

Supplement to the agenda for

Audit and Governance Committee

Monday 31 October 2022

10.15 am

The Conference Room, Herefordshire Council Offices, Plough Lane,
Hereford, HR4 0LE

	Pages
<p>8. ANNUAL GOVERNANCE STATEMENT 2021/22</p> <p>To seek the view of the committee as to whether the Annual Governance Statement (AGS) for 2021/22 properly reflects the internal control environment the council is operating in and the appropriateness of actions identified to improve.</p> <p><i>Appendix 1 - Annual Governance Statement 2021/22 is included in the supplement.</i></p>	3 - 16
<p>9. 2021/22 EXTERNAL AUDIT FINDINGS REPORT</p> <p>To consider the external auditors audit finding report for the year ended 31 March 2022.</p> <p><i>Appendix A - The Audit Findings for Herefordshire Council 2021/22 is included in the supplement.</i></p>	17 - 56
<p>10. 2021/22 STATEMENT OF ACCOUNTS</p> <p>To approve the 2021/22 Statement of Accounts and associated letter of representation from Grant Thornton, the external auditors.</p> <p><i>Appendix A – Statement of Accounts 2021/22 is included in the supplement.</i></p> <p>Please note:</p> <p>The Letter of Representation for 2021/22 cannot be issued without resolution of the technical issue in respect of the accounting treatment of infrastructure assets which is currently being considered by CIPFA; it is expected that a decision on the accounting treatment will be published before the statutory deadline of 30 November 2022 to enable Grant Thornton to issue their audit opinion for 2021/22. As a result of these exceptional circumstances and to</p>	57 - 174

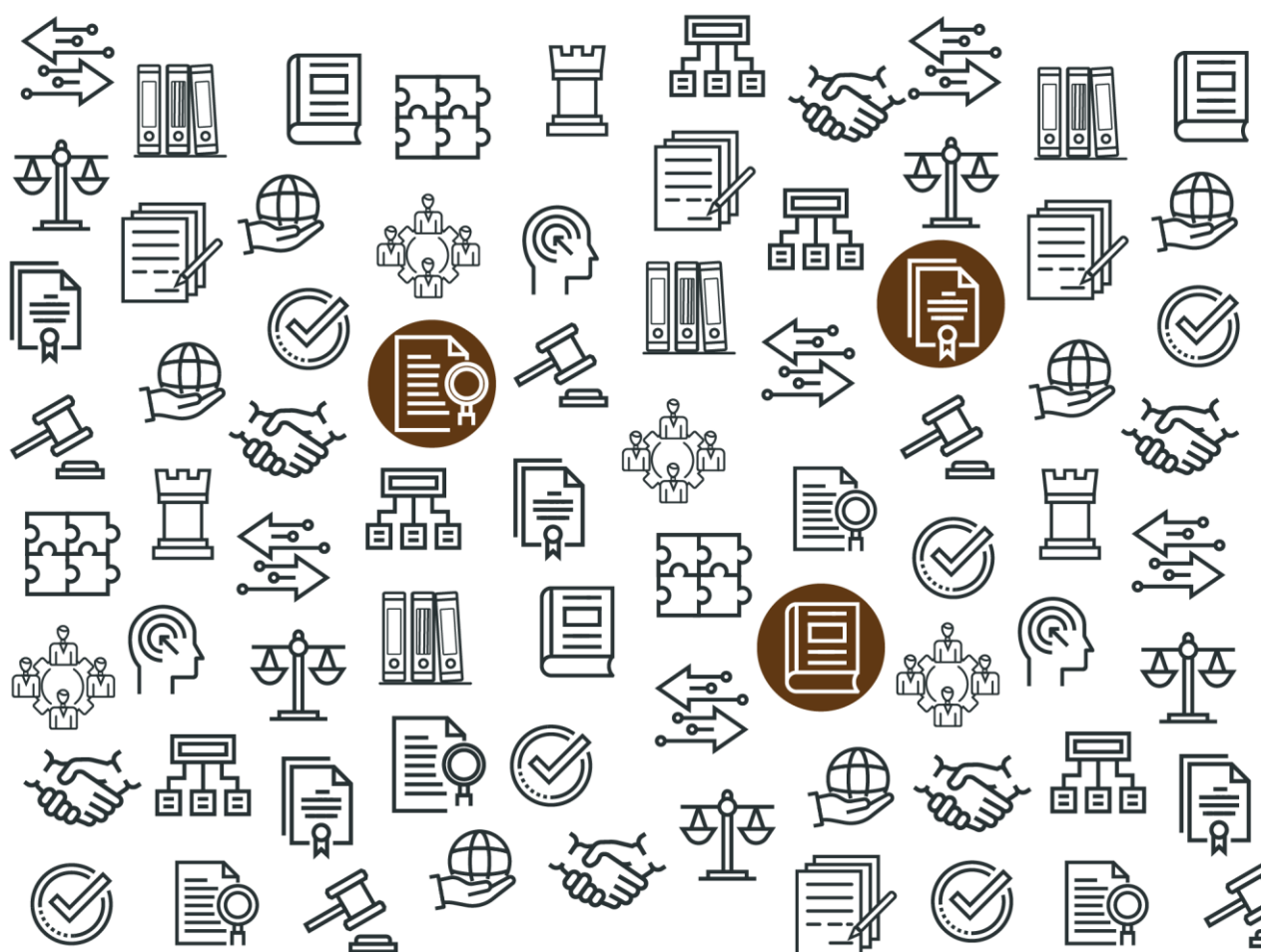
support sign off of the statutory accounts within the statutory deadline, it is proposed that the Chairperson, in consultation with the Vice-Chairperson be authorised to sign off the accounts, assuming there are no material issues or disputed amendments as advised by external auditors Grant Thornton.

The amended recommendation (to that shown on page 61 of the main agenda pack) is as follows.

It is recommended that:

- a) The committee recognises the technical reasons for not being able to sign off the accounts at this meeting. Following update provided in writing by the Chief Finance (S151) Officer to the committee that there are no material changes or issues arising, the Chairperson in consultation with the Vice-Chairperson of the committee be authorised to approve the final Statement of Accounts for the financial year ended 31 March 2022, assuming there are no material issues or disputed amendments remaining as advised by the external auditors (Grant Thornton).**
- b) If there any material adjustments or disputed changes to the Audit Findings Report discussed at today's meeting then the above recommendation will not be followed through and the Statement of Accounts for the year ended 31 March 2022 will be subject to approval at a future meeting of this committee.**
- c) Following approval by the Chairperson in consultation with the Vice-Chairperson and with prior notification of the committee as far as practicable, the Chief Finance (S151) Officer be authorised to sign the Letter of Representation on behalf of the council.**

Annual Governance Statement 2021/22



1. The Annual Governance Statement 2021/22

The council is required by the Accounts and Audit Regulations 2015 to prepare and publish an annual governance statement. This statement has been informed by an annual review of the effectiveness of the council's governance framework and systems of internal control as set out in the [code of corporate governance](#). This statement explains how the council has discharged its governance responsibilities during the period from 1 April 2021 to 31 March 2022 and documents the planned improvements for 2022/23 and beyond.

There have been many changes within the council during 2021/22 financial year.

The council continued to respond to Covid in two main ways. Firstly, by addressing the impact on the health of residents through work of testing, tracing and supporting health colleagues with the vaccine programme, and supporting care homes to be safe. Secondly, through the recovery programme delivering economic incentives and addressing the hardship faced by residents as part of the continuing impact of Covid and other national and global factors.

Financial services supported hundreds of residents and businesses through the distribution of Covid grants, with a balance to be struck between funding being released swiftly and ensuring claims are not fraudulent. Covid grants were subject to internal audits and the council's own Fraud Service was active in this area supported by an intensive programme of preventative and prosecution activity.

The new Chief Executive, appointed in May 2021, led a significant restructure, recruiting to new Corporate Director roles, and introducing a new set of council values. The workforce adapted to remote working and the introduction of hybrid working styles reduced the council's reliance on recruiting locally-based staff

The council's constitution has had a root and branch review by a cross party group of members. This will be implemented during the course of 2022/23 with key changes to the scrutiny function and operation.

Value for money continued to be an area of focus for the council in the guardianship of public funds, including the management of the Balfour Beatty Living Places (BBLP) and other long-term contracts and improving the council's arrangements to secure economy, efficiency and effectiveness in its use of resources.

Hoople Limited is a joint venture subsidiary, established in April 2011 to deliver business support services to clients across the public and private sector. During the period from 1 April 2021 to 31 March 2022, Hoople Limited was wholly owned by the council and Wye Valley NHS Trust; the council being the majority shareholder. Hoople Limited is managed through a service level agreement (SLA) which is reviewed and updated annually. This SLA includes performance indicators which are monitored by individual service managers to ensure that services are delivered in line with the agreed contract.

To ensure sustainable improved outcomes for children, Cabinet agreed an Improvement Plan in October 2021 with resources allocated to deliver urgent changes in children's social care; addressing immediate areas for improvement and supporting long-term investment in prevention services.

In the period since the reporting date of 31 March 2022, the council's children's services have been subject to further inspection. The results of this inspection are noted below:

In July 2022, an inspection of children's services was carried out by Ofsted and the results were published in September 2022. The review of the council's arrangements for children in need and children subject to a child protection plan considered a wide range of evidence including: interviews with staff, discussions with senior leaders, case discussions with social workers and team managers and performance management and quality assurance arrangements. Whilst the review acknowledged the impact of significant changes in the leadership team for children's services and the financial commitment of the council, three areas for priority action were identified:

- Address inconsistent and variable social work practice to ensure that children are the focus of assessments, planning and interventions
- The frequency and effectiveness of case supervision and the monitoring of children who are subject to child in need and child protection planning
- Shortfalls in case-holding capacity for social workers, including newly qualified social workers, to allow them to respond effectively to children in need of help and protection

Activity to address these priority areas has been identified in the Children's Improvement Plan. The delivery of the plan is monitored through the Improvement Board, independently chaired by a Department of Education Advisor to ensure that sustainable improvements are made. Following the publication of the Ofsted report, the council will continue to work closely with the Children's Commissioner, and strategic partners, to implement changes in response to the findings of the inspection.

2. Corporate Governance and the Annual Statement

Corporate governance generally refers to the processes by which an organisation is directed, controlled and held to account. Governance will determine who has authority to make the decisions to achieve the intended outcomes whilst acting at all times in the public interest. It is how the council ensures it provides 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.

Effective governance leads to:

- ✓ Safeguarding public funds, ensuring spend is made in the right time and the right way.
- ✓ Public engagement and the right outcomes for residents and businesses of the county.
- ✓ Making the right decisions for the right reasons through leadership and management.
- ✓ Continuous improvement through understanding and managing risk and performance.

This annual statement incorporates:

- **Scope of responsibility and governance framework:** acknowledges 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;
- **The statement:** describes how the council has monitored and evaluated the effectiveness of its governance arrangements in the year, and outlines how the council has responded to any issue(s) identified in last year's governance statement; and
- **Improving governance:** reports on any key governance matters identified from this review and provides a commitment to addressing them, highlighted as "continuous improvement".

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

3. Scope of responsibility and governance framework

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 and properly accounted for whilst being used economically, efficiently and effectively. The council also has a duty under the Local Government Act 1999 to continually review and improve the way it works. The council's [constitution](#) is a key document that details how the council makes its decisions, who has responsibility and the procedures it follows. The constitution was reviewed in 2021-22 as part of the programme of "Rethinking Governance".

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).

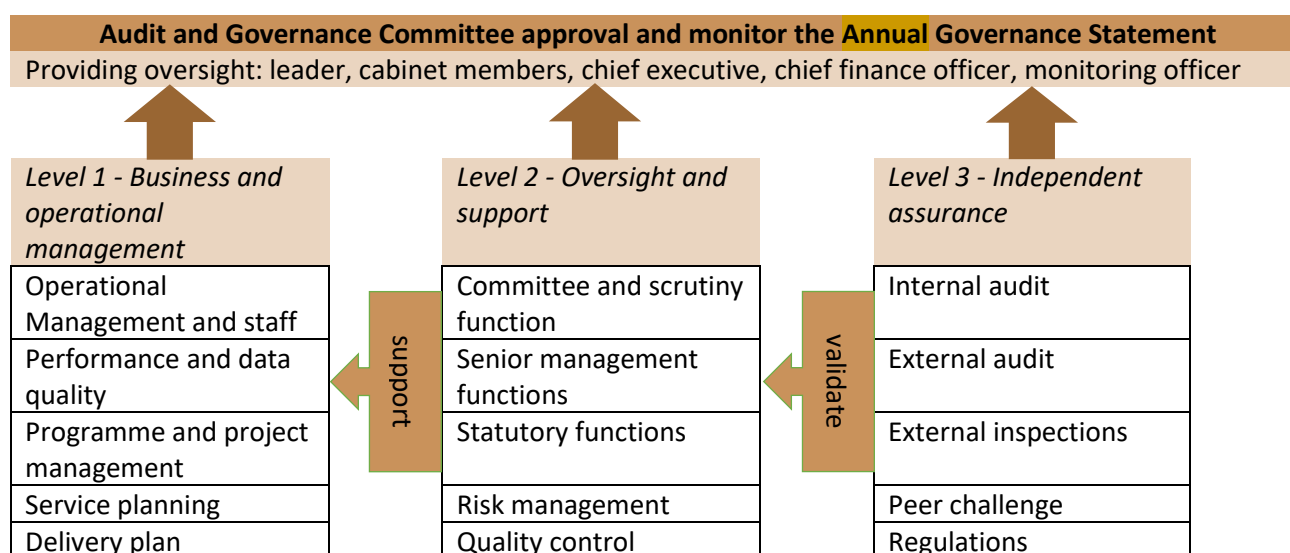
The framework operates at three levels, often referred to as the “three lines of defence” based on three opportunities to address risk and weaknesses in governance:

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. This level is supported by:

Level 2 - Oversight and support. Portfolio holders, scrutiny and audit and governance committee, senior managers and statutory officers provide strategic, policy and direction setting, decision-making, and assurance oversight. This level is 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 these levels interact and operate across the organisation is described above but also is illustrated below showing the 3 levels of defence:



4. Preparing the Statement

The AGS is presented jointly by the Director of Resources and Assurance (who has the statutory role of Chief Finance Officer Section 151 officer), and the Director of Law and Governance (who has the statutory role of monitoring officer).

In preparing the AGS the council has:

- Reviewed existing governance arrangements against the guidance included in CIPFA/SOLACE ‘Delivering Good Governance in Local Government’ framework – 2016 and the new governance risk and resilience framework from the centre for governance and scrutiny (CFGs).
- Reviewed the code of corporate governance to ensure it reflects this guidance and includes the recommended seven principles of good governance.
- Assessed the effectiveness of our governance arrangements against the code of corporate governance.

The key sources of assurance that inform this review are as below:

- Review compliance with laws and regulations, corporate strategies, policies, plans and arrangements e.g. constitution, financial and performance monitoring and reporting, and risk management
- Directors and statutory officers' declarations
- Significant partnerships' governance risk assessments considered by Directors
- Internal audit reports and opinions
- Views of the council's appointed Independent Person(s) on the draft review.

The Statement sets these sources of information against the 7 Principles of Corporate Governance (A to G) as set out in the Herefordshire Council's [Code of Corporate Governance](#) and the CIPFA/SolACE Delivering Good Governance in Local Government Framework 2016. The council aims to achieve good standards of governance by adhering to the seven core principles below.

5. The Statement

The results of the annual review of the effectiveness of the council's governance arrangements during 2021/22 are set out in the paragraphs below to demonstrate how the council has complied with the seven principles of the CIPFA/Solace Framework and to note the areas where it is recognised that governance arrangements could be further strengthened.

Principle A

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

The council has undergone a major review of its governance arrangements based on a council resolution of 11 October 2019. A cross party group of members have been involved in reviewing elements of the constitution with the updated arrangements presented to Full Council on [4th March 2022](#) with changes effective from 20 May 2022. The main changes are based on:

- Reorganisation of scrutiny committee functions into 5 committees (see below).
- An annual effectiveness review of committees presented to the annual council meeting.
- Cabinet is provided the ability to hold Question and Answer meetings.
- Clarity has been given to the planning committee rules including redirection and a time allocation for ward member speaking.
- The Employment Panel functions relating to disciplinary and grievance meetings have been set out.
- Questions at meetings criteria has been changed.

The new committee structure will consist of:

- Scrutiny Management Board
- Environment & Sustainability Scrutiny Committee
- Connected Communities Scrutiny Committee
- Children & Young People Scrutiny Committee
- Health, Care & Wellbeing Scrutiny Committee

The council's [equality policy](#) is designed to demonstrate our commitment to equality, and evidence how it complies with the Equality Act 2010. It makes reference to the inequalities highlighted by the Covid-19 pandemic, and declares the council's solidarity with people who are protesting against racism.

The council has also made commitment to Modern Slavery through a published statement updated each year contained with dedicated [webpages](#).

The council has a [Procurement and Commissioning Strategy](#) with all members consulted on its update due for 2022. As part the council's purchasing power it has implemented its approach and increased social value through contracts, with a new measurement [framework agreed](#) 10 September 2021. Revised thresholds will be linked to the changes implemented in 30 March 2022 as part the Public Contracts Regulations 2015.

As part of the General Data Protection Regulation (GDPR) the council will report data breaches. The council encourages the reporting of data breaches even if considered minor because it can learn from incidents and register a pattern. From April 2021 to March 2022 6 breaches were reported to the Information Commissioners Office. Their findings are published for each council – [link](#).

The governance arrangements, as identified above, have been effective in the period from 1 April 2021 to 31 March 2022. Areas where it is recognised that governance arrangements could be further strengthened are noted in the table below. The implementation of identified improvement actions and their operation during the year will form part of the council's next annual review.

Principle A: Continuous improvement

	Action	Council Leadership Team
a.1	Promote the changes in the constitution to officers and members, along with raising awareness with the public regarding changes and approach to questions.	Director of Law and Governance
a.2	Review the remaining element of the constitution in liaison with the working group.	Director of Law and Governance
a.3	Progress update of the Procurement and Commissioning Strategy (action brought forward).	Director of Resources and Assurance

Principle B

Ensuring openness and comprehensive stakeholder engagement

Based on the response to a unanimous vote of Full Council on 12 July 2019 the council introduced a new way of engaging with the public through the first Citizens Climate Assembly. The final 41 participants addressed the question 'How should Herefordshire meet the challenges of climate change?' which was considered over 2 weeks and 2 evenings in January 2022. The sessions included a range of expertise and experience from a local, national and even international level - this allowed the assembly members to work with their facilitators to make informed recommendations that were accepted by cabinet on [24 February 2022](#).

Sortition Foundation also supported the assembly by independently selecting participants. This was based on randomly selecting 14,400 addresses across Herefordshire (based on 300 addresses for every one of the needed assembly members). From this invite 520 people signed up as potential assembly members who were then asked to share information (including view of climate change) to ensure representation from which an algorithm was used to reach the final participants. A detailed report of the recruitment process can be found at the following [weblink](#).

The council also engages stakeholders in a range of consultation using a variety of methods although face to face engagement has been restricted during the year because of Covid. The council has dedicated [webpages](#) for consultations. Feedback from events, surveys and consultations help to inform the council's improvement plans, input to the design of future services and shape the ambitions as set out in the County plan. In 2021/22 consultations and surveys conducted included: Draft Local Housing Strategy consultation, Childcare survey, Draft Minerals and Local Waste Plan Pre-submission consultation, Domestic abuse strategy consultation, 2022/23 Budget consultation, Bus service improvement plan survey and Adult day services engagement.

The Working & Wellbeing Survey conducted in 2021, invited employees to provide feedback on working from home arrangements and general wellbeing and the results of this engagement have been used to drive improvements in staff communications and support. An Employee Survey is conducted every two years to identify, develop and prioritise initiatives to support staff. The council has responded to feedback from the last employee survey by revising the performance development planning cycle, implementing Bullying & Harassment Advisors, supporting more flexible and agile working and implementing mental health awareness training.

The council has processes in place to make a [complaint](#) and to ensure complaints are investigated appropriately. Between April 2021 and March 2022 the council dealt internally with 641 complaints, of which 12% were upheld or partially upheld. In addition, 23 complaints were processed under the statutory children's complaints procedure for children's social care. From the latest annual review (1 April 2020 to 31 March 2021) three cases were upheld by the Local Government and Social Care Ombudsman (LGSCO) - view from LGSCO [website](#).

The council has maintained similar levels of Subject Access Requests (SARs) between 2020/21 and 2021/22 – the council is legally obliged to provide information held on an individual and this can date back a considerable number of years, take significant time to process and of a sensitive nature. The Information Governance Team and children's services are working together to take a more proactive approach in sharing the information in a sensitive way without the need for a SAR.

The Freedom of Information (FOI) Act 2000 gives the right to recorded information held by public authorities, with the Environmental Information Regulations (EIR) 2004 providing the same right of access for recorded 'environmental' information. This includes printed documents, computer files, letters, emails, photographs, audio and video recordings. There were 850 Freedom of Information requests for 2021/22 compared with 738 for 2020/21. The purchase of a new software system during the year has made it easier to produce a disclosure log on the [website](#) and an accompanying [Disclosure Policy](#) was published.

Items	2020-21	2021-22
Freedom of Information Requests	738	850
Environmental Information Regulations	78	79
Subject Access Requests	151	135

The council has a [Partnership Governance Framework](#) which was due for review in 2021/22 but this did not take place. However, an update of the process for registering significant partnerships did take place and for the first time Audit and [Governance Committee](#) was sighted on all the completed self-assessment forms. A SWAP audit also took place and is in the process of reviewing all the completed checklists. A register of the partnerships is held on the council [website](#).

The council has procured a new programme that will support customer queries in a more co-ordinated way. The 'MyAccount' feature on the website will enable residents to have their own digital account with a register to track correspondence. The council will complete a Customer Services and Digital Strategy during 2022/23 supported by an updated IT Strategy as part of the Chief Executive's wider transformation programme.

The governance arrangements, as identified above, have been effective in the period from 1 April 2021 to 31 March 2022. Areas where it is recognised that governance arrangements could be further strengthened are noted in the table below. The implementation of identified improvement actions and their operation during the year will form part of the council's next annual review.

Principle B: Continuous improvement

	Action	Council Leadership Team
b.1	Produce an Engagement Plan based on a review of lessons learnt from the Citizens Climate Assembly and the effectiveness of the budget consultation	Corporate Director of Community Well Being
b.2	Produce a Customer Services and Digital Strategy	Interim Director of Strategy

b.3	Produce an updated IT Strategy	Director of Resources and Assurance
b.4	Implement revised method of Subject Access Requests	Director of Resources and Assurance
b.5	Review Partnership Governance Framework in light of the governance risk and resilience framework (action brought forward).	Director of Law and Governance

Principle C

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

Herefordshire Council cabinet agreed the Delivery Plan for 2022-23 on [31 March 2022](#), in delivery of the [County Plan](#) that runs from 2020 to 2024. Performance against the actions identified to deliver the ambitions of the Plan is monitored and reported to Cabinet quarterly. Reporting identifies the lead officer, outlines progress made in the quarter against the performance measures relevant to each action and indicates the assessed risk of delivery.

There are three key objectives of the county plan that are followed through with actions in the delivery plan:

Environment: Protect and enhance our environment and keep Herefordshire a great place to live

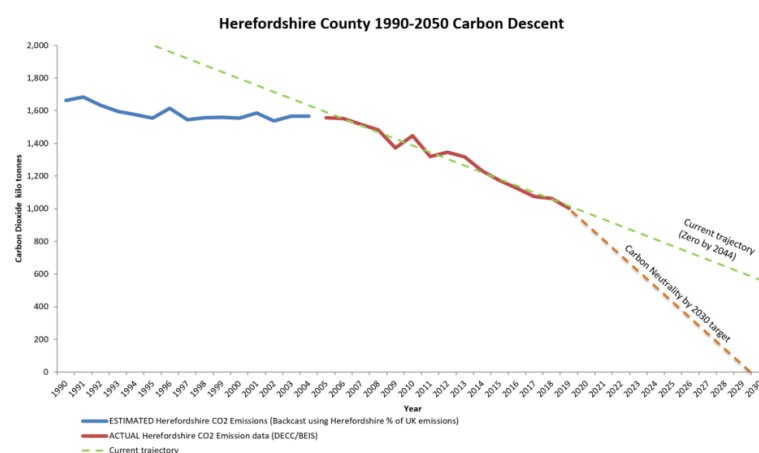
Community: Strengthen communities to ensure everyone lives well and safe together

Economy: Support an economy which builds on the county's strengths and resources

In recognition of the economic and social value of market investment plans (MTIPs), the council has produced a plan for each of its 5 market towns of Ross, Leominster, Ledbury, Kington and Bromyard. The development of the MTIPs highlights significant enhancement to infrastructure, public realm, shop front/ building etc. in creating the conditions for growth. Establishing a clear strategic rationale, local evidence base, and identification of prioritised projects with local stakeholders means the council is well placed to seek support through future rounds of government funding, such as the Levelling up Funds, UK Shared Prosperity Funding or Future Towns Funding. The plans can be found in the cabinet papers of [31 March 2022](#).

For investment in Hereford, £22.4 million has been awarded from the Government's Towns Fund for projects that support post-covid recovery and enhance economic growth through creating new jobs and helping to train local people. All business cases for shortlisted projects are to be complete by June 2022. The programme is being delivered through a Towns Fund board (called the [#StrongerHereford board](#)) of which Herefordshire Council is a key partner and the accountable body.

Herefordshire Climate and Nature Partnership was another key partnership established in 2021-22. It was established to drive and coordinate achieving zero carbon in the county by 2030. These actions have been grouped into a series of six different action plans including: Housing and Buildings; Transport; Energy; Farming and Land Use; Waste and Food. The details of the six themed action plans are set out in the dedicated [website](#). Herefordshire Council itself is on target to meet net zero by 2044 as the diagram illustrates.



The governance arrangements, as identified above, have been effective in the period from 1 April 2021 to 31 March 2022. Areas where it is recognised that governance arrangements could be further strengthened are noted in the table below. The implementation of identified improvement actions and their operation during the year will form part of the council's next annual review.

Principle C: Continuous improvement

	Actions	Council Leadership Team
c.1	Submit Stronger Towns Bids by June 2022	Corporate Director of Economy and Environment
c.2	Produce a new Economic Strategy for the county	Corporate Director of Economy and Environment
c.3	Progress actions from the Citizens Climate Assembly	Corporate Director of Economy and Environment

Principle D

Determining the interventions necessary to optimise the achievement of the intended outcomes

The key area of improvement for the council is social care within the Children and Families Directorate. This is in response to Mr Justice Keehan who delivered a [Judgement](#) that identified serious failings in Herefordshire Council's children's services. Full Council on [27 April 2021](#) unanimously supported the establishment of an Improvement Board as part of the assurance and improvement strategy, and on 18 May 2021 the Department for Education issued the Council with a non-statutory improvement notice. A Focused Visit by Ofsted in [July 2021](#) identified shortfalls in the capacity of social workers, an inconsistency of social work practice, and insufficient management oversight and supervision. The previous inspection by Ofsted in [2018](#) had raised similar concerns and criticism of the lack of pace of improvement was identified.

Cabinet of [28 October 2021](#) endorsed the Children and Families Strategic Improvement Plan v1.0 and the council agreed a £5.2m investment to address the immediate issues raised in the High Court Judgement. The investment has led to reduced caseloads (particularly in the assessment teams), increased levels of personal and case supervisions, and increased frequency of visits to children and young people and their families. A requirement for further investment of £11.49m for 2022-23 and future funds for 2023-24 was outlined to cabinet members on [31 March 2022](#).

An independent audit project assessed in excess of 1,000 cases and whilst none of the audits raised serious safeguarding concerns requiring immediate action, the majority of cases audited were deemed as being Inadequate or Requiring Improvement.

Core transformation of the service is planned and is aimed at:

- Improving outcomes for children, young people and their families.
- Making working in Herefordshire an attractive and rewarding career choice.
- Embedding systemic partnership approaches and exploring alternative models of delivery.

Another major area of development is modernisation of council services led through the Customer Services and Digital Strategy in 22/23 This links closely to advances in IT, use of data and how the council uses its property in response to remote working and wider asset plans. The production of an estate strategy was planned for last year and this action has been brought forward. It was delayed to allow time to understand the different requirements of services as part of the move to hybrid working, which comes into force in 22/23 as the Flexible Futures programme

The council publishes its [plans and strategies](#). These have been updated and reviewed this year, but more work is to be done in 22/23 on bringing these together with a golden thread from county plan to service plans and decision-making. Another action to be brought forward is the production of an external funding strategy. Though this is not a statutory requirement, it will be useful in outlining the council's criteria for sourcing funding, support for communities and economic schemes, and accepting liabilities such as acting as accountable body.

