by the Section 151 Officer. Events taking place after this date are not reflected in the financial statements or notes.

3. Movement in Usable Reserves Analysis

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

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

Movement in Usable Reserves 2016/17 Comparative Movements

Comparative 2016/17 Movements	General Fund Revenue £m	Earmarked reserves £m	Revenue Reserves £m	Capital Receipts Reserve £m	Capital Grants Unapplied £m	Total Usable Reserves £m
Opening balance	**(7.3)**	**(28.5)**	**(35.8)**	**(0.5)**	**(1.2)**	**(37.5)**
(Surplus)/deficit on provision of services	(11.3)	-	**(11.3)**	-	-	**(11.3)**
Depreciation	(15.9)	-	**(15.9)**	-	-	**(15.9)**
Impairment	(10.7)	-	**(10.7)**	-	-	**(10.7)**
Net revenue expenditure funded by capital under statute	(1.2)	-	**(1.2)**	-	-	**(1.2)**
Net book value of assets sold	(8.4)	-	**(8.4)**	-	-	**(8.4)**
Capital receipts from assets sold	5.8	-	**5.8**	(5.8)	-	**-**
Net Gains/Losses on Value of Investment Assets	(13.5)	-	**(13.5)**	-	-	**(13.5)**
Adjustments for Council Tax and NDR Receivable	1.9	-	**1.9**	-	-	**1.9**
Short Term Leave Adjustment	(0.3)	-	**(0.3)**	-	-	**(0.3)**
Capital Financed by Receipts	-	-	**-**	2.1	-	**2.1**
Provision for the Redemption of Debt	12.0	-	**12.0**	-	-	**12.0**
Revenue Contribution to Capital Outlay	0.8	-	**0.8**	-	-	**0.8**
Reversal of IAS19 Pension Charges	(2.4)	-	**(2.4)**	-	-	**(2.4)**
Capital grants unapplied	0.8	-	**0.8**	-	(0.8)	**-**
Capital Financed by Grants and Contributions	25.6	-	**25.6**	-	0.4	**26.0**
Transfer to/from reserves	16.2	(16.2)	**-**	-	-	**-**
Total movement	**(0.6)**	**(16.2)**	**(16.8)**	**(3.7)**	**(0.4)**	**(20.9)**
Closing balance	**(7.9)**	**(44.7)**	**(52.6)**	**(4.2)**	**(1.6)**	**(58.4)**

4. Movement in Unusable Reserves Analysis

2017/18 Movements	Short Term Absences Account £m	Capital Adjustment Account £m	Collection Fund Adjustment Account £m	Financial Instruments Adjustment Account £m	Pensions Reserve £m	Revaluation Reserve £m	Deferred Capital Receipts Reserve £m	Total Unusable Reserves £m
Opening balance	**2.5**	**(236.7)**	**(0.8)**	**0.4**	**248.0**	**(70.0)**	**(0.3)**	**(56.9)**
Depreciation	-	18.8	-	-	-	-	-	**18.8**
Impairment	-	4.9	-	-	-	-	-	**4.9**
Net revenue expenditure funded by capital under statute	-	5.7	-	-	-	-	-	**5.7**
Net book value of assets sold	-	4.9	-	-	-	36.6	-	**41.5**
Net Gains/Losses on Value of investment assets	-	(0.3)	-	-	-	-	-	**(0.3)**
Adjustments for Council tax and NDR receivable	-	-	0.3	-	-	-	-	**0.3**
Capital Financed by Receipts	-	(4.1)	-	-	-	-	-	**(4.1)**
Provision for the Redemption of Debt	-	(8.2)	-	-	-	-	-	**(8.2)**
Revenue Contribution to Capital Outlay	-	(0.5)	-	-	-	-	-	**(0.5)**
Reversal of IAS 19 Pensions Charges	-	-	-	-	6.4	-	-	**6.4**
Net movement on Revaluation Reserve	-	-	-	-	-	(93.3)	-	**(93.3)**
Actuarial Gain/Loss on Pensions	-	-	-	-	(28.4)	-	-	**(28.4)**
Capital Financed by Grants and Contributions	-	(25.4)	-	-	-	-	-	**(25.4)**
Depreciation Revaluation Adjustment	-	(2.5)	-	-	-	2.4	-	**(0.1)**
Total movement	**-**	**(6.7)**	**0.3**	**-**	**(22.0)**	**(54.3)**	**-**	**(82.7)**
Total Reserves	**2.5**	**(243.4)**	**(0.5)**	**0.4**	**226.0**	**(124.3)**	**(0.3)**	**(139.6)**

Movement in unusable reserves analysis 2016/17 comparative movements

2016/17 comparative Movements	Short Term Absences Account £m	Capital Adjustment Account £m	Collection Fund Adjustment Account £m	Financial Instruments Adjustment Account £m	Pensions Reserve £m	Revaluation Reserve £m	Deferred Capital Receipts Reserve £m	Total Unusable Reserves £m
Opening balance	**2.2**	**(241.9)**	**1.1**	**0.4**	**205.4**	**(63.1)**	**(0.3)**	**(96.2)**
Depreciation	-	15.9	-	-	-	-	-	**15.9**
Impairment	-	10.7	-	-	-	-	-	**10.7**
Net revenue expenditure funded by capital under statute	-	1.2	-	-	-	-	-	**1.2**
Net book value of assets sold	-	6.0	-	-	-	2.4	-	**8.4**
Net Gains/Losses on Value of investment assets	-	13.5	-	-	-	-	-	**13.5**
Adjustments for Council tax and NDR receivable	-	-	(1.9)	-	-	-	-	**(1.9)**
Short Term Leave Adjustment	0.3	-	-	-	-	-	-	**0.3**
Capital Financed by Receipts	-	(2.1)	-	-	-	-	-	**(2.1)**
Provision for the Redemption of Debt	-	(12.0)	-	-	-	-	-	**(12.0)**
Revenue Contribution to Capital Outlay	-	(0.8)	-	-	-	-	-	**(0.8)**
Reversal of IAS 19 Pensions Charges	-	-	-	-	2.4	-	-	**2.4**
Net movement on Revaluation Reserve	-	-	-	-	-	(10.5)	-	**(10.5)**
Actuarial Gain/Loss on Pensions	-	-	-	-	40.2	-	-	**40.2**
Capital Financed by Grants and Contributions	-	(26.0)	-	-	-	-	-	**(26.0)**
Depreciation Revaluation Adjustment	-	(1.2)	-	-	-	1.2	-	**-**
Total movement	**0.3**	**5.2**	**(1.9)**	**-**	**42.6**	**(6.9)**	**-**	**39.3**
Total Reserves	**2.5**	**(236.7)**	**(0.8)**	**0.4**	**248.0**	**(70.0)**	**(0.3)**	**(56.9)**

5. Transfers (to)/from Earmarked Reserves

This note sets out the amounts set aside from the General Fund balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to the General Fund in 2017/18.

Reserve	1/04/17 £m	Transfer out £m	Transfer in £m	31/03/18 £m
Business Rate smoothing	(3.2)	-	(2.8)	(6.0)
Collection Fund Surplus	-	-	(1.5)	(1.5)
Hereford Enterprise Zone	(0.3)	-	(0.1)	(0.4)
ECC	(0.6)	0.6	-	-
Education Redundancy	-	-	(0.6)	(0.6)
Three Elms Trading Estate	(0.3)	-	(0.1)	(0.4)
Herefordshire Relief Road	(0.3)	0.3	-	-
ICT	(0.8)	-	-	(0.8)
Industrial Estates	(0.4)	-	-	(0.4)
Insurance	(0.3)	-	-	(0.3)
Library Services	(0.4)	0.1	-	(0.3)
Minimum Revenue Provision	-	-	(5.1)	(5.1)
Pensions Risk	-	-	(0.9)	(0.9)
Risk mitigation	(3.6)	-	-	(3.6)
School balances	(7.4)	-	(0.7)	(8.1)
Schools' sickness	(0.4)	-	(0.1)	(0.5)
Settlement monies	(8.0)	-	-	(8.0)
Severe Weather Fund	(1.3)	1.3	-	-
Short Breaks	(0.3)	-	(0.2)	(0.5)
Sparsity Reserve	(4.5)	-	(1.9)	(6.4)
Waste Disposal	(5.8)	0.1	-	(5.7)
Whitecross School PFI	(0.8)	-	(0.2)	(1.0)
Other small reserves	(1.0)	0.3	(0.9)	(1.6)
Unused grants carried forward	(5.0)	0.5	(1.2)	(5.7)
Total	**(44.7)**	**3.2**	**(16.3)**	**(57.8)**

An annual review of the earmarked reserves shown above was reported to Cabinet in June 2018.

6. Nature of Expenses Disclosure

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

2016/17 £m		2017/18 £m
	Income	
(52.7)	Fees, charges and other service income	(53.9)
(2.6)	Trading and investment income	(2.3)
(2.4)	Interest and investment income	(2.6)
(123.3)	Income from council tax and non-domestic rates	(129.7)
(202.2)	Government grants and contributions	(197.5)
-	Gains on disposal of non-current assets	(1.0)
(383.2)	**Total Income**	**(387.0)**
	Expenditure	
96.7	Employee benefits expenses	100.0
203.6	Other service expenses	216.1
4.9	Support service recharges (net)	4.7
2.6	Loss on disposal of non-current assets	-
25.8	REFCUS, depreciation, amortisation and impairment	41.0
26.4	Trading and investment expenditure	(8.0)
8.1	Interest Expenditure	15.7
3.8	Precepts and levies	4.0
371.9	**Total Expenditure**	**373.5**
(11.3)	**(Surplus) or Deficit on the Provision of Services**	**(13.5)**

Following the reporting requirements stipulated by the Code on accounting for schools, the local authority single entity financial statements include an analysis of the income and expenditure of the authority's maintained schools as if it were the expenditure of the authority. Voluntary aided (VA) and Trust school employees are not the employees of the authority but, as indicated above, are required to be consolidated into the single entity financial statements of the local authority (i.e. as employee expenditure). The total of employee expenses in respect of VA and Trust schools was £17.6m in 2017/18 (£17.7m in 2016/17)

7. Other Operating Expenditure

2016/17 £m		2017/18 £m
3.6	Parish Council precepts	3.8
0.2	Levies	0.2
2.6	(Gains)/losses on the disposal of non-current assets	(1.1)
6.4	**Total**	**2.9**

8. Financing and Investment Income and Expenditure

2016/17 £m		2017/18 £m
8.1	Interest payable and similar charges	9.7
7.1	Pensions net interest and admin charge	6.1
(2.3)	Interest receivable	(2.3)
20.0	Income and expenditure in relation to trading accounts/investment properties and changes to their fair value	(10.4)
(0.1)	Other investment income	(0.3)
32.8		**2.8**

The significant movement in financing and investment income and expenditure is due to the impact of the revaluation of investment assets, following a valuation decrease in 2016/17, a valuation increase in 2017/18.

9. Taxation and Non Specific Grant Income

2016/17 £m		2017/18 £m
(92.8)	Council tax income	(97.5)
(30.5)	Non domestic rates	(32.2)
(29.9)	Non-ring fenced government grants	(22.9)
(26.4)	Capital grants and contribution	(26.5)
(179.6)		**(179.1)**

10. Property, Plant and Equipment

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

Cost 2016/17	Land & Buildings	Intangibles	Vehicles, Plant, Furniture & Equipment	Investment Assets	Infrastructure Assets	Community Assets	Surplus assets	Assets Under Construction & WIP	Heritage Assets	Assets Held for Sale	Total Property, Plant & Equipment	PFI assets included in PPE
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Opening balance at 1 April 2016	301.2	2.9	6.8	40.6	261.5	2.6	0.7	5.0	2.8	6.3	**630.4**	**15.2**
Additions	38.9	-	1.9	0.1	23.8	-	-	3.7	-	-	**68.4**	**33.5**
Disposals	(4.8)	-	-	(0.5)	-	-	(0.3)	-	-	(4.2)	**(9.8)**	**-**
Impairment losses	(4.2)	-	-	(18.7)	-	-	(0.2)	-	-	(0.5)	**(23.6)**	**-**
Revaluation	10.1	-	-	-	-	-	0.3	-	0.4	-	**10.8**	**-**
Other movements	(8.3)	-	-	-	-	-	0.1	-	-	-	**(8.2)**	**-**
At 31 March 2017	**332.9**	**2.9**	**8.7**	**21.5**	**285.3**	**2.6**	**0.6**	**8.7**	**3.2**	**1.6**	**668.0**	**48.7**
Depreciation/ Amortisation												
Opening balance at 1 April 2016	(30.5)	(2.1)	(2.4)	-	(51.4)	-	-	-	-	-	**(86.4)**	**(2.6)**
Adjustment	(0.2)	0.1	0.1	-	-	-	-	-	-	-	**-**	**-**
Charge for the year	(6.2)	(0.1)	(0.3)	-	(9.3)	-	-	-	-	-	**(15.9)**	**-**
Disposals	0.3	-	-	-	-	-	-	-	-	-	**0.3**	**-**
Impairment depreciation	0.1	-	-	-	-	-	-	-	-	-	**0.1**	**-**
Other movements	8.6	-	-	-	-	-	-	-	-	-	**8.6**	**-**
At 31 March 2017	**(27.9)**	**(2.1)**	**(2.6)**	**-**	**(60.7)**	**-**	**-**	**-**	**-**	**-**	**(93.3)**	**(2.6)**
Carrying amount at March 2017	**305.0**	**0.8**	**6.1**	**21.5**	**224.6**	**2.6**	**0.6**	**8.7**	**3.2**	**1.6**	**574.7**	**46.1**
Opening carrying amount at 1 April 2016	**270.7**	**0.8**	**4.4**	**40.6**	**210.1**	**2.6**	**0.7**	**5.0**	**2.8**	**6.3**	**544.0**	**12.6**

Depreciation

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

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

Analysis of Capital Charges to Directorates

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

	Depreciation £m	Impairments & downwards revaluations £m	Total 2017/18 £m
Adults and Wellbeing	0.2	0.8	1.0
Children's Wellbeing	4.4	2.0	6.4
Economy, Communities and Corporate	14.2	1.8	16.0
Total	**18.8**	**4.6**	**23.4**

Capital Commitments

At 31 March 2018 the council did not have major capital commitments (31 March 2017 £0).

Revaluations

The council carries out a rolling programme that ensures all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. More frequent valuations are carried out if the rolling programme is insufficient to keep pace with material changes in value. Wilkes, Head and Eve LLP completed all valuations in 17/18. Valuations of land and buildings are carried out in accordance with the methodologies and bases for estimation as set out in the professional standards of the Royal Institution of Chartered Surveyors. Valuations of vehicle, plant and equipment are based on depreciated costs as a proxy for fair value.

