Herefordshire Council

Agenda

Audit and governance committee

Date:	**Friday 30 July 2021**
Time:	**10.15 am**
Place:	**Herefordshire Council Offices, Plough Lane, Hereford, HR4 0LE**
Notes:	Please note the time, date and venue of the meeting. For any further information please contact: **Ben Baugh** Tel: 01432 261882 Email: ben.baugh2@herefordshire.gov.uk

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Agenda for the meeting of the Audit and governance committee

Membership

Chairperson	**Councillor Nigel Shaw**
Vice-chairperson	**Councillor Christy Bolderson**
	Councillor Jenny Bartlett
	Councillor Dave Boulter
	Councillor Peter Jinman
	Councillor Bob Matthews
	Councillor Yolande Watson

Agenda

		Pages
1.	**APOLOGIES FOR ABSENCE** To receive apologies for absence.	
2.	**NAMED SUBSTITUTES** To receive details of any member nominated to attend the meeting in place of a member of the committee.	
3.	**DECLARATIONS OF INTEREST** To receive any declarations of interests in respect of schedule 1, schedule 2 or other interests from members of the committee in respect of items on the agenda.	
4.	**MINUTES** To approve the minutes of the meeting held on 28 June 2021. **How to submit questions** The deadline for the submission of questions for this meeting is 5.00 pm on Monday 26 July 2021. Questions must be submitted to councillorservices@herefordshire.gov.uk. Questions sent to any other address may not be accepted. Accepted questions and the responses will be published as a supplement to the agenda papers prior to the meeting. Further information and guidance is available at www.herefordshire.gov.uk/council/get-involved/3	9 - 16
5.	**QUESTIONS FROM MEMBERS OF THE PUBLIC** To receive any written questions from members of the public.	
6.	**QUESTIONS FROM COUNCILLORS** To receive any written questions from councillors.	
7.	**2019/20 EXTERNAL AUDIT FINDINGS REPORT** To consider the external auditors audit finding report for the year ended 31 March 2020.	17 - 60
8.	**ANNUAL GOVERNANCE STATEMENT – FINAL FOR 2019/2020** To agree the annual governance statement 2019/20.	To Follow
9.	**ANNUAL GOVERNANCE STATEMENT – DRAFT FOR 2020/2021** To seek the view of the committee as to whether the draft annual governance statement (AGS) for 2020/21 properly reflects the risk environment the council is operating in and the appropriateness of any actions required to improve it. The draft will be published with the draft statement of accounts.	To Follow

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Please take time to read the latest guidance on the council website by following the link at www.herefordshire.gov.uk/meetings and support us in promoting a safe environment for everyone. If you have any queries please contact the governance support team on 01432 260201 / 261699 or at governancesupportteam@herefordshire.gov.uk

We will review and update this guidance in line with Government advice and restrictions.

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- Attend all council, cabinet, committee and sub-committee meetings unless the business to be transacted would disclose 'confidential' or 'exempt' information.
- Inspect agenda and public reports at least five clear days before the date of the meeting. Agenda and reports (relating to items to be considered in public) are available at www.herefordshire.gov.uk/meetings
- Inspect minutes of the council and all committees and sub-committees and written statements of decisions taken by the cabinet or individual cabinet members for up to six years following a meeting.
- Inspect background papers used in the preparation of public reports for a period of up to four years from the date of the meeting (a list of the background papers to a report is given at the end of each report). A background paper is a document on which the officer has relied in writing the report and which otherwise is not available to the public.
- Access to a public register stating the names, addresses and wards of all councillors with details of the membership of cabinet and of all committees and sub-committees. Information about councillors is available at www.herefordshire.gov.uk/councillors
- Have access to a list specifying those powers on which the council have delegated decision making to their officers identifying the officers concerned by title. The council's constitution is available at www.herefordshire.gov.uk/constitution
- Access to this summary of your rights as members of the public to attend meetings of the council, cabinet, committees and sub-committees and to inspect documents.

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The location of the office and details of city bus services can be viewed at:
www.herefordshire.gov.uk/downloads/file/1597/hereford-city-bus-map-local-services-

Herefordshire Council

The seven principles of public life

(Nolan principles)

1. Selflessness

Holders of public office should act solely in terms of the public interest.

2. Integrity

Holders of public office must avoid placing themselves under any obligation to people or organisations that might try inappropriately to influence them in their work. They should not act or take decisions in order to gain financial or other material benefits for themselves, their family, or their friends. They must declare and resolve any interests and relationships.

3. Objectivity

Holders of public office must act and take decisions impartially, fairly and on merit, using the best evidence and without discrimination or bias.

4. Accountability

Holders of public office are accountable to the public for their decisions and actions and must submit themselves to the scrutiny necessary to ensure this.

5. Openness

Holders of public office should act and take decisions in an open and transparent manner. Information should not be withheld from the public unless there are clear and lawful reasons for so doing.

6. Honesty

Holders of public office should be truthful.

7. Leadership

Holders of public office should exhibit these principles in their own behaviour. They should actively promote and robustly support the principles and be willing to challenge poor behaviour wherever it occurs.

Herefordshire Council

Minutes of the meeting of Audit and governance committee held at Three Counties Hotel, Belmont Road, Belmont, Hereford, HR2 7BP on Monday 28 June 2021 at 10.30 am

Present: **Councillors Nigel Shaw (Chairperson), Christy Bolderson (Vice-chairperson), Dave Boulter, Peter Jinman, Bob Matthews, Jenny Bartlett and David Summers**

In attendance: Councillors David Hitchiner (Leader of the Council) and Liz Harvey (Cabinet member - finance, corporate services and planning)*

Officers: Claire Ward (Acting deputy chief executive - solicitor to the council), Andrew Lovegrove (Acting deputy chief executive - chief finance officer), Josie Rushgrove (Head of corporate finance)*, Kevin Bishop (Lead development manager)*, Andy Churcher (Portfolio manager)*, Yvonne Coleman (Planning obligations manager)*, Andrew Husband (Strategic property services manager)*, Chris Jenner (Assistant director for technical services)*, Jonathan Nelson (Counter fraud specialist)*, Ben Baugh (Democratic services officer) and Jenny Preece (Democratic services officer)

Others present: Jacqui Gooding (South West Audit Partnership)* and Amy Probert (South West Audit Partnership)*

[* attended as virtual participant(s)]

1 APOLOGIES FOR ABSENCE

Apologies for absence had been received from committee member Councillor Yolande Watson.

2 NAMED SUBSTITUTES

Councillor David Summers attended the meeting as a substitute member for Councillor Yolande Watson.

3 DECLARATIONS OF INTEREST

No declarations of interest were made.

4 QUESTIONS FROM MEMBERS OF THE PUBLIC

No questions had been received from members of the public.

5 QUESTIONS FROM COUNCILLORS

No questions had been received from councillors.

6 MINUTES

The minutes of the meeting held on 4 May 2021 were received.

Attention was drawn to the action log attached to the minutes. It was suggested that action owners be asked to comment on the reasons why actions had not been completed by the due dates and, if necessary, invite them to request revised due dates. There was a brief discussion about the need to interrogate the reasoning behind due dates to ensure that they met the expectations of the committee, and to identify clearly where changes had been made to the action log.

RESOLVED: That the minutes of the meeting held on 4 May 2021 be approved as a correct record and be signed by the chairperson.

7 PROGRESS REPORT ON INTERNAL AUDIT ACTIVITY

The committee considered the progress report on internal audit activity.

Representatives of South West Audit Partnership (SWAP) presented the report and highlighted the following key points:

i. Since the last update, eighteen audits had been completed, two audits were at report stage, eleven audits were in progress, and two follow ups had been completed.

ii. For the audits completed: two were limited assurance; six were reasonable assurance; three were substantial assurance; four were grant certifications and were reasonable; two were advisory audits; and one was a Covid-19 advisory audit.

iii. In the period covered by the report, six priority 2 recommendations had been made: Section 106 agreements had two; Education Health Care Plans had one; commercial investments had two; and accounts receivable had one. No final reports identified high corporate risks.

iv. The pandemic and associated additional work had impacted on some of the timescales for the completion of audits, with priority being given to the completion of the 2020/21 audits ready for the annual opinion.

v. Attention was drawn to: the approved changes to 2021/22 quarter 1 internal audit plan, as a result of requests for additional pieces of work, including grant certifications; the proposed 2021/22 quarter 2 plan; and the counter fraud update.

Questions and comments were invited from committee members on the priority 2 findings, and responses were provided by the attending officers, the principal points included:

Section 106 agreements

1. It had not been found that resourcing in legal services had impacted upon the delivery of Section 106 agreements.

2. Reference to 'external organisations' related to bodies such as the Environment Agency and Herefordshire and Worcestershire Clinical Commissioning Group in the sentence 'With regards to reporting on the Section 106 monies paid to external organisations, the Planning Obligations Manager will write to those organisations on a biannual basis outlining what money they have received and asking them to advise the council on what the monies have been spent' (agenda page 32). It was confirmed that the finding arose from gaps in information and the need for improved recording.

3. The committee was advised that the action dates reflected the need to develop and implement an appropriate software system.

4. The action 'information in relation to Section 106 monies held by council should be reported on a biannual basis to senior management' (agenda page 31) would be delivered through the council's management board, rather than cabinet.

5. It was reported that the council held £9.1m in Section 106 monies, split across twelve service areas; the largest funding pot being for transport / highways of £4.2m. It was noted that some agreements had expiry dates but others did not. It was requested that details of the proportion that had passed the repayment date be circulated to committee members.

6. The committee was advised that the infrastructure funding statement identified the financial contributions secured and the monies spent on an annual basis. The committee discussed the need to monitor each service area to ensure that the monies were spent in the requisite timescale and to avoid inflation diminishing the value of the monies secured.

7. In response to a comment about information for ward councillors and local councils, attention was drawn to the 'Section 106 contributions search' facility on the council's website: www.herefordshire.gov.uk/local-plan-1/section-106-planning-obligations/3.

8. It was reported that the amount held was not unusual and monies were being spent proactively and some capital projects required an amalgamation of funding. It was also reported that a piece of work was being undertaken on the management of the spend of transport / highways monies.

9. The process for reflecting internal audit recommendations in the budget and in risk registers was questioned. The solicitor to the council provided an overview of the risk escalation process and of the role of corporate services going forward. There was a brief discussion about the resourcing challenges associated with the commissioning of transport / highways projects and it was requested that further information be circulated to committee members.

10. It was recommended that enhanced training be provided for all members on Section 106.

11. It was confirmed that follow up audits would be completed where the auditor could only provide limited assurance.

12. The chief finance officer recognised the concern about the pace of Section 106 monies being deployed and said that the planning obligations team and corporate services would look at this jointly; reference was also made to the potential for the council to lend money to itself to progress certain schemes in advance of some developer contributions being received. In response to a question, it was confirmed that Section 106 agreements were index linked from the date of the agreement to the date of the payment.

Education Health Care (EHC) Plans

13. An outline was provided of the further investigations being undertaken by the service area on the reasons for some EHC Plans not being recorded in the Synergy system and the longer term intention to use a different element of the system for the recording.

14. The committee was advised that the absence of records of completed annual reviews for 47 of 93 EHC Plans did not necessarily mean that no actions had been undertaken but it could not be guaranteed that there had been no impact on children as a result of this situation. It was noted that the follow up audit would be of interest to the committee.

Commercial investments

15. In relation to the monitoring of income and expenditure for Maylord shopping centre, an outline was provided of the work being undertaken to improve the information being received from the agent and the related processes. It was reported that there was an

annual financial plan, and a medium and long term financial plan was in development as part of the overall strategy for the site.

16. The arrangements for the annual service charge budget and payments were explained. It was requested that appropriate details of the deduction of £172k for expenditure paid on behalf of the council be provided to committee members. Clarification would also be provided on whether the audit included other payments / deductions.

17. The cabinet member - finance, corporate services and planning welcomed the audit and commented on some issues that had been identified with the contractor’s practices.

18. The chairperson noted that there was a learning curve associated with the management of a commercial enterprise in this way and the importance of the follow up audit.

19. In relation to the payment process control issue, the chairperson expressed concern about the action date of 31 January 2022. It was explained that the issue had been addressed and the date reflected the next scheduled review and update to the Contract and Financial Procedure Rules.

Accounts receivable

20. The committee was advised about improvements to the reports on aged debt to enable budget holders to interpret the results better, work undertaken to move from a manual to an automated process for issuing statements, and the intention to revisit the Debt Recovery Policy before 31 November 2021.

Questions and comments were also invited from committee members on the follow up audits, and responses were provided by the attending officers, the principal points included:

Treasury management

21. It was confirmed that the monthly payroll figures were now being shared with the head of corporate finance.

22. It was commented that, as this had been a long outstanding recommendation, the committee might have expected this to have been reported earlier, such as in the update on internal audit recommendations.

Project management / Home Point

23. It was confirmed that the Programme Management Office (PMO) had introduced a new project management process and related documentation, and the Verto project management tool had been updated accordingly. Extensions to the target dates had been sought to enable a full review to be undertaken of the existing process and significant changes to be made.

24. An overview was provided of the implementation of new software to manage registered providers of housing but, with project closure and transfer to ‘business as usual’, the PMO officers present could not comment on current usage by the housing service.

25. It was acknowledged by SWAP that the presentation of such follow up audits could be reviewed to ensure that the recommendations for different audits could be differentiated more easily in the future, e.g. separating the general project management actions from a specific action relating to Home Point.

26. Comments were made about the need for timely completion of agreed actions and for appropriate reporting where original target dates could not be met. It was requested that the head of corporate performance be asked to confirm that the position and completion of actions identified in follow up audits would be captured in the council's action tracking.

27. An overview was provided of the lines on the capital programme being managed on Verto currently. The prioritisation of projects and migration of existing projects were also outlined. It was reported that there were challenges around the recruitment of project managers and project support staff currently.

28. Concerns were expressed about the potential risks associated with projects not being delivered or with internal audit recommendations not being actioned. It was emphasised that, whilst not all projects were on Verto, projects reported to a project board. Further details were also provided about the recruitment and deployment of PMO staff.

29. The cabinet member - finance, corporate services and planning commented on historic issues with project management, the need to create the PMO and to recruit people with the appropriate skillsets internally or externally, and the importance of spreading project management culture and ethos throughout the whole organisation.

30. It was reported that sessions on the new process had been provided to the leadership group, some service teams and members. It was confirmed that an e-learning package was in development to help officers understand the process and the PMO intranet site had been updated recently.

31. The committee was advised that the number of lines on capital programme being managed on Verto was higher than 50% and it was agreed that further details would be circulated to committee members.

Attention was drawn to the summary of recommendations by priority per quarter for 2020/21 (agenda page 42) and to the increase in Priority 3 recommendations in quarter 4. It was reported that this was primarily due to the completion of the eighteen audits in that timeframe.

Attention was also drawn to the revised internal audit work plan quarter 1 2021-22 (agenda page 52) and to the number of audits not started. It was confirmed that SWAP were behind with the plan and it was reiterated that priority was being given to the completion of the 2020/21 audits. It was also reported that SWAP had recruited a new team member recently which would help with the backlog and to move forward as quickly as possible.

A brief overview was provided of the audit of 'loss of monies – Children's – Special Investigation' (referenced on agenda page 51). The chief finance officer advised that the money had not been recovered and that the matter had been reported to the police. Assurance was provided that the changes that had been made should prevent a reoccurrence of this type of incident.

The committee considered recommendations and actions, and agreed the following resolution.

RESOLVED: That

a. the committee has reviewed performance against the approved plan;

b. the committee has considered the assurances provided and the recommendations which the report makes;

c. the proposed 2nd quarter internal audit plan 2021-22, appendix A to the report, has been reviewed;

d. the corporate fraud update has been noted; and

e. the following actions be agreed:

- **i. that training be arranged for councillors in relation to Section 106, including the facility to access publicly available information and the processes involved;**

- **ii. information on the position with Section 106 monies held, including timelines and quantification of the value of unspent money which exceeds the repayment dates be circulated to committee members;**

- **iii. information on the treatment of Section 106 monies for transport / highways be circulated to committee members;**

- **iv. appropriate details of the deduction of £172k for expenditure paid on behalf of the council in relation to Maylord shopping centre be circulated to committee members;**

- **v. that it be made clear in future internal audit plan progress reports which specific audits the follow-ups relate to;**

- **vi. that follow-up audits completion be captured in action tracking by the head of corporate performance; and**

- **vii. that the number of lines of the capital programme and proportion of capital spend being managed through Verto be circulated to committee members.**

8 COUNTER FRAUD AND CORRUPTION STRATEGY UPDATE

The committee considered the updated counter fraud and corruption strategy 2021-2024.