The governance arrangements, as identified above, have been effective in the period from 1 April 2021 to 31 March 2022. Areas where it is recognised that governance arrangements could be further strengthened are noted in the table below. The implementation of identified improvement actions and their operation during the year will form part of the council's next annual review.

Principle D: Continuous improvement

	Actions	Council Leadership Team
d.1	Update Children Services Improvement Plan	Corporate Director of Children and Young People
d.2	Update IT Strategy and supporting Technology Strategy to be produced	Director of Resources and Assurance
d.3	Corporate Asset Review to be produced for covering future use of council properties	Director of Resources and Assurance
d.4	External funding strategy to be produced (action brought forward)	Director of Resources and Assurance
d.5	To instigate a pipeline of policies and strategies linked to governance decision making (action brought forward)	Director of Resources and Assurance
d.6	Produce the Estates Strategy for the use of council buildings reflective of service needs based on hybrid working (action brought forward)	Director of Resources and Assurance

Principle E

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

The Chief Executive conducted a restructure of the senior leadership team during the year with the new Corporate Leadership Team designed to lead, develop and model a corporate, one Council culture and way of working. Permanent appointments have been made to new Corporate Director roles for Economy and Environment, Children and Families, and Community Well-Being. The list of senior management can be found on the council [website](#). There has also been a change of Monitoring Officer / Solicitor to the Council with a two-year fixed-term appointment made.

To support the change required in Children and Young People Directorate there has been a number of interim and agency staff, though again the council is working to create permanency which is a key element of the Strategic Improvement Plan in 'developing a skilled and stable workforce'. Children and Young People Scrutiny Committee on the [22 February](#) 2022 received a comprehensive set of workforce information. As of 29 January 2022 five temporary teams have been brought in to provide additional capacity for the improvement activity with a further 2 temporary Assessment teams. There remains an issue of recruitment and retention, with almost half of social worker employees in the Children and Young People Directorate having been employed by the council for under 2 years (49.12%). Key points are:

- Social workers continue to feature on the UK national shortage occupations list.
- Difficulty attracting experienced social workers.
- Regional recruitment challenges (permanent and agency) due to Herefordshire's location on the fringes of the West Midlands, bordering Wales and Gloucestershire.
- Reliance on agency workers to cover vacancies (including management roles) and the resulting impact on stability of the workforce.
- Impact of recent national, high-profile child protection cases resulting in increased referrals which compounds the workforce issues we are already experiencing.

How the council operates as a workforce has changed significantly since Covid lockdowns, demonstrating that remote working is viable and cost effective in reducing spend on office accommodation. Included in part of the

Flexible Futures is a workstream element that will confirm permanent arrangements for opportunities for remote working.

As a result of the Equality Act 2010 (Specific Duties and Public Authorities) Regulations 2017, all public sector employers (with 250 or more employees) are required to publish annual information about the difference between pay for male and female employees. The current gender pay gap for Herefordshire Council is 13.9% (on the snapshot date of 31 March 2021). That means for every £1 earned by a male employee, a female employee earns 86p. The gender pay gap in Herefordshire Council has increased since 2020, when it was 8.2% detailed statistics can be found within the [equality analysis of our workforce](#).

The council has a programme of mandatory training with subjects that are essential to the council. However, as figures show not all employees are completing the training which could be a compliance or data issue.

Mandatory Training subject	Complete by workforce
Information Governance	92%
Information Security	91%
Prevent	92%
Code of Conduct	93%

The council has revised its recruitment profile based on the “[Spirit of Herefordshire](#)” and is in the process of commissioning a new IT system for recruitment. 2022/23 will see action from last year’s annual governance statement implemented regarding policies and training.

Training includes members in specific subject areas along with working with officers. Actions also include promotion of being a council member in the run up to election in May 2023.

The governance arrangements, as identified above, have been effective in the period from 1 April 2021 to 31 March 2022. Areas where it is recognised that governance arrangements could be further strengthened are noted in the table below. The implementation of identified improvement actions and their operation during the year will form part of the council’s next annual review.

Principle E: Continuous improvement

	Actions	Council Leadership Team
e.1	Address compliance of staff not completing mandatory training	Director of HR and OD
e.2	Revise recruitment policy; publication of the ex-offenders policy; review market forces guidance to ensure fit for purpose (action brought forward)	Director of HR and OD
e.3	New recruitment software installed to manage vacancies across the council	Director of HR and OD
e.4	Action plan to address gender pay gap and equality issues highlighted in the equality analysis data	Director of HR and OD
e.5	Promotion of becoming a council member including flexibility with increased virtual meetings (action brought forward)	Director of Law and Governance (Monitoring Officer)
e.6	Deliver officer and member training and specific member development training (action brought forward)	Director of Law and Governance (Monitoring Officer)

Principle F

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

Herefordshire Council has adopted a [performance framework](#) and produces comprehensive performance and finance reports each quarter to cabinet with published papers. The framework outlines the process of risk assurance based on corporate, directorate and service risk. Audit and Governance Committee will consider the corporate risk register – and whilst the council is effective in understanding operational risks, an overview of strategic risk would be helpful to understand external pressures on the council. Brought forward as an action from

last year is embedding a risk culture in the organisation, which has gone some way but with new influx of staff it is important to reinforce the message.

The council has introduced PowerBI reporting for management board, supporting ease of access for tracking information, more efficient data recording and more use of live information. It would be useful for this system to be used for cabinet reports and subsequent published data for ease of access by the public. This is part of an action brought forward from last year.

A service planning tool (Verto) is now available for teams to use to record actions and support improvements in performance monitoring and risk management of projects. The full scope of its application will be realised in 2022/23 and will remain under review to ensure that it adds value across the organisation, ensuring effective monitoring of identified actions and planned improvements via an integrated solution.

On [28 June 2021](#) Audit and Governance Committee approved the update of the Counter Fraud and Corruption Strategy 2021-2024. A great deal of work has been conducted in this area in the last year related to Covid 19 grants which was presented to Audit and Governance Committee via an annual report on [25 January 2022](#).

Covid 19 Business Grants - FEN {Fraud, Error, Non-compliance}	
	2020/2021
Total value of grants paid to all businesses	£103,990,160
Total number of cases investigated by the CFS	341 cases
Total value of clawbacks raised	£1,199,046
Total value claimed, but prevented before payment	£522,000
Total value paid, recovered	£699,722
Total value of grants paid, pending recovery	£499,324
Total value of pending recovery, on repayment plans	£149,102
Total FEN Detected	£1,721,046 (1.7%)

A new and bespoke 'Fraud Awareness and Prevention 2021' e-learning module was created in November 2021 which will assist in further educating employees across the organisation on how to understand, identify and report allegations of fraud. Also the council's parking enforcement team led on 12 prosecutions in 2021 against Blue Badge (disabled parking) fraud and misuse - [link](#).

In March 2022 the council published a [Value for Money Strategy](#). Cabinet in [29 July 2021](#) received a major contract performance update including summary of investigation into the Hereford City Centre Transport Package (HCCTP), and recommendations of establishing a Major Contract Improvement Board, with an Improvement Plan agreed on 1 March 2022. As part of the investigation it was found that BBLP operated as a dormant company though financially operated under a parent company.

One of the issues concerned with HCCTP was the consideration of the capital expenditure and ensuring enough spend to complete the business case and objective of the programme. This has been addressed with a new capital spend cycle with actual costs to prepare capital submission and the establishment of the Programme Management Office has supported the scheme. At 31 March 2022, actual spend was at c86% of budget.

A settlement agreement was made in August 2021 with a member of staff leaving the organisation (this followed two settlement agreements in 2020/21) – one which was agreed by the employment panel on [9 September 2020](#) (though exempt from the public record). The remaining 2020/21 and the 2021/22 settlements were not presented to Employment Panel and considered an operational decision. The governance for settlement agreements needs to be reviewed and confirmed in policy.

In [November 2021](#) Cabinet approved the procurement route and implementation of the new delivery proposals, processes and expenditure of up to £9.3m of S106 agreements. These agreements are legally binding obligations between Herefordshire Council (as the local planning authority) and developers to make acceptable development which would otherwise be unacceptable in planning terms – this is usually in the form of investment in infrastructure, public realm, parks, flood relief, schools, etc. The report found that there were delays in progressing schemes and potential loss of funds for communities.

The governance arrangements, as identified above, have been effective in the period from 1 April 2021 to 31 March 2022. Areas where it is recognised that governance arrangements could be further strengthened are noted in the table below. The implementation of identified improvement actions and their operation during the year will form part of the council's next annual review.

Principle F: Continuous improvement

	Actions	Council Leadership Team
f.1	Audit or review of teams using corporate service planning tool	Director of Resources and Assurance
f.2	Continue to review the application of PowerBI as a reporting tool to align corporate reporting	Director of Resources and Assurance
f.3	Regularly report progress to cabinet on the Major Contracts Board	Director of Resources and Assurance
f.4	The governance arrangements and supporting policy for settlement agreements to be reviewed to ensure transparency and evidenced decision making	Director of Law and Governance (Monitoring Officer)
f.5	Confirmation of council's contracting with parent companies when operated via a dormant company	Director of Resources and Assurance
f.6	Implementation improved and ease of access to performance information for staff, members and the public (action brought forward)	Director of Resources and Assurance
f.7	Introduction of strategic risk along with corporate and operational risk assessments embed as part of culture and practice (action brought forward)	Director of Law and Governance (Monitoring Officer)
f.8	Progress plans to ensure effective spend of s106 monies	Director of Resources and Assurance
f.9	Implement improvement plan for value for money on the public realm contract (action brought forward)	Director of Resources and Assurance
f.10	Strengthen performance monitoring arrangements for Hoople Limited to include quarterly reports to Cabinet	Director of Resources and Assurance

Principle G

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

SWAP provide the council with internal audits. Their plan for audits is presented to Audit and Governance committee and present plans based on risk, known national pressures, and requests e.g. fraud on Covid grants for contract value for money. For the year ended 31 March 2022, the Head of Internal Audit issued a Reasonable Assurance opinion on the overall adequacy and effectiveness of the Council's governance, risk management and internal control environment.

For transparency the council includes publication of the following information:

[Grants awarded by Herefordshire Council](#)

[Council land and property assets](#)

[Council expenditure over £500](#)

[Contract Register](#)

[Business Rate dataset](#)

All council decisions are [published](#), along with agendas and minutes. The constitution clearly sets out the accountabilities in the council including levels of decision making, though training and awareness on this would be good considering the new starters in the organisation and the loss of corporate knowledge.

The council has a system of cabinet member portfolio briefings which are used as a form of decision making, and reporting risks and performance. The terms of reference were reviewed in April 2022 but could do with a further consideration to ensure they are being implemented consistently and of benefit to members.

The council has a reporting publishing software which supports all reports to be available and a shared system for “sign-off”. As an action brought forward this is to be reviewed in terms of the council maximising the capabilities.

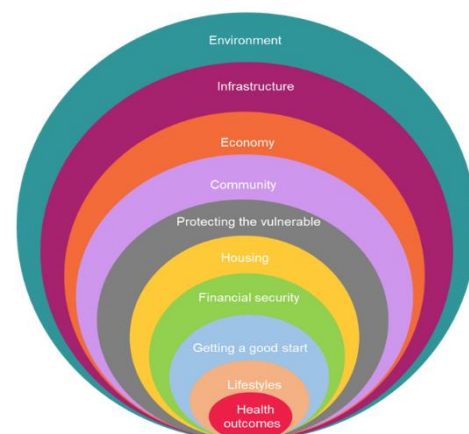
The revised constitution (operational from May 2022) includes updated process for the public to ask questions ([link](#)).

The council produces the [Joint Strategic Need Assessment](#) (based on the theme illustrated – right), supported by [Understanding Herefordshire](#) Facts and Figures. Including Facts and Figures from the [local area](#).

A Local Government Association review of the Strategic Intelligence Unit credits the service with the quality of information it provided, but was not universally used across the organisation to provide evidence based decisions.

Whilst the annual report on code of conduct to Audit and Governance Committee was considered in [January 2022](#) consultation is currently open with all Herefordshire Councillors (including town and parish) on a revised code of conduct for adoption at the council’s AGM in May 2022.

The governance arrangements, as identified above, have been effective in the period from 1 April 2021 to 31 March 2022. Areas where it is recognised that governance arrangements could be further strengthened are noted in the table below. The implementation of identified improvement actions and their operation during the year will form part of the council’s next annual review.



Principle G: Continuous improvement

	Actions	Council Leadership Team
g.1	Training for decision-making responsibility within the officer body	Director of Law and Governance (Monitoring Officer)
g.2	Delivery of recommendations for the LGA peer review of the Strategic Intelligence Unit	Director of Resources and Assurance
g.3	A revised code of conduct for members and new arrangements for dealing with allegations that members have breached the code (action brought forward)	Director of Law and Governance (Monitoring Officer)
g.4	Review portfolio briefing to ensure effectiveness and compliance (action brought forward)	Director of Law and Governance (Monitoring Officer)
g.5	Make the most of new features on Modern.gov (action brought forward)	Director of Law and Governance (Monitoring Officer)

Statement and opinion - Leader of Herefordshire Council

Name: Cllr Hitchiner

Title: Leader of Herefordshire Council

Date: (at final version)

Statement and opinion – Chief Executive of Herefordshire Council

Name: Paul Walker

Title: Chief Executive

Date: (at final version)

The Audit Findings for Herefordshire Council

Year ended 31 March 2022

⇧ 31 October 2022



Contents



Your key Grant Thornton team members are:

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Section

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2. Financial statements
3. Value for money arrangements
4. Independence and ethics

Appendices

- A. Action plan
- B. Follow up of prior year recommendations
- C. Audit adjustments
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents have been discussed with management and will be presented to Those Charged With Governance.

Name : Peter Barber
For Grant Thornton UK LLP
Date : 31 October 2022

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1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Herefordshire Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2022 for those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the group and Council's financial statements give a true and fair view of the financial position of the group and Council and the group and Council's income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We commenced our post-statements audit in late June and as at 24 October 2022 our audit is substantially complete. Our findings are summarised on pages 5 to 20. Our work to date has identified one material error and a resulting prior period adjustment in the financial statements that have been corrected in the revised statements. This error relates to the reclassification of the council's Energy from Waste asset, previously reported as a land & building asset, as an item of plant & machinery in 2021/22. In addition, we identified a number of other non-material and presentational disclosure items that have resulted in an adjustment of £143k to the council's Comprehensive Income & Expenditure Statement.

All audit adjustments including those aimed at improving the presentation of the financial statements as detailed in Appendix C.

We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

The draft financial statements were submitted for audit in line with the agreed timetable, along with supporting working papers. There has been significant change in the finance team supporting the audit process this year. This has resulted in further quality review by the incoming Head of Strategic Finance and additional work on both our part and that of the new team to correct a number of historic errors.

Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion [Appendix E] or material changes to the financial statements. This is subject to the successful resolution of the national infrastructure issue for which CIPFA are currently pursuing a statutory override.

Subject to completing our remaining audit procedures set out on page 5, receiving responses to our outstanding queries and having regard to any further national guidance, we anticipate issuing an unqualified audit opinion following the receipt of the letter of assurance from the Worcestershire Pension Fund auditor in early November 2022.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated audit report opinion will be finalised upon conclusion of the audit.

1. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay was issued to the Chair of the Audit and Governance Committee on 28th September 2022 and is included at Appendix G to this report. We expect to issue our Auditor's Annual Report by January 2023. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified a number of risks as part of our VFM planning. Our work on these risks is underway and an update is set out in the value for money arrangements section of this report.

Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- to certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties.

We expect to certify the completion of the audit upon the completion of our work on the Council's VFM arrangements, which will be reported in our Annual Auditor's report in January 2023.

Significant Matters

We did not encounter any significant difficulties or identify any significant matters arising during our audit.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff. The ongoing impact of the pandemic has meant that both your finance team and our audit team faced audit challenges again this year, such as remote access working arrangements including video calling, and increased procedures required to verify the completeness and accuracy of information provided remotely.

2. Financial Statements

Overview of the scope of our audit

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

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

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

- An evaluation of the group's internal controls environment, including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter our audit plan, as communicated to you in June 2022.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing our audit opinion. These outstanding items include:

- Review of consolidation procedure;
- Review of responses from component auditor to group audit instructions;
- Responses for queries on revaluation of Investment Properties and Other Land & Buildings;
- Review of valuation of Infrastructure assets;
- Receipt of letter from Pension fund auditors;
- Review of Private Finance Initiative note;
- Review of revised notes for Cash flow statement;
- Receipt of evidence for Expenditure & Funding analysis
- Review of Provisions (including NNDR provisions)
- Evidence for testing of Council Tax and NNDR reliefs;
- Responses for queries on Officer's remuneration note;
- Review of Going concern assumption;
- Review of litigations and claims;
- Review of Annual Report and Annual Governance Statement;
- Final review by Audit Manager and Engagement Lead;
- Receipt of management representation letter; and
- Review of the final set of financial statements.

2. Financial Statements



Our approach to materiality

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

Materiality levels remain the same as reported in our audit plan in June 2022. We detail in the table opposite our determination of materiality.

*please note the materiality applied to senior officer remuneration was incorrectly recorded in our plan as £1m with the actual materiality used being £15,000.

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	£7.864m	£7.7m	1.8% of gross revenue expenditure
Performance materiality	£5.5m	£5.39m	70% of materiality
Trivial matters	£393k	£385k	5% of total headline materiality
Materiality for Senior Officer Remuneration*	£15k	£15k	1.8% of senior officer remuneration note



2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
<p>Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We have:</p> <ul style="list-style-type: none"> • evaluated the design effectiveness of management controls over journals; • analysed the journals listing and determined the criteria for selecting high risk unusual journals; • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • tested consolidation adjustments made to arrive at group account balances • gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence; and • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. <p>Our review identified that the review process in place for high value journals is not working as intended. We include a recommendation in Appendix A in respect of this issue.</p> <p>Our audit work, including our review of journal entries and the related control environment, has not identified any significant issues with regards to management override of controls. For all the journals reviewed we concluded that they were appropriate transactions.</p>
<p>Presumed risk of fraud in revenue recognition ISA (UK) 240</p> <p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>In our Audit Plan we concluded that we did not consider this to be a significant risk for the Council.</p> <p>We re-considered this assessment on receipt of the draft financial statement and have not identified any reasons to change this assessment.</p>

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Risk of fraud related to expenditure recognition

Public Audit Forum- Practice Note 10

Practice Note 10 states that as most public bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure may be greater than the risk of material misstatement due to fraud related to revenue recognition.

Having considered the expenditure streams of Herefordshire Council, and on the same basis as that set out above for revenue, we have determined that there is no significant risk of material misstatement arising from improper expenditure recognition.

In our Audit Plan we concluded that we did not consider this to be a significant risk for the Council.

We re-considered this assessment on receipt of the draft financial statement and have not identified any reasons to change this assessment.

Valuation of land and buildings and investment properties

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

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

We have:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;
- evaluated the competence, capabilities and objectivity of the valuation expert;
- written to the valuer to confirm the basis on which the valuation was carried out;
- challenged the information and assumptions used by the valuers to assess completeness and consistency with our understanding and engaged our own valuer to assess the instructions to the Council's valuers, the Council's valuers' report and the assumptions that underpin the valuation;
- tested revaluations made during the year to see if they had been input correctly into the Authority's asset register; and
- evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.

Our work has identified a number of material errors in the valuation of land, buildings and investments properties that have now been corrected in the revised financial statements. The most significant of these were:

- The incorrect categorisation of some PPE assets as Investment Properties and visa-versa. The net impact at 31 March 2022 was not material as set out in more detail on page 13
- The incorrect categorisation of the the Energy from Waste Plant as land and buildings when it should have been recorded as plant and equipment as set out in more detail on page 11

See pages 11 and 13 for the detailed findings in this area.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Valuation of pension fund net liability

The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.

The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation.

The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable.

The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the Council's pension fund net liability as a significant risk.

We have:

- updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluated the design of the associated controls;
- evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;
- assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation;
- assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability;
- tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;
- undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report.

There have been no issues noted in our work that we need to bring to your attention to date.

We are currently awaiting assurances from the auditor of Worcestershire Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

2. Financial Statements - Other risks

Risks identified in our Audit Plan

Commentary

Valuations of Infrastructure Assets

The Council owns infrastructure assets with a net book value of £283.4m (£269.3m as at 31 March 2021).

The CIPFA Code of Practice on local authority accounting (the Code) states that infrastructure assets shall be measured at depreciated historical cost.

There is a risk that the carrying value of infrastructure assets is not appropriate given the nature of how the assets are held on the balances sheet and monitored through the asset register.

The Council should consider whether the carrying value remains appropriate, or whether there are any indications of significant impairments and also the replacement of assets that have not been fully depreciated and the subsequent derecognition of the replaced assets, such as highways and street lighting.

We have:

- Reviewed and challenged the arrangements that the Council has in place around impairment of infrastructure assets
- Evaluated management's processes and assumptions for the calculation of the estimate
- Challenged the information and assumptions used to inform the estimate
- Considered whether there has been any replacement of assets that have not been fully depreciated and evaluated the subsequent derecognition of the replaced assets.

Our work in this area remains on-going whilst we await the conclusion of review by CIPFA. We understand that a statutory override will be issued along with guidance from CIPFA as to the correct accounting and disclosure treatment.

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £358.9m (£343.0m 2020/21)	<p>Land and buildings comprises of specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged Wilks Head & Eve LLP to complete the valuation of properties as at 31 March 2022 on a two year rolling programme. 58% (2020/21 90%) of total assets amounting £209.0m were revalued during 2021/22. Out of these £155.7m were valued at DRC and £53.3m were valued at EUV.</p> <p>The total year end valuation of land and buildings was £358.9m (2020/21 £ 343.0m), a net increase of £15.9m from 2020/21.</p>	<p>We have reviewed the detail of your assessment of the estimate, considering the revised requirements of ISA 540. Our work included:</p> <ul style="list-style-type: none"> an assessment of management's expert, who we found to have relevant experience and professional qualifications; review of the completeness and accuracy of the underlying information used to determine the estimate, including the re-calculation of valuation figures using national indices to determine specific asset valuations that warrant further review; consideration of the appropriateness of any alternative site assumptions; assessing the impact of any changes to valuation method, which we considered to be immaterial; and an assessment of the adequacy of disclosure of estimate in the financial statements. <p>The draft financial statements presented for audit included a number of reclassifications of assets. Management re-reviewed these reclassifications (see page 16 for further details) during the audit and some were subsequently reversed back to the original classification. The following assets, however, were reclassified:</p> <p>Burghill Hospital Farm and Small Holdings Estate (£0.7m) – this was taken from Surplus Assets and reclassified as Land and Buildings</p> <ul style="list-style-type: none"> Maylords Shopping centre (£10.2m)– this was taken from Investment Property and reclassified as Land and Buildings. <p>The Audit Team challenged Management on the classification of the Energy From Waste asset (£30.2m) as it was noted that even though this is a jointly owned asset with Worcestershire County Council, a differing categorisation treatment was being applied across the two councils. Management subsequently agreed that the asset should be reclassified from Land and Buildings to Plant and Equipment. As this asset is of a material value, and this categorisation error existed last year, Management have restated the prior period disclosure to correct the mistake in the comparators.</p> <p>In addition, there were properties transferred out of Land and Buildings to Investment Property – see page 13 for further details.</p> <p>The adjustments noted above have been agreed by the Audit Team and there have been no further issues noted in our work that we need to bring to your attention.</p>	Light Purple

Assessment

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

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Investment Property valuation – £40.1m (£38.7m 2020/21)	<p>Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or is held for sale.</p> <p>Management have engaged Wilks, Head and Eve to provide an annual valuation of these properties in-line with the requirements of the CIPFA code.</p>	<p>We have reviewed the detail of your assessment of the estimate, considering the revised requirements of ISA 540. Our work included:</p> <ul style="list-style-type: none"> an assessment of management's expert, who we found to have relevant experience and professional qualifications; review of the completeness and accuracy of the underlying information used to determine the estimate, including the re-calculation of valuation figures using national indices to determine specific asset valuations that warrant further review; consideration of the appropriateness of any alternative site assumptions; assessing the impact of any changes to valuation method, which we considered to be immaterial; and an assessment of the adequacy of disclosure of estimate in the financial statements. <p>Further to the reclassifications noted in page 11 of this report, the following assets amounting to £3.9m were reclassified from Land and Buildings to Investment Property:</p> <ul style="list-style-type: none"> Three Elms Industrial Estate Number 3 Blackfriars Street Franklin House Offices <p>The adjustments noted above have been agreed by the Audit Team and there have been no further issues noted in our work that we need to bring to your attention.</p>	Light Purple

Assessment

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

2. Financial Statements – net impact of incorrect asset classifications

This section provides information about the net impact of incorrect asset classifications

Prior Period Adjustment assessment – non material assets considered in totality

Assets moved to and from Land and Buildings

Asset name	2020/21 £000	2021/22 £000
Assets moved to Land and Buildings:		
- Maylords shopping Centre	3,271	10,161
- Burghill Hospital Farm	425	399
- Burghill Small Holdings Farm	302	376
Assets moved from Land and Buildings:		
- Three Elms Industrial Estate	(2,802)	(3,226)
- No. 3 Blackfriars Street	(107)	(79)
- Franklin House Offices	(982)	(836)
Total	107	6,795

The table above shows that the impact is not material for the year ended 31 March 2021 or 31 March 2022 and therefore a prior period adjustment for these assets is not necessary.

Prior Period Adjustment assessment – material assets considered in individually

The Energy from Waste asset is jointly owned with Worcestershire County Council, with Herefordshire Council's share being £30.2m. This has previously been classified as Land and Buildings by the Council, however upon challenge by the Audit Team, it was agreed that this should be re-classified as Plant and Equipment. This has therefore resulted in a prior period adjustment to the financial statements.

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment																								
Net pension liability – £273.2m	<p>The Council's net pension liability at 31 March 2022 is £273.2m (PY £282.3m) comprising the Local Government and unfunded defined benefit pension scheme obligations. The Council uses Mercer to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years.</p> <p>The latest full actuarial valuation was completed in 2019. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £23.1m (PY £13m loss) net actuarial gain during 2021/22.</p>	<p>In assessing the estimate, we have considered the following:</p> <ul style="list-style-type: none"> the actuary's experience, competence and professional qualifications; the actuary's approach, through the use of PwC as an auditors expert, used to assess the methods and assumptions used (see table below for consideration of the assumptions adopted); the completeness and accuracy of the underlying information used to determine the estimate by comparing it to source records and other data provided through the audit; the impact of any changes to valuation method – none were noted; the assurances provided by the auditor of Worcestershire Pension Fund over the process and controls in place at the Fund over the information provided to the actuary; the adequacy of disclosures of estimate in the financial statements; and the reasonableness of the Council's share of the pension assets. <table border="1"> <thead> <tr> <th>Assumption</th><th>Actuary Value</th><th>PwC range</th><th>Assessment</th></tr> </thead> <tbody> <tr> <td>Discount rate</td><td>2.8%</td><td>2.7% to 2.8%</td><td>●</td></tr> <tr> <td>Pension increase rate</td><td>3.4%</td><td>3% to 3.5%</td><td>●</td></tr> <tr> <td>Salary growth</td><td>4.9%</td><td>4.65% to 4.9%</td><td>●</td></tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td><td>24.1 / 22.6</td><td>22.2-24.8 / 20.7-23.3</td><td>●</td></tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td><td>27 / 25</td><td>25.7-27.5 / 23.8-25.5</td><td>●</td></tr> </tbody> </table>	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.8%	2.7% to 2.8%	●	Pension increase rate	3.4%	3% to 3.5%	●	Salary growth	4.9%	4.65% to 4.9%	●	Life expectancy – Males currently aged 45 / 65	24.1 / 22.6	22.2-24.8 / 20.7-23.3	●	Life expectancy – Females currently aged 45 / 65	27 / 25	25.7-27.5 / 23.8-25.5	●	Light Purple
Assumption	Actuary Value	PwC range	Assessment																								
Discount rate	2.8%	2.7% to 2.8%	●																								
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Life expectancy – Males currently aged 45 / 65	24.1 / 22.6	22.2-24.8 / 20.7-23.3	●																								
Life expectancy – Females currently aged 45 / 65	27 / 25	25.7-27.5 / 23.8-25.5	●																								

There have been no issues noted in our work that we need to bring to your attention.