Of the land and buildings held at 31 March, £395.6m (includes community assets not valued), the effective date of revaluations are as follows:

Valued as at:	Land and Buildings £m
31 March 2018	339.1
31 March 2017	14.4
31 March 2016	14.7
31 March 2015	23.0
31 March 2014	2.0
Total	**393.2**

Schools

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

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

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

Investment Properties

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

2016/17 £m		2017/18 £m
(2.5)	Rental income from investment property	(2.3)
0.5	Direct operating expenses arising from investment property	0.2
(2.0)	**Total**	**(2.1)**

Details of the council's investment properties and information about the fair value hierarchy as at March 2017 and March 2018 are as follows (fair value method disclosed in accounting policies note 1):

Recurring fair value measurements using:	Other significant observable inputs Level2 £m
Investment properties as at 31 March 2017	21.6
Investment properties as at 31 March 2018	34.6

11. Financial Instruments

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

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

Financial Assets

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

2016/17			2017/18	
Per Balance Sheet £m	Financial Instruments £m		Per Balance Sheet £m	Financial Instruments £m
		Long term debtors		
36.7	36.7	Loans	37.0	37.0
1.9	1.9	Sales invoices and contractual rights	-	-
2.1	-	PFI lifecycle costs	2.3	-
40.7	**38.6**	**Total**	**39.3**	**37.0**
		Investments		
-	-	Short term investments	5.0	5.0
6.2	6.2	Cash and cash equivalents	12.8	12.8
6.2	**6.2**	**Total**	**17.8**	**17.8**
		Short term debtors		
16.0	16.0	Sales invoices and contractual rights	21.0	21.0
7.0	-	Statutory debts (council tax, VAT etc.)	8.5	-
2.3	-	Prepayments	1.4	-
(3.6)	-	Bad debt provisions	(4.7)	-
-	-	Loans	-	-
21.7	**16.0**	**Total**	**26.2**	**21.0**

Financial Liabilities

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

2016/17			2017/18	
Per Balance Sheet £m	**Financial Instruments £m**		**Per Balance Sheet £m**	**Financial Instruments £m**
3.2	3.2	Cash and cash equivalents	0.4	0.4
3.2	**3.2**	**Total**	**0.4**	**0.4**
		Short term borrowing		
0.1	0.1	Bank loans	0.2	0.2
6.4	6.4	Public Works Loan Board	6.6	6.6
28.0	28.0	Borrowing from other local authorities	5.0	5.0
34.5	**34.5**	**Total**	**11.8**	**11.8**
		Short term creditors		
15.9	15.9	Invoiced amounts and other contractual liabilities	16.3	16.3
7.0	-	Statutory liabilities (PAYE etc.)	7.3	-
9.0	2.5	Accruals and receipts in advance	9.4	2.4
0.3	-	Funds and deposits held	0.2	-
32.2	**18.4**	**Total**	**33.2**	**18.7**
		Long term borrowing		
12.5	12.5	Bank loans	12.5	12.5
131.0	131.0	Public Works Loan Board	125.5	125.5
143.5	**143.5**	**Total**	**138.0**	**138.0**
		Other long term liabilities		
57.7	57.7	PFI liabilities and finance leases	55.6	55.6
248.1	-	Pensions liability	226.0	-
305.8	**57.7**		**281.6**	**55.6**

Income, Expense, Gains and Losses

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

2016/17				2017/18		
Financial Liabilities at amortised cost	**Financial assets: Loans and receivables**	**Total**		**Financial Liabilities at amortised cost**	**Financial assets: Loans and receivables**	**Total**
£m	**£m**	**£m**		**£m**	**£m**	**£m**
			Interest payable and similar charges			
			Interest expense relating to:			
6.1	-	6.1	Loans	5.8	-	5.8
-	-	-	Finance Leases	0.1	-	0.1
2.0	-	2.0	PFI liabilities	3.8	-	3.8
8.1	**-**	**8.1**	**Total expense in surplus on the provision of services**	**9.7**	**-**	**9.7**
			Interest receivable:			
-	(2.3)	(2.3)	On loans	-	(2.1)	(2.1)
-	**(2.3)**	**(2.3)**	**Total income in surplus on the provision of services**	**-**	**(2.1)**	**(2.1)**
8.1	**(2.3)**	**5.8**	**Net loss/(gain) for the year**	**9.7**	**(2.1)**	**7.6**

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 then the fair value is obtained from reference to published price quotations. Where no active market exists a valuation technique is used. The fair value has been assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

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

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

31 March 2017				31 March 2018		
Carrying Amount £m	Fair Value (using premature repayment rate) £m	Fair Value (using new loan rate) £m		Carrying Amount £m	Fair Value (using premature repayment rate) £m	Fair Value (using new loan rate) £m
177.9	242.8	215.4	Total borrowing	149.7	210.1	183.7

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 £55.3m and the fair value as at 31 March 2017 totals £76.1m. The statements have not been adjusted for this as the PFI schemes are set to continue until expiry.

31 March 2017				31 March 2018		
Carrying Amount £m	Fair Value (using premature repayment rate) £m	Fair Value (using new loan rate) £m		Carrying Amount £m	Fair Value (using premature repayment rate) £m	Fair Value (using new loan rate) £m
			Financial Assets			
40.7	40.7	40.7	Long term debtors	39.3	39.3	39.3
-	-	-	Short term investments	5.0	5.0	5.0
6.2	6.2	6.2	Cash and cash equivalents	14.4	14.4	14.4
21.7	21.7	21.7	Short term debtors	24.6	24.6	24.6
68.6	**68.6**	**68.6**	**Total Financial Assets**	**83.3**	**83.3**	**83.3**
			Financial Liabilities			
137.4	192.3	168.7	Public Works Loan Board	132.1	182.8	160.6
12.5	22.4	18.6	Bank loans (LOBOs)	12.5	22.2	18.1
28.0	28.0	28.0	Loans from other local authorities	5.0	5.0	5.0
32.2	32.2	32.2	Short term creditors	33.2	33.2	33.2
57.7	63.4	63.4	PFI liabilities and finance leases	55.6	77.1	77.1
267.8	**338.3**	**310.9**	**Total Financial Liabilities**	**238.4**	**320.3**	**294.0**

31 March 2017 £m	Recurring fair value measurements	Input level in fair value hierarchy	Valuation technique used to measure fair value	31 March 2018 £m
	Assets			
35.8	Long term debtor - Mercia Waste Management Loan	2	Discount contractual cash flows at the market rate for a similar instrument of the same remaining term with a counterparty of similar credit standing	36.0
2.9	Long term debtor - Other	3	Valued at amortised cost due to absence of comparable evidence or principal market	1.0
2.0	PFI lifecycle costs	2	Discount contractual cash flows of the remaining term	2.3
40.7	**Subtotal long-term debtors**			**39.3**
27.8	Other – short term	N/A	Fair value disclosure is not required for short term investments, short-term debtors or cash	44.0
68.5	**Total Assets**			**83.3**
	Liabilities			
168.7	PWLB and other debt	2	Discount contractual cash flows at the market rate for LA loans of the same remaining term	160.6
18.6	LOBO	2	Discount contractual cash flows at the market rate for LA loans of the same remaining term and add the value of the lenders' option from a market option pricing model	18.1
63.4	PFI Scheme Liabilities and Finance Lease Payables	2	Discount contractual cash flows of the remaining term	77.1
60.2	Other including Short Term Loans	N/A	Fair value disclosure is not required for short term liabilities that are held on the balance sheet at amortised cost	38.2
310.9	**Total Liabilities**			**294.0**

Other including short term loans comparative updated to reflect all other balances.

Where the carrying amount is the same as the fair value the figures reported are not based on valuation due to being not significantly different.

12. Debtors

31 March 2017 £m		31 March 2018 £m
4.4	Central government bodies	6.0
0.8	Other local authorities	2.3
1.4	NHS bodies	1.6
15.1	Other entities and individuals	14.7
21.7	**Total**	**24.6**

13. Cash and Cash Equivalents

31 March 2017 £m		31 March 2018 £m
3.2	Cash held by the council	5.3
3.0	Short term deposits	9.1
6.2	**Total**	**14.4**
(3.2)	Bank current accounts	(0.4)
3.0	**Total Cash and Cash Equivalents**	**14.0**

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

2016/17 £m		2017/18 £m
-	Net movement in Inventories	(0.1)
10.2	Net movement in Debtors	1.5
(2.9)	Net movement in Creditors	(1.1)
(26.6)	Depreciation, amortisation and impairment of non-current assets	(23.7)
(8.4)	Net Gain/Loss on sale of non-current assets (net book value of assets)	(41.5)
(2.4)	Net charges made for retirement benefits in accordance with IAS19	(6.4)
(13.5)	Movement in the market value of Investment Properties	0.3
-	Net movement in Provisions	(0.5)
(43.6)	**Total**	**(71.5)**

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

2016/17 £m		2017/18 £m
5.8	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	42.5
5.8	**Total**	**42.5**

16. Investing Activities

2016/17 £m		2017/18 £m
34.8	Purchase of property, plant and equipment, investment property and intangible assets	39.8
(5.8)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(42.5)
(2.2)	Other receipts from investing activities	3.7
26.8	**Total**	**1.0**

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

17. Financing Activities

2016/17 £m		2017/18 £m
(58.0)	Cash receipts of short term and long term borrowing	(10.0)
1.3	Cash payments for the reduction of the outstanding liability relating to finance leases and on-balance sheet PFI contracts	2.2
78.2	Repayments of short and long term borrowing	38.3
21.5	**Total**	**30.5**

18. Creditors

31 March 2017 £m		31 March 2018 £m
(7.7)	Central government bodies	(7.7)
(1.3)	Other local authorities	(2.2)
(0.6)	NHS bodies	(1.2)
(22.6)	Other entities and individuals	(22.1)
(32.2)	**Total**	**(33.2)**

19. Provisions

The movement on provisions from 1 April 2016 to 31 March 2018 is set out below:

	Long term £m	Short term £m	Total £m
Balance at 1 April 2016	**(4.9)**	**(0.8)**	**(5.7)**
Additional provisions made in 2016/17	-	(1.9)	(1.9)
Amounts used in 2016/17	0.4	0.6	1.0
Unused amounts reversed in 2016/17	1.0	-	1.0
Balance at 31 March 2017	**(3.5)**	**(2.1)**	**(5.6)**
Additional provisions made in 2017/18	(0.1)	(1.0)	(1.1)
Amounts used in 2017/18	-	0.6	0.6
Unused amounts reversed in 2017/18	-	-	-
Balance at 31 March 2018	**(3.6)**	**(2.5)**	**(6.1)**

The provisions held at 31 March 2018 are:

31/03/17 £m	Provision Name	Description	Additional Provisions £m	Amounts Used £m	Unused Amounts Reversed £m	31/03/18 £m
(0.1)	Redundancy	Based on the number of planned redundancies and staff identified at risk of redundancy at 31 March 2018	-	-	-	(0.1)
(2.0)	Insurance	For potential future insurance claims based on external professional assessment	-	-	-	(2.0)
(0.1)	Special Schools	For high needs top-up funding from special schools, PRUs and home hospital service	-	0.1	-	-
-	Provisions for children's services	Expected payments relating to children for schools, high needs and early years funding	(0.8)	-	-	(0.8)
(3.4)	NNDR Appeals	For future lodged and unlodged appeals against rating valuations.	(0.3)	0.5	-	(3.2)
(5.6)		**Total**	**(1.1)**	**0.6**	**-**	**(6.1)**

20. Pensions Reserve

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

2016/17 £m		2017/18 £m
205.4	**Balance at 1 April**	**248.0**
40.2	Re-measurement of the net defined benefit liability	(28.4)
16.7	Reversal of items relating to retirement benefits debited or credited to the (Surplus) / Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	20.1
(14.3)	Employer's pension contributions and direct payments to pensioners payable in the year	(13.7)
248.0	**Balance at 31 March**	**226.0**
247.0	Local Government pension scheme	225.1
1.0	Teachers	0.9
248.0	**Balance at 31 March**	**226.0**

21. Trading Operations

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

2016/17 £m		2017/18 £m
	Markets The council owns and manages open and closed markets, generating income from letting of premises and market stalls	
(0.6)	Turnover	(0.5)
0.1	Asset revaluation movement	(1.0)
0.2	Expenditure	0.2
(0.3)	**(Surplus)/deficit**	**(1.3)**
	Industrial Estates The council owns and manages a number of industrial estates in the county	
(1.4)	Turnover	(1.3)
1.4	Asset revaluation movement	(5.4)
0.3	Expenditure	-
0.3	**(Surplus)/deficit**	**(6.7)**
	Retail Properties The council owns retail premises in Hereford city centre from which it receives commercial rents	
(0.5)	Turnover	(0.5)
3.8	Asset revaluation movement	(2.3)
-	Expenditure	-
3.3	**(Surplus)/deficit**	**(2.8)**
3.3	**Total**	**(10.8)**

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

22. Agency Services

During 2017/18 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 2017/18 spend included £2.2m (2016/17 £2.6m) in the Gloucestershire area that is not shown in the council accounts as this spend is incurred under an agency arrangement.

During 2017/18 Herefordshire Council acted as in intermediary in the pass through of Department of Education grant funding towards the establishment of a new Hereford University – the new model in technology & engineering, NMiTE. This totalled £4.8m and is not included in the council's accounts as the council is acting as an agent only.

23. Pooled Budgets

The council has three pooled budgets for 2017/18, the pooled budget arrangement for the Better Care Fund, the pooled budget for services for children, and the pooled budget for the Integrated Community Equipment Store. All of the pooled budgets are covered by a section 75 agreement.

Better Care Fund

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

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

The Department of Health sets national minimum contributions to the pool for both revenue and capital and specifies that certain funding streams must be included within the minimum fund. Partners are permitted, and encouraged, to pool more than the minimum requirement. The Better Care Fund in Herefordshire has four components as additional funds from each partner were included in the pool, as well as the Improved Better Care Fund.

Minimum Revenue Pool

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

2016/17 £m		2017/18 £m
	Funding provided to the pooled budget	
-	Herefordshire Council	-
(11.7)	Herefordshire CCG	(12.0)
(11.7)	**Total funding**	**(12.0)**
	Expenditure met from the pooled budget	
5.0	Herefordshire Council	4.4
6.7	Herefordshire CCG	6.7
11.7	**Total expenditure**	**11.1**
-	**Net (surplus) arising**	**(0.9)**
-	**Herefordshire Council share of (surplus)**	**(0.9)**

Capital Pool

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

2016/17 £m		2017/18 £m
	Funding provided to the pooled budget	
(1.6)	Herefordshire Council	(1.9)
-	Herefordshire CCG	-
(1.6)	**Total funding**	**(1.9)**
	Expenditure met from the pooled budget	
1.6	Herefordshire Council	1.9
-	Herefordshire CCG	-
1.6	**Total expenditure**	**1.9**
-	**Net (surplus) / deficit arising**	**-**
-	**Herefordshire Council share of (surplus) / deficit**	**-**

Additional Revenue Pool

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

2016/17 £m		2017/18 £m
	Funding provided to the pooled budget	
(19.4)	Herefordshire Council	(20.1)
(9.3)	Herefordshire CCG	(8.6)
(28.7)	**Total funding**	**(28.7)**
	Expenditure met from the pooled budget	
20.7	Herefordshire Council	21.1
9.6	Herefordshire CCG	8.9
30.3	**Total expenditure**	**30.0**
1.6	**Net deficit arising**	**1.3**
1.3	**Herefordshire Council share of deficit**	**1.0**

Improved Better Care Fund

The Government's Spending Review in 2015 announced new money for the BCF; and the Spring Budget 2017 subsequently increased this funding. 2017/18 represents the first year in which the new funding has been received. The Government requires that this additional Improved Better Care Fund funding for adult social care in 2017-19 is pooled into the local BCF.