It was noted that the committee had considered a draft document at its meeting on 26 January 2021 (minute 45 of 2020/21 refers) and the revisions that had been made in response to the recommended actions identified by the committee were explained in detail.

Attention was drawn to the fraud response flowchart (agenda page 75) and it was commented that ‘consider lessons learned’ was just as important for a successful outcome as for an unsuccessful outcome. It was agreed that the flowchart would be adjusted accordingly.

RESOLVED: That, subject to the identified adjustment to the fraud response flowchart, the updated Counter Fraud and Corruption Strategy 2021-2024, as attached at appendix A to the report, be agreed.

9 WORK PROGRAMME UPDATE

It was requested that the work programme document be printed for members at an appropriate scale for ease of review at future committee meetings. It was also requested that the use of shading and colour on the document be reviewed.

RESOLVED: That the work programme be agreed.

The meeting ended at 1.00 pm

Chairperson

COMPLETED ACTIONS WILL BE MOVED TO THE 'REPORTED COMPLETE' TAB ONCE THEY HAVE BEEN NOTIFIED AT AUDIT AND GOVERNANCE COMMITTEE MEETING

RED TEXT INDICATES UPDATES MADE SINCE THE LAST MEETING
BLUE TEXT INDICATES NEW ACTIONS ADDED FOLLOWING THE LAST MEETING

Action Number	Meeting Date	Action	Owner	Directorate	Progress Update	Due date	Reported complete
74	17 November 2020	The chief finance officer and monitoring officer consider that the Hereford city centre transport governance review undertaken by internal audit be circulated to the committee.	Solicitor to the Council	Corporate support centre	Matter still under consideration by solicitor to the council. Documents circulated to committee members on 22 July 2021.	01 July 2021	Yes
87	26 January 2021	Further work be undertaken to provide clarity when the council needed technical assistance in developing a tender and whether or not the organisation who had assisted could or could not bid on the work being tendered.	Head of corporate services	Corporate support centre	Work in progress	01 June 2021	
89	16 March 2021	That the wording for EP19 [planning applications validating and registering in time] and EP23 [planning applications at committee against officer recommendation] be reworded to appropriately reflect the risks.	Head of corporate performance	Corporate support centre	Escalated with E&P directorate This has been re-challenged, with a view to being updated by the end of July risk register.	04/05/2021 01 August 2021	
90	16 March 2021	That consideration be given to the inclusion of a risk in connection with the River Lugg position statement which may mean that there is a potential impact of disproportionate housing allocation in certain parts of the county.	Head of corporate performance	Corporate support centre	Escalated to E&P directorate, awaiting confirmation. Risks in relation to the Lugg condition and housing supply across the county are already held at directorate level risk registers. This has again been escalted to the directorate to consider the risk.	01 June 2021	Yes
91	16 March 2021	Consider how corporate centre will look at the aggregation of similar risks in or across directorates.	Head of corporate performance	Corporate support centre	A process to define the approach to aggregation of risks, both horizontal and vertical, needs further definition and testing. This will be included as part of the refreshed Risk Management Plan, tested with AGC recently, due, as planned, for sign off in Autumn by Solicitor to the Council.	01 November 2021	
92	16 March 2021	Changes in the risk registers to be highlighted to aid the committee in identifying when changes have been made.	Head of corporate performance	Corporate support centre	A table to show changes to directorate risk registers was included within the May report to committee (as per original due date). The next report to committee (due September) will ensure that changes on the Corporate Risk Register (at appendix A) are clearly marked	04/05/2021 30 September 2021	
94	04 May 2021	The head of corporate performance and interim deputy monitoring officer agreed to look at the processes for ensuring internal audit actions are brought to the attention of new post holders.	Head of corporate performance and interim DMO	Corporate Support Centre	An updated process is currently being developed which will ensure regular review of internal audit actions, as part of direcorate DLTs. This will escalate the importance and delivery of audit recommendations due to regular review by SMTs, and ensure staff recognise where they transfer between officers.	28/06/21 01 September 2021	
95	04 May 2021	The committee suggested that a discussion with internal audit take place at the next meeting with regard to sampling of priority 3 actions are followed up by internal audit in line with the same way as priority 1 or 2 recommendations.	SWAP internal audit services	Corporate support centre	To be discussed at committee meeting to be held on 28 June 2021. SWAP advises 'Internal Audit follow up the significant findings priority 1 and 2. Priority 3 are through self-assessment from officers. The Council provides a report every 6 months on progress against all actions which includes priority 3 actions'	28/06/21 30 September 2021	
97	04 May 2021	The deputy S151 officer also explained that performance and budget were reported to Cabinet on a quarterly basis but that consideration would be given to the role of the audit and governance committee.	S151	Corporate support centre	Being considered To be explored further with the S151 officer and the Monitoring Officer	28/07/2021 30 September 2021	
98	04 May 2021	The committee indicated that they would welcome further training on the risk framework, either as a joint session with the Leadership Team or just for the committee.	Head of corporate performance	Corporate support centre	Suggest that options could be considered at the Risk Management Plan review session on June 25th. This was picked up at the meeting (on 25/06), and options provided. These have been shared with Democratic Services for consideration as part of member training and development programmes.	25 June 2021	Yes
99	04 May 2021	The committee agreed that there would be need to be further consideration of identifying 1 or more risks in the directorate risk registers and undertake a deep dive to provide assurance that the risk management framework was being applied appropriately.	Head of corporate performance	Corporate support centre	Suggest that options could be considered at the Risk Management Plan review session on June 25th. Options considered as part of meeting (25/06), exploring the possibility of inviting directors for next risk management report at AGC.	25 June 2021	
100	04 May 2021	Whistleblowing report to be scheduled for committee meeting on 30 July	Solicitor to the Council	Corporate support centre	Scheduled for 30 July meeting; rescheduled to the September 2021 meeting	28/06/21 30 September 2021	
101	28 June 2021	That training be arranged for councillors in relation to Section 106, including the facility to access publicly available information and the processes involved.	Assistant director for regulatory environment and waste	Economy and place	Training on s.106 will be provided to members in accordance with the dates reserved for member training. This will include training on how to access the information held by the council.	31 December 2021	
102	28 June 2021	Information on the position with Section 106 monies held, including timelines and quantification of the value of unspent money which exceeds the repayment dates be circulated to committee members.	Assistant director for regulatory environment and waste	Economy and place	A report will be circulated to members detailing this.	30 September 2021	
103	28 June 2021	Information on the treatment of Section 106 monies for transport / highways be circulated to committee members.	Assistant director for regulatory environment and waste	Economy and place	Work is ongoing with the Programme Management Office to provide resource for the transport/highways service so that s.106 monies for the public realm can be more effectively processed.	31 December 2021	
104	28 June 2021	Appropriate details of the deduction of £172k for expenditure paid on behalf of the council in relation to Maylord shopping centre be circulated to committee members.	Assistant director for technical services	Corporate support centre	The information is being collated in an appropriate format for circulation.	30 July 2021	
105	28 June 2021	That it be made clear in future internal audit plan progress reports which specific audits the follow-ups relate to.	SWAP internal audit services	Corporate support centre	To be incorporated into the next internal audit progress report.	30 September 2021	
106	28 June 2021	That follow-up audits completion be captured in action tracking by the head of corporate performance.	Head of corporate performance	Corporate support centre	As per line 94, a refreshed process for consideration of Internal Audit recommendations is being pulled together. These recommendations should also be included within this process, and subsequently in to the November AGC meeting.	24 November 2021	
107	28 June 2021	That the number of lines of the capital programme and proportion of capital spend being managed through Verto be circulated to committee members.	Capital portfolio manager	Corporate support centre	An analysis has been provided and will be circulated to committee members shortly.	30 July 2021	Yes

Herefordshire Council

Title of report: 2019/20 external audit findings report

Meeting: Audit and governance committee

Meeting date: Friday 30 July 2021

Report by: Chief finance officer;

Classification

Open

Decision type

This is not an executive decision

Wards affected

(All Wards)

Purpose

To consider the external auditors audit finding report for the year ended 31 March 2020.

This is one of a number of reports which the committee receives in order that it may provide independent assurance on the adequacy of the risk management framework together with the internal control of the financial reporting and annual governance processes

Recommendation(s)

That:

a) the report of the external auditor attached at appendix A be considered; and

b) the committee determine whether any issues raised in the report require inclusion in the committee's future workplan.

Alternative options

1. There are no alternative options to receiving the report.

Further information on the subject of this report is available from
Josie Rushgrove, Tel: 01432 261867, email: jrushgrove@herefordshire.gov.uk

2. It is open to the committee to determine its future work programme to enable it to provide assurance on the adequacy of the council's risk management, financial reporting and annual governance processes. It is also open to the committee to comment on the scope and depth of external audit work and to ensure it gives value for money

Key considerations

3. The external audit findings report is attached at Appendix A and details the work and findings completed. An initial external audit finding report was presented to the committee on 25 September 2020, red text in Appendix A indicates new text.

4. The external auditor provides an independent opinion as to whether the group, being Herefordshire Council and Hoople Limited, financial statements give a true and fair view of the group's council's financial position and of the group and council's expenditure and income for the year, and have been properly prepared. In addition the external auditor is required to determine if the council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the value for money (VFM) conclusion). Grant Thornton have qualified their value for money opinion following several issues arising within the Capital Programme and Children's Services – see pages 21 to 25 of Appendix A for further details.

5. The audit findings report includes an action plan agreed by the chief finance officer to enable improvements to be made for 2020/21. This action has been agreed.

6. Grant Thornton have certified the closure of the 2019/20 audit of Herefordshire Council in the audit report and prior years certificates have also been closed.

Community impact

7. In accordance with the code of corporate governance to support effective accountability the council is committed to reporting on actions completed and outcomes achieved, and ensuring stakeholders are able to understand and respond as the council plans and carries out its activities in a transparent manner. External audit contributes to effective accountability.

Environmental impact

8. Herefordshire Council provides and purchases a wide range of services for the people of Herefordshire. Together with partner organisations in the private, public and voluntary sectors we share a strong commitment to improving our environmental sustainability, achieving carbon neutrality and to protect and enhance Herefordshire's outstanding natural environment.

9. Whilst this is a report for information and will have minimal environmental impacts, consideration has been made to minimise waste and resource use in line with the council's Environmental Policy

Equality duty

10. Under section 149 of the Equality Act 2010, the ‘general duty’ on public authorities is set out as follows:

    A public authority must, in the exercise of its functions, have due regard to the need to –

    a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;

    b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;

    c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

11. The public sector equality duty (specific duty) requires us to consider how we can positively contribute to the advancement of equality and good relations, and demonstrate that we are paying ‘due regard’ in our decision making in the design of policies and in the delivery of services. As this is a report for information, we do not believe that it will have an impact on our equality duty.

Resource implications

12. The impact of COVID 19 on the audit of the financial statements include:

    i. Revisiting planning and refresh risk assessments, materiality and testing levels.

    ii. Management’s assumptions and estimates - there is increased uncertainty over many estimates including property, pension and other investment valuations and we are required to understand and challenge the assumptions applied by management.

    iii. Financial resilience assessment – we are required to consider the financial resilience of audited bodies this has increased the amount of work that we need to undertake on going concern and value for money (financial sustainability).

    iv. Remote working – the most significant impact in terms of delivery.

13. Grant Thornton has been discussing this issue with the Public Sector Audit Appointments to remedy covering the associated additional costs.

Legal implications

14. The external audit opinion considered whether the financial statements give a true and fair view in accordance with International Financial Reporting Standards and the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and applicable law.

15. In accordance with section 20 of the Local Audit and Accountability Act 2014 (the Act) the external auditor must be satisfied (a) that the accounts comply with the requirements

of the enactments that apply to them, (b) that proper practices have been observed in the preparation of the statement of accounts, and that the statement presents a true and fair view, and (c) that the authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

16. On conclusion of the audit the auditor must enter on the statement of accounts (a) a certificate that the auditor has completed the audit in accordance with the Act, and (b) the auditor's opinion on the statement.

17. Due to ongoing value for money work the deadlines have not been met.

Risk management

18. The council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control. The external audit is not designed to test all internal controls or identify all areas of control weakness, however, if external audit identify any control weaknesses, these are reported. The external audit work continues in this area, the audit findings report attached at appendix A details the conclusions on work completed.

Consultees

19. None.

Appendices

Appendix A External audit findings report – 2019/20

Background papers

None identified.

Grant Thornton

The Audit Findings for Herefordshire Council

Year ended 31 March 2020

July 2021

Contents

Your key Grant Thornton team members are:

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Jon Roberts
Partner
T: 0117 305 7699
E: Jon.Roberts@uk.gt.com

Gail Turner-Radcliffe
Audit Manager
T: 029 2034 7546
E: Gail.Turner-Radcliffe@uk.gt.com

Zarak Zaman
Audit Associate
T: 0121 232 5392
E: Zarak.S.Zaman@uk.gt.com

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Headlines

This table summarises the key findings and other matters arising from the statutory audit of Herefordshire Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2020 for those charged with governance.

Covid-19	The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Council and group, including the delivery of front-line activities to the vulnerable, administration of grants to businesses and the closure of community facilities. These operation challenges have been coupled with uncertainty over future funding for the Council due to a loss of core income streams as well as additional costs introduced in delivering services in line with emerging government guidance. The Finance team have also faced significant challenges in continuing their day to day operations, including remote access to systems and providing support to other service areas to prioritise support for the vulnerable and local businesses. Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the CIPFA Code of Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financial statements to 30 November 2020.	We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan addendum on 4 May 2020. In that addendum we reported an additional financial statement risk in respect of Covid -19 and highlighted the impact on our VfM approach. Further detail is set out on page 6. Restrictions for non-essential travel has meant both Council and audit staff have had to develop new remote access working arrangements, including remote accessing financial systems, video calling and alternative procedures over the verification of completeness and accuracy of information produced by the entity. These have proved to allow the audit to progress but, somewhat inevitably, have extended the amount of time required for the audit.

Headlines

This table summarises the key findings and other matters arising from the statutory audit of Herefordshire Council (‘the Council’) and the preparation of the group and Council's financial statements for the year ended 31 March 2020 for those charged with governance.

Financial Statements

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

- give a true and fair view of the financial position of the group and Council and the group and Council’s income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC (code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. *Note CIPFA/LASAAC is the joint Board involving the Chartered Institute Public Finance and Accountancy and the Local Authority (Scotland) Accounts Advisory Committee that establishes the structure for Local Authority accounts.*

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

Our audit work was completed remotely during July-January . Our findings are summarised on pages 5 to 15. We have identified disclose only adjustments to the financial statements. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year’s audit are detailed in Appendix B.

Our work is substantially complete and there are no matters of which we are aware that would require material changes to the financial statements, subject to the following outstanding matters;

- AGS – receipt of updated version
- receipt of management representation letter; and
- review of the final set of financial statements.

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

Our anticipated audit report is shown in Appendix E.

Headlines

This table summarises the key findings and other matters arising from the statutory audit of Herefordshire Council (‘the Council’) and the preparation of the group and Council's financial statements for the year ended 31 March 2020 for those charged with governance.

Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion’).	See page 19 to 25 for details of the work undertaken. Our value for money opinion will be qualified in this respect.
Statutory duties	The Local Audit and Accountability Act 2014 (‘the Act’) also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • To certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties. We have completed our work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion. As the matter that had resulted in certificates of completion being withheld for a number of years had recently been resolved, we were also able to certify completion of all prior year audits where this was the case.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times.

Audit approach

Overview of the scope of our audit

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

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

Audit approach

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

- An evaluation of the group's internal controls environment, including its IT systems and controls;
- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of the group's expenditure to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that a targeted approach was required for Hoople; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Audit approach (continued)

We have had to alter our audit plan, as communicated to you on 4 May 2020, to reflect our response to the Covid-19 pandemic.

Our approach to materiality

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

Materiality levels remain the same as reported in our audit plan.

Materiality in plain English

The concept of audit materiality is a difficult technical area, so the following paragraphs seek to explain the matter in a more user-friendly manner to the non-accountant.