Assessment

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

2. Financial Statements – matters discussed with management

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

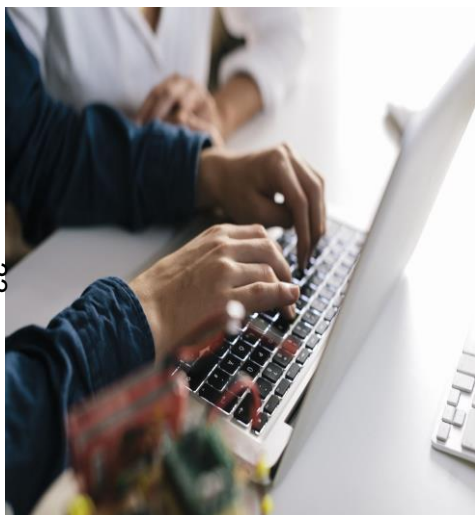
Significant matter	Commentary	Auditor view and management response
<p><u>Capital Financing Requirement(CFR)</u></p> <p>As a result of high profile issues raised at other local authorities in relation to CFR, this was a particular area of focus in this year's audit.</p> <p>31 Our initial review of the CFR disclosure within the notes to the financial statements suggested that this had been incorrectly calculated.</p> <p>The CFR is a technically complex area and additional work was required on the part of the Council and subsequently us as your auditors in confirming the accuracy of the updated disclosures in the financial statements.</p>	<p>CFR measures the Council's underlying need to borrow as a result of capital investment, and it is effectively a summary of the effect of the financing and affordability decisions taken by an authority to fund capital expenditure.</p> <p>The monitoring of the CFR plays a key role in the prudential framework, and is regularly reported to members as part of the Council's treasury management activities.</p>	<p>We have performed the check as prescribed in the Practioners guide to capital finance in local government 2019 edition – Capital Financing Checklist Section G. There were material variances in this reconciliation which we discussed with Management.</p> <p>Following the audit team's challenge, Management have investigated the variances and identified that this was due to the fact that repayments received on capital debtors (Mercia Waste Management Loan) had not been considered in the calculation of CFR. This has now been rectified through an adjustment to current year CFR since the error in the prior period is not material. The cumulative balance of capital loan repayments at 1 April 2020 (£3.7m) along with capital loan repayments for 2020-21 (£1.5m) & 2021-22 (£1.6m) are proposed to be adjusted in the current year itself. The total adjustment will be £6.8m. The restated closing CFR will be £308.4m (previously reported as £315.2m).</p> <p>The proposed adjustment to Opening CFR for 2020-21 (£3.7m) and the Closing CFR for 2020-21 (£5.2m) are both below performance materiality and hence a PPA is not required. Herefordshire have instead made the correction through an adjustment in the current year by adding a line for 'Repayment of Long Term Debtors' for £6.8m.</p> <p>A revised CFR calculation is now included in the amended accounts, along with the changes required to reflect the loan repayment as a capital receipt.</p> <p>We are now comfortable with this revision.</p> <p><u>Management response</u></p> <p>Disclosure of the Capital Financing Requirement has been revised in Note 31: Capital Expenditure & Financing in the revised 2021/22 statement of accounts.</p>

2. Financial Statements - other communication requirements

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

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit and Governance Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation will be requested from the Council, but will be drafted following the conclusion of the Infrastructure Assets review.

2. Financial Statements - other communication requirements



Issue	Commentary
Confirmation requests from third parties	We requested from management permission to send confirmation requests for Bank and Investment confirmations. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.
Audit evidence and explanations/significant difficulties	<p>Management have experienced a period of change within the finance team, with the experienced individual, who has prepared the financial statements for a number of years, leaving the Council's employment before the financial statements were prepared. An interim team was therefore responsible for drafting the financial statements and recruitment was undertaken for a permanent post. This has therefore meant that the experience and knowledge within the team of the audit process was lost and small delays were noted whilst the team understood who had prepared what information. As discussed on pages 11 to 13, there were a number of reclassifications to the Property, Plant and Equipment and Investment Property categories and some of these were reversed by the new team member coming into post upon her review of the draft financial statements and working papers.</p> <p>All information and explanations requested from management have been provided, noting that our work continues in certain areas.</p>

2. Financial Statements - other communication requirements



Our responsibility

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

Issue	Commentary
Going concern	<p data-bbox="871 464 2056 608">In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.</p> <p data-bbox="871 620 2016 675">Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul data-bbox="871 687 2074 986" style="list-style-type: none"> • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. <p data-bbox="871 999 2056 1142">Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:</p> <ul data-bbox="871 1155 1973 1300" style="list-style-type: none"> • the nature of the Council and the environment in which it operates • the Council's financial reporting framework • the Council's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. <p data-bbox="871 1313 2051 1339">On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul data-bbox="871 1351 2051 1447" style="list-style-type: none"> • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>Our work is on-going in this area.</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported a significant weakness. <p>Our work is on-going in this area.</p>



2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. Note that work is not required as the Council does not exceed the threshold.
Certification of the closure of the audit	We intend to delay the certification of the closure of the 2021/22 audit of Herefordshire Council in the audit report, as detailed in Appendix E, due to our Value for Money work not being complete.

3. Value for Money arrangements

Approach to Value for Money work for 2021/22

The National Audit Office issued its guidance for auditors in April 2020. The Code requires auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.



Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)



Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information



Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:



Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.



Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.



Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

3. VFM - our procedures and conclusions

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay was issued to the Chair of the Governance and Audit Committee on 28th September 2022 – See Appendix G. We expect to issue our Auditor's Annual Report by January 2023. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified the risks set out in the table below.

Risk of significant weakness

Children's Social Care Services

Risk description: A significant weakness was identified in the 2020/21 Annual Auditors Report around the Council's failure to meet the statutory needs of children in its care. The Council is currently reviewing the children's services to identify areas for improvement.

Risk response: We will therefore review the Council's progress in this area including the costs incurred and how these compare to budgeted costs.

Contract Management

Risk description: A significant weakness was identified in the 2020/21 Annual Auditors Report around the Council's lack of effective contract management arrangements for its public realm and facilities management contracts, to enable it to hold its contractor to account.

Risk response: We will therefore review the actions taken by the Council following the legal advice received and review the progress made since March 2021.

Balfour Beatty Living Places (BBLP)

Risk description: A significant weakness was identified in the 2020/21 Annual Auditors Report around Balfour Beatty Living Places (BBLP) as the Council did not establish the validity of contracting and continuing to trade with a company which was dormant or otherwise non-trading from a formal perspective.

Risk response: We will therefore review the actions taken by the Council following the legal advice received and review the progress made since March 2021.

Repeated history of not learning or following up on past actions

Risk description: Our understanding of the Council suggests that there is a repeated history of not learning or following up on past actions, for example Blue School House, Safeguarding Peer on Peer Review and Hereford City Centre Transport Package. We consider that this is a risk of significant weakness at the planning stage.

Risk response: We will therefore review the governance arrangements the Council has in place to ensure that it has learnt from past reviews and implemented recommendations. We will:

- Discuss with statutory officers and those charged with governance how they gain assurance that previous recommendations have been actioned
- Review arrangements the Council has made to supporting a learning and development culture
- Review of Blue School House project, Hereford City Centre Transport Package and Safeguarding Peer on Peer review reporting and assess how the recommendations have been actioned.

5. Independence and ethics

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

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

8 Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Transparency report 2020 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2020)

5. Independence and ethics

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the group. The following non-audit services were identified.

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of Teachers Pension Return	5,500	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £5,500 in comparison to the total fee for the audit of £179,667 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
Certification of Housing Benefit Claim	13,698	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £13,698 in comparison to the total fee for the audit of £179,667 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.

Appendices

A. Action plan – Audit of Financial Statements

We have identified 3 recommendations for the group as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2021/22 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
Low	<p>Journals</p> <p>Users with the ability to post journals have limits set within Business World which limit the size of journals that can be posted. In addition, Management have a monthly review process outside of the ledger to ensure that journals posted are appropriate. As per this review process, the finance team receive an automatic notification from Business World at the end of each month showing all journals above £250k (£2m for journals posted after year end). The notification also detail whether or not a document has been attached to support the journal within Business World. This notification is then reviewed by the finance team to identify if any journals are unsupported.</p> <p>During our review of Journals, we identified instances where no documents were attached to Business World and also cases where the review workpaper was not accurately maintained. Moreover, we were also informed that this review procedure is not carried out for journals posted after period 12. We recommend the council to ensure stricter controls around review of high value journals and maintain proper audit trail to evidence such review.</p>	<p>We recommend the council ensure that there is a process in place to review journals to ensure postings are appropriate.</p> <p>Management response</p> <p>Officers will review the controls in place over the authorisation of high value journals and ensure that evidence to support postings is prepared and reviewed.</p>
Low	<p>Lease agreements</p> <p>The Council has investment properties which it leases to tenants. During our review we noted that several lease agreements have ended but lease has been continued with the Council receiving monthly income with no contract to support the arrangement. In addition to this, we found three instances (in our sample of five leases) whereby the Council have charged the wrong amount.</p>	<p>We therefore recommend that Management review the lease agreements for all investment properties and ensure that these are renewed where the existing arrangement has expired and that the correct charges are being applied.</p> <p>Management response</p> <p>A review of leases will be undertaken in 2022/23 to ensure accurate and consistent charging arrangements are in place, supported by up to date lease agreements.</p>
Low	<p>Bank Reconciliation</p> <p>During our audit of the bank reconciliation we noted that there were several outstanding cheques related to Housing Benefits that were dated between six months old and back as far as 2018.</p>	<p>We therefore recommend that Management review the bank reconciliations and ensure that any old cheques are written off.</p> <p>Management response</p> <p>A review of reconciling items will be undertaken in 2022/23 as part of planned improvements to routine control account reconciliations.</p>

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

B. Follow up of prior year recommendations

We did not identify any recommendations following the audit of Herefordshire Council's 2020/21 financial statements.

C. Audit Adjustments

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

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2022.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Audit fee – accrual for additional fee	143	(143)	143
PPE – Reclassification of assets – Maylords Shopping Centre	-	Dr Land and Buildings (10,161) and Cr Investment Property (10,161)	-
PPE – Reclassification of assets – Shell Store	-	Dr Land and Buildings (6,092) and Cr Investment Property (6,092)	-
PPE – Reclassification of assets – The Old Priory Offices, Leominster	-	Dr Surplus assets (619) and Cr Assets held for Sale (619)	-
PPE – Reclassification of assets – Energy from Waste Asset	-	Dr Plant and Equipment (30,200) and Cr Land and Buildings (30,200)	-
Overall impact	£143	(£143)	£143

C. Audit Adjustments

Misclassification and disclosure changes

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

Disclosure omission	Auditor recommendations	Adjusted?
<p>Related Parties</p> <p>We notes that the Council entered into a loan agreement with the Cyber Quarter Limited for £3.5m which had not been disclosed as a related party in the draft financial statements.</p>	<p>We therefore recommend that Management update the related party disclosure to include the Cyber Quarter.</p> <p>Management response</p> <p>The related party disclosure has been adjusted in the revised 2021/22 statement of accounts.</p>	✓
<p>Accounting Policies</p> <p>The draft financial statements included an accounting policy for extraordinary items, which is not in line with CIPFA guidance as the Council does not have any extraordinary items.</p>	<p>We therefore recommend that this accounting policy is removed from the financial statements.</p> <p>Management response</p> <p>The accounting policy has been removed from the revised 2021/22 statement of accounts.</p>	✓
<p>Capital Financing Requirement (CFR)</p> <p>We have performed the check as prescribed in the Practioners guide to capital finance in local government 2019 edition – Capital Financing Checklist Section G. There were material variances in this reconciliation which we discussed with Management.</p> <p>As a result of this check, we have noted variances that Management have investigated – see page 15 for further details.</p>	<p>We therefore recommend that the CFR is updated to show the correct disclosures.</p> <p>Management response</p> <p>Disclosure of the Capital Financing Requirement has been revised in Note 31: Capital Expenditure & Financing in the revised 2021/22 statement of accounts.</p>	✓
<p>Leases</p> <p>During our testing on the leases disclosure, we identified variances when testing the amounts receivable under operating leases. We have extrapolated these errors to give an indication of what the total error could be across the whole population. The total of this extrapolation is £1.4m.</p>	<p>We would not expect Management to amend the leases disclosure as this is a non-material extrapolated figure. However, please see recommendation around leases in Appendix A of this document.</p> <p>Management response</p> <p>A review of leases will be undertaken in 2022/23 to ensure disclosures are informed by complete and accurate transactions.</p>	X

C. Audit Adjustments

Misclassification and disclosure changes - continued

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

Disclosure omission	Auditor recommendations	Adjusted?
<p>Audit fees</p> <p>Note 27 of the financial statements discloses the non-audit fees, however £24k was in relation to an audit fee variation from 2019/20. This disclosure should therefore be updated to show the non-audit fees only.</p>	<p>We therefore recommend that management update note 21 to show the correct value of the non-audit fees.</p> <p>Management response</p> <p>To be agreed with GT.</p>	TBC
<p>Capital Commitments</p> <p>The council's capital commitment note states that 'At 31 March 2022 the council had no major capital commitments (31 March 2021 £2.3m John Kyrle High School (academy) to complete the New Permanent Accommodation project).' However, this does not clarify what the council considers as major commitments.</p>	<p>We have therefore recommended that Management disclose the value of what it considers significant capital commitments.</p> <p>Management response</p> <p>Disclosure of the value of significant capital commitments has been included in the revised 2021/22 statement of accounts.</p>	✓
<p>Financial Instruments</p> <p>The figure stated for interest payable for borrowings is stated at £5.1m, however during the audit we noted that this should be £5.4m.</p>	<p>We have therefore recommended that Management update the figure in the disclosure so that this is correct.</p> <p>Management response</p> <p>Disclosure of interest payable has been adjusted in the revised 2021/22 statement of accounts.</p>	✓
<p>Dedicated Schools Grant (DSG)</p> <p>The figure stated in the financial statements has not been split into Central Expenditure and Individual Schools Budget.</p>	<p>We have therefore recommended that Management enhance the disclosure within the note to split the figures into the correct categories.</p> <p>Management response</p> <p>The disclosure has been updated to note the split of Central Expenditure and Individual Schools Budget in the revised 2021/22 statement of accounts.</p>	✓
<p>Pooled Budgets</p> <p>Within the Pooled Budgets disclose relating to 'Covid-19 Hospital Discharge Scheme' the value stated for the Council's share is stated at £3.1m. During our audit, we have noted that this figure should be £2.6m</p>	<p>We have therefore recommended that Management update the disclosure to show the correct value of the Council's share.</p> <p>Management response</p> <p>The disclosure has been adjusted in the revised 2021/22 statement of accounts.</p>	✓

C. Audit Adjustments

Misclassification and disclosure changes - continued

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

Disclosure omission	Auditor recommendations	Adjusted?
<p>Expenditure Funding Analysis (EFA)</p> <p>During the audit, several adjustments were noted within the EFA note. These are shown below:</p> <p>Adjustment to the EFA:</p> <ul style="list-style-type: none"> - Total surplus / deficit – amended from £27m to £8.6m - Total adjustment between funding and accounting basis – amended from £41.7m to £16.4m - Net expenditure in CIES – amended from £14.7m to £7.8m <p>Adjustment to note 1 to the EFA:</p> <ul style="list-style-type: none"> - Total adjusted from £45m to £16.1m (It includes changes in Other operating expenditure - Revaluations from (27.7m) to (0.6m) , Capital grants from (17.1m) to (18.2m) and other smaller adjustments leading to adjustment in total from (45m) to (16.1m)). <p>Adjustment to note 2 to the EFA:</p> <ul style="list-style-type: none"> - Total adjusted from £10.6m to £14.3m (It includes changes in Other operating expenditure - Recharges & Other Movements from (7.9m) to (11.2m) and changes in Net cost of services from 9m to 8.6m). 	<p>We have therefore recommended that Management update the EFA notes to show the correct values.</p> <p>Management response</p> <p>The amendments required to the disclosure of entries in the EFA result from adjustments identified to reclassify the council's energy from waste asset and our review of the classification of investment properties and land and building assets in 2021/22 which have a corresponding impact on entries in the Comprehensive Income & Expenditure Statement. All identified adjustments have been amended in the revised 2021/22 statement of accounts.</p>	✓
<p>General disclosure updates</p> <p>Various other minor disclosure updates were made to the financial statements to improve readability or correct more trivial findings.</p>	<p>We have therefore recommended that Management update the financial statements to take into account the general disclosure updates.</p> <p>Management response</p> <p>The revised 2021/22 statement of accounts have been amended to reflect all agreed disclosure and presentational adjustments.</p>	✓

C. Audit Adjustments

Misclassification and disclosure changes - continued

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

Disclosure omission	Auditor recommendations	Adjusted?
<p>48 Movement in Reserves Statement (MIRS) During the audit we noted several adjustments required in MIRS notes. MIRS summary</p> <ul style="list-style-type: none"> - Surplus/deficit on provision of services-was (14.7m) changed to (7.8m) - Other CIES (Unusable reserves) changed from (32.1m) to (38.9m) - Total Adjustment between funding and accounting basis - was 23.3m changed to 16.4m - Total Usable reserves changed from 23.1m to 16.3m Movement in Usable Reserve Analysis - Surplus/deficit on provision of services-was (14.7m) changed to (7.8m) - Impairment / downwards revaluation - was 13.7m changed to 6.9m - Application of Long-Term Debtor capital related receipts - was NIL changed to (1.6m) - Capital Financed by Receipts - was 3.2m changed to 4.8 m - The above adjustments leads to a net movement of £0.1m. Movement in Unusable Reserve Analysis - Impairment / downwards revaluation - was (3.7m) changed to (6.9m) - Application of Long-Term Debtor capital related receipts - was NIL changed to 1.6m - Capital Financed by Receipts -was (3.2m) changed to (4.8 m) - Net movement on Revaluation Reserve - was (7m) changed to (14.2 m). - The above adjustments leads to a net movement of nil. 	<p>We have therefore recommended that Management update the MIRS statement to correct the entries.</p> <p>Management response</p> <p>The amendments required to the disclosure of entries in the MIRS result from adjustments identified to reclassify the council's energy from waste asset and our review of the classification of investment properties and land and building assets in 2021/22 which have a corresponding impact on entries in the Comprehensive Income & Expenditure Statement. All identified adjustments have been amended in the revised 2021/22 statement of accounts.</p>	✓
<p>General disclosure updates Various other minor disclosure updates were made to the financial statements to improve readability or correct more trivial findings.</p>	<p>We have therefore recommended that Management update the financial statements to take into account the general disclosure updates.</p> <p>Management response</p> <p>The revised 2021/22 statement of accounts have been amended to reflect all agreed disclosure and presentational adjustments.</p>	✓

C. Audit Adjustments

Misclassification and disclosure changes - continued

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

Disclosure omission	Auditor recommendations	Adjusted?
<p>Cash Flow Statement</p> <p>There were several adjustments noted in the Cash Flow Statement</p> <p>Cashflow</p> <ul style="list-style-type: none"> - Net (surplus) or deficit on the provision of services - changed from (14.7) to (7.8) - Adjust net (surplus) or deficit on the provision of services for non-cash movements-changed from (32.1m) from (39m) - The above two adjustments lead to a total movement of nil. <p>Operating Activities</p> <ul style="list-style-type: none"> - Net movement in Creditors changed from 1.9m to 3.2m - Depreciation, amortisation and impairment of non-current assets - changed from (1.6m) to (9.9m) - Total of operating activities changed from (32.1) m to (39m) <p>Financing Activities</p> <ul style="list-style-type: none"> - Total changed from 0.8m to 0.4 m(Cash payments for the reduction of the outstanding liability relating to finance leases and on-balance sheet PFI contracts) 	<p>We have therefore recommended that Management update the Cash Flow Statement statement to correct the entries.</p> <p>Management response</p> <p>The amendments required to the disclosure of entries in the Cash Flow Statement have resulted from adjustments identified to reclassify the council's energy from waste asset and our review of the classification of investment properties and land and building assets in 2021/22 which have a corresponding impact on entries in the Comprehensive Income & Expenditure Statement. All identified adjustments have been amended in the revised 2021/22 statement of accounts.</p>	✓
<p>Officers Remuneration</p> <p>The following adjustments were noted during the audit:</p> <p>Director for Children and Families</p> <ul style="list-style-type: none"> - Salary, Fees & Allowances - Adjustment of £11k (from £11k to £22k) - Reclassification of contractual payments - Adjustment of £11k (from £44k to £33k) <p>Corresponding adjustment needs to be made in Note 26 Termination Benefits For £40,001 - £60,000, the Total cost of exit packages in each band should be adjusted by £11k (from £44k to £33k)</p>	<p>We have therefore recommended that Management update the disclosure to correct the entries.</p> <p>Management response</p> <p>The revised 2021/22 statement of accounts have been amended to reflect all agreed disclosure and presentational adjustments.</p>	✓

C. Audit Adjustments



Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2020/21 audit which have not been made within the final set of financial statements. The Audit and Governance Committee is required to approve management's proposed treatment of all items recorded within the table below.

No unadjusted misstatement have been noted for 2021/22.

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2020/21 financial statements

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
PPE revaluation – during the audit we noted that incorrect build costs had been used in the valuation of one asset by the valuer.	-	Dr Revaluation Reserve £0.096m Cr Land and Buildings £0.096m	-	Not material
Overall impact	-	-	-	

D. Fees

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

Audit fees	Proposed fee	Final fee
Scale fee	101,792	TBC
Additional proposed fee	77,875	TBC
Total audit fees (excluding VAT)*	£179,667	TBC

* See next page for a breakdown.

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services		
Certification of the Housing Benefits Return	13,698	TBC
Certification of the Teachers Pension Return	5,500	TBC
Total non-audit fees (excluding VAT)	£19,198	TBC

The fees reconcile to the financial statements.

Audit fees – detailed analysis

52	Scale fee published by PSAA	£101,792
	Ongoing increases to scale fee	
	Group accounts	£3,750
	Increased challenge	£3,125
	PPE Valuation	£750
	Pensions IAS19	£750
	PPE Valuation – first time use of auditor’s expert	£5,000
	Additional VFM	£40,000
	Impact of ISA540	£6,000
	Journals / Grants testing	£7,000
	Local risk factors	£5,000
	Additional review	£1,500
	Infrastructure Assets	£5,000
	Total audit fees (excluding VAT)	£179,667

E. Audit opinion

Our audit opinion will be drafted at the conclusion of the audit.

F. Management Letter of Representation

Our letter of representation will be drafted at the conclusion of the audit.

G. Value for Money – Delay letter

The letter below was issued to the Chair of the Governance and Audit Committee on 28th September 2022.

Dear Nigel

5 The original expectation under the approach to VFM arrangements work set out in the 2020 Code of Audit Practice was that auditors would follow an annual cycle of work, with more timely reporting on VFM arrangements, including issuing their commentary on VFM arrangements for local government by 30 September each year at the latest. Unfortunately, due to the on-going challenges impacting on the local audit market, including the need to meet regulatory and other professional requirements, we have been unable to complete our work as quickly as would normally be expected. The National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation.

As a result, we have therefore not yet issued our Auditor's Annual Report, including our commentary on arrangements to secure value for money. We now expect to publish our report no later than 30 January 2023.

For the purposes of compliance with the 2020 Code, this letter constitutes the required audit letter explaining the reasons for delay.



Herefordshire Council Statement of Accounts 2021/22

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

Narrative Report 2021/22

Introduction

Welcome to Herefordshire Council's Statement of Accounts for 2021/22. The accounts have again been prepared as the world continues to struggle with the challenges and changes posed by the effects of the global Covid-19 pandemic.

As with the previous year, the Council's finances for 2021/22 have been impacted by the pandemic. The aim of this Narrative Report is to provide an overview of that impact alongside the key issues for the year as contained within the Statement of Accounts.

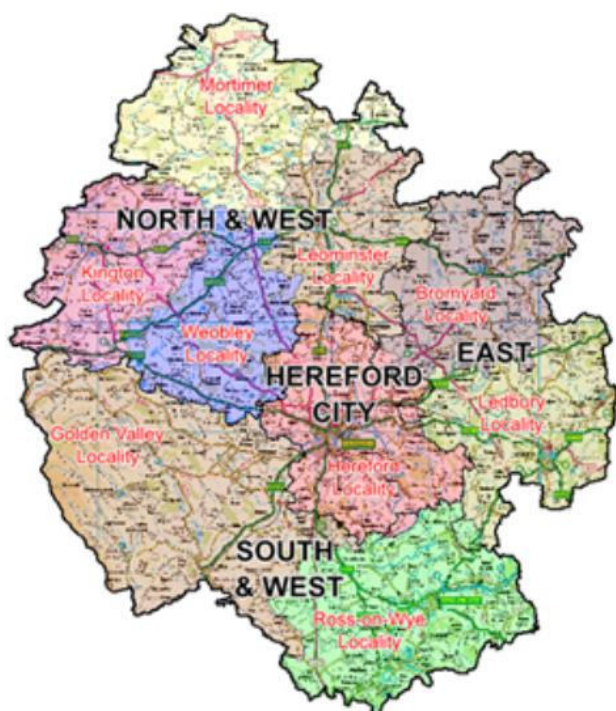
An Introduction to Herefordshire

Herefordshire lies in the far south-west corner of the West Midlands Region, sandwiched between Worcestershire and the breath-taking Brecon Beacons of Powys to the west. The county is known for its beautiful, unspoilt countryside its black and white villages, wooded valleys, meandering rivers, its many castles and ancient churches, its rich agricultural traditions and world famous food and drink producers. The county is also home to many high tech, security, engineering, computing and creative industry businesses as well as many artists and craftspeople, musicians and writers. The county's numerous, diverse and distinctive communities each have their own distinct character and special charms which, together make Herefordshire an exemplar of 21st century rural living.

The city of Hereford lies in the middle of the county and is surrounded by a ring of five distinct and very different market towns: Leominster, Ross-on-Wye, Ledbury, Bromyard and Kington. As of mid-2020, Herefordshire's resident population was estimated to be 193,600, with roughly a third of the population living in the city, a third living in the market towns and a third scattered throughout the rural areas.

The county has a good track record of its residents living longer than the national average. It is also attractive to people as a retirement location. Consequently Herefordshire has a large population of older residents with almost a quarter (24%) of the population aged 65 or over. Forecasts indicate that the numbers of older people are set to continue growing at a higher rate than other demographic age groups which has an impact on the capability of our communities and on demand for current and planned future public services.

Despite its deeply rural nature, or perhaps because of it, Herefordshire has a lot of roads. In fact, when considering road length per head of population, the county is the second highest in England and cycling is a popular and growing mode of transport in urban areas and for recreation. However, with only four railway stations serving the whole county, residents are particularly dependent on road transport in their daily lives. In remote rural areas the frequency of bus services can be an issue for those who are reliant upon public transport, and parts of rural Herefordshire are among those at the highest risk nationally of transport poverty.



Herefordshire Council was formed in 1998 as a unitary authority. Meaning that there are only two levels of local government here – the county council and over 160 parish councils serving their distinctive local communities. The county council's responsibilities are wide ranging and include education, adult social care, children's services, road maintenance and waste collection/disposal services.

The council comprises 53 elected members, each being the sole representative of their county ward, although each ward can comprise a number of parishes. The members of the council are each paid an allowance to assist in the performance of their council duties. Councillors were paid the following amounts in allowances during the last year:

Members Allowances	2020/21	2021/22
	£m	£m
Basic allowances	0.4	0.4
Special allowances	0.2	0.2
Total	0.6	0.6

Impact of the pandemic on council finances

During 2021/22, the Covid pandemic continued to impact on the council's finances and this remains a national issue for all local authorities.

The council has been working closely with partner authorities to assess the present and ongoing financial impact and to look for ways to mitigate these effects.

Whilst the focus of the council has been on safeguarding and supporting local residents and the business community through multiple Covid lockdowns, the pandemic continues to affect our financial position primarily in two ways: by creating additional costs and by reducing council income. This compounding squeeze has made it very difficult to confidently forecast in-year income and expenditure and to plan for the longer term.

Like all local authorities, this council has welcomed the range of new and continuing funding packages provided by central government in 2021/22. Together these have sent an important signal that the Government recognises the

financial challenges facing the sector, and shows understanding that these pressures will continue for the foreseeable future.

Looking beyond the ongoing impact of the pandemic, the local government sector continues to grapple with a mountain of other unprecedented challenges – increasing economic uncertainty, significant levels of growth in the demand for Adult's and Children's social care, the uncertainty around the implementation and impact of the local government fair funding review and the economic and social impact of UK's departure from the EU, to name but a few.

