

# AGENDA

## Audit and Governance Committee

Date: **Wednesday 25 September 2013**

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Time: **11.00 am**

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Place: **The Library, The Shire Hall, Hereford**

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

For any further information please contact:

**Heather Donaldson, Governance Services**

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If you would like help to understand this document, or would like it in another format or language, please call Heather Donaldson, Governance Services on 01432 261829 or e-mail [hdonaldson@herefordshire.gov.uk](mailto:hdonaldson@herefordshire.gov.uk) in advance of the meeting.

# **Agenda for the Meeting of the Audit and Governance Committee**

## **Membership**

**Chairman**

**Councillor J Stone**

**Councillor CNH Attwood**

**Councillor EMK Chave**

**Councillor PGH Cutter**

**Councillor AJ Hempton-Smith**

**Councillor TM James**

**Councillor Brig P Jones CBE**

**Councillor PJ McCaull**

**Councillor NP Nenadich**

**Councillor P Rone**

## AGENDA

	Pages
<b>1. APOLOGIES FOR ABSENCE</b>	
To receive apologies for absence.	
<b>2. NAMED SUBSTITUTES (IF ANY)</b>	
To receive details any details of Members nominated to attend the meeting in place of a Member of the Committee.	
<b>3. DECLARATIONS OF INTEREST</b>	
To receive any declarations of interest by Members in respect of items on the agenda.	
<b>4. MINUTES</b>	9 - 18
To approve and sign the Minutes of the meeting held on 5 July 2013.	
<b>5. AUDIT FINDING REPORT</b>	
To consider external audit's findings from the annual audit of accounts.	
Note: This report will be sent "to follow" as soon as practicable. It will be published as a supplement to the agenda, and will be available on the Council's website after publication of the main agenda.	
<b>6. STATEMENT OF ACCOUNTS</b>	19 - 134
To approve the 2012/13 Statement of Accounts.	



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# **COUNTY OF HEREFORDSHIRE DISTRICT COUNCIL**

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HEREFORDSHIRE COUNCIL

**MINUTES of the meeting of Audit and Governance Committee held at The Council Chamber, Brockington, 35 Hafod Road, Hereford, HR1 1SH on Friday 5 July 2013 at 10.00 am**

**Present:** Councillor J Stone (Chairman)

Councillors: EMK Chave, PGH Cutter, TM James, Brig P Jones CBE and PJ McCaull

**In attendance:** Councillor A Seldon

**Officers:** B Baugh (Democratic Services Officer), J Lewis (Assistant Director People, Policy and Partnerships), D Powell (Chief Officer: Finance and Commercial), A Sawyer (Information Governance Principal Officer), and C Trachonitis (Equality, Human Rights and Partnership Manager)

**1. APOLOGIES FOR ABSENCE**

Apologies were received from Councillors CNH Attwood and P Rone.

**2. NAMED SUBSTITUTES (IF ANY)**

None.

**3. DECLARATIONS OF INTEREST**

During consideration of agenda item 9, Councillor EMK Chave declared a non-pecuniary interest due to David Williams MBE QFSM being Chairman of Herefordshire Advanced Motorists and the Councillor was a member of that organisation.

**4. MINUTES**

The minutes of the meeting held on 13 May 2013 were received. The following matters arising were noted:

Minute 65 - Internal Audit 2012/13, Food Hygiene

Referring to a front-page article in the Hereford Times (27 June 2013 refers), a Committee Member commented that concerns remained about compliance with statutory duties in this area. The Chairman noted that the Committee had discussed the issues at its previous two meetings, with concerns being raised about Food Hygiene Inspections and resourcing issues. He added that the Regulatory Committee had recently considered related matters (25 June 2013 refers).

Minute 69 - Internal Audit Plan 2013/14

A Committee Member, referring to the audit arrangements for the Council and for Hoople, commented on public concerns about private companies doing Council work with public money.

**RESOLVED: That the minutes of the meeting held on 13 May 2013 be approved and signed as a correct record.**

## 5. ANNUAL ASSURANCE REPORT 2012/13

The Head of Internal Audit reported that the timetable for the Annual Internal Audit Report had been brought forward, with this report submitted two months earlier than in the previous year. The report provided the overall internal audit opinion, with commentary on internal audit activity and matters arising from the completion of the 2012/13 Annual Internal Audit Plan. The principal points are summarised below.

### Section 2 - Opinion

1. The internal audit opinion was that 'the Council has adequate and effective risk management, control and governance processes to manage the achievement of its objectives, except for those areas highlighted as limited in Appendix 1. In these areas agreed improvements are in place.' The Head of Internal Audit advised that this was the same outcome as the previous year but there was a positive direction of travel in that there had been four areas highlighted as limited in 2012/13, compared to seven in 2011/12; he added that the areas highlighted in 2011/12 had also been more fundamental to the systems of control and governance.

### Section 3 - Summary of Our Work and Significant Control Issues

2. It was reported that many reviews graded the Council's arrangements as 'adequate assurance', with 'substantial assurance' for Debtors, Treasury Management, Benefits (Council Tax and Housing), and NNDR and Council Tax Collection. The four areas with significant control issues and 'limited assurance' were Data Protection, Legal Services, Income Collection - Industrial Lets, and Food Licensing. It was noted that the issues in these areas had been reported to the Committee during the year.
3. Attention was drawn to the statement that 'the controls within the Adult Social Care function require strengthening to ensure that the system can meet its objectives in terms of the service it delivers and the financial resources being managed.' It was reported that, although no explicit work had been undertaken as part of the Annual Internal Audit Plan, this comment was informed by assistance and guidance work undertaken by Internal Audit and from other sources.

### Section 4 - Detailed Findings

4. With a further report recently finalised for Creditors, it was reported that 22 audit reviews had been completed or were in draft, with seven reviews in progress.
5. Referring to the graph showing the number and priority of audit recommendations (agenda page 31), the Head of Internal Audit reported that seven priority one (high priority) recommendations had been raised in 2012/13, with 29 priority two and 17 priority three recommendations. In comparison, there had been 27 priority one recommendations in 2011/12.
6. Referring to the results of follow up work on recommendations made in 2012/13, the Head of Internal Audit said that Internal Audit was satisfied that management had taken action where it was needed.

### Section 5 - The Internal Audit Function

7. This section set out the performance of the Internal Audit function and feedback from management. Attention was drawn to the performance measure 'Management responses received within 10 working days of draft issued', with only 38% achieved. The Head of Internal Audit reported this was causing a degree of

frustration and had been identified to senior management at the Council; he added that prompt responses were not only important to ensure that outcomes could be presented to the Committee but also to provide reassurance that issues were being addressed in a timely manner.

8. The Chairman did not consider the low level of management response to be acceptable and noted that the Committee would wish to know which managers had not responded within the required timescales. He emphasised that managers had to engage fully with the audit process and the matter would need to be followed up after the meeting. The Committee endorsed the Chairman's comments. It was recognised that staffing and workload were factors but management had to give sufficient priority to the draft reports.
9. In response to a question from a Committee Member, the Head of Internal Audit confirmed that the audits were phased throughout the year and explained the process for the delivery of draft reports.
10. The Chief Officer: Finance and Commercial noted that, in addition to workload, some of the delay might be partly due to areas falling between Hoople and Council functions; this highlighted the need for further consideration to be given to the items included in the respective audit plans. He added that the situation might be an early indicator that some elements of the organisation were not taking some of its key roles seriously and welcomed the reinforcement of the critical messages by the Committee.
11. The Chairman of the General Overview and Scrutiny Committee said that there were parallels with the difficulties being experienced by the overview and scrutiny function in getting information from certain departments in the Council. He recognised that there were capacity issues for officers, as they had to deal with increasing strains with diminishing resources.
12. A Committee Member suggested that, unless there was a dramatic improvement in performance, the managers responsible should be named. The Chairman added that the Committee needed to understand why they had not responded.
13. The Head of Internal Audit commented that there were no concerns in terms of access to information, officers or any areas of the organisation.
14. Further to the report considered at the last meeting on Public Sector Internal Audit Standards (PSIAS) and Internal Audit Charter (minute 68 refers), the Committee was advised that a self-assessment had been undertaken of the Internal Audit function and the work performed in 2012/13 against the PSIAS. As the PSIAS built upon existing standards, there were no fundamental issues but it was recognised that a few areas would need further work. It was reported that discussions were being held with Hoople about job descriptions for the Internal Audit Team to ensure they were refreshed and suitable for the future. It was also reported that new requirements included a Quality Assurance and Improvement Programme and an External Assessment of the internal audit function against the PSIAS once every five years; clarification would be needed about this assessment in the context of the Council's outsourced arrangement.

#### Appendix 1 - Work Completed

15. This appendix set out the grading, recommendations and status of reviews undertaken during the year. Further to paragraph 4. above, it was noted that a report had been finalised for Creditors since agenda publication, with an 'adequate assurance' grading and four priority two recommendations.

The Chairman thanked the Head of Internal Audit for his clear and comprehensive report. Questions and comments were invited from the Committee.

A Committee Member identified a number of issues, including:

- i. Referring to paragraph 10 of the covering report, it was noted that the challenges affecting Adult Social Care were broader than 'local issues'.
- ii. The areas graded as 'limited assurance' involved potential major risks, both financial and reputational.
- iii. Matters covered in the report raised questions about levels of staffing and expertise in key areas within the organisation.
- iv. Referring to Section 4, it was questioned what happened to work that was 'superseded' by other activities.
- v. The summary of audit opinions suggested that systems were 'good enough' but there was a concern that particular areas of limited assurance could skew this perception.
- vi. It was questioned whether management feedback could be required ahead of any audit opinion being issued.
- vii. Concerns were expressed about matters that were actually for the management of Hoople to deal with but could affect the Council's own compliance requirements.

In response, the Head of Internal Audit advised that: (iv.) where it was concluded that work should be deferred or cancelled, if matters had moved on or other activities had superseded it, Internal Audit would return to the issues as part of the next planning process and this would be reported to the Committee accordingly; (v.) although the authority should continue to strive for zero limited assurance gradings, the direction of travel in terms of audit opinions was positive; (vi.) the Internal Audit Service could not continue to deliver a high quality service without feedback and the Committee's support was welcomed; and (vii.) the arrangements with Hoople worked well and were being improved, the need to update job descriptions was a legacy issue identified through the self-assessment.

In response to questions from Committee Members, the Head of Internal Audit advised that:

- a. It would be expected that changes that may be manifesting in key areas would be picked up in managerial metrics; Internal Audit examined the application and rigour of such metrics when undertaking audit reviews. In terms of welfare reform, no work had been undertaken post implementation but Internal Audit had examined the plans that were put in place to prepare for the changes.
- b. It was not the role of Internal Audit to comment on legal advice that had been provided, the audit review of Legal Services was around governance, management performance and structure. Nevertheless, it was acknowledged that weaknesses in processes and controls could have consequential impacts on service quality.
- c. Audit activity was adapted to support and engage with on-going corporate and managerial projects, such as Rising to the Challenge and Business Continuity, at particular points in time.

The Chief Officer: Finance and Commercial reported that, at Cabinet on 18 April 2013 (minute 90 refers), the 'Rising to the Challenge' programme had been closed, it had been superseded by 'Root and Branch Reviews'. He added that the delivery of budget savings was the critical issue for the Committee.

- d. Management had responded to the recommendations of the audit review of Income Collection - Industrial Lets and that outstanding rental charges had now been recovered. An explanation of the methodology for audit sampling was also provided.
- e. There was no correlation between the low level of management responses to draft reports and adverse audit opinions, some of the awaited responses were to positive reviews. It was reported that, even where reports had not been finalised, dialogue would continue with management to ensure that action was being taken to address key findings.
- f. Reference to 'Hot Topics', in Appendix 1, related to issues and risks that had come to the attention of audit professionals from various sources, including the client base and professional bodies; an example was provided of an increasing type of fraud that finance teams needed to be aware of.

The Chairman noted that the authority had made some progress in terms of reducing the areas of limited assurance and action was being taken to strengthen those areas, nevertheless further work was needed to improve management response times to draft reports.

**RESOLVED: That**

- (a) The report be noted; and**
- (b) Managers be reminded of the need to engage fully with the audit process and to respond within the required timescales.**

## **6. INTERNAL AUDIT PROGRESS REPORT 2012/13**

The Head of Internal Audit introduced the report which summarised progress against the Audit Plan 2012/13. It was noted that the key considerations had been discussed as part of the Annual Assurance Report 2012/13 report (minute 5 above).

**RESOLVED: That the report be noted.**

## **7. INTERNAL AUDIT 2012-13 DATA PROTECTION 1998 - FORMAL WRITTEN RESPONSE**

Further to minute 67 of the last meeting, the Committee received a report that provided a formal written response to the Internal Audit review of Data Protection dated 26 April 2013. The report also highlighted the findings of the Information Commissioner's Office (ICO) consensual Data Protection audit of 30 April - 2 May 2013.

The Equality, Human Rights and Partnership Manager, having recently taken on the management of this area, presented the report of the Knowledge and Information Services Manager. The Committee was advised that the Information Governance Team had undertaken substantial work following the Internal Audit review, both in advance of the ICO audit and subsequently. A number of recommendations overlapped and an action plan and programme of work had been developed. Attention was drawn to the following areas:

1. Personal data audit: An overview was provided of the actions undertaken and in progress, including the compilation of an Information Asset Register.
2. Security breach incidents: It was noted that 80 Data Protection incidents had been logged since June 2012, with a further five reported since agenda publication. The ICO had commented that the level of reporting was encouraging, as this reflected the high visibility of the new Information Governance Team and the fact that appropriate systems were in place to capture incidents.

It was reported that generic mandatory training was being developed, with further bespoke training for specific teams. In particular, high priority would be given to training for Section 75 staff prior to their return into the Council from Wye Valley NHS Trust.

3. Downloading sensitive and confidential data: A key piece of work was being undertaken to address both device and software security issues.
4. Communication of Data Protection Act issues: The Information Governance Team continued to develop relationships with management teams and representatives to develop broader understanding and points of contact for support.

In response to a question from a Committee Member, the Assistant Director People, Policy and Partnerships (hereafter 'Assistant Director' in these minutes) commented that two issues arose from staff movements and turnover. Firstly, there was a need to ensure that individuals only had access to those systems they needed to use as part of their current roles, this would be addressed through strengthened HR processes. Secondly, there was a need to ensure that mandatory training was completed within a short time of commencing a new role, this would be delivered and recorded through online modules. It was acknowledged that further work was required on the eLearning platform.

A Committee Member commented that Councillors had to register as data controllers with the ICO for an annual fee and questioned whether this should be borne by Councillors themselves or by the authority.

A Committee Member said that managers had to take responsibility for their areas and staff needed to be brought to account if they failed to fulfil their duties. The Assistant Director said that the lack of mandatory training in this area was a significant issue for the authority but this was being addressed and there would be much greater clarity about expectations going forward. She added that organisational awareness and learning was essential; an example was given of a member of staff who had been responsible for a breach through human error but was now one of the best champions for information governance within the Council. Nevertheless, some members of staff had been disciplined about serious breaches.

In response to a question from the Chairman, the Information Governance Principal Officer recognised that over 80 Data Protection incidents was a high number but it did reflect that the culture was changing and staff felt able to report incidents. It was recognised that breaches involving private and personal information could cause significant distress and the authority was transparent about incidents that had occurred and did all it could to support affected individuals.

A Committee Member commented on a number of issues, including: reports should be written for as wide an audience as possible; a removal media policy would not be as effective as physically blocking ports on devices; a question was asked about Human Rights in terms of the protection of personal data; and a question was asked about the timescale for the 'Managing Information Safely' delivery plan.

In response, the Information Governance Principal Officer advised that: software was available to prevent unauthorised use of removal media and this was being explored by Hoople ICT; it was confirmed that the Human Rights Act 1998 included a 'right to privacy', although this was a qualified right in that the state could intervene in certain circumstances, such as to prevent disorder or crime; the ICO had identified a timescale of March 2014, recognising that there was a lot of work and behavioural change required to ensure that improvements were embedded.

In response to question from a Committee Member, the Assistant Director advised that the Council was expected to have an Information Asset Register; this should provide an understanding of the critical information held, how it was being held and for how long it was being held for. It was acknowledged that the use of the term 'asset' was a misnomer as there was no intrinsic value; the register was essentially a list of types of information and associated levels of security.

A Committee Member commented that information had to be secure and handled appropriately, nevertheless there were potential risks for safeguarding if professionals could not get access to information and share it with other agencies. The Assistant Director advised that Cabinet was to receive a report shortly about an opportunity to engage with the Public Sector Network (PSN) which enabled public sector organisations to use networking services across geographical boundaries, subject to stringent security standards; subject to approval, a West Midlands PSN would also provide opportunities for collective procurement.

The Chairman of the General Overview and Scrutiny Committee, referring to information held by retailers, commented that the public sector was lagging behind the private sector in terms of the collection, distribution and use of information. He added that the key objective should be to get the right information, to the right people, at the right time.

The Chief Officer: Finance and Commercial noted: the comprehensive report and input from officers; the considerable work that had been undertaken by the Information Governance Team to address the issues; and, previewing the next agenda item, the importance of this area to overall governance assurance. The Assistant Director paid tribute to the work of the team, particularly to the significant contributions made by Anthony Sawyer and Helen Worth.

**RESOLVED: That**

- (a) The report be noted;**
- (b) The actions proposed in order to address the recommendations of the Internal Audit review with respect to the Data Protection Act 1998, be supported and endorsed; and**
- (c) The actions proposed in order to address the areas of improvement identified in the second draft of the ICO consensual audit with respect to the Data Protection Act 1998, be supported and endorsed.**

**8. DRAFT ANNUAL GOVERNANCE STATEMENT 2012/13**

The Chief Officer: Finance and Commercial presented the report of the Head of Governance which sought approval for the draft Annual Governance Statement for 2012/13

The draft statement was appended to the report and Members' attention was drawn to the following points:

- i. Section 3: This set out the Council's principles of good governance and the related activities that had been carried out during 2012/13.
- ii. Paragraphs 3.16 and 3.17: These paragraphs should be omitted, as they referred to standards complaints during 2011/12.
- iii. Paragraph 4.16: For the last two years, the Council had decided not to follow the financial management arrangements prescribed by CIPFA in relation to the Section 151 role. However, from April 2013, the reporting lines had been amended and there would be compliance going forward.

The Chairman advised that the Annual Governance Statement needed to be considered and approved by the Committee prior to its inclusion within the Council's Statement of Accounts.

A Committee Member made a number of comments, including:

- a. Paragraph 1.1: In view of the statement that 'Herefordshire Council is responsible for ensuring that... public money is safeguarded, properly accounted for and used economically, efficiently and effectively', the authority should be aware of the significant public concerns about Hoople and other companies undertaking work on behalf of the Council.
- b. Paragraph 3.2: Referring to Principle 4, 'Take sound decisions on the basis of good information', the Member said that a request for information had not been responded to after a number of months and, in view of the comments of the Chairman of General Overview and Scrutiny (see minute #, paragraph 11 above), felt that more work was needed on this topic.
- c. Paragraph 3.4: It was noted that the authority had 'identified substantial savings during the year' but it was questioned whether these were actually being made.
- d. Paragraph 3.10: It was commented that consideration could be given to rolling out the '...formal staff performance review requirement..' to Councillors.
- e. Paragraph 3.15: It was questioned whether standards complaints about 'bullying, failure to show respect' were an increasing trend.
- f. Paragraph 3.38: Referring to the statement that 'Further information about services can be found on the Council's website...' it was commented that, as identified in the Understanding Herefordshire 2013 report, many people did not want to be online, regardless of cost.
- g. Further clarification was sought about the reporting lines for the Section 151 role.
- h. Paragraph 4.40: There appeared to be a discrepancy between the figures given in the statement and in the Annual Internal Audit Report 2012/13 for the number of Internal Audit reports and recommendations.
- i. Signatories: It was questioned why the document had been signed by the Deputy Leader rather than by the Leader of the Council.

In response to the questions, the Chief Officer: Finance and Commercial advised that: (g.) he previously reported to the Deputy Chief Executive but, with the deletion of that post, the Section 151 Officer would now report directly to the Chief Executive and would have a permanent position on the Management Board; (h) the figures would be checked;



and (i) the statement had to be signed before the end of June 2013 for the Committee to approve and the Leader of the Council had been on leave at the time.

In response to a question from a Committee Member, the Democratic Services Officer confirmed that complaints against parish and town councillors were considered under the new standards process but only the relevant parish or town council could impose sanctions. The Chairman noted that the new system was lighter than the previous standards regime and the Herefordshire Association of Local Councils helped to identify potential parish/town council representatives to sit on the Standards Panel.

**RESOLVED: That the draft Annual Governance Statement 2012/13 be approved for inclusion in the Statement of Accounts for 2012/13.**

**9. APPOINTMENT OF INDEPENDENT PERSONS TO THE COUNCIL'S STANDARDS PANEL**

This report, by the Head of Governance, notified the Committee that approval would be sought at the next Council meeting for the appointment of John Sharman and David Williams MBE QFSM as Independent Persons to the Standards Panel.

It was reported that, as a consequence of the Localism Act, the tenure of Jake Bharier and David Stevens MBE as Independent Persons had ended on 30 June 2013; Rob Cook was the only remaining serving Independent Person currently. The Chairman advised that Mr. Bharier and Mr. Stevens had been invited to tea with the Chairman of the Council in recognition of their significant contributions to standards in the county.

The Chairman said that it was encouraging that the recruitment process had attracted a strong field of high calibre candidates to the positions. The Committee noted that both Mr. Sharman and Mr. Williams had significant experience of local government and other public sector bodies.