Materiality is the 'margin of error', or degree of tolerance that external auditors work to. The concept is adopted because it is not considered possible or desirable for the auditor to check every transaction a body makes. The auditor is required to obtain reasonable evidence that the accounts are free from material misstatement.

Financial statements, or overall, materiality is set by applying a % to an appropriate benchmark that the user of the accounts is most interested in. In Herefordshire's case we used expenditure as our benchmark to establish this headline materiality and set the % at 1.8% (near the top of our firm's 1-2% expected range).

Performance materiality (PM) is a subset of the overall materiality amount, which we use as an indicator of the risk that there could be material misstatements once our work is underway. That is, if we find misstatements above PM but below overall materiality we know we have to do further work to establish whether the overall materiality might be exceeded.

We can also identify and work to a lower tolerance for matters that are 'material in nature' – in Herefordshire's case we have identified senior officers' remuneration in this category, due to the inherent heightened public interest in this area.

We do not report matters below our triviality threshold unless they are 'material in nature'.

	Group Amount (£)	Council Amount (£)	Qualitative *factors* considered
Materiality for the financial statements	£6.71m	£6.7m	Materiality has been based on 1.8% of the Group and Authority's gross expenditure – we show the Group amount to 2 decimal places to confirm it is different to the Council
Performance materiality	£4.7m	£4.7m	Our performance materiality has been set at 70% of our overall materiality.
Trivial matters	£0.3m	£0.3m	This is set a 5% of financial statements materiality and reflects a level below which stakeholders are unlikely to be concerned by uncertainties.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Covid– 19 The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to; • Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation • Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates • Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and • Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.	We: • worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported. The draft financial statements were provided on 26 June 2020; • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the Council's property valuation expert • evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic; • evaluated whether sufficient audit evidence could be obtained through remote technology; • evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations ; • evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment; • discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence.
The revenue cycle includes fraudulent transactions Under ISA240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.	This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. We rebutted the risk at the planning stage of our audit. Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we determined that the risk of fraud arising from revenue recognition could be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Herefordshire Council, mean that all forms of fraud are seen as unacceptable No circumstances arose that indicated we needed to reconsider this judgement.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We: • evaluated the design effectiveness of management controls over journals; • analysed the journals listing and determine the criteria for selecting high risk unusual journals; • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. Our work on journals, has identified that there is no authorisation process in place over the journals posted. The systems put in place by the Council do restrict who can post journals, but there is no authorisation once these are posted. See action plan at appendix A for recommendation. This recommendation was also raised in the prior year.
Valuation of property, plant and equipment The Authority revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority and group financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used. We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk.	We: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • evaluated the competence, capabilities and objectivity of the valuation expert; • wrote to the valuer to confirm the basis on which the valuation was carried out; • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding; • we challenged management about their treatment of the waste plant; • tested revaluations made during the year to see if they had been input correctly into the group's asset register; and • evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value. No issues were identified from our audit work on the valuation of land and buildings. We will be including an Emphasis of Matter paragraph into our audit opinion to draw the readers attention to the disclosures made around the estimation uncertainty in the valuation.

Significant audit risks

Risks identified in our Audit Plan

Valuation of pension fund net liability

The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements and group accounts.

The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.

We therefore identified valuation of the Council's pension fund net liability as a significant risk.

The Council is a statutory member of the Hereford and Worcestershire Local Government Pension Scheme administered by Worcestershire County Council. Herefordshire Council remain responsible for the accuracy of disclosures within the accounts and this will include having a clear understanding of key assumptions within the estimate.

Auditor commentary

We:

- updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls;
- evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;
- assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation;
- assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability;
- tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;
- undertook procedures to confirm the reasonableness of the actuarial assumptions, including the experience item, made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report;
- reviewed the McCloud position;
- challenged the Actuary on the experience item figures included in the IAS19 report;
- agreed the advance payment made to the pension fund during the year to the expected accounting treatment and relevant financial disclosures; and
- obtained assurances from the auditor of the Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

No issues have been identified from our audit work on the valuation of pension fund net liability. We will be including an Emphasis of Matter paragraph into our audit opinion to draw the readers attention to the disclosures made around the estimation uncertainty in the valuation.

Other audit risks

Risks identified in our Audit Plan	Auditor commentary
Employee remuneration Payroll expenditure represents a significant percentage of the Council's operating expenses. As the payroll expenditure comes from a significant number of individual transactions throughout the year, including transactions involving new-starters, grade changes and leavers, there is a risk that payroll expenditure in the accounts could be understated. We therefore identified occurrence of payroll expenses as a risk requiring particular audit attention.	We have undertaken the following work in relation to this risk: • evaluated the Council's accounting policy for recognition of payroll expenditure for appropriateness; • documented our understanding of processes and key controls; • undertaken walkthrough of key controls to assess whether those controls were in line with out documented understanding; • obtained the year end payroll reconciliation and ensures that the amounts in the accounts reconcile to the ledger and through to payroll; • agreed payroll related accruals (e.g. unpaid leave) to supporting documents and reviewed for reasonableness, and • performed substantive analytical procedure for M1 to M12, disaggregated by month. There are no issues to bring to your attention.
Operating expenses Non-pay expenses on other goods and services also represents a significant percentage of the Council's operating expenses. Management uses judgement to estimate accruals of non-invoiced costs. We identified completeness of non-pay expenses as a risk requiring particular audit attention.	We have: • evaluated the Council's accounting policy for recognition of non-pay expenditure for appropriateness; • gained an understanding of the Council's system for accounting for non-pay expenditure and evaluated the design of the associated controls; • documented the accruals process and the controls management has put in place, challenging key underlying assumptions, the appropriateness of the source data used and the basis of calculations; and • obtained a listing from the cashbook of non pay payments made in April and tested to ensure that they have been charged to the correct year and to confirm accuracy, occurrence, classification and cut off. There are no issues to bring to your attention.

Significant findings – other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

Issue	Commentary	Auditor view
IFRS 16 implementation has been delayed by one year Although the implementation of IFRS 16 has been delayed to 1 April 2021, audited bodies still need to include disclosure in their 2019/2020 statements to comply with the requirement of IAS 8 para 31. As a minimum, we would expect audited bodies to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases.	We have reviewed the accounting policies for the Council to gain assurance that unadopted accounting standards have been appropriately disclosed within the statement of accounts	We noted in the draft statement of accounts that the disclosure has been appropriately dated as per the amended timeline. We continue to review the disclosures in line with the guidance and will report any findings to management

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Provisions for NNDR appeals - £6.8m (£2.4m short-term, £4.4m long-term)	The Council is responsible for repaying a proportion of successful rateable value appeals. Management calculate the level of provision required based upon the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) and previous success rates. .	We have: • reviewed the appropriateness of the underlying information used to determine the estimate; • considered the reasonableness of increase in estimate; and • confirmed the adequacy of disclosure of estimate in the financial statements.	(green)
Investment property valuation process	In accordance with IFRS 13 investment property should be measured at fair value at the reporting date.	• investment property per the financial statements note 10 totals £33.8m; • the Council formally revalued all of its investment property as at 31st March 2020; • we performed coverage sampling on Investment assets by testing a total amount of £27.5m of assets. The valuations were agreed to the valuer's report. We also examined the type of the property and the rental income earned to gain assurance over the property's classification; • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • evaluated the competence, capabilities and objectivity of the valuation expert; • wrote to the valuer to confirm the basis on which the valuation was carried out; • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding; and • we are satisfied that the Investment property value included within the financial statements is not materially misstated.	(green)

Assessment

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

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Land and Buildings – Other - £339.2m	The Council revalues its land and buildings on a rolling basis to ensure that carrying value is not materially different from fair value. This represent a significant estimate by management in the financial statements. In line with RICS guidance, the Council's valuer disclosed a material uncertainty in the valuation of the Council's land and buildings at 31 March 2020 as a result of Covid-19. The Council has included disclosures on this issue in Note 1.48. The Council formally re-values its land and buildings on a rolling programme to ensure they are re-valued at least every 5 years, however in accordance with the Code all land and buildings values are reviewed annually for material changes and re-valued at 31st March if necessary. Valuations have been carried out externally by Wilks, Head and Eve. Valuations of land and buildings were carried out using the methodologies and bases of estimation set out in the professional standards of RICS. Surplus assets are valued at their "highest and best use". All other assets are valued at historical cost, including infrastructure and Vehicles, Plant and Equipment.	We have: • made an assessment of the valuer; • considered the completeness and accuracy of the underlying information used to determine the estimate; • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding; • we challenged management about their treatment of the waste plant; and • reviewed the adequacy of disclosure of estimates in the Financial Statements.	green

Assessment

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

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Net pension liability	The Council's net pension liability at 31 March 2020 is £260m (PY £269m) comprising the Local Government and unfunded defined benefit pension scheme obligations. The Council uses Mercer to provide actuarial valuations of the Council's assets and liabilities derived from these scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2019. A roll forward approach is used in the intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.	We reviewed the detail of your assessment of the estimate, considering the: • assessment of management's expert, Mercers; • completeness and accuracy of the underlying information used to determine the estimate; • reasonableness of the Council's share of LGPS assets; • reasonableness of the overall increase in the estimate; and • adequacy of the disclosure of the estimate in the financial statements. External auditors are provided with assurance in the form of an auditor's expert report from PwC to assess the assumptions made by the Actuary, the table below sets out the key assumptions:	(green)

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.4%	2.30%-2.40%	
CPI	2.1%	2.10%	
Pension increases	2.1%	2.1% - 2.2%	
Salary growth	3.6%	Dependent on employer	
Life expectancy – Males currently aged 45 / 65	24.2 / 22.6	22.5 – 24.7 / 20.9 – 23.2	
Life expectancy – Females currently aged 45 / 65	27.0 / 25.0	25.9 – 27.7 / 24.0 – 25.8	

Assessment

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

Significant findings – matters discussed with management

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

Significant matter	Commentary	Auditor view
PPE Valuation material valuation uncertainty The Covid-19 pandemic commenced within the last two weeks of the 2019-20 financial year and created a large uncertainty in financial markets and the market for other assets. This led to the Royal Institute of Chartered Surveyors (RICs) issuing guidance identifying that all valuations will have a material valuation uncertainty as at 31 March 2020. The Council's draft statement of accounts did not include a material valuation uncertainty disclosure and it was our view, as external auditors, that such a disclosure should be included.	The Council formally revalues its land and buildings on a rolling five-year basis to ensure that the carrying value is not materially different from fair value. The Covid-19 pandemic outbreak commenced within the last two weeks of the 2019-20 financial year and created a large uncertainty in a number of markets. This led to RICs issuing guidance to its members that a material valuation uncertainty should be included within the valuer's report and subsequently in the statement of accounts. The Valuer's report and draft account reflected this material valuation uncertainty as expected.	It is the view of the auditor that a material valuation uncertainty for the PPE valuation should be included in the accounts to reflect the uncertainty that existed at the balance sheet date. This has been included within the Financial Statements as appropriate.

Significant findings – going concern

Our responsibility

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

Going concern commentary	Auditor commentary
Management's assessment process The Council’s accounts have been prepared on the going concern basis. Public sector bodies are assumed to be going concerns where the continuation of the provision of a service in the future is anticipated, as evidenced by inclusion of financial provision for that service in published documents.	We have subjected the 2020/21 budget, Medium Term Financial Strategy and cash flow forecast to May 2022 to detailed scrutiny and in our consideration of the appropriateness of management’s use of the going concern assumption. The Section 151 officer has produced an assessment of the Council’s use of the going concern assumption. We have reviewed this and the underlying support and concur with his opinion that the going concern basis is appropriate. In only exceptional circumstances would we expect a local authority not to prepare its accounts on a going concern, in line with the Code and the public sector adoption of the going concern assumption. In 2020/21 the Council expects to achieve a balanced budget and the Council’s usable reserves at 31 March 2020 stood at £134m. The Covid-19 pandemic has resulted in a reduction of income in 2020/21, some of which has been covered through government support. The Council have set a balanced budget for 2020/21, although this will require savings to be made. This position is after taking into account the Government Grant that the Council has received for Covid-19.

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Other matters for communication

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

Issue	Auditor commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures to date.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work to date.
Written representations	A letter of representation has been requested from the Council, including specific representations in respect of the Group, which is included in the Audit and Governance Committee papers.
Confirmation requests from third parties	We requested from management permission to send confirmation requests for Bank and Investment balances.
Disclosures	Our review found no material omissions in the financial statements
Audit evidence and explanations/significant difficulties	All information and explanations requested from management was provided.

Other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to Appendix E.
Matters on which we report by exception	We are required to report on a number of matters by exception in a numbers of areas: • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties We have nothing to report on these matters.
Certification of the closure of the audit	We intend to certify the closure of the 2019/20 audit of Herefordshire Council in the audit report, as detailed in Appendix E. Prior years certificates have also been closed.
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified. We plan to issue our opinion in the final Audit Findings Report.

Value for Money

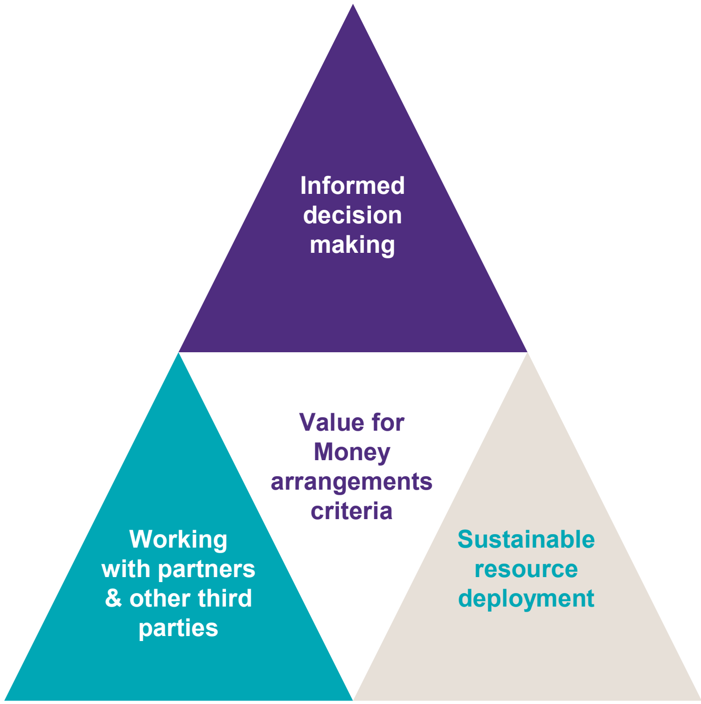
Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in April 2020. AGN 03 identifies one single criterion for auditors to evaluate:

"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in January 2020 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated 28 January 2020.

We have continued our review of relevant documents up to the date of giving our report, and have identified one further significant risk where we needed to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment.

Value for Money

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- Financial sustainability
- Capital programme
- Governance arrangements

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on pages 21 to 25.

Overall conclusion

We note that there are several issues arising within the Capital Programme and Children’s Services – see pages 21 to 25 for further details. Our value for money conclusion will therefore be qualified in this respect.