The funding is paid directly to Local Authorities as a direct grant under Section 31 of the Local Government Act 2003 for adult social care. Grants paid to a local authority under this determination may be used only for the purposes of meeting adult social care needs; reducing pressures on the NHS, including supporting more people to be discharged from hospital when they are ready; and ensuring that the local social care provider market is supported.

A recipient local authority must:

a) pool the grant funding into the local Better Care Fund, unless an area has written Ministerial exemption;

b) work with the relevant Clinical Commissioning Group and providers to meet national condition four (Managing Transfers of Care) in the Integration and Better Care Fund Policy Framework and Planning Requirements 2017-19; and

c) provide quarterly reports as required by the Secretary of State.

2016/17 £m		2017/18 £m
	Funding provided to the pooled budget	
-	Herefordshire Council	(3.6)
-	Herefordshire CCG	-
-	**Total funding**	**(3.6)**
	Expenditure met from the pooled budget	
-	Herefordshire Council	3.6
-	Herefordshire CCG	-
-	**Total expenditure**	**3.6**
-	**Net (surplus) / deficit arising**	**-**
-	**Herefordshire Council share of (surplus) / deficit**	**-**

Children's Services

Herefordshire Council has entered into a pooled budget agreement with Herefordshire Clinical Commissioning Group to provide provision for children and young people with complex educational, social and medical needs. The agreement pools spending in agreed proportion. The pool comprises funding for the Joint Children's Commissioning Manger, joint funding of support for children with complex health, care, or educational needs, joint contributions for Children's safeguarding and funding for short breaks for respite.

2016/17 £m		2017/18 £m
	Funding provided to the pooled budget	
(3.6)	Herefordshire Council	(3.6)
(0.6)	Herefordshire CCG	(0.6)
(4.2)	**Total funding**	**(4.2)**
	Expenditure met from the pooled budget	
3.1	Herefordshire Council	3.3
0.5	Herefordshire CCG	0.5
3.6	**Total expenditure**	**3.8**
(0.6)	**Net (surplus) / deficit on the pooled budget during the year**	**(0.4)**
(0.5)	**Herefordshire Council share of net (surplus) / deficit**	**(0.3)**

Integrated Community Equipment Store

Herefordshire Council and Herefordshire Clinical Commissioning Group are required to provide an integrated service for provision of community equipment. Both partners have entered into a joint contract for provision of community equipment with an agreed split of the costs of equipment.

2016/17 £m		2017/18 £m
	Funding provided to the pooled budget	
(0.7)	Herefordshire Council	(0.4)
(0.5)	Herefordshire CCG	(0.7)
(1.2)	Total funding	**(1.1)**
	Expenditure met from the pooled budget	
0.4	Herefordshire Council	0.4
0.6	Herefordshire CCG	0.7
1.0	**Total expenditure**	**1.1**
(0.2)	**Net (surplus) / deficit on the pooled budget during the year**	-
(0.3)	**Council share of net (surplus) / deficit**	**-**

24. Officers' Remuneration

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

The 2017/18 salary banding information is set out below. Employees receiving remuneration for the year (excluding employer's pension contributions) were paid the following amounts per pay band. These numbers include the employees shown in the senior employees disclosure note. Where no employees fell within a particular band the band is not shown in the table.

2016/17			Remuneration Band	2017/18		
Non-school	**School**	**Total**		**Non-school**	**School**	**Total**
12	24	36	£50,000 - £55,000	14	21	35
7	17	24	£55,001 - £60,000	8	20	28
6	9	15	£60,001 - £65,000	4	6	10
2	5	7	£65,001 - £70,000	2	6	8
3	3	6	£70,001 - £75,000	3	4	7
2	3	5	£75,001 - £80,000	2	2	4
2	1	3	£80,001 - £85,000	3	2	5
1	1	2	£85,001 - £90,000	2	-	2
-	-	-	£90,001 - £95,000	-	-	-
-	1	1	£95,001- £100,000	1	-	1
1	-	1	£100,001 - £105,000	-	-	-
1	-	1	£105,001 - £110,000	-	-	-
-	-	-	£110,001 - £115,000	2	1	3
1	-	1	£115,001 - £120,000	-	-	-
1	-	1	£120,001 - £125,000	1	-	1
-	-	-	£125,001 - £130,000	1	1	2
-	-	-	£140,001 - £145,000	-	-	-
1	-	1	£145,001 - £150,000	1	-	1
40	**64**	**104**		**44**	**63**	**107**

The total number of employees at 31 March 2018 was 1,220 non-school staff (1,437 at March 2017) and 2,239 schools' staff (2,302 at March 2017).

Post		Salary, Fees & Allowances £000s	Compensation for loss of office £000s	Benefits in kind £000s	Pension contributions £000s	Total £000s
Chief Executive	2017/18	147	-	-	23	170
	2016/17	145	-	-	24	169
Director for Economy, Communities and Corporate	2017/18	121	-	-	19	140
	2016/17	120	-	1	20	141
Director for Children's Wellbeing	2017/18	113	-	-	18	131
	2016/17	109	-	-	18	127
Chief Finance Officer/ Section 151 Officer	2017/18	99	-	-	16	115
	2016/17	46	-	-	8	54
Director for Adults and Wellbeing	2017/18	121	-	-	19	140
	2016/17	120	-	-	20	140
Solicitor for the Council (Monitoring Officer)	2017/18	70	-	-	11	81
	2016/17	66	-	-	11	77

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

During 2017/18 the Director of Public Health statutory responsibilities were delivered by Shropshire Council through an interim shared services arrangement.

The Director for Economy, Communities and Corporate is also an unpaid Director of Hoople Limited.

25. Termination Benefits

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

In addition, the total cost of actuarial strain relating to 2017/18 terminations was £0.2m (£0.4m in 2016/17). The total amount of actuarial strain paid to Worcestershire County Council in 207/18 was £0.2m (£0.5m in 2016/17).

Exit package cost band (including special payments	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18
	Number of compulsory redundancies		Number of other agreed departures		Total number of exit packages by cost band		Total cost of exit packages in each band	
							£000s	£000s
£0 - £20,000	10	7	28	31	38	38	232.7	172.8
£20,001 - £40,000	-	1	3	5	3	6	103.2	153.4
Total	**10**	**8**	**32**	**36**	**41**	**44**	**335.9**	**326.2**

26. External Audit Costs

The council incurred the following fees relating to external audit.

2016/17 £m		2017/18 £m
0.1	Fees payable with regard to external audit services carried out by the appointed auditor	0.1
0.1	**Total**	**0.1**

In addition to the audit fee payable grant certification fees (£6k) and non-audit service fees (£12k) have been incurred, these are disclosed in the audit findings report.

27. Dedicated Schools Grant

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

Details of the deployment of Dedicated Schools Grant (DSG) receivable for 2017/18 are as follows:

Total 2016/17		Central Expenditure 2017/18	Individual Schools Budget 2017/18	Total 2017/18
£m		**£m**	**£m**	**£m**
116.6	Final DSG allocation before academy recoupment	-	-	**120.0**
(42.5)	Less academy figure recouped	-	-	**(43.3)**
74.1	**Total DSG after academy recoupment for the year**	**-**	**-**	**76.7**
1.6	Brought forward from previous year	-	-	**1.8**
(1.6)	Less carry forward to following year agreed in advance	-	-	**(1.8)**
74.1	**Agreed budgeted distribution in the year**	**10.7**	**66.0**	**76.7**
(9.9)	Less: Actual central expenditure	(10.8)	-	**(10.8)**
(64.0)	Less: Actual Individual Schools Budget deployed to schools	-	(65.6)	**(65.6)**
0.2	**Add: Surplus 2017/18**	**(0.1)**	**0.4**	**0.3**
1.8	**Carried forward to following year**			**2.1**

A total DSG carry forward of £2.1m existed at 31 March 2018 being the carry forward to the following year agreed in advance of £1.8m plus the in-year under/overspend of £0.3m shown above.

28. Grant Income

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

2016/17 £m		2017/18 £m
	Credited to Taxation and Non Specific Grant Income	
17.5	Revenue Support Grant	10.1
12.4	Other non-ring fenced grants	12.8
92.8	Council Tax income	97.5
30.5	Business rates income	32.2
26.4	Capital grants	26.5
179.6	**Credited to Taxation and Non Specific Grant Income**	**179.1**
	Credited to Services	
79.9	Department for Education	81.5
4.6	Ministry for Housing, Communities and Local Government	8.4
48.4	Department for Work and Pensions	45.9
1.2	Department for Transport	0.3
0.7	Department for Culture, Media and Sport	0.8
0.1	Department for Environment, Food and Rural Affairs	0.1
10.3	Department of Health	10.2
30.3	Other grants and contributions	22.6
175.5	**Credited to Services**	**169.8**
355.1	**Total**	**348.9**

29. Related Parties

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

Central Government

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

Members

Members of the Council have direct control over the council's financial and operating policies. There are a number of Councillors who serve on outside bodies and school governing bodies either as a representative of the council or as a private individual. Details of these interests are recorded in the Register of Members' interests, which are updated annually. An examination of the Register indicates that the council's financial transactions with these bodies in 2017/18 are not material. One member was the employee of a care service provider to which the council made payments in the year of £0.6m.

Officers

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

Other Public Bodies

During the year the council made payments of £27.6m to Worcestershire County Council (£26.7m in 2016/17), including payments to the pension fund and for the joint waste disposal contract. Payments to the CCG in 2017/18 totalled £0.8m (£1.2m in 2016/17). A total of £3.0m was paid to Wye Valley NHS Trust (£4.0m in 2016/17) and £0.8m to 2Gether (£1.0m in 2016/17).

Significant long term contracts

The council awarded the public realm services contract to Balfour Beatty Living Places on 1 September 2013. The contracted services include highways maintenance and improvement, street lighting, traffic signals, street cleaning, parks and public rights of way, fleet maintenance and professional consultancy services. The council paid £31.5m to Balfour Beatty in 2017/18 (£25.9m in 2016/17).

FOCSA Services (UK) Limited

In 2009 the council entered into a 7 year contract with FOCSA for the collection of household, recycling and commercial waste. The value of the contract over 7 years is around £30.5m. Payments to FOCSA Services (UK) Limited totalled £3.9m in 2017/18 (£3.8m in 2016/17).

Other organisations

The council pays a management fee to Halo Leisure Trust for the provision of leisure facilities, including swimming pools and leisure centres. In 2017/18 the council paid £0.2m to Halo Leisure Trust (£0.4m in 2016/17).

During the year the council made payments totalling £0.2m to Herefordshire Housing Limited (£0.5m in 2016/17).

West Mercia Energy (WME) operates as a joint arrangement between Herefordshire, Shropshire, Worcestershire and Telford and Wrekin Councils Payments of £1.3m were made in 2017/18 to WME (£1.3m in 2016/17).

Subsidiary group undertaking

Hoople Limited is a company created in April 2011 to deliver business support services to clients across the public and private sector. During the review period Hoople Limited was wholly owned by Herefordshire Council and Wye Valley NHS Trust. Herefordshire Council is the majority shareholder and included in this statement of accounts is a statement of group accounts section that reports the performance of the group for 2017/18.

30. Capital Expenditure and Capital Financing

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

2016/17 £m		2017/18 £m
264.9	**Opening capital financing requirement**	**305.8**
	Capital investment	
68.3	Property, Plant and Equipment	38.0
0.1	Investment Properties	1.8
5.7	Revenue expenditure funded from capital under statute	9.3
0.1	Assets acquired under PFI contracts	0.3
11.4	Long term debtors (including loans and PFI prepayments)	-
	Sources of finance	
(2.1)	Capital receipts	(4.2)
(30.1)	Government grants and other contributions	(29.0)
	Sums set aside from revenue	
(0.5)	Direct revenue contributions	(0.2)
(12.0)	Minimum Revenue Provision (MRP)	(8.2)
305.8	**Closing capital financing requirement**	**313.6**
	Explanation of movements in year	
19.6	Increase in underlying need to borrow	15.7
0.1	Assets acquired under PFI contracts	0.3
(12.0)	Minimum Revenue Provision (MRP)	(8.2)
7.7	**Credited to Services**	**7.8**

31. Leases

Council as Lessee

Finance Leases

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

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

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2017/18 £0.1m contingent rents were payable by the council (£0.1m in 2016/17).

Council as Lessor

Finance Leases

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

Operating leases

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

- Retail
- Industrial Use
- Farming
- Other Commercial Use

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

	Amounts Payable						Amounts Receivable	
	Minimum Lease Payments		Finance Lease Liabilities		Operating Leases		Operating Leases	
	2017/18 £m	2016/17 £m	2017/18 £m	2016/17 £m	2017/18 £m	2016/17 £m	2017/18 £m	2016/17 £m
Payable/receivable in the year	-	-	-	-	0.7	0.7	-	-
Not later than one year	-	-	-	-	0.5	0.6	1.4	1.4
Later than one year and not later than five years	0.1	0.1	-	-	0.9	1.3	4.5	4.1
Later than five years	1.7	1.7	0.3	0.3	0.3	0.5	36.0	34.0
Total due in future years	**1.8**	**1.8**	**0.3**	**0.3**	**2.4**	**3.1**	**41.9**	**39.5**

32. Private Finance Initiatives and Similar Contracts

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

Mercia Waste Management Limited – Waste Management PFI contract

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

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

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

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

Stepnell Limited – School PFI Contract

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

Shaw Homes

The council has a contract with Shaw Healthcare for the development and provision of residential homes and day care centres previously operated directly by the council. The contract expires in 2033/34 for all homes. The level of payments are dependent on the volume and nature of service elements and Shaw Healthcare's performance in providing services. The payments in respect of this contract were £3.7m in 2017/18 (£3.8m in 2016/17).

Assets

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

	Land & Buildings £m	Equipment £m	Total £m
Balance at 1 April 2017	44.8	1.3	**46.1**
Additions	0.2	0.1	**0.3**
Revaluations	(4.8)	-	**(4.8)**
Depreciation	(0.9)	(0.6)	**(1.5)**
Balance at 31 March 2018	**39.2**	**0.8**	**40.0**

Liabilities

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

2016/17		2017/18			
Total		Shaw Healthcare	Whitecross School	Waste Disposal	Total
£m		£m	£m	£m	£m
25.3	Balance outstanding at start of year	7.6	13.3	36.5	**57.4**
(1.3)	Payments during the year	(0.3)	(0.5)	(1.5)	**(2.3)**
33.4	Capital expenditure in the year	-	-	0.2	**0.2**
57.4	**Balance outstanding at year end**	**7.3**	**12.8**	**35.2**	**55.3**

Payments

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

	Service Charges	Lifecycle Costs	Finance Liability	Interest & Similar	Total
	£m	£m	£m	£m	£m
Within 1 year	10.6	0.3	2.6	3.8	**17.3**
Within 2 to 5 years	45.3	1.5	12.8	13.6	**73.2**
Within 6 to 10 years	20.7	2.1	33.0	7.6	**63.4**
Within 11 to 15 years	24.9	1.9	7.7	3.1	**37.6**
Within 16 to 20 years	5.5	0.1	0.9	0.9	**7.4**
Balance outstanding at year end	**107.0**	**5.9**	**57.0**	**29.0**	**198.9**

The PFI future year commitments total of £198.9m shown above includes inflation assumptions, without inflation the future year commitments would be £50.4m lower.