**RESOLVED: That it be noted that approval was to be sought at Council, on 19 July 2013, to appoint John Sharman and David Williams MBE QFSM as Independent Persons to the Standards Panel.**

The meeting ended at 11.55 am

**CHAIRMAN**





<b>MEETING:</b>	<b>AUDIT &amp; GOVERNANCE COMMITTEE</b>
<b>MEETING DATE:</b>	<b>25 SEPTEMBER 2013</b>
<b>TITLE OF REPORT:</b>	<b>STATEMENT OF ACCOUNTS</b>
<b>REPORT BY:</b>	<b>HEAD OF CORPORATE FINANCE</b>

## 1. Classification

Open

## 2. Key Decision

This is not a key decision

## 3. Wards Affected

County-wide

## 4. Purpose

To seek the Audit and Governance Committee's approval of the 2012/13 Statement of Accounts.

## 5. Recommendation

**THAT**

- (a) the 2012/13 Statement of Accounts be approved; and**
- (b) the draft letter of representation be signed by the Chairman of the Audit and Governance Committee, and by the Chief Officer.**

## 6. Alternative Options

- 6.1 There are no Alternative Options, as all councils are required to produce a Statement of Accounts.

## 7. Reasons for Recommendations

- 7.1 The council is required to produce a statement of accounts in accordance with legal and accounting requirements. The process requires the accounts to be certified by the Chief Officer (Finance and Commercial) by 30 June and then approved by the Audit and Governance Committee by 30 September.

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Further information on the subject of this Report is available from Heather Foster, Head of Corporate Finance on Tel (01432) 260284

## 8. Key Considerations

8.1 The Statement of Accounts (attached as Appendix A) has been drawn up in accordance with the Accounts and Audit Regulations 2011, and the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The Code consolidates the statutory requirements and accounting standards that the council is legally required to follow.

8.2 The most significant matters in the accounts for 2012/13 and a summary of the council's financial position are set out in the Explanatory Foreword. Key points for 2012/13 include the following;

- The out-turn position on the council's revenue account was an overspend of £1.5m, the most significant overspend relating to the commissioning of adult social care.
- £38.6m was incurred on capital spending, funded by prudential borrowing (£13.8m), an interest free loan (£0.5m), capital receipts (£2.9m), and grants (£21.4m).
- The council's total borrowing at 31 March 2013 stood at £157m (£144.5m at 31 March 2012).
- At the end of 2012/13 the council held general reserves of £4.6m (£6.1m in 2011/12) and specific earmarked reserves of £13.9m (£13.5m in 2011/12).
- Provisions of £2.6m were held at 31 March 2013, including £1.1m insurance provision and £797k provision for redundancies.
- The liability on Herefordshire's pension fund increased from £159.3m at 31 March 2012 to £187.4m at 31 March 2013 mainly due to actuarial losses on the schemes liabilities. This liability represents commitments to pay pensions in the long-term but is not representative of the ability of the fund to pay pensions.

### 2012/13 Statements

8.3 Under International Financial Reporting Standards (IFRS) the main financial statements comprise the Movement in Reserves Statement, Comprehensive Income and Expenditure Account, Balance Sheet and Cash Flow Statement.

### Movement in Reserves Statement

8.4 This statement, which is section 4 of the Statements, shows the movement in the year on the different reserves held by the authority, analysed into usable and non-usable reserves. These are also shown in the bottom half of the Balance Sheet.

### Usable Reserves

8.5 Total usable reserves at 31 March 2013 were £34.8m compared with £38m at 31 March 2012. This is summarised in the table below.

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Further information on the subject of this Report is available from  
Heather Foster, Head of Corporate Finance on Tel (01432) 260284

	General fund balance	Earmarked reserves	Capital receipts reserve	Capital grants unapplied	Total usable reserves
	£000	£000	£000	£000	£000
Balance as at 31st March 2012	6,113	13,458	2,769	15,679	38,019
Balance as at 31st March 2013	4,656	13,968	2,693	13,515	34,832

- 8.6 The general fund balance reduced by £1.5m, which reflects the funding of the overspend on the revenue account in the year. Details of the movement to and from earmarked reserves are shown in Note 8.8. The capital receipts balance remained relatively static as the use of the reserve to fund the capital programme (£2.9m) was matched by additional receipts in year. Further details are included in Note 8.23 of the Statements.

#### **Unusable Reserves**

- 8.7 Unusable reserves are not available to be spent. They include unrealised gains and losses, such as the revaluation reserve and timing differences for funding of assets (Capital Adjustment Account). There is also a negative reserve for future pension obligations. These unusable reserves moved from £71.7m at 31 March 2012 to £44.8m at 31<sup>st</sup> March 2013, the main movement being the pensions' reserve. Further details can be found in Note 8.24

#### **Comprehensive Income and Expenditure Statement (CIES)**

- 8.7 This statement, which is Section 5 of the Statements, shows the accounting cost in the year of providing services, rather than the amount to be funded from council tax. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The adjustments to reconcile this statement to the amount to be funded from council tax are included in the Movement in Reserves Statement and detailed in Note 8.7.
- 8.9 The net cost of services in 2012/13 was £152.8m compared to £155.6m in 2011/12. The largest movement in gross expenditure and income was in Educational and Children's services, reflecting the further transfer of schools to Academy status.
- 8.10 Other operating expenditure' on the CIES was significantly lower in 2012/13 (£22.8m compared to £71.3m in 2011/12). This reason for this is that the write-off of assets disposed of in the year was £19.9m in 2012/13 compared to £68.6m in 2011/12, reflecting the higher number of schools to transferring to Academies in 2011/12.

#### **Balance Sheet**

- 8.11 The Balance Sheet in Section 6 of the Statements summarises the council's assets, liabilities and other balances at the end of the financial year.
- 8.12 At 31 March 2013 long-term assets totalled £447.1m, compared to £440.9m at 31 March 2012. The main element of this is property, plant and equipment which

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Further information on the subject of this Report is available from Heather Foster, Head of Corporate Finance on Tel (01432) 260284

amounted to £404m at the year-end compared to £403m at 31 March 2012. Movements in the year include depreciation, revaluations, disposals and additions through the capital programme. Details of the movements are set out in Note 8.12.

- 8.13 Current assets amounted to £47.5m at 31 March 2013 (£44.6m at 31 March 2012), including £10.9m in cash and investments and £32.8m short-term debtors. Short-term debtors increased by £5.5m, mainly due to money owed to the council by central government for flood damage (£2.1m) and housing benefit subsidy (£2.7m).
- 8.14 Current liabilities were £70m at 31 March 2013, including £33.9m relating to short-term borrowing and £32.4m of short-term creditors. The increase in current liabilities from £53.6m in 2011/12 was mainly due to the increased level of short-term borrowing from other local authorities due to their low rates of interest.
- 8.15 Long-term liabilities were £344.8m at the 31 March 2013 compared to £322.3m at 31 March 2012. The 2 main figures are borrowing and pensions liabilities. The pensions' net liability as determined by the pension fund actuary increased by £28.1m.

### **Cash Flow Statement**

- 8.16 This statement represents a summary of all cash flowing in and out of the council arising from transactions with third parties. All internal transactions between the various accounts maintained by the council are excluded. The statement shows that during 2012/13 total cash outflows were £487.1m and inflows £488m, resulting in a net increase in cash and cash equivalents of £0.9m.

### **The Collection Fund**

- 8.17 This statement shows all income collected from council taxpayers and business ratepayers (NNDR), which amounted to £151.8m in 2012/13 (£149m in 2011/12). Expenditure includes precept payments to the West Mercia Police Authority (£12.9m) and Hereford & Worcester Fire Authority (£5.3m), representing income collected from council taxpayers on their behalf. The Herefordshire Council precept includes £2.7m for parishes, which are paid through the council's general fund. NNDR contributions of £44.3m were payable to central government (which is the income collected less and allowance for the cost of collection).

## **9. Community Impact**

- 9.1 Not applicable

## **10. Equality and Human Rights**

- 10.1 The content of the report has no direct impact on equality and human rights

## **11. Financial Implications**

- 11.1 As set out in the report

## **12. Legal Implications**

- 12.1 There is a legal requirement for the council to approve the statement of accounts by the end of September 2013.

## **13. Risk Management**

- 13.1 The risk is that the external auditors will not issue an unqualified opinion on the statement of accounts by the end of September. The risk is mitigated by providing working papers and officer time to help external auditors form an appropriate judgement on the statement of accounts by 30<sup>th</sup> September.

## **14. Consultees**

- 14.1 None

## **15. Appendices**

- 15.1 Appendix A – Statement of Accounts 2012/13  
Appendix B – Draft Letter of Representation

## **16. Background Papers**

- 16.1 None identified.







**APPENDIX A**

**HEREFORDSHIRE  
COUNCIL**

**STATEMENT OF  
ACCOUNTS**

**2012-2013**

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# 1. INTRODUCTION

- 1.1. The Statement of Accounts for 2012/13 is the key financial report that presents the council's overall revenue and capital position for the year.
- 1.2. It was evident from the outset that 2012/13 was going to be a very challenging year and as the year progressed this was proven to be the case. For 2012/13 Herefordshire's Formula Grant funding from central government saw a cash reduction of £5.7m (9.5%) in 2012/13. At the same time, Herefordshire not only faces economic challenges but the demands of an ageing population causing pressures within Adult Social Care services. The impact of reduced funding and increasing cost pressures required £10.8 million of cuts in Herefordshire Council's 2012/13 budget in addition to the £10.3m in 2011/12.
- 1.3. The council has responded to these challenges through a 'root and branch' review of every service which Herefordshire Council is responsible for delivering. This process is assessing how to deliver services more efficiently and effectively.
- 1.4. The final position on the council's revenue account was an overspend of £1.5 million, leaving general reserves at £4.6 million at 31<sup>st</sup> March 2013 compared to £6.1 million at 31<sup>st</sup> March 2012. However, the 2013/14 budget includes a transfer to the General Fund reserve of £2 million, bringing the balance to £6.6 million. This means we exceed the policy requirement to hold a general fund reserve equivalent to a minimum of 3% of net budget. The minimum amount would be approximately £4.5m in 2013/14, but given financial pressures it is appropriate we hold sufficient balances to meet any unexpected issues that arise. Herefordshire's financial management strategy is to maintain specific reserves to deal with the key corporate financial risks, which stood at £13.97 million at 31<sup>st</sup> March 2013.

**Cllr Tony Johnson**  
**Leader**

## 2. EXPLANATORY FOREWORD

### 2.1 Introduction

2.1.1 The following Statement of Accounts for Herefordshire Council presents the overall financial position for the Authority for the year ended 31st March 2013 and has been produced in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13, published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The amounts presented in the financial statements and notes have been rounded to the nearest thousand.

2.1.2 There were no significant changes to the Code for the 2012/13 accounts.

### 2.2 Revenue Expenditure and Income

2.2.1 The out-turn position on the council's revenue account was an over spend of £1.457 million after transfers from reserves.

2.2.2 The following table summarises the overall position.

	<b>Under/ (Over) £000</b>
Directorate over spends	(3,959)
Treasury management including borrowing and investment income	860
Revenue contribution to capital	341
Centrally held budgets	(474)
WMS sale	850
Contingency	1,000
Other changes (net)	(75)
<b>NET POSITION</b>	<b>(1,457)</b>

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

	<b>£000</b>	
Community Equipment store	110	Potential funding shortfall in 2013/14
Community social care	116	Potential funding shortfall in 2013/14
Change management	142	Created from realigned reserves

A review of reserves was undertaken as part of the 2012/13 accounts closedown and £142k was re-designated towards redundancy costs in 2013/14. Two reserves have been provided in relation to the funding of the community equipment store (£110k) and social workers in hospital (£116k).

**Service Area Outturn Position**

2.2.4 The net over spend for the council’s directorates of £3.9 million was made up as follows:

*	Budget *	Actual *	Under/(Over) Spends
	£000	£000	£000
<b>Directorate</b>			
People’s Services	88,375	93,555	(5,180)
Places and Communities	49,688	49,611	77
Corporate Service	9,323	8,179	1,144
<b>TOTAL</b>	<b>147,386</b>	<b>151,345</b>	<b>(3,959)</b>

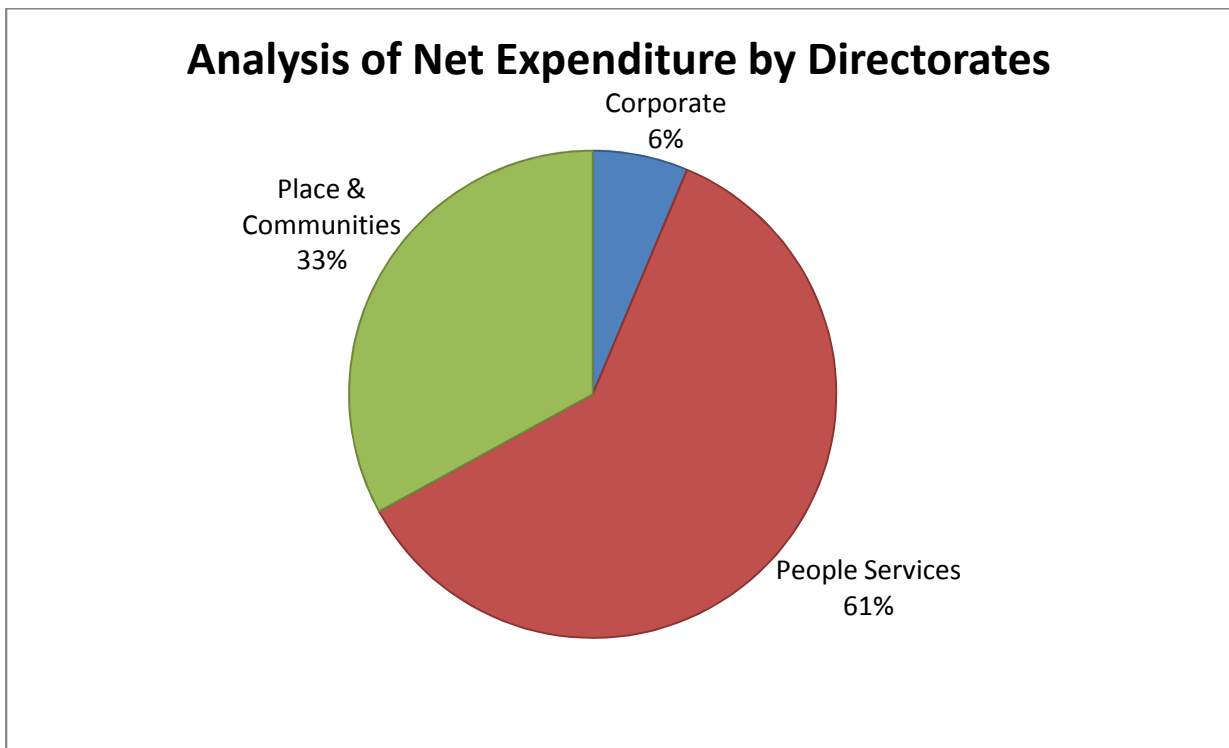
\* These figures include reallocated support services, overheads, capital charges and IAS 19 pension adjustments.

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

**2.3 Analysis of Revenue Expenditure and Income**

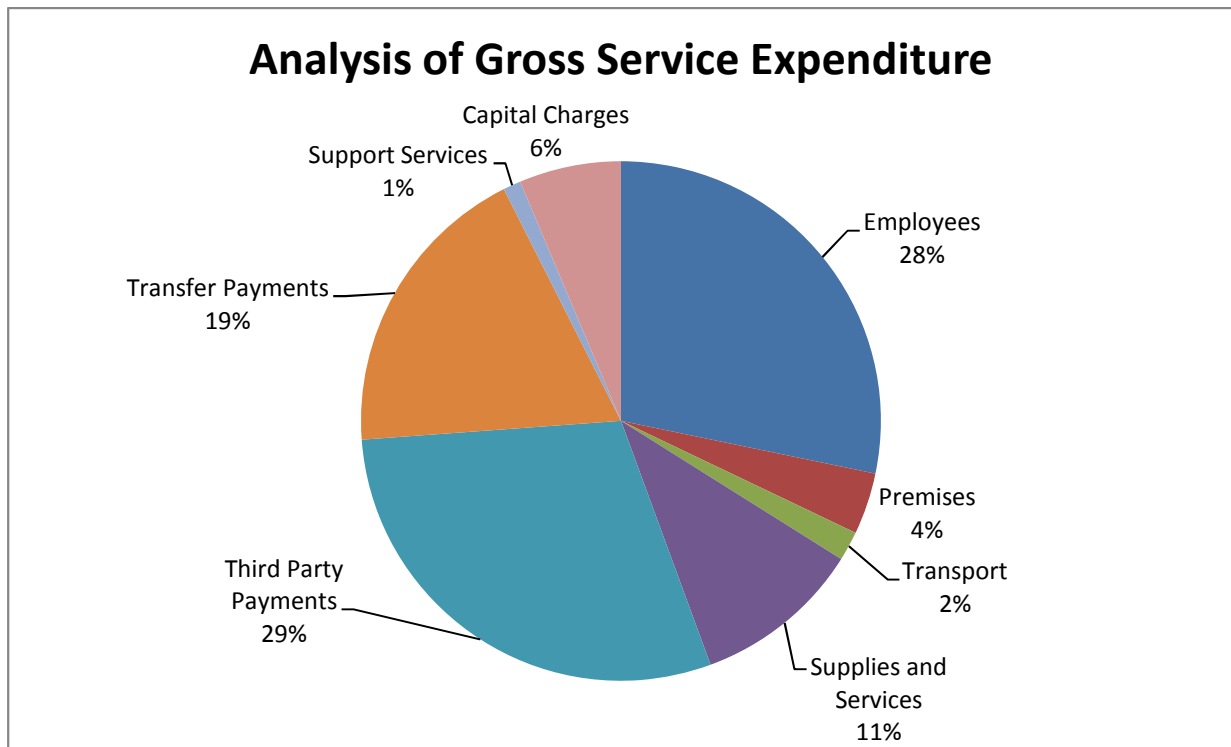
2.3.1 The net cost of services within the Income and Expenditure Account is £153 million, made up of the following directorates.

**Analysis of Net Expenditure by Directorates**



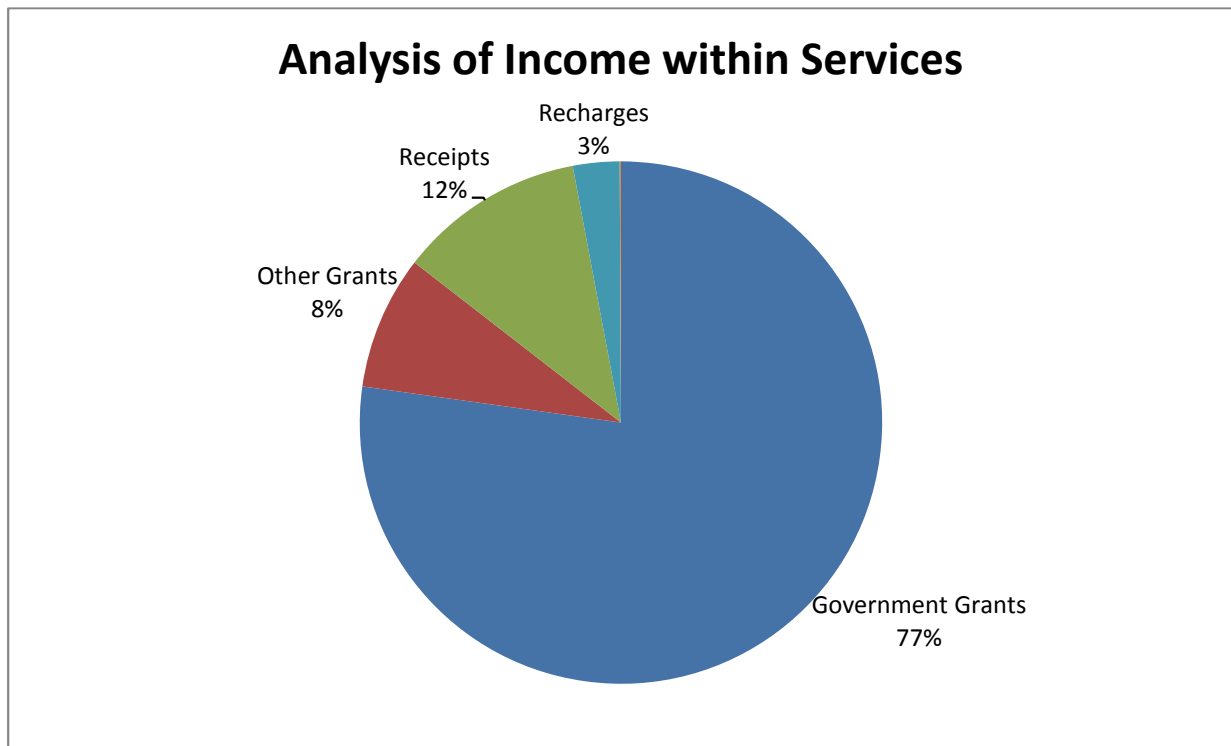
2.3.2 The gross cost of services was £363 million, spent on the following types of expenditure:

### Analysis of Gross Service Expenditure



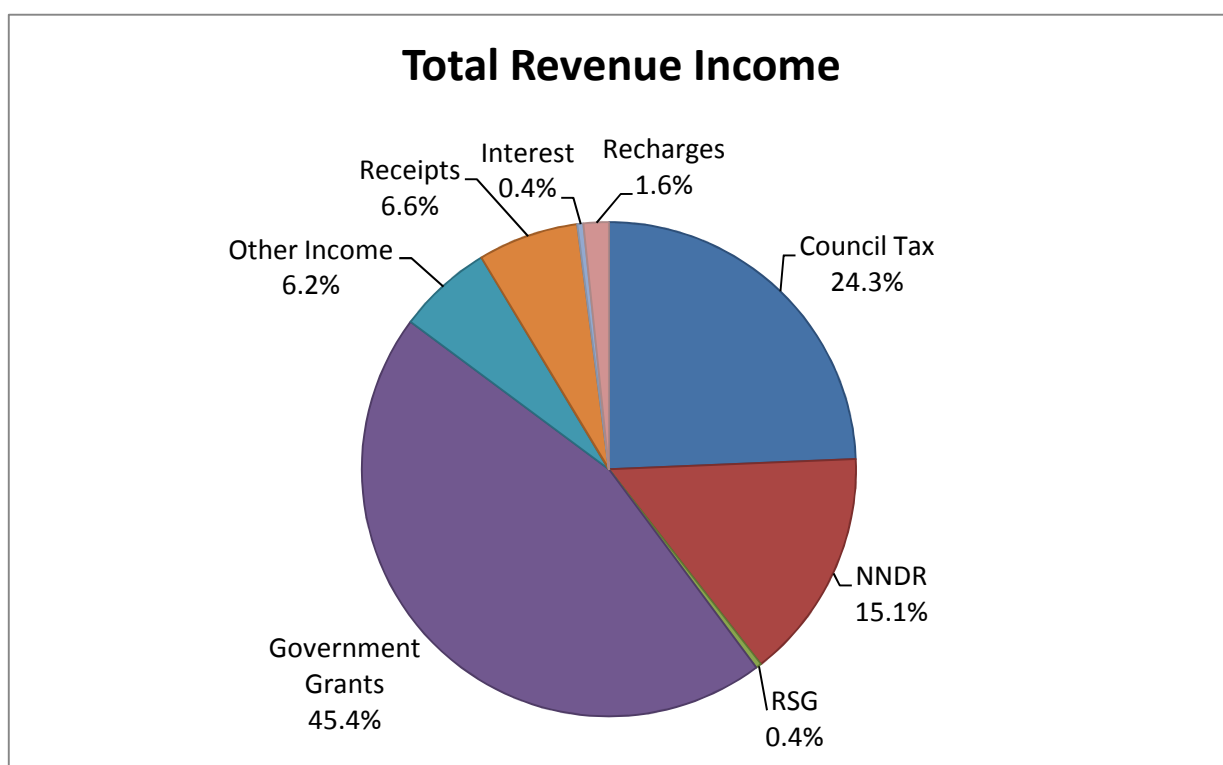
2.3.3 The gross income for the year for services was £210 million and came from the following sources:

### Analysis of Income within Services



- 2.3.4 The figure for government grants includes £77.1 million Dedicated Schools Grant, which is a grant towards schools expenditure. The grants figure also includes £62.2 million in respect of the payment and administration of housing and council tax benefits.
- 2.3.5 In addition to income generated by services and service specific grants, the council received £1.4 million Revenue Support Grant (RSG) (including a rebate of £297,000 of topsliced grant from previous years) and £55.5 million in redistributed national non-domestic rates (NNDR) towards financing the council's net expenditure. Together these grants comprise the council's Formula Grant, which reduced overall due to government cuts. It is also made up of a larger portion from re-distributed rates in 2012/13 and thus appears to have a large variance with prior year for the lines disclosed in notes 8.11 and 8.34. Council tax income totalled £89.4 million in 2012/13, including parish and town councils' precepts.
- 2.3.6 The total sources of income, including service income and income received centrally, is shown in the pie chart below. This excludes capital grants and contributions of £17.6 million, which are shown in the Comprehensive Income and Expenditure account but are reversed out through the Movement in Reserves Statement to fund capital schemes.