These challenges follow more than a decade during which local authority funding has reduced whilst demand for the core services councils are legally obliged to provide has risen. These challenges require a whole new way of thinking and since 2019 this Council has moved at pace to ensure that essential services have continued – including throughout the pandemic - and new services have been developed in response to new and emerging needs. All this has been achieved by working in a flexible way and using imaginative and innovative approaches to support our residents, businesses, communities and partners.

We want to continue to be ambitious and creative in our approach, whilst meeting the challenges and embracing the opportunities which the pandemic continues to present us with. We want to build on digital and technological advancements, be more commercial in our approach, empower our workforce to work in more agile and flexible ways, continuing to deliver responsively and to play our part in ensuring the council and the county can enjoy a strong and healthy recovery from the pandemic, or at the very least a managed transition to whatever is to be our 'new normal'.

For example, as was the case last year, the council has passed on grants under the various central government schemes including business rates relief of around £15m in 2021/22 (£30m in 2020/21). In doing so we have also offered some of that grant funding in the form of cash payment cards to all local households to encourage spending with local businesses. This in turn has enabled that money to recycle many times in the local economy benefitting business and households much more than would have been the case if it had been provided in direct grants alone.

Free bus travel at weekends has also been provided to encourage return to public transport post-Covid and free access to leisure facilities and swimming pools has been provided to young people to encourage exercise and improve mental wellbeing. We have been working very hard with our leisure provider, Halo Leisure, and conversations are ongoing around how to work better together.

The Council's financial strategy seeks to ensure that the Council remains financially resilient in the delivery of its own responsibilities and provides active support to develop and maintain a strong and healthy recovery from the pandemic, for our residents, communities, businesses, partnerships and staff.

Organisation and Governance

Our Chief Executive, Paul Walker, was appointed in May 2021 following the retirement of Alistair Neill.

Since his appointment, Paul has brought a new approach to the Council's organisation structure which now consists of six directorates: three delivering services and three providing corporate support. These are set out below, together with a brief overview of their main functions:

- **Corporate Wellbeing** (Social Care Delivery, All ages commissioning, Talk Community, Public Health)
- **Children and Young People** (Education, Skills and Learning, Children and Families)
- **Economy and Environment** (Economic Development and Regulatory Services, Highways, Environment and Waste)
- **Governance and Legal Services** (Legal services, Democratic services, Governance, Monitoring Officer, Elections, Registrars, Coroners service)
- **Resources and Assurance** (Finance, Corporate Services)
- **HR & OD** (Human resources, Organisational development, Recruitment/ retention, Staff engagement, Learning and Development, Payroll, Workforce equality, Health and safety, Hoople delivery)

As this restructure took place in-year, for continuity going forward the 2021/2022 accounts have been compiled, and the previous year's accounts re-stated, based on the new organisational structure.

Since the elections in 2019 the council has been conducting a comprehensive governance review which has included

consideration of a move away from a Cabinet-based decision-making model for the council. However, at the full Council meeting on 9th October 2020, they considered the work undertaken by the 'Rethinking Governance' working group and the recommendations of audit and governance committee and took the decision instead to implement a hybrid cabinet model of governance. The hybrid model allows for a greater degree of councillor involvement in policy development, decision-making and oversight without a break from the legal structure of the Cabinet system. This new governance system was implemented with effect from May 2022.

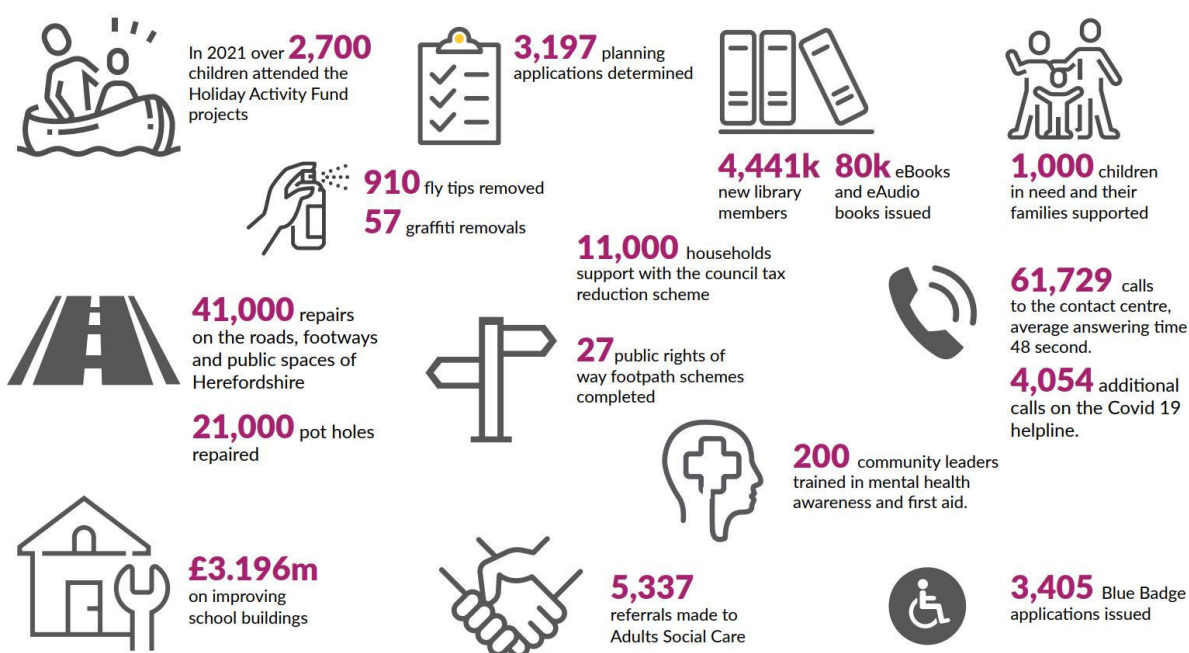
The council's corporate governance arrangements play a key role in achieving its strategic objectives and in securing value for money in service delivery. The Council carries out an annual review of its corporate governance arrangements and the results of the review are set out in the Annual Governance Statement, which accompanies these accounts.

Performance

In February 2020 Council approved its new corporate plan, The County Plan for 2020/24. This will shape the future of Herefordshire with the overall aim to improve the sustainability, connectivity and wellbeing of the county by strengthening communities, creating a thriving local economy and protecting and enhancing our environment.

Each year the council agrees a corporate delivery plan that details the actions which will be taken in the coming year to deliver incrementally the overarching plan. This plan also sets out how progress will be measured through a number of agreed performance measures. These are selected on the basis that they demonstrate progress towards achievement of the council's stated priorities and also provide assurance of the council's performance for residents.

Performance against this plan is regularly reported to Cabinet and is structured around the three interconnected themes of Economy, Environment and Community. During 2021/22 these updates included the following (more details can be found on the council's website):



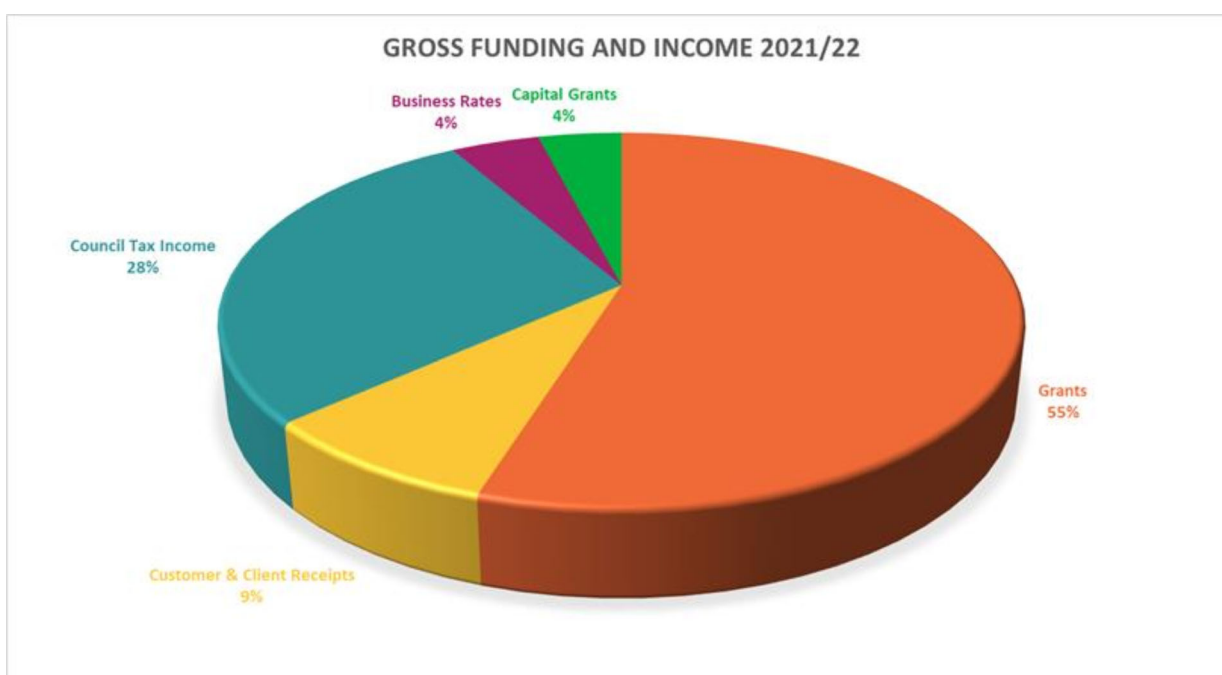
- Approved council investment of a further £11.49 m to support the ongoing delivery of the Children's Services Improvement Plan
- Invested £6m in Covid-19 recovery programmes supporting economic and wellbeing support
- Introduced the Shop Local Card, so far benefitting over 1,500 local businesses
- Progressed the delivery of net carbon zero affordable housing across the county with key partners including Homes England
- Established a countywide climate and nature partnership

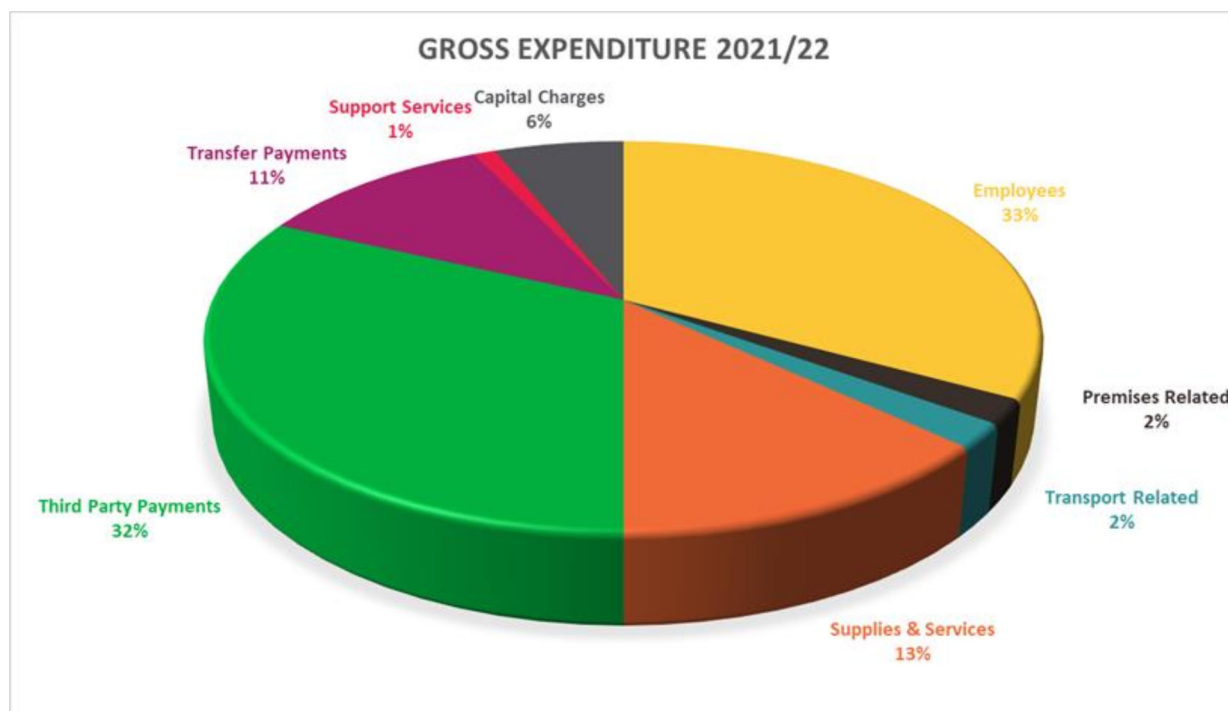
- Work continued on phosphate reduction as a result of the introduction of new wetlands
- Engaged local residents in a citizens' climate assembly and allocated £1.33m to the climate reserve to deliver new initiatives
- Commissioned our first TV advert for Herefordshire reaching more than 8.3 million people and promoted over 450 businesses through a new Visit Herefordshire website
- Shell Store opened with 2,000 square metres of space for new and growing businesses
- Approved new Integrated Waste Management Strategy
- Progressed the new Herefordshire Transport Strategy
- Opened the new student accommodation at Station Approach in Hereford with 178 rooms
- Bus-It provided more than 62,000 free journeys at weekends with many new routes
- 46 Talk Community Hubs opened, and Talk Community kitchen providing healthy meals
- Approved investment in and the development of the council's own care facility in Herefordshire to meet future demand

Financial performance

For 2021/22, the council delivered a revenue budget underspend of £541k against a budget set to make in-year savings of £11.2m. This end of year underspend was assisted by £4.8m of direct additional Covid-19 costs being funded by ring-fenced in-year central government service support grants.

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





The Herefordshire Council element of the Council Tax Band D equivalent was set at £1,652.30 in 2021/22 and an explanatory breakdown of this charge was provided to residents against their monthly payments to assist with local understanding of the range of council services these charges are needed to support as shown below.

What your money is spent on – Council Tax 2021/22 (average band D property)



Revenue Outturn 2021/22

The detail of the council's financial performance for the year is summarised in the table below.

The 2021/22 outturn is a £4,248k overspend before the allocation of the ring-fenced Covid service grants, resulting in the reported end-of-year net underspend of £541k.

Service	Outturn Budget £m	Outturn Actual £m	Covid-19 related £m	Outturn over/(under) £m
Children and Young People	40.2	44.8	1.0	3.6
Community Wellbeing	63.9	58.1	1.1	(6.9)
Economy and Environment	24.8	27.0	1.8	0.4
Corporate	24.6	28.9	0.9	3.4
Directorate outturn	153.5	158.8	4.8	0.5
Central, treasury management, capital financing and reserves	7.4	6.4	-	(1.0)
Total	160.9	165.2	4.8	(0.5)

The forecast underspend in Community Wellbeing reflects a combination of savings achieved to date (some of which

are non-recurrent) reductions in the number of care packages (mostly within homecare) and also the impact of the 'discharge to assess' process resulting in a proportion of client expenditure being funded via that process. There are also underspends in Commissioning and Operational Service Delivery due to continued vacancies within the Homefirst service and in some of the operational teams.

The overspend in Children and Young people is due to the cost of residential placements for children in council care which are all provided by private sector operations and these continue to cause significant cost pressures for the service.

The overspend in the remaining portfolios reflects pressure on income targets as a direct or indirect result of Covid restrictions (e.g. reduced car parking revenue and less income received as a consequence of receiving fewer than normal planning applications), and savings targets that have not been achievable in year. Some of these costs have been offset by the council not being able to recruit into staff vacancies during Covid.

The central, treasury management, capital financing and reserves underspend reflects the delayed need to borrow from a combination of high cash balances and slippage in the delivery of the capital investment programme.

The detailed performance outturn for 2021/22 was reported to Cabinet on 26 May 2022 and can be found here: [Appendix A - Revenue Outturn.pdf \(herefordshire.gov.uk\)](#)

Principal risks and uncertainties

Herefordshire Council approved a Medium Term Financial Strategy, Treasury Management Strategy and Capital Strategy in February 2022 for the period ahead. Following the pandemic, significant saving targets were set for 2021/22 at £11.205m. Further consequential savings for 2022/23 are targeted to achieve £2.602m. Historically, Herefordshire Council has risen to the financial and demand challenges it faces by developing strategies and plans to continue to provide valued services to its residents. This successful track record was continued in 2021/22.

As part of managing delivery of its plans, 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 identified improvement are addressed in the accompanying Annual Governance Statement.

As at the Balance Sheet date, the Medium Term Financial Strategy identifies a range of financial risks with the potential to significantly affect the council's financial sustainability over the next few years. The main risks that have been identified are anticipated to arise from:

- Economic instability and in particular significant increases in inflation
- A further significant outbreak of Covid-19, linked to different variants of the disease, with the capacity to significantly affect the national and local economy, increase the demand for local services, and put pressure on the council's income streams
- The impact of major changes in government funding
- The impact of demand pressures in Children's social care
- The delivery of budget savings and efficiencies in a challenging environment
- Managing the Capital Programme to achieve policy objectives
- The economic impact of Brexit

The council has provided significant additional funds to the children and young people directorate to support the necessary improvements to our children's services. Demand management for children's services continues to be key in ensuring future financial resilience.

To mitigate risk across its operation, the council has maintained a General Fund reserve, has increased Earmarked Reserves, has used prudent assumptions in its Medium Term Financial Strategy and has reduced reliance on grant funding in all directorates. At the same time the council is supporting increased investment in local economic and social projects (e.g. the building of council-owned care facilities and a commitment to build additional affordable homes) to reduce future demand and to broaden its core income sources.

Significant provisions, contingencies and write-offs

The council held provisions of £7.3m as at 31 March 2022 (£8.1m at 31 March 2021) and three main provisions within this were as follows:

- The business rates appeal provision of £2.6m, based on an independent assessment of the council's liability in relation to business rate appeals at 31 March 2022. This assessment considers the appeals both lodged with the Valuation Office Agency and those yet to be registered
- A provision of £1.6m for independently assessed outstanding insurance commitments including expected costs relating to insurance cover excess liabilities
- A new Legal Provision of £2.6m relating to legal/counsel's expert estimations of the known obligations in key legal litigation areas.

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

Pensions

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

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

Herefordshire's proportion of the net deficit on the Worcestershire County Council Pension Fund as at 31 March 2022 is £272.6m. 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 £0.6m relating to ex Hereford and Worcester teachers' unfunded benefits.

The council has agreed with the Actuary contributions to recover the deficit over a number of years, a deficit repayment of £4.4m (including schools) will be paid in 2022/23.

The pension fund position is reviewed every three years and was last revalued as at 31 March 2020, where the in-service contribution rate increased to 17.6% (previously 15.6%) and the deficit contribution decreased to 10.4% (previously 16.6%). These changes have been reflected in the medium term financial strategy.

Capital Expenditure and Capital Investment

The council manages its capital investment plans through its capital programme, the original capital budget for 2021/22 was £97.870m. In quarter 2 a number of capital programme budgets were re-profiled into future years which led a reduction of £69.436m in the 2021/22 programme. However, budgets carried over from 2020/21 were also added to the budget and this led to a revised net capital budget for 2021/22 of £69.067m as shown in the summary table below.

	2021/22 Budget £'000	2022/23 Budget £'000	2023/24 Budget £'000	2024/25 Budget £'000	Total
February 2021 Council Approved Budget	97,870	66,634	21,179	10	185,693
Reprofiled	(69,436)	6,440	41,861	21,135	-
20/21 Carry Forwards	33,296	-	-	-	33,296
Use of Reserves	56	-	-	-	56
Additional Grants	7,311	17,964	18,661	18,661	62,597
Revised Capital Budget	69,097	91,038	81,701	39,806	281,642

The final capital spend position at 31/3/2022 was £37.607m which is an underspend of £31.490m on the 2021/22 revised budget of £69.097m and the explanation for this underspend is set out in the table and the detail is provided listed against the Delivery Boards who oversee capital expenditure performance and delivery. Full details of all capital schemes were reported to Cabinet on 26 May 2022 in the Quarter 4 Budget & Performance Report, which detailed the final capital budget outturn for the year by scheme in Appendix B.

This underspend consists of £4.793m projects that have delivered below the project budget and projects that may no longer be required such as the car park fire suppression system. The remaining £26.697m are budgets that were not committed in this financial year, but have been rolled forward to 2022/23 as they are funded by grants, or are for land for housing which may not be acquired in this financial year but the budgets need to be retained for those projects to deliver in future years.

2021/22 Capital Budget Outturn Position		2021/22		
	Original Budget £000s	Updated Budget £000s	Actual Spend £000s	Variance £000s
Total Housing Delivery Board	15,813	7,565	2,403	(5,162)
Total Corporate & Digital Delivery Board	8,604	8,935	1,629	(7,306)
Total Schools & Corporate Property Delivery Board	22,814	13,168	5,309	(7,859)
Total Highways Maintenance Delivery Board	16,321	23,759	21,147	(2,612)
Total Environment & Sustainability Delivery Board	2,361	4,016	1,079	(2,937)
Total Economic Development Delivery Board	17,804	6,822	3,257	(3,565)
Total Transport & Place Making Delivery Board	14,153	4,832	2,783	(2,049)
Total	97,870	69,097	37,607	(31,490)

The council delivered significant capital investment projects including:

- *Fastershire - this is a partnership tasked with bringing faster broadband to the county. Phase 1 aimed to provide 90 per cent of Gloucestershire and Herefordshire with fibre broadband with a minimum speed of 2Mbps by 2016 and Phase 2 will extend fibre coverage further across the counties. The ultimate aim is that by the end of 2022/23 there will be access to fast broadband for all who need it.*
- *The development of Shell Store site on the Hereford Enterprise Zone commenced in summer 2019 and completed in 2020 following a delay in construction related to Covid-19. The £7.3m redevelopment will establish the first purpose built business incubator facility in the county. The Shell Store will provide employment space for up to 40 dynamic and innovative businesses, driving economic growth through the generation of new jobs. The building opened during 21/22 for tenants and continues to have a number of businesses interested in the few remaining units.*
- *The construction of a £9m Midlands Centre for Cyber Security on the Hereford Enterprise Zone completed in 2020 following a delay due to Covid-19. The Joint Venture with the University of Wolverhampton will create a range of opportunities in the growing cyber security sector in Herefordshire, providing business accommodation alongside product testing, specialist research and educational facilities, benefitting the local economy through investment, job creation and skills development. Due to Covid delays the first tenants are moving in during May 2022 and the centre has been providing online training which will now expand to onsite training in the computer labs and real-time simulation suites.*
- *In July 2019 construction commenced on the first bespoke student accommodation development in Hereford. Developing higher education in the county is critical to establishing higher-level skills,*

retaining/attracting a younger generation to learn, live and work in Herefordshire, and to attracting employers offering higher value job opportunities. The site was handed over to Cityheart in September 2021 to enable occupation for the 21/22 academic year.

- *Basic Needs Grant funded an expansion of a new teaching block at John Kyrle High School of £2.08m in 21/22, the block has completed just after the end of the financial year so that it will be ready to welcome new students for the 22/23 academic year.*

Capital Investment Budget

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

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

Capital investment for 2021/22 totalled £37.60m. This was financed by capital grants £22.31m, prudential borrowing £12.04m and capital receipts £3.25m. The investment included the following corporate priority schemes:

- Hereford City Centre Improvements £1.79m
- Fastershire broadband rollout - £0.7m
- Integrated Wetlands £0.6m
- Hereford Enterprise Zone - £1.79m
- Schools Capital Maintenance Grant - £0.4m
- Basic Needs Grant – John Kyrle High School £2.02m
- Disabled Facilities Grant - £1.2m
- PC Replacement £0.6m
- Highway asset management & major infrastructure investment (including flood works) - £5.3m
- Local transport plan road improvement works - £15.47m

Future years' capital programme

The council maintains a rolling capital programme reflecting commitments, links to strategic plans and estimated sources of capital funding. The council's capital strategy was approved at the same time as the capital programme. The capital programme budget approved at Council February 2022 is detailed in the table below, including the sources of funding. The 2022/23 budget has increased by the under-spend carried forward from 2021/22 and some further recent grants awarded before the end of April 2022.

Scheme Name	2022/23 £m	2023/24 £m	2024/25 £m	Capital receipts £m	Grant & funding £m	Prudential borrowing £m
Hereford City Centre Transport Package	2.7	2.9	-	-	-	5.6
Hereford City Centre Improvements (HCCI)	3.1	1.0	-	-	1.5	2.6
Hereford ATMs and Super Cycle Highway	1.0	-	-	-	-	1.0
Emergency Active travel Fund	0.1	-	-	-	0.1	-
Passenger Transport Fleet (Electric)	7.8	15.6	15.6	-	35.0	4.0
Local Transport Plan (LTP)	15.5	15.5	15.5	-	46.4	-
Priority Flood Repair Works	2.2	-	-	-	-	2.2
E & P's S106	0.4	-	-	-	0.4	-

Scheme Name	2022/23 £m	2023/24 £m	2024/25 £m	Capital receipts £m	Grant & funding £m	Prudential borrowing £m
Extra Ordinary Highways Maintenance & Biodiversity Net Gain	2.3	-	-	-	-	2.3
Public Realm Maintenance - Mitigating Risk on the Network	3.7	1.3	-	-	-	5.0
Winter Resilience	0.5	0.1	0.7	-	-	1.4
Highways Equipment	0.5	-	-	-	-	0.5
Investment in Infrastructure Assets	0.1	-	-	-	-	0.1
Integrated Wetlands	1.3	-	-	-	1.3	-
Solar Photovoltaic Panels	1.4	-	-	-	-	1.4
SEPUBU Grant	0.4	-	-	-	0.4	-
Warm Homes Fund	0.4	-	-	-	0.4	-
Air Quality Monitoring Station Resource Improvements	0.2	-	-	-	-	0.2
Green Homes Grant - Local Authority Delivery	1.8	-	-	-	1.8	-
Home Upgrade Grant	1.7	-	-	-	1.7	-
Hereford Enterprise Zone	1.9	-	-	1.9	-	-
Marches Business Investment Programme	1.3	0.2	-	-	1.5	-
Employment Land & Incubation Space in Market Towns	9.3	10.4	0.7	7.2	2.1	11.1
Leominster Heritage Action Zone	3.1	0.4	-	1.8	1.7	-
Safer Streets / CCTV	0.2	-	-	-	0.2	-
Herefordshire Hoard	1.5	-	-	1.5	-	-
Development Partnership activities	4.8	5.4	-	0.1	-	10.0
Stronger Towns Fund - Hereford Museum & Art Gallery Redevelopment	1.0	6.7	7.3	-	10.0	5.0
Stronger Towns Fund - Greening the City	0.2	0.2	-	-	0.4	-
Stronger Towns Fund - Maylord Orchard Redevelopment and Learning Resource Centre	0.8	2.2	-	-	3.0	-
Fastershire Broadband	13.6	-	-	-	4.5	9.0
PC Replacement	0.1	-	-	-	-	0.1
Electronic Document Management Storage	0.2	-	-	-	-	0.2
Capital Development Fund	1.0	-	-	-	1.0	-
Technology Enabled Communities	1.5	-	-	-	1.5	-
Key Network Infrastructure (Core Data Centre Switches & Corporate Wi-Fi)	0.5	-	-	-	-	0.5
Primary Data Storage Area Network (Plough Lane)	0.3	-	-	-	-	0.3
Flexible Futures	0.7	-	-	-	-	0.7
My Account	0.3	0.1	-	-	-	0.4
Schools Capital Maintenance Grant	3.3	1.2	1.2	-	5.7	-
Peterchurch Area School Investment	3.3	7.4	-	5.4	-	5.2
Brookfield School Improvements	3.7	-	-	1.2	0.6	1.9
High Needs Grant	2.2	1.9	-	-	4.1	-
C & F's S106	0.1	-	-	-	0.1	-

Scheme Name	2022/23 £m	2023/24 £m	2024/25 £m	Capital receipts £m	Grant & funding £m	Prudential borrowing £m
Basic Needs Funding	3.5	11.5	1.4	-	16.1	0.3
Preliminary works to inform key investment need throughout the county	0.3	-	-	-	-	0.3
School Accessibility Works	0.1	-	-	-	-	0.1
Estates Capital Programme 2019/22	3.3	-	-	-	-	3.3
Residual property works identified in the 2019 condition reports	1.3	0.1	-	-	-	1.4
Estates Building Improvement Programme 22-25	1.5	1.3	0.3	-	-	3.0
Upgrade of Hereford West Side CCTV Cameras	-	-	-	-	0.0	-
Hereford Library	0.2	-	-	-	-	0.2
Disabled facilities grant	3.3	2.0	2.0	-	7.3	-
Hillside	0.4	-	-	0.4	-	-
Carehome & Extra Care Development	1.1	8.2	4.8	6.1	0.5	7.5
Super Hubs	2.0	-	-	2.0	-	-
Empty Property Investment & Development	1.3	-	-	-	-	1.3
Unified Tech Fund – Digitising Social Care Prog	0.1	-	-	-	0.1	-
Rough Sleepers Accommodation Programme	0.1	-	-	-	0.1	-
Gypsy & Traveller Pitch development	1.1	-	-	-	-	1.1
Strategic Housing Development	11.5	8.3	-	-	-	19.9
Private sector housing improvements	0.2	-	-	0.2	-	-
Total	133.2	103.7	49.50	27.8	149.4	109.2

Funding capital investment

Much of the council's investments are funded by grants however, when capital grants cannot fund a scheme in full, prudential borrowing can be used to fund the investment and the capital financing costs may be repaid from future savings generated by the investment. In 2021/22 the council utilised £12.04m of prudential borrowing to fund the capital investment budget, including:

- Hereford City Centre Transport Package £1.0m
- Priority Flood Works £0.3m
- Marlbrook Primary School Extension £0.2m
- PC Replacement £0.6m
- Electronic Document Management System £0.2m
- Better Ways of Working £0.1m
- Gypsy and Traveller Pitch Development £0.1m
- Empty Property Investment and Development £0.6m
- Property Estate Works - £1.3m
- Highways Asset Management £1.8m

Council borrowing

The council's approach to borrowing is determined each year within the Treasury Management Strategy, which is

approved as part of the budget setting process. External borrowing is obtained, where necessary, to support the council's capital programme. Borrowing limits are set in accordance with the Prudential Code for Capital Finance in Local Authorities.