33. Capitalisation of Borrowing Costs

The council has a policy of capitalising borrowing costs on relevant projects i.e. where schemes lasting more than 12 months and with at least £10k of interest associated with the project. In 2017/18 no borrowing costs were capitalised (2016/17 £-).

34. Pension Schemes accounted for as Defined Contribution Schemes

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

In 2017/18 the council paid employer contributions of £4.5m (2016/17 £4.5m) in respect of teachers' pension costs. In addition, the council is responsible for all pension payments relating to added years it, or its predecessor authority has awarded, together with the related increases. This cost £0.2m in 2017/18 (2016/17 £0.1m). The liability to former Hereford and Worcester teachers' unfunded added years' benefits of £0.9m is included in the pension fund liability in the balance sheet in 2017/18 (£1.0m in 2016/17).

Under the arrangements for Public Health, a number of staff performing public health functions transferred from the former PCT to the council. Those who had access to the NHS pension scheme on 31 March 2013 retained access to the scheme on transfer at 1 April 2013. The NHS scheme is an unfunded, defined benefit scheme that covers NHS employers and is a multi-employer defined benefit scheme. However, in the NHS it is accounted for as if it were a defined contribution scheme. As the NHS bodies account for the scheme as a defined contribution plan it is being accounted for in the same way for transferred public health staff as local authorities are unable to identify the underlying scheme assets and liabilities for those employees. In 2017/18 the council paid employer contributions of £0.1m (2016/17 £0.1m) in respect of NHS pension costs for public heath staff.

35. Defined Benefit Pension Schemes

Participation in Pension Schemes

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

Transactions Relating to Post-employment Benefits

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

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

Local Government Pension Scheme

2016/17 £m		2017/18 £m
	Comprehensive Income and Expenditure Statement	
	Cost of Services:	
9.1	Current service cost	13.7
0.5	(Gain)/loss from settlements and curtailments	0.3
	Financing and Investment Income and Expenditure:	
7.0	Net interest expense	5.9
0.1	Administration expenses	0.2
16.7	**Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services**	**20.1**
	Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	
40.2	Actuarial (gains) and losses arising on changes in financial assumptions	(28.4)
40.2	**Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement**	**(28.4)**
	Movement in Reserves Statement	
(16.7)	Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post-employment benefits	(20.1)
	Amount charged to the General Fund balance for pensions in the year	
14.2	Employer's contribution payable to the scheme	13.6

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to 31 March 2018 (since the introduction of the statement in the 2009/10 restated accounts) is a loss of £84.3m.

Pensions Assets and Liabilities Recognised in the Balance Sheet

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

Local Government Pension Scheme

2016/17 £m		2017/18 £m
602.1	Present value of the defined benefit obligation	594.6
(355.1)	Fair value of plan assets	(369.5)
247.0	**Net liability arising from defined benefit obligation**	**225.1**

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

The table below shows the movement on the pension liability

2016/17 £m		2017/18 £m
486.0	**Opening balance**	**602.1**
9.1	Current Service Cost	13.7
17.3	Interest Cost	14.9
2.5	Contributions by Scheme Participants	2.6
	Re-measurement (gains) and losses	
101.3	Actuarial (gains)/losses arising from changes in assumptions	(24.0)
0.6	Losses/(gains) on curtailments	0.3
(14.0)	Benefits/transfers paid	(15.0)
(0.7)	Liabilities extinguished on settlements	-
602.1	**Closing balance**	**594.6**

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

The table below shows the movement on the pension assets

2016/17 £m		2017/18 £m
281.7	**Opening fair value of scheme assets**	**355.1**
10.3	Interest income	9.0
61.1	Re-measurement gain/(loss): the return on plan assets, excluding amount included in the net interest expense	4.4
(0.5)	Gains/(losses) on settlements	-
(0.2)	Administration expenses	(0.2)
14.2	Contribution from employer	13.6
2.5	Contributions from employees into the scheme	2.6
(14.0)	Benefits/transfers paid	(15.0)
355.1	**Closing fair value of scheme assets**	**369.5**

The actual return on scheme assets in the year was £13.4m, 3.6% of the period end assets (2016/17 £73.2m, 20.8%).

Local Government Pension Scheme assets (at fair value) comprised

31 March 2017 £m		Quoted (Y/N)	31 March 2018 £m
	Cash		
1.0	Cash instruments	Y	1.1
2.1	Cash accounts	Y	2.2
5.1	Net current assets	N	1.1
	Equity instruments		
1.8	UK quoted	Y	1.5
99.2	Overseas quoted	Y	105.7
95.7	Pooled investment vehicle - UK managed funds	N	90.5
106.2	Pooled investment vehicle - UK managed funds (overseas equities)	N	121.5
	Property		
10.0	European property funds	N	9.2
3.3	UK property debt	N	3.0
1.8	Overseas property debt	N	1.8
-	UK property funds	N	1.5
	Alternatives		
9.6	UK infrastructure	N	12.6
	Bonds		
1.2	UK Corporate	Y	1.5
18.1	Overseas Corporate	Y	16.3
355.1	**Closing fair value of scheme assets**		**369.5**

Basis for estimating Assets and Liabilities

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

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

Beginning of the period (p.a.)		End of the period (p.a.)
	Mortality assumptions	
	Longevity at 65 for current pensioners (years)	
22.6	Men	22.7
25.6	Women	25.7
	Longevity at 65 for future pensioners (years)	
24.8	Men	24.9
27.9	Women	28.0
	Financial Assumption	
2.3%	Rate of CPI inflation	2.1%
3.8%	Rate of increase in salaries	3.6%
2.3%	Rate of increase in pensions	2.2%
2.5%	Rate for discounting scheme liabilities	2.6%

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

	Increase / (decrease) in assumption £m
0.1% increase in real discount rate	(10.6)
1 year increase in member life expectancy	11.9
0.1% increase in the salary increase rate	1.1
0.1% increase in the inflation increase rate	10.8

Impact on the Councils Cash Flows

At the last tri-annual valuation the council agreed a strategy with the actuary to recover the pension deficit over 18 years, resulting in the employer’s deficit contribution being agreed at £6.7m in 2017/18, £6.9m in 2018/19 and £7.2m in 2019/20. The actuary also confirmed that the future employers service contribution rate, which is paid as a percentage of current employees’ gross pay, is 15.6%.

Total employer contributions expected to be made to the Local Government Pension Scheme by the council in the year ended 31 March 2019 is £13.0m.

Scheme History

Scheme History	2011/12 £m	2012/13 £m	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m
Present value of liabilities	(367.6)	(422.8)	(419.6)	(500.0)	(486.0)	(602.1)	(594.6)
Value of Scheme assets	208.3	235.4	260.2	288.6	281.7	355.1	369.5
(Deficit) in scheme	**(159.3)**	**(187.4)**	**(159.4)**	**(211.4)**	**(204.3)**	**(247.0)**	**(225.1)**

36. Contingent Liabilities

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

The council has commissioned a number of services that are provided by third parties. For a number of these external organisations a number of staff were transferred in prior years and in order for those employees transferred to continue with their membership of the Local Government Pension Scheme an admission agreement would have been approved. The Admission Agreements were agreed on an individual basis and the council considers that the crystallisation of any material liabilities falling due under these arrangements to be unlikely at the balance sheet date. Therefore no contingent liability has been identified however the council has set aside a pension risk reserve in the unlikely event that unforeseen costs become payable in future years.

37. Contingent Assets

The council has received a payment from Amey in relation to settling disputed items following the cessation of the Amey contract, which is included in earmarked reserves at £8m. There continues to be a possibility of receiving additional funds, work is currently ongoing to resolve these disputes which will determine the appropriate outcome.

38. Nature and Extent of Risks Arising from Financial Instruments

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

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

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

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

The council has adopted CIPFA's Treasury Management in the Public Services Code of Practice in setting out a Treasury Management Policy and strategies to control risks to financial instruments. During the year the council's exposure to liquidity risk and market risk was considered to be no greater than previous years, during the year investment maturity limits were reduced reducing the council's exposure to risk.

Credit Risk

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

During 2017/18 the council continued to restrict investments to only the largest and strongest of the banks, building society, other local authorities and instant access Money Market Funds.

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

	Amount at 31 March 2018 £m	Historical experience of default %	Historical experience adjusted for market conditions at 31 March 2018 %	Estimated maximum exposure to default and uncollectability 31 March 2017 £m	Estimated maximum exposure to default and uncollectability 31 March 2018 £m
Deposits with banks and financial institutions	9.1	-	-	-	-
Customers	9.5	0.5	0.5	-	-

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

31 March 2017 £m		31 March 2018 £m
4.2	Less than 3 months	5.5
0.4	3 to 6 months	0.5
1.3	6 months to 1 year	1.4
0.1	More than 1 year	2.1
6.0	**Total**	**9.5**

Liquidity Risk

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

31 March 2017 £m		31 March 2018 £m
34.5	Less than 1 year	11.7
	More than 1 year	
5.5	Between 1 and 2 years	7.2
13.1	Between 2 and 5 years	12.4
27.8	Between 5 and 10 years	26.2
97.1	More than 10 years	92.2
178.0	**Total borrowing per balance sheet**	**149.7**

Market Risk

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

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

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

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

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

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

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

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

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

39. Trust Funds

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

	Balance at 31 March 2017 £m	Repayment of Trust Fund Balances £m	Balance at 31 March 2018 £m
Other Funds	0.1	-	0.1

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

Herefordshire Council

Statement of Group Accounts and Explanatory Notes

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40. Statement of Group Accounts

Introduction

As described in the Introduction to the Core financial statements on page 2, Herefordshire Council have consolidated the Core accounts and the unaudited Hoople Limited 2017/18 accounts for the first time. The Hoople Limited accounts are not audited at the date these accounts were issued, due to the deadline for filing private company accounts being nine months after the year-end; longer than that of the Council. This section of the Statement of Accounts sets out those combined 'Herefordshire Council Group' accounts - the 'Statement of Group Accounts'.

Hoople Limited specialises in providing support services to the public sector: IT, Training and recruitment, HR, Finance, Revenues and Benefits and Reablement. Its primary objectives are to reduce costs for its clients by creating scale from joining up services, improved service delivery, creating new job and growth opportunities and for its shareholders to support their local agenda. Since it was established, in 2011, Hoople Limited has been largely co-located at the Plough Lane Head Office of Herefordshire Council.

Herefordshire Council is a majority shareholder of Hoople Limited and considers the business to be a subsidiary undertaking due to the controlling influence it can and does exercise. Group accounts have not been prepared previously due to the immaterial impact of doing so. 2017/18 group accounts have been prepared to provide greater transparency of the consolidated group performance.

Hoople Limited had revenue of £13.5m in 2017/18 (2016/17: £13.5m). This included revenue from services provided to Herefordshire Council of £7.8m in 2017/18 (2016/17: £7.0m). The council provided services to Hoople Limited of £0.8m in 2017/18 (2016/17: £0.8m). These transactions were all made on an arms-length basis. Further details on the performance of Hoople Limited may be found later in these group accounts.

This section presents the statutory financial statements for Herefordshire Council Group for the period from 1 April 2017 to 31 March 2018. The financial statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (The Code) published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The aim of the statement of group accounts is to provide the reader with an overall view of the material economic activities of the Group.

In common with many other local authorities, the council uses different forms of service delivery, where this is appropriate. In some cases it has created separate companies with its partners to deliver those services. The use of separate companies and trusts means that the council's single entity financial statements on their own do not fully reflect the assets and liabilities or income and expenditure associated with all of its activities. These group accounts more fully reflect the overall financial picture of the council's activities.

The statement of group accounts has been prepared using uniform accounting policies. All of the accounting policies of Hoople Limited were considered and compared to those of Herefordshire Council. The policies adopted by Hoople Limited were closely aligned to those of Herefordshire Council and there were no material differences to restate.

In preparing the statement of group accounts for the first year, in respect of 2017/18, the Council has restated the accounts of 2016/17 in order to present a more comparable view of the current year.

The statement of group accounts provides a summary of the group's financial position and details of material items that have impacted on the accounts during the year.

Within the notes to the Group accounts, the Council reports the group balance sheet headings where the difference between the core and group totals is considered material, exceeding £1m. Other balance sheet accounts have insignificant differences between the core and group figures as at 31 March 2018.

Basis of Consolidation

Over the two financial years reported in these accounts, Herefordshire Council held 85.54% of the ordinary share capital of Hoople Limited. The council effectively controlled and controls Hoople Limited and as such, it is accounted for as a subsidiary undertaking. It holds equal voting rights with the other shareholder, Wye Valley Trust NHS Limited. In accordance with IAS 27 and IFRS 10, income and expenditure and assets and liabilities have been consolidated with the Council's accounts on a line-by-line basis, eliminating inter-organisational transactions over the years and balances at the year-end dates.

The council has not consolidated any other organisations as either Associated Companies or as Joint Ventures within the group accounts, as it does not consider any other investments held to have a material effect on the Statement of Accounts, nor does it consider that consolidating would better provide the reader with an improved overall view of the material economic activities of the council.

The Group Financial Statements

The group financial statements consolidate the accounts of the council with those of its subsidiary undertaking, Hoople Limited.

Group Comprehensive Income & Expenditure Statement

The Group Comprehensive Income and Expenditure Statement provides the accounting income and costs recognised by the Group, in a specific format which reconciles accountancy practice and public sector reporting requirements. This is shown in accordance with generally accepted accounting practices (GAAP).

There were no acquisitions or discontinued operations in the two years. As stated earlier in this report, the Hoople Limited business results are consolidated into the Group CIES for the two accounting periods.