### Total Revenue Income



## 2.4 Capital Programme

### 2012/13 Out-turn

- 2.4.1 £38.6 million was incurred on capital spending funded through the utilisation of capital receipts reserve of £2.9 million, grants of £21.4 million, salix interest free loan funding of £0.5 million and prudential borrowing of £13.8 million.

### Summary of Capital Expenditure

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

	<b>£000</b>
Local Transport Plan	9,985
Hereford Link Road	6,808
Corporate accommodation	2,822
Blackmarstons Special School	1,984
Grange Court	1,320
Devolved school expenditure	1,190
Hereford Leisure Pool	1,029
Connect 2	1,006
Other capital schemes	12,419
	<b>38,563</b>

### **Prudential Borrowing**

- 2.4.3 When capital grants cannot fund a scheme in full then the use of unsupported prudential borrowing can be considered. In 2012/13 the council utilised £13.8 million of prudential borrowing to fund the capital programme.

### **Future years' capital programme**

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

	2013/14	2014/15	2015/16
	£000	£000	£000
<b>Sources of Funding</b>			
Grants and Contributions	26,487	18,471	2,600
Prudential Code Borrowing	30,020	18,237	12,246
Capital Receipts Reserves	1,569	355	-
<b>Total Capital Expenditure</b>	<b>58,076</b>	<b>37,063</b>	<b>14,846</b>

## **2.5 The Council's Borrowing**

- 2.5.1 The council's borrowing strategy is determined each year within the Treasury Management Strategy, which is approved as part of the budget process. External borrowing is taken out to support the council's capital programme and borrowing limits are set in accordance with the Prudential Code for Capital Finance in Local Authorities.
- 2.5.2 In 2012/13 the council did not take out any new long-term borrowing.
- 2.5.4 Principal of £3.9 million was repaid to the Public Works Loan Board under existing annuity and EIP (equal instalments of principal) agreements.
- 2.5.5 During the year the council used short-term borrowing from other local authorities to cover liquidity requirements and capital spend. At 31<sup>st</sup> March 2013 £16 million of short-term loans from other local authorities were outstanding.
- 2.5.6 Total borrowing at the year end, including short-term loans, stood at £157 million (compared to £144.5 million as at 31<sup>st</sup> March 2012). Of this amount £12 million,



relating to two potentially long-term bank loans, is shown as being repayable within one year. Accounting convention dictates that these two loans are shown as current liabilities because every six months, when the interest payments become due, the lenders have the option to increase the interest rates being charged. If a lender did increase the rate (from 4.50%) the council would then have the option to repay the loan.

2.5.7 The amounts noted above relate to principal outstanding at the end of the year. The borrowing figures in the Balance Sheet are higher as they include accrued interest and other accounting adjustments.

2.5.8 The council is only allowed to borrow to support capital projects. The borrowing supports fixed assets valued at more than £447 million at the balance sheet date.

## **2.6 The Council's Reserves**

### **General reserves**

2.6.1 In 2012/13 the council has a policy of maintaining a minimum of £4.5 million of general reserves as contingency against unforeseen emergencies and events. At the end of 2012/13 the council held general reserves of £4.6 million compared with a position of £6.1 million in 2011/12. However, the 2013/14 budget includes a transfer to the General Fund reserve of £2 million, bringing the balance to £6.6 million.

### **Earmarked reserves**

2.6.2 Specific reserves totalled £13.9 million (£13.5 million in 2011/12), which are detailed in Note 8.8 to the Statements.

## **2.7 Significant provisions, contingencies and write-offs**

2.7.1 The council held provisions of £2.6 million at 31<sup>st</sup> March 2013, as detailed in Note 8.22 to the Statements.

2.7.2 The most significant provision is the insurance provision of £1.1 million. Herefordshire Council pays the first £5,000 to £50,000 of most insurance claims (depending on the type or class of the claim), known as the deductible. During 2011/12 the council commissioned a review of the insurance provision to include schools, which was also used as the basis of the provision for 2012/13.

2.7.3 At 31<sup>st</sup> March 2013 the council also held a provision of £797k for redundancies, including schools, based on the number of planned redundancies and staff identified at risk of redundancy at 31<sup>st</sup> March 2013.

2.7.4 A list of contingent liabilities are set out in Note 8.44 to the Statements. Although contingent liabilities are not specifically accounted for there is a provision of £306,000, which was built into in the 2012/13 budget as a contingency against future spend.

2.7.5 There were no significant write-offs of income to the General Fund in the year.

## **2.8 Pensions**

2.8.1 In accordance with International Accounting Standard 19 on Retirement Benefits (IAS 19), Note 8.43 to the Statements sets out the council's assets and liabilities in respect of the Local Government Pension Scheme (LGPS). Herefordshire Council's non-teaching staff are members of the Worcestershire County Council Pension Fund.

2.8.2 The net deficit shown as at 31<sup>st</sup> March 2013 is £187.4 million, which is approximately 80% of the fair value of the assets (£159.3 million and 76% at 31<sup>st</sup> March 2012). Whilst

this deficit does not have to be met immediately from the council's reserves, action must be taken over a period of years to eliminate it. In addition the balance sheet deficit also includes £1.1 million relating to ex-Hereford and Worcester teachers' unfunded benefits.

- 2.8.3 The pension fund position is reviewed every three years and was last revalued as at 31<sup>st</sup> March 2010. Further to the revaluation, the council's employers' contribution will increase from 20.4% of pensionable pay in 2010/11 to 25% by 2016/17.

## 2.9 Impact of Economic Climate

- 2.9.1 The economic climate has had an impact on the 2012/13 accounts in a number of areas:

2.9.2 **Children's Services:** The current economic climate continues to affect the lives of children and young people in Herefordshire. Financial pressures continue to affect all families and the changes to welfare benefits have yet to be fully assessed in terms of their impact on local authority services. In line with national trends Herefordshire has continued to see increased numbers of children needing to be looked after in 2012/13 creating cost pressures for the service.

2.9.3 In order to maintain provision for children's social care further cuts were made across the full range of other children's services in 2012/13 in order to deliver savings required to meet budget cuts, whilst providing the funds necessary to meet the increasing cost of providing children's social care. As a result there is an increasing focus on maintaining statutory and essential services. Cuts in youth and early years' services will have an impact on children and young people in Herefordshire and may have an adverse longer term impact, resulting in higher costs at a later date. This is being mitigated by focusing those services within the council on children, young people and their families with clearly identified needs according to our thresholds of need, and making the most of initiatives such as Troubled Families.

2.9.4 Fees were only increased in line with inflation for 2012/13 on post 16 and denominational school transport after the reduction in subsidy introduced in September 2011 (due to the potential adverse impact on young people struggling to find jobs, many of whom are electing to continue in education to improve their prospects for future career opportunities). However further price rises above inflation in future years are likely.

2.9.5 In line with national trends there were increases in NEET's (Not in Education, Employment or Training) as the young people of Herefordshire are struggling to find jobs, apprenticeships, and training opportunities when they leave education.

2.9.6 In line with government policy Herefordshire has continued to see a movement of schools to Academy status and out of local authority control. This results in cuts in funding to central and children's services, whilst a number of statutory duties remain with the local authority.

2.9.7 **Adult Services:** The growing needs of the local population and financial pressures facing the local NHS Trust have continued to cause financial pressure, in particular aiding early discharge from hospital due to the reduction in beds due to ward closure. This has created sustained pressures on the community equipment issued and domiciliary care support budgets.

2.9.8 The increased financial burdens on families have meant that more people are having difficulties undertaking their caring role and are seeking social care support.

2.9.9 Reduction in grant funding has meant a number of housing related support contracts have ended which provided low level support for independent living. Those who benefited from these services now meet the council's eligibility criteria and are funded through social care support plans.

- 2.9.10 **Public Health:** Health is determined by a complex interaction between individual characteristics, lifestyle and the physical, social and economic environment. Most experts agree that these “broader determinants of health” are more important than health care in ensuring a healthy population. For instance, poor housing conditions and unmaintained, unsafe public spaces due to decreased public spending could have a negative impact on health.
- 2.9.11 Economic hardship is highly correlated with poor health. The current downturn threatens individual and family wellbeing, especially for the unemployed and those experiencing wage and benefit cuts. Pay and working conditions could continue to deteriorate during the economic downturn
- 2.9.12 **Places and Communities:** Fee income continued to be adversely affected by the current economic downturn in relation to Planning and Car Parking, although parking charges were increased from 1<sup>st</sup> November to help address the pressure. The economic downturn also impacts on household and trade waste levels, resulting in a reduction in waste tonnages for the year.
- 2.9.13 **Corporate:** Local land charges income also continues to be low due to the current economic climate. The economic climate in remained very difficult and while not worsened there has been no evidence of any improvement and therefore rental values are showing no sign of improvement, if anything there is still downward pressure on rents.
- 2.9.14 **Treasury Management activities:** The Bank Base Rate has now been at 0.50% for more than four years and has significantly reduced the income that the council is able to earn from its investments. The year saw a general improvement in financial markets and an extension of the maturity limits with some counterparties. The council’s strategy in 2012-13 was to continue investing only with UK institutions. During the year the interest rate the council could earn on its investments fell, due mainly to the government’s Funding for Lending Scheme which was launched in July 2012 and allows banks and building societies to borrow from the Bank of England for up to four years at below market rates. The access to cheap funds means that the banks are less interested in accepting deposits from local authorities. For example, at the start of the year a three month term deposit with Barclays or Nationwide would have paid interest of 0.91% and 0.98% respectively whereas by the end of the year this rate had fallen to around 0.45%.
- 2.9.15 On the borrowing side, the council took advantage of the low interest rate regime and did not take out any relatively expensive longer-term loans from the Public Works Loan Board but borrowed short-term from other local authorities. This strategy resulted in significant savings when compared to budgeted interest.

## 2.10 Academy schools

- 2.10.1 Academies are publicly funded local schools that are independent of the council, responsible to, and funded directly by, government. They are freed from national restrictions such as the teachers’ pay and conditions documents, the national curriculum and Ofsted inspection requirements. Academies receive additional top-up funding to reflect their extra responsibilities which are no longer provided by the local authority.
- 2.10.3 Many schools in Herefordshire are investigating the benefits of converting to academy schools. At 31<sup>st</sup> March 2013 there were 21 academies with 8,097 pupils (36% of total pupils) with a further 7 schools having applied for academy status, giving 28 in total and educating 42% of the county’s pupils. A further increase in the number of academies is expected over the next few years.

- 2.10.4 Reduction from formula grant for schools moving to academy status was £650,000 in 2011/12 and a further £500,000 in 2012/13, which was irrespective of the number of academies commencing. £297k was subsequently rebated in 2012/13. The funding for Academies is changing from 2013/14.
- 2.10.5 With both Foundation Schools and Academies, the ownership of the school land and buildings is transferred from the council to the school by issuing a long-term lease at a peppercorn rent. The assets are removed from the Balance Sheet when the legal agreement is completed.
- 2.10.7 In 2012/13 the following schools converted to Academies:  
 Whitecross High School and Specialist Sports College  
 Canon Pyon CofE Primary School  
 Llangrove CofE Primary School  
 Lugwardine Primary School  
 St Paul's CofE Primary School  
 Stretton Sugwas CofE Primary School
- 2.10.8 As a result of the above schools converting to academies £19.26 million has been written out of the council's balance sheet as fixed asset disposals.
- 2.10.9 Schools that converted to academies after the year end were Burghill Community Primary School and Barrs Court School (the latter converting to an academy from foundation status).
- 2.10.10 Possible further conversions to academy status in 2013/14 are Kington, Ledbury, Marden, Mordiford CE and St Thomas Cantilupe CE Primary Schools.
- 2.10.11 If all these schools convert to academy status in 2013/14, further fixed assets totalling at least £8.42 million will be removed from the council's balance sheet next year.

## 2.11 The 2012/2013 Financial Statements

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

### **Movement in Reserves Statement**

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

### **Comprehensive Income and Expenditure Statement**

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

### **Balance Sheet**

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

### **Cash Flow Statement**

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

### **Notes to the Financial Statements**

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

### **The Collection Fund**

- 2.11.6 This statement shows all income collected from council taxpayers and business ratepayers (NNDR). Expenditure includes precept payments to the West Mercia Police Authority and Hereford & Worcester Fire Authority, representing income collected from council taxpayers on their behalf, and NNDR contributions payable to central government.
- 2.11.7 The Statement of Accounts, which takes into account events up to 17<sup>th</sup> September 2013, was authorised for issue on 17<sup>th</sup> September 2013 by the Chief Officer (Finance and Commercial Services).
- 2.11.8 Further information about the council's finances is available from the Chief Officer (Finance and Commercial Services), Herefordshire Council, Brockington, 35, Hafod Road, Hereford, HR1 1SH.

**Chief Officer (Finance and Commercial Services)**

### **3. STATEMENT OF RESPONSIBILITIES**

#### **3.1 The Council's Responsibilities**

3.1.1 The council is required to:

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

#### **3.2 The Chief Officer (Finance and Commercial Services) - Responsibilities**

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

3.2.2 In preparing this statement of accounts, the Chief Officer (Finance and Commercial Services) has:

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

3.2.3 The Chief Officer (Finance and Commercial Services) 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 Officer (Finance and Commercial Services)**

I certify that the Statement of Accounts gives a true and fair view of the financial position of Herefordshire Council at 31<sup>st</sup> March 2013 and its income and expenditure for the year ended 31<sup>st</sup> March 2013.

## 4 MOVEMENT IN RESERVES STATEMENT

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

	General fund balance £000	Earmarked reserves £000	Capital receipts reserve £000	Capital grants unapplied £000	Total usable reserves £000	Unusable reserves £000	Total reserves £000
<b>Balance as at 31st March 2011</b>	<b>(6,349)</b>	<b>(17,572)</b>	<b>(6,754)</b>	<b>(13,103)</b>	<b>(43,778)</b>	<b>(143,621)</b>	<b>(187,399)</b>
<u>Movement in reserves during 2011/12</u>							
Surplus or (deficit) on the provision of services	57,376				57,376		57,376
Other comprehensive income and expenditure					0	20,340	20,340
<b>Total comprehensive income and expenditure</b>	<b>57,376</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>57,376</b>	<b>20,340</b>	<b>77,716</b>
Adjustments between accounting basis and funding basis under regulations (note 8.7)	(53,026)		3,985	(2,576)	(51,617)	51,617	0
<b>Net increase or decrease before transfers to earmarked reserves</b>	<b>4,350</b>	<b>0</b>	<b>3,985</b>	<b>(2,576)</b>	<b>5,759</b>	<b>71,957</b>	<b>77,716</b>
Transfers to or from earmarked reserves (note 8.8)	(4,114)	4,114			0		0
<b>(Increase) or decrease in 2011/12</b>	<b>236</b>	<b>4,114</b>	<b>3,985</b>	<b>(2,576)</b>	<b>5,759</b>	<b>71,957</b>	<b>77,716</b>
<b>Balance as at 31st March 2012</b>	<b>(6,113)</b>	<b>(13,458)</b>	<b>(2,769)</b>	<b>(15,679)</b>	<b>(38,019)</b>	<b>(71,664)</b>	<b>(109,683)</b>

	General fund balance £000	Earmarked reserves £000	Capital receipts reserve £000	Capital grants unapplied £000	Total usable reserves £000	Unusable reserves £000	Total reserves £000
<b>Balance as at 31st March 2012</b>	<b>(6,113)</b>	<b>(13,458)</b>	<b>(2,769)</b>	<b>(15,679)</b>	<b>(38,019)</b>	<b>(71,664)</b>	<b>(109,683)</b>
<u>Movement in reserves during 2012/13</u>							
(Surplus) or deficit on the provision of services	10,771				<b>10,771</b>		<b>10,771</b>
Other comprehensive income and expenditure					<b>0</b>	19,238	<b>19,238</b>
<b>Total comprehensive income and expenditure</b>	10,771	0	0	0	<b>10,771</b>	19,238	<b>30,009</b>
Adjustments between accounting basis and funding basis under regulations (note 8.7)	(9,824)		76	2,164	<b>(7,584)</b>	7,584	<b>0</b>
<b>Net increase or decrease before transfers to earmarked reserves</b>	947	0	76	2,164	<b>3,187</b>	26,822	<b>30,009</b>
Transfers to or from earmarked reserves (note 8.8)	510	(510)			<b>0</b>		<b>0</b>
<b>(Increase) or decrease in 2012/13</b>	1,457	(510)	76	2,164	<b>3,187</b>	26,822	<b>30,009</b>
<b>Balance as at 31st March 2013</b>	<b>(4,656)</b>	<b>(13,968)</b>	<b>(2,693)</b>	<b>(13,515)</b>	<b>(34,832)</b>	<b>(44,842)</b>	<b>(79,674)</b>



## **5. COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT**

This Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement. The 2011/12 comparative figures have been adjusted;

- (a) to move supporting people spend from adult social care to housing. Whilst within Herefordshire it has sat within the Adult Social Care remit, it is defined as a housing function nationally; and
- (b) to move some corporate and central costs from non-distributed costs, which now only shows pensions transactions

## COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

Restated 2011/12			2012/13			
Expenditure	Income	Net		Expenditure	Income	Net
£'000	£'000	£'000		£'000	£'000	£'000
70,967	(17,702)	53,265	Adult Social Care	74,222	(20,250)	53,972
146,490	(111,107)	35,383	Educational and Children Services	135,128	(99,245)	35,883
12,579	(2,590)	9,989	Cultural and Related Services	9,390	(1,431)	7,959
22,171	(4,885)	17,286	Environmental and Regulatory	22,302	(5,248)	17,054
13,232	(6,366)	6,866	Planning Services	14,407	(5,172)	9,235
25,211	(4,613)	20,598	Highways and Transport Services	24,141	(7,229)	16,912
52,847	(45,840)	7,007	Housing Services	58,082	(52,447)	5,635
10,463	(1,930)	8,533	Corporate and Democratic Core	11,118	(4,514)	6,604
1,122	0	1,122	Non-distributed Costs	(1,323)	(2)	(1,325)
(5,749)	0	(5,749)	Pensions - (exceptional item – note 8.5)	0	0	0
17,866	(16,535)	1,331	Central Services to the Public	15,494	(14,612)	882
<b>367,199</b>	<b>(211,568)</b>	<b>155,631</b>	<b>Cost of Services</b>	<b>362,961</b>	<b>(210,150)</b>	<b>152,811</b>
71,309		71,309	Other operating expenditure (Note 8.5 and 8.9)	22,762		22,762
34,066	(18,524)	15,542	Financing and investment income & expenditure (Note 8.10)	26,721	(23,509)	3,212
	(185,106)	(185,106)	Taxation and non-specific grant income (Note 8.11)		(168,014)	(168,014)
		<b>57,376</b>	<b>Deficit on the provision of services</b>			<b>10,771</b>
		(11,428)	Surplus on revaluation of Property, Plant and Equipment assets			(8,035)
		31,768	Actuarial losses on pension assets and liabilities (Notes 8.24 and 8.43)			27,273
		<b>20,340</b>	<b>Other comprehensive income and expenditure</b>			<b>19,238</b>
		<b>77,716</b>	<b>Total comprehensive income and expenditure</b>			<b>30,009</b>