In 2021/22 the council secured £5.0m of new long-term borrowing. Principal debt repayments of £2.4m were paid to the Public Works Loan Board under existing maturity, annuity and EIP (equal instalments of principal) agreements. Total interest of £5.4m was paid on all council borrowing during the year.

Total borrowing at year-end, including short term loans, was £129.4m (compared to £126.8m as at 31 March 2021).

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 required up to 31 March 2022.

Net borrowing (after offsetting investments) was £49.7m as at 31 March 2022, compared with £65.4m as at 31 March 2021.

Council reserves

2021/22 saw the council's general reserve balance increase to £9.6m. 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 £96.5m (this includes £9.3m school balances).

Counter fraud

Throughout 2021/22 the Council's Counter Fraud Department has continued to improve corporate fraud maturity across the organisation, which has increased the authority's ability to effectively manage the risk of fraud. It is not always possible to accurately measure the consequential effects and indirect savings that occur due to counter fraud prevention work, however it is important to celebrate the Council's advancements in this area. This has included the creation and implementation of a new fraud awareness intranet page, fraud referral form and mandatory fraud awareness training. The department has already seen a notable rise in referrals as a direct result of these developments.

The Department undertook a considerable amount of assurance and verification work on the Covid-19 Grant Support Schemes, having investigated a total of 341 cases during the pandemic. A total value of £1,199,046 was raised in clawbacks, a further £522,000 was prevented before payment, and £699,722 was recovered. To ensure the Local Authority passed central government audits and assurance requests, the Counter Fraud Department successfully supported the administration and ongoing recovery work associated with covid support funding. As a direct result of collaborative investigations, £185,000 of fraud was detected, £20,000 prevented, £13,000 recovered, with a further £78,000 pending recovery.

Collaboration both internally and externally has been the focal point leading to success and ongoing investigations with other law enforcement agencies continue to reinforce our culture of zero-tolerance to fraud. Working alongside our Revenues and Benefits department 16 instances were identified of businesses falsely claiming rates relief across multiple Local Authorities totalling to £180,624 in potentially recoverable savings. Further joint working with the parking enforcement team resulted in 40 Blue Badges being recovered. Externally, the department worked with the Insolvency service to wind up two fraudulent companies for grant fraud which achieved coverage in over 10 national news articles. Another successful outcome was reached in 2021 with West Mercia Police, following the prosecution of a former council carer, who admitted to three accounts of fraud by abuse of position, and one of theft.

In addition, the Counter Fraud Manager was a finalist within the National TECA awards for recognisable contributions to 'Tackling Economic Crime' within the sector. This has helped to nationally raise the profile of successful counter fraud work being undertaken across Herefordshire Council.

An explanation of the financial statements

The 2021/22 statement of accounts which follow set out the council's income and expenditure for the year and its financial position as at 31 March 2022. The format and content of the statements is prescribed by the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2021/22. This is based on International Financial Reporting Standards adapted for use in a public sector context. The statement of accounts comprises:

Explanation of the financial statements	
Movement in reserves	This shows the movements in reserves during the year, analysed into the different funds held by the Council and classified as either "usable" reserves, which can be used to fund future expenditure, or "unusable" reserves which are maintained to meet specific statutory responsibilities.
Comprehensive Income and Expenditure Statement (CIES)	This shows the net cost of providing services when calculated in line with generally accepted accounting practice. The Expenditure Funding Analysis compares the CIES with levels of income and expenditure which are taken into account setting the annual budget and council tax requirement, since certain amounts are disregarded by statute. Note 6 also provides a subjective analysis of the CIES.
Balance Sheet	The Balance Sheet shows the councils assets and liabilities as at the year end. Net assets are matched by reserves which may be "usable" or "unusable", see above.
Cash flow statement	This shows how the Council generates and uses cash and cash equivalents, and explains the reasons for changes in cash balances during the year.
Statement of accounting policies	Sets out the accounting policies that have been followed in preparing the statements and how Code requirements have been met in practice.
Disclosure notes	These provide more detail about individual transactions and balances.
Group Accounts	Group accounts are presented, in addition to the Council's single entity statements, to provide a full picture of the council's economic activities. The Group Accounts comprise: <ul style="list-style-type: none"> • Group Comprehensive Income and Expenditure Statement • Group Movement in Reserves Statement • Group Balance Sheet • Group Cash Flow Statement and • Notes to the Group Accounts.
Collection Fund	This account demonstrates how income raised from local taxpayers has been re-distributed to the Council and to other precepting authorities for the provision of services.

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

Annual governance statement

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

Statement of Responsibilities

The Council's Responsibilities

The council is required to:

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

The Section 151 Officer - Responsibilities

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

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

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

The Section 151 Officer has also:

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

Certificate of the Chief Finance Officer (Section 151 Officer)

I confirm that the draft unaudited Statement of Accounts gives a true and fair view of the financial position of Herefordshire Council and its group as at 31 March 2022 and its income and expenditure for the year ended 31 March 2022.

Andrew Lovegrove, Director of Resources & Assurance and Section 151 Officer

29 July 2022

Independent Auditors Report

To be included following the completion of the audit

Core Financial Statements and Explanatory Notes

Movement in Reserves Statement

2021/22									
	Notes	General Fund Balance	Earmarked Reserves	Total General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Reserves
		£m	£m	£m	£m	£m	£m	£m	£m
Balance brought forward		(9.1)	(105.6)	(114.7)	(44.6)	(14.3)	(173.6)	(122.4)	(296.0)
(Surplus) / deficit on the provision of services		(7.8)	-	(7.8)	-	-	(7.8)	-	(7.8)
Other comprehensive income and expenditure		-	-	-	-	-	-	(38.9)	(38.9)
Total comprehensive income and expenditure		(7.8)	-	(7.8)	-	-	(7.8)	(38.9)	(46.7)
Adjustments between accounting basis and funding basis under regulations		16.4	-	16.4	1.4	(1.5)	16.3	(16.3)	-
Net (increase)/decrease before transfers to earmarked reserves		8.6	-	8.6	1.4	(1.5)	8.5	(55.2)	(46.7)
Transfers (to) or from earmarked reserves	5	(9.1)	9.1	-	-	-	-	-	-
(Increase) / decrease for the Year		(0.5)	9.1	8.6	1.4	(1.5)	8.5	(55.2)	(46.7)
Balance carried forward	3 & 4	(9.6)	(96.5)	(106.1)	(43.3)*	(15.8)	(165.1)	(177.6)	(342.7)

*rounding

Movement in Reserves Statement 2020/21 comparative

2020/21 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		(9.1)	(79.5)	(88.6)	(44.2)	(8.7)	(141.5)	(134.4)	(275.9)
(Surplus) / deficit on the provision of services		(17.5)	-	(17.5)	-	-	(17.5)	-	(17.5)
Other comprehensive income and expenditure		-	-	-	-	-	-	(2.7)	(2.7)
Total comprehensive income and expenditure		(17.5)	-	(17.5)	-	-	(17.5)	(2.7)	(20.2)
Adjustments between accounting basis and funding basis under regulations		(8.6)	-	(8.6)	(0.4)	(5.7)	(14.7)	14.7	-
Net (increase) /decrease before transfers to earmarked reserves		(26.1)	-	(26.1)	(0.4)	(5.7)	(32.2)	12.0	(20.2)
Transfers (to) or from earmarked reserves	5	26.1	(26.1)	-	-	-	-	-	-
(Increase) / decrease for the Year		-	(26.1)	(26.1)	(0.4)	(5.7)	(32.2)	12.0	(20.2)
Balance carried forward	3 & 4	(9.1)	(105.6)	(114.7)	(44.6)	(14.4)	(173.7)	(122.4)	(296.1)

Comprehensive Income and Expenditure Statement

	2020/21 (Restated)				2021/22		
Expenditure £m	Income £m	Net £m		Notes	Expenditure £m	Income £m	Net £m
138.9	(103.0)	35.9	Children and Young People		158.4	(113.7)	44.7
106.0	(55.6)	50.4	Community Wellbeing		113.5	(56.0)	57.5
80.9	(22.5)	58.4	Economy and Environment		59.7	(28.1)	31.6
75.7	(45.4)	30.3	Corporate Services		82.6	(39.1)	43.5
401.5	(226.5)	175.0	Net Cost of Services	2	414.2	(236.9)	177.3
6.3	-	6.3	Other Operating Expenditure	7	5.1	(0.5)	4.6
22.9	(6.4)	16.5	Financing, Investment Income and Expenditure	8	17.1	(6.6)	10.5
-	(215.3)	(215.3)	Taxation and Non-Specific Grant Income	9	-	(200.2)	(200.2)
430.7	(448.2)	(17.5)	(Surplus) / deficit on the provision of services		436.4	(444.2)	(7.8)
		(15.7)	(Surplus) / deficit in revaluation of non-current assets	4			(15.7)
		13.0	Re-measurement of net defined Benefit Liability				(23.2)
		(2.7)	Other comprehensive (income) / expenditure				(38.9)
		(20.2)	Total comprehensive (income) / expenditure				(46.7)

Note 40 prior period adjustment of net cost of services provides a reconciliation of the 2020/21 restated comprehensive income and expenditure statement following a directorate restructure in 2021/22.

Balance Sheet

31 March 2021 £m		Notes	31 March 2022 £m
648.6	Property, Plant and Equipment	10	681.8
38.7	Investment Property	10	40.1
0.1	Intangible Assets	10	0.3
3.2	Heritage Assets	10	3.2
40.2	Long Term Debtors	11	38.9
730.8	Long Term Assets		764.3
44.0	Short Term Investments	11	43.0
0.2	Inventories		0.1
52.2	Short Term Debtors	12	36.0
22.9	Cash & Cash equivalents	13	42.5
-	Assets held for Sale	10	-
119.3	Current Assets		121.6
(3.3)	Short Term Borrowing	11	(7.8)
(76.6)	Short Term Creditors	18	(73.4)
(3.7)	Short Term Provisions	20	(3.8)
(1.7)	Cash & Cash equivalents	13	(2.3)
(85.3)	Current Liabilities		(87.3)
(4.4)	Long Term provisions	20	(3.5)
(124.9)	Long Term borrowing	11	(123.0)
(9.6)	Capital Grants Receipts in Advance	19	(11.7)
(329.8)	Other Long Term Liabilities	11	(317.7)
(468.7)	Total Long Term Liabilities		(455.9)
296.1	Net Assets		342.7
(173.7)	Usable Reserves	3	(165.1)
(122.4)	Unusable Reserves	4	(177.6)
(296.1)	Total Reserves		(342.7)

The unaudited accounts, notes and accounting policies were authorised for issue by the Chief Finance Officer on 29 July 2022.

Cash Flow Statement

2020/21 £m		Notes	2021/22 £m
(17.5)	Net (surplus) or deficit on the provision of services		(7.8)
(66.6)	Adjust net (surplus) or deficit on the provision of services for non-cash movements	14	(39.0)
1.1	Adjust for items included in the net (surplus) or deficit on the provision of services that are investing and financing activities	15	1.9
(83.0)	Net cash flows from operating activities		(44.9)
69.5	Net cash flows from investing activities	16	25.5
6.8	Net cash flows from financing activities	17	0.4
(6.7)	Net (increase) or decrease in cash and cash equivalents		(19.0)
(14.5)	Cash and cash equivalents at the beginning of the reporting period		(21.2)
(21.2)	Cash and cash equivalents at the end of the reporting period		(40.2)
(6.7)	Net decrease or (increase) in cash and cash equivalents		(19.0)

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 2021/22 supported by International Financial Reporting Standards. The core statements and the statement of group accounts have consistently applied the accounting policies below, where applicable, the statement of group accounts include additional accounting policies specific to the council's subsidiary undertaking, Hoople Limited.

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

1.2 Accruals of Income and Expenditure

Revenue and capital transactions are accounted for on an accruals basis where above the de-minimis thresholds, currently £5k for revenue and £10k for capital. 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. The capital de-minimis threshold means capital spend below this threshold can be treated as revenue expenditure.

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

1.3 Borrowing Costs

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

1.4 Cash and cash equivalents

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

1.5 Contingent liabilities

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

Employee benefits

1.6 Benefits payable during employment

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

1.7 Termination benefits

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

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

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

1.8 Post-employment benefits

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

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

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

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

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

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

- a) The liabilities are included in the Balance Sheet on an actuarial basis using the projected unit method, that is, an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees;
- b) Liabilities are discounted to their value at current prices using a discount rate of 2.1% (based on market yields and other factors);
- c) Assets are included in the Balance Sheet at their fair value determined through market or bid prices or using

professional valuations;

- d) The change in the net pension's liability is analysed into six components;
- i. **Current service cost:** The increase in liabilities as a result of service earned in the year is allocated to the revenue account of the services for which the employee worked, within the Comprehensive Income and Expenditure Statement
 - ii. **Past service cost:** The increase in liabilities arising from a scheme amendment or curtailment whose effect relates to service earned in earlier years is debited to the Net Cost of Services in the Comprehensive Income and Expenditure Statement.
 - iii. **Net interest on the defined benefit liability:** The change during the period that arises from the passage of time is charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement.
 - iv. **Return on plan assets:** Charged to the Pensions Reserve as Other Comprehensive Income and Expenditure but excludes amounts included in net interest on defined benefit liability.
 - v. **Actuarial gains and losses:** Changes in the net pensions liability that arise because events have not coincided with assumptions previously made by the actuaries is included in Other Comprehensive Income and Expenditure.
 - vi. **Contributions paid to the pension fund:** Cash paid as employer's contributions to the pension fund.

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

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

1.9 Events after the balance sheet date

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

There are two types;

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

1.10 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.

1.11 Financial Instruments

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

1.12 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.

1.13 Financial assets

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

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

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

Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the Council, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

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

Financial Assets Measured at Fair Value through Profit or Loss

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

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

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

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

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

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

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

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

The council has no equity instruments designated at fair value through other Comprehensive Income (FVOCI).

Expected Credit Loss Model

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

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

1.14 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.

1.15 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.

1.16 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: <ul style="list-style-type: none"> • Physical Location • Condition • Orientation • Levels of Natural Light • View • Access and visibility • Tenure and Covenants • Construction Type and Cost • Size and Layout • Facilities • Lease Options • Obsolescence 	1

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

1.17 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.

1.18 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.

1.19 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.

1.20 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.

1.21 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.

1.22 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.

1.23 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.

1.24 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, currently £10,000. The council also does not include assets on the council's asset register used to prepare the statement of accounts where the asset value is less than £100,000. 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.

1.25 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.

1.26 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)

1.27 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.

1.28 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.

1.29 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.

1.30 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.

1.31 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.

1.32 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.

1.33 Agency arrangements

Where the council acts as 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.

1.34 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.

1.35 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.

1.36 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.

1.37 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.

1.38 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

1.39 Minimum Revenue Provision (MRP)

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

The minimum revenue provision (MRP) is calculated as follows:-

- MRP on supported borrowing is written down on an annuity basis with an annuity rate of 2%.
- MRP on unsupported borrowing incurred before 1 April 2008 will be written down on a straight line basis over the asset life.
- MRP on unsupported borrowing from 1 April 2008 onwards is written down on an annuity basis with an annuity rate of 3%.
- MRP on assets acquired through finance leases and Private Finance Initiative (PFI) will be equal to the cash payments that reduce the outstanding liability each year.

1.40 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.

1.41 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.

1.42 Interests in Companies and Other Entities

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

West Mercia Energy

West Mercia Energy (WME) operates as a joint arrangement with Herefordshire, Shropshire, Worcestershire and Telford and Wrekin councils. The Joint Agreement states that each Member Authority takes an equal share, being 25%, of any assets of the Joint Committee, at £0.3m this is considered not material. The financial advantage of bulk purchasing arrangements is reflected in the Comprehensive Income and Expenditure Statement.

South West Audit Partnership

Herefordshire Council has an internal audit function provided by the South West Audit Partnership (SWAP). SWAP is a not-for-profit organisation providing internal audit services to 24 local authorities' partner bodies. Upon joining SWAP each partner can nominate a director to the board, Herefordshire Council have done this. This represents the ability to work with other partners to provide feedback on services received. During 2021/22 Herefordshire Council paid SWAP £0.3m for their internal audit services (2020/21 £0.3m).

Cyber Quarter Limited

Cyber Quarter Limited is the company that owns and operates the Midlands Cyber Centre. On 29 March 2019 the council became a shareholder in Cyber Quarter Limited, taking a 19% shareholding, at a cost of £1 per share, the remaining shares are held by the University of Wolverhampton.

A Joint Venture with the University of Wolverhampton, the construction of a £9m Midlands Centre for Cyber Security on the Hereford Enterprise Zone completed in 2020 following a delay due to Covid-19. The Centre will create a range of opportunities in the growing cyber security sector in Herefordshire.

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

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

1.44 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.

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

The accounting standards the Council must follow when preparing the Statement of Accounts are now endorsed by the UK instead of the EU.

At the balance sheet date, the following new standards and amendments to existing standards have been published but not yet adopted by the Code of Practice of Local Authority Accounting in the United Kingdom, these are:

- Amendments to IFRS 3 – Business Combinations – Definition of a Business
- Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest Rate Benchmark Reform
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – Interest Rate Benchmark Reform (Phase 2)

None of these amendments are expected to have an impact on the Council's accounts in future years.

IFRS 16 Leases. This standard introduces new presentation and disclosure requirements in relation to arrangements that convey the right to use an asset. Following the outcome of the FRAB review, CIPFA LASAAC formally announced the decision to refer the implementation of IFRS 16 for local authorities until 1 April 2024. The impact of this change is expected to be immaterial in value.

1.46 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.
- Herefordshire Council has committed to guarantee any deficit shortfall that may arise in Hoople Limited's Local Government Pension Scheme. For this reason both entities will be treated as a single entity for the purpose of determining contributions falling due and the council accounts report the combined deficit position.
- The council has determined that its accountable body status between the new Hereford University - the New Model in Technology & Engineering (NMiTE), and the Department for Education represents an agency arrangement and has disclosed this in note 23.
- The council accounts include all transactions made by schools, and the assets utilised by these schools unless the school is an academy or a free school, these entities are excluded.

1.47 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.

The estimations and assumptions continue to reflect the uncertainty of the global outbreak of the Covid-19 virus pandemic. There remains a significant risk of material adjustment in the forthcoming financial year for the following items in the council's Balance Sheet at 31 March 2022.

Item	Uncertainties	Effect if actual results differ from assumptions
Pensions liability	<p>Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. The pension fund actuary Mercer Limited is employed by the pension fund to provide expert advice about the assumptions to be applied.</p> <p>There is no certainty as to what effect the ongoing pandemic will have on future life expectancy. The vaccination programme and social distancing measures taken so far may reduce the prevalence of other contagious diseases, so an increase in average life expectancy could arise. However, if future variants are not able to be controlled by vaccines, average life expectancy could decrease.</p>	<p>Changes in any of the assumptions can have a significant effect on the pension liability shown in the accounts.</p> <p>An increase in the discount rate used of 0.1% would decrease the liability stated by £12.8m.</p> <p>An increase of 0.1% in the inflation rate used would increase the stated liability by £13.0m.</p> <p>An increase of 0.1% in the rate of pay growth used would increase the stated liability by £1.1m.</p> <p>A one year increase in the assumed life expectancy would increase the stated liability by £23.0m.</p> <p>However, the assumptions interact in complex ways, the re-measurement of the net liability in 2021/22 resulted in a decrease of £23.2m.</p>

Item	Uncertainties	Effect if actual results differ from 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 officers and external valuers.	Depreciation is applied on a straight line or reducing balance 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 business rate appeals, potential legal litigation cases and potential insurance claims.	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.
Land and Buildings	At the current time, it is not possible to accurately predict the ongoing impact of Covid-19 on the economy. As at 31 March 2022 material valuation uncertainty remains but is contained to retail and specific trading related assets/sectors such as car parks, where we continue to be faced with an unprecedented set of circumstances caused by Covid-19 and an absence of relevant/sufficient market evidence on which to base critical judgements.	The material uncertainty clause is to serve as a precaution and does not invalidate the valuation. Given the unknown future impact of Covid-19 on these sectors and the difficulty in differentiating between short term impacts and longer term structural market changes, valuations will be kept under frequent review.
Investment properties	As they are valued on a Market Value basis and can be more susceptible to valuation swings, linked to underlying market conditions and other asset specific changes; Investment Properties are subject to an annual valuation review and update to ensure the carrying amount does not differ materially from that which would be determined using fair value at the Balance Sheet date. At the current time, it is not possible to accurately predict the ongoing impact of Covid-19 on the economy.	A 1% movement in Investment Property valuations would result in a £0.6m movement in the valuation of Investment Properties.
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	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.

Item	Uncertainties	Effect if actual results differ from assumptions
	properties not valued in the year.	<p>All assets requiring an independent professional valuation were valued in 2020/21 or 2021/22 therefore the risk of a value misstatement is considered to be low.</p> <p>The impact of Covid-19 on asset values is being kept under review</p>

2. Expenditure and Funding Analysis 2021/22

The objective of the Expenditure and Funding Analysis (EFA) 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.

2021/22	Adjustments between the funding and accounting basis					Net Expenditure in CIES
	Net expenditure chargeable to the General Fund	Adjustments for capital purposes (1)	Net change for pension adjustments	Other adjustments (2)	Total	
	£m	£m	£m	£m	£m	£m
Children and Young People	45.0	(1.0)	0.8	(0.1)	(0.3)	44.7
Community Wellbeing	58.1	0.1	0.7	(1.4)	(0.6)	57.5
Economy and Environment	27.1	8.0	0.5	(4.0)	4.5	31.6
Corporate Services	35.0	(5.5)	6.1	7.9	8.5	43.5
Net cost of services	165.2	1.6	8.1	2.4	12.1	177.3
Other income and expenditure	(156.6)	(17.7)	5.9	(16.7)	(28.5)	(185.1)
Total (surplus) / deficit	8.6	(16.1)	14.0	(14.3)	(16.4)	(7.8)
Opening general fund balance as at 1 April 2021	(114.7)					
(Surplus) / deficit on general fund	8.6					
Closing general fund balance as at 31 March 2022	(106.1)					

Comparative EFA 2020/21

2020/21	Adjustments between the funding and accounting basis					Net Expenditure in CIES (Restated)
	Net expenditure chargeable to the General Fund (Restated)	Adjustments for capital purposes (1) (Restated)	Net change for pension adjustments (Restated)	Other adjustments (2) (Restated)	Total	
	£m	£m	£m	£m	£m	£m
Children and Young People	36.8	1.3	1.0	(3.2)	(0.9)	35.9
Community Wellbeing	50.1	0.8	0.8	(1.2)	0.4	50.5
Economy and Environment	33.1	25.8	0.7	(1.4)	25.1	58.3
Corporate Services	47.1	(7.6)	0.6	(9.7)	(16.7)	30.4
Net cost of services	167.1	20.3	3.1	(15.5)	7.9	175.0
Other income and expenditure	(193.2)	(38.5)	6.2	33.0	0.7	(192.5)
Total (surplus) or deficit	(26.1)	(18.2)	9.3	17.5	8.6	(17.5)
Opening general fund balance as at 1 April 2020	(88.6)					
(Surplus)/deficit on general fund	(26.1)					
Closing general fund balance as at 31 March 2021	(114.7)					

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

2021/22	De-capitalisation	Depreciation	REFCUS	MRP	RCCO	Loss on disposals	Revaluations	Finance lease	Capital grants	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Children and Young People	-	3.6	-	-	-	-	(4.6)	-	-	(1.0)
Community Wellbeing	-	0.4	0.2	-	-	-	(0.5)	-	-	0.1
Economy and Environment	-	10.5	-	-	-	-	(2.4)	-	-	8.0
Corporate Services	-	2.3	0.1	(7.9)	-	-	-	-	-	(5.5)
Net cost of services	-	16.8	0.3	(7.9)	-	-	(7.5)	-	-	1.6
Other operating expenditure	-	-	-	-	0.3	(0.5)	0.6	-	(18.2)	(17.7)
Total	-	16.8	0.3	(7.9)	0.3	(0.5)	(6.9)	-	(18.2)	(16.1)

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

2020/21	De- capitalisation £m	Depreciation £m	REFCUS £m	MRP £m	RCCO £m	Loss on disposals £m	Revaluations £m	Finance lease £m	Capital grants £m	Total £m
Children and Young People	-	3.3	-	-	-	-	(2.0)	-	-	1.3
Community Wellbeing	-	0.3	0.2	-	-	-	0.3	-	-	0.8
Economy and Environment	-	10.2	-	-	-	-	15.6	-	-	25.8
Corporate Services	-	1.9	0.2	(9.7)	-	-	-	-	-	(7.6)
Net cost of services	-	15.7	0.4	(9.7)	-	-	13.9	-	-	20.3
Other operating expenditure	10.9	-	-	-	(0.4)	1.2	(7.5)	(0.3)	(42.4)	(38.5)
Total	10.9	15.7	0.4	(9.7)	(0.4)	1.2	6.4	(0.3)	(42.5)	(18.2)

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

2020/21 (Restated)					2021/22			
Total £m	PFI £m	Collection fund £m	Recharges & movements £m		Recharges & movements £m	Collection Fund £m	PFI £m	Total £m
(3.1)	(1.8)	-	(1.3)	Children and Young People	1.7	-	(1.8)	(0.1)
(1.2)	(1.0)	-	(0.2)	Community Wellbeing	(0.4)	-	(1.0)	(1.4)
(1.4)	(3.8)	-	2.4	Economy and Environment	(0.6)	-	(3.5)	(4.0)
(9.8)	-	-	(9.8)	Corporate Services	7.9	-	-	7.9
(15.5)	(6.6)	-	(8.9)	Net cost of services	8.6	-	(6.3)	2.4
33.0	6.6	17.0	9.4	Other operating expenditure	(11.2)	(11.7)	6.3	(16.7)
17.5	-	17.0	0.5	Total	(2.6)	(11.7)	-	(14.3)

Material Items of Income and Expense

There were no material items of income and expense included the Comprehensive Income and Expenditure Account

for 2021/22.