Value for Money

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings
The significant risk identified was financial sustainability. If the key assumptions within the Medium-Term Financial Strategy are not reasonably based, then the future financial position of the Council could be at risk. Audit work proposed to address this risk: we will discuss with Officers the key assumptions in the Medium-Term Financial Strategy and consider supporting evidence, particularly around looked after children as this appears to be an area where there has been consistent pressures against the budget.	The MTFS for 2019/20 -2021/22 was presented to Council on 15 February 2019 and a revenue budget of £151,092 was approved for the 2019/20 financial year. This MTFS included savings for 2019/20 of £3.6m which was achieved during the year. In June 2020, the Council reported an outturn position of £150.5m which agreed to the draft financial statements. This resulted in a small underspend against budget and the General Fund Balance increased by £5.9m to £81.4m. On 26 November 2020, Cabinet received a paper showing the impact that Covid-19 has had on the financial position as at September 2020. This shows that the Council are forecasting an outturn of £172m against a budget of £157m meaning a forecast year end position of an overspend of £15m, £10.8m being directly attributable to Covid-19. Officers are currently updating the MTFS and are exploring savings schemes to mitigate this overspend. The original budget for the Children & Families Directorate was £30.8m and £18.6m specifically in relation to looked after children. The reported outturn for 2019/20 was £32.3m and £20.6m for looked after children. The overall overspend for the Directorate was £1.4m, however £1.9m was the overspend on looked after children. The reason for the increase is both the increase in numbers and costs associated with each case as the cases are becoming more complex. Ofsted undertook a focused visit in December 2019 and as a result of this, the service will require additional support to address the findings raised. **Whilst the Council continues to operate under significant financial pressures, in particular due to the impact of Covid-19, it has effective arrangements in place to routinely monitor its budget and has a good track record of delivering the required savings. We therefore conclude that overall the Council has appropriate arrangements in place to manage its financial sustainability. However, the impact of Covid-19 is not yet fully known. Consequently, the Council will need to maintain and strengthen its financial monitoring arrangements to ensure that funding and spending pressures are identified and acted upon swiftly.**

Value for Money

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings
The significant risk identified related to the Council's capital programme. There has been a number of issues identified in recent years around the capital programme. Whilst the Council is responding to the issues, we consider that this represents a significant on-going risk to our vfm conclusion. The audit work proposed to address this risk is that we will consider the actions that the Council is taking to respond to concerns raised around the governance of the capital programme. We will also consider the governance of capital projects in support of NMiTE.	To address the issues highlighted in previous years, the Council employed a Consultant to undertake a review of the governance arrangements around the capital programme. The brief provided to the Consultant was reviewed and found to be comprehensive. The consultant provided the S151 Officer with a series of findings and where these could be implemented immediately, were done so. Other longer-term recommendations are currently being worked through by the Management team. In our 2018/19 Audit Findings Report, we reported that there was a delay in procurement around the by-pass however we issued an unqualified opinion based on the fact that as no contract had actually been awarded, there was no loss to the Council. A 'pause and review' process was undertaken and a review of the options surrounding the by-pass were examined. In December 2020, Cabinet agreed to formally stop construction of the by-pass and in the Council meeting on 20 January, with £11.3m being written back to revenue after the capital write back. A major contract performance review was undertaken on behalf of the Council and the findings from this were taken to Cabinet on 24th September 2020. The review specifically focused on the Public Realm Services and Property and Facilities management service contracts provided by the Council's' contractor. The review highlighted that there were concerns over performance monitoring, financial monitoring and contract compliance monitoring. Concerns were also listed under: • risk management - as the risk register does not sufficiently log actions related to risks; • relationship management - as there was "little constructive tension" between the two parties leading to a lack of competitive dialogue and the contractor not always providing 'proactive support or the collaborative behavior that would be expected from a strategic partner' and a lack of clear demarcation between the Council and its contractor, as both sides were co-located in the same office; and • change management - as the framework agreements were not included in the contracts register. Concerns were also highlighted around the Council's internal governance, whereby the Council did not appear to be adhering to the contract procedure rules, when commissioning works outside the core programme. There were further concerns about the Council's 'lack of clarity' around managing the contract and commissioning further work. Key recommendations arising from this report were: • build technical knowledge within the Council - the Council relies on its contractor for technical assistance which limits the Council's ability to scrutinse or monitoring effectively; • improve internal communication and education – the Council needed to better understand the contract in order too achieve value for money; • increase the involvement of the Council's procurement team – to assist with governance and provide expertise; • set up a contract management framework; and • consider an appropriate contract management system. The Cabinet member for infrastructure and transport proposed that a progress review be brought back to Cabinet after six months. Whilst the Council is working on implementing these recommendations, the six-month review suggested by Cabinet has not been achieved.

Value for Money

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings
The significant risk identified related to the Council's capital programme. There has been a number of issues identified in recent years around the capital programme. Whilst the Council is responding to the issues, we consider that this represents a significant on-going risk to our vfm conclusion. The audit work proposed to address this risk is that we will consider the actions that the Council is taking to respond to concerns raised around the governance of the capital programme. We will also consider the governance of capital projects in support of NMiTE	The s151 Officer also had concerns over a specific contract and therefore commissioned a review by Internal Audit. The contract relates to the Hereford City Centre Transport Package (HCCTP). The s151 Officer's concerns had arisen as this was a long term contract and given the issues raised over the Public Realm contract, wanted assurance that the nine project objectives would be delivered within budget. A position statement was issued by Internal Audit on 25 September 2020 and the review was paused at that point. The position statement highlighted a number of issues, the main issue being the raising of compensation events (I.e. invoice variations). The s151 Officer decided to commission a different review into this particular contract, by using individuals who had no background knowledge about prior issues with the Council's contractor. The Assistant Director Corporate Support and Head of Information Compliance and Equality therefore undertook the review. The report produced highlighted a number of weaknesses with regards to the way in which the Council manages and monitors the contract. Several recommendations were made and a highlight report was taken to Cabinet in July 2021. The Cabinet was also informed in July 2021 that there will now be insufficient budget to complete the remaining elements of the programme. These recommendations will need to be taken into account by the Council and a lessons learnt exercise undertaken to ensure that these issues do not flow into future contracts awarded by the Council. Of particular concern is the number and value of compensation events that have been issued by the contractor, alongside weaknesses in governance arrangements over the contract. Actions taken by the Council to address the recommendations were set out in the Cabinet papers in July 2021 and included creating a contract management and commissioning resource within the Corporate Centre, with the commissioning role reporting to the Monitoring Officer and the contract management role reporting to the Chief Finance Officer. We have no issues to raise in relation to NMiTE. **In light of the concerns raised over the contractual arrangements and the findings identified from the internal investigations, we have concluded that the Council does not have appropriate arrangements in place over its capital programme. Our vfm conclusion will therefore be qualified in this respect.**

Value for Money

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings
The significant risk identified was governance arrangements. Following the Authority's political change, new policies will be considered and implemented. It is likely that significant political decisions will be taken and there is a consequent need to ensure that the governance arrangements supporting such decisions remains sound. Audit work proposed to address this risk: we will discuss with Officers the impact that the political change has had and consider how this has been reflected in the governance arrangements in place.	Following the 2019 elections, a three-way coalition between 'Herefordshire Independents', 'It's our County' and the Green Party were formed. This resulted in new Cabinet positions and new members now holding senior positions. Discussions were held with the Chief Executive, S151 Officer and Monitoring Officer to discuss the impact of the political change. The Council had procedures in place to provide training to the new Administration as this is a typical change in local government. Officers agreed that the new Administration appears to be working as a collective and the Cabinet Officers like the support of the full Cabinet so have been sharing information through the Cabinet briefing more than has been happening in the past. An on-going training programme is being developed to address training needs as they arise. **Overall we conclude that the new Administration has settled into a coalition and is accepting Officers' guidance and advice when needed.**

Value for Money

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings
During our audit we were informed by the s151 Officer that a case relating to Children's Services was being heard at the High Court. We therefore identified a risk that the decision made by the Court would be at the detriment of the Council.	The case relates to four siblings who had been placed in care by the Council. Whilst in care, one of the children health deteriorated and the child ultimately passed away. The case was brought against the Council due to a number of concerns over the treatment of the children by the Council spanning a number of years and the handling of the decisions over the sick child. Within the judgement, Mr Justice Keehan stated: "*My strongest criticism must be directed at this local authority. In the whole of my professional life I have rarely encountered such egregious and long-standing failures by a local authority. The worst of it is, I cannot after the closest possible enquiry, understand why or what motivated the local authority to fail these children, this mother and the interveners as appallingly and for as extended a period of time. The whole history of the role of this local authority in the lives of these children is highly inexplicable. The only matter which is clear to me is that it did not have the welfare best interests of the children at the heart of its decision-making, such as it was*" (paragraph 226) "*This must call into question whether this local authority's children's services department is fit for purpose. That is a question which is not for me to answer. I can say that they had failed these children in an extraordinary manner over a prolonged period of time.*" (paragraph 227) The Council has developed an Assurance and Improvement Strategy and an Independently chaired children and families Improvement Board and this was approved in an extraordinary meeting of the Council was held on 27 April 2021. **We have therefore concluded that the Council does not have appropriate governance or performance management arrangements in place over the children's services department. Our vfm will therefore be qualified in this respect.**

Independence and ethics

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

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

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

Details of fees charged are detailed in Appendix D

Independence and ethics

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

	Fees £	Threats identified	Safeguards
Audit related			
Certification of Education Skills Funding Agency	3,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is approx. £3,000 in comparison to the total fee for the audit of £95,792 and in particular relative to Grant Thornton UK LLP's turnover overall.
Certification of Teachers Pension Return	5,500	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is approx. £5,500 in comparison to the total fee for the audit of £95,792 and in particular relative to Grant Thornton UK LLP's turnover overall.
Certification of Housing Benefit Claim	7,000 tbc	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is approx. £7,000 in comparison to the total fee for the audit of £95,792 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. We do not prepare the return, and do not expect material changes to arise from the work that would affect information in the financial system. We report factually, based on the instructions and any decisions on amendments to returns are for the Council to make, in discussion with the relevant government body. These factors all mitigate the perceived self-interest, self-review and management threats to acceptable levels.

Action plan

We have identified one recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2020/21 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
Medium	**Journals authorisation** We reported in the 2018/19 Audit Findings Report that the journals process did not have appropriate authorisation. Management confirmed that this was to be implemented in Business World. This has not occurred during 2019/20. We would therefore repeat our previous recommendation that the Council consider its authorisation of journals.	We therefore recommend that management look to increase the priority of the authorisation process or put in place mitigating controls until this process can be implemented. **Management response** We will reconsider this recommendation. Currently posting restrictions and authorisation outside the general ledger controls are in place.

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Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

Follow up of prior year recommendations

We identified the following issues in the audit of Herefordshire Council's 2018/19 financial statements, which resulted in two recommendations being reported in our 2018/19 Audit Findings report.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	Journals authorisation – During the course of our testing we noted that none of the journals posted to the financial system were subject to an authorisation process. The risk is that this could result in a material misstatement in the financial statements. From discussions with management we note that the financial system has restrictions in place so that only appropriate staff can post journals. We understand that management are looking to introduce an authorisation process in the future. We therefore recommend that management look to increase the priority of the authorisation process or put in place mitigating controls until this process can be implemented.	Management confirmed that this was to be implemented in Business World. This has not occurred during 2019/20. We would therefore repeat our previous recommendation that the Council consider its authorisation of journals.
✓	The Council now prepares group financial statements however the Annual Governance Statement appears to be focussed on the Council with limited reference to the subsidiary company, Hoople. The CIPFA accounting Code confirms that where there is a group relationship, the review of the internal control systems shall include group activities. We therefore recommend that management look to expand the Annual Governance Statement in future years to cover the group activities.	The Annual Governance Statement has been expanded to cover the group financial statements.

Assessment

✓ Action completed

X Not yet addressed

Audit adjustments

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

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2020.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
One element of the Minimum Revenue Provision (MRP) is a reduction in MRP due to overprovision in previous years. The overprovision adjustment was understated by £505k for each of the three years to 31 March 2020.		Dr Capital Adjustment Account £1.5m Cr General Fund £1.5m	Nil impact
A grant was received relating to Covid-19 funding in March 2020. This grant had been treated as a grant received in advance rather than in-line with guidance for this to be treated as income in the year of receipt.	Cr non-specific grant income £5.7m	Dr Creditors £5.7m	£5.7m

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Audit adjustments

Misclassification and disclosure changes

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

Disclosure omission	Detail	Auditor recommendations	Adjusted?
PPE - Disposals	Disposal amount of St Weonard's primary school was incorrectly recorded by £500k in the fixed asset register as net book value less an amount in the revaluation reserve	Adjustment required	✓
Officers' Remuneration	One Officer incorrectly banded as £145-£150k instead of £150-£155k. Also, 2018/19 bandings not consistent with the published 2018/19 financial statements.	Adjustment required	✓
Exit packages	Exit packages in the financial statements did not agree to the underlying supporting workpapers. Agreed working papers show correct figures.	Adjustment required	✓
Capital Financing and Expenditure	PPE Additions of £554k was overstated in the Capital Financing and Expenditure note due to loan repayments being misclassified. An additional line was needed in the note.	Adjustment required	✓
Grant Income / Dedicated Schools Grant	Two miscodings were identified which had overstated grant income and children's expenditure by £554k (one caused overstatement by £873k and the other an understatement of £283k). The net impact on the note was nil. In addition, figures did not cast due to rounding's.	Adjustment required	✓
Audit fees	Audit fees incorrectly stated as fees for non-statutory work should be separately disclosed.	Adjustment required	✓
Related parties	Disclosure within the significant long term contracts section is incorrectly stated for Balfour Beatty	Adjustment required	✓
Remuneration notes	Difference in one Officer between payroll evidence and the financial statements	Adjustment required	✓
Accounting policies	Removal of policies which are no longer relevant	Adjustment required	✓
Presentation	Wording throughout the financial statements to be updated to ensure correctly and appropriately reflects Council's background and processes.	Adjustment required	✓

Audit adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2019/20 audit which have not been made within the final set of financial statements. The Audit and Governance Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
None				

Impact of prior year unadjusted misstatements

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The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2018/19 financial statements.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Our testing of expenditure cut off discovered an accrual for Housing Benefits expenditure for 2018/19 that was paid out 2019/20 has not been made. From the items we tested this identified an error of £23,588, which when extrapolated across the population is £570,927.	(571)	(571)	(571)	As this is an extrapolated error we would not expect an adjustment
During our grants testing we identified a £25k credit to the fees and charges grants section was miscoded and should have been a credit to expenditure. Expenditure and income have therefore been overstated. The extrapolated error is £554,026.	(554)	(554)	(554)	As this is an extrapolated error we would not expect an adjustment
Overall impact	1,125	1,125	1,125	

Fees

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

Audit fees	Proposed fee	Final fee
Council audit	95,792	95,792
Fee Variation – see next page	35,159	35,159
Total fee – excluding certification	**130,951**	**130,951**
Grant certification	22,198	22,198
Total audit fees (excluding VAT)	**£153,149**	**£153,149**

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The fees reconcile to the draft financial statements.

Non-audit fees for other services	Proposed fee	Final fee
Certification of Education Skills Funding Agency	3,000	3,000
Certification of Teachers Pension Return	5,500	5,500
Housing Benefit Grant Claim	13,698	13,698
Total non- audit fees (excluding VAT)	**£22,198**	**£22,198**

A. Herefordshire Council audit fee variations – Further analysis

Final proposed audit fees

The table below shows the proposed variations to the original scale fee for 2019/20 subject to PSAA approval.

Audit area	£	Rationale for fee variation
Scale fee	£95,792	
Increased challenge and depth of work	2,500	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity.
Pensions – valuation (IAS) 19	3,000	We have increased the granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting.
PPE - valuations	3,000	The FRC has highlighted that auditors need to improve the quality of audit challenge on Property, Plant and Equipment (PPE) valuations across the sector. We will therefore increase the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin PPE valuations
New standards/developm ents	2,500	You are required to respond effectively to new accounting standards and we must ensure our audit work in these new areas is robust. This year we responded to the introduction of IFRS16.
Covid-19 and client delays	19,159	Over the past six months the current Covid-19 pandemic has had a significant impact on all of our lives, both at work and at home. The impact of Covid-19 on the audit of the financial statements for 2019/20 has been multifaceted. This includes: • Revisiting planning - we have needed to revisit our planning and refresh risk assessments, materiality and testing levels. This has resulted in the identification of a significant risk at the financial statements level in respect of Covid-19 necessitating the issuing of an addendum to our original audit plan as well as additional work on areas such as going concern and disclosures in accordance with IAS1 particularly in respect to material uncertainties. • Management's assumptions and estimates - there is increased uncertainty over many estimates including pension and other investment valuations. Many of these valuations are impacted by the reduction in economic activity and we are required to understand and challenge the assumptions applied by management. We have also engaged an auditor's expert to review investment property valuations in light of Covid-19. • Financial resilience assessment – we have been required to consider the financial resilience of audited bodies. Our experience to date indicates that Covid-19 has impacted on the financial resilience of all local government bodies. This has increased the amount of work that we need to undertake on the sustainable resource deployment element of the VFM criteria necessitating enhanced and more detailed reporting in our ISA260. • Remote working – the most significant impact in terms of delivery is the move to remote working. We, as other auditors, have experienced delays and inefficiencies as a result of remote working, including the delays in receiving accounts, quality of working papers, and delays in responses. These are understandable and arise from the availability of the relevant information and/or the availability of key staff (due to shielding or other additional Covid-19 related demands). In many instances the delays are caused by our inability to sit with an officer to discuss a query or working paper. Gaining an understanding via Teams or phone is more time-consuming.
Additional Value for Money fee	5,000	Additional fees following further work required to complete the Value for Money work
Total proposed final audit fees	**£130,951**	

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Proposed Audit opinion – all new content

Independent auditor's report to the members of Herefordshire Council

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Herefordshire Council (the 'Authority') and its subsidiary (the 'group') for the year ended 31 March 2020 which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Group Comprehensive Income and Expenditure Statement, the Group Movement in Reserves Statement, the Group Balance Sheet, the Group Cash Flow Statement, the Collection Fund Statement and notes to the financial statements, including a summary of significant accounting policies. The notes to the financial statements include the Notes to the Accounts, the Statement of Group Accounts (Introduction and Basis of Consolidation), the Notes to the Statement of Group Accounts and the Notes to the Collection Fund. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2020 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Chief Finance Officer and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the group's and Authority's future operational arrangements.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the group's and Authority's future operational arrangements. However, no audit should be expected to predict the unknowable factors or all possible future implications for an authority associated with these particular events.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Finance Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

In our evaluation of the Chief Finance Officer's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 that the Authority's financial statements shall be prepared on a going concern basis, we considered the risks associated with the group's and Authority's operating activities, including effects arising from macro-economic uncertainties such as Covid-19 and

Proposed Audit opinion

Brexit. We analysed how those risks might affect the group's and Authority's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Authority or group will continue in operation.