## **6 BALANCE SHEET**

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

## BALANCE SHEET

31.3.12 £000		Notes	31.3.13 £000	31.3.13 £000
402,958	Property, plant and equipment	8.12	404,064	
2,820	Heritage Assets	8.13	2,805	
26,954	Investment property	8.14	32,966	
5,867	Intangible assets	8.15	4,733	
4	Long-term investments	8.16	4	
2,335	Long-term debtors	8.16	2,506	
440,938	<b>Long-term Assets</b>			447,078
9,589	Short-term Investments	8.16	8,541	
4,132	Assets held for sale	8.20	3,150	
342	Inventories	8.17	287	
27,341	Short-term Debtors	8.18	32,845	
10	Intangible current asset	8.15	228	
3,200	Cash and cash equivalents	8.19	2,420	
44,614	<b>Current Assets</b>			47,471
(3,341)	Cash and cash equivalents	8.19	(1,652)	
(17,562)	Short term borrowing	8.16	(33,855)	
(31,326)	Short-term creditors	8.21	(32,433)	
(933)	Capital grants receipts in advance	8.25	(622)	
(424)	Provisions	8.22	(1,474)	
(53,586)	<b>Current Liabilities</b>			(70,036)
(1,124)	Provisions	8.22	(1,124)	
(128,532)	Long-term borrowing	8.16	(124,857)	
(189,545)	Other long-term liabilities	8.16/ 43	(216,740)	
(3,082)	Capital grants receipts in advance	8.25	(2,118)	
(322,283)	<b>Total Long-term liabilities</b>			(344,839)
<b>109,683</b>	<b>Net Assets</b>			<b>79,674</b>
( 38,019)	Usable reserves	8.23		(34,832)
( 71,664)	Unusable reserves	8.24		(44,842)
<b>(109,683)</b>	<b>Total reserves</b>			<b>(79,674)</b>

## **7 CASH FLOW STATEMENT**

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

## CASH FLOW STATEMENT

2011/12 £000		2012/13 £000	2012/13 £000
	<b>Operating Activities</b>		
	<b>Cash inflows</b>		
(78,626)	Taxation	(78,981)	
(238,088)	Grants	(213,719)	
(493)	Interest received	(334)	
(82,712)	Other receipts from operating activities	(91,812)	
(399,919)	<b>Cash inflows generated from operating activities</b>		(384,846)
	<b>Cash outflows</b>		
115,834	Cash paid to and on behalf of employees	105,487	
44,721	Housing benefit paid out	47,955	
2,558	Precepts paid	2,697	
9	Payments to the Capital Receipts Pool	4	
8,198	Interest paid	7,876	
218,874	Other payments and operating activities	211,379	
390,194	<b>Cash outflows generated from operating activities</b>		375,398
(9,725)	<b>Net cash flows from operating activities</b>		(9,448)
	<b>Investing Activities</b>		
44,907	Purchase of PPE, investment property and intangible assets	36,465	
25,500	Purchase of investments ( <i>not cash equivalents</i> )	39,500	
281	Other payments for investing activities	294	
(1,014)	Proceeds from the sale of PPE, investment property and intangible assets	(2,861)	
(27,000)	Proceeds from investments ( <i>not cash equivalents</i> )	(40,500)	
(25,045)	Other receipts from investing activities	(15,844)	
17,629	<b>Net cash flows from investing activities</b>		17,054
	<b>Financing Activities</b>		
(10,500)	Cash receipts of short and long term borrowing	(44,004)	
	Cash payments for the reduction liabilities for finance leases and PFI contracts	968	
11,586	Repayments of short and long term borrowing	31,513	
2,959	Other payments for financing activities	3,008	
4,954	<b>Net cash flows from financing activities</b>		(8,515)
<b>12,858</b>	<b>Net decrease/(increase) in cash and cash equivalents</b>		<b>(909)</b>
<b>12,717</b>	<b>Cash and cash equivalents at 1<sup>st</sup> April</b>		<b>(141)</b>
<b>(141)</b>	<b>Cash and cash equivalents at 31<sup>st</sup> March</b>		<b>768</b>
<b>12,858</b>	<b>Net decrease/(increase) in cash and cash equivalents</b>		<b>(909)</b>

## 8 NOTES TO THE FINANCIAL STATEMENTS

### 8.1. Accounting Policies

#### **General Principles**

- 8.1.1 The council is required to produce an annual Statement of Accounts by the Accounts and Audit Regulations 2011, which require the accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 and the Service Reporting Code of Practice (SERCOP) 2012/13, supported by International Financial Reporting Standards.

#### **Accruals of Income and Expenditure**

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

#### **Borrowing Costs**

- 8.1.3 Borrowing costs that can be directly attributable to acquisition, construction or production of qualifying assets are capitalised as part of the cost of those assets. Qualifying assets are assets that take a substantial period of time to get ready, which is sufficiently long enough for a material balance of borrowing to accrue. This will be applied to schemes lasting more than 12 months and with at least £10,000 of interest associated with the project.
- 8.1.4 During 2012/13 £0.4 million of borrowing costs have been capitalised relating to spend on the new link road and corporate accommodation schemes.

#### **Cash and cash equivalents**

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

#### **Contingent assets**

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

#### **Contingent liabilities**

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

future economic benefits or service potential will be required then a provision is recognised in the year in which the probability occurs.

## **Employee benefits**

### **Benefits payable during employment**

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

### **Termination benefits**

- 8.1.9 Termination benefits are payable as a result of either:
- a) An employer's decision to terminate an employee's employment; or
  - b) An employee's decision to accept voluntary redundancy

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

### **Post-employment benefits**

- 8.1.10 Employees of the council are members of two separate pension schemes;
- a) The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education; and
  - b) The Local Government Pension Scheme administered by Worcestershire County Council.
- 8.1.11 Pension schemes are classed as either defined contribution or defined benefit plans. Both schemes provide defined benefits to members, built up during the time employees work for the council. However, the arrangements for the Teachers' scheme mean that the liabilities for these benefits cannot be identified to the council. The scheme is therefore accounted for as if it were a defined contributions scheme – no liability for future payments of benefits is recognised in the balance sheet and the education service revenue account is charged with the employer's contributions payable to the Teachers' Pensions Scheme in the year.
- 8.1.12 The Local Government Pension Scheme is accounted for as a defined benefits scheme as follows:
- a) The liabilities are included in the Balance Sheet on an actuarial basis using the projected unit method, that is, an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees;
  - b) Liabilities are discounted to their value at current prices;



- c) Assets are included in the Balance Sheet at their fair value;
- d) The change in the net pension's liability is analysed into seven components;
  - i. **Current service cost:** The increase in liabilities as a result of service earned in the year is allocated to the revenue account of the services for which the employee worked, within the Comprehensive Income and Expenditure Account.
  - ii. **Past service cost:** The increase in liabilities arising from current year decisions whose effect relates to service earned in earlier years is debited to the Net Cost of Services in the Comprehensive Income and Expenditure Account.
  - iii. **Interest cost:** The expected increase in the present value of liabilities during the year as they move one year closer to being paid is debited to the Financing and Investment Income section of the Comprehensive Income and Expenditure Account.
  - iv. **Expected return on assets:** The annual investment return on the fund assets attributable to the council, based on an average of the expected long-term return, is credited to the Financing and Investment Income section of the Comprehensive Income and Expenditure Account.
  - v. **Gains/losses on curtailments:** The results of actions to relieve the council of liabilities or events that reduce the expected future benefits of employees is included in the Net Cost of Services in the Comprehensive Income and Expenditure Account.
  - vi. **Actuarial gains and losses:** Changes in the net pension's liability that arise because events have not coincided with assumptions previously made by the actuaries is included in Other Comprehensive Income and Expenditure.
  - vii. **Contributions paid to the pension fund:** Cash paid as employer's contributions to the pension fund.

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

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

**Events after the balance sheet date**

8.1.15 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.

#### **Exceptional items**

- 8.1.16 Where items of income and expenditure are material, the nature and amount is disclosed separately in the Income and Expenditure Statement or in the notes to the accounts.
- 8.1.17 A number of schools transferred to Academy status during 2012/13, resulting in the net book value of the schools of £19.26 million being written out of the council's assets through the 'Other Operating Expenditure' section of the Comprehensive Income and Expenditure Statement.

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

- 8.1.18 Prior period adjustments may arise from a change in accounting policies or to correct a material error. Changes in estimates are accounted for prospectively, whereas changes in accounting policies are applied retrospectively. Material errors in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.
- 8.1.19 In 2012/13 there were no changes in the accounting policies.

#### **Financial Instruments**

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

#### **Financial liabilities**

- 8.1.21 A financial liability is an obligation to deliver cash (or another financial asset) to another entity.
- 8.1.22 Financial liabilities are recognised on the Balance Sheet when the council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges for interest payable are based on the carrying amount of the liability, multiplied by the effective interest rate for the instrument and are charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised. For most of the borrowings that the council has, the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest) and interest charged is the amount payable for the year in the loan agreement. However, the council has two stepped interest rate loans, where the effective interest rate differs from the loan agreement.
- 8.1.23 In 2012/13 the council received an interest free loan from Salix, which has been accounted for as a soft loan with its fair value calculated using the prevailing market rate of interest at which the authority could borrow for a loan with similar terms. The effect of this has been reversed out through a transfer to the FIAA.

- 8.1.24 Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down is spread over the life of the loan by an adjustment to the effective interest rate.
- 8.1.25 Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account through the Movement on Reserves Statement.

### **Financial Assets**

- 8.1.26 A financial asset is a right to future economic benefits that is represented by cash, an equity instrument of another entity (e.g. shares held) or a contractual right to receive cash (or another financial asset) from another entity.
- 8.1.27 Financial assets are classified into two types:
- a. Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market; or
  - b. Available for sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.
- 8.1.28 **Loans and receivables** are recognised in the Balance Sheet when the council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For all of the loans the council has made the amount presented in the balance sheet as the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.
- 8.1.29 The council has no available-for-sale assets.

### **Government grants and other contributions**

- 8.1.30 Grants and contributions are recognised in the accounts when there is reasonable assurance that;
- The authority will comply with any conditions attached to them, and
  - The grants or contributions will be received.
- 8.1.31 Grants and contributions relating to capital and revenue expenditure are accounted for on an accruals basis and recognised immediately in the Comprehensive Income and Expenditure Statement as income, except to the

extent that the grant or contribution has conditions that the authority has not satisfied.

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

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

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

#### **Heritage assets**

8.1.34 Heritage assets are assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held principally for their contribution to knowledge and culture.

8.1.35 Heritage assets continue to be recognised and measured (including the treatment of revaluation gains and losses) in accordance with the council's accounting policies on property, plant and equipment (see note 8.1.69).

8.1.36 The council has recognised as heritage assets the museum exhibits held by Heritage Services. The collection is shown in the balance sheet at open market value with the collection having been professionally valued in May 2012.

8.1.37 Additions to the collection are capitalised although, in line with the council's general capitalisation policy, purchases less than £10,000 are not recognised in the Balance Sheet.

8.1.38 As recommended in Financial Reporting Standard 30, operational assets continue to be recognised under Property, Plant and Equipment notwithstanding any historical or other heritage qualities.

8.1.39 Heritage assets, assumed to have indefinite lives, will not be depreciated although the carrying amount will be reviewed at least every five years to ensure that the valuation remains current.

- 8.1.40 In addition the carrying amount of an asset will be reviewed if there is evidence of impairment e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity.

#### **Intangible assets**

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

#### **Inventories**

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

#### **Investment property**

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

### **Landfill allowances scheme**

- 8.1.50 The Waste and Emissions Trading Act 2003 places a duty on waste disposal authorities (WDAs) to reduce the amount of biodegradable municipal waste (BMW) disposed to landfill. It provides the legal framework for the Landfill Allowance Trading Scheme (LATS), which commenced operation on 1 April 2005 in England.
- 8.1.51 LATS is a 'cap and trade' scheme. The scheme gives rise to;
- an asset for allowances held
  - LATS grant income
  - A liability for actual BMW
- 8.1.52 Landfill allowances are recognised as assets and measured initially at fair value. The landfill allowances issued free by DEFRA are treated as a government grant.
- 8.1.53 As landfill is used a liability in the form of a provision is recognised for actual BMW landfill usage. The liability is discharged by using allowances to meet the liability, paying a cash penalty to DEFRA or a combination of both. The liability is measured at the best estimate of the expenditure required to meet the obligation at the reporting date. After initial measurement the value of landfill allowances is re-measured at the lower of cost or net realisable value.

### **Leases**

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

#### **8.1.55 Finance leases**

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

#### **Operating leases**

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

### **Arrangements containing a lease**

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

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

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

### **Non-current assets held for sale**

8.1.58 An asset is classified as held for sale if;

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

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

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

### **Overheads and Support Services**

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

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

### **PFI schemes**

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

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

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

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

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

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

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

#### **Property, plant and equipment**

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

#### **Recognition**

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

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

8.1.70 Costs meeting the definition of recognition include initial costs of acquisition and construction and subsequent costs to enhance or replace part of the asset. The costs arising from day-to-day servicing of an asset are not capitalised as this



does not add to the future economic benefits or service potential of the asset. The council does not capitalise fixed assets costing less than £10,000.

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

#### **Measurement**

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

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

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

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

#### **Revaluations**

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

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

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

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

### **Depreciation**

- 8.1.78 Depreciation is provided for on all assets classified as property, plant and equipment by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).
- 8.1.79 The council's valuer makes a professional assessment of the economic life remaining based on the age, condition and suitability of the asset. For the purposes of depreciation a nil residual value is assumed for all building assets. New assets are not subject to a depreciation charge in the year of acquisition.
- 8.1.80 Each part of an asset with a cost significant in relation to the total cost is depreciated separately where the useful lives or depreciation methods of the components are different. The council reviews assets of £3 million and over for componentisation and treats components worth at least 20% of the asset value as being significant. This applies to enhancement expenditure and revaluations carried out from 1 April 2010. Where a component is replaced or restored, the carrying amount of the old component is derecognised.
- 8.1.81 Depreciation charged to the Surplus or Deficit on the Provision of Services is not a proper charge to the General Fund and is transferred to the Capital Adjustment Account. This is reported in the Movement in Reserves Statement. Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

### **Impairments**

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

loss previously recognised in the Surplus or Deficit on the Provision of Services shall not exceed the carrying amount that would have been determined had no impairment loss been recognised. Any excess above the carrying amount is treated as a revaluation gain and credited to the Revaluation Reserve.

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

#### **Disposals**

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

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

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

#### **Provisions**

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

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

#### **Reserves**

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

#### **Revenue funded from capital under statute**

- 8.1.91 Where legislation allows expenditure to be classified as capital for funding purposes, which does not result in a fixed asset on the balance sheet (generally

grants), it is charged to the Surplus or Deficit on the Provision of Services in accordance with proper practice. A transfer to the Capital Adjustment Account from the Statement of Movement in Reserves reverses this out so that there is no impact on council tax.

#### **Value added tax**

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

#### **Revenue recognition**

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

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

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

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

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

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

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

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

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

#### **Interests in Companies and Other Entities**

- 8.1.98 The council has a 20% non-voting shareholding in Amey Wye Valley. The council does not have control over decision making, although it does have the right to veto certain key decisions for the company. Amey appoints its own directors and the council has observer status only on the board. The council does not exercise dominant influence and therefore there is no group relationship requiring group accounts. This is conducted as a contractual arrangement with the transactions included in the council's Income and Expenditure Statement and capital accounts. The amount included in the accounts for the investment is £200, which is the initial amount paid for the share.
- 8.1.99 The council has 33% voting rights with Herefordshire Housing. However, the council is not exposed to the direct risk of any loss though transactions or collapse, and therefore there is no requirement to complete group accounts.
- 8.1.100 The council has an interest in a company called Hereford Futures, whose role is to facilitate development and regeneration within Hereford. This is a company limited by guarantee and the council is a member. However, this relationship does not require group accounts as the company provides an independent role in the redevelopment. Contracts with third parties are entered into by the council and the financial transactions relating to these are included in the council's accounts.
- 8.1.101 West Mercia Supplies (WMS) was a Purchasing Consortium that was established in 1987. It was constituted as a Joint Committee and Herefordshire Council is one of four constituent authorities. The other three Councils are Shropshire Council, Worcestershire County Council and Telford and Wrekin Council. The catalogue division of WMS was sold on 19th April 2012 and the WMS name and most of the staff transferred as part of the sales agreement, with the energy side of the organisation remaining with the four Member Authorities. Herefordshire received £1.6 million as its share of the sale. The energy division will continue in operational existence under the trading name of "West Mercia Energy"(WME) for the foreseeable future. The financial advantage of bulk purchasing arrangements is reflected in the Income and Expenditure Account. The council's share is not considered material to the accounts. At 19.8%, based on the proportion of the surplus attributable to the council, the council's share of WME net assets of -£2.4 million amounted to £467,000 at 31 March 2013.
- 8.1.102 The council holds 62% shareholding in Hoople Ltd. This is a joint venture which the council entered into with Wye Valley NHS Trust and Herefordshire Primary Care Trust in 2011. The purpose of the joint venture is to increase efficiency and reduce back office costs for all partners. However, the balance sheet value of Hoople Ltd at 31 March 2013 was insignificant to justify the preparation of group accounts.

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

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

8.2.2 For 2012/13 these are;

- IAS 19 *Employee Benefits* (June 2011 amendments)
- IAS 1 *Presentation of Financial Statements* (other comprehensive income – June 2011 amendments). This is a presentation issue only.
- IFRS 7 *Financial instruments: Disclosures* (offsetting financial assets and liabilities, December 2011 amendments). This is not expected to be relevant to the council's accounts.
- IAS 12 *Deferred Tax: Recovery of underlying assets* (December 2010 amendments). This will have no impact on the council's accounts.

### **IAS 19 amendments**

8.2.3 The International Accounting Standards Board issued revisions to IAS 19 in June 2011. The 3 key areas of change were;

- Change to recognition options (not applicable in the UK)
- Disclosures (more detailed)
- Reclassifications

8.2.4 Employee Benefits changes will take effect in the council's accounts from 2013/14 and will require a restatement of the 2012/13 figures in the 2013/14 Statement of Accounts. The balance sheet measurement of the deficit on the pension scheme will remain the same but the component movements in the Comprehensive Income and Expenditure Statement will be reclassified. Comparative figures for 2012/13 provided by the actuary show that the pension cost in the Income and Expenditure account would increase by £2.86 million with a corresponding decrease in the actuarial loss in the Statement of Other Comprehensive Income and Expenditure.

8.2.5 IAS19 amendments also change the recognition point for termination benefits. The amendments require an entity to recognise termination benefits when it can no longer withdraw that offer (such as, when the employee accepts the offer).

## **8.3 Critical Judgements in Applying Accounting Policies**

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

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

- The council is deemed to control the services provided by Shaw Healthcare under the contract for the development and provision of residential homes and day care centres. The accounting policies for PFI schemes and similar contracts have been applied to the arrangement.

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

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

- 8.4.1 The Statement of Accounts contains estimated figures that are based on assumptions made by the Authority about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.
- 8.4.2 There is a significant risk of material adjustment in the forthcoming financial year for the following items in the council's Balance Sheet at 31 March 2013:

Item	Uncertainties	Effect if actual results differ from assumptions
<b>Pensions liability</b>	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. The pension fund actuary Mercer Ltd is employed by the pension fund to provide expert advice about the assumptions to be applied.	Changes in any of the assumptions can have a significant effect on the pensions liability shown in the accounts.  An increase in the discount rate of 0.1% would decrease the liability by £7m, an increase of 0.1% inflation would be an additional £7.1m and 1 year increase in life expectancy would represent £8.4m.
<b>Property, plant, equipment and investment properties</b>	Full valuation involving an inspection is carried out every 5 years. An impairment and valuation review is carried out as a desk exercise for properties not valued in the year.	There is a risk of material adjustment in the year when the property is revalued.

## 8.5 Material Items of Income and Expense

- 8.5.1 There was one material item of income and expense in the Comprehensive Income and Expenditure Account for 2012/13.
- 8.5.2 A number of schools transferred to Academy status during 2012/13, resulting in the net book value of the schools of £19.26 million being written out of the council's assets through the 'Other Operating Expenditure' section of the Comprehensive Income and Expenditure Statement.
- 8.5.3 In 2011/12 there was an adjustment to pensions liabilities of £5.7 million relating to the transfer of staff to Hoople and Academies.

8.5.4 These entries are reversed out in the Movement in Reserves Statement and do not have an impact on the General Fund.

## **8.6. Events after the Balance Sheet Date**

8.6.1 The Statement of Accounts was authorised for issue on 17<sup>th</sup> September 2013 by the Chief Finance and Commercial Services Officer. Events taking place after this date are not reflected in the financial statements or notes.

8.6.2 Many schools in Herefordshire are becoming Foundation Schools or Academies. It is council policy to remove the associated fixed assets from the balance sheet on the date that the assets are legally transferred. In 2012/13 six schools transferred to Academy status with a net book value of £19.26 million and there is potential for a further £8.42 million to be transferred in 2013/14.

8.6.3 In July 2012, Cabinet decided not to extend the current arrangements but to re-procure the services currently within the scope of the service delivery contracts with Amey. Four related procurements are underway to put in place new arrangements from 1 September 2013:

- Public Realm;
- Building Services;
- Building Cleaning; and
- Ancillary Services.

It is anticipated that contracts will be awarded during July / early August to conclude these procurements. Together this set of services covers over £20 million expenditure per annum covering revenue and capital items.