Events after the Balance Sheet Date

The draft unaudited Statement of Accounts was authorised for issue on 29 July 2022 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

2021/22 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	(9.1)	(105.6)	(114.7)	(44.6)	(14.3)	(173.6)
(Surplus)/deficit on provision of services	(7.8)	-	(7.8)	-	-	(7.8)
Depreciation	(16.8)	-	(16.8)	-	-	(16.8)
Decapitalisation of assets	-	-	-	-	-	-
Impairment / downwards revaluation	6.9	-	6.9	-	-	6.9
Net revenue expenditure funded by capital under statute	(0.3)	-	(0.3)	-	-	(0.3)
Net book value of assets sold	(1.4)	-	(1.4)	-	-	(1.4)
Capital receipts from assets sold	1.8	-	1.8	(1.8)	-	-
Adjustments for Council Tax and NDR Receivable	11.7	-	11.7	-	-	11.7
Capital Financed by Receipts	-	-	-	4.8	-	4.8
Application of Long-Term Debtor capital related receipts	-	-	-	(1.6)	-	(1.6)
Revenue Contribution to Capital Outlay	0.3	-	0.3	-	-	0.3
Minimum Revenue Provision (MRP)	10.7	-	10.7	-	-	10.7
Short term leave adjustment	0.5	-	0.5	-	-	0.5
Reversal of IAS19 Pension Charges	(14.1)	-	(14.1)	-	-	(14.1)
Reverse finance lease liability	-	-	-	-	-	-
Capital grants unapplied	7.9	-	7.9	-	(7.9)	-
Capital Financed by Grants and Contributions	9.2	-	9.2	-	6.4	15.6
Transfer to/from reserves	(9.1)	9.1	-	-	-	-
Total movement	(0.5)	9.1	8.6	1.4	(1.5)	8.5
Closing balance	(9.6)	(96.5)	(106.1)	(43.3)*	(15.8)	(165.1)

*rounding

Movement in Usable Reserves 2020/21 Comparative Movements

Comparative 2020/21 Movements	General Fund Revenue	Earmarked reserves	Revenue Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves
	£m	£m	£m	£m	£m	£m
Opening balance	(9.1)	(79.5)	(88.6)	(44.2)	(8.7)	(141.5)
(Surplus)/deficit on provision of services	(17.5)	-	(17.5)	-	-	(17.5)
Depreciation	(15.8)	-	(15.8)	-	-	(15.8)
Decapitalisation of assets	(10.9)	-	(10.9)	-	-	(10.9)
Impairment / downwards revaluation	(6.5)	-	(6.5)	-	-	(6.5)
Net revenue expenditure funded by capital under statute	(0.4)	-	(0.4)	-	-	(0.4)
Net book value of assets sold	(2.3)	-	(2.3)	-	-	(2.3)
Capital receipts from assets sold	1.1	-	1.1	(1.1)	-	-
Adjustments for Council Tax and NDR Receivable	(17.0)	-	(17.0)	-	-	(17.0)
Capital Financed by Receipts	-	-	-	0.7	-	0.7
Revenue Contribution to Capital Outlay	0.4	-	0.4	-	-	0.4
Minimum Revenue Provision (MRP)	9.7	-	9.7	-	-	9.7
Short term leave adjustment	(0.5)	-	(0.5)	-	-	(0.5)
Reversal of IAS19 Pension Charges	(9.3)	-	(9.3)	-	-	(9.3)
Reverse finance lease liability	0.3	-	0.3	-	-	0.3
Capital grants unapplied	9.3	-	9.3	-	(9.3)	-
Capital Financed by Grants and Contributions	33.3	-	33.3	-	3.6	36.9
Transfer to/from reserves	26.1	(26.1)	-	-	-	-
Total movement	-	(26.1)	(26.1)	(0.4)	(5.7)	(32.2)
Closing balance	(9.1)	(105.6)	(114.7)	(44.6)	(14.4)	(173.7)

4. Movement in Unusable Reserves Analysis

2021/22 Movements	Short Term Absences Account	Capital Adjustment Account	Collection Fund Adjustment Account	Financial Instruments Adjustment Account	Pensions Reserve	Revaluation Reserve	DSG Adjustment Account	Total Unusable Reserves
	£m	£m	£m	£m	£m	£m		£m
Opening balance	3.4	(288.5)	13.6	0.4	282.4	(133.7)	-	(122.4)
Depreciation	-	16.8	-	-	-	-	-	16.8
Revaluations and Impairments	-	(6.9)	-	-	-	-	-	(6.9)
Net revenue expenditure funded by capital under statute	-	0.3	-	-	-	-	-	0.3
Net book value of assets sold	-	1.4	-	-	-	-	-	1.4
Adjustments for Council tax and NDR receivable	-	-	(11.7)	-	-	-	-	(11.7)
Capital Financed by Receipts	-	(4.8)	-	-	-	-	-	(4.8)
Other Adjustments	-	1.6	-	-	-	-	-	1.6
Provision for the Redemption of Debt	-	(10.7)	-	-	-	-	-	(10.7)
Revenue Contribution to Capital Outlay	-	(0.3)	-	-	-	-	-	(0.3)
Reversal of IAS 19 Pensions Charges	-	-	-	-	14.1	-	-	14.1
Net movement on Revaluation Reserve	-	(1.5)	-	-	-	(14.2)	-	(15.7)
Short term leave adjustment	(0.5)	-	-	-	-	-	-	(0.5)
Actuarial Gain/Loss on Pensions	-	-	-	-	(23.2)	-	-	(23.2)
Capital Financed by Grants and Contributions	-	(15.7)	-	-	-	-	-	(15.7)
Reverse finance lease liability	-	-	-	-	-	-	-	-
Depreciation Revaluation Adjustment	-	-	-	-	-	-	-	-
PFI Liability	-	(0.2)	-	-	-	-	-	(0.2)
Move DSG Op Bal from Earmarked Reserve to Unusable Reserve	-	-	-	-	-	-	(0.4)	(0.4)
DSG Closedown 2021/22 Overspend	-	-	-	-	-	-	0.7	0.7
Total movement	(0.5)	(20.0)	(11.7)	-	(9.1)	(14.2)	0.3	(55.2)
Total Reserves	2.9	(308.5)	1.9	0.4	273.3	(147.9)	0.3	(177.6)

Movement in unusable reserves analysis 2020/21 comparative movements

2020/21 comparative Movements	Short Term Absences Account	Capital Adjustment Account	Collection Fund Adjustment Account	Financial Instruments Adjustment Account	Pensions Reserve	Revaluation Reserve	Total Unusable Reserves
	£m	£m	£m	£m	£m	£m	£m
Opening balance	2.9	(272.0)	(3.4)	0.4	260.2	(122.5)	(134.4)
Depreciation	-	15.8	-	-	-	-	15.8
Revaluations and Impairments	-	6.5	-	-	-	-	6.5
Decapitalisation of Assets	-	10.9	-	-	-	-	10.9
Net revenue expenditure funded by capital under statute	-	0.4	-	-	-	-	0.4
Net book value of assets sold	-	1.7	-	-	-	0.6	2.3
Adjustments for Council tax and NDR receivable	-	-	17.0	-	-	-	17.0
Capital Financed by Receipts	-	(0.7)	-	-	-	-	(0.7)
Provision for the Redemption of Debt	-	(9.7)	-	-	-	-	(9.7)
Revenue Contribution to Capital Outlay	-	(0.4)	-	-	-	-	(0.4)
Reversal of IAS 19 Pensions Charges	-	-	-	-	9.3	-	9.3
Net movement on Revaluation Reserve	-	-	-	-	-	(15.7)	(15.7)
Short term leave adjustment	0.5	-	-	-	-	-	0.5
Actuarial Gain/Loss on Pensions	-	-	-	-	13.0	-	13.0
Capital Financed by Grants and Contributions	-	(36.9)	-	-	-	-	(36.9)
Reverse finance lease liability	-	(0.3)	-	-	-	-	(0.3)
Depreciation Revaluation Adjustment	-	(3.9)	-	-	-	3.9	-
Total movement	0.5	(16.5)	17.0	-	22.2	(11.2)	12.0
Total Reserves	3.4	(288.5)	13.6	0.4	282.4	(133.7)	(122.4)

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 2021/22.

Reserve	01/04/21 £m	Transfer out £m	Transfer in £m	31/03/22 £m
Financial Resilience	(14.4)	1.2	(4.2)	(17.4)
Business Rates Smoothing	(9.2)	0.2	(2.0)	(11.0)
College Road Campus Maintenance	(0.4)	-	(0.1)	(0.5)
School Balances	(10.3)	1.5	(0.5)	(9.3)
Tourism Projects	(0.1)	0.1	(0.1)	(0.1)
Economic Growth	-	-	(0.1)	(0.1)
Waste Disposal	(8.3)	2.8	(2.4)	(7.9)
Settlement Monies	(3.3)	-	-	(3.3)
Risk Mitigation	(2.9)	2.9	-	-
Technology Enabled Communities	(1.5)	-	-	(1.5)
Remedial Roadworks	(0.1)	-	-	(0.1)
Additional Pension Costs	(2.5)	-	(2.3)	(4.8)
Whitecross School PFI	(1.6)	-	(0.2)	(1.8)
Severe Weather Fund	(1.1)	-	-	(1.1)
Adult Social Care Integration	(1.6)	-	(0.8)	(2.4)
Children's Improvement Proposals	(5.2)	5.2	(1.9)	(1.9)
Short Breaks	(0.2)	0.2	-	-
ICT	(0.5)	0.1	-	(0.4)
Learning Disability	(1.1)	0.5	-	(0.6)
Recovery and Invest Fund	(0.5)	-	-	(0.5)
Knowledge Management System	-	-	(0.3)	(0.3)
Social Care Contingency	(0.5)	0.1	-	(0.4)
Other small reserves	(8.1)	1.2	(1.1)	(8.0)
Unused grants carried forward	(32.2)	21.2	(12.1)	(23.1)
Total	(105.6)	37.2	(28.1)	(96.5)

The note above incorporates the recommendations from the annual review of the earmarked reserves reported to Cabinet in October 2021.

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;

2020/21		2021/22
£m		£m
	Income	
(43.1)	Fees, charges and other service income	(36.0)
(3.2)	Trading and investment income	(4.1)
(3.2)	Interest and investment income	(2.5)
(132.7)	Income from council tax and non-domestic rates	(149.6)
(266.0)	Government grants and contributions	(251.5)
-	Loss on disposal of non-current assets	(0.5)
(448.2)	Total Income	(444.2)
	Expenditure	
121.2	Employee benefits expenses	138.2
237.7	Other service expenses	253.3
5.7	Support service recharges (net)	6.6
1.2	Loss on disposal of non-current assets	-
36.9	REFCUS, depreciation, amortisation and impairment	16.1
8.1	Trading and investment expenditure	2.6
14.8	Interest Expenditure	14.5
5.1	Precepts and levies	5.1
430.7	Total Expenditure	436.4
(17.5)	(Surplus) or Deficit on the Provision of Services	(7.8)

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 £18.9m in 2021/22 (£17.8m in 2020/21)

7. Other Operating Expenditure

2020/21 £m		2021/22 £m
4.9	Parish Council precepts	4.9
0.2	Levies	0.2
1.2	(Gains)/losses on the disposal of non-current assets	(0.5)
6.3	Total	4.6

8. Financing and Investment Income and Expenditure

2020/21 £m		2021/22 £m
8.6	Interest payable and similar charges	8.6
6.2	Pensions net interest and admin charge	5.9
(2.9)	Interest receivable	(2.5)
4.9	Income and expenditure in relation to trading accounts/investment properties and changes to their fair value, note 22	(1.5)
(0.3)	Other investment income	-
16.5	Total	10.5

9. Taxation and Non Specific Grant Income

2020/21 £m		2021/22 £m
(114.2)	Council tax income	(121.2)
(18.5)	Non domestic rates	(28.4)
(42.4)	Non-ring fenced government grants	(33.5)
(42.5)	Capital grants and contribution	(17.1)
2.3	Capital Grants Repaid	-
(215.3)	Total	(200.2)

10. Property, Plant and Equipment

Cost 2021/22	Land & Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus assets	Assets Under Construction & WIP	Sub total	Investment Assets	Intangibles & Other Assets	Heritage Assets	Assets Held for Sale	Total Property, Plant & Equipment	PFI assets included in PPE
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Opening balance at 1 April 2021	343.4	35.6	369.3	1.6	4.0	-	753.9	38.7	0.2	3.2	-	796.0	36.5
Additions	3.3	0.9	23.4	-	0.2	-	27.8	2.4	0.2	-	-	30.4	0.3
Disposals	(0.5)	-	-	-	-	-	(0.5)	(1.0)	-	-	-	(1.5)	-
Revaluation	19.0	3.7	-	-	0.4	-	23.1	(0.6)	-	-	-	22.5	4.2
Reverse Acc dep'n	(3.3)	(0.9)	-	-	-	-	(4.2)	-	-	-	-	(4.2)	(1.2)
Asset Transfers	(0.5)	-	-	-	(0.1)	-	(0.6)	0.6	-	-	-	-	-
Other movements	-	(2.4)	-	-	-	-	(2.4)	-	-	-	-	(2.4)	-
At 31 March 2022	361.4	36.9	392.7	1.6	4.5	-	797.1	40.1	0.4	3.2	-	840.7	39.9
Depreciation/ amortisation													
Opening balance at 1 April 2021	(0.4)	(4.9)	(100.0)	-	-	-	(105.3)	-	-	-	-	(105.3)	(0.2)
Charge for the year	(5.4)	(2.0)	(9.3)	-	-	-	(16.7)	-	(0.1)	-	-	(16.7)	(1.2)
Reverse Acc dep'n	-	2.4	-	-	-	-	2.4	-	-	-	-	2.4	1.2
Other movements	3.3	0.9	-	-	-	-	4.2	-	-	-	-	4.2	-
At 31 March 2022	(2.5)	(3.6)	(109.3)	-	-	-	(115.4)	-	(0.1)	-	-	(115.4)	(0.2)
Carrying amount at March 2022	358.9	33.3	283.4	1.6	4.5	-	681.8	40.1	0.3	3.2	-	725.4	39.7
Opening carrying amount at 1 April 2021	343.0	30.7	269.3	1.6	4.0	-	648.6	38.7	0.2	3.2	-	690.7	36.4

Restated Cost 2020/21	Land & Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus assets	Assets Under Construction & WIP	Sub total	Investment Assets	Intangibles	Heritage Assets	Assets Held for Sale	Total Property, Plant & Equipment	PFI assets included in PPE
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Opening balance at 1 April 2020	311.4	40.2	357.6	8.1	4.9	5.0	727.2	33.8	0.2	3.2	3.3	767.7	42.0
Additions	9.3	1.5	23.8	-	-	2.7	37.3	9.7	0.1	-	-	47.1	0.4
Disposals	-	-	-	-	-	-	-	(0.5)	-	-	(1.8)	(2.3)	-
Revaluation	16.0	(3.4)	-	-	(0.2)	-	12.4	(7.2)	-	-	0.2	5.4	(3.4)
Reverse Acc dep'n	(7.9)	(2.5)	(0.4)	-	-	-	(10.8)	-	-	-	-	(10.8)	(2.5)
Asset Transfers	14.6	-	(0.8)	(6.5)	(0.7)	(7.7)	(1.1)	2.9	-	-	(1.7)	0.1	-
Other movements	-	(0.2)	(10.9)	-	-	-	(11.1)	-	(0.1)	-	-	(11.2)	-
At 31 March 2021	343.4	35.6	369.3	1.6	4.0	-	753.9	38.7	0.2	3.2	-	796.0	36.5
Depreciation/ Amortisation													
Opening balance at 1 April 2020	(3.8)	(5.2)	(91.5)	-	-	-	(100.5)	-	(0.1)	-	-	(100.6)	(1.6)
Charge for the year	(4.5)	(2.4)	(8.9)	-	-	-	(15.8)	-	-	-	-	(15.8)	(1.0)
Reverse Acc dep'n	7.9	2.5	-	-	-	-	10.4	-	-	-	-	10.4	2.5
Other movements	-	0.2	0.4	-	-	-	0.6	-	0.1	-	-	0.7	-
At 31 March 2021	(0.4)	(4.9)	(100.0)	-	-	-	(105.3)	-	-	-	-	(105.3)	(0.1)
Carrying amount at March 2021	343.0	30.7	269.3	1.6	4.0	-	648.6	38.7	0.2	3.2	-	690.7	36.4
-	-	-	-	-	-	-	-	-	-	-	-	-	-
Opening carrying amount at 1 April 2020	307.7	34.9	266.1	8.1	4.9	5.0	626.7	33.8	0.1	3.2	3.3	667.1	40.4

Prior Period Adjustment

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

In the table above: the opening balances at 1 April 2020, depreciation transactions, revaluation transactions and closing balances at 31 March 2021 for Land & Buildings and Vehicle, Plant, Furniture & Equipment categories have been restated to reflect the reclassification of the council's Energy from Waste asset as an item of plant & machinery.

The previously reported opening balances at 1 April 2020 for Land & Buildings cost and depreciation have been adjusted by £33.m and £1.6m respectively with corresponding adjustments to increase Vehicle, Plant, Furniture & Equipment opening balances.

The previously reported balance for in year depreciation charge for Land & Buildings has been adjusted by £0.9m with a corresponding adjustment to increase the Vehicle, Plant, Furniture & Equipment charge in 2020/21. A further adjustment of £2.5m to remove accumulated depreciation following revaluation of the asset in 2020/21, has been made the decrease the amount disclosed within the Land & Buildings category and increase the amounts disclosed within Vehicle, Plant, Furniture & Equipment.

The previously reported Land & Buildings revaluation gain has been adjusted by £3.4m with a corresponding adjustment to increase the Vehicle, Plant Furniture & Equipment revaluation gain in 2020/21.

Depreciation

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

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

Analysis of Capital Charges to Directorates

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

	Depreciation £m	Revaluations £m	Total 2021/22 £m
Adults and Communities	0.4	(0.5)	(0.1)
Children and Families	3.6	(4.6)	(1.0)
Economy and Place	10.5	(2.4)	8.1
Corporate and Central Services	2.3	-	2.3
Total	16.8	(7.5)	9.3

Capital Commitments

At 31 March 2022 the council had no significant capital commitments (31 March 2021 £2.3m John Kyrle High School (academy) to complete the New Permanent Accommodation project). The council's policy is that significant contracts are those with a value greater than £1m.

Revaluations

The council carries out a rolling programme that ensures all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. More frequent valuations are carried out if the rolling programme is insufficient to keep pace with material changes in value. Wilks, Head and Eve LLP completed all reported valuations in 2021/22. Valuations of land and buildings are carried out in accordance with the methodologies and bases for estimation as set out in the professional standards of the Royal Institution of Chartered Surveyors. Valuations of vehicle, plant and equipment are based on depreciated costs as a proxy for fair value.

The carrying amount of assets on the rolling programme held at 31 March 2022 total £663.0m. The effective date of the revaluations are as follows:

Valued as at:	Carrying amount of revalued assets £m
31 March 2022	283.9
31 March 2021	379.1
Total	663.0

Impact of Covid-19 – contained material valuation uncertainty

The Covid-19 pandemic created a large uncertainty in financial markets and the market for other assets. The Royal Institute of Chartered Surveyors subsequently issued guidance identifying that all valuations will have a material valuation uncertainty as at 31 March 2020. As at 31 March 2021 this material valuation uncertainty was contained to retail and specific trading related assets/sectors such as car parks, where we continue to be faced with an unprecedented set of circumstances caused by Covid-19 and an absence of relevant/sufficient market evidence on which to base critical judgements.

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.

2020/21 £m		2021/22 £m
(3.2)	Rental income from investment property	(2.2)
0.9	Direct operating expenses arising from investment property	0.1
(2.3)	Total	(2.1)

Details of the council's investment properties and information about the fair value hierarchy as at March 2022 and March 2021 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 2022	40.0
Investment properties as at 31 March 2021	38.7

11. Financial Instruments

Financial instruments are contracts that give rise to a financial asset of one entity and a financial liability (or equity instrument) of another entity. Amounts relating to statutory debts, such as council tax, non-domestic rates and general rates are not classed as financial instruments as they do not arise from contracts.

Categories of Financial Instruments:

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

Financial Assets

All the financial assets in the balance sheet which are financial instruments are classed as loans and receivables. Following the adoption of IFRS9 in 2018/19 the loans and receivables held are classified at amortised cost.

2020/21			2021/22	
Per Balance Sheet £m	Financial Instruments £m		Per Balance Sheet £m	Financial Instruments £m
		Long term debtors		
37.9	37.9	Loans	36.5	36.5
2.4	-	PFI lifecycle costs	2.4	-
40.3	37.9	Total	38.9	36.5
		Investments		
44.0	44.0	Short term investments	43.0	43.0
22.9	22.9	Cash and cash equivalents	42.5	42.5
66.9	66.9	Total	85.5	85.5

2020/21			2021/22	
Per Balance Sheet	Financial Instruments		Per Balance Sheet	Financial Instruments
£m	£m		£m	£m
		Short term debtors		
41.9	41.9	Sales invoices and contractual rights	32.4	32.4
19.0	-	Statutory debts (council tax, VAT etc.)	12.8	-
1.7	-	Prepayments	1.8	-
(10.4)	-	Bad debt provisions	(11.0)	-
52.2	41.9	Total	36.0	32.4

Financial Liabilities

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

2020/21			2021/22	
Per Balance Sheet	Financial Instruments		Per Balance Sheet	Financial Instruments
£m	£m		£m	£m
1.7	1.7	Cash and cash equivalents	2.3	2.3
1.7	1.7	Total	2.3	2.3
		Short term borrowing		
0.1	0.1	Bank loans	0.1	0.1
3.2	3.2	Public Works Loan Board	7.7	7.7
3.3	3.3	Total	7.8	7.8
		Short term creditors		
28.7	28.7	Invoiced amounts and other contractual liabilities	36.6	36.6
9.8	-	Statutory liabilities (PAYE etc.)	7.5	-
37.5	3.4	Accruals and receipts in advance	28.5	2.9
0.6	-	Funds and deposits held	0.8	-
76.6	32.1	Total	73.4	39.5
		Long term borrowing		
12.4	12.4	Bank loans	12.4	12.4
112.4	112.4	Public Works Loan Board	110.6	110.6
124.8	124.8	Total	123.0	123.0
		Other long term liabilities		
47.5	47.5	PFI liabilities and finance leases	44.5	44.5
282.3	-	Pensions liability	273.2	-
329.8	47.5	Total	317.7	44.5

Income, Expense, Gains and Losses

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

2020/21				2021/22		
Financial Liabilities at amortised cost £m	Financial assets: Loans and receivables £m	Total £m		Financial Liabilities at amortised cost £m	Financial assets: Loans and receivables £m	Total £m
			Interest payable and similar charges			
			Interest expense relating to:			
5.2	-	5.2	Loans	5.4	-	5.4
3.4	-	3.4	PFI liabilities	3.2	-	3.2
8.6	-	8.6	Total expense in surplus on the provision of services	8.6	-	8.6
			Interest receivable:			
-	(2.4)	(2.4)	On loans	-	(2.6)	(2.6)
-	(2.4)	(2.4)	Total income in surplus on the provision of services	-	(2.6)	(2.6)
8.6	(2.4)	6.2	Net loss/(gain) for the year	8.6	(2.6)	6.0

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 2021				31 March 2022		
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
128.1	190.7	166.2	Total borrowing	130.8	177.5	156.3

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 £44.5m and the fair value as at 31 March 2022 totals £56.9m. The statements have not been adjusted for this as the PFI schemes are set to continue until expiry.

31 March 2021				31 March 2022		
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			
40.3	40.3	40.3	Long term debtors	38.9	38.9	38.9
44.0	44.0	44.0	Short term investments	43.0	43.0	43.0
22.9	22.9	22.9	Cash and cash equivalents	42.5	42.5	42.5
52.2	52.2	52.2	Short term debtors	36.0	36.0	36.0
159.4	159.4	159.4	Total Financial Assets	160.4	160.4	160.4
			Financial Liabilities			
115.6	167.8	147.3	Public Works Loan Board	118.2	156.8	139.0
12.6	22.9	18.9	Bank loans (LOBOs)	12.6	20.7	17.3
76.6	76.6	76.6	Short term creditors	73.4	73.4	73.4
47.5	64.3	64.3	PFI liabilities and finance leases	44.5	56.9	56.9
252.3	331.6	307.1	Total Financial Liabilities	248.7	307.8	286.6

31 March 2021 £m	Recurring fair value measurements	Input level in fair value hierarchy	Valuation technique used to measure fair value	31 March 2022 £m
	Assets			
32.9	Long term debtors - Mercia Waste Management Loan	2	Discount contractual cash flows at the market rate for a similar instrument of the same remaining term with a counterparty of similar credit standing	31.3
5.0	Long term debtor - Other	3	Valued at amortised cost due to absence of comparable evidence or principal market	5.2
2.4	PFI lifecycle costs	2	Discount contractual cash flows of the remaining term	2.4
40.3	Subtotal long-term debtors			38.9
119.1	Other – short term	N/A	Fair value disclosure is not required for short term investments, short- term debtors or cash	121.5
159.4	Total Assets			160.4
	Liabilities			
147.3	PWLB and other debt	2	Discount contractual cash flows at the market rate for LA loans of the same remaining term	139.0
18.9	Bank loans (LOBOs)	2	Discount contractual cash flows at the market rate for LA loans of the same remaining term and add the value of the lenders' option from a market option pricing model	17.3
64.3	PFI Scheme Liabilities and Finance Lease Payables	2	Discount contractual cash flows of the remaining term	56.9
76.6	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	73.4
307.1	Total Liabilities			286.6

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

Amounts arising from expected credit losses

The councils investments exposure to credit losses has been assessed as negligible therefore no allowance for credit losses has been made.

12. Debtors

31 March 2021 £m		31 March 2022 £m
22.0	Central government bodies	15.3
3.0	Other local authorities	0.7
4.0	NHS bodies	4.2
23.2	Other entities and individuals	15.7
-	DHSC Agency Grants	0.1
52.2	Total	36.0

13. Cash and Cash Equivalents

31 March 2021 £m		31 March 2022 £m
5.3	Cash held by the council	5.8
17.6	Short term deposits	36.7
22.9	Total	42.5
(1.7)	Bank current accounts	(2.3)
21.2	Total Cash and Cash Equivalents	40.2

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

2020/21 £m		2021/22 £m
-	Net movement in Inventories	-
16.1	Net movement in Debtors	(17.6)
(32.9)	Net movement in Creditors	3.2
(37.0)	Depreciation, amortisation and impairment of non-current assets	(9.9)
(2.3)	Net Gain/Loss on sale of non-current assets (net book value of assets)	(1.5)
(9.2)	Net charges made for retirement benefits in accordance with IAS19	(14.1)
(1.3)	Net movement in Provisions	0.8
(66.6)	Total	(39.0)

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

2020/21 £m		2021/22 £m
1.1	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	1.9
1.1	Total	1.9

16. Investing Activities

2020/21 £m		2021/22 £m
47.1	Purchase of property, plant and equipment, investment property and intangible assets	30.4
(1.1)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(1.9)
23.5	Other receipts from investing activities	(3.0)
69.5	Total	25.1

17. Financing Activities

2020/21 £m		2021/22 £m
-	Cash Receipts of short-term and long-term borrowing	(5.0)
3.3	Cash payments for the reduction of the outstanding liability relating to finance leases and on-balance sheet PFI contracts	3.0
3.5	Repayments of short and long term borrowing, as shown below	2.4
6.8	Total	0.4

Reconciliation of liabilities arising from financing activities

	Long term borrowings	Short term borrowings	Total
1 April 2021	126.8	-	126.8
Cashflows: Repayment, note 17 above	2.6	-	2.6
31 March 2022	129.4	-	129.4

18. Creditors

31 March 2021 £m		31 March 2022 £m
(24.8)	Central government bodies	(19.0)
(2.4)	Other local authorities	(3.7)
(1.2)	NHS Bodies	(1.4)
(33.6)	Other entities and individuals	(36.1)
(2.0)	Monies due to agency NMiTE	-
(12.6)	Agency BEIS Business Support Grants	(3.1)
-	Agency DLUHC Support Grants	(10.1)
(76.6)	Total	(73.4)

19. Capital Grants Receipts in Advance

31 March 2021 £m		31 March 2022 £m
(1.6)	Central government bodies	(2.6)
-	Other local authorities	-
(8.0)	Other grants and contributions	(9.1)
(9.6)	Total	(11.7)

20. Provisions

The movement on provisions from 1 April 2021 to 31 March 2022 is set out below:

	Long term £m	Short term £m	Total £m
Balance at 1 April 2020	(4.4)	(2.4)	(6.8)
Additional provisions made in 2020/21	-	(2.3)	(2.3)
Amounts used in 2020/21	-	1.0	1.0
Unused amounts reversed in 2020/21	-	-	-
Balance at 31 March 2021	(4.4)	(3.7)	(8.1)
Additional provisions made in 2021/22	-	(3.1)	(3.1)
Amounts used in 2021/22	-	1.5	1.5
Unused amounts reversed in 2021/22	0.9	1.5	2.4
Balance at 31 March 2022	(3.5)	(3.8)	(7.3)

The provisions held at 31 March 2022 are:

31/03/21 £m	Provision Name	Description	Additional Provisions £m	Amounts Used £m	Unused Amounts Reversed £m	31/03/22 £m
(2.0)	Insurance	For potential future insurance claims based on external professional assessment	-	-	0.4	(1.6)
-	Legal Provision	For potential legal litigation cases	(2.6)	-	-	(2.6)
(1.1)	Property Provision	Corporate property provisions	-	1.1	-	-
-	Corporate Services	Corporate Property Provisions	(0.5)	-	-	(0.5)
(0.1)	Provisions for children's services	Expected payments relating to children for schools, high needs and early years funding	-	-	0.1	-
(4.9)	NNDR Appeals	For future lodged and unlodged appeals against rating valuations.	-	0.4	1.9	(2.6)
(8.1)		Total	(3.1)	1.5	2.4	(7.3)

21. Pensions Reserve

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

The LGPS deficit shown below includes a provision for the assessed financial impact of the case law decision in respect of the protections for members nearing retirement being deemed to have given rise to an unlawful age discrimination to younger workers without those protections (what is known as the McCloud case).