2016/17					2017/18			
Net Core £m	Group entities £m	Adjs £m	Group £m		Net Core £m	Group entities £m	Adjs £m	Group £m
52.0	-	(0.9)	51.1	Adults and wellbeing	54.2	-	(0.8)	53.4
23.3	-	(0.2)	23.1	Children's wellbeing	27.4	-	(0.4)	27.0
53.8	0.2	1.1	55.1	Economy, communities and corporate	78.3	0.2	1.2	79.7
129.1	**0.2**	**-**	**129.3**	**Net Cost of Services**	**159.9**	**0.2**	**-**	**160.1**
6.4	-	-	6.4	Other Operating Expenditure	2.9	-	-	2.9
32.8	0.1	-	32.9	Financing, Investment Income and Expenditure	2.8	0.2	-	3.0
(179.6)	0.0	-	(179.6)	Taxation and Non-Specific Grant Income	(179.1)	0.0	-	(179.1)
(11.3)	**0.3**	**-**	**(11.0)**	**(Surplus) or deficit on the provision of services**	**(13.5)**	**0.4**	**-**	**(13.1)**
(10.5)	-	-	(10.5)	(Surplus) / deficit in revaluation of non- current assets	(93.3)	-	-	(93.3)
40.2	2.4	-	42.6	Re-measurement of net Defined Benefit Liability	(28.4)	(0.6)	-	(29.0)
29.7	**2.4**	**-**	**32.1**	**Other comprehensive (income) / expenditure**	**(121.7)**	**(0.6)**	**-**	**(122.3)**
18.4	**2.7**	**-**	**21.1**	**Total comprehensive (income) / expenditure**	**(135.2)**	**(0.2)**	**-**	**(135.4)**

The Surplus on the Provision of Services of £13.1m includes a Deficit of £0.1m attributable to the Minority Interest (16/17: Deficit £0.0m)

The Total comprehensive (income) / expenditure attributable to the Minority Interest is (£0.1m) (16/17: £0.4m Expenditure)

These Minority Interests represent 14.46% of the Income and Expenditure of Hoople Limited, the subsidiary undertaking.

Group Movement in Reserves Statement

The Group Movement in Reserves Statement provides the reconciliation of the movement in year on the different reserves held and how the resources generated or used in the year reconcile to the council's usable and unusable reserves.

2017/18	General Fund Balance	Earmarked Reserves	Revenue Fund Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Usable Reserves	Unusable Reserves	Total Council Reserves	Council's share of Reserves of subsidiary	Total Group Reserves
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Balance brought forward	**(7.9)**	**(44.7)**	**(52.6)**	**(4.2)**	**(1.6)**	**(58.4)**	**(56.9)**	**(115.3)**	**3.8**	**(111.5)**
(Surplus) or deficit on the provision of services	(6.5)	-	(6.5)	-	-	**(6.5)**	(0.0)	(6.5)	(6.6)	(13.1)
Other comprehensive income and expenditure	-	-	-	-	-	**-**	(121.8)	(121.8)	(0.6)	(122.4)
Total comprehensive income and expenditure	**(6.5)**	**-**	**(6.5)**	**-**	**-**	**(6.5)**	**(121.8)**	**(128.3)**	**(7.2)**	**(135.5)**
Adjustments between Group accounts and authority accounts	(7.0)	-	(7.0)	-	-	**(7.0)**	-	(7.0)	7.0	-
Net (increase)/decrease before transfers	**(13.5)**	**-**	**(13.5)**	**-**	**-**	**(13.5)**	**(121.8)**	**(135.3)**	**(0.2)**	**(135.5)**
Adjustments between accounting basis and funding basis under regulations	0.4	-	0.4	(38.4)	(1.1)	**(39.1)**	39.1	-	-	-
Net (increase)/decrease before transfers to earmarked reserves	**(13.1)**	**-**	**(13.1)**	**(38.4)**	**(1.1)**	**(52.6)**	**(82.7)**	**(135.3)**	**(0.2)**	**(135.5)**
Transfers to or from earmarked reserves	13.1	(13.1)	-	-	-	**-**	-	-	-	-
Decrease/(Increase) for the Year	**-**	**(13.1)**	**(13.1)**	**(38.4)**	**(1.1)**	**(52.6)**	**(82.7)**	**(135.3)**	**(0.2)**	**(135.5)**
Balance Carried Forward	**(7.9)**	**(57.8)**	**(65.7)**	**(42.6)**	**(2.7)**	**(111.0)**	**(139.6)**	**(250.6)**	**3.6**	**(247.0)**

Total Group Reserves at 31 March 2018 includes Minority Interest in the subsidiary undertaking of £0.5m.

Group Movement in Reserves Statement 2016/17 Comparative

2016/17	**General Fund Balance**	**Earmarked Reserves**	**Revenue Fund Reserves**	**Capital Receipts Reserve**	**Capital Grants Unapplied**	**Usable Reserves**	**Unusable Reserves**	**Total Council Reserves**	**Council's share of Reserves of subsidiary**	**Total Group Reserves**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Balance brought forward	**(7.3)**	**(28.5)**	**(35.8)**	**(0.5)**	**(1.2)**	**(37.5)**	**(96.2)**	**(133.7)**	**1.1**	**(132.6)**
(Surplus) or deficit on the provision of services	(5.1)	-	(5.1)	-	-	**(5.1)**	-	(5.1)	(5.9)	(11.0)
Other comprehensive income and expenditure	-	-	-	-	-	**-**	29.7	29.7	2.4	32.1
Total comprehensive income and expenditure	**(5.1)**	**-**	**(5.1)**	**-**	**-**	**(5.1)**	**29.7**	**24.6**	**(3.5)**	**21.1**
Adjustments between Group accounts and authority accounts	(6.2)	-	(6.2)	-	-	**(6.2)**	-	(6.2)	6.2	-
Net (increase)/ decrease before transfers	**(11.3)**	**-**	**(11.3)**	**-**	**-**	**(11.3)**	**29.7**	**18.4**	**2.7**	**21.1**
Adjustments between accounting basis and funding basis under regulations	(5.5)	-	(5.5)	(3.7)	(0.4)	**(9.6)**	9.6	-	-	-
Net (increase)/ decrease before transfers to earmarked reserves	**(16.8)**	**-**	**(16.8)**	**(3.7)**	**(0.4)**	**(20.9)**	**39.3**	**18.4**	**2.7**	**21.1**
Transfers to or from earmarked reserves	16.2	(16.2)	-	-	-	**-**	-	-	-	-
Decrease/(Increase) for the Year	**(0.6)**	**(16.2)**	**(16.8)**	**(3.7)**	**(0.4)**	**(20.9)**	**39.3**	**18.4**	**2.7**	**21.1**
Balance Carried Forward	**(7.9)**	**(44.7)**	**(52.6)**	**(4.2)**	**(1.6)**	**(58.4)**	**(56.9)**	**(115.3)**	**3.8**	**(111.5)**

Total Group Reserves at 31 March 2017 includes Minority Interest in the subsidiary undertaking of £0.5m. The opening Minority interest as at 1 April 2016 was £0.2m.

Group Balance Sheet

Summarised

The Group Balance Sheet shows the assets and liabilities recognised by the Group at 31 March 2018 and the reserves the company holds which are split into usable and unusable in accordance with CIPFA requirements. A detailed balance sheet may be found on the next page.

2015/16		2016/17			2017/18	
Core	Group	Core	Group		Core	Group
£m	£m	£m	£m		£m	£m
564.8	564.8	613.8	613.8	Long term assets	674.1	674.1
41.8	43.8	29.7	32.6	Current assets	52.3	56.4
(83.2)	(84.2)	(72.0)	(73.8)	Current liabilities	(47.9)	(50.5)
(389.7)	(391.8)	(456.2)	(461.1)	Long term liabilities	(427.9)	(433.0)
133.7	**132.6**	**115.3**	**111.5**	**Net Assets**	**250.6**	**247.0**
				Represented by:		
(37.5)	(36.4)	(58.4)	(54.6)	Usable reserves	(111.0)	(107.3)
(96.2)	(96.2)	(56.9)	(56.9)	Unusable reserves	(139.6)	(139.6)
(133.7)	**(132.6)**	**(115.3)**	**(111.5)**	**Total Group Reserves**	**(250.6)**	**(247.0)**

Net liabilities in respect of Group undertakings (reducing the Core Net Assets from £250.6m to £247.0m for the Group in 2017/18) are principally as a consequence of the cumulative pension deficit provided for in the accounts of Hoople Limited of £5.1m in 2017/18 (2016/17: £4.9m).

The Minority Interest share of subsidiary reserves represents an Unusable reserve to the Council in 2017/18 of £0.5m (2016/17: £0.5m).

The audited 2017/18 financial statements of Hoople Limited will be filed with Companies House before the statutory due date of 31 December 2018. Further details of the financial performance of that company will be contained therein. The financial performance of Hoople Limited, as consolidated into these group accounts may be found within note G2 to these accounts.

The unaudited accounts were authorised for issue on 31 May 2018 and the audited accounts were authorised for issue on 30 July 2018.

Chief Finance Officer (section 151 officer)

Chair of Audit Committee

Group Balance Sheet

Detailed

The Group Balance Sheet shows the assets and liabilities recognised by the Group at 31 March 2018 and the reserves the company holds which are split into usable and unusable in accordance with CIPFA requirements.

The 31 March 2016 Group balance sheet is included in addition to the two subsequent years to reflect the financial position of the Group at the start of the comparative year, from which point Group accounts are now reported.

31 March 2016 £m	31 March 2017 £m		Notes	31 March 2018 £m
493.5	547.6	Property, Plant and Equipment		596.9
40.6	21.5	Investment Property		34.6
0.8	0.8	Intangible Assets		0.1
2.8	3.2	Heritage Assets		3.2
27.1	40.7	Long Term Debtors		39.3
564.8	**613.8**	**Long Term Assets**		**674.1**
2.5	-	Short term Investments		5.0
0.2	0.2	Inventories		0.1
25.1	22.2	Short Term Debtors		25.4
7.9	8.7	Cash & Cash equivalents	G5	17.7
8.1	1.6	Assets held for Sale		8.2
43.8	**32.6**	**Current Assets**		**56.4**
(46.2)	(34.5)	Short Term Borrowing	G7	(11.8)
(30.3)	(34.0)	Short Term Creditors	G6	(35.8)
(0.8)	(2.1)	Short Term Provisions		(2.5)
(5.5)	(3.2)	Cash & Cash equivalents	G5/G7	(0.4)
(1.4)	-	Capital Receipts in Advance		-
(84.2)	**(73.8)**	**Current Liabilities**		**(50.5)**
(4.9)	(3.5)	Long term provisions		(3.6)
(152.0)	(143.5)	Long term borrowing	G7	(138.0)
(2.2)	(3.4)	Capital Grants Receipts in Advance		(4.7)
(232.7)	(310.7)	Other Long Term Liabilities	G7	(286.7)
(391.8)	**(461.1)**	**Total Long Term Liabilities**		**(433.0)**
132.6	**111.5**	**Net Assets**		**247.0**
(36.4)	(54.6)	Usable Reserves		(107.4)
(96.2)	(56.9)	Unusable Reserves		(139.6)
(132.6)	**(111.5)**	**Total Reserves**		**(247.0)**

Group Cash Flow Statement

The Group Cash Flow Statement shows the changes in cash and cash equivalents of the Group for the reporting period.

2016/17 £m		Core Notes	2017/18 £m
(11.0)	Net (surplus) or deficit on the provision of services		(13.1)
(44.6)	Adjust net (surplus) or deficit on the provision of services for non-cash movements		(72.7)
5.8	Adjust for items included in the net (surplus) or deficit on the provision of services that are investing and financing activities		42.5
(49.8)	**Net cash flows from operating activities**		**(43.3)**
26.8	Net cash flows from investing activities		1.0
21.5	Net cash flows from financing activities		30.5
(1.5)	**Net (increase) or decrease in cash and cash equivalents**		**(11.8)**
(4.0)	Cash and cash equivalents at the beginning of the reporting period		(5.5)
(5.5)	Cash and cash equivalents at the end of the reporting period		(17.3)
(1.5)	**Net (increase) or decrease in cash and cash equivalents**	**G6**	**(11.8)**

In the year, £16k of Corporation tax was paid by Hoople Limited (2016/17: £5k).

Notes to the statement of group accounts

G1. Group Accounting Policies

General Principles

The council is required to produce an annual statement of group accounts in accordance with the Accounts and Audit Regulations 2015, which requires the accounts to be prepared in accordance with proper accounting practices. These practices under section 21 of the 2003 Act primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 “The Code”, supported by International Financial Reporting Standards.

The Code sets out the requirement to prepare Group accounts where the authority has interests in subsidiaries, associated and/or joint ventures, subject to consideration of materiality.

Consolidation of subsidiaries, associate companies and joint operations

In preparing the statement of group accounts, members within the Group are classified as either subsidiaries, associates or joint ventures. Subsidiaries (where the council has a controlling interest) are accounted for in accordance with IAS 27 and IFRS 10. Income and expenditure and assets and liabilities are consolidated with the Council‘s accounts on a line-by-line basis, eliminating inter-organisational transactions over the two years reported. Balances are also eliminated at the year-end dates.

The statement of group accounts has been prepared using uniform accounting policies. All of the accounting policies of Hoople Limited were considered and compared to those of Herefordshire Council. Since Hoople Limited commenced trading in 2011, the accounting policies it adopted have been closely aligned to those of Herefordshire Council and there were no material differences requiring restatements within the Group accounts.

The accounting policies applied to the statement of group accounts are therefore consistent with those set out in Note 1 to the core Herefordshire Council notes to the accounts on page 18.

Taxation

Corporation tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in the statement of comprehensive income, profit and loss, except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the reporting date and any adjustment to tax for the prior period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects either accounting nor taxable profit or loss.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

G2. Financial performance of group undertaking

The financial results of Hoople Limited are set out below. These results include transactions with the council, which have been eliminated in these group accounts. These intercompany transactions are set out within the Introduction section to these group accounts above.

Statement of comprehensive income	2016/17 £m	2017/18 £m
Turnover	(13.5)	(13.5)
(Profit) / Loss on ordinary activities before taxation	**0.3**	**0.4**
Tax on profit on ordinary activities	-	-
(Profit) / Loss for the financial year after taxation	**0.3**	**0.4**
Other comprehensive (income) / expenditure	2.4	(0.6)
Total comprehensive (income) / expenditure for the year	**2.7**	**(0.2)**

Statement of financial position	2016/17 £m	2017/18 £m
Non-current assets	-	-
Current assets	3.6	5.0
Liabilities due within one year	(2.5)	(3.5)
Liabilities due after one year	(4.9)	(5.1)
Net Liabilities and Reserves	**(3.8)**	**(3.6)**

Other comprehensive (income) / expenditure relates to the revaluation of the LPGS pension.
Liabilities due after one year relate to the pension deficit (see note G4 below).

G3. Group Nature of Expenses Disclosure

The Group's expenditure and income is included in the Group Comprehensive Income and Expenditure Statement as follows;

2016/17 £m		2017/18 £m
	Income	
(58.3)	Fees, charges and other service income	(37.2)
(2.6)	Trading and investment income	(2.3)
(2.6)	Interest and investment income	(2.8)
(123.3)	Income from council tax and non-domestic rates	(129.7)
(202.3)	Government grants and contributions	(219.1)
-	Gains on disposal of non-current assets	(1.0)
(389.1)	**Total Income**	**(392.1)**
	Expenditure	
106.2	Employee benefits expenses	110.4
200.3	Other service expenses	211.2
4.9	Support service recharges (net)	4.7
2.6	Loss on disposal of non-current assets	-
25.8	Depreciation, amortisation and impairment	41.0
26.4	Trading and investment expenditure	(8.0)
8.1	Interest expenditure	15.7
3.8	Precepts and levies	4.0
378.1	**Total Expenditure**	**379.0**
(11.0)	**(Surplus) / Deficit on the Provision of Services**	**(13.1)**

G4. Pensions

The Herefordshire Council core pension notes 34 and 35 may be found from page 71 onwards.