8.6.4 On 1st April 2013 new arrangements come into effect for the local retention of business rates. Under these new arrangements local authorities will assume the liability for refunding ratepayers who have successfully appealed against the rateable value of their properties on the rating list. This will include amounts in respect of 12/13 and prior years. On 1st April 2013 the council has recognised a provision of £367,500 in respect of their share of the liability for non-domestic rates appeals

## **8.7 Adjustments between Accounting Basis and Funding Basis under Regulations**

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



2012/13

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

Reserve upon receipt of cash

**Adjustments involving the Financial Instruments Adjustment Account:**

Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	18	(18)
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**Adjustments involving the Pensions Reserve:**

Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 8.43)	(10,701)	10,701
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Employer's pensions contributions and direct payments to pensioners payable in the year	9,826	(9,826)
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**Adjustments involving the Collection Fund Adjustment Account:**

Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(373)	373
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**Adjustment involving the Accumulated Absences Account**

Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	100	(100)
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<b>Total Adjustments</b>	<b>(9,824)</b>	<b>76</b>	<b>2,164</b>	<b>7,584</b>
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## 2011/12 Comparative Figures

	Usable Reserves			Unusable reserves £000
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	
<b>Adjustments involving the Capital Adjustment Account:</b>				
<u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</u>				
Charges for depreciation on non-current assets	(16,534)			16,534
Revaluation losses and impairment on Property, Plant and Equipment	(6,272)			6,272
Movements in the market value of investment properties	(6,487)			6,487
Amortisation of intangible assets	(1,694)			1,694
Capital grants and contributions	27,313			(27,313)
Revenue expenditure funded from capital under statute	(1,809)			1,809
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(69,058)			69,058
<u>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</u>				
Statutory provision for the financing of capital investment	10,514			(10,514)
Capital expenditure charged against the General Fund balance	281			(281)
<b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	5,300		(5,300)	
Application of grants to capital financing transferred to the Capital Adjustment Account			2,724	(2,724)
<b>Adjustments involving the Capital Receipts Reserve:</b>				
Transfer of sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	504	(504)		
Use of the Capital Receipts Reserve to finance new capital expenditure		4,492		(4,492)
Contribution from the Capital Receipts Reserve towards administrative costs of non current asset disposals				
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool.	(9)	9		
Recognition of new deferred capital receipts	281			(281)
Transfer from Deferred Capital Receipts Reserve upon receipt of cash		(12)		12

**Adjustments involving the Financial Instruments Adjustment Account:**

Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(4)	4
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**Adjustments involving the Pensions Reserve:**

Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 8.43)	(5,627)	5,627
Employer's pensions contributions and direct payments to pensioners payable in the year	9,953	(9,953)

**Adjustments involving the Collection Fund Adjustment Account:**

Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(467)	467
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**Adjustment involving the Accumulated Absences Account**

Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	789	(789)
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<b>Total Adjustments</b>	<b>(53,026)</b>	<b>3,985</b>	<b>(2,576)</b>	<b>51,617</b>
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## 8.8 Transfers to/from Earmarked Reserves

8.8.1 This note sets out the amounts set aside from the General Fund balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to the General Fund in 2012/13

	<b>31 Mar 2012</b>	<b>Transfer out 2012/13</b>	<b>Transfer (in) 2012/13</b>	<b>31 Mar 2013</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
School balances	(5,789)	1,873	(1,619)	(5,535)
Grange Court	(83)	83		0
Commuted sums	(36)	36		0
Industrial Estates	(413)	23	(41)	(431)
Schools Insurance	(443)	35	(89)	(497)
Schools sickness	(136)		(5)	(141)
ICT	(91)	91		0
Members	(40)			(40)
Planning	(24)	24		0
Community Centre	(180)	170		(10)
Waste Disposal	(2,407)			(2,407)
Contingent liabilities	0		(306)	(306)
Hereford Futures	(125)	125	(213)	(213)
Whitecross school PFI	(321)		(18)	(339)
Schools Rates Reserve	(106)	106		0
Economic Development	(163)	36		(127)
Pool car reserve	(10)			(10)
Three Elms Ind. Estate	(362)	242	(121)	(241)
Community Equipment	0		(110)	(110)
Community Social Care	0		(116)	(116)
Change management	0		(142)	(142)
Unused Grants cfwd	(2,729)	2,021	(2,595)	(3,303)
	<b>(13,458)</b>	<b>4,865</b>	<b>(5,375)</b>	<b>(13,968)</b>

## 8.9 Other Operating Expenditure

	2012/13 £000	2011/12 £000
Parish council precepts	2,697	2,558
Levies	189	188
Payments to the Government Housing Capital Receipts Pool	4	9
Gains/losses on the disposal of non-current assets	19,872	68,554
<b>Total</b>	<b>22,762</b>	<b>71,309</b>

## 8.10 Financing and Investment Income and Expenditure

	2012/13 £000	2011/12 £000
Interest payable and similar charges	7,768	7,983
Pensions interest cost and expected return on pensions assets	4,944	3,405
Interest receivable	(283)	(476)
Income and expenditure in relation to trading accounts/investment properties and changes in their fair value	(8,060)	5,175
Other investment income	(1,157)	(545)
<b>Total</b>	<b>3,212</b>	<b>15,542</b>

## 8.11 Taxation and Non Specific Grant Income

	2012/13 £000	2011/12 £000
Council tax income	(89,068)	(88,215)
Non domestic rates	(55,539)	(45,978)
Non-ringfenced government grants	(5,887)	(18,019)
Capital grants and contributions	(17,520)	(32,894)
<b>Total</b>	<b>(168,014)</b>	<b>(185,106)</b>

## 8.12 Property, Plant and Equipment

### 8.12.1 Movements on Balances

#### Movements in 2012/13:

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

### Comparative Movements in 2011/12:

	Land & buildings	Vehicles, plant, furniture & equip	Infra structure assets	Communi assets	Surplus assets	Assets under construct ion	Total PPE	PFI assets incl. in PPE
	£000	£000	£000	£000	£000	£000	£000	£000
<b>Cost or Valuation</b>								
<b>At 1 April 2011</b>	<b>291,725</b>	<b>20,764</b>	<b>154,689</b>	<b>815</b>	<b>1,765</b>	<b>29,228</b>	<b>498,986</b>	<b>28,604</b>
Additions	14,325	2,604	15,893	87	1,062	7,905	41,876	774
Revaluation increases/(decreases) recognised in the Revaluation Reserve	10,590	0	0	0	(121)	0	10,469	0
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(5,183)	(644)	0	(1)	(425)	0	(6,253)	(715)
Adjustment to write back depreciation on revalued assets	(2,165)	0	0	0	(13)	0	(2,178)	0
Disposals	(71,242)	(1,436)	0	0	0	0	(72,678)	0
Assets reclassified as Held for Sale	(1,672)	0	0	0	0	0	(1,672)	0
Reclassifications from/(to) Investment Properties	189	0	0	0	0	(9,675)	(9,486)	0
Other reclassifications	23,784	0	0	0	721	(24,505)	0	0
<b>At 31 March 2012</b>	<b>260,351</b>	<b>21,288</b>	<b>170,582</b>	<b>901</b>	<b>2,989</b>	<b>2,953</b>	<b>459,064</b>	<b>28,663</b>
<b>Accumulated Depreciation and Impairment</b>								
<b>At 1 April 2011</b>	<b>(14,352)</b>	<b>(9,458)</b>	<b>(21,542)</b>	<b>0</b>	<b>(16)</b>	<b>0</b>	<b>(45,368)</b>	<b>(3,427)</b>
Depreciation on cost (net of any impairments)	(4,499)	(3,867)	(7,309)	0	0	0	(15,675)	(1,214)
Depreciation on revalued amount in excess of cost	(859)	0	0	0	0	0	(859)	(0)
Depreciation written back on revalued assets	2,165	0	0	0	13	0	2,178	0
Disposals	3,192	426	0	0	0	0	3,618	0
<b>At 31 March 2012</b>	<b>(14,353)</b>	<b>(12,899)</b>	<b>(28,851)</b>	<b>0</b>	<b>(3)</b>	<b>0</b>	<b>(56,106)</b>	<b>(4,641)</b>
<b>Net Book Value</b>								
<b>At 31 March 2012</b>	<b>245,998</b>	<b>8,389</b>	<b>141,731</b>	<b>901</b>	<b>2,986</b>	<b>2,953</b>	<b>402,958</b>	<b>24,022</b>
<b>At 31 March 2011</b>	<b>277,373</b>	<b>11,306</b>	<b>133,147</b>	<b>815</b>	<b>1,749</b>	<b>29,228</b>	<b>453,618</b>	<b>25,177</b>



### 8.12.2 Depreciation

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

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

### 8.12.3 Analysis of Capital Charges to Directorates

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

Directorate	Depreciation	Impairments	Total for
	£000	£000	2012/13 £000
People's Services	6,241	4,441	10,682
Places and Communities	5,495	53	5,548
Corporate	2,940	4,535	7,475
<b>Total</b>	<b>14,676</b>	<b>9,029</b>	<b>23,705</b>

### 8.12.4 Capital Commitments

At 31 March 2013 the council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2013/14 and future years budgets. Major commitments totalled £2.6 million in relation to Garrick House car park and Connect 2.

### 8.12.5 Revaluations

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

### 8.12.6 Schools

The fair value of schools is estimated using a Depreciated Replacement Cost approach i.e. the valuation comprises the market value of the land in its existing use plus the current replacement cost of the buildings less an allowance for physical deterioration.

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

<b>Type of School (excluding Pupil Referral Units)</b>	<b>Number of Schools</b>	<b>Net Book Value 31/3/13 £'000</b>
<b>Community</b> Schools owned and controlled by the council. Land and buildings recognised in the Balance Sheet.	36	101,998
<b>Voluntary – Controlled</b> Land and buildings owned by a foundation or trust (usually a Christian group) but all costs met by central government. Similar to a community school in the degree of control exercised by the council. In order to accurately reflect the assets that the council controls and maintains (and which the council has a duty to provide) the land and buildings are included in the Balance Sheet. This is interpreted as being in accordance with FRS5 (substance over legal form).	13	12,267
<b>Voluntary – Aided</b> Ownership as above except with the difference that the schools are not fully funded by the government (with the school meeting part of the cost of capital works) and have more autonomy. Only the value of playing fields is included in the Balance Sheet, where these are required to be provided by the council.	23	1,209
<b>Foundation Schools</b> Land and buildings legally transferred to the school. Because a foundation school has more freedom than a community school in how it is managed the school assets are written out of the balance Sheet.	4	0
<b>Academies</b> As foundation schools above.	21	0
<b>Total</b>	<b>97</b>	<b>115,474</b>

## 8.13 Heritage Assets

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

	<b>2012/13 £000</b>	<b>2011/12 £000</b>
<b>Balance at start of the year</b>	<b>2,820</b>	<b>1,787</b>
Additions:		
Plinth for Hereford bull statue	0	15
Reclassification	(15)	0
Revaluation	0	1,018
<b>Balance at end of the year</b>	<b>2,805</b>	<b>2,820</b>

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

#### Summary of Collections

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

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

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

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

#### Preservation and Management

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

8.13.16 By definition the museum has a long-term purpose and there is a strong presumption against the disposal of items, except for sound curatorial reasons such as deterioration or damage.

8.13.17 The collection is increased by both passive collection (through objects offered by members of the public and occasionally institutions, including via the Treasure Act 1996) and active collection. Items will only be considered for collection if:

- The object has been legally acquired and the donor has proper title;
- It fills a gap in the existing collection;
- It represents a category of artefact where it is important to have all surviving examples retained for posterity, or
- It is a complete, or more complete, example of an object already represented in the collection.

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

#### Access to the Collection

8.13.18 Herefordshire Museum Services operates five sites across the county together with an award winning mobile museum service, Museum on the Move. Three sites are in Hereford – these are the Hereford Museum and Art Gallery, the Old House and the Museum Resource and Learning Centre. The other two centres are the Market House Visitor Centre in Ross-on-Wye and Ledbury Heritage Centre. Admission to museums, galleries and heritage centres is generally free of charge.

8.13.19 Museum on the Move is a fully accessible bus run by Herefordshire Museum Services in partnership with Staffordshire Council's Museum Service. Museum on the Move exists to provide access to the collection for different communities in the county, such as day care centres, village fetes and after-school clubs.

8.13.20 The centres in Ross-on-Wye and Ledbury provide insights into the past of these historic towns and also host a wide range of frequently changing community exhibitions, in addition to open days and other activities.

8.13.21 The Old House is a well preserved 17<sup>th</sup> century timber-framed building situated in the commercial centre of Hereford. It has been a museum since 1929 and is furnished in Jacobean style. For those unable to climb the stairs a virtual tour is available on the fully accessible ground floor.

8.13.22 Hereford Museum and Art Gallery has been exhibiting artefacts and works of art connected with the local area since 1874. The Art Gallery is host to changing exhibitions and changeovers happen approximately every eight weeks.

8.13.23 As noted above, the Museum Resource and Learning Centre is the central storage facility for the county's museum collections. The Centre needs to balance preservation with public access. Access to the collections is provided by:

- Rotating items on show at the Hereford Museum and Art Gallery;
- Holding open days twice a month to enable the public to meet the curators and receive advice on their own items or to tour the facility;
- Allowing access at other times, for longer periods of research or for group visits to see behind the scenes, by appointment;
- Running regular family friendly events, workshops and lectures;

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

## 8.14 Investment Properties

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

	2012/13 £000	2011/12 £000
Rental income from investment property	(2,107)	(2,067)
Direct operating expenses arising from investment property	647	728
Net (gain)/loss	<u>(1,460)</u>	<u>(1,339)</u>

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

	2012/13 £000	2011/12 £000
<b>Balance at start of the year</b>	<b>26,954</b>	<b>23,955</b>
Additions:		
Enhancement expenditure	223	0
Disposals	(1,713)	(0)
Net gains/(losses) from fair value adjustments	6,479	(6,487)
Transfers from Property, Plant and Equipment	1,023	9,486
<b>Balance at end of the year</b>	<b><u>32,966</u></b>	<b><u>26,954</u></b>

## 8.15 Intangible Assets

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

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

	<b>2012/13 Software £000</b>	<b>2011/12 Software £000</b>
Balance at start of year:		
Gross carrying amounts	11,228	10,864
Accumulated amortisation	(5,361)	(5,207)
Net carrying amount at start of year	5,867	5,657
Additions:	563	1,904
Amounts written out of Balance Sheet:		
Gross carrying amount	0	(1,540)
Accumulated amortisation	0	1,540
Amortisation for the period	(1,695)	(1,694)
Disposals	(2)	0
Net carrying amount at end of year	4,733	5,867
Comprising:		
Gross carrying amounts	11,789	11,228
Accumulated amortisation	(7,056)	(5,361)
	4,733	5,867

8.15.3 The council also has £228,000 of intangible current assets relating to the Landfill Allowance Trading Scheme (see note 8.1.50-8.1.53).

## 8.16 Financial Instruments

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

### 8.16.2 Categories of Financial Instruments

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

### 8.16.3 Financial Assets

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

	2012/13		2011/12	
	Per Balance Sheet	Financial Instruments	Per Balance Sheet	Financial Instruments
	£'000	£'000	£'000	£'000
<b>Long-term investments</b>				
Treasury stock etc	4	4	4	4
<b>Long-term debtors</b>				
Loans	639	639	643	643
Social care deferred payments	586	-	493	-
PFI lifecycle costs	1,281	-	1,199	-
	<b>2,506</b>	<b>639</b>	<b>2,335</b>	<b>643</b>
<b>Investments</b>				
Short-term investments	8,541	8,541	9,589	9,589
Cash and cash equivalents	2,420	2,420	3,200	3,200
	<b>10,961</b>	<b>10,961</b>	<b>12,789</b>	<b>12,789</b>
<b>Short-term debtors</b>				
Sales invoices and contractual rights	20,636	20,636	19,645	19,645
Statutory debts (council tax, VAT etc)	7,837		4,414	
Prepayments	6,061		4,482	
Bad debt provisions	(1,689)		(1,200)	
	<b>32,845</b>	<b>20,636</b>	<b>27,341</b>	<b>19,645</b>

#### 8.16.4 Financial Liabilities

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

	2012/13		2011/12	
	Per Balance Sheet	Financial Instruments	Per Balance Sheet	Financial Instruments
	£'000	£'000	£'000	£'000
<b>Short-term borrowing</b>				
Cash and cash equivalents (unpresented items)	1,652	1,652	3,341	3,341
Bank loans	12,615	12,615	12,620	12,620
Public Works Loan Board	5,099	5,099	4,942	4,942
Borrowing from other local authorities	16,011	16,011	-	-
Other loans (Salix loan)	130	130	-	-
	<b>35,507</b>	<b>35,507</b>	<b>20,903</b>	<b>20,903</b>



**Short-term creditors**

Invoiced amounts and other contractual liabilities	22,373	22,373	19,088	19,088
Obligations under finance leases	1	1	12	12
Statutory liabilities (PAYE etc)	3,893	-	5,756	-
Accruals and receipts in advance	5,939	-	6,264	-
Funds and deposits held	227	-	206	-
	<b>32,433</b>	<b>22,374</b>	<b>31,326</b>	<b>19,100</b>

**Long-term borrowing**

Public Works Loan Board	124,535	124,535	128,532	128,532
Other loans (Salix loan)	322	322	-	-
	<b>124,857</b>	<b>124,857</b>	<b>128,532</b>	<b>128,532</b>

**Other long-term liabilities**

PFI liabilities and finance leases	28,238	28,238	29,191	29,191
Pensions liability	188,502	-	160,354	-
	<b>216,740</b>	<b>28,238</b>	<b>189,545</b>	<b>29,191</b>

**18.16.5 Income, Expense, Gains and Losses**

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

	2012/13			2011/12		
	Financial Liabilities at amortised cost £000	Financial assets: Loans and receivables £000	Total £000	Financial Liabilities at amortised cost £000	Financial assets: Loans and receivables £000	Total £000
<u>Interest payable and similar charges:</u>						
Interest expense relating to:						
Loans	5,366	0	5,366	5,651	0	5,651
PFI liabilities	2,185	0	2,185	2,234	0	2,234
Finance leases	39	0	39	44	0	44
Brokers commission	5	0	5	0	0	0
Impairment losses (bad debts)	0	173	173	0	54	54
	<b>7,595</b>	<b>173</b>	<b>7,768</b>	<b>7,929</b>	<b>54</b>	<b>7,983</b>
<u>Included in cost of services:</u>						
Brokers commission	0	0	0	4	0	4
<b>Total expense in Surplus or Deficit on the Provision of Services</b>	<b>7,595</b>	<b>173</b>	<b>7,768</b>	<b>7,933</b>	<b>54</b>	<b>7,987</b>

<u>Interest receivable:</u>						
On investments	0	(283)	(283)	0	(476)	(476)
<b>Total income in Surplus or Deficit on the Provision of Services</b>	0	(283)	(283)	0	(476)	(476)
<b>Net loss/(gain) for the year</b>	<b>7,595</b>	<b>(110)</b>	<b>7,485</b>	<b>7,933</b>	<b>(422)</b>	<b>7,511</b>

This year brokers commission has been shown as part of interest payable as the commission effectively increases the interest rate payable by between 0.03% and 0.10%.

#### 8.16.6 Fair Values of Assets and Liabilities

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

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

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

	31 March 2013		31 March 2012	
	Carrying amount	Fair value	Carrying amount	Fair value
	£000	£000	£000	£000
Total borrowing	158,712	191,601	146,094	173,958

The fair value is higher than the carrying amount because the council's portfolio of loans are all fixed rate and the interest rate payable on these loans is 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 are assumed to equate to their fair value due to the absence of active markets in the instruments concerned and no information to the contrary.

## 8.17 Inventories

	2012/13 £000	2011/12 £000
Balance outstanding at start of year	342	655
Purchases	636	538
Recognised as an expense in the year	(486)	(547)
Written off balances	(205)	(304)
<b>Balance outstanding at year-end</b>	<b>287</b>	<b>342</b>

## 8.18 Debtors

	31 March 2013 £000	31 March 2012 £000
Central government bodies	11,603	5,897
Other local authorities	439	121
NHS bodies	4,728	6,514
Other entities and individuals	17,764	16,009
	<u>34,534</u>	<u>28,541</u>
Provision for Bad Debts	(1,689)	(1,200)
<b>Total</b>	<b>32,845</b>	<b>27,341</b>

## 8.19 Cash and Cash Equivalents

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

	31 March 2013 £000	31 March 2012 £000
Cash held by the Authority	1,448	1,565
Short-term deposits	972	1,635
	<u>2,420</u>	<u>3,200</u>
Bank current accounts	(1,652)	(3,341)
<b>Total Cash and Cash Equivalents</b>	<b>768</b>	<b>(141)</b>

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

## 8.20 Assets Held for Sale

	Current		Non current	
	2012/13 £000	2011/12 £000	2012/13 £000	2011/12 £000
Balance outstanding at start of year	4,132	0	0	2,538
Reclassified	0	2,538	0	(2,538)
Assets newly classified as held for sale	0	1,672	0	0
Revaluation losses	(122)	(78)	0	0
Assets sold	(860)	0	0	0
<b>Balance outstanding at year-end</b>	<b>3,150</b>	<b>4,132</b>	<b>0</b>	<b>0</b>

## 8.21 Creditors

	<b>31 March 2013 £000</b>	<b>31 March 2012 £000</b>
Central government bodies	(4,022)	(2,395)
Other local authorities	(3,024)	(2,650)
NHS bodies	(511)	(1,399)
Public corporations and trading funds	0	(6)
Other entities and individuals	(24,876)	(24,876)
<b>Total</b>	<b>(32,433)</b>	<b>(31,326)</b>

## 8.22 Provisions

	<b>Insurance £000</b>	<b>Other provisions £000</b>	<b>Total £000</b>
<b>Balance at 1 April 2011</b>	<b>(1,463)</b>	<b>(1,252)</b>	<b>(2,715)</b>
Additional provisions made in 2011/12	(27)	(404)	(431)
Amounts used in 2011/12	366	1,094	1,460
Unused amounts reversed in 2011/12	0	138	138
<b>Balance at 31 March 2012</b>	<b>(1,124)</b>	<b>(424)</b>	<b>(1,548)</b>
Additional provisions made in 2012/13	(540)	(1,474)	(2,014)
Amounts used in 2012/13	540	224	764
Unused amounts reversed in 2012/13	0	200	200
<b>Balance at 31 March 2013</b>	<b>(1,124)</b>	<b>(1,474)</b>	<b>(2,598)</b>

### 8.22.1 Insurance provision

The largest provision of £1.1 million is for insurance claims. During 2011/12 the council commissioned a review of the insurance provision to include schools, which has been used as the basis of the provision. In addition a reserve of £497,000 is held for future potential schools insurance claims.