2020/21 £m		2021/22 £m
260.2	Balance at 1 April	282.4
13.0	Re-measurement of the net defined benefit liability	(23.2)
23.1	Reversal of items relating to retirement benefits debited or credited to the (Surplus) / Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	28.5
(13.9)	Employer's pension contributions and direct payments to pensioners payable in the year	(14.5)
282.4	Balance at 31 March	273.2
281.7	Local Government pension scheme	272.6
0.7	Teachers	0.6
282.4	Balance at 31 March	273.2

22. Trading Operations

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

2020/21 £m		2021/22 £m
	Markets The council generates income from letting of premises and market stalls	
(0.4)	Turnover	(0.5)
(0.5)	Asset revaluation movement	(0.6)
0.1	Expenditure	0.1
(0.8)	(Surplus)/deficit	(1.0)
	Industrial Estates The council owns and manages a number of industrial estates throughout the county	
(1.4)	Turnover	(1.4)
1.3	Asset revaluation movement	0.2
0.1	Expenditure	-
-	(Surplus)/deficit	(1.2)
	Retail Properties The council owns retail premises in Hereford city centre from which it receives commercial rents	
(1.4)	Turnover	(0.2)
6.4	Asset revaluation movement	0.7
0.7	Expenditure	-
5.7	(Surplus)/deficit	0.5
	Other Properties The council owns properties from which it receives commercial rents	
-	Turnover	(0.1)
-	Asset revaluation movement	0.3
-	Expenditure	-
-	(Surplus)/deficit	0.2
4.9	Total	(1.5)

The trading accounts are incorporated into the Comprehensive Income and Expenditure Statement as part of the line 'Financing, investment income and expenditure', note 8.

23. Agency Services

During 2021/22 the council continued to incur spend in relation to the Fastershire capital project to provide improved broadband speeds throughout the rural areas of Herefordshire, Gloucestershire, Shropshire and Telford and Wrekin. In 2021/22 spend included £0.5m (2020/21 £2.2m) outside of Herefordshire that is not shown in the council accounts as this spend is incurred under an agency arrangement.

During 2021/22 Herefordshire Council continued to act as an intermediary in the pass through of Department for

Education grant funding towards the establishment of a new Hereford University – the New Model in Technology & Engineering (NMiTE). This totalled £0.1m (2020/21 £4.8m) and is not included in the council's accounts as the council is acting as an agent only. In addition the council acted as the accountable body for Local Enterprise Partnership grant funding and provided £2.8m to NMiTE from this funding source during 2021/22 (2020/21 £3.7m).

The council administered a number of support schemes in response to Covid-19 on behalf of Central Government. These transactions have been excluded from the Councils accounts. During 2021/22 they are £1.0m national lockdown and local restrictions business grants, £16.2m restart grants, £1.8m omicron support grants, £0.2m test and trace isolation support payments and £1.2m in infection control grants.

Herefordshire Council acts as the accountable body for the Hereford Towns Fund programme. In 2021/22 the council passed through funding from the Department for Levelling Up, Housing and Communities to the appropriate lead organisations of £0.1m. These transactions are not included in the Councils accounts.

24. Pooled Budgets

The council has four pooled budgets for 2021/22: the pooled budget arrangement for the Better Care Fund, the pooled budget for services for children, the pooled budget for the Integrated Community Equipment Store and the pooled budget for the Covid-19 Hospital Discharge Scheme. All of the pooled budgets are covered by a single 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 five 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.

Better Care Fund- Minimum Mandatory Fund (Revenue)

2020/21 £m		2021/22 £m
	Funding provided to the pooled budget	
-	Herefordshire Council	-
(13.6)	Herefordshire CCG	(14.3)
(13.6)	Total Funding	(14.3)
	Expenditure met from pooled budget	
4.9	Herefordshire Council	5.5

2020/21 £m		2021/22 £m
7.8	Herefordshire CCG	8.2
12.7	Total Expenditure	13.6
(0.9)	Net deficit / (surplus) on the pooled budget during the year	(0.7)
(0.9)	Herefordshire Council share of net deficit / (surplus)	(0.7)

Capital Pool

The capital pool contains expenditure on the disabled facilities grant, which enables people to continue to live at home.

Better Care Fund- Minimum Mandatory Fund (Capital)

2020/21 £m		2021/22 £m
	Funding provided to the pooled budget	
(2.3)	Herefordshire Council	(2.3)
-	Herefordshire CCG	-
(2.3)	Total Funding	(2.3)
	Expenditure met from pooled budget	
2.3	Herefordshire Council	1.2
-	Herefordshire CCG	-
2.3	Total Expenditure	1.2
-	Net deficit / (surplus) on the pooled budget during the year	(1.0)
-	Herefordshire Council share of net deficit / (surplus)	(1.0)

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. For 2021/22 the partners did not pool funding for this activity as the placements are not currently jointly commissioned.

Better Care Fund- Additional Revenue Fund

2020/21 £m		2021/22 £m
	Funding provided to the pooled budget	
(26.7)	Herefordshire Council	-
(11.5)	Herefordshire CCG	-
(38.2)	Total Funding	-
	Expenditure met from pooled budget	
23.7	Herefordshire Council	-
11.4	Herefordshire CCG	-

2020/21 £m		2021/22 £m
35.1	Total Expenditure	-
(3.1)	Net deficit / (surplus) on the pooled budget during the year	-
(3.0)	Herefordshire Council share of net deficit / (surplus)	-

Improved Better Care Fund

The Government's Spending Review in 2015 announced new money for the BCF; and the Spring Budget 2017 subsequently increased this funding. 2017/18 represented the first year in which the new funding was received. The Government requires that this additional Improved Better Care Fund funding for adult social care 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 and 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.

Better Care Fund- Improved Better Care Fund

2020/21 £m		2021/22 £m
	Funding provided to the pooled budget	
(6.6)	Herefordshire Council	(6.6)
-	Herefordshire CCG	-
(6.6)	Total Funding	(6.6)
	Expenditure met from pooled budget	
6.2	Herefordshire Council	6.1
-	Herefordshire CCG	-
6.2	Total Expenditure	6.1
(0.4)	Net deficit / (surplus) on the pooled budget during the year	(0.5)
(0.4)	Herefordshire Council share of net deficit / (surplus)	(0.5)

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 and joint contributions for Children's safeguarding.

Children's Services

2020/21 £m		2021/22 £m
	Funding provided to the pooled budget	
(4.6)	Herefordshire Council	(4.6)
(0.9)	Herefordshire CCG	(0.9)
(5.5)	Total Funding	(5.5)
	Expenditure met from pooled budget	
4.8	Herefordshire Council	4.8
0.9	Herefordshire CCG	0.9
5.7	Total Expenditure	5.7
0.2	Net deficit / (surplus) on the pooled budget during the year	0.2
0.2	Herefordshire Council share of net deficit / (surplus)	0.1

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.

Integrated Community Equipment Store

2020/21 £m		2021/22 £m
	Funding provided to the pooled budget	
(0.7)	Herefordshire Council	(0.7)
(0.8)	Herefordshire CCG	(0.9)
(1.5)	Total Funding	(1.6)
	Expenditure met from pooled budget	
0.7	Herefordshire Council	0.7
0.9	Herefordshire CCG	0.9
1.6	Total Expenditure	1.6
0.1	Net deficit / (surplus) on the pooled budget during the year	-
0.0	Herefordshire Council share of net deficit / (surplus)	-

Covid-19 Hospital Discharge Scheme

As part of the NHS and wider public sector's response to the global Covid-19 pandemic the Government issued the Covid-19 Hospital Discharge Service Requirements which took effect on March 19th 2020.

In accordance with the Discharge Requirements, the Partners have considered the most appropriate model through which to commission the enhanced discharge service and admissions avoidance services and agreed that the council shall act as the lead commissioner for enhanced discharge services and the Partners shall pool funding for the purpose of funding this service.

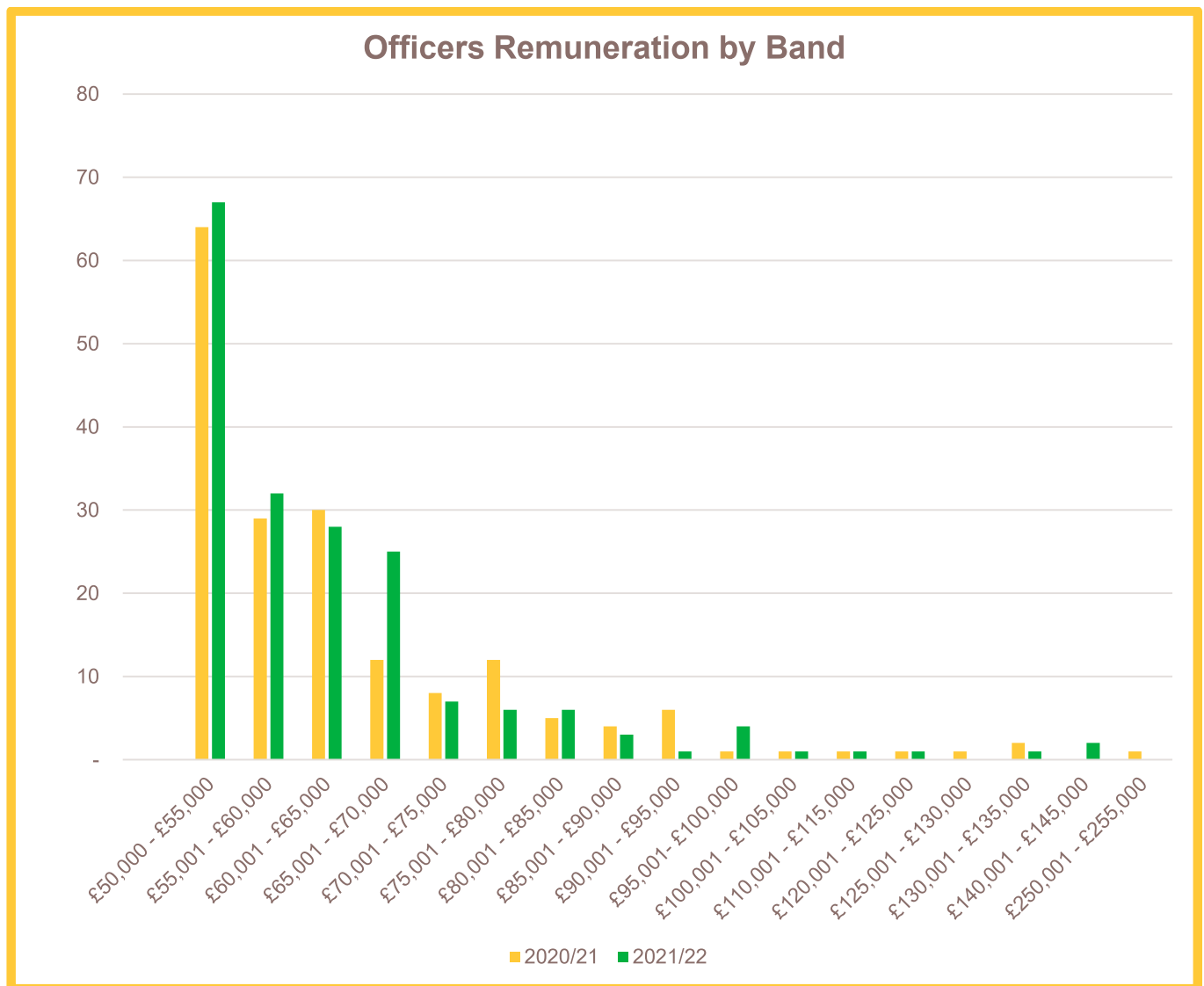
Covid-19 Hospital Discharge Scheme

2020/21		2021/22
£m		£m
	Funding provided to the pooled budget	
(2.0)	Herefordshire Council	-
(9.7)	Herefordshire CCG	(2.6)
(11.7)	Total Funding	(2.6)
	Expenditure met from pooled budget	
2.0	Herefordshire Council	2.6
9.7	Herefordshire CCG	-
11.7	Total Expenditure	2.6
-	Net deficit / (surplus) on the pooled budget during the year	-
-	Herefordshire Council share of net deficit / (surplus)	-

25. Officers' Remuneration

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

The 2021/22 salary banding information is set out below. Employees receiving remuneration for the year (excluding employer's pension contributions) were paid the following amounts per pay band. These numbers include the employees shown in the senior employees disclosure note.



The total number of employees at 31 March 2022 was 1,390 non-school staff (1,359 at 31 March 2021) and 2,243 schools' staff (2,160 at 31 March 2021).

Post			Note	Salary, Fees & Allowances £000s	Compensation for loss of office / Benefits in kind £000s	Pension contributions £000s	Total £000s
Chief Executive	P Walker	2021/22	1	143	-	-	143
	A Neill	2020/21		134	120	24	278
Chief Finance Officer/ Section 151 Officer		2021/22	2	111	-	20	131
		2020/21		106	-	20	126
Solicitor for the Council (Monitoring Officer)		2021/22	2 & 8	98	-	23	121
		2020/21		126	-	26	152
Director for Children and Families		2021/22	3	22	33	2	57
	C Baird	2020/21		128	-	23	151
Corporate Director, Children and Families		2021/22	3	33	-	6	39
		2020/21		-	-	-	-
Director for Adults and Communities		2021/22	4	52	-	6	58
	S Vickers	2020/21		127	-	24	151
Corporate Director, Community Wellbeing		2021/22	4	99	-	17	116
		2020/21		-	-	-	-
Director of Economy and Place		2021/22	5	22	89	8	119
	R Ball	2020/21		127	-	24	151
Corporate Director, Economy and Environment		2021/22	5	17	-	3	20
		2020/21		-	-	-	-
Director of Public Health		2021/22	6	5	-	1	6
		2020/21		59	-	13	72
Acting Director of Public Health		2021/22	7	89	-	16	105
		2020/21		12	-	2	14

Notes:

1. The Chief Executive retired on 11 February 2021. A new Chief Executive commenced in post on 4 May 2021.
2. In addition to their substantive roles, the Chief Finance Officer/Section 151 Officer and the Solicitor to the Council (Monitoring Officer) became Acting Deputy Chief Executives for the duration between the Chief Executive leaving (February 2021) and the new Chief Executive commencing in post.
3. The Director for Children and Families left on 30 April 2021. The post was filled by temporary contract during the period to 31 December 2021. The post title became Corporate Director, Children and Families from 1 January 2022.
4. The Director for Adults and Communities left on 4 July 2021. The post has been filled by an interim since then, with the new post of Corporate Director, Community Wellbeing being advertised.
5. The Director for Economy and Place left on 31 July 2021. The post was filled by temporary contract to 13 February 2022. The post titled became Corporate Director, Economy and Environment with a new director commencing in post 14 February 2022.
6. The Director for Public Health left on 31 December 2020; they were paid a market forces supplement of £12,000 and the new Director of Public Health commenced in post in March 2022.
7. An Acting Director for Public Health was appointed effective from 25 November 2020 until March 2022.
8. The Solicitor to the Council (Monitoring Officer) left in March 2022. The post has been filled by temporary contract.

26. Termination Benefits

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

In addition, the total cost of actuarial strain relating to 2021/22 terminations was £0.1m (£0m in 2020/21). The total amount of actuarial strain paid to Worcestershire County Council in 2021/22 was £0.1m (£0m in 2020/21).

Exit package cost band (including special payments)	2020/21	2021/22	2020/21	2021/22	2020/21	2021/22	2020/21	2021/22
	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	3	1	13	26	16	27	94	257
£20,001 - £40,000	1		1	4	2	4	42	104
£40,001 - £60,000	-	-	-	1	-	1	-	44
£60,001 - £80,000	-	-	-	-	-	-	-	-
£80,0001 - £120,000	-	-	1	1	1	1	120	90
Total	4	1	15	32	19	33	256	495

27. External Audit Costs

A fee of £219k was due to Grant Thornton in 2021/22. This fee comprises £200k statutory audit fees: £180k accrued audit fee for 2021/22 (£102k agreed fee plus £78k additional fee) and £20k agreed by the Public Sector Audit Appointments body to cover additional work required in certifying the 2020/21 accounts. Non statutory audit fees of £19k were paid to Grant Thornton in respect of grant certifications.

2020/21 £m		2021/22 £m
0.2	Fees payable with regard to external audit services carried out by the appointed auditor	0.2
0.2	Total	0.2

28. Dedicated Schools Grant

The council's expenditure on schools is funded by the Dedicated Schools Grant (DSG) provided by the Department for Education. DSG is a ring-fenced grant and can only be applied to meet expenditure properly included in the Schools Budget. The Schools Budget includes elements for a restricted range of services provided on a council- wide basis and for the Individual Schools Budget, which is divided into a budget share for each school. Over and under spends on the two elements are required to be accounted for separately. Details of the deployment of DSG receivable for 2021/22 are as follows:

Total 2020/21		Central Expenditure 2021/22	Individual Schools Budget 2021/22	Total 2021/22
£m		£m	£m	£m
132.7	Final DSG allocation before academy recoupment			143.1
(48.8)	Less academy figure recouped			(52.5)
83.9	Total DSG after academy recoupment for the year			90.6
1.1	Brought forward from previous year			0.7
(0.9)	Less carry forward to following year agreed in advance			(0.5)
84.1	Agreed budgeted distribution in the year	16.2	74.6	90.8
(14.6)	Less: Actual central expenditure	(17.1)	-	(17.1)
(69.7)	Less: Actual Individual Schools Budget deployed to schools	-	(74.5)	(74.5)
(0.2)	Less: Overspend 2020/21	(0.9)	0.1	(0.8)
0.9	Add carry forward agreed in advance			0.5
0.7	Carried forward to following year			(0.3)
-	Total of DSG unusable deficit reserve at the end of year			(0.4)
0.7	Total of DSG usable surplus reserve at the end of year			0.1
0.7	Net DSG position			(0.3)

As at 31 March 2022, total DSG reserves were a deficit of £275,319 comprising an unusable deficit reserve of £345,319 and a usable surplus reserve of £70,000 committed to early years post Covid catch up projects in 2022/23.

29. Grant Income

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

2020/21		2021/22
£m		£m
	Credited to Taxation and Non-Specific Grant Income	
0.6	Revenue Support Grant	0.6
41.8	Other non-ring fenced grants	32.9
114.2	Council Tax income	121.2
18.5	Business rates income	28.4
42.5	Capital grants	17.1
(2.3)	Capital Grants Repaid	-
215.3	Credited to Taxation and Non Specific Grant Income	200.2
	Credited to Services	
94.6	Department for Education	103.8
30.3	Department for Levelling Up, Housing & Communities	20.5
34.0	Department for Work and Pensions	32.1

2020/21 £m		2021/22 £m
1.3	Department for Transport	0.7
2.7	Department for Culture, Media and Sport	0.6
0.4	Department for Environment, Food and Rural Affairs	0.1
18.8	Department of Health	19.1
18.7	Other grants and contributions	24.0
200.8	Credited to Services	200.9
416.1	Total	401.1

30. Related Parties

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

Central Government

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

Members

Members of the Council have direct control over the council's financial and operating policies. There are a number of Councillors who serve on outside bodies and school governing bodies either as a representative of the council or as a private individual. Details of these interests are recorded in the Register of Members' interests, which are updated annually. An examination of the Register indicates that the council's financial transactions with these bodies in 2021/22 are not material.

Officers

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

Other Public Bodies

During the year the council made payments of £31.0m to Worcestershire County Council (£29.9m in 2020/21), including payments to the pension fund and for the joint waste disposal contract. Payments to the CCG in 2021/22 totalled £3.1m (£2.7m in 2020/21). A total of £3.7m was paid to Wye Valley NHS Trust (£3.2m in 2020/21).

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 £35.4m to Balfour Beatty in 2021/22 (£38.3 in 2020/21).

FOCSA Services (UK) Limited

In 2009 the council entered into a 7 year contract with FOCSA for the collection of household, recycling and

commercial waste, this has been extended by a further 7 years to end in 2023. The value of the contract over 7 years is around £30.5m. Payments to FOCSA Services (UK) Limited totalled £4.8m in 2021/22 (£4.6m in 2020/21).

Other organisations – West Mercia Energy

West Mercia Energy (WME) is a Purchasing Consortium which is constituted as a Joint Committee (JC). Herefordshire Council is one of four constituent authorities, the other three Councils are Worcestershire County Council, Telford and Wrekin Council and Shropshire Council.

Herefordshire Council has reviewed the accounting treatment that should be applied and has concluded that WME is a Joint Venture. Under International Accounting Standards, Group Accounts should be prepared unless it is considered not to be material.

The conclusion of the Council is that the exclusion of its share of WME's assets, liabilities, income, expenditure and cash flows from the Council's own accounts will not be material to the fair presentation of the financial position and transactions of the Council and to the understanding of the Statement of Accounts by a reader.

However, in the interests of transparency and accountability an extract of the unaudited 2021/22 WME accounts are included below, along with a disclosure of this Council's proportion of those balances.

WEST MERCIA ENERGY EXTRACT FROM DRAFT ACCOUNTS AS AT 31 MARCH 2022		
	31-Mar-22	Herefordshire Council share
	£m	£m
Short term debtors	10.8	2.7
Cash and cash equivalents	3.3	0.8
Current assets	14.1	3.5
Short term creditors	(12.2)	(3.0)
Current liabilities	(12.2)	(3.0)
Net current assets	1.9	0.5
Other long term liabilities	(0.3)	(0.1)
Long term liabilities	(0.3)	(0.1)
Net liabilities	1.6	0.4
Financed by:		
General Fund	1.7	0.5
Result for year	0.2	0.0
Pensions reserve	(0.3)	(0.1)
Total reserves	1.6	0.4
INCOME		
Turnover	(67.6)	(16.9)

Other organisations – Cyber Quarter Limited

Cyber Quarter Limited is the company that owns and operates the Midlands Cyber Centre.

On 29 March 2019 the council became a shareholder in Cyber Quarter Limited, taking a 19% shareholding, at a cost of £1 per share, the remaining shares are held by the University of Wolverhampton. This stake in the company is treated as a simple investment in the council's accounts.

On 1 April 2019 a commercial loan of £3.5m was granted from the council to the joint venture. This is shown as a long term debtor in the council accounts. The interest rate is fixed at 5.99% and repayment over 30 years with no repayments due in the first five years, equal repayments falling due thereafter.

Transactions invariably take place between the two parties. These transactions are deemed to be conducted on an independent and arms-length basis.

Even though Herefordshire Council are a minority shareholder, they currently have equal representation on the board of Cyber Quarter Limited, and, for that reason, are shown in Herefordshire Council's 2021/22 Final Accounts as a related party.

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 2021/22.

31. Capital Expenditure and Capital Financing

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

The table below includes an entry to disclose capital loan repayments of £6.8m. This represents the cumulative balance of capital loan repayments to 31 March 2022; £3.7m for the period to 31 March 2020, £1.5m in 2020/21 and £1.6m in 2021/22.

2020/21 £m		2021/22 £m
316.0	Opening capital financing requirement	313.6
	Capital investment	
37.3	Property, Plant and Equipment	27.4
0.1	Intangible	0.2
9.7	Investment Properties	2.5
7.1	Revenue expenditure funded from capital under statute	6.9
0.4	Assets acquired under PFI contracts	0.3
0.6	Long term debtors (including loans and PFI prepayments)	-
	Sources of finance	
(0.7)	Capital receipts	(3.3)
-	Loan fund principal	(6.8)
0.6	Loan repayment	0.6
(43.7)	Government grants and other contributions	(22.3)
	Sums set aside from revenue	
(0.4)	Direct revenue contributions	-
(3.7)	De-capitalised road costs	-
(9.7)	Minimum Revenue Provision (MRP)	(10.7)
313.6	Closing capital financing requirement	308.4
	Explanation of movements in year	
10.6	Increase in underlying need to borrow	12.0
0.4	Assets acquired under PFI contracts	0.3
-	Repayment of Long term debtors	(6.8)
(3.7)	De-capitalised road costs	-
(9.7)	Minimum Revenue Provision (MRP)	(10.7)
(2.4)	Adjusted to Services	(5.2)

32. Leases

Council as Lessee

Finance Leases

The council holds no finance leases; it did not hold any in 2020/21

Council as Lessor

Finance Leases

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

Operating Leases

The council leases out property under operating leases for the following purposes retail, industrial and other uses.

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

	Amounts Payable						Amounts Receivable	
	Minimum Lease Payments		Finance Lease Liabilities		Operating Leases		Operating Leases	
	2021/22 £m	2020/21 £m	2021/22 £m	2020/21 £m	2021/22 £m	2020/21 £m	2021/22 £m	2020/21 £m
Payable/receivable in the year	-	-	-	-	0.4	0.6	-	-
Not later than one year	-	-	-	-	0.3	0.4	2.7	2.8
Later than one year and not later than five years	-	-	-	-	1.0	1.3	8.2	8.2
Later than five years	-	-	-	-	1.3	1.5	22.8	23.4
Total due in future years	-	-	-	-	3.0	3.8	33.7	34.4

33. Private Finance Initiatives and Similar Contracts

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

Mercia Waste Management Limited – Waste Management PFI contract

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

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

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

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

Stepnell Limited – School PFI Contract

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

Shaw Homes

The council has a contract with Shaw Healthcare for the development and provision of residential homes and day care centres previously operated directly by the council. The contract expires in 2033/34 for all homes. The level of payments are dependent on the volume and nature of service elements and Shaw Healthcare's performance in providing services. The payments in respect of this contract were £4.1m in 2021/22 (£4.0m in 2020/21).

Assets

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

	Land & Buildings	Equipment	Total
	£m	£m	£m
Balance at 1 April 2021	8.1	28.1	36.2
Additions	-	0.3	0.3
Revaluations	0.6	3.6	4.2
Depreciation	(0.1)	(1.0)	(1.1)
Balance at 31 March 2022	8.6	31.0	39.6

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:

2020/21		2021/22			
Total £m		Shaw Healthcare £m	Whitecross School £m	Waste Disposal £m	Total £m
50.4	Balance outstanding at start of year	6.4	11.0	30.1	47.5
(2.9)	Payments during the year	(0.4)	(0.9)	(1.7)	(3.0)
-	Capital expenditure in the year	-	-	-	-
47.5	Balance outstanding at year end	6.1	10.1	28.4	44.5

Payments

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

	Service Charges £m	Lifecycle Costs £m	Finance Liability £m	Interest & Similar £m	Total £m
Within 1 year	11.2	0.4	3.7	3.2	18.5
Within 2 to 5 years	16.2	1.7	31.6	6.6	56.1
Within 6 to 10 years	26.5	2.4	8.0	4.5	41.4
Within 11 to 15 years	9.6	0.1	1.6	1.6	12.9
Within 16 to 20 years	-	-	-	-	-
Balance outstanding at year end	63.5	4.6	44.9	15.9	128.9

The PFI future year commitments total of £128.9m shown above includes inflation assumptions, without inflation the future year commitments would be £41.5m lower.

34. Capitalisation of Borrowing Costs

The council has a policy of capitalising borrowing costs on relevant projects i.e. where schemes last more than 12 months and with at least £10k of interest associated with the project. In 2021/22 no borrowing costs were capitalised (none in 2020/21).

35. Pension Schemes accounted for as Defined Contribution Schemes

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

In 2021/22 the council paid employer contributions of £7.2m (2020/21 £7.0m) in respect of teachers' pension costs. In addition, the council is responsible for all pension payments relating to added years it, or its predecessor authority has awarded, together with the related increases, this cost is £0.2m per annum. The liability to former Hereford and Worcester teachers' unfunded added years' benefits of £0.62m is included in the pension fund liability in the balance sheet in 2021/22 (£0.7m in 2020/21).