Emphasis of Matter – effects of Covid-19 on the valuation of land and buildings, investment properties and the Authority's share of the pension fund's property investments

We draw attention to Note 1.48 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Authority's and group's land and buildings, investment properties and the Authority's share of the pension fund's property investments as at 31 March 2020. As, disclosed in note 1.48 to the financial statements, the outbreak of Covid-19 saw many sectors of real estate markets experiencing significantly lower levels of transactional activity and liquidity. As at the valuation date, there was a shortage of market evidence for comparison purposes, to inform opinions of value. A material valuation uncertainty was therefore disclosed in both the Authority's property valuer's report and the pension fund's property valuation reports. Our opinion is not modified in respect of this matter.

Other information

The Chief Finance Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the Authority and group financial statements and, our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the group and Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or

Proposed Audit opinion

- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Chief Finance Officer and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Finance Officer. The Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20, for being satisfied that they give a true and fair view, and for such internal control as the Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Finance Officer is responsible for assessing the group's and the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit and Governance Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Qualified Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, except for the effects of the matters described in the basis for qualified conclusion section of our report we are satisfied that, in all significant respects, the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Basis for qualified conclusion

Our review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources identified the following matters:

- During the year ended 31 March 2020 the Authority experienced several issues with regards to its capital programme, including slippage in delivery and overspends. In response, the Authority commissioned a number of reviews, both internal and external. These reviews identified a variety of failings in the Authority's arrangements, including:
  - poor or non-existent record keeping;
  - non-compliance with procurement processes;

Proposed Audit opinion

- insufficient documentation being retained to support compensation claims against contractors; and
- inadequate processes for dealing with variation orders on contracts.

Having considered the findings of these reviews, together with the results of our audit work, we have concluded that these matters highlight weaknesses in the Authority's arrangements for managing its capital programme. They are evidence of weaknesses in proper arrangements for:

- acting in the public interest, through demonstrating and applying the principles and values of sound governance; and
- procuring supplies and services effectively to support the delivery of strategic priorities.

- A High Court judgment was issued in March 2021 which set out a range of historic failings in the Authority's children's social care services which were ongoing in the year ended 31 March 2020, including attitudes, culture and professional practice being well below the standards expected, as well as incorrect legal advice being given to management. Having considered the findings of this judgement, together with the results of our audit work, we have concluded that these matters highlight weaknesses in the Authority's arrangements for delivering children's social care services. They are evidence of weaknesses in proper arrangements for understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice (2015), having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Certificate

We certify that we have completed the audit of the financial statements of Herefordshire Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice (2015).

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

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Herefordshire Council

Title of report: 2019/20 Statement of Accounts

Meeting: Audit and governance committee

Meeting date: Friday 30 July 2021

Report by: Chief finance officer

Classification

Open

Decision type

This is not an executive decision

Wards affected

(All Wards)

Purpose

To approve the 2019/20 statement of accounts and associated letter of representation to Grant Thornton, the external auditors.

Changes to the statement of accounts following the external audit are listed in the audit findings report. The letter of representation attached at appendix B confirms that the group and parent council financial statements are free of material misstatements, including omissions.

Recommendation(s)

That:

a) the 2019/20 statement of accounts (at appendix A) be approved; and

b) the letter of representation (at appendix B) be signed by the chairman of the committee and the chief finance officer.

Further information on the subject of this report is available from
Josie Rushgrove, Tel: 01432 261867, email: jrushgrove@herefordshire.gov.ukl

Alternative options

1 There are no alternative options as it is a statutory requirement to approve the accounts and sign the letter of representation.

Key considerations

2 The Local Audit and Accountability Act 2014 requires the council to produce a statement of accounts in accordance with the Accounts and Audit Regulations 2015. The process requires the accounts to be certified by the S151 officer by 31 May and then approved by the audit and governance committee by 31 July. These deadlines were extended in response to the national pandemic, Covid-19, to 31 August and 30 November. The audited accounts deadline was missed due to continued audit work on the value for money opinion, this work has now concluded and is being reported elsewhere on today's agenda.

3 The statement of accounts (appendix A) have been drawn up in accordance with the Accounts and Audit Regulations 2015, and the Chartered Institute of Public Financial Accountancy (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.

4 The most significant matters in the 2019/20 accounts and a summary of the council's financial position are set out in the introductory narrative report within the accounts. Key points for 2019/20 include the following:

a. The council delivered an overall underspend in 2019/20 of £0.6m despite an overspend in the children and families directorate;

b. This underspend increased the council's general reserve balance to £9.1m;

c. During 2019/20 Herefordshire experienced significant and widespread flooding. In response the council launched the Talk Community Big Herefordshire Clean Up by releasing staff for up to two days to volunteer to support the affected communities, supporting flood recovery work and highlighted the financial assistance available to those homes and businesses effected;

d. The UK went into a national lockdown on 23 March 2020 and the coronavirus pandemic is continuing to have a huge impact across the whole country;

e. The council immediately moved into an emergency response mode and responded quickly to safeguard its community and employees by ceasing some council services and commencing new ones, such as the provision of personal protective equipment (PPE);

f. During 2019/20 no new borrowing was required;

g. Specific reserves have been set aside totalling £79.5m to mitigate financial risks in future years;

h. The accounts will be made available online in a new accessible format.

2019/20 statement of accounts

5 The financial statements are prepared in accordance with international financial reporting standards. These comprise: the movement in reserves statement, a comprehensive income and expenditure account, a balance sheet and a cash flow statement. The S151 officer is satisfied that the statement of accounts presents a true and fair view.

Movement in reserves statement

6 The movement in reserves statement shows the movements in reserves during the year, analysed into the different funds held by the council and classified as either "usable" reserves, which can be used to fund future expenditure, or "unusable" reserves which are maintained to meet specific statutory responsibilities.

Usable reserves

7 Total usable reserves as at 31 March 2020 were £141.5m, an overall increase of £20.1m from 31 March 2019. A summary is provided in the table below. The main reason for the overall increase is due to the increase in earmarked reserves, as detailed in note 5 to the accounts. Earmarked reserves are reviewed annually by Cabinet.

	General Fund £m	Earmarked Reserves £m	Capital Receipts Reserve £m	Capital Grants Unapplied Reserve £m	Total Usable Reserves £m
Balance as at 31 March 2020	9.1	79.5	44.2	8.7	141.5
Balance as at 31 March 2019	8.5	67.0	41.5	4.4	121.4
Overall increase / (decrease) in 2019/20	0.6	12.5	2.7	4.3	20.1

Unusable reserves

8 Unusable reserves are not available to be spent. They are maintained to meet specific statutory responsibilities and include the pension reserve, revaluation reserve and capital adjustment account.

9 The unusable reserves totalled £134.4m at 31 March 2020 compared to £112.2m at 31 March 2019 with increases in the pension reserve, revaluation reserve and capital

adjustment account. The main movement being an increase in the pension reserve following a £20.9m re-measurement of the net defined liability by the external actuary, Mercer Limited.

Comprehensive income and expenditure statement (CIES)

10 This statement shows the net cost of providing services when calculated in line with generally accepted accounting practice. The Expenditure and Funding Analysis, note 2 to the accounts, compares the CIES with the outturn reported to Cabinet, showing the adjustments made between the management and statutory reports.

Balance Sheet

11 The balance sheet summarises the council’s assets, liabilities and reserve position at the end of the financial year. Net assets are matched by reserves which may be “usable” or “unusable”, see above.

12 At 31 March 2020 long term assets totalled £705.1m, compared to £692.9m at 31 March 2019. Long term assets include the current valuation of property, plant and equipment the council uses in the provision of its services and the inclusion of capital spend during the year.

13 Current assets totalled £80.8m at 31 March 2020, compared to £63.4m at 31 March 2019. The main increase representing an increase in short term investments and short term debtors held at the year-end. The increase in short term investments represents the receipt of Covid 19 funding in relation to additional costs and business rate reliefs. The increase in short term debtors reflects £8.9m of grants provided to businesses before the receipt of central government funding on 1 April 2020.

14 Current liabilities totalled £59.3m at 31 March 2020, compared to £55.0m at 31 March 2019. Long term liabilities totalled £450.7m at 31 March 2020 compared to £467.7m at 31 March 2019. This is mainly due to a reduction in borrowing and private finance initiative commitments following in year repayments. The council’s treasury management strategy is to secure external funding where the cash position requires this. This strategy minimises the cost of carry and investment counterparty risk.

Covid 19

15 In March 2020 there were substantial falls in equity markets around the world in relation to the COVID-19 pandemic. The outbreak of COVID-19, has seen many sectors of real estate markets experiencing significantly lower levels of transactional activity and liquidity. Valuations are therefore reported as being subject to ‘material valuation uncertainty’. The inclusion of the ‘material valuation uncertainty’ does not mean that the valuation cannot be relied upon. Rather, the declaration has been included to ensure transparency of the fact that – in the current extraordinary circumstances – less certainty can be attached to the valuation than would otherwise be the case. The material uncertainty clause is to serve as a precaution and does not invalidate the valuation. Given the unknown future impact of COVID-19 on many sectors and the difficulty in

differentiating between short term impacts and longer term structural market changes, valuations will be kept under frequent review.

Cash flow statement

16 The cashflow statement shows how the council generates and uses cash and cash equivalents, and explains the reasons for changes in cash balances during the year. During 2019/20 there was a net decrease in cash and cash equivalents of £3.7m.

Group accounts

17 The group accounts consolidate the performance of the council with its subsidiary Hoople Limited in 2019/20. The impact of the consolidation increases the council's reserves position by £2.4m (£1.9m in 2018/19) which includes a minority interest reserve balance of £0.4m (£0.3m in 2018/19).

The collection fund

18 The collection fund demonstrates how income raised from local taxpayers has been re-distributed to the council and to other precepting authorities for the provision of services. Collection fund income from council taxpayers and business ratepayers totalled £178.1m in 2019/20 compared to £170.5m in 2018/19. Expenditure includes precept payments to West Mercia Police (£14.9m), Hereford and Worcester Fire Authority (£6.3m) and parishes (£4.6m). These are paid from income collected from taxpayers on their behalf. In 2019/20 business rates income of £22.9m were paid to central government representing 50% of business rate income collected.

Annual Governance Statement

19 The Annual Governance Statement appears as a separate item elsewhere on today's committee agenda; once approved the statement will be added to the statement of accounts attached at appendix A.

Letter of representation

20 Attached at appendix B is the council's letter of representation confirming that, to the best of the council's knowledge and belief, the financial statements, at appendix A, give a true and fair view in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and applicable law.

Community impact

21 Publication of the statement of accounts in accordance with statutory requirements helps the council to achieve its code of corporate governance commitment to behave with integrity, demonstrate strong commitment to ethical values, and respect the rule of law. The council is accountable for how it uses the resources under its stewardship, including accountability for outputs and outcomes achieved. In addition the council has an

overarching responsibility to serve the public interest in adhering to the requirements of legislation and government policies.

Environmental impact

22 Herefordshire Council provides and purchases a wide range of services for the people of Herefordshire. Together with partner organisations in the private, public and voluntary sectors we share a strong commitment to improving our environmental sustainability, achieving carbon neutrality and to protect and enhance Herefordshire's outstanding natural environment.

23 Whilst this is a decision on approving the 2019/20 statement of accounts and associated letter of representation to the external auditor of those accounts so will have minimal environmental impacts, consideration has been made to minimise waste and resource use in line with the council's Environmental Policy. For example the external audit has been completed remotely for the first time, reducing travel impact and paper usage.

Equality duty

24 Under section 149 of the Equality Act 2010, the 'general duty' on public authorities is set out as follows:

25 A public authority must, in the exercise of its functions, have due regard to the need to –

a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;

b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;

c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

26 The public sector equality duty (specific duty) requires us to consider how we can positively contribute to the advancement of equality and good relations, and demonstrate that we are paying 'due regard' in our decision making in the design of policies and in the delivery of services. As this is a statement of factual information, we do not believe that it will have an impact on our equality duty.

Resource implications

27 Contained in the report.

Legal implications

28 Regulation 9 of the Accounts and Audit Regulations 2015 require the following;

29 The S151 officer must sign and date the statement of accounts, and confirm that he is satisfied that it presents a true and fair view of the financial position of the council at the end of the financial year to which it relates together with the income and expenditure for that financial year. This was completed on 26 June.

30 The period of the exercise of public rights for the inspection of the accounts commenced on 29 June and was notified to the local auditor on 26 June.

31 Following the conclusion of the period for inspection, the committee must approve the statement of accounts by a resolution and ensure that the statement of accounts is signed and dated by the person presiding at the committee. In order for the committee to do so the S151 officer has re-confirmed that he is satisfied that the statement of accounts presents a true and fair view as detailed in paragraph 4 above.

32 The Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 (SI 404/2020) that extended the statutory audit deadline for 2019/20 for all local public authorities in England, apart from health service bodies, came into force on 30 April.

33 For local authorities the publication date for audited accounts moved from 31 July 2020 to 30 November 2020. To provide local authorities more flexibility, the requirement for the public inspection period to include the first 10 working days of June was removed. Instead they must commence the public inspection period on or before the first working day of September 2020, and should give notice of the period planned. This meant that draft accounts must be approved by 31 August 2020 at the latest, however they may be approved earlier, and there will be no requirement to wait for a common inspection period.

Risk management

34 The external auditors have issue an unqualified opinion on the statement of accounts, see external audit findings report elsewhere on today's agenda. A new risk this year in the impact of the national pandemic on assumptions used in the accounts, this is a national risk and local judgement is regularly reviewed and discussed with the external auditor.

35 The council is required to make arrangements for the proper administration of its financial affairs and to secure that the chief financial officer has the responsibility for the administration of those affairs. The council is also required to secure economic, efficient and effective use of resources which Grant Thornton provide a value for money opinion, this is reported under the audit findings report being presented separately at the same meeting.

Consultees

36 The statement of accounts were made available for public inspection between 29 June and 17 August 2020. No representations or objections were received.

Appendices

Appendix A Statement of accounts for 2019/20

Appendix B Letter of representation for 2019/20

Background papers

None identified.

Herefordshire Council

Herefordshire Council

Statement of Accounts 2019/20

Contents

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

Narrative Report 2019/20

Introduction

This narrative report provides information about Herefordshire including the key issues affecting the council and its accounts. It provides a summary of the council's performance during 2019/20 and of its financial position as at 31 March 2020 including:

- An introduction to Herefordshire
- The council's performance during 2019/20
- Financial performance during 2019/20 and financial position as at 31 March 2020
- Covid 19
- Principal risks and uncertainties
- An explanation of the financial statements
- Annual governance statement

Herefordshire Council is a unitary council formed in 1998. The council's responsibilities are wide ranging and include education, adult social care, road maintenance and waste collection and disposal services.

There are 53 elected members, each representing a single ward. The council paid the following amounts to members of the council during the year:

Members Allowances	2019/20 £m	2018/19 £m
Basic allowances	0.4	0.4
Special allowances	0.2	0.2
Total	**0.6**	**0.6**

An Introduction to Herefordshire

Herefordshire is situated in the south-west of the West Midlands region bordering Wales. The city of Hereford lies in the middle of the county and other principal locations are the five market towns of Leominster, Ross-on-Wye, Ledbury, Bromyard and Kington. The county has beautiful unspoilt countryside with remote valleys and rivers and a distinctive heritage.