The following note relates solely to the pensions of Hoople Limited and is disclosed fully, due to the materiality of pensions to that company.

Hoople Limited staff are members one of the following pensions:

- NHS pension scheme (Defined Benefit)
- Local Government pension scheme (Defined Benefit)
- Standard Life pension scheme (Defined Contribution)

Hoople Limited Defined Benefit pensions scheme

Retirement benefits to employees of the company are provided by the NHS Pensions Agency and the Local Government Pension Scheme ("LGPS"). These are defined benefit schemes and the assets are held separately from those of the company.

The LGPS pension charge is based on an actuarial valuation dated 31 March 2018, which was performed by Mercer Limited.

The LGPS pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis, using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent term and currency to the liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The amounts charged to operating surplus are the current service costs and gains and losses on settlements and curtailments. They are included as part of staff costs. Past service costs are recognised immediately in the statement of comprehensive income, profit and loss if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. The expected return on assets and the interest costs are shown as a net finance amount of other finance costs or credits adjacent to interest.

The liabilities on the pension fund predominantly relate to ex-Herefordshire Council staff and their defined benefit obligations. In order for those employees to continue with their membership of the LGPS, Hoople Limited became an admission body to the Worcestershire County Council Pension Fund and an Admission Agreement was entered into with Herefordshire Council on 30 March 2011. Under the terms of the Admission Agreement, the Council provided a guarantee in relation to Hoople Limited.

NHS Pension Scheme

The company also participates in a defined benefit scheme administered by the NHS Pension Agency. The scheme is an unfunded, defined benefit scheme that covers NHS employers, general practices and other bodies, allowed under the direction of the Secretary of State, in England and Wales. The cost of the defined benefit scheme is charged to the statement of comprehensive income, profit and loss so as to spread the cost of pensions over the service lives of participating employees. Pension costs are assessed in accordance with advice from Department of Health actuaries. It is not possible for the company to separately identify assets and liabilities relating to the company within the NHS scheme for the purposes of IAS 19 disclosure therefore, the scheme is accounted for as a defined contribution scheme.

Employer’s pension cost contributions are charged to operating expenses as and when they become due.

Additional pension liabilities arising from early retirements are not funded by the scheme except where the retirement is due to ill-health. The full amount of the liability for the additional costs is charged to the operating expenses at the time the trust commits itself to the retirement, regardless of the method of payment.

The NHS Pension Scheme is subject to a full valuation every four years by the Government Actuary. The latest published valuation relates to the year ended 31 March 2012 and was published in June 2014 and is available on the NHS Pensions Agency website.

Employer contribution rates are reviewed every four years following the scheme valuation, on advice from the actuary. The most recent valuation recommended that employer contribution rates is 14.3%.

Local Government Pension Scheme

The LGPS is a funded defined benefit scheme, with the assets held in separate trustee administered funds.

The total contribution made for the year ended 31 March 2018 was £0.9m of which employer’s contributions totalled £0.6m and employees’ contributions totalled £0.3m. The agreed contribution rates for the year ended 31 March 2018 were 15.2% for employers.

For accounting purposes, the liabilities are calculated using the principles set out in IAS 19. As at 1 April 2018 the liabilities were valued at £14.2m under IAS 19. There has been a re-measurement in year which has resulted in an accounting adjustment of £0.6m being recorded as a profit. This amount has been disclosed through other comprehensive income, which is part of the Unusable reserves in the statement of group accounts.

The following table summarises the components of the net benefit expense recognised in the income statement and the funded status and amounts recognised in the statement of financial position for the respective plans.

The liability recognised in the statement of financial position for retirement benefit obligations is:

Local Government Pension Scheme

2016/17 £m		2017/18 £m
	Comprehensive Income and Expenditure Statement	
	Cost of Services:	
0.9	Current service cost	1.2
-	(Gain)/loss from settlements and curtailments	-
	Financing and Investment Income and Expenditure:	
0.1	Net interest expense	0.1
-	Administration expenses	-
1.0	**Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services**	**1.3**
	Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	
(2.4)	Actuarial (losses) / gains arising on changes in financial assumptions	0.6
(2.4)	**Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement**	**0.6**
	Amount charged to the Comprehensive Income and Expenditure Statement for pensions in the year	
0.6	Employer’s contribution payable to the scheme	0.6

Pensions Assets and Liabilities Recognised in the Balance Sheet

The amount included in the balance sheet arising from the council’s obligation in respect of its defined benefits plans is as follows:

Local Government Pension Scheme

2016/17 £m		2017/18 £m
12.9	Present value of the defined benefit obligation	14.2
(8.0)	Fair value of plan assets	(9.1)
4.9	**Net liability arising from defined benefit obligation**	**5.1**

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

The table below shows the movement on the pension liability

2016/17 £m		2017/18 £m
7.7	**Opening balance**	**12.9**
0.9	Current Service Cost	1.2
0.3	Interest Cost	0.3
0.3	Contributions by Scheme Participants	0.3
	Re-measurement (gains) and losses	
3.7	Actuarial (gains)/losses arising from changes in assumptions	(0.5)
0.0	Losses/(gains) on curtailments	0.0
0.0	Benefits/transfers paid	0.0
0.0	Liabilities extinguished on settlements	0.0
12.9	**Closing balance**	**14.2**

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

The table below shows the movement on the pension assets

2016/17 £m		2017/18 £m
5.6	**Opening fair value of scheme assets**	**8.0**
-	Interest income	0.2
1.5	Re-measurement gain/(loss): the return on plan assets, excluding amount included in the net interest expense	0.1
-	Gains/(losses) on settlements	-
-	Administration expenses	-
0.6	Contribution from employer	0.6
0.3	Contributions from employees into the scheme	0.2
-	Benefits/transfers paid	
8.0	**Closing fair value of scheme assets**	**9.1**

The actual return on scheme assets in the year was £0.2m of the period end assets (2016/17 £0.2m).

Local Government Pension Scheme assets (at fair value) comprised

31 March 2017 £m		Quoted (Y/N)	31 March 2018 £m
	Cash		
-	Cash instruments	Y	-
0.1	Cash accounts	Y	0.1
0.1	Net current assets	N	-
	Equity instruments		

0.1	UK quoted	Y	-
2.2	Overseas quoted	Y	2.6
2.2	Pooled investment vehicle - UK managed funds	N	2.2
2.4	Pooled investment vehicle - UK managed funds (overseas equities)	N	3.0
	Property		
0.2	European property funds	N	0.2
0.1	UK property debt	N	0.1
-	Overseas property debt	N	0.1
-	UK property funds	N	0.1
	Alternatives		
0.2	UK infrastructure	N	0.3
	Bonds		
-	UK Corporate	Y	-
0.4	Overseas Corporate	Y	0.4
8.0	**Closing fair value of scheme assets**		**9.1**

Basis for estimating Assets and Liabilities

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

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

Beginning of the period (p.a.)		End of the period (p.a.)
	Mortality assumptions	
	Longevity at 65 for current pensioners (years)	
22.6	Men	22.7
25.6	Women	25.7
	Longevity at 65 for future pensioners (years)	
24.8	Men	24.9
27.9	Women	28.0
	Financial Assumption	
2.2%	Rate of CPI inflation	2.1%
2.2%	Rate of increase in salaries	2.1%
2.2%	Rate of increase in pensions	2.2%
2.6%	Rate for discounting scheme liabilities	2.7%

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

	Increase / (decrease) in assumption **£m**
0.1% increase in real discount rate	(0.4)
1 year increase in member life expectancy	0.3
0.1% increase in the salary increase rate	0.1
0.1% increase in the inflation increase rate	0.4

Hoople Limited Defined Contribution pensions scheme

Hoople Ltd have closed the public sector pension schemes to new entrants. All new employees having access to a Standard Life Pension Scheme, which is a defined contribution scheme.

2016/17 **£m**		**2017/18** **£m**
0.1	Employees' contributions	0.1
0.1	Employers' contributions	0.1
0.2	**Total**	**0.2**

G5. Group Cash and Cash Equivalents

31 March 2017 **£m**		**31 March 2018** **£m**
5.7	Cash held by the Group	8.6
3.0	Short term deposits	9.1
8.7	**Total**	**17.7**
(3.2)	Bank current accounts	(0.4)
5.5	**Total Cash and Cash Equivalents**	**17.3**

Hoople Limited held £3.3m of short term cash balances as at 31 March 2018 (31 March 2017: £2.5m)

G6. Group Short Term Creditors

31 March 2017 **£m**		**31 March 2018** **£m**
(8.0)	Central government bodies	(8.3)
(1.4)	Other local authorities	(2.4)
(1.0)	NHS bodies	(2.1)
(23.6)	Other entities and individuals	(23.0)
(34.0)	**Total**	**(35.8)**

Hoople Limited had short term liabilities totalling £2.7m as at 31 March 2018 (31 March 2017: £1.8m). These included Trade creditors, Accruals and VAT liability in line with normal business activities.

G7. Group Other Long Term Liabilities / Financial Instruments

2016/17			2017/18	
Per Balance Sheet	Financial Instruments		Per Balance Sheet	Financial Instruments
£m	£m		£m	£m
3.2	3.2	Cash and cash equivalents	0.4	0.4
3.2	**3.2**	**Total**	**0.4**	**0.4**
		Short term borrowing		
0.1	0.1	Bank loans	0.2	0.2
6.4	6.4	Public Works Loan Board	6.6	6.6
28.0	28.0	Borrowing from other local authorities	5.0	5.0
34.5	**34.5**	**Total**	**11.8**	**11.8**
		Short term creditors		
16.5	16.5	Invoiced amounts and other contractual liabilities	17.4	17.4
7.3	-	Statutory liabilities (PAYE etc.)	7.9	-
9.9	2.5	Accruals and receipts in advance	10.3	2.4
0.3	-	Funds and deposits held	0.2	-
34.0	**19.0**	**Total**	**35.8**	**18.7**
		Long term borrowing		
12.5	12.5	Bank loans	12.5	12.5
131.0	131.0	Public Works Loan Board	125.5	125.5
143.5	**143.5**	**Total**	**138.0**	**138.0**
		Other long term liabilities		
57.7	57.7	PFI liabilities and finance leases	55.6	55.6
253.0	-	Pensions liability	231.1	-
310.7	**57.7**		**286.7**	**55.6**

Hoople Limited had a pension liability of £5.1m as at 31 March 2018 (31 March 2017: £4.9m). Further details may be found in note G4 above.

G8. External audit costs

2016/17		2017/18
£m		£m
0.1	Fees payable with regard to external audit services carried out by the appointed auditor	0.1
0.1	**Total**	**0.1**

The above fees included £15k in respect of Hoople Limited (16/17: £14k).

Herefordshire Council

Supplementary Accounts- Collection Fund

41. Collection Fund

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

2016/17		2017/18		
Total £m		Council Tax £m	Business Rates £m	Total £m
	Amounts required to be credited to the Collection Fund			
111.2	Council Tax	116.1	-	**116.1**
49.0	Business Rates Income	-	46.9	**46.9**
	Contribution towards previous year's Deficit			
2.6	Central Government	-	-	**-**
2.5	Hereford and Worcester Fire Authority	-	-	**-**
0.1	Herefordshire Council	-	-	**-**
165.4	**Total**	**116.1**	**46.9**	**163.0**
	Amounts required to be debited from the Collection Fund			
	Precepts, Demands and Shares			
23.8	Central Government	-	22.4	**22.4**
5.7	Hereford and Worcester Fire Authority	5.4	0.4	**5.8**
111.9	Herefordshire Council	93.1	22.0	**115.1**
3.5	Parishes	3.8	-	**3.8**
12.7	West Mercia Police	12.8	-	**12.8**
-	Transitional Protection Payments Payable	-	0.2	**0.2**
	Contribution towards previous year's Surplus			
-	Central Government	-	0.5	**0.5**
0.1	Hereford and Worcester Fire Authority	0.1	-	**0.1**
1.2	Herefordshire Council	1.0	0.5	**1.5**
0.2	West Mercia Police	0.1	-	**0.1**
	Charges to Collection Fund			
0.3	Cost of collection Allowance	-	0.3	**0.3**
0.4	Write offs of uncollectable debt	0.2	0.2	**0.4**
0.3	Increase/(decrease) of Bad Debt Provision	0.1	-	**0.1**
1.0	Increase/(decrease) of Appeals Provision	-	(0.3)	**(0.3)**
0.2	Other transfers to General Fund	-	0.2	**0.2**
161.3	**Total**	**116.6**	**46.4**	**163.0**
4.1	**Surplus/(Deficit) for the Year**	**(0.5)**	**0.5**	**-**
(3.3)	**Balance brought forward**	**1.1**	**(0.3)**	**0.8**
0.8	**Balance carried forward**	**0.6**	**0.2**	**0.8**

Notes to the Collection Fund

The total non-domestic rateable value at the year-end was £134.1m and the national non-domestic rate multiplier for 2017/18 was 47.9p

Non - Domestic Rates Income	2017/18 £m
Annual Debit	(65.6)
Less	
Empty Allowances	1.7
Transitional Relief	2.9
Discretionary Relief	0.5
Mandatory Relief	4.7
Small Business Rate Relief	8.4
Funded Reliefs	0.2
Enterprise Zone	0.3
Total	**(46.9)**

Council tax income is derived from charges raised according to the value of residential properties, which have been classified into eight valuation bands. Estimated values at 1 April 1991 are used for this specific purpose. Individual charges are calculated by estimating the amount of income required to be taken from the collection fund by the council, West Mercia Police and Hereford & Worcester Fire & Rescue Authority, and dividing this by the council tax base (the total number of properties in each band adjusted by a proportion to convert the number to a Band D equivalent and adjusted for discounts etc.). The amount of council tax for a Band D property is multiplied by a specified proportion to give an amount due for other property valuation bands. The average council tax for a Band D property in 2017/18 was £1,702.24 including fire, police and parish precepts, with a range of between £1,645.63 and £1,802.43. The council tax base used for setting the council tax in 2017/18 was 67,598.21. The Band D equivalents in each valuation band are shown in the table below:

Band	Valuation Range	Charge Factor	Band D Equivalent
A	Up to £40,000	6/9	5,218.47
B	£40,001 to £52,000	7/9	11,220.01
C	£52,001 to £68,000	8/9	11,972.02
D	£68,001 to £88,000	9/9	11,383.40
E	£88,001 to £120,000	11/9	12,654.24
F	£120,001 to £160,000	13/9	9,062.15
G	£160,001 to £320,000	15/9	5,482.41
H	Over £320,000	18/9	318.61
Crown			286.90
Total			**67,598.21**

Council Taxpayer Income	2017/18 £m
Council Tax debit at 1 April	(139.3)
Banding change	(1.6)
Less	
Discounts	10.9
Exemptions	3.0
Council Tax Reduction	10.7
Disablement Relief	0.2
Total	**(116.1)**

The Collection Fund (surplus) or deficit at 31 March 2018 is split as follows:

	Council Tax £m	Business Rates £m	Total £m
Central Government	-	0.1	0.1
Hereford and Worcester Fire Authority	-	-	-
Herefordshire Council	0.5	0.1	0.6
West Mercia Police	0.1	-	0.1
Total	**0.6**	**0.2**	**0.8**

42. Annual governance statement 2017/18

What is governance?