### 8.22.2 Other Provisions

At 31<sup>st</sup> March 2013 the council also held a number of other provisions;

<b>Provision</b>	<b>£000</b>	
Redundancy	797	Based on the number of planned redundancies and staff identified at risk of redundancy at 31 <sup>st</sup> March 2013
Landfill Allowance	228	Commitment for usage in 2012/13
Data breaches	305	Estimated costs relating to data breach fines and claims
Municipal Mutual Insurance (MMI)	144	Liability under an arrangement to cover liabilities after MMI Ltd ceased underwriting operations in 1992
	<b>1,474</b>	

## 8.23 Usable Reserves

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

### 8.23.1 Earmarked Reserves

The movement in earmarked reserves are detailed in Note 8.8.

### 8.23.2 Capital receipts reserve

	<b>31 March 2013 £000</b>	<b>31 March 2012 £000</b>
<b>Balance at 1 April</b>	<b>(2,769)</b>	<b>(6,754)</b>
Received during the year	(2,872)	(516)
Applied during the year	2,898	4,492
Admin costs of sales	46	0
Set aside during the year	4	9
<b>Balance at 31 March</b>	<b>(2,693)</b>	<b>(2,769)</b>

### 8.23.3 Capital grants unapplied

	<b>31 March 2013 £000</b>	<b>31 March 2012 £000</b>
<b>Balance at 1 April</b>	<b>(15,679)</b>	<b>(13,103)</b>
Received during the year	(1,588)	(1,900)
Transferred from receipts in advance	-	(3,400)
Applied during the year	3,752	2,724
<b>Balance at 31 March</b>	<b>(13,515)</b>	<b>(15,679)</b>

## 8.24 Unusable Reserves

### Summary

	<b>31 March 2013 £000</b>	<b>31 March 2012 £000</b>
Revaluation reserve	(48,942)	(42,782)
Capital Adjustment Account	(188,283)	(192,856)
Financial Instruments Adjustment Account	398	416
Deferred Capital Receipts Reserve	(289)	(295)
Pensions Reserve	188,502	160,354
Collection Fund Adjustment Account	1,134	761
Accumulated Absences Account	2,638	2,738
<b>Total unusable reserves</b>	<b>(44,842)</b>	<b>(71,664)</b>

### 8.24.1 Revaluation Reserve

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

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

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

	<b>2012/13</b>	<b>2011/12</b>
	<b>£000</b>	<b>£000</b>
<b>Balance at 1 April</b>	<b>(42,782)</b>	<b>(35,475)</b>
(Surplus) or Deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	(8,035)	(11,428)
Difference between fair value depreciation and historical cost depreciation	718	859
Accumulated gains on assets sold or scrapped	1,157	3,262
<b>Balance at 31 March</b>	<b>(48,942)</b>	<b>(42,782)</b>

#### **8.24.2 Capital Adjustment Account**

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

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

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

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

	2012/13 £000	2012/13 £000 (192,856)	2011/12 £000 (245,265)
<b>Balance at 1 April</b>			
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:			
Charges for depreciation on non-current assets	12,981		16,534
Revaluation losses and impairment on Property, Plant and Equipment	9,029		6,272
Amortisation of intangible assets	1,695		1,694
Revenue expenditure funded from capital under statute	236		1,809
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	21,494		65,796
		45,435	92,105
Adjusting amounts written out of the Revaluation Reserve		(740)	(859)
Prior year adjustments to Revaluation Reserve		22	0
Net written out amount of the cost of non current assets consumed in the year		44,717	91,246
Capital financing applied in the year:			
Use of the Capital Receipts Reserve to finance new capital expenditure	(2,898)		(4,492)
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(15,909)		(27,313)
Application of grants to capital financing from the Capital Grants Unapplied Account	(3,752)		(2,724)
Statutory provision for the financing of capital investment charged against the General Fund balance	(10,812)		(10,514)
Capital expenditure charged against the General Fund balance	(294)		(281)
		(33,665)	(45,324)
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		(6,479)	6,487
<b>Balance at 31 March</b>		<b>(188,283)</b>	<b>(192,856)</b>

### 8.24.3 Financial Instruments Adjustment Account

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

The opening balance relates to the council's two "stepped interest" bank loans where the interest paid in the first two years was much lower than the rate subsequently charged. The charge in the Comprehensive Income & Expenditure Statement is based on the effective (or average) rate over the period of the loan and so in the first two years the charge was increased by debiting the differential in the Movement in Reserves Statement and crediting

the FIAA. This latter reserve is then reversed out over the remaining period of the loan to give a consistent effective rate of interest.

Another adjustment is required for 2012/13 relating to the discount received on the early repayment of loans to the Public Works Loan Board in 2010/11. Discount of £83,000 was received and this amount included in the Comprehensive Income & Expenditure Statement. However, for accounting purposes this amount needs to be spread over ten years, so £78,000 was transferred to the FIAA and is credited to revenue over a 10 year (i.e. £8,000 per annum).

In 2012/13 the council received an interest free loan from Salix, which has been accounted as a soft loan with its fair value calculated using the prevailing market rate of interest at which the authority could borrow for a loan with similar terms. The effect of this has been reversed out through a transfer to the FIAA.

	<b>2012/13</b>	<b>2011/12</b>
	<b>£000</b>	<b>£000</b>
<b>Balance at 1 April</b>	<b>416</b>	<b>412</b>
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(4)	(4)
Discounts received in the year carried forward to future accounting periods	8	8
Reversal of interest adjustment for soft loans	(22)	0
<b>Balance at 31 March</b>	<b>398</b>	<b>416</b>

#### **8.24.4 Pensions Reserve**

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



	2012/13 £000	2011/12 £000
<b>Balance at 1 April</b>	<b>160,354</b>	<b>132,912</b>
Actuarial (gains) or losses on pensions assets and liabilities	27,273	31,768
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	10,701	5,627
Employer's pensions contributions and direct payments to pensioners payable in the year	(9,826)	(9,953)
<b>Balance at 31 March</b>	<b>188,502</b>	<b>160,354</b>

#### 8.24.5 Deferred Capital Receipts Reserve

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

	2012/13 £000	2011/12 £000
<b>Balance at 1 April</b>	<b>(295)</b>	<b>(26)</b>
Transfer of contribution due credited to the Comprehensive Income and Expenditure Statement	0	(281)
Transfer to the Capital Receipts Reserve upon receipt of cash	6	12
<b>Balance at 31 March</b>	<b>(289)</b>	<b>(295)</b>

#### 8.24.6 Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

	2012/13 £000	2011/12 £000
<b>Balance at 1 April</b>	<b>761</b>	<b>294</b>
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	373	467
<b>Balance at 31 March</b>	<b>1,134</b>	<b>761</b>

#### 8.24.7 Accumulated Absences Account

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

	2012/13 £000	2011/12 £000
<b>Balance at 1 April</b>	2,738	3,528
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(100)	(790)
<b>Balance at 31 March</b>	<u>2,638</u>	<u>2,738</u>

## 8.25 Capital Grants Receipts in Advance

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

	2012/13 £000	2011/12 £000
<b>Balance at 1 April</b>	(4,015)	(12,159)
Additional amounts received in the year	(534)	(296)
Grant repaid in year	-	71
Amounts transferred to the Comprehensive Income and Expenditure Account in the year	1,809	8,369
<b>Balance at 31 March</b>	<u>(2,740)</u>	<u>(4,015)</u>

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

## 8.26 Amounts Reported for Resource Allocation Decisions

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

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

### 8.26.2 Directorate Income and Expenditure

The income and expenditure of the council's directorates and corporate spend as reported to Cabinet in the 2012/13 out-turn report is as follows;

<b>Directorate Income and Expenditure</b>	<b>People's Services</b>	<b>Places and Communities</b>	<b>Corporate Services</b>	<b>Total</b>
<b><u>2012/13 figures</u></b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Fees, charges & other service income	28,540	13,101	8,915	50,555
Government grants	92,038	6,981	63,117	162,136
<b>Total Income</b>	<b>120,578</b>	<b>20,081</b>	<b>72,032</b>	<b>212,691</b>
Employee expenses	79,872	12,585	9,576	102,033
Other service expenses	120,920	48,802	88,309	258,031
Support services	13,341	8,305	(17,674)	3,972
<b>Total Expenditure</b>	<b>214,133</b>	<b>69,692</b>	<b>80,211</b>	<b>364,036</b>
<b>Net Expenditure</b>	<b>93,555</b>	<b>49,611</b>	<b>8,179</b>	<b>151,345</b>

The following table shows the comparative figures for 2011/12:

<b>Directorate Income and Expenditure</b>	<b>People's Services</b>	<b>Places and Communities</b>	<b>Corporate Services</b>	<b>Total</b>
<b><u>2011/12 Comparative figures</u></b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Fees, charges & other service income	24,644	12,696	6,451	43,791
Government grants	104,200	6,425	59,678	170,303
<b>Total Income</b>	<b>128,844</b>	<b>19,121</b>	<b>66,129</b>	<b>214,094</b>
Employee expenses	94,098	12,338	6,393	112,829
Other service expenses	116,549	54,494	83,274	254,317
Support services	13,683	4,596	(17,031)	1,248
<b>Total Expenditure</b>	<b>224,330</b>	<b>71,428</b>	<b>72,636</b>	<b>368,394</b>
<b>Net Expenditure</b>	<b>95,486</b>	<b>52,307</b>	<b>6,507</b>	<b>154,300</b>

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

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

	<b>2012/13</b>	<b>2011/12</b>
	<b>£000</b>	<b>£000</b>
<b>Net expenditure in the Directorate Analysis</b>	<b>151,345</b>	<b>154,300</b>
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Account	1,466	1,331
<b>Cost of services in the Comprehensive Income and Expenditure Statement</b>	<b>152,811</b>	<b>155,631</b>

#### 8.26.4 Reconciliation to Subjective Analysis

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

2012/13	Directorate Analysis	Amounts not Included in I & E	Cost Of Services	Corporate Items	Total
	£000	£000	£000	£000	£000
Fees, charges & other service income	50,555	(2,542)	48,013	0	48,013
Financing and investment income	0	0	0	9,500	9,500
Income from council tax	0	0	0	89,068	89,068
Government grants and contributions	162,136	0	162,136	78,946	241,082
<b>Total Income</b>	<b>212,691</b>	<b>(2,542)</b>	<b>210,149</b>	<b>177,514</b>	<b>387,663</b>
Employee expenses	102,033	(220)	101,813	0	101,813
Other service expenses	258,031	(680)	257,351	0	257,351
Support Service recharges	3,972	19	3,991	0	3,991
Financing and investment expenditure	0	0	0	12,712	12,712
Precepts & Levies	0	(195)	(195)	2,886	2,691
Payments to Housing Capital Receipts Pool	0	0	0	4	4
Gain or Loss on Disposal of Fixed Assets	0	0	0	19,872	19,872
<b>Total expenditure</b>	<b>364,036</b>	<b>(1,076)</b>	<b>362,960</b>	<b>35,474</b>	<b>398,434</b>
<b>(Surplus) or deficit on the provision of services</b>	<b>151,345</b>	<b>1,466</b>	<b>152,811</b>	<b>(142,040)</b>	<b>10,771</b>

The following table shows the comparative figures for 2011/12.

<b>2011/12</b>	<b>Directorate Analysis</b>	<b>Amounts not Included in I &amp; E</b>	<b>Cost Of Services</b>	<b>Corporate Items</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Fees, charges & other service income	43,791	(2,526)	<b>41,265</b>	0	<b>41,265</b>
Financing and investment income	0	0	<b>0</b>	1,021	<b>1,021</b>
Income from council tax	0	0	<b>0</b>	88,215	<b>88,215</b>
Government grants and contributions	170,303	0	<b>170,303</b>	96,891	<b>267,194</b>
<b>Total Income</b>	<b>214,094</b>	<b>(2,526)</b>	<b>211,568</b>	<b>186,127</b>	<b>397,695</b>
Employee expenses	112,829	(227)	<b>112,602</b>	0	<b>112,602</b>
Other service expenses	254,317	(593)	<b>253,724</b>	0	<b>253,724</b>
Support Service recharges	1,248	(181)	<b>1,067</b>	0	<b>1,067</b>
Financing and investment expenditure	0	0	<b>0</b>	16,563	<b>16,563</b>
Precepts & Levies	0	(194)	<b>(194)</b>	2,746	<b>2,552</b>
Payments to Housing Capital Receipts Pool	0	0	<b>0</b>	9	<b>9</b>
Gain or Loss on Disposal of Fixed Assets	0	0	<b>0</b>	68,554	<b>68,554</b>
<b>Total expenditure</b>	<b>368,394</b>	<b>(1,195)</b>	<b>367,199</b>	<b>87,872</b>	<b>455,071</b>
<b>(Surplus) or deficit on the provision of services</b>	<b>154,300</b>	<b>1,331</b>	<b>155,631</b>	<b>(98,255)</b>	<b>57,376</b>

## 8.27 Trading Operations

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

		2012/13 £000	2011/12 £000
<b>Markets</b>			
The council owns and manages open and closed markets, generating income from letting of premises and market stalls.	Turnover	(754)	(745)
	Expenditure	533	599
	(Surplus)/deficit	(221)	(146)
<b>Industrial Estates</b>			
The council owns and manages a number of industrial estates in the county.	Turnover	(1,442)	(1,242)
	Expenditure	581	595
	(Surplus)/deficit	(861)	(647)
<b>Retail Properties</b>			
The council owns retail premises in Hereford City centre from which it receives commercial rents.	Turnover	(520)	(539)
	Expenditure	20	20
	(Surplus)/deficit	(500)	(519)

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

## 8.28 Agency Services

- 8.28.2 The council administers and prepares accounts for a number of Trust Funds (see note 8.47). However, the council does not make any charge for this service.

## 8.29 Pooled Budgets

- 8.29.1 There are four agreements between the council and Primary Care Trust (PCT) under the Section 75 of the Health Act 2006.

- 8.29.2 The three agreement hosted by the council are:

- a) Adult Social Care and NHS Continuing Healthcare,
- b) Integrated Community Equipment,
- c) Children with Complex Needs.

The one agreement hosted by the PCT is Blanchworth Contract, Kington



All Section 75 agreements are a continuation of those in place within 2011/12

### Adults Social Care and NHS Continuing Healthcare

8.29.3 As commissioner of adult social care services, the council makes contributions to the pools, which are then used to purchase social care services. The council accounts for its share of the income and expenditure of the pools as determined by the pool budget arrangement.

	2012/13 £000's		2011/12 £000's	
Funding provided to the pooled budget:				
Herefordshire Council	(43,542)		(31,471)	
Herefordshire PCT	<u>(14,044)</u>	(57,586)	<u>(13,361)</u>	(44,832)
Expenditure met from the pooled budget:				
Herefordshire Council	44,417		38,593	
Herefordshire PCT	<u>13,549</u>	57,966	<u>12,940</u>	51,533
Net deficit arising on the pooled budget during the year		<u>380</u>		<u>6,701</u>
Council share of the net deficit		<u>875</u>		<u>7,122</u>

### Integrated Community Equipment Store

8.29.4 A joint equipment store service is provided as a partnership between Herefordshire Council and Herefordshire Primary Care Trust. Its aim is to promote independence and enable individuals to remain in their home.

	2012/13 £000's		2011/12 £000's	
Funding provided to the pooled budget:				
Herefordshire Council			0	
Herefordshire PCT	<u>(274)</u>	(274)	<u>(164)</u>	(164)
Expenditure met from the pooled budget:				
Herefordshire Council				
Herefordshire PCT	<u>372</u>	372	<u>231</u>	231
Net deficit arising on the pooled budget during the year		<u>98</u>		<u>67</u>
Council share of the net deficit		<u>0</u>		<u>0</u>

### CNS Complex Needs Solution

8.29.5 Herefordshire Council and the PCT have signed a Section 75 agreement for the Joint Agency Management (JAM) of Out of County Placements for Children with complex educational, social and medical needs. The agreement pools spending in agreed proportions and spending is not separately allocated, but each child with these complex needs is funded directly from the pool irrespective of specific needs.

	2012/13 £'000		2011/12 £'000	
Funding provided to the pooled budget:				
Herefordshire Council	2,719		2,719	
Herefordshire PCT	<u>(453)</u>	(3,172)	<u>(453)</u>	(3,172)
Expenditure met from the pooled budget:				
Herefordshire Council	2,578		2,354	
Herefordshire PCT	<u>429</u>	3,007	<u>392</u>	2,746
Net surplus arising on the pooled budget during the year		<u>(165)</u>		<u>(426)</u>
Council share of the net surplus		<u>(141)</u>		<u>(365)</u>

### Blanchworth Contract, Kington

8.29.6 Blanchworth Care is a contract monitored by the PCT to provide beds at Kington Court, predominantly for older people, of which the council has access to a proportion of the beds.

	2012/13 £'000's		2011/12 £000's	
Funding provided to the pooled budget:				
Herefordshire Council	(319)		(366)	
Herefordshire PCT	<u>(643)</u>	(962)	<u>(645)</u>	(1,011)
Expenditure met from the pooled budget:				
Herefordshire Council	319		366	
Herefordshire PCT	<u>643</u>	962	<u>642</u>	1,008
Net surplus arising on the pooled budget during the year		<u>0</u>		<u>(3)</u>
Council share of the net surplus		<u>0</u>		<u>0</u>

### **2gether Foundation Trust**

8.29.7 This Section 75 agreement has been set up to provide an integrated child and adult mental health service in Herefordshire under Section 75 of the Health Act 2006 for activities as follows; Children and Adolescent Mental Health Services (CAMHS), Older People's mental health, adults and CAMHS learning disability and Drug Advisory Service in Herefordshire.

8.29.8 As commissioner of mental health services, the council transfers agreed funding to provide mental health services. The council accounts for the income and expenditure as determined by Section 75 partnership.

	<b>2012/13</b>		<b>2011/12</b>
	<b>£000's</b>		<b>£000's</b>
Funding provided to the pooled budget:			
Herefordshire Council	(1,811)		(2,411)
2gether Foundation Trust	<u>(1,811)</u>	<u>0</u>	<u>(2,411)</u>
Expenditure met from the pooled budget:			
Herefordshire Council	1,811		2,393
2gether Foundation Trust	<u>1,811</u>	<u>0</u>	<u>2,393</u>
Net surplus arising on the pooled budget during the year		<u>0</u>	<u>(18)</u>
Council share of the net surplus		<u>0</u>	<u>(18)</u>

### **Wye Valley NHS Trust**

8.29.9 This Section 75 agreement has been set up to provide an integrated community health and adult social care service in Herefordshire under Section 75 of the Health Act 2006 for activities as follows; Integrated teams (including; locality, learning disability, sensory impairment, hospital social care, brain injuries, central review team, welfare and financial assessment), Integrated Community Equipment Service, Telecare, Hillside Intermediate Care, Transport, Day services, Intermediate Care, Reablement and Norfolk House

8.29.10 As commissioner of integrated community services, the council makes contributions to the services outlined above. The council accounts for its share of the income and expenditure of the pools as determined by the aligned fund arrangement and the risk sharing agreement.

	2012/13 £000's		2011/12 £000's
Funding provided to the pooled budget:			
Herefordshire Council	(10,803)		(9,869)
Wye Valley NHS Trust	0	(10,803)	0
	<u>0</u>		<u>(9,869)</u>
Expenditure met from the pooled budget:			
Herefordshire Council			9,769
Wye Valley NHS Trust	10,408	10,408	0
	<u>10,408</u>		<u>9,769</u>
Net surplus arising on the pooled budget during the year		<u>(395)</u>	<u>(100)</u>
Council share of the net surplus		<u>(198)</u>	<u>(50)</u>

8.29.11 The aligned fund outturn position £10.408 million against a budget of £10.803 million gave a surplus for the year of £395,000. According the risk sharing agreement which states that both parties will benefit from any underspend gives the net surplus to the council of £198k.

### 8.30 Members' Allowances

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

	2012/13 £	2011/12 £
Basic allowances	417,687	422,782
Special allowances	194,676	195,859
Travel and subsistence	44,698	62,914
<b>Total</b>	<b><u>657,061</u></b>	<b><u>681,555</u></b>

### 8.31 Officers' Remuneration

8.31.1 The Accounts and Audit Regulations set out the requirements for publishing information about employee remuneration disclosures in the statement of accounts. Remuneration is defined as 'all amounts paid to or receivable by a person, and includes sums due by way of expenses allowances (so far as those sums are chargeable to UK income tax), and the estimated money value of any other benefits received by an employee other than in cash' (e.g. benefits in kind).