Herefordshire is a predominantly rural county, with the fourth lowest population density in England (88 people per square kilometre). Being a predominantly rural county presents opportunities in, for example, tourism and agriculture, but also presents challenges, such as in geographical barriers to services.

As of mid-2018, Herefordshire's resident population was estimated to be 192,100. The county has a relatively older age structure compared with nationally with almost a quarter (24%) of the population are aged 65 or over. Numbers of older people are set to continue growing at a higher rate than the younger age groups.

An ageing population is partly driven by people living longer – this is something to celebrate, but it does have implications for local communities and public services. A 2016 Government report concluded that 'without significant improvements in health, UK population ageing will increase the amount of ill-health and disability.' It predicted:

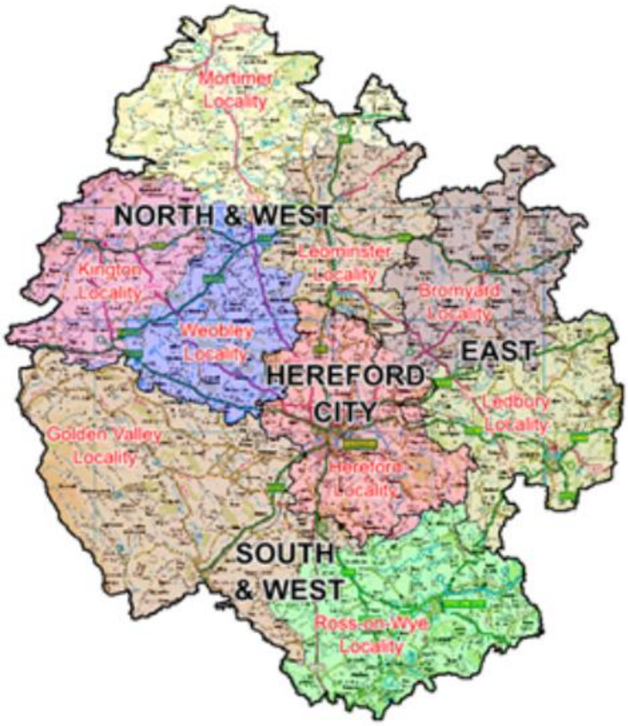
- An increase in the numbers of people living with multiple, chronic, and long-term health conditions.
- More older people who are living with cognitive impairments.
- Families facing increasing pressure to balance care with other responsibilities, particularly work, with more people needing physical and financial support, at a time when there are fewer people able to fund public services and provide care.

We have relatively low levels of unemployment, but low productivity and lower average earnings are persistent challenges and a factor in poor social mobility and young people leaving the county to seek career opportunities elsewhere.

Herefordshire had a higher proportion of households who own their home outright and a lower proportion who own their home with a mortgage, compared with England and Wales. It is the worst area in the West Midlands for housing

affordability and house prices at the lower end of the housing market are over eight times higher than lower quartile annual earnings.

Herefordshire has the second highest road length per head of population in England and with only four railway stations, people are particularly dependent on road transport, with the majority of residents who travel to get to work doing so by car. Rates of cycling are relatively high, but in remote rural areas the frequency of bus services can be an issue for those reliant upon public transport and parts of rural Herefordshire are among those at the highest risk of transport poverty nationally.



During 2019/20 Herefordshire experienced significant and widespread flooding. In response the council launched the Talk Community Big Herefordshire Clean Up by releasing staff for up to two days to volunteer to support the affected communities, supporting flood recovery work and highlighted the financial assistance available to those homes and businesses effected.

In March 2020 Herefordshire was affected by the national pandemic, Covid 19. Covid 19 continues to have a very significant impact on the local economy, due to government instructions to close tourism, leisure, cultural and hospitality businesses. Manufacturing businesses have been severely affected by the need to introduce social distancing (meaning many have had to close) and a significant drop off in trade. Covid 19 also had an impact on a number of the capital projects as construction was paused during the lockdown period.

In response to the epidemic, the council established a hotline and e-mail drop box for business enquiries, assisting over 600 people in March and April. Information regarding national support measures has been sent out to businesses, with guidance available on the council and Growth Hub webpages. A weekly meeting with key business intermediaries (Federation of small business, Chamber of Commerce, Herefordshire Means Business, Herefordshire Business Board, NFU etc.) was established to help understand issues affecting businesses, and to co-ordinate support and communications. The council also engaged local businesses to help address shortages in personal protective equipment, accommodation for key workers, and additional social care provision.

Performance

The council aligns its plans and objectives and monitors its performance against the council's key underlying priorities which are stated in the council's corporate plan 2016 to 2020, being:

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

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

Every day the council provides many services to over 187,000 residents. These services include the maintenance of over 2,000 miles of roads, collection of over 85,000 residential bins, helping to protect around 2,500 vulnerable adults and 1,000 children and young people (including 350 children in our care).

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

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

Performance against these measures is regularly reported to Cabinet; during 2019/20 these updates included the following (more details can be found on the council's website):-

1. Adults and communities peer review was a positive experience with the team identifying five opportunities that it felt the council might want to consider going forward:
- Capitalise on the council's clear commitment to improving health and well-being outcomes for the residents of Herefordshire by ensuring the 'Talk Community' programme is defined in a manner that makes the delivery expectations understood by those responsible for delivering the programme. Talk community played a key role in delivering the councils response to the county's flooding events in 2019/20.
- The nature of the existing care market is heavily dominated by small providers with seemingly limited capacity to diversify to meet the future aspirations of the council and its partners. The business and economy directorate of the local authority could make a real contribution in developing the skills of local business leaders to support them with this challenge.
- There are strategic commissioning intentions to develop alternatives to residential care, translating these intentions into clear delivery plans is required to achieve the intended benefits.
- Consideration of the role of carers in the delivery of 'Talk Community' and how carers are supported in Herefordshire to continue in their caring role. In doing this the team suggests that the views of carers and other stakeholders are actively sought, including those who support self funders to see if a refresh of the process and commissioning plans to support carers is required.
- There is an opportunity to review the relationships and processes between practitioners and community brokers and the approval processes within Herefordshire in order to further develop strengths-based practice.

2. The HomeFirst service is reporting the highest numbers of people accessing the service since it began and there are no waiting lists for Care Act assessments for new people coming into the service. In tandem delayed transfers of care improved significantly in 2019/20 well within the national NHS targets.

3. All Ages Commissioning continue to successfully deliver against the 2019/20 plan. The Department has tendered and awarded the Integrated Equipment Store Service and Young People's Accommodation contracts. The Herefordshire and Worcestershire Dementia Strategy was approved by Cabinet in November and support has been provided to the Dementia Action Alliance a new dedicated resource which will work with the Council, Clinical Commissioning Group and local organisations to deliver against the outcomes within the strategy.

4. The Children's Integrated Needs Assessment (ChINA) and the Oral Health Needs Assessment have both highlighted the importance of action to address the relatively high levels of tooth decay and obesity of Herefordshire children. An action plan has been drafted, including measures to increase the number of children accessing fluoride varnish and enabling targeted, supervised tooth brushing as well as encouraging parents to take their child to the dentist.

5. A significant improvement in educational outcomes has taken place in Herefordshire over the past 5 years. Validated data confirmed results for primary schools in Herefordshire and indicates that the county is performing in either the top or second quartile of all local authorities in the vast majority of performance indicators. Due to the Covid 19 pandemic there will be no true exam results; this will result in no Attainment 8 and Progress 8 information being provided for this academic year; we are awaiting further guidance from the DFE as to what performance measures they will use.

6. On 18 and 19 December 2019 Ofsted carried out a focused visit. The focus of the visit was arrangements for children in need and those children subject to a child protection plan, and a particular focus on contextual safeguarding, particularly those issues relating to peer on peer abuse. Ofsted have published their report and further information has been provided to the executive. No children seen were identified at risk of significant harm and all were receiving interventions. There was positive recognition of the work of the children with disabilities team, the work on contextual safeguarding, peer on peer abuse, the stabilisation of the workforce through the recruitment and retention strategy and the planned investment. However, as the council recognises, little progress has been made in improving the quality of practice for child in need and child protection and the challenge in this area is heightened by difficulties in recruitment and staff turnover. Further work to address these issues is contained in the safeguarding improvement plan that is reviewed on a quarterly basis by Children and Young People's Scrutiny committee.

7. On 2 December the tourism portfolio holders for Shropshire, Telford and Herefordshire met to explore opportunities for joint working in the future. The visitor economy is a very important part of Herefordshire's economy, in terms of employment and generating spend across the county. It is also a critical enabling sector, which helps promote our county and its outstanding natural assets and quality of life offer as a great place to live, learn, work, invest as well as visit.

8. Appreciating that flooding has affected many people and businesses in the county, the council took an urgent decision to provide hardship schemes to residents and businesses whose homes or businesses have been flooded. This includes a Community Flood Recovery Grant worth £500 for each affected household to apply for. In order to qualify for the assistance, flood water must have entered the habitable areas of their property, or the residence has been considered unliveable for any period of time due to flooding. Alongside this is a Business Flood Recovery Grant, which will provide up to £2,500 per eligible small and medium-sized business. To qualify, businesses must be able to demonstrate that they have directly impacted or have directly suffered a loss of trade as a result of the flooding that cannot be recovered from insurance.

9. The Lugg catchment phosphate moratorium on development was considered at a meeting between council officers with Welsh Water and a Technical Advisory Group (TAG) on 6 December. The Nutrient Management Board met on the 29 January, when the Board considered and agreed to explore proposals scoped by the TAG to strengthen the Nutrient Management Plan. It also agreed to commission a Memorandum of Understanding so that all regulatory bodies responsible for the quality of water within the Lugg catchment are consistent in their approach. A task and finish group was established to deliver this with a further board meeting scheduled for 24 April.

10. The Homelessness Prevention and Rough Sleeping Strategy was approved by Cabinet on 19 December 2019. The Strategy aims to continue the successful work in preventing people from becoming homeless, but also give more focus to the reduction of rough sleeping, initially through the strengthening of the Rough Sleeper Outreach and Resettlement Team to offer support to rough sleepers, and those at risk, with mental health issues, substance misuse or offending histories.

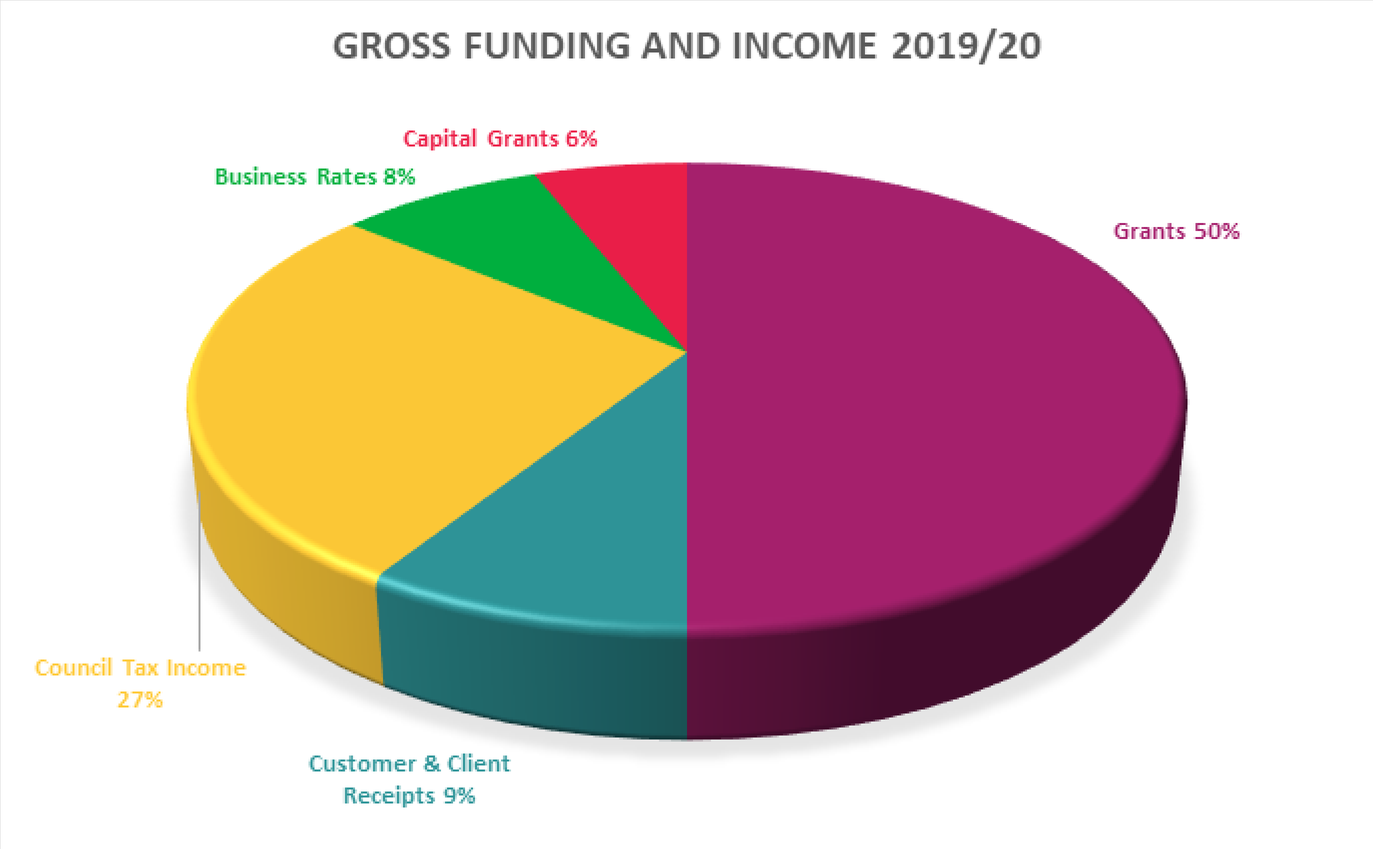
Financial performance

Herefordshire is a rural county with an older demographic and, like other councils and the wider public sector, has faced significant financial challenges over recent years as central government funding has been reduced, while costs and demand increase.

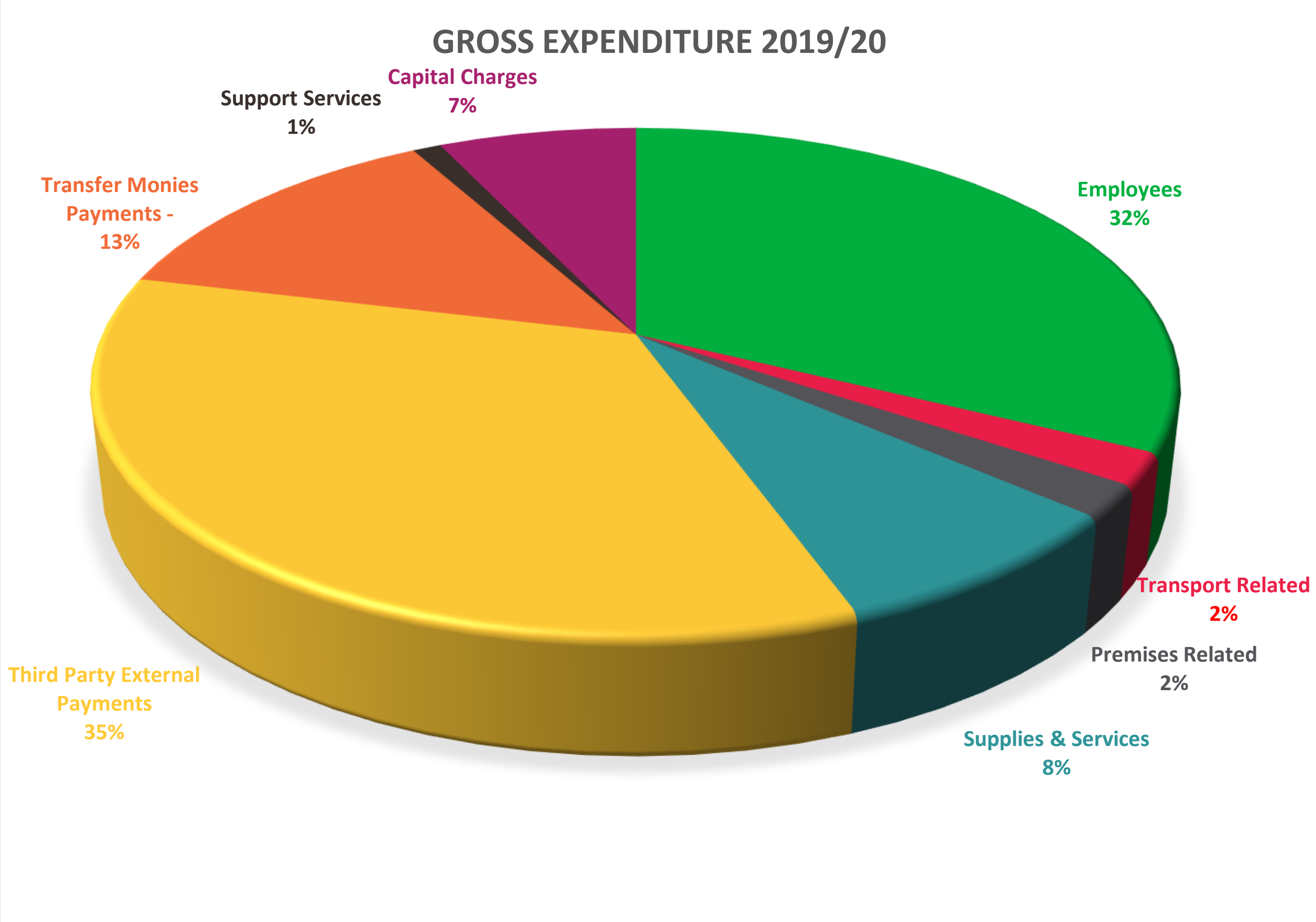
The council underspent by £0.6m in 2019/20 which has increased the general fund reserve balance to £9.1m. This has been achieved by delivering savings as central government funding has been reduced. CIPFA's Financial Resilience Index has recently been published and is intended to be a comparative analytical tool to support good financial management, providing a common understanding within a council of their financial position.