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

What is the annual governance statement?

2. The council is required by the Accounts and Audit Regulations 2015 to prepare and publish an annual governance statement, in order to report publicly on the extent to which we comply with our own code of corporate governance , including how we have monitored the effectiveness of our arrangements in year and on any planned changes to our governance arrangements in the coming year.

3. In this document the council:

   - acknowledges its responsibility for ensuring that there is a sound system of governance;
   - summarises the key elements of the governance framework and the roles of those responsible for the development and maintenance of the governance environment;
   - describes how the council has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period;
   - provides details of how the council has responded to any issue(s) identified in last year's governance statement; and
   - reports on any key governance matters identified from this review and provides a commitment to addressing them.

4. The annual governance statement reports on the governance framework that has been in place for the year ended 31st March 2018.

5. It should be noted however, that any system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

Scope of responsibility

6. Herefordshire Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. The council also has a duty under the Local Government Act 1999 to continually review and improve the way we work, while at the same time offering value for money and efficient and effective services.

7. To meet these responsibilities the council has put in place proper arrangements for overseeing what we do. These arrangements are intended to make sure that we have the right people, doing the right things, at the right time, for the right reasons, and in the right way, in an open, inclusive and accountable manner.

8. The council has adopted a code of corporate governance that is consistent with the principles of the Chartered Institute of Public Finance and Accountancy ("CIPFA")/Society of Local Authority Chief Executives ("SOLACE") framework for delivering good governance in local government (2016).

The purpose of the governance framework

9. The governance framework comprises the systems, processes, culture and values by which the council is controlled, and also sets out how the council accounts to, engages with and leads the community.

10. The governance framework enables the council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate and cost-effective services.

11. The system of internal control is a significant part of that framework and is based on an ongoing process designed to:

- identify and prioritise the risks to the achievement of the council's policies, aims and objectives;
- assess the likelihood and impact of the risks should they be realised; and
- manage the risks efficiently, effectively and economically.

12. The framework operates at three levels:

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

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

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

How has the annual governance statement been prepared?

13. The process, jointly led by the section 151 officer and the monitoring officer, has:

a) reviewed our existing governance arrangements against the guidance included in CIPFA/SOLACE 'Delivering Good Governance in Local Government' framework - 2016;
b) reviewed our code of corporate governance to ensure it reflects this guidance and includes the recommended seven principles of good governance; and
c) assessed the effectiveness of our governance arrangements against the code of corporate governance. The key sources of assurance that inform this review are set out in the following table.

What we are seeking assurances on	What sources of assurance we will use
○ Delivery against corporate and service delivery plans whilst observing the principles of good governance ○ Delivery of sustainable economic, social and environmental benefits ○ Design and effectiveness of internal controls, risk management and counter fraud measures ○ Strong commitment to ethical values ○ Compliance with laws, regulations, and the council's constitution, strategies, policies and procedures ○ Key governance tools (e.g. financial, performance and risk management and reporting) are fit for purpose ○ Direction of travel of previously identified governance issues	○ Management assurances re compliance with laws and regulations, corporate strategies, policies, plans and arrangements e.g. constitution, financial and performance monitoring and reporting, and risk management ○ Statutory officers' declarations ○ Significant partnerships' governance risk assessments ○ Internal audit reports and opinions ○ Findings from Audit & Governance and scrutiny committees ○ External bodies and inspectorates reports ○ Views of the council's appointed Independent Person(s)

Review of effectiveness

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

Principle A: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law
➢ In May 2017 the council agreed a new constitution which sets out the council's values, how the council operates, how decisions are made and the procedures to be followed to ensure adherence to these principles. The constitution is regularly reviewed by the council's Audit and Governance Committee. ➢ Councillors are expected to follow the council's adopted code of conduct . The Monitoring Officer provides advice to members on the code and reports on its effectiveness to the Audit and Governance Committee who regularly review the code. The council has an Independent Person to assist the council in promoting high standards of conduct by elected and co-opted members of Herefordshire Council and town and parish councils. During 2017/18 a second Independent Person retired and it has proved difficult to recruit eligible volunteers; consideration is being given to alternative collaborative arrangements with neighbouring councils to ensure the resilience of this independent support is maintained. Registers of interest are maintained and regularly reviewed and declarations of interest are routinely sought and recorded at the start of meetings. The Independent Person has expressed the view that the standards procedure supporting the code of conduct would be strengthened by greater clarity on the sanctions which may be applied and how they may be enforced, inclusion of an appeal process, and clarification of the basis on which a breach of the code relating to declaration of a schedule 1 interest may be referred to the police. The annual constitution review took account of these issues a revised procedure was approved by the Audit and Governance Committee on 8 May which included provisions for an appeals process and clarity regarding the steps to be taken by the Monitoring Officer regarding referral to the police. Although a formal protocol between the Monitoring Officer and the police is not in place this will continue to be explored and there is ongoing dialogue between the two parties to ensure that there is a clear and shared understanding of the issues. ➢ Employees are expected to follow the council's Employee Code of Conduct. A review of this code was undertaken in 2017 and a revised code was consulted on. Approval of a new code was expected in 2017/18 but has been delayed to allow for further consideration of the consultation responses and is now expected to be approved in August 2018. Once approved the revised code will provide greater clarity about the standards of behaviour expected of

employees, and will be supported by improved processes for maintaining a register of employees' interests and a programme of communication and training for all employees.

- The required leadership employee behaviours and values are embedded into the council's employee Personal Performance and Development Plan process.
- A member and officer relations code is in place which provides guidance so that relationships are maintained in such a way as to ensure the smooth running of the council, that members receive impartial and objective advice, and officers are protected from accusations of bias or undue influence from councillors.
- During 2017, the council has reviewed its Anti-Fraud, Bribery and Corruption Policy to ensure it remains fit for purpose.
- The council has processes in place to make a complaint, and to ensure complaints are investigated appropriately. All council members and employees are expected to deal with members of the public with dignity and respect at all times. This is embedded in the council's values, and codes of conduct. We also expect all members of the public to behave in a reasonable manner when dealing with representatives of the council, and has reviewed its unreasonable behaviour policy to ensure it remains proportionate and fit for purpose.
- The council has a Whistleblowing Policy in place. During the year an increase in its use highlighted the need to review the policy and supporting procedures to ensure it is working effectively and promoted consistently. for a revised policy and procedure was approved by the Audit and Governance Committee in May 2018.
- The constitution sets out clearly who fulfils the various roles and responsibilities of the council including decision making authority. The council ensures that advice is provided to decision makers to ensure compliance with the law and that the council can demonstrate how our decisions can support fulfilment of our public sector equality duty.
- There are processes in place to ensure that policies and procedures comply with the statutory requirements, and a programme of periodic review has been established to ensure that they remain compliant and fit for purpose.
- During 2017/18 a high court judgement found that some historic children's social care practice in relation to the application of s20 of the Children's Act 1989 had not been in compliance with the current application of law. Whilst the findings noted that improvements in practice had already been made it was also acknowledged that a number of further cases relating to the same period were likely. The Children and Young People Scrutiny Committee is undertaking some task and finish work during 2018/19 to assure themselves of the robustness of current practice.
- Following a high profile legal ruling against another council relating to deprivation of liberty (DoL) a significant rise in DoL assessments nationally was reflected in Herefordshire. Although resource for this service was increased demand remains at a high level and assessments are being prioritised on a risk basis.

Summary

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

- Adopt and implement a revised employee code of conduct
- Implement a revised whistleblowing policy and procedure
- Promote the member and officer relations code through development sessions with members and employees
- Implement a revised standards procedure for complaints against councillors

Principle B: Ensuring openness and comprehensive stakeholder engagement

- The council has adopted openness as one of the values on which our culture is shaped and which underpin our work.
- As part of the new constitution the council produced a guide to public participation and extended the opportunities for members of the public to ask questions at a meeting of the council.

- The council's planning and decision-making processes are designed to include consultation with stakeholders, and we have adopted government's consultation principles within our communications protocols
- In order to achieve our vision for the county, the council works with a range of partners and has adopted a partnerships' governance framework which sets out how we promote high governance standards in the partnerships we enter into and how we monitor the effectiveness of partnership governance arrangements.
- The recent corporate peer challenge identified that whilst the council recognised the importance of developing effective working relationships with key partners and communities, it would benefit from supporting this work in a more strategic and co-ordinated way. The recommendations of the peer challenge team were considered by Cabinet on 28 June 2018 and a response to the recommendations was agreed which ensures that the recommendations inform future planning and improvement.

Summary

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

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

- Herefordshire Council has agreed a four year Corporate Plan that sets out our priorities and the outcomes we expect to achieve.
- In addition, a register is maintained of council strategies, policies and procedures. A programme of review is in place to ensure that all strategies and plans on the register are fit for purpose, and are clear about their intended outcome.
- The council's planning and decision making processes are designed to ensure that expected outcomes and impacts are clear and that there are processes in place to measure how well they are achieved.
- The council has adopted a performance risk and opportunity management framework that provides the basis for the council to plan, monitor, and manage our performance to ensure we deliver the best service we can. It supports members and officers across the council to take responsibility for their own performance and lead the delivery of improved outcomes for residents.
- Social value is evaluated as part of our procurement arrangements.

Summary

The council complies with this principle by developing and communicating its intended outcomes. Although some older strategies and plans have less clearly defined outcomes there is a process in place for reviewing these. No significant governance weaknesses are apparent.

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

- An annual corporate delivery plan sets out the key activities we will undertake to achieve the corporate plan priorities.
- The medium term financial strategy and annual budget demonstrate how the council's financial resources will be deployed to deliver the intended outcomes.

- The council's decision making processes, including input from the scrutiny committees, ensure that decision makers receive objective and robust analysis of a variety of options indicating how intended outcomes will be achieved.
- The council's framework for partnerships' governance prompts consideration of the added value to be gained from working in partnership.
- The recent corporate peer challenge identified that a strategic review of resources, and a more cross-council rather than directorate-led approach, may be beneficial to ensure that the potential to resource achievement of the council's vision and priorities over the medium term could be maximised.

Summary

The council complies with this principle by ensuring that decision makers are informed of alternative options and have objective and professional advice on the implications of those options. No significant governance weaknesses are apparent. At its meeting on 28 June Cabinet agreed its approach to taking forward the findings from the corporate peer challenge to ensure achievement of intended outcomes is optimised.

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

- Herefordshire Council works with a wide range of partners to deliver our vision for the county and our corporate plan priorities. Partnership arrangements are entered into where appropriate and when they have the potential to deliver the desired outcomes.
- In light of the significant reduction in council resources over recent years there has been little investment in formal training and development either for members or employees, although in house training has been provided for mandatory areas and limited external training and development has been accessed.
- A programme for manager development is being developed for introduction during 2018/19 and a draft member development programme has been developed for adoption in 2018/19
- Member induction arrangements have been reviewed and a revised programme agreed and implemented. Staff induction has been reviewed and a new programme is being introduced for 2018/19.
- A Local Government Association peer review of children's safeguarding noted some improvement required to children's social work capacity, and the corporate peer challenge drew attention to the advantages of adopting a corporate transformation plan to ensure that the workforce resource was appropriately aligned to deliver the council's priorities.
- There is a continuous performance improvement programme in place which enables employees to put forward ideas, and embed continuous improvement as a culture in all our services.
- The council's personal performance and development plan process ensures that development needs are identified including those relating to leadership, and behaviours.

Summary

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

- Adopt and implement a member development strategy and plan
- Adopt and implement a manager development programme
- Adopt and implement a corporate workforce strategy

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

- The council has adopted a performance risk and opportunity management framework that provides the basis for the council to plan, monitor, and manage our performance and risks to that performance. The framework is regularly reviewed by Cabinet, and further improvements to the framework are being considered to ensure that risks are appropriately considered and escalated.

- Risk registers are maintained at project, service, and directorate levels as well as corporately and the Audit and Governance Committee monitors the effectiveness of the risk management arrangements.

- Performance (including financial management) is reported formally to Cabinet on a quarterly basis and published on the website. The council also published an annual performance report .

- During 2017/18 the council agreed to become the accountable body for public funding directed to support the establishment of a new university in the county. Robust internal control arrangements agreed by the council's s151 officer, are in place overseen by a robust partnership arrangement, to ensure effective oversight and management.

- During May 2018 the council entered into a development partnership arrangement. The contractual arrangements include robust governance and reporting arrangements and as each project will be subject to its own governance approval before any commitment is entered into through the partnership arrangement, accountability and transparency will be evident.

- Business continuity arrangements are in place for critical services and resilience arrangements regularly tested.

- During 2017/18 the council became aware of unauthorised expenditure in relation to a project to refurbish Blueschool House. Following an internal audit investigation a number of internal controls improvements were identified as necessary. Lead by the council's s151 officer and overseen by the Audit and Governance Committee an improvement plan has been progressed throughout the year and will continue in 2018/19.

- The council has appointed a senior information risk officer who is responsible for ensuring arrangements are in place to maintain security of the council's information assets.

- The council's internal audit function provides an independent view on the adequacy and effective operation of the council's internal control environment. They have identified improvement areas during the course of their work and action plans have been agreed with management to address them. Implementation of these actions is tracked and reported to the Audit and Governance Committee. The internal audit opinion for 2017/18 reported to Audit and Governance Committee on 30 July 2018 provided a reasonable assurance opinion noting that "… there is generally a healthy system of internal control designed to meet the organisations objectives. However, some weaknesses have been identified in the inconsistent application of controls that put the achievement of a particular objective at risk in some areas reviewed.". Actions to address this issue are included in the action plan as part of implementing the actions in response to the Blueschool House internal audit findings.

- A thread remains in their findings, and reflected in the assurance statements provided by managers, that there are some instances of policies and procedures either not being followed or being applied inconsistently. Internal audit have noted this has been a particular concern during 2017/18 in relation to ensuring compliance with the General Data Protection Regulations (GDPR) that came into force in May 2018 and the completeness of documentation supporting data sharing agreements. Action has been taken during 2017/18 to establish a register of council strategies, policies and procedures. There is now an agreed programme, owned by each directorate, to review the documents and ensure they are fit for purpose, that there is a communication plan to support each document, and measure are in place to monitor compliance with and effectiveness of the policy. The council had robust arrangements in place to prepare for the implementation of GDPR, identified risk areas, and agreed plans to mitigate those risks. Overarching data sharing agreements are in place with key partners. Data sharing requirements are included in relevant contract and procurement documentation and a rolling programme is in place linked to contract renewal to ensure data sharing arrangements are documented.

- The council is committed to reviewing its performance and actively pursues opportunities to gain external input into that process as evidenced by participation in the Local Government Association peer review and corporate peer challenge processes.