8.31.2 The 2012/13 banding information is set out below. For the banding note remuneration excludes employer's pension contributions. Where no employees fell within a particular band, this band is not shown in the table;

		<u>No of employees</u>		<u>2012/13</u>		<u>2011/12</u>	
<u>From</u>	<u>To</u>	<u>2012/13</u>	<u>2011/12</u>	<u>Non School</u>	<u>School</u>	<u>Non School</u>	<u>School</u>
£50,000	£55,000	51	47	15	36	15	32
£55,000	£60,000	21	31	9	12	12	19
£60,000	£65,000	10	14	3	7	4	10
£65,000	£70,000	9	11	1	8	4	7
£70,000	£75,000	3	6	2	1	5	1
£75,000	£80,000	9	9	8	1	6	3
£80,000	£85,000	3	2	0	3	1	1
£85,000	£90,000	3	2	2	1	0	2
£90,000	£95,000	2	1	2	0	1	0
£95,000	£100,000	0	0	0	0	0	0
£100,000	£105,000	0	1	0	0	1	0
£105,000	£110,000	1	0	1	0	0	0
£110,000	£115,000	0	1	0	0	1	0
£115,000	£120,000	0	1	0	0	1	0
£120,000	£125,000	2	1	2	0	1	0
£125,000	£130,000	1	1	1	0	1	0
£180,000	£185,000	0	1	0	0	1	0
£255,000	£260,000	1	0	1	0	0	0
		<b>116</b>	<b>129</b>	<b>47</b>	<b>69</b>	<b>54</b>	<b>75</b>

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

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

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

8.31.5 The disclosure for the council for 2012/13 is set out below. The employees included are Directors and staff who report to Directors who are employed on Head of Service pay grades. These staff are also included in the table above. For this note employer's pension contributions are included.

Post holder information			Salary (inc. fees and allowances)	Compensation for loss of office	Benefits in kind	Total remuneration excluding pension contributions	Pension contributions	Total remuneration including pension contributions
	Notes	Year	£	£	£	£	£	£
<b>Employees with salaries £150,000 or more</b>								
Chief Executive - C Bull	45% recharge to the PCT Left 31/10/12	2011/12	183,724	0	0	183,724	38,766	222,490
		2012/13	107,173	150,629	0	257,802	23,364	281,166
Chief Executive – A Neill	Started 01/03/2013	2012/13	12,083			12,083	2,634	14,717
<b>Employees with salaries between £50,000 and £150,000</b>								
Deputy Chief Executive	45% recharge to the PCT	2011/12	130,000	0	0	130,000	27,429	157,429
		2012/13	130,000	0	0	130,000	28,340	158,340
Director for People Services	Started 1/1/12	2011/12	30,000	0	0	30,000	6,330	36,330
		2012/13	120,000			120,000	26,160	146,160
Director for Places & Communities		2011/12	111,909	0	162	112,071	23,612	135,683
		2012/13	120,000	0	81	120,081	26,160	146,241
Chief Officer – Finance and Commercial		2011/12	102,808	0	0	102,808	21,692	124,500
		2012/13	90,000	0	0	90,000	19,620	109,620
Assistant Director, Law, Governance & Resilience	10% recharge to the PCT	2011/12	90,000	0	0	90,000	18,990	108,990
		2012/13	90,000	0	0	90,000	19,620	109,620
Assistant Director – People, Policy & Partnerships	Started 4/7/11	2011/12	58,102	0	0	58,102	12,246	70,348
		2012/13	78,231	0	0	78,231	17,054	95,285
Assistant Director, - People's Services Commissioning		2011/12	78,231	0	0	78,231	16,506	94,737
		2012/13	78,231	0	0	78,231	17,054	95,285
Assistant Director - Young People Provider Services	Post name changed	2011/12	77,630	0	0	77,630	16,506	94,136
		2012/13	78,231	0	0	78,231	17,054	95,285
Assistant Director, Inclusion & Improvement	Left 22/7/11 Headteacher from 1/9/11	2011/12	26,434	55,136	0	81,570	5,102	86,672
		2012/13	0	0	0	0	0	0

Post holder information			Salary (inc. fees and allowances)	Compensation for loss of office	Benefits in kind	Total remuneration excluding pension contributions	Pension contributions	Total remuneration including pension contributions
	Notes	Year	£	£	£	£	£	£
Head of Service - Adult Services		2011/12	78,231	0	0	78,231	16,506	94,737
		2012/13	78,231	0	0	78,231	17,054	95,285
Head of Special Projects		2011/12	72,222	0	400	72,622	15,239	87,861
		2012/13	72,228	0	699	72,927	15,745	88,672
Head of Asset Management	Left 6/5/11	2011/12	7,183	57,135	0	64,318	1,515	65,833
Head of Communications	Left 24/4/11	2011/12	4,814	34,281	0	39,095	1,015	40,110
Assistant Director Economic, Environment & Cultural Services		2011/12	73,622	0	0	73,622	15,534	89,156
		2012/13	76,176	0	0	76,176	16,606	92,782
Head of Policy & Performance	Left 20/4/11	2011/12	4,012	34,281	0	38,293	846	39,139
Assistant Director, Homes and Community Services		2011/12	73,622	0	0	73,622	15,534	89,156
		2012/13	76,176	0	0	76,176	16,606	92,782
Assistant Director , Economy and Culture / Project Director	Role changed during 2011/12	2011/12	70,095	0	0	70,095	14,790	84,885
		2012/13	0	0	0	0	0	0
Assistant Director Place Based Commissioning		2011/12	76,636	0	0	76,636	16,170	92,806
		2012/13	76,176	0	0	76,176	16,606	92,782
Assistant Director Public Health / Regulatory Services Programme Manager	Role changed during 2011/12	2011/12	68,584	0	0	68,584	14,471	83,055
		2012/13	0	0	0	0	0	0
Assistant Director, Safeguarding & Vulnerable Children	Left 12/7/11	2011/12	22,081	30,381	0	52,462	4,659	57,121
		2012/13	0	0	0	0	0	0
Assistant Director, Customer Services and Communications		2011/12	75,341	0	0	75,341	15,897	91,238
		2012/13	45,635	42,116	0	87,751	9,948	97,699

In addition to the employees above the council contributed 30% to the Director of Public Health employed by the PCT.

## 8.32 External Audit Costs

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

	2012/13 £000	2011/12 £000
Fees payable with regard to external audit services carried out by the appointed auditor	187	253
Fees payable in respect of statutory inspection	0	0
Fees payable for the certification of grants claims and returns	29	45
Other services	0	0

## 8.33 Dedicated Schools Grant

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

8.33.2 Details of the deployment of DSG receivable for 2012/13 are as follows:

	Central Expenditure 2012/13 £000	Individual Schools Budget 2012/13 £000	Total 2012/13 £000	Total 2011/12 £000
Final DSG allocation before Academy Recoupment			107,378	106,939
Less Academy figure recouped for 2012/13			(30,287)	(20,716)
Total DSG after Academy recoupment for 2012/13			77,091	86,223
Brought forward from previous year			840	531
Agreed budgeted distribution in year	5,818	72,113	77,931	86,754
Actual central expenditure	5,774	0	5,774	8,927
Actual Individual School Budget deployed to schools	0	71,698	71,698	76,987
Carry forward	44	415	459	840



## 8.34 Grant Income

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

	2012/13 £'000	2011/12 £'000
<b>Credited to Taxation and Non Specific Grant Income</b>		
Revenue Support Grant	1,374	14,212
Redistributed NNDR	55,539	45,978
Other non-ringfenced Grants	4,514	3,807
Capital Grants	17,519	32,894
	<b>78,946</b>	<b>96,891</b>
<b>Credited to Services</b>		
Department for Education	92,259	97,319
Department for Communities and Local Government	2,480	3,812
Department for Work and Pensions	62,170	59,414
Young People's Learning Agency	727	1,761
Department for Transport	644	491
Defra	815	707
Department of Health	3,962	3,719
Department of Business Innovation and Skills	0	2,886
Sport England	0	14
English Heritage	0	144
Home Office	58	15
Lottery Funding	0	7
Arts Council	0	34
Other	0	60
	<b>163,115</b>	<b>170,383</b>
<b>Total</b>	<b>242,061</b>	<b>267,274</b>

## 8.35 Related Parties

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

### Central Government

8.35.2 Central government has effective control over the general operations of the council. It is responsible for providing the statutory framework within which the

council operates and provides the majority of its funding in the form of grants. Details of income received from government departments are set out in note 8.34.

### **Members**

- 8.35.3 Members of the council have direct control over the council's financial and operating policies. There are a number of Councillors who serve on outside bodies and school governing bodies either as a representative of the council or as a private individual. Details of these interests are recorded in the Register of Members' interests, which are updated annually. An examination of the Register indicates that the council's financial transactions with these bodies in 2012/13 are not material.

### **Officers**

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

### **Other Public Bodies**

- 8.35.5 During the year the council made payments of £26.4 million to Worcestershire County Council (£22 million in 2011/12), including payments to the pension scheme and for the joint waste disposal contract. The council works in partnership with the Primary Care Trust under Section 75 pooling arrangements. Payments to the PCT in 2012/13 totalled £1.79 million (£3.2 million in 2011/12). A total of £11.8 million was also paid to Wye Valley NHS Trust (£9 million in 2011/12) and £2.1million to 2Gether (£1.9 million in 2011/12).

### **Significant long-term contracts**

#### **8.35.6 Amey Wye Valley Limited**

In 2003 the council entered into a contract with Jarvis PLC for the provision of contract services of around £13 million per annum over 10 years. The contract involved establishing a joint venture company named Herefordshire Jarvis Services (HJS) with the transfer of Herefordshire Commercial services staff to the new company. On 31<sup>st</sup> August 2007 Amey Wye Valley Limited took over this contract from HJS. The contract will terminate in September 2013.

#### **8.35.7 Amey OW Ltd**

On 1<sup>st</sup> September 2003 the council also entered into a contract with Owen Williams for the delivery of technical consultancy services. During 2008/09 the company was taken over by Amey and is now called Amey OW Limited. Under the contract with Amey OW Ltd for the provision of technical services the council paid £0 in 2012/13 (£410,000 in 2011/12).

#### **8.35.8 Amey Herefordshire Managing Agent Contract (MAC)**

During 2009 elements of the two contracts above with Amey were re-negotiated to form a 'Managing Agent Contract' (MAC) through which Amey Herefordshire deliver an 'end to end' highways, parks and public right of way service for the council and the people of Herefordshire. Through this partnership Amey also deliver a range of ancillary support services to the council, including printing, catering, courier and fleet maintenance. The above contracts remain in place for the delivery of all 'Non-MAC' services until September.

- 8.35.9 In total the council paid £ 38.5million to Amey Wye Valley in 2012/13 (£32 million in 2011/12).

#### 8.35.10 Fosca UK Limited

In 2009 the council entered into a 7 year contract with Fosca for the collection of household, recycling and commercial waste. The value of the contract over 7 years is around £30.5 million. Payments to Fosca totalled £4.7 million in 2012/13 (£3.9 million in 2011/12).

#### **Other organisations**

- 8.35.11 The council pays a management fee to Halo Leisure Trust for the provision of leisure facilities, including swimming pools and leisure centres. In 2012/13 the council paid £2.5 million to Halo Leisure Trust (£2.4 million in 2011/12). In 2012/13 the council paid £284,000 to the Courtyard Trust (£356,000 in 2011/12). The council has a commissioning agreement with the Trust based on agreed outcomes.
- 8.35.12 During the year the council made payments totalling £296,000 to Herefordshire Housing Ltd (£575,000 in 2011/12) including £229,000 of Supporting People Grant (£342,000) in 2011/12.
- 8.35.13 The council has an interest in company called Hereford Futures, whose role is to facilitate development and regeneration within Hereford. Payments were made to Hereford Futures amounting to £384,000 (£481,000 in 2011/12).
- 8.35.14 West Mercia Supplies (WMS) was a Purchasing Consortium that was established in 1987. It is constituted as a Joint Committee and Herefordshire Council is one of four constituent authorities. The other three Councils are Shropshire Council, Worcestershire County Council and Telford and Wrekin Council. The catalogue division of WMS was sold on 19th April 2012 and the WMS name and most of the staff transferred as part of the sales agreement, with the energy side of the organisation remaining with the four Member Authorities. The energy division will continue in operational existence under the trading name of "West Mercia Energy"(WME) for the foreseeable future. Payments of £544,000 were made in 2012/13 to WME.

#### **Jointly controlled organisation**

- 8.35.15 Hoople Ltd is a unique young company created in April 2011 to deliver quality business support services to clients across the public and private sector. During the review period Hoople Ltd was wholly owned by Herefordshire Council, NHS Herefordshire and Wye Valley NHS. On 31 March 2013, NHS Herefordshire ceased to exist and the share capital was returned to the Company. Each authority has two directors on the Board of the company.

During Hoople's second year of trading they continued to develop additional support services for the Shareholders, whilst achieving valuable commercial milestones. Externally they have continued to grow the business, and have a significant number of opportunities within the pipeline plan. They provided a range of Service support to a number of social enterprise clients. With regard to larger contracts they successfully retained and increased the schools business and delivered against their Skills Funding Agency Contract.

The inter-organisation transaction between the council and Hoople Ltd amounted to £9.295 million (£9.373 million in 2011/12). There were no contingent liabilities existing with Hoople Ltd that would affect the council. There were no capital commitments outstanding at 31<sup>st</sup> March 2013 payable to Hoople Ltd.

The reported year-end result of Hoople Ltd (approved by its Audit Committee but subject to the approval of its auditors) was a profit before tax of £36,916 (£64,178 in 2011/12). The council share of 62% is equivalent to £22,888 (£39,790 in 2011/12). In view of the immateriality of the share of balance sheet value, the council has opted not to prepare the Group Accounts for this financial year.

More information on Hoople Ltd can be found on [www.hoopleltd.co.uk](http://www.hoopleltd.co.uk)

8.35.16 All amounts for 2012/13 shown this section are net of value added tax; and 2011/12 amounts are also reinstated to net for comparison purpose.

#### **Outstanding balances with related parties**

8.35.17 As at 31<sup>st</sup> March 2013 significant amounts due to and from related parties were as follows:

Related Party	2012/13		2011/12	
	Due to £000	Due from £000	Due to £000	Due from £000
Amey Wye Valley	6,069	2,374	4,283	1,564
Courtyard Trust	0	6	5	0
FOCSA	364	0	377	0
Gloucestershire CC	0	164	15	0
Halo	0	969	0	436
Hereford and Worcs Fire	41	156	470	109
Herefordshire Housing	0	496	0	7
Herefordshire PCT	501	2,568	1	3,888
HM Revenue & Customs	1,766	4,916	1,904	1,795
Homepoint	0	0	140	0
Hoople Ltd	2,336	438	13	313
Heritage Lottery	0	0	5	171
Shaw Healthcare	0	0	7	0
Shropshire CC	40	3	9	0
West Mercia Police	99	379	0	399
West Mercia Surplies/ West Mercia Energy	64	296	707	1
Worcestershire County Council	3,813	25	615	6
Wye Valley Trust	1,938	964	897	1,143
2gether	3	221	1	1

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

8.35.19 In addition, there were capital grants of £13.5 million from government departments held in the Capital Grants Unapplied Reserve not yet applied to capital spend.

## 8.36 Capital Expenditure and Capital Financing

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

	2012/13 £000	2011/12 £000
<b>Opening capital financing requirement</b>	<b>208,730</b>	<b>208,227</b>
<b>Capital investment</b>		
Property, Plant and Equipment	35,828	41,119
Investment Properties	223	0
Intangible Assets	563	1,904
Revenue expenditure funded from capital under statute	1,949	6,414
Assets acquired under PFI contracts	4	715
Long term debtors (including PFI prepayments)	294	281
<b>Sources of Finance</b>		
Capital Receipts	(2,898)	(4,493)
Government grants and other contributions	(21,375)	(34,642)
Sums set aside from revenue:		
Direct revenue contributions	(294)	(281)
MRP	(10,812)	(10,514)
<b>Closing capital financing requirement</b>	<b>212,212</b>	<b>208,730</b>
<b>Explanation of movements in year</b>		
Increase in underlying need to borrowing (unsupported by government financial assistance)	13,757	10,302
Salix interest free loan	533	-
Assets acquired under PFI contracts	4	715
MRP	(10,812)	(10,514)
<b>Increase/(decrease) in Capital Financing Requirement</b>	<b>3,482</b>	<b>503</b>

## 8.37 Leases

### Authority as Lessee

#### **Finance Leases**

8.37.1 The council holds one car park and photocopiers under finance leases.

8.37.2 The assets acquired under these leases are carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts:

	31 March 2013 £000	31 March 2012 £000
Other land and buildings	534	454
Vehicles, plant, furniture and equipment	13	13
	<b>547</b>	<b>467</b>

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

	<b>31 March 2013</b> <b>£000</b>	<b>31 March 2012</b> <b>£000</b>
Finance lease liabilities (net present value of minimum lease payments):		
• current	2	12
• non current	320	322
Finance costs payable in future years	1,989	2,028
Minimum lease payments	<b>2,311</b>	<b>2,362</b>

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

	<b>Minimum lease payments</b>		<b>Finance lease liabilities</b>	
	<b>31 March 2013</b> <b>£000</b>	<b>31 March 2012</b> <b>£000</b>	<b>31 March 2013</b> <b>£000</b>	<b>31 March 2012</b> <b>£000</b>
Not later than one year	2	12	33	39
Later than one year and not later than five years	-	2	126	127
Later than five years	320	320	1,830	1,862
	<b>322</b>	<b>334</b>	<b>1,989</b>	<b>2,028</b>

8.37.5 The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2012/13 £116,000 contingent rents were payable by the authority (2011/12 £116,000).

### ***Operating leases***

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

	<b>31 March 2013</b> <b>£000</b>	<b>31 March 2012</b> <b>£000</b>
Not later than one year	867	932
Later than one year and not later than five years	1,671	2,165
Later than five years	870	1,102
	<b>3,408</b>	<b>4,199</b>

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

	<b>2012/13</b> <b>£000</b>	<b>2011/12</b> <b>£000</b>
Minimum lease payments	900	964

## **Authority as Lessor**

### **Finance Leases**

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

### **Operating leases**

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

- Retail
- Industrial Use
- Farming
- Other Commercial Use

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

	<b>31 March 2013</b>	<b>31 March 2012</b>
	<b>£000</b>	<b>£000</b>
Not later than one year	1,836	1,881
Later than one year and not later than five years	4,986	5,688
Later than five years	36,541	36,580
	<b>43,363</b>	<b>44,149</b>

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

## **8.38 Private Finance Initiatives and Similar Contracts**

8.38.1 The council has 2 formal PFIs, Whitecross School and Waste disposal (in partnership with Worcestershire County Council) and one other contract identified as falling under IFRIC 12, the Shaw Healthcare Contract.

### **Mercia Waste Management Ltd – waste management PFI contract**

8.38.2 In 1998 Herefordshire Council, in partnership with Worcestershire County Council, entered into a 25 year contract with Mercia Waste Management Ltd for the provision of an integrated waste management system using the Private Finance Initiative. 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 it is estimated that approximately 25% of the costs associated with the contract relate to Herefordshire Council.

8.38.3 The original life of the contract was 25 years with the option to extend this by 5 years. As at 31st March 2013, the waste disposal contract was subject to a standstill agreement, which temporarily suspends aspects of the contract pending negotiations to secure variations to the current contract. The failure of the contractor to secure planning permission for an Energy from Waste Plant at Kidderminster has meant that the two authorities would be unable to meet current targets for recycling and the diversion of waste from landfill. Negotiations continue to vary the current contract to secure longer-term waste treatment facilities within the two counties to enable targets to be met. To secure future

capacity to divert waste from landfill, Mercia Waste has gained planning permission for an Energy from Waste Plant for 200,000 tonnes per annum at Hartlebury in Worcestershire to deal with waste from the two counties.

- 8.38.4 Both Herefordshire Council and Worcestershire County Council are now negotiating with Mercia Waste Management the details of a Variation to the current contract that is affordable and delivers value for money

#### **Stepnell Ltd – School PFI Contract**

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

#### **Shaw Homes**

- 8.38.6 The council has a contract with Shaw Healthcare for the development and provision of residential homes and day care centres previously operated directly by the council. The contract expires in 2033/34 for all homes. The level of payments are dependent on the volume and nature of service elements and Shaw Healthcare's performance in providing services. The payments in respect of this contract was £3.5 million in 2012/13 (£3.5 million in 2011/12).

#### **Assets**

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

#### **Liabilities**

- 8.38.8 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:

	<b>2012/13</b>	<b>2011/12</b>
	<b>£000</b>	<b>£000</b>
Balance outstanding at start of year	28,870	29,054
Payments during the year	(956)	(899)
Capital expenditure in the year	4	715
Balance outstanding at year-end	<b>27,918</b>	<b>28,870</b>



## Payments

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

	<b>Service Charges £000</b>	<b>Lifecycle Costs £000</b>	<b>Finance liability £000</b>	<b>Interest &amp; similar £000</b>	<b>Total £000</b>
Within one year	12,376	354	1,056	2,106	15,892
Within two to five years	52,901	1,500	4,983	7,899	67,283
Within six to ten years	74,379	2,062	8,123	8,551	93,115
Within eleven to fifteen years	25,126	2,288	7,096	6,542	41,052
Within sixteen to twenty years	26,755	2,081	7,012	4,589	40,437
Within twenty-one to twenty-five years	5,910	69	891	1,097	7,967

## 8.39 Impairment Losses

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

<b>2012/13</b>				<b>2011/12</b>		
<b>Impairments £000</b>	<b>Reversals £000</b>	<b>Net Total £000</b>		<b>Impairments £000</b>	<b>Reversals £000</b>	<b>Net Total £000</b>
9,859	(1,463)	8,396	Land and buildings	6,819	(547)	6,272
511	0	511	Surplus assets	0	0	0
184	(62)	122	Assets held for sale	0	0	0
<b>10,554</b>	<b>(1,525)</b>	<b>9,029</b>	<b>Total</b>	<b>6,819</b>	<b>(547)</b>	<b>6,272</b>

8.39.2 In 2012/13 the largest impairment (£2.82 million) related to the council's Plough Lane offices, partly attributable to expenditure in 2011/12 not being reflected in the market value of the site.