The index shows a council's position on a range of measures associated with financial risk. The selection of indicators has been informed by the extensive financial resilience work undertaken by CIPFA over the past four years, public consultation and technical stakeholder engagement. This index demonstrates that Herefordshire is at a lower risk of financial stress within the unitary council group.

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



The Herefordshire Council element of the Council Tax Band D equivalent was set at £1,514.70 in 2019/20.



Other key resources are the 3,349 members of staff (1,290 non-school staff and 2,059 schools' staff) and the current value of property, plant and equipment used in day to day service delivery, £626.7m. During 2019/20 34% of supplier spend was in County, this grows to 56% when neighbouring counties are included.

2019/20 delivered an underspend by achieving £3.7m of savings in addition to those achieved in previous years. The council continues to direct its resources to deliver key services required by residents while reducing overall costs, demonstrating efficiency and good use of resources.

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

Service	**Outturn Budget £m**	**Outturn Actual £m**	**Outturn over/(under) £m**
Adults and communities	53.9	51.9	(2.0)
Children and families	30.9	32.3	1.4
Economy and place	29.5	29.5	-
Corporate	16.8	17.4	0.6
Directorate outturn	**131.1**	**131.1**	**-**
Central, treasury management, capital financing and reserves	20.0	19.4	(0.6)
Total	**151.1**	**150.5**	**(0.6)**

Although there were significant overspends in children and families, due to the cost of looked after children both in number and level of support required, there were underspends elsewhere delivering an underspend.

The underspend in adults and communities reflects a reduction in both the number and cost of community care packages, along with staff vacancies within the operational teams. The overspend in children and families reflects an increase in the costs of placements and an increase in the use of external supported accommodation for young people with care experience. Economy and place delivered a balanced outturn despite severe flooding and increased school transport costs including the impact of Public Service Vehicle Accessibility Regulations partly due to increased planning income. The overspend in corporate is due to staffing difficulties and a reliance on interims within legal services.

The central underspend is due to treasury management in both the minimum revenue provision and forecast interest cost. This is due to a significant capital underspend leading to both a delayed need to borrow and higher investment balances being maintained throughout the year. The capital investment will still be required however it will be at a later date than that originally planned.

The 2019/20 detailed performance outturn was reported to Cabinet in June 2020.

In addition to revenue spend the council delivered significant capital investment including:-

- *Fastershire is a partnership tasked with bringing faster broadband to the county. Phase 1 aimed to provide 90 per cent of Gloucestershire and Herefordshire with fibre broadband with a minimum speed of 2Mbps by 2016 and Phase 2 will extend fibre coverage further across the counties. The ultimate aim is that by the end of 2021/22 there will be access to fast broadband for all who need it. Fastershire won the top prize at the national Connected Britain awards.*

- *The Herefordshire Local Transport Plan sets out programmes of work for achieving the council's objectives for transport. Development of the Hereford Transport Package (HTP) and South Wye Transport Package (SWTP) are currently under review. Plans are being developed to deliver the transport hub along the City Link Road to enable better use of public transport and unlock the County Bus Station Site for development.*

- *The recently opened City Link Road unlocked brownfield land for new affordable housing and regeneration in the centre of Hereford. New developments started in 2019/20 are the new GP hub and student accommodation on the Station Approach car park site. The council is working with their development partners to develop a master plan for the area which will see further schemes in the near future.*

- *Hereford Enterprise Zone has continued with investment in infrastructure within the Zone, this will enable future business growth and employment opportunities in the Enterprise Zone over the next few years. The Cyber Centre which is a project with the University of Wolverhampton will open in 2020/21 along with the Shell Store that provides incubation units for businesses, both of these projects are within the enterprise zone.*

- *During the year work started at Marlbrook Primary School to deliver the new permanent building to accommodate the additional six classrooms required to remove all temporary accommodation and provide the teaching space required for the additional pupils.*

The development of Shell Store site on the Hereford Enterprise Zone commenced in summer 2019, and will be completed in the summer 2020 following a delay in construction related to Covid 19. The £7.5m redevelopment will establish the first purpose built business incubator facility in the county. The Shell Store will provide employment space for up to 40 dynamic and innovative businesses, driving economic growth through the generation of new jobs.

The construction of the £9m Midlands Centre for Cyber Security on the Hereford Enterprise Zone is also due to complete in the October 2020 following a delay due to Covid 19. The Joint Venture with the University of Wolverhampton will create a range of opportunities in the growing cyber security sector in Herefordshire, providing business accommodation alongside product testing, specialist research and educational facilities, benefitting the local economy through investment, job creation and skills development.

In July 2019 construction commenced on the first bespoke student accommodation development in Hereford. Developing higher education in the county is critical to establishing higher-level skills, retaining/attracting a younger generation to learn, live and work in Herefordshire, and to attracting employers offering higher value job opportunities. A Covid 19 delay will mean that the construction will not be completed for the September academic year, the site is expected to be open in December 2020.

Covid 19

The coronavirus pandemic is having a huge impact across the whole country. The UK went into lockdown on March 23 in an unprecedented step to attempt to limit the spread of the disease. The easing of lockdown is now underway and council plans are continuing to evolve as this situation changes.

The Council immediately moved into an emergency response mode and responded quickly to safeguard its community and employees by ceasing some council services and commencing new ones, such as the provision of personal protective equipment (PPE). Other services have adapted their working methods to include working remotely and by putting in place additional health and safety measures.

The major risks and challenges to the council during this period are:
- Maintaining Children's Safeguarding function
- Maintaining Adult Social Care function and capacity to meet new requirements
- Supporting vulnerable and shielded members of the community
- Supporting individuals through Crisis Support mechanisms
- Mental health issues for carers, clients, staff and vulnerable residents
- Closure of building bases for services to vulnerable individuals
- Maintaining an Education service for the children of key workers
- Supporting the business community, including care homes
- Supporting and working with partners
- Supporting the voluntary sector and community resilience
- Managing Health and Safety, including supplies of PPE

The financial management key risk includes financial pressures, estimated to be in the region of £18.5m in 2020/21. This includes increased costs relating to Adult Social Care provision, increased costs of Children's Social Care placements, purchase of essential personal, protective equipment (PPE), homeless support, income shortfalls relating to closed facilities and charging changes plus predicted income shortfalls in relation to Council Tax and Non Domestic Rates.

Central Government has provided grant funding in recognition of these pressures however it is inevitable that the economy and local community will take time to recover and this is expected to generate a significant pressure on the Council's budget unless more Government funding is forthcoming.

Due to the significant impact on income, monitoring cash flow has become more important and a consistently updated cash model is in place to ensure sufficient funds are available to meet financial obligations. This is being updated regularly as more information on cash inflows and outflows becomes available.

As part of the response, staff quickly moved to a home-working environment and ICT was put in place to support the change, rolling out Webex software and ensuring the network speed and capability could deal with the higher remote working volumes.

Over 200 staff were redeployed from non-critical services to support the Covid-19 emergency response. Many assisted with delivering emergency supplies and supporting the most vulnerable residents.

The Council was quick to establish processes for awarding grants under the national small business support grant scheme. To date, in excess of £55.8m grants have been paid to 4,800 businesses. In addition, business rates reliefs of almost £30m were awarded.

The Council is now transitioning from emergency response to a recovery phase. This includes setting up a system for outbreak control in Herefordshire that will be effective for many months.

Risks and uncertainties

Council approved a medium term financial strategy, treasury management strategy and capital strategy in February 2020 for the period ahead. Herefordshire council continues to rise to the financial and demand challenges it faces by developing strategies and plans to continue to provide valued services to its residents.

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

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

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

As at the balance sheet date the risks from the effects of Covid 19 and the United Kingdom negotiating its exit from the European Union (EU) are yet to be known, however the impact may lead to increased volatility in economic stability and reduced access to funds. To mitigate this the council has maintained a general fund reserve, used prudent assumptions in its medium term financial strategy and reduced reliance on grant funding in all directorates. At the same time it is supporting the increase of local economic and social investment to increase its core income sources.

Significant provisions, contingencies and write-offs

The council held provisions of £6.8m at 31 March 2020.

The most significant provision is the business rates appeal provision of £4.2m based on an assessment of the council's liability in relation to business rate appeals at 31 March 2020. This assessment is made independently and considers the appeals both lodged with the Valuation Office Agency and those yet to be registered.

At 31 March 2020 the council also held a provision of £2m for independently assessed outstanding insurance commitments. Herefordshire Council pays the first £100 to £50k of most insurance claims (depending on the type or class of the claim), known as the excess.

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

Pensions

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

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

Herefordshire's proportion of the net deficit on the Worcestershire County Council Pension Fund as at 31 March 2020 is £259.5m. Whilst this deficit does not have to be met immediately, it requires recovering over a period of future years. In addition the balance sheet deficit also includes £0.7m relating to ex Hereford and Worcester teachers' unfunded benefits.

The council has agreed with the Actuary contributions to recover the deficit over a number of years, a deficit repayment of £4.0m (including schools) will be paid in 2020/21. In addition in service contributions of approximately £9.3m will also be paid.

The pension fund position is reviewed every three years and was last revalued as at 31 March 2020, where the in-service contribution rate increased to 17.6% (previously 15.6%) and the deficit contribution decreased to 10.4% (previously 16.6%). These changes have been reflected in the 2020/21 budget setting programme.

An explanation of the financial statements

The 2019/20 statement of accounts which follow set out the council's income and expenditure for the year and its financial position as at 31 March 2020. The format and content of the statements is prescribed by CIPFAs Code of Practice on Local Authority Accounting in the United Kingdom 2019/20. This is based on International Financial Reporting Standards adapted for use in a public sector context. The statement of accounts comprises:

Movement in reserves	This shows the movements in reserves during the year, analysed into the different funds held by the Council and classified as either "usable" reserves, which can be used to fund future expenditure, or "unusable" reserves which are maintained to meet specific statutory responsibilities.

Comprehensive Income and Expenditure Statement (CIES)	This shows the net cost of providing services when calculated in line with generally accepted accounting practice. The Expenditure Funding Analysis compares the CIES with levels of income and expenditure which are taken into account setting the annual budget and council tax requirement, since certain amounts are disregarded by statute. Note 6 also provides a subjective analysis of the CIES.
Balance Sheet	The Balance Sheet shows the councils assets and liabilities as at the year end. Net assets are matched by reserves which may be "usable" or "unusable", see above.
Cash flow statement	This shows how the Council generates and uses cash and cash equivalents, and explains the reasons for changes in cash balances during the year.
Statement of accounting policies	Sets out the accounting policies that have been followed in preparing the statements and how Code requirements have been met in practice.
Disclosure notes	These provide more detail about individual transactions and balances.
Statement of group accounts	The group financial statements consolidate the accounts of the Council with those of its subsidiary undertaking, Hoople Limited.
Collection Fund	This account demonstrates how income raised from local taxpayers has been re-distributed to the Council and to other precepting authorities for the provision of services.

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

Capital Investment Budget

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

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

Capital investment for 2019/20 totalled £35.7m. This was financed by capital grants £24.2m, prudential borrowing £8.6m and capital receipts £2.9m. The investment included the following corporate priority schemes:

- Marlbrook Primary School Extension - £0.7m
- Hereford Enterprise Zone – Shell Store - £4.2m
- Fastershire broadband rollout - £1.8m
- Affordable Housing Grant - £1.2m
- Hereford Enterprise Zone - £1.3m
- Schools Capital Maintenance Grant - £1.6m
- Disabled Facilities Grant - £2.0m
- Hereford Transport Package - £1.0m
- South Wye Transport Package - £1.2m
- Highway asset management & major infrastructure investment - £2.1m
- Local transport plan road improvement works - £11.7m

Future years' capital programme

The council maintains a rolling capital programme reflecting commitments, links to strategic plans and estimated sources of capital funding. The council's capital strategy was approved at the same time as the capital programme. The capital programme budget approved at Council February 2020 is detailed, including the sources of funding in the table below, the 2020/21 budget will increase by the underspend carried forward from 2019/20.

Scheme Name	**2020/21 £m**	**2021/22 £m**	**2022/23 £m**	**2023/24 £m**	**Capital receipts £m**	**Grant & funding £m**	**Prudential borrowing £m**
Economy & Place							
Hereford City Centre Transport	1.5	5.4					

Package			-	-	-	-	6.9
South Wye Transport Package	14.8	6.4	2.1	-	-	23.3	-
Hereford City Centre Improvements (HCCI)	2.0	2.0	-	-	-	-	4.0
Hereford ATMs and Super Cycle Highway	1.0	-	-	-	-	-	1.0
Passenger Transport Fleet	7.8	7.8	7.8	15.6	-	35.0	4.0
Hereford Transport Package	0.4	0.6	0.6	-	-	-	1.6
Local Transport Plan (LTP)	12.3	-	-	-	-	12.3	-
Investment in C& U Roads	2.0	-	-	-	-	-	2.0
Investment in Infrastructure Assets	2.0	-	-	-	-	-	2.0
Highway asset management	3.8	4.2	-	-	-	4.5	3.5
Hereford Enterprise Zone	1.8	-	-	-	1.8	-	-
Herefordshire Enterprise Zone Shell Store	1.3	-	-	-	-	-	1.3
Ross Enterprise Park (Model Farm)	4.2	0.5	-	-	1.2	-	3.5
Marches Renewable Energy Grant	0.8	0.3	-	-	-	1.1	-
Marches Business Investment Programme	1.1	1.3	0.4	-	-	2.8	-
Empty Property Investment	1.0	0.3	0.3	-	-	-	1.6
Employment Land & Inc Space in Market Towns	0.8	4.2	3.1	5.5	4.0	2.0	7.6
Leominster Heritage Action Zone	0.2	1.5	2.1	-	1.8	2.0	-
Development Partnership	25.0	-	-	-	4.3	-	20.7
Corporate Property Schemes	5.8	1.6	-	-	-	0.5	6.9
Corporate							
Fastershire Broadband	8.6	-	-	-	-	0.4	8.2
PC Replacement	0.6	0.4	-	-	-	-	1.0
Electronic Document Management Storage	0.4	-	-	-	-	-	0.4
Better Ways of Working	0.9	-	-	-	-	-	0.9
Children's & Families							
Schools Capital Maintenance Grant	1.2	1.2	-	-	-	2.4	-
Peterchurch Primary School	5.0	5.4	-	-	5.2	-	5.2
Expansion for Marlbrook school	2.0	-	-	-	-	-	2.0
Brookfield School Improvements	0.2	1.2	-	-	-	0.8	0.6
Basic Needs Funding	8.9	-	-	-	-	8.6	0.3
Temporary school accommodation replacement	0.3	-	-	-	-	-	0.3
Adults & Communities							
Disabled facilities grant	1.8	1.9	-	-	-	3.7	-
Carehome & Extra Care Development	-	-	13.1	-	6.1	-	7.0
Technology Enabled Communities	0.3	1.2	-	-	-	1.5	-
Super Hubs	2.0	-	-	-	2.0	-	-
Total	**121.8**	**47.4**	**29.5**	**21.1**	**26.4**	**100.9**	**92.5**

The table above does not reflect the post balance sheet event to cease both Hereford Transport Package and the South Wye Transport Package capital schemes. Updated capital investment budgets have been reported to Council in February 2021 as part of the 2021/22 budget setting process.