-

Summary

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

- Complete implementation of actions in response to the Internal Audit findings re Blueschool House

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

- The council publishes information about the decisions it takes on its website; where there is a justification for withholding information or excluding the public from a meeting of the council in accordance with the Access to Information Rules the reason for doing this is explained. During 2017/18 there were no meetings of cabinet from which the public were excluded.

- We explain what information we hold and how to access that information on our website, including publication of open data in accordance with the local government transparency code.

- The council has established a performance challenge process through which directorate performance is regularly reviewed and challenged by senior managers and elected members including cabinet members, scrutiny chairmen and political group leaders.

- An annual review of the adequacy of the council's governance arrangements is undertaken and reported to senior managers and to the Audit and Governance Committee. This review process has been strengthened this year through the introduction of a checklist for service managers to complete to inform the assessment and to inform service improvement plans.

- The council has strengthened its scrutiny function by moving from two to three committees enabling additional focus to be given to the children and young people area of activity. Each committee determines its own workplan. All executive decisions, including those taken by officers under delegation are subject to the council's call in procedures. Of the 46 recommendations made to the executive which have been considered in 2017/18 only two have been rejected.

- In their annual finding report for 2016/17 the External Auditor identified a number of improvements needed to ensure the efficient and accurate closedown of accounts, and in particular advised that consideration be given to improving the process for classification and valuation of property, plant and equipment.

- The council's Independent Person has expressed concern that the council's annual report on the code of conduct is insufficiently transparent because the individual parish councils concerned are not named. Following a review of the council's constitution by Audit and Governance Committee, Council approved changes to the constitution which make clear that individual parish councils will be named and, where a complaint has been upheld individual councillors will be named.

- Financial reporting arrangements are sound in relation to revenue but less well developed in relation to capital projects. Under the leadership of the council's s151 officer a programme of improvements to capital reporting, accompanied by clear guidance to budget managers is being pursued.

- The council's framework for partnerships governance requires a periodic assessment of the effectiveness of the governance arrangements for partnerships. This review has highlighted some potential to provide greater transparency of decisions taken by a small number of partnerships; we are working with relevant partners to secure improvement in 2018/19.

Summary

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

- Adopt and implement a revised process to close down the annual accounts including improving the processes for valuation of assets.
- Adopt and Implement improvements to capital reporting processes to improve transparency.
- Agree and implement arrangements to provide greater transparency of partnership decision-making by West Mercia Energy, Hoople and arrangements with health bodies.

Progress against actions agreed in response to the 2016/17 annual governance statement

15. The table below shows progress made, and the progress reported to the Audit and Governance Committee in May 2018.

Action Plan 2017/18					
	Improvement required	**Action planned**	**By when**	**Owner**	**Progress**
1.	Members and officers modelling the values and behaviours expected and clear about the processes to follow if they have concerns.	Supporting implementation of the revised constitution and codes which provide clearer information, a communication and training programme will be delivered for both members and officers.	End July 17	Solicitor to the Council Head of HR and OD	Achieved - Member code adopted May 2017, training provide as part of committee induction for municipal year, training to clerks and parish councillors also provided. In progress - employee code of conduct Analysis of consultation response from employee representative bodies is ongoing

Action Plan 2017/18					
	Improvement required	**Action planned**	**By when**	**Owner**	**Progress**
					and the revised code is now expected to be adopted in May 2018. A programme of training will follow adoption.
2.	The council's commitment to openness and the public interest is not always clear in its decision-making.	New guidance on access to information is included in the revised constitution.	19/05/17	Solicitor to the Council	Achieved – training also provided
		Guidance on public interest will form part of training to report authors and decision-makers	End July 17	Head of Corporate Governance	Achieved – guidance included in report writing guide and included in training sessions.
		Guidance on report writing will provide clarity on expected report content and the requirements for compliance with all the principles of good decision making to be demonstrated	End July 17	Head of Corporate Governance	Achieved – report writing guide produced and published on the intranet. Promoted through training and now, with the benefit of six-months of use, is being reviewed to ensure it is fit for purpose. Revised guidance has been produced, and is being reviewed in light of recommendations from a recent data quality audit before published on the intranet and promoted through news core.
3.	Channels of communication with the community and stakeholders are not always clear and there are inconsistent approaches to consultation.	Supporting the communication strategy and protocols, consultation and engagement standards will be established	End Nov 17	Head of Business Improvement and Transformation	In progress: revised target date of February 2018 - a revised internal consultation process and guidance for staff has been drafted to ensure a consistent approach across the organisation and is scheduled for consideration by Management Board in January 2018 for implementation in February 2018. Consultation process has been approved by management board and cascaded through the directorate senior management teams. This will also be followed up with a direct communications to all staff at the end of April 2018. The new consultation process and

Action Plan 2017/18					
	Improvement required	**Action planned**	**By when**	**Owner**	**Progress**
					a revised toolkit for consultation and engagement will be available on the intranet at the end of April 2018.
		Communications training for staff and members delivered	End March 18 then ongoing	Assistant Director Communities	In progress - First tranche of training with key communications staff (including public health, regulatory and development control, and environment and waste) delivered in December 2017. Communications training for committee chairmen delivered in September 2017. Programme for further training for senior management and members to be confirmed in the new year. Further training scheduled in March 2018 had to be cancelled due to adverse weather. This has been rescheduled for May 2018. On an ongoing basis further periodic refresher training will be scheduled and any additional training as necessary to meet identified need.
4.	Links between the various visions, budget and service planning and commissioning, risk management, performance and value for money are not consistently demonstrated or measured	Seek to agree consolidated vision through development of corporate delivery plan 2018/19	March 18	Chief Executive	In progress. Achieved: We developed the following vision as part of the Communications Strategy 2016 – 2020 adopted by cabinet in September 2016: *'People, organisations and businesses working together to bring sustainable prosperity and well-being for all, in the outstanding natural environment of Herefordshire.'* This vision builds

Action Plan 2017/18

	Improvement required	Action planned	By when	Owner	Progress
					upon our four key priorities and has helped to inform the development of our 2018/19 budget, medium term financial strategy and corporate delivery plan 2018/19. During 2018/19 further consideration will be given to how council-wide resources are aligned to achieve this vision in light of the recommendations from the Local Government Association Corporate Peer Challenge to inform the future corporate planning processes.
		Supplement the performance, risk and opportunity management framework (PROM) with some clearer guidance on service and project planning to ensure these links are made effectively and consistently; to ensure risk is consistently recorded and used to inform decision making; and to ensure outcomes are measured and reported	Sept 17	Assistant Director Environment and Place	In progress: revised target date for completion February 18 - service planning guidance was agreed by Management Board in October. Project planning guidance has been produced and will be finalised following system testing during December. It consists of an eight stage process designed to provide the required oversight and assurance at specific points. An update of the PROM is scheduled for Cabinet consideration in February 2018. Partially achieved, remainder in progress: The service planning guidance has been used as the basis for service planning for 2018/19 and the project planning guidance is to be rolled out during 2018/19 in light of learning from the systems testing which has taken place in the final quarter of 2017/18.

Action Plan 2017/18					
	Improvement required	**Action planned**	**By when**	**Owner**	**Progress**
					The updated PROM is due to be published in Q1 2018/19. The updated PROM provides greater clarity about the process to ensure that risks are identified at all levels of the organisation and are correctly recorded on the relevant risk register(s) with clear escalation processes to be applied.
		End of year/annual report to highlight the impact of activities	July 17	Assistant Director Environment and Place	Achieved - the Annual Report 2016/17 was approved by Cabinet on 22 June 2017, and can be found on the Council's website using the following link: Annual Performance Report 2016/17
		Revised commercial and commissioning strategy adopted, communicated and monitored to ensure contractual arrangements reflect the council's priorities and can demonstrate value for money.	Sept 17	Assistant Director Communities	In progress: revised target date for completion February 2018 - Procurement and Commissioning Strategy drafted and currently being reviewed internally; scheduled for cabinet member approval in February 2018. In progress: the draft has been reviewed to ensure any learning from the Blueschool House findings are addressed and is now scheduled for cabinet member consideration in May 2018 and following adoption a training plan will be implemented.
		Options appraisal to establish whether a course of action represents best use of resources, to be a consistent element of business cases informing decisions	Sept 17	Chief Finance Officer	In progress, revised target date for completion March 2018 to allow for the lessons to be learnt from the Internal Control Improvement Board to be incorporated. Work is now expected to be completed by June 2018
5.	The level of awareness of fraud risk and potential mitigation is low in	The anti-fraud and corruption policy will be reviewed and refreshed	July 17	Chief Finance Officer	Achieved – revised anti-fraud, bribery and corruption policy

Action Plan 2017/18

	Improvement required	Action planned	By when	Owner	Progress
	areas outside of financial transaction service areas.				approved by Audit & Governance Committee in July 2017.
		Communication and training of the revised policy will be delivered	Dec 17	Chief Finance Officer	In progress. Revised target date for completion June 18 to ensure that all sections of the council are aware of the revised policy
6.	There is some evidence from internal audit findings that policies and procedures are not always understood/followed.	Establish a register of policies and procedures which identifies the policy/procedure, policy owner, scope of policy, approval date, review date, and monitoring arrangement.	Dec 17	Corporate Customer Information and Equality Manager	Achieved. A register has been established on the council's intranet and the policies it contains are also available on the council's website at: policies . Employees are able to self-serve adding policies and procedures to the register and the directorate performance leads are working with their teams to ensure the register is complete.
		Following above action, establish programme to review all policies and procedures to ensure they are relevant, have clear processes for communication to employees, and compliance is monitored appropriately	March 18	Corporate Customer Information and Equality Manager	Based on a review of the populated register a prioritised programme will be developed and begin to be implemented by the end of March 2018, to ensure that each document entered on the register has been reviewed by its owner and approved through the appropriate governance process. Because of the need to prepare for the implementation of the General Data Protection Regulations in May 2018 the review programme will need to be delivered over a period of time – however priority will be given to those policies and procedures where risks associated with non-compliance are the greatest. As policies are taken through the assurance process the communications requirements for

Action Plan 2017/18

	Improvement required	Action planned	By when	Owner	Progress
					each will be confirmed (eg part of induction or mandatory training, staff to be targeted, general communications or requirement for periodic communications updates) Achieved. Each directorate has in place a programme for reviewing strategies, policies and procedures.
7.	There is a risk that partnerships' governance arrangements don't fully reflect the principles of the revised code of corporate governance.	Significant partnerships have been identified and initial self-assessments undertaken. These will be discussed with the relevant partners and, as part of those discussions improvement actions to mitigate any risks identified will be agreed. This review process will become business as usual going forward.	Ongoing	Head of Corporate Governance	The approved framework is available on the website together with a register of the council's identified strategic partnerships. The second round of reviews will begin in January and inform improvement actions within directorates. The review process began in January. This annual cycle will now be business as usual with the register being updated as necessary and risks identified being recorded on the relevant risk register. Where decisions to enter new partnerships are being taken, report authors are advised to ensure reference is made to compliance with the framework.

Key governance actions planned

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

Action Plan 2018/19					
	Improvement required	**Action planned**	**By when**	**Owner**	**Progress**
1.	Members and officers modelling the values and behaviours expected and clear about the processes to follow if they have concerns.	Approve a revised employee code of conduct. Deliver a programme of training and awareness raising to support implementation.	August 2018	Head of HR and OD	
		Promote the revised whistleblowing policy and procedure	September 2018	Solicitor to the Council	
		Promote the member and officer relations code through development sessions with members and employees	October 2018	Head of HR and OD and Head of Corporate Governance	
		Implement and promote a revised standards procedure for complaints against councillors. Progress discussions with the police regarding a joint protocol.	September 2018	Solicitor to the Council	
2.	Links between the various visions, budget and service planning and commissioning, risk management, performance and value for money are not consistently demonstrated or measured	Revised commercial and commissioning strategy adopted, communicated and monitored to ensure contractual arrangements reflect the council's priorities and can demonstrate value for money.	July 2018	Assistant Director Communities	
		Options appraisal to establish whether a course of action represents best use of resources, to be a consistent element of business cases informing decisions	June 2018	Chief Finance Officer	
3.	The level of awareness of fraud risk and potential mitigation is low in areas outside of financial transaction service areas.	Communication and training of the revised Anti-fraud, bribery and corruption policy will be delivered	June 2018	Chief Finance Officer	
4.	Further develop the capacity of the organisation and individuals within it	Adopt and implement a member development strategy and plan	September 2018	Democratic Services Manager	

Action Plan 2018/19					
	Improvement required	**Action planned**	**By when**	**Owner**	**Progress**
		Adopt and implement a manager development programme	October 2018	Head of HR and OD	
		Adopt and implement a corporate workforce strategy	March 2019	Head of HR and OD	
5.	Strengthen internal controls and financial management	Implement the actions in response to internal audit's recommendations re Blueschool House	July 2018	Chief Finance Officer	
		Implement improvements to capital reporting	July 2018	Chief Finance Officer	
6.	Enhance transparency in relation to significant partnerships	Review joint committee governance where governance support is not provided by Herefordshire Council	Sept. 2018	Solicitor to the Council	
		Review and publish schemes of delegation in respect of decisions to be taken by Hoople employees, and in discussion with the Hoople Board review the processes in place to support effective transparency and communication.	October 2018	Assistant Director Environment and Place	
		In consultation with health partners review the governance arrangements in place to ensure they support effective transparency and communication whilst respecting the respective partners distinctive governance processes	November 2018	Interim Director for Adults and Wellbeing	

Statement

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

Signed:

Councillor Jonathan Lester **Alistair Neill**

Leader of the Council	**Date:**	**Chief Executive**	**Date:**

43. Definitions

Accounting Policies

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

Accumulated Absences Account

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

Assets

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

Borrowing costs

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

Capital Adjustment Account

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

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

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

Carrying amount

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

Contingent Liability

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

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

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

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

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

Creditors

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

Collection Fund Adjustment Account

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

Core

The single entity, being Herefordshire Council.

Debtors

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

Deferred Capital Receipts Reserve

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

Depreciation

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

Exchange Transactions

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

Fair value

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

Finance lease

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

Financial Instruments Adjustment Account

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

Financial Instrument

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

Grants and contributions

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

Historical cost

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

IFRIC

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

IFRS

International Financial Reporting Standards (IFRS) provide understandable, enforceable and globally accepted accounting standards.

Impairment loss

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

Intangible Asset

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

Inventories

These are assets;

a) In the form of materials or supplies to be consumed in the production process

b) In the form of materials or supplies to be consumed or distributed in the rendering of services

c) Held for sale or distribution in the ordinary course of operations, or

d) In the process of production for sale or distribution

Investment property

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

Liabilities

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

Material

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

Minimum Revenue Provision (MRP)

A provision made for the repayment of notional borrowing used to finance capital expenditure.

Non-Exchange Transactions

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

Operating lease

A lease other than a finance lease

Property, plant and equipment

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

Provision

A liability of uncertain timing or amount.

Related Party

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

Revaluation Reserve

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

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

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

Revenue

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

Soft loan

A loan at less than the market interest rate.