## 8.40 Capitalisation of Borrowing Costs

8.40.1 The council has a policy of capitalising borrowing costs on relevant projects i.e. where schemes lasting more than 12 months and with at least £10,000 of interest associated with the project. In 2012/13 there were six capital schemes which fell into this category and therefore £0.4 million borrowing costs were capitalised.

## 8.41 Termination Benefits

8.41.1 The following table summarises the redundancies which occurred in 2012/13, with comparative numbers for 2011/12;

	<b>Compulsory redundancies</b>	<b>Other agreed departures</b>	<b>Total</b>
<b>2012/13</b>			
Number	60	20	80
Total Cost	£801,630	£310,291	£1,111,921
Average	£13,361	£15,515	£13,899
<b>2011/12</b>			
Number	132	79	211
Total Cost	£1,335,735	£1,711,476	£3,047,211
Average	£10,119	£21,664	£14,442

8.41.2 In addition, the total cost of actuarial strain relating to 2012/13 terminations was £346,000 (£877,000 in 2011/12). This is paid to the pension fund over 3 years. The actual amount of actuarial strain paid to Worcestershire County Council in 2012/13 was £587,000 (relating to retirements in 2010/11, 2011/12 and 2012/13).

8.41.3 A redundancy provision of £797,000 was also set aside based on the number of planned redundancies and staff identified at risk of redundancy at 31<sup>st</sup> March 2013.

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

Exit package cost band (including special payments)	Number of compulsory redundancies		Number of other agreed departures		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2012 /13	2011 /12	2012 /13	2011 /12	2012 /13	2011 /12	2012 /13	2011 /12
£0 - £20,000	47	112	15	39	62	151	437,897	935,157
£20,001 - £40,000	12	15	4	26	16	41	476,673	1,191,057
£40,001 - £60,000	0	2	1	6	1	8	46,722	370,979
£60,001 - £80,000	0	2	0	7	0	9	0	350,334
£80,001 - £100,000	0	1	0	0	0	1	0	83,802
£100,001 - £150,000	0	0	0	1	0	1	0	115,882
£150,001 - £200,000	1	0	0	0	1	0	150,629	0
<b>Total</b>	<b>60</b>	<b>132</b>	<b>20</b>	<b>79</b>	<b>80</b>	<b>211</b>	<b>1,111,921</b>	<b>3,047,211</b>

## **8.42 Pension Schemes accounted for as Defined Contribution Schemes**

- 8.42.1 Teachers employed by the council are members of the Teachers' Pension Scheme, which is a defined benefit scheme administered by the Teachers Pensions Agency. Although the scheme is unfunded, a notional fund is used as a basis for calculating the employers' contribution rate. It is not possible for the council to identify its share of the underlying liabilities in the scheme attributable to its own employees, and therefore for the purposes of the statement of accounts it is accounted for on the same basis as a defined contribution scheme, that is, actual costs are included in the revenue accounts, with no assets and liabilities in the balance sheet.
- 8.42.2 However, in addition to the current scheme the council is contributing to former Hereford and Worcester teachers' unfunded added years' benefits. The liability of £1.1 million is included in the pension fund liability in the balance sheet in 2012/13.
- 8.42.3 In 2012/13 the council paid employer contributions of £4.7 million in respect of teachers' pension costs, which represented 14.1% of teachers' pensionable pay. In addition, the council is responsible for all pension payments relating to added years it, or its predecessor authority, has awarded, together with the related increases. In 2012/13 these amounted to £109,000 representing 0.32% of pensionable pay. At the year-end there were contributions of £570,000 remaining payable, which related to the March 2013 contributions paid to the scheme in April 2013.

## **8.43 Defined Benefit Pension Schemes**

### **Participation in Pension Schemes**

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

### **Transactions Relating to Post-employment Benefits**

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

	<b>Local Government pension scheme</b>	
	<b>2012/13</b>	<b>2011/12</b>
	<b>£000</b>	<b>£000</b>
<b>Comprehensive Income and Expenditure Statement</b>		
<b>Cost of services:</b>		
• current Service cost	7,056	6,893
• past service cost/(gain)	63	67
• settlements and curtailments	(1,362)	(4,738)
<b>Financing and Investment Income and Expenditure:</b>		
• interest cost	17,819	18,382
• expected return on assets in the scheme	(12,875)	(14,977)
<b>Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services</b>	10,701	5,627
<b>Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</b>		
• actuarial (gains) and losses	27,164	31,658
<b>Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</b>	37,865	37,285
<b>Movement in Reserves Statement</b>		
Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits	(10,701)	(5,627)
<b>Amount charged to the General Fund Balance for pensions in the year</b>		
Employer's contribution payable to the scheme	9,717	9,843

8.43.4 The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to 31 March 2013 (since the introduction of the statement in the 2009/10 restated accounts) is a loss of £74.3 million.

#### **Assets and Liabilities in Relation to Post-employment Benefits**

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

	<b>2012/13</b>	<b>2011/12</b>
	<b>£000</b>	<b>£000</b>
1 <sup>st</sup> April	367,577	360,994
Current Service Cost	7,056	6,893
Interest Cost	17,819	18,382
Contributions by scheme participants	2,535	2,685
Actuarial (gains)/losses	44,708	12,164
Curtailments	422	1,011
Settlements	(1,970)	(19,187)
Benefits/transfers Paid	(15,387)	(15,432)
Past Service (gains) costs	63	67
31 <sup>st</sup> March	<b>422,823</b>	<b>367,577</b>

8.43.7 Reconciliation of fair value of the scheme assets:

	<b>2012/13</b>	<b>2011/12</b>
	<b>£000</b>	<b>£000</b>
1 <sup>st</sup> April	208,323	229,182
Expected rate of return	12,875	14,977
Actuarial gains/(losses)	17,544	(19,494)
Settlements	(186)	(13,438)
Employer contributions	9,717	9,843
Contributions by scheme participants	2,535	2,685
Benefits Paid	(15,387)	(15,432)
31 <sup>st</sup> March	<b>235,421</b>	<b>208,323</b>

8.43.9 The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields at the Balance Sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

8.43.10 The actual return on scheme assets in the year was £30.4 million (2011/12 £4.5 million loss)

### Scheme History

	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>	<b>2012/13</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Present value of liabilities	(276.9)	(379.5)	(361.0)	(367.6)	(422.8)
Value of Scheme assets	146.8	216.1	229.2	208.3	235.4
Surplus/(Deficit) in scheme	(130.1)	(163.4)	(131.8)	(159.3)	(187.4)

8.43.11 The liabilities show the underlying commitments that the council has in the long run to pay retirement benefits. The pension liability has a substantial impact on the net worth of the authority as recorded on the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Authority remains healthy:

- the deficit on the local government scheme will be made good by increased contributions over the working life of employees as assessed by the scheme actuary;
- finance is only required to be raised to cover discretionary benefits when the pensions are actually paid

8.43.12 Total employer contributions expected to be made to the Local Government Pension Scheme by the council in the year ended 31 March 2014 is £9.4 million.

### Basis for Estimating Assets and Liabilities

8.43.13 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 Local Government Pension Scheme has been assessed by Mercers, an independent firm of actuaries.

8.43.14 The principal assumptions used by the actuary have been;

	Beginning of period (p.a.)	End of period (p.a.)
<b>Long-term expected rate of return on assets in the scheme:</b>		
Equity investments	7.0%	7.0%
Government Bonds	3.1%	2.8%
Other bonds	4.1%	3.9%
Cash/liquidity	0.5%	0.5%
Other	7.0%	7.0%
<b>Mortality assumptions</b>		
Longevity at 65 for current pensioners:		
• Men	22.1 years	22.5 years
• Women	24.6 years	25.0 years
Longevity at 65 for future pensioners:		
• Men	23.5 years	24.3 years
• Women	26.1 years	27.0 years
Rate of CPI inflation	2.5%	2.4%
Rate of increase in salaries	4.0%	3.9%
Rate of increase in pensions	2.5%	2.4%
Rate for discounting scheme liabilities	4.9%	4.2%
Take-up of option to convert annual pension into retirement lump sum	50% take maximum cash, 50% take 3/80ths cash	

8.43.15 The pension scheme's assets consist of the following categories, by proportion of total assets held:

	31 March 2013 %	31 March 2012 %
Equities	90.8	88.9
Government Bonds	0.0	3.2
Other Bonds	7.4	4.0
Cash/Liquidity	1.8	3.9

### History of Experience Gains and Losses

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

	2008/09 %	2009/10 %	2010/11 %	2011/12 %	2012/13 %
Differences between the expected and actual return on assets	(39.9)	27.0	(2.4)	(9.4)	7.5
Experience gains and losses on liabilities	0	0	4.7	0	0

## 8.44 Contingent Liabilities

8.44.1 Local authorities are required to maintain a register of land charges in so far as they affect properties within their county or district. The purchasers of land within the county or district must obtain a search of the local land charges register.

Historically councils have charged varying rates for the provision of land charge searches. A national debate has arisen as to whether this information could or should be provided under the FOI Act or EIR at lesser or indeed no cost to the purchaser. Litigation has been threatened against the council in connection with this issue and may be in receipt of legal proceeding. If the claim succeeded it is estimated to cost the council around £375,000.

8.44.2 The council has the obligation for the after care of a number of closed landfill sites. No reliable estimate can be made of the future costs involved. However, as capital works are identified they are included in the capital programme.

8.44.3 There is a risk in relation to disputed items in the Amey contract. These disputed items total £3m and impact on both capital and revenue items. Work is ongoing to resolve these disputes and determine the appropriate outcome.

## 8.45 Contingent Assets

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

## 8.46 Nature and Extent of Risks Arising from Financial Instruments

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

- a. **Credit risk:** The possibility that other parties may fail to pay amounts owing to the council.
- b. **Liquidity risk:** The possibility that the council may have insufficient funds available to meet its financial commitments.
- c. **Market risk:** The possibility that the council may suffer financial loss as a result of economic changes such as interest rate fluctuations.

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

8.46.3 During the year the council's exposure to liquidity risk and market risk was considered to be no greater than previous years. However, the weak economy and the ongoing financial crisis in the Eurozone meant that exposure to credit risk increased. Treasury management sought to control this risk by only investing in the strongest financial institutions and by reducing the length of any term deposits made.

### Credit Risk

8.46.4 Credit risk arises from deposits with banks and other financial institutions, as well as credit exposures to the council's customers. Investments are only made in institutions recommended by Arlingclose, the council's treasury adviser. For credit rated counterparties, the council looks at the lowest long-term rating assigned by the three main credit rating agencies and the minimum criteria for UK institutions during 2012/13 was as follows:

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

- 8.46.5 The minimum criteria for UK institutions was A+ for 2011/12 but this was reduced for 2012/13 due to the downgrade below A+ of many institutions considered to be systemically important to the financial system.
- 8.46.6 During 2012/13 the council continued to restrict investments to only the largest and strongest of the UK banks, the Nationwide building society, other local authorities and instant access Money Market Funds.
- 8.46.7 The following analysis summarises the council's potential maximum exposure to credit risk, based on default and uncollectability over the last five financial years, adjusted to reflect current market conditions.

	<b>Amount at 31<sup>st</sup> March 2013</b>	<b>Historical experience of default</b>	<b>Historical experience adjusted for market conditions at 31<sup>st</sup> March 2013</b>	<b>Estimated maximum exposure to default and uncollectability 31 Mar 2013</b>	<b>Estimated maximum exposure to default and uncollectability 31 Mar 2012</b>
	<b>£000</b>	<b>%</b>	<b>%</b>	<b>£000</b>	<b>£000</b>
Deposits with banks and financial institutions	9,513	0	0	0	0
Customers	20,636	0.32%	0.35%	72	66

- 8.46.7 The amount outstanding for council debtors as at 31<sup>st</sup> March can be analysed by age as follows:

	<b>31 March 2013</b>	<b>Restated 31 March 2012</b>
	<b>£000</b>	<b>£000</b>
Less than 3 months	16,995	16,280
3 to 6 months	675	880
6 months to 1 year	1,335	746
More than 1 year	1,631	1,739
	<u>20,636</u>	<u>19,645</u>

The 2011/12 comparator has been restated as 2011/12 Statements only included trade debtors. This year's Statements include all debtors analysed as financial instruments as per note 8.16.3.

### **Liquidity Risk**

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



		<b>31 March 2013 £000</b>		<b>31 March 2012 £000</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Less than 1 year</b>		<b>33,855</b>		<b>17,562</b>
<b>More than one year:</b>				
Between 1 and 2 years	4,139		3,997	
Between 2 and 5 years	19,533		19,291	
Between 5 and 10 years	18,015		16,966	
More than 10 years	83,170	<b>124,857</b>	88,278	<b>128,532</b>
<b>Total borrowing per Balance Sheet</b>		<b>158,712</b>		<b>146,094</b>

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

### **Market Risk**

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

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

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

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

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

8.46.13 If interest rates had been 1% higher, with all other variables held constant, the financial impact on the council's borrowings and investments in 2012/13 would have been as follows:

	<b>1% Increase in Interest Rates £000</b>
Increase in interest payable on new borrowing	52
Increase in interest receivable on investment balances	284

As noted above, an increase in interest rates benefits the council in the short-term as the interest received on its investments tends to be at variable rates whereas all loans are currently at fixed rates.

## **8.47 Trust Funds**

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

	<b>Balance at 31/03/12</b>	<b>Revenue Transactions</b>		<b>New funds, Investment Sales and Revaluations</b>	<b>Balance at 31/03/13</b>
	<b>£</b>	<b>Income</b>	<b>Expenditure</b>	<b>£</b>	<b>£</b>
Education (small funds)	3,980	135		419	4,534
Sylvia Short Trust	1,103,813	42,000	(56,000)	8,000	1,097,813
Buchanan Trust	2,302,014	86,153	(160,510)		2,227,657
Other Funds	46,155	1,479			47,634
	<u>3,455,962</u>	<u>129,767</u>	<u>(216,510)</u>	<u>8,419</u>	<u>3,377,638</u>

8.47.2 The Sylvia Short Educational Charity was established to provide children with learning experience outside the curriculum. An independent investment manager administers the fund and the accounts are prepared by an external accountant appointed by the trustees. The 2012/13 accounts are not yet available and so the above figures for income and expenditure are estimates based upon the previous year.

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

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

8.47.5 Assets and liabilities on the funds at 31<sup>st</sup> March were:

	<b>2012/13</b>	<b>2011/12</b>
	<b>£000</b>	<b>£000</b>
Fixed Assets	1,186	1,186
Investments	1,111	1,107
Creditors	(16)	(16)
Debtors	16	16
Bad debt provision	(1)	(1)
Cash temporarily invested with Herefordshire Council	1,082	1,164
	<u>3,378</u>	<u>3,456</u>
 Represented by Trust Funds	 <u>3,378</u>	 <u>3,456</u>

## 9. COLLECTION FUND

9.1 The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates.

	Note	2012/13 £000	2012/13 £000	2011/12 £000
<b>Amounts required to be credited to the Collection Fund</b>				
Council Tax	2	94,191		93,146
Council Tax benefits		13,081	107,272	13,049
Income collectable from business ratepayers	1		44,573	42,788
			151,845	148,983
Contributions towards previous year's deficit			0	0
			151,845	148,983
<b>Amounts required to be debited to the Collection Fund</b>				
Precepts;				
West Mercia Police Authority			12,865	12,772
Hereford & Worcester Fire Authority			5,301	5,263
Herefordshire Council (including parishes)			89,441	88,681
Business rates				
Payment to national pool			44,275	42,487
Cost of Collection			298	301
Impairments of debts				
Write off of uncollectable amounts			132	78
Allowance for impairment			(23)	(37)
			152,289	149,545
<b>(Surplus)/Deficit for the Year</b>			444	562
<b>Balance brought forward</b>			915	354
<b>Balance carried forward</b>			1,359	916

## 9.2 Notes to the Collection Fund

1. The total non-domestic rateable value at the year-end was £123,705,001 and the national non-domestic rate multiplier for 2012/13 was 45.8p

<b>Non-domestic Ratepayers Income</b>	<b>2012/13</b>	<b>2011/12</b>
Non-domestic debit at 1 <sup>st</sup> April	54,927	51,993
<b>Add:</b>		
Transitional Premium	252	378
<b>Less:</b>		
Empty Allowances	1,935	1,825
Transitional Relief	215	365
Discretionary Relief	243	241
Mandatory Relief	7,904	6,934
Enterprise Zone	59	0
Write-offs	247	193
Interest on Refunds	3	25
<b>Income due from non-domestic ratepayers</b>	<b>44,573</b>	<b>42,788</b>

2. Council tax income is derived from charges raised according to the value of residential properties, which have been classified into eight valuation bands. Estimated values at 1<sup>st</sup> 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 2012/13 was £1,494.92 including fire, police and parish precepts, with a range of between £1,457.45 and £1,564.24. The council tax base used for setting the council tax in 2012/13 was 71,982.

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

<b>Band</b>	<b>Valuation Range</b>	<b>Charge Factor</b>	<b>Band D Equivalent</b>
A	Up to £40,000	6/9	6,832.00
B	£40,001 to £52,000	7/9	13,128.90
C	£52,001 to £68,000	8/9	12,851.10
D	£68,001 to £88,000	9/9	11,662.30
E	£88,001 to £120,000	11/9	12,532.40
F	£120,001 to £160,000	13/9	8,758.40
G	£160,001 to £320,000	15/9	5,312.10
H	Over £320,000	18/9	308.00
Crown			276.50
			<hr/> 71,661.70
	Other adjustments		320.30
	Council Tax Base		<hr/> 71,982.00

<b>Council Taxpayer Income</b>	<b>£000</b>	<b>£000</b>
Council Tax debit at 1 <sup>st</sup> April		119,015
<b>Add:</b>		
Redebits	85,194	
Banding Change	259	
Additional – Second Homes	486	
Additional – Empty Properties	549	86,488
		<hr/>
<b>Less:</b>		
Discounts	10,025	
Exemptions	3,318	
Benefits – Statutory	13,081	
Disablement Relief	123	
Transitional Relief	(3)	
Void Assessments	4	
Empty Assessments	84,764	111,312
		<hr/>
		94,191
		<hr/>

3. The major preceptors share of the Collection Fund Deficit as at 31<sup>st</sup> March 2013 is as follows;

<b>Preceptor</b>	<b>£000</b>
West Mercia Police Authority	160
Hereford & Worcester Fire & Rescue Authority	66
Herefordshire Council	1,133

## 10. DEFINITIONS

### **Accounting Policies**

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

### **Assets**

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

### **Borrowing costs**

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

### **Carrying amount**

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

### **Contingent Liability**

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

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

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

### **Creditors**

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

### **Debtors**

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

### **Depreciation**

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

### **Exchange Transactions**

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

### **Fair value**

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

**Finance lease**

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

**Financial Instrument**

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

**Grants and contributions**

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

**Historical cost**

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

**IFRIC**

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

**Impairment loss**

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

**Intangible Asset**

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

**Inventories**

These are assets;

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

**Investment property**

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

**Liabilities**

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

**Material**

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

**Non-Exchange Transactions**

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



**Operating lease**

A lease other than a finance lease

**Property, plant and equipment**

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

**Provision**

A liability of uncertain timing or amount.

**Related Party**

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

**Revenue**

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

**Soft loan**

A loan at less than the market interest rate.



**Chief Officer – Finance & Commercial**

David Powell, CPFA, IRRV (Hons)

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Your Ref:

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25 September 2013

Dear Sirs

**HEREFORDSHIRE COUNCIL  
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2013**

This representation letter is provided in connection with the audit of the financial statements of Herefordshire Council for the year ended 31 March 2013 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with International Financial Reporting.

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

**Financial Statements**

- i We have fulfilled our responsibilities for the preparation of the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ("the Code") as adapted for International Financial Reporting Standards; in particular the financial statements give a true and fair view in accordance therewith.
- ii We have complied with the requirements of all statutory directions and these matters have been appropriately reflected and disclosed in the financial statements.
- iii We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- iv Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- v We are satisfied that the material judgements used by us in the preparation of the financial statements are soundly based, in accordance with the Code, and adequately disclosed in the financial statements. There are no further material judgements that need to be disclosed.
- vi We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities for IAS19 disclosures are consistent with our knowledge. We confirm

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Working in partnership for the people of Herefordshire

Brockington, 35 Hafod Road, Hereford HR1 1SH

Herefordshire Council Main Switchboard (01432) 260000, [www.herefordshire.gov.uk](http://www.herefordshire.gov.uk)

NHS Herefordshire Main Switchboard (01432) 344344, [www.herefordshire.nhs.uk](http://www.herefordshire.nhs.uk)

that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant retirement benefits have been identified and properly accounted for (including any arrangements that are statutory, contractual or implicit in the employer's actions, that arise in the UK or overseas, that are funded or unfunded).

- vii Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the code.
- viii All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the code requires adjustment or disclosure have been adjusted or disclosed.
- ix We have not adjusted the misstatements brought to our attention in the Audit Findings report, which are considered to be immaterial to the results of the Council and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.
- x We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xi We believe that the Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements.

### **Information Provided**

- xii We have provided you with:
  - a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - b. additional information that you have requested from us for the purpose of your audit; and
  - c. unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence
- xiii We have communicated to you all deficiencies in internal control of which management is aware.
- xiv All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xv We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- xvi We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council and involves:
  - a. management;
  - b. employees who have significant roles in internal control; or
  - c. others where the fraud could have a material effect on the financial statements.

- xvii We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, regulators or others.
- xviii We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xix We have disclosed to you the entity of the Council's related parties and all the related party relationships and transactions of which we are aware.

### **Annual Governance Statement**

- xx We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS

### **Approval**

The approval of this letter of representation was minuted by the Council's Audit and Governance Committee at its meeting on 25 September.

### **Signed on behalf of the Council**

Name: David Powell

Position: Chief Officer: Finance & Commercial

Date: 25 September 2013

Name Cllr John Stone

Position: Chairman – Audit & Governance Committee

Date: 25 September 2015