36. Defined Benefit Pension Schemes

Participation in Pension Schemes

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

Transactions Relating to Post-employment Benefits

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

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

Local Government Pension Scheme

2020/21 £m		2021/22 £m
	Comprehensive Income and Expenditure Statement	
	Cost of Services:	
16.9	Current service cost	22.5
-	(Gain)/loss from settlements and curtailments	0.1
-	Past service cost	-
	Financing and Investment Income and Expenditure:	
6.0	Net interest expense	5.7
0.2	Administration expenses	0.2
23.1	Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	28.5
	Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	
	Actuarial (gains) and losses arising on changes in the following assumptions	
(14.4)	Experience (gain) / loss	2.1
106.6	(Gain) / loss on financial assumptions	(0.3)
-	(Gain) / loss on demographic assumptions	(5.8)
(79.3)	Re-measurements of assets	(19.1)
12.9	Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	(23.1)
	Movement in Reserves Statement	
9.3	Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post-employment benefits	14.1
	Amount charged to the General Fund balance for pensions in the year	
13.9	Employer's contribution payable to the scheme	14.4

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to 31 March 2022 (since the introduction of the statement in the 2009/10 restated accounts) is a loss of £85.3m. 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

2020/21 £m		2021/22 £m
748.7	Present value of the defined benefit obligation	769.1
(467.0)	Fair value of plan assets	(496.5)
281.7	Net liability arising from defined benefit obligation	272.6

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

The table below shows the movement on the pension liability

2020/21 £m		2021/22 £m
638.6	Opening balance	748.7
16.9	Current Service Cost	22.4
-	Past Service Cost	-
15.2	Interest Cost	15.6
3.4	Contributions by Scheme Participants	3.6
	Re-measurement (gains) and losses	
92.3	Actuarial (gains)/losses arising from changes in assumptions	(4.0)
-	Losses/(gains) on curtailments	(0.1)
(17.7)	Benefits/transfers paid	(17.3)
748.7	Closing balance	769.1

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

The table below shows the movement on the pension assets

2020/21 £m		2021/22 £m
379.2	Opening fair value of scheme assets	467.0
9.1	Interest income	9.9
79.3	Re-measurement gain/(loss): the return on plan assets, excluding amount included in the net interest expense	19.1
(0.2)	Administration expenses	(0.2)
13.9	Contribution from employer	14.4
3.4	Contributions from employees into the scheme	3.6
(17.7)	Benefits/transfers paid	(17.3)
467.0	Closing fair value of scheme assets	496.5

The actual return on scheme assets in the year was £29m, 5.8% of the period end assets (2020/21 £88.5m, 18.9%).

Local Government Pension Scheme assets (at fair value) comprised

31 March 2021 £m		Quoted (Y/N)	31 March 2022 £m
	Cash		
	- Cash instruments	Y	-
	- Cash accounts	Y	-
	- Net current assets	N	-
	Equity instruments		
0.6	UK quoted	Y	0.6
146.2	Overseas quoted	Y	121.5
64.9	Pooled investment vehicle - UK managed funds	N	68.4
184.4	Pooled investment vehicle - UK managed funds (overseas equities)	N	198.4
0.6	Pooled investment vehicle - overseas managed funds	N	4.0
	Property		
8.9	European property funds	N	-
1.8	UK property debt	N	3.5
1.3	Overseas property debt	N	2.3
9.4	UK property funds	N	21.9
0.4	Overseas real estate investment trust	N	-
	Alternatives		
18.2	UK infrastructure	N	23.4
12.9	European Infrastructure	N	15.6
9.7	US Infrastructure	N	13.0
1.6	UK Stock Options	N	2.1
0.4	Overseas Stock Options	N	(1.0)
5.3	Corporate Private Debt	N	7.8
	Bonds		
	- UK Corporate	Y	-
	- Overseas Corporate	Y	-
0.4	Other bonds	N	-
	- LGPS Central Global Pooled Funds	N	7.0
	- UK Government Fixed	Y	8.0
467.0	Closing fair value of scheme assets		496.5

Impact of Covid-19 – contained material valuation uncertainty

The Covid-19 pandemic created a large uncertainty in financial markets and the market for other assets. As at 31 March 2022 material valuation uncertainty was contained to retail and specific trading related assets/sectors such as car parks, where we continue to be faced with an unprecedented set of circumstances caused by Covid-19 and an absence of relevant/sufficient market evidence on which to base critical judgements.

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 2019. The principal assumptions used by the actuary have been:

Beginning of the period (p.a.)		End of the period (p.a.)
	Mortality assumptions	
	Longevity at 65 for current pensioners (years)	
22.7	Men	22.6
25.1	Women	25.0
	Longevity at 65 for future pensioners (years)	
24.4	Men	24.1
27.1	Women	27.0
	Financial Assumption	
2.7%	Rate of CPI inflation	3.4%
4.2%	Rate of increase in salaries	4.9%
2.8%	Rate of increase in pensions	3.5%
2.1%	Rate for discounting scheme liabilities	2.8%

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 discount rate	(12.8)
0.1% increase in inflation rate	13.0
0.1% increase in the salary increase rate	1.1
1 year increase in the member life expectancy	23.0
0.1% increase in investment returns	(5.0)
0.1% decrease in investment returns	5.0

Impact on the Councils Cash Flows

Total employer contributions expected to be made to the Local Government Pension Scheme by the council in the year ended 31 March 2023 is £14.6m.

Scheme History

Scheme History	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
Present value of liabilities	(486.0)	(602.1)	(594.6)	(661.9)	(638.6)	(748.7)	(769.1)
Value of Scheme assets	281.7	355.1	369.5	393.6	379.2	467.0	496.5
(Deficit) in scheme	(204.3)	(247.0)	(225.1)	(268.3)	(259.4)	(281.7)	(272.6)

37. Contingent Liabilities

The Council has identified the following contingent liability as at 31 March 2022.

A Council owned building is currently leased to a third party organisation. Refurbishments, carried out and paid for by the lessee, may be repayable by the Council if the building is vacated at an estimated cost of £2 million.

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 2021/22 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 2022 £m	Historical experience of default %	Historical experience adjusted for market conditions at 31 March 2022 %	Estimated maximum exposure to default and uncollectability 31 March 2021 £m	Estimated maximum exposure to default and uncollectability 31 March 2022 £m
Deposits with banks and financial institutions	64.7	-	-	-	-
Customers	11.4	0.3	0.3	-	-

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

31 March 2021 £m		31 March 2022 £m
7.3	Less than 3 months	5.3
0.7	3 to 6 months	1.2
1.3	6 months to 1 year	1.0
3.6	More than 1 year	3.9
12.9	Total	11.4

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 2021 £m		31 March 2022 £m
3.3	Less than 1 year	7.8
	More than 1 year	
6.5	Between 1 and 2 years	3.1
15.2	Between 2 and 5 years	19.6
17.9	Between 5 and 10 years	21.0
85.2	More than 10 years	79.3
128.1	Total borrowing per balance sheet	130.8

Market Risk

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

- a) Borrowings at variable rates - the interest expense charged to the Surplus or Deficit on the Provision of Services would increase
- b) Borrowings at fixed rates – the fair value of borrowings would fall
- c) Investments at variable rates - the interest received credited to the Surplus or Deficit on the Provision of Services would rise
- d) Investments at fixed rates – the fair value of the assets would fall

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

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

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

	1% increase in interest rates £m
Increase in interest payable on borrowing	-
Increase in interest receivable on investment balances	1.0

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 2021 £m	Repayment of Trust Fund Balances £m	Balance at 31 March 2022 £m
Other Funds	0.1	-	0.1

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

40. Note Prior Period Adjustment of Net Cost of Services

This Note restates the 2020/21 Net Cost of Services within the Comprehensive Income and Expenditure Statement into the new Directorate Headings presented in the 2021/22 Accounts. The Net Cost of Services for 2020/21 have been restated to present comparatives in line with 2021/22. Adults and Communities Directorate becomes the Community and Wellbeing Directorate and Economy and Place becomes Economy and Environment. There has been a movement of services between the old directorates and the new directorates.

	As reported in the Comprehensive Income and Expenditure Statement 2020/21	Adjustments due to changes in New Directorate Structure	As Restated 2020/21
Net Expenditure	£m	£m	£m
Adults and Communities	48.2	(48.2)	-
Childrens and Families	35.9	-	35.9
Economy and Place	59.2	(59.2)	0.0
Economy and Environment	-	58.3	58.3
Corporate Services	31.7	(1.4)	30.3
Community and Wellbeing	-	50.5	50.5
Net Cost of Services	175.0	-	175.0
Gross Expenditure	£m	£m	£m
Adults and Communities	103.7	(103.7)	-
Childrens and Families	138.9	-	138.9
Economy and Place	85.2	(85.2)	-
Economy and Environment	-	80.9	80.9
Corporate Services	73.7	2.0	75.7
Community and Wellbeing	-	106.0	106.0
	401.5	-	401.5
Gross Income	£m	£m	£m
Adults and Communities	(55.5)	55.5	-
Childrens and Families	(103.0)	-	(103.0)
Economy and Place	(26.0)	26.0	-
Economy and Environment	-	(22.5)	(22.5)
Corporate Services	(42.0)	(3.4)	(45.4)
Community and Wellbeing	-	(55.6)	(55.6)
	(226.5)	-	(226.5)

41. Non-adjusting events

Academy Conversions

Two schools have converted to academy status after 31 March 2022. As these have converted after the reporting period they are non-adjusting events and are reported below for information.

Name of School	Date of Conversion	Asset Value at 31 March 2022 £m
St Peter's Primary School, Bromyard	01/09/2022	2.7
Bredenbury Primary School	01/09/2022	1.1

Statement of Group Accounts and Explanatory Notes

42. Statement of Group Accounts

Introduction

The statement of group accounts consolidates the Herefordshire Council Core accounts and those of its subsidiary undertaking, Hoople Limited.

Hoople Limited specialises in providing support services to the public sector: IT, Training and recruitment, HR, Finance, Revenues and Benefits and Reablement. Herefordshire Council is a majority shareholder of Hoople Limited and considers the business to be a subsidiary undertaking due to the controlling influence it can and does exercise.

Hoople Limited had revenue of £21.2m in 2021/22 (2020/21: £16.8m). This included revenue from services provided to Herefordshire Council of £13.6m in 2021/22 (2020/21: £9.5m). The council provided services to Hoople Limited of £0.5m in 2021/22 (2020/21: £0.8m). These transactions were all made on an arms-length basis.

The group accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (The Code) published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The aim of the statement of group accounts is to provide the reader with an overall view of the material economic activities of the Group. The statement of group accounts provides a summary of the group's financial position and details of material items that have impacted on the accounts during the year. The statement of group accounts has been prepared using uniform accounting policies.

Within the notes to the Group accounts, the Council reports the group balance sheet headings where the difference between the core and group totals exceeds £1m.

Basis of Consolidation

In 2021/22 Herefordshire Council held 84% (2020/21 84%) 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 NHS Trust. In accordance with IAS 27 and IFRS 10, income and expenditure and assets and liabilities have been consolidated with the Council's accounts on a line-by-line basis, eliminating inter-organisational transactions and year end balances.

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

Group Comprehensive Income & Expenditure Statement

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

There were no acquisitions or discontinued operations in the two years.

2020/21 (Restated)					2021/22			
Net Core £m	Group entities £m	Adjs £m	Group £m		Net Core £m	Group entities £m	Adjs £m	Group £m
48.2	-	(1.6)	46.6	Communities and Wellbeing	57.5	-	(3.6)	53.9
35.9	-	(1.3)	34.6	Children and Young People	44.7	-	(1.3)	43.4
59.2	-	(0.2)	59.0	Economy and Environment	31.6	-	(0.2)	31.4
31.7	(0.3)	3.1	34.5	Corporate and Central Services	43.5	(0.6)	5.1	48.0
175.0	(0.3)	-	174.7	Net Cost of Services	177.3	(0.6)	-	176.7
6.3	-	-	6.3	Other Operating Expenditure	4.6	-	-	4.6
16.5	-	-	16.5	Financing, Investment Income and Expenditure	10.5	-	-	10.5
(215.3)	-	-	(215.3)	Taxation and Non-Specific Grant Income	(200.2)	-	-	(200.2)
(17.5)	(0.3)	-	(17.8)	(Surplus) or deficit on the provision of services	(7.8)	(0.6)	-	(8.4)
(15.7)	-	-	(15.7)	(Surplus) / deficit in revaluation of non-current assets	(15.7)	-	-	(15.7)
13.0	-	-	13.0	Re-measurement of net Defined Benefit Liability	(23.2)	-	-	(23.2)
(2.7)	-	-	(2.7)	Other comprehensive (income) / expenditure	(38.9)	-	-	(38.9)
(20.2)	(0.3)	-	(20.5)	Total comprehensive (income) / expenditure	(46.7)	(0.6)	-	(47.3)

The Surplus on the Provision of Services of £8.4m includes a Surplus of £0.1m attributable to the Minority Interest (2020/21 £0m).

The Total comprehensive (income) / expenditure attributable to the Minority Interest is £0.1m income (2020/21 £0m income).

These Minority Interests represent 16% (2020/21 16%) 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.

2021/22	General Fund Balance £m	Earmarked Reserves £m	Revenue Fund Reserves £m	Capital Receipts Reserve £m	Capital Grants Unapplied £m	Usable Reserves £m	Unusable Reserves £m	Total Council Reserves £m	Council's share of Reserves of subsidiary £m	Total Group Reserves £m
Balance brought forward	(9.1)	(105.6)	(114.7)	(44.6)	(14.3)	(173.6)	(122.4)	(296.0)	(2.7)	(298.7)
(Surplus) or deficit on the provision of services	(7.8)	-	(7.8)	-	-	(7.8)	-	(7.8)	(0.6)	(8.4)
Other comprehensive income and expenditure	-	-	-	-	-	-	(38.9)	(38.9)		(38.9)
Total comprehensive income and expenditure	(7.8)	-	(7.8)	-	-	(7.8)	(38.9)	(46.7)	(0.6)	(47.3)
Adjustments between accounting basis and funding basis under regulations	16.4	-	16.4	1.4	(1.5)	16.3	(16.3)	-	-	-
Net (increase)/decrease before transfers to earmarked reserves	8.6	-	8.6	1.4	(1.5)	8.5	(55.2)	(46.7)	(0.6)	(47.3)
Transfers to or from earmarked reserves	(9.1)	9.1	-	-	-	-	-	-	-	-
Decrease/(Increase) for the Year	(0.5)	9.1	8.6	1.4	(1.5)	8.5	(55.2)	(46.7)	(0.6)	(47.3)
Balance Carried Forward	(9.6)	(96.5)	(106.1)	(43.2)	(15.8)	(165.1)	(177.6)	(342.7)	(3.3)	(346.0)

Group Movement in Reserves Statement 2020/21 Comparative

2020/21	General Fund Balance £m	Earmarked Reserves £m	Revenue Fund Reserves £m	Capital Receipts Reserve £m	Capital Grants Unapplied £m	Usable Reserves £m	Unusable Reserves £m	Total Council Reserves £m	Council's share of Reserves of £m	Total Group Reserves £m
Balance brought forward	(9.1)	(79.5)	(88.6)	(44.2)	(8.7)	(141.5)	(134.4)	(275.9)	(2.4)	(278.3)
(Surplus) or deficit on the provision of services	(17.5)	-	(17.5)	-	-	(17.5)	-	(17.5)	(0.3)	(17.8)
Other comprehensive income and expenditure	-	-	-	-	-	-	(2.7)	(2.7)	-	(2.7)
Total comprehensive income and expenditure	(17.5)	-	(17.5)	-	-	(17.5)	(2.7)	(20.2)	(0.3)	(20.5)
Adjustments between accounting basis and funding basis under regulations	(8.6)	-	(8.6)	(0.4)	(5.7)	(14.7)	14.7	-	-	-
Net (increase)/decrease before transfers to earmarked reserves	(26.1)	-	(26.1)	(0.4)	(5.7)	(32.2)	12.0	(20.2)	(0.3)	(20.5)
Transfers to or from earmarked reserves	26.1	(26.1)	-	-	-	-	-	-	-	-
Decrease/(Increase) for the Year	-	(26.1)	-	(0.4)	(5.7)	(32.2)	12.0	(20.2)	(0.3)	(20.5)
Balance Carried Forward	(9.1)	(105.6)	(114.7)	(44.6)	(14.4)	(173.7)	(122.4)	(296.1)	(2.7)	(298.8)

Group Balance Sheet

Summarised

The Group Balance Sheet shows the assets and liabilities recognised by the Group at 31 March 2022 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.

2020/21			2021/22	
Core £m	Group £m		Core £m	Group £m
730.8	730.8	Long term assets	764.3	764.3
119.3	124.2	Current assets	121.6	127.4
(85.3)	(87.5)	Current liabilities	(87.3)	(89.8)
(468.7)	(468.7)	Long term liabilities	(455.9)	(455.9)
296.1	298.8	Net Assets	342.7	346.0
		Represented by:		
(173.7)	(176.4)	Usable reserves	(165.1)	(168.4)
(122.4)	(122.4)	Unusable reserves	(177.6)	(177.6)
(296.1)	(298.8)	Total Group Reserves	(342.7)	(346.0)

The Minority Interest share of subsidiary reserves represents an Unusable reserve to the Council in 2021/22 of £0.5m (2020/21: £0.4m).

The audited 2021/22 financial statements of Hoople Limited will be filed with Companies House before the statutory due date of 31 December 2022. Further details of the financial performance of that company will be contained therein. The financial performance of Hoople Limited, as consolidated into these group accounts may be found within note G2 to these accounts.

The unaudited group accounts were authorised for issue on 29 July 2022.

Group Balance Sheet Detailed

The Group Balance Sheet shows the assets and liabilities recognised by the Group at 31 March 2022 and the reserves the company holds which are split into usable and unusable in accordance with CIPFA requirements

31 March 2021 £m		Notes	31 March 2022 £m
648.6	Property, Plant and Equipment		681.8
38.7	Investment Property		40.1
0.1	Intangible Assets		0.3
3.2	Heritage Assets		3.2
40.2	Long Term Debtors		38.9
730.8	Long Term Assets		764.3
44.0	Short term Investments		43.0
0.2	Inventories		0.1
53.7	Short Term Debtors	G7	36.6
26.3	Cash & Cash equivalents	G5	47.7
-	Assets held for Sale		0
124.2	Current Assets		127.4
(3.3)	Short Term Borrowing		(7.8)
(78.5)	Short Term Creditors	G6	(75.5)
(4.0)	Short Term Provisions		(4.2)
(1.7)	Cash & Cash equivalents	G5	(2.3)
(87.5)	Current Liabilities		(89.8)
(4.4)	Long term provisions		(3.5)
(124.9)	Long term borrowing		(123.0)
(9.6)	Capital Grants Receipts in Advance		(11.7)
(329.8)	Other Long Term Liabilities		(317.7)
(468.7)	Total Long Term Liabilities		(455.9)
298.8	Net Assets		(346.0)
(176.4)	Usable Reserves		(168.4)
(122.4)	Unusable Reserves		(177.6)
(298.8)	Total Reserves		(346.0)

Group Cash Flow Statement

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

2020/21 £m		Notes	2021/22 £m
(17.8)	Net (surplus) or deficit on the provision of services		(8.4)
(66.8)	Adjust net (surplus) or deficit on the provision of services for non-cash movements		(40.2)
1.1	Adjust for items included in the net (surplus) or deficit on the provision of services that are investing and financing activities		1.9
(83.5)	Net cash flows from operating activities		(46.7)
69.5	Net cash flows from investing activities		25.5
6.8	Net cash flows from financing activities		0.4
(7.2)	Net decrease or (increase) in cash and cash equivalents		(20.8)
(17.4)	Cash and cash equivalents at the beginning of the reporting period	G5	(24.6)
(24.6)	Cash and cash equivalents at the end of the reporting period	G5	(45.4)
(7.2)	Net decrease or (increase) in cash and cash equivalents		(20.8)

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 2021/22 "The Code", supported by International Financial Reporting Standards.

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

Consolidation of subsidiaries, associate companies and joint operations

In preparing the Statement of Group Accounts, members within the Group are classified as either subsidiaries, associates or joint ventures. Subsidiaries (where the council has a controlling interest) are accounted for in accordance with IAS 27 and IFRS 10. Income and expenditure and assets and liabilities are consolidated with the Council's accounts on a line-by-line basis, eliminating inter-organisational transactions and balances at the year-end date.

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

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

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.

	2020/21	2021/22
Statement of comprehensive income	£m	£m
Turnover	(16.8)	(21.2)
(Profit) / Loss on ordinary activities before taxation	(0.3)	(0.6)
Tax on profit on ordinary activities	-	-
(Profit) / Loss for the financial year after taxation	(0.3)	(0.6)
Other comprehensive (income) / expenditure	-	-
Total comprehensive (income) / expenditure for the year	(0.3)	(0.6)

	2020/21	2021/22
Statement of financial position	£m	£m
Non-current assets	-	-
Current assets	5.4	6.6
Liabilities due within one year	(2.7)	(3.3)
Liabilities due after one year	-	-
Net Liabilities and Reserves	2.7	3.3

G3. Group Nature of Expenses Disclosure

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

2020/21 £m		2021/22 £m
	Income	
(49.6)	Fees, charges and other service income	(43.1)
(3.2)	Trading and investment income	(4.1)
(3.2)	Interest and investment income	(2.5)
(132.7)	Income from council tax and non-domestic rates	(149.6)
(266.0)	Government grants and contributions	(251.5)
-	Gains on disposal of non-current assets	(0.5)
(454.7)	Total Income	(451.3)
	Expenditure	
132.6	Employee benefits expenses	150.2
232.5	Other service expenses	247.8
5.7	Support service recharges (net)	6.6
1.2	Loss on disposal of non-current assets	-
36.9	Depreciation, amortisation and impairment	16.1
8.1	Trading and investment expenditure	2.6
14.8	Interest expenditure	14.5
5.1	Precepts and levies	5.1
436.9	Total Expenditure	442.9
(17.8)	(Surplus) / Deficit on the Provision of Services	(8.4)

G4. Pensions

The company has two defined pension plans, NHS Pension Scheme and Local Government Pension Scheme (LGPS), both of which require contributions to be made to separately administered funds. The company operates a defined contribution pension scheme with Standard Life for new employees, which began in April 2014.

LGPS Pension Scheme

The company is one of several employing bodies included within the Local Government Pension Scheme (LGPS). Worcester County council administers the pension for past and present employees. The assets and liabilities of the pension are part of the Herefordshire council valuation and included in the group accounts.

The total contribution made for the year ended 31 March 2022 was £0.78m of which employer's contributions totalled £0.54m and employees' contributions totalled £0.24m.

NHS Pension Scheme

Hoople Ltd 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.

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.

2020/21 £m		2021/22 £m
0.2	Employees' contributions	0.2
0.2	Employers' contributions	0.3
0.4	Total	0.5

G5. Group Cash and Cash Equivalents

31 March 2021 £m		31 March 2022 £m
8.7	Cash held by the Group	11.0
17.6	Short term deposits	36.7
26.3	Total	47.7
(1.7)	Bank current accounts	(2.3)
24.6	Total Cash and Cash Equivalents	45.4

Hoople Limited held £5.2m of short term cash balances as at 31 March 2022 (31 March 2021 £3.4m)

G6. Group Short Term Creditors

31 March 2021 £m		31 March 2022 £m
(25.5)	Central government bodies	(19.6)
(2.9)	Other local authorities	(4.1)
(1.5)	NHS bodies	(1.7)
(34.0)	Other entities and individuals	(36.9)
(2.0)	Monies due to agency NMiTE	-
(12.6)	Agency BEIS Business Support Grants	(3.1)
-	Agency DLUHC Support Grants	(10.1)
(78.5)	Total	(75.5)

Hoople Limited had short term liabilities totalling £3.3m as at 31 March 2022 (31 March 2021 £2.7m). These included Trade creditors, Accruals and VAT liability in line with normal business activities.

G7. Group Short Term Debtors

31 March 2021 £m		31 March 2022 £m
22.3	Central government bodies	15.5
3.4	Other local authorities	0.9
4.6	NHS bodies	4.4
23.4	Other entities and individuals	15.7
-	DHSC Agency Grants	0.1
53.7	Total	36.6

Hoople Limited had short term assets totalling £6.5m as at 31 March 2022 (31 March 2021 £5.4m). These included trade debtors and their short term cash balances.

G8. External audit costs

2020/21 £m		2021/22 £m
0.2	Fees payable with regard to external audit services carried out by the appointed auditor	0.2
0.2	Total	0.2

The above fees included £22k in respect of Hoople Limited audit fees (2020/21 £22k)

Supplementary Accounts- Collection Fund

43. 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 49% of the county's business rates.

2020/21		2021/22		
Total £m		Council Tax £m	Business Rates £m	Total £m
	Amounts required to be credited to the Collection Fund			
137.2	Council Tax	144.7	-	144.7
19.7	Business Rates Income	-	33.6	33.6
0.2	Transitional Protection Payments Receivable	-	0.4	0.4
	Contribution towards previous year's Deficit			
-	Central Government	-	12.9	12.9
-	Hereford and Worcester Fire Authority	-	0.3	0.3
-	West Mercia Police	-	-	-
-	Herefordshire Council	0.2	12.6	12.8
157.1	Total	144.9	59.8	204.7
	Amounts required to be debited from the Collection Fund			
	Precepts, Demands and Shares			
23.3	Central Government	-	23.1	23.1
6.5	Hereford and Worcester Fire Authority	6.0	0.5	6.5
132.7	Herefordshire Council	112.9	22.7	135.6
4.9	Parish and Town Councils	4.9	-	4.9
15.7	West Mercia Police	16.4	-	16.4
	Contribution towards previous year's Surplus			
0.4	Central Government	-	-	-
0.1	Hereford and Worcester Fire Authority	-	-	-
1.8	Herefordshire Council	-	-	-
0.2	West Mercia Police	-	-	-
	Charges to Collection Fund			
0.3	Cost of collection Allowance	-	0.3	0.3
0.2	Write offs of uncollectable debt	0.1	0.1	0.2
2.0	Increase/(decrease) of Bad Debt Provision	0.4	0.5	0.9
1.4	Changes in Provision for Appeals	-	(4.5)	(4.5)
0.3	Other transfers to General Fund	-	0.6	0.6
189.8	Total	140.7	43.3	184.0
(32.7)	Surplus/(Deficit) for the Year	4.2	16.5	20.7
5.4	Balance brought forward	(0.2)	(27.1)	(27.3)
(27.3)	Balance carried forward	4.0	(10.6)	(6.6)

Notes to the Collection Fund

The total non-domestic rateable value at the year-end was £135.7m and the national non-domestic rate multiplier for 2021/22 was 51.2p

Non - Domestic Rates Income	2021/22 £m
Annual Debit	67.0
Less	
Empty Allowances	(1.8)
Transitional Relief	(0.6)
Discretionary Relief	(0.6)
Mandatory Relief	(5.1)
Small Business Rate Relief	(9.8)
Funded Reliefs	(15.3)
Enterprise Zone Relief	(0.2)
Total	33.6

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 as 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 2021/22 was £2,051.61 including fire, police and parish precepts, with a range of between £1,980.17 and £2,154.22. The council tax base used for setting the council tax in 2021/22 was 68,355.22. The Band D equivalents in each valuation band are shown in the table below:

Band	Valuation Range	Charge Factor	Band D Equivalent
A	Up to £40,000	6/9	4,443.39
B	£40,001 to £52,000	7/9	10,860.51
C	£52,001 to £68,000	8/9	12,143.47
D	£68,001 to £88,000	9/9	11,664.71
E	£88,001 to £120,000	11/9	13,308.03
F	£120,001 to £160,000	13/9	9,642.52
G	£160,001 to £320,000	15/9	5,672.04
H	Over £320,000	18/9	313.05
Crown			307.50
Total			68,355.22

Council Taxpayer Income	2021/22 £m
Council Tax debit	173.7
Banding change	3.0
Less	
Discounts	(14.0)
Exemptions	(3.9)
Council Tax Reduction	(13.9)
Disablement Relief	(0.2)
Total	144.7

The Collection Fund surplus or (deficit) at 31 March 2022 is split as follows:

	Council Tax £m	Business Rates £m	Total £m
Central Government	-	(5.3)	(5.3)
Hereford and Worcester Fire Authority	0.2	(0.1)	0.1
Herefordshire Council	3.3	(5.2)	(1.9)
West Mercia Police	0.5	-	0.5
Total	4.0	(10.6)	(6.6)

44. Definitions

Accounting Policies

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

Accumulated Absences Account

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

Assets

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

Borrowing costs

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

Capital Adjustment Account

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

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

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

Carrying amount

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

Contingent Liability

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

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

- a) it is not probable that an outflow of resources embodying economic benefits or
- b) services potential will be required to settle the obligation, or

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

Creditors

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

Collection Fund Adjustment Account

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

Core

The single entity, being Herefordshire Council.

Covid-19

Coronavirus disease (Covid-19) is an infectious disease. Most people infected with the Covid-19 virus will experience mild to moderate respiratory illness and recover without requiring special treatment.

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.

45. Annual Governance Statement

To follow