Funding capital investment

Much of the council's investments are funded by grants however, when capital grants cannot fund a scheme in full, prudential borrowing can be used to fund the investment and the capital financing costs may be repaid from future savings generated by the investment. In 2019/20 the council utilised £8.6m of prudential borrowing to fund the capital investment budget, including:

- Hereford City Centre Transport Package £0.5m
- Hereford Transport Package - £1.0m
- Temporary School Accommodation Replacement - £0.4m
- Property Estate Works - £0.6m
- Highways Asset Management £2.1m
- Hereford Enterprise Zone – Shell Store £1.6m

Council borrowing

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

In 2019/20 no new long term borrowing was undertaken. This is due, in part, to the cash balances held, including those in the capital receipts reserve, deferring the need to borrow. Principal debt repayments of £7.2m were paid to the Public Works Loan Board under existing maturity, annuity and EIP (equal instalments of principal) agreements. Total interest of £5.4m was paid on all council borrowing during the year.

Total borrowing at the year end, including short term loans, was £130.3m (compared to £137.5m as at 31 March 2019).

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

Net borrowing (after offsetting investments) was £92.3m as at 31 March 2020, compared to £109.4m as at 31 March 2019.

Council reserves

2019/20 saw the councils general reserve balance increase to £9.1m. Herefordshire's medium term financial strategy includes a reserves policy and the reserve position is reviewed by Council on an annual basis. Specific earmarked reserves are set aside to deal with expenditure commitments in future years, these totalled £79.5m (this includes £8.9m school balances) as at 31 March 2020.

Annual governance statement

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

Statement of Responsibilities

The Council's Responsibilities

The council is required to:

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

The Section 151 Officer - Responsibilities

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

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

a. Selected suitable accounting policies and then applied them consistently

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

c. Complied with the local authority Code of Practice

The Section 151 Officer has also:

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

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

Certificate of the Chief Finance Officer (Section 151 Officer)

I confirm that the draft unaudited Statement of Accounts gives a true and fair view of the financial position of Herefordshire Council and its group as at 31 March 2020 and its income and expenditure for the year ended 31 March 2020.

Andrew Lovegrove, Chief Finance Officer (section 151 officer)

30 July 2021

Independent Auditors Report

To be included following the completion of the audit

Herefordshire Council

Core Financial Statements and Explanatory Notes

Herefordshire.gov.uk

Movement in Reserves Statement

2019/20	Notes	General Fund Balance £m	Earmarked Reserves £m	Total General Fund Balance £m	Capital Receipts Reserve £m	Capital Grants Unapplied £m	Total Usable Reserves £m	Unusable Reserves £m	Total Reserves £m
Balance brought forward		**(8.5)**	**(67.0)**	**(75.5)**	**(41.5)**	**(4.4)**	**(121.4)**	**(112.2)**	**(233.6)**
(Surplus) / deficit on the provision of services		(12.1)	-	(12.1)	-	-	(12.1)	-	(12.1)
Other comprehensive income and expenditure		-	-	-	-	-	-	(30.2)	(30.2)
Total comprehensive income and expenditure		**(12.1)**	**-**	**(12.1)**	**-**	**-**	**(12.1)**	**(30.2)**	**(42.3)**
Adjustments between accounting basis and funding basis under regulations		(1.0)	-	(1.0)	(2.7)	(4.3)	(8.0)	8.0	-
Net (increase) /decrease before transfers to earmarked reserves		**(13.1)**	**-**	**(13.1)**	**(2.7)**	**(4.3)**	**(20.1)**	**(22.2)**	**(42.3)**
Transfers (to) or from earmarked reserves	5	12.5	(12.5)	-	-	-	-	-	-
(Increase) / decrease for the Year		**(0.6)**	**(12.5)**	**(13.1)**	**(2.7)**	**(4.3)**	**(20.1)**	**(22.2)**	**(42.3)**
Balance carried forward	**3 & 4**	**(9.1)**	**(79.5)**	**(88.6)**	**(44.2)**	**(8.7)**	**(141.5)**	**(134.4)**	**(275.9)**

Movement in Reserves Statement 2018/19 Comparative

2018/19 Comparative	Notes	General Fund Balance £m	Earmarked Reserves £m	Total General Fund Balance £m	Capital Receipts Reserve £m	Capital Grants Unapplied £m	Total Usable Reserves £m	Unusable Reserves £m	Total Reserves £m
Balance brought forward		**(7.9)**	**(57.8)**	**(65.7)**	**(42.6)**	**(2.7)**	**(111.0)**	**(139.6)**	**(250.6)**
(Surplus) / deficit on the provision of services		(14.3)	-	(14.3)	-	-	(14.3)	-	(14.3)
Other comprehensive income and expenditure		-	-	-	-	-	-	31.3	31.3
Total comprehensive income and expenditure		**(14.3)**	**-**	**(14.3)**	**-**	**-**	**(14.3)**	**31.3**	**17.0**
Adjustments between accounting basis and funding basis under regulations	3	4.5	-	4.5	1.1	(1.7)	3.9	(3.9)	-
Net (increase)/decrease before transfers to earmarked reserves		**(9.8)**	**-**	**(9.8)**	**1.1**	**(1.7)**	**(10.4)**	**27.4**	**17.0**
Transfers (to) or from earmarked reserves	5	9.2	(9.2)	-	-	-	-	-	-
(Increase) / decrease for the Year		**(0.6)**	**(9.2)**	**(9.8)**	**1.1**	**(1.7)**	**(10.4)**	**27.4**	**17.0**
Balance carried forward		**(8.5)**	**(67.0)**	**(75.5)**	**(41.5)**	**(4.4)**	**(121.4)**	**(112.2)**	**(233.6)**

Comprehensive Income and Expenditure Statement

2018/19				2019/20			
Expenditure £m	Income £m	Net £m		Notes	Expenditure £m	Income £m	Net £m
90.6	(39.0)	51.6	Adults and Communities		92.5	(39.4)	53.1
126.1	(97.8)	28.3	Children and Families		137.3	(100.1)	37.2
61.2	(23.5)	37.7	Economy and Place		63.8	(26.4)	37.4
72.1	(45.5)	26.6	Corporate and Central Services		74.6	(41.8)	32.8
350.0	**(205.8)**	**144.2**	**Net Cost of Services**	**2**	**368.2**	**(207.7)**	**160.5**
4.5	-	4.5	Other Operating Expenditure	7	6.1	-	6.1
17.9	(6.2)	11.7	Financing, Investment Income and Expenditure	8	15.7	(5.9)	9.8
-	(174.7)	(174.7)	Taxation and Non-Specific Grant Income	9	-	(188.5)	(188.5)
372.4	**(386.7)**	**(14.3)**	**(Surplus) / deficit on the provision of services**		**390.0**	**(402.1)**	**(12.1)**
		(3.6)	(Surplus) / deficit in revaluation of non-current assets	4			(9.4)
		34.9	Re-measurement of net defined Benefit Liability				(20.8)
		31.3	**Other comprehensive (income) / expenditure**				**(30.2)**
		17.0	**Total comprehensive (income) / expenditure**				**(42.3)**

Balance Sheet

31 March 2019 £m		Notes	31 March 2020 £m
612.9	Property, Plant and Equipment	10	626.7
34.2	Investment Property	10	33.8
3.2	Heritage Assets	10	3.2
42.6	Long Term Debtors	11	41.4
692.9	**Long Term Assets**		**705.1**
10.1	Short Term Investments	11	19.1
0.1	Inventories		0.2
24.9	Short Term Debtors	12	34.9
22.5	Cash & Cash equivalents	13	23.3
5.8	Assets held for Sale	10	3.3
63.4	**Current Assets**		**80.8**
(8.5)	Short Term Borrowing	11	(4.4)
(40.5)	Short Term Creditors	18	(43.7)
(1.7)	Short Term Provisions	20	(2.4)
(4.3)	Cash & Cash equivalents	13	(8.8)
(55.0)	**Current Liabilities**		**(59.3)**
(4.7)	Long Term provisions	20	(4.4)
(130.7)	Long Term borrowing	11	(127.2)
(9.9)	Capital Grants Receipts in Advance	19	(8.2)
(322.4)	Other Long Term Liabilities	11	(310.9)
(467.7)	**Total Long Term Liabilities**		**(450.7)**
233.6	**Net Assets**		**275.9**
(121.4)	Usable Reserves	3	(141.5)
(112.2)	Unusable Reserves	4	(134.4)
(233.6)	**Total Reserves**		**(275.9)**

The draft unaudited accounts, notes and accounting policies were authorised for issue by the Chief Finance Officer on 26 June 2020.

Cash Flow Statement

2018/19 £m		Notes	2019/20 £m
(14.3)	Net (surplus) or deficit on the provision of services		(12.1)
(42.3)	Adjust net (surplus) or deficit on the provision of services for non-cash movements	14	(31.3)
7.4	Adjust for items included in the net (surplus) or deficit on the provision of services that are investing and financing activities	15	5.6
(49.2)	**Net cash flows from operating activities**		**(37.8)**
32.1	Net cash flows from investing activities	16	24.3
12.9	Net cash flows from financing activities	17	9.8
(4.2)	**Net (increase) or decrease in cash and cash equivalents**		**3.7**
(14.0)	Cash and cash equivalents at the beginning of the reporting period		(18.2)
(18.2)	Cash and cash equivalents at the end of the reporting period		(14.5)
(4.2)	**Net decrease or (increase) in cash and cash equivalents**		**3.7**

1. Notes to the Accounts - Accounting Policies

1.1 General Principles

The council is required to produce an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which require the accounts to be prepared in accordance with proper accounting practices. These practices under section 21 of the 2003 Act primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 supported by International Financial Reporting Standards. The core statements and the statement of group accounts have consistently applied the accounting policies below, where applicable, the statement of group accounts include additional accounting policies specific to the council's subsidiary undertaking, Hoople Limited.

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

1.2 Accruals of Income and Expenditure

Revenue and capital transactions are accounted for on an accruals basis where above the de-minimis thresholds, currently £5k for revenue and £10k for capital. This means that all revenue income is recorded when the debt has been established rather than when money has been received. Similarly, expenditure is recorded when it is owed rather than when the payment is made.

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

1.3 Borrowing Costs

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

1.4 Cash and cash equivalents

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

1.5 Contingent liabilities

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

Employee benefits

1.6 Benefits payable during employment

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

1.7 Termination benefits

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

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

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

1.8 Post-employment benefits

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

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

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

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

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

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

a) The liabilities are included in the Balance Sheet on an actuarial basis using the projected unit method, that is, an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees;
b) Liabilities are discounted to their value at current prices using a discount rate of 2.4% (based on market yields and other factors);
c) Assets are included in the Balance Sheet at their fair value determined through market or bid prices or using professional valuations;
d) The change in the net pension's liability is analysed into six components;

    i. **Current service cost:** The increase in liabilities as a result of service earned in the year is allocated to the revenue account of the services for which the employee worked, within the Comprehensive Income and Expenditure Statement
    ii. **Past service cost:** The increase in liabilities arising from a scheme amendment or curtailment whose effect relates to service earned in earlier years is debited to the Net Cost of Services in the Comprehensive Income and Expenditure Statement.
    iii. **Net Interest on the defined benefit liability:** The change during the period that arises from the passage of time is charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement.
    iv. **Return on plan assets:** Charged to the Pensions Reserve as Other Comprehensive Income and Expenditure but excludes amounts included in net interest on defined benefit liability.

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

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

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

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

1.9 Events after the balance sheet date

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

There are two types;

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

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

1.10 Extraordinary items

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

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

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

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

1.12 Financial Instruments

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

1.13 Financial liabilities

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

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

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

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

1.14 Financial assets

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

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

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

Financial Assets Measured at Amortised Cost

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

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

Financial Assets Measured at Fair Value through Profit of Loss

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

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

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

The inputs to the measurement techniques are categorised in accordance with the accounting policy set out in section

1.17 Fair Value Measurement Policy.

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

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

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

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

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

Expected Credit Loss Model

The Council recognises expected credit losses on all of its financial assets held at amortised cost (or where relevant FVOCI), either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the Council.
Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

1.15 Government grants and other contributions

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

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

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

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

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

  Comprehensive Income and Expenditure Statement.

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

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

1.16 Investment property

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

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

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

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

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

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

1.17 Fair Value Measurement Policy

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

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

A fair value measurement takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The concept of highest and best use applies only when determining the fair value of non-financial assets,

e.g. surplus assets or investment property. They do not apply to financial assets or to financial liabilities on the basis that financial assets or financial liabilities do not have alternative uses.

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

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

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

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

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

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

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

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

1.18 Leases

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

1.19 Finance leases

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

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

1.20 Operating leases

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

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

1.21 Arrangements containing a lease

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

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

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

1.22 Overheads and Support Services

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

1.23 PFI schemes

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

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

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

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

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

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

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

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

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

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

1.24 Property, plant and equipment

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

1.25 Recognition

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

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

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

Costs meeting the definition of recognition include initial costs of acquisition and construction and subsequent costs to enhance or replace part of the asset. The costs arising from day-to-day servicing of an asset are not capitalised as this does not add to the future economic benefits or service potential of the asset. The council does not capitalise property, plant and equipment costing less than the de-minimis thresholds, currently £10,000. The council also does not include assets on the councils asset register used to prepare the statement of accounts where the asset value is less than £100,000. Where a component is replaced or enhanced, the carrying amount of the old component is derecognised and the new component is reflected in the carrying amount on the assets valuation basis.

1.26 Schools

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

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

1.27 Measurement

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

a) purchase price;

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

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

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

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

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

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

1.28 Revaluations

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

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

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

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

1.29 Depreciation

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

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

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

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

1.30 Impairments

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

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

b) Evidence of obsolescence or physical damage of an asset

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

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

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

1.31 Asset held for sale

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

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

1.32 Disposals

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

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

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

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

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

1.33 Revenue Expenditure Funded from Capital under Statute (REFCUS)

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

1.34 Agency arrangements

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

1.35 Pooled budgets

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

1.36 Provisions

A provision is recognised when:

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

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

1.37 Reserves

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

1.38 Unusable reserves

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

1.39 Charges to revenue for non-current assets

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

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

1.40 Minimum Revenue Provision (MRP)

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

The minimum revenue provision is calculated as follows:-

- Capital expenditure funded by historic supported borrowing is repaid through a 2% annuity rate, and
- Capital expenditure funded by prudential borrowing previously is repaid on a 3% annuity loan repayment profile.

1.41 Value added tax

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

1.42 Revenue recognition

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

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

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

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

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

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

Interest; revenue is recognised when;

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

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

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

1.43 Interests in Companies and Other Entities

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

West Mercia Energy

West Mercia Energy (WME) operates as a joint arrangement with Herefordshire, Shropshire, Worcestershire and Telford and Wrekin councils. The Joint Agreement states that each Member Authority takes an equal share, being 25%, of any liabilities of the Joint Committee, at £1.3m this is considered not material. The financial advantage of bulk purchasing arrangements is reflected in the Comprehensive Income and Expenditure Statement.

South West Audit Partnership

Herefordshire Council has an internal audit function provided by the South West Audit Partnership (SWAP). SWAP is a not-for-profit organisation providing internal audit services to 24 local authorities' partner bodies. Upon joining SWAP each partner can nominate a director to the board, Herefordshire Council have done this. This represents the ability to work with other partners to provide feedback on services received. During 2019/20 Herefordshire Council paid SWAP £0.3m for their internal audit services (2018/19 £0.2m).

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

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

1.45 Council Tax

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

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

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

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

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

The council has carried out a possible impact assessment of accounting changes that will be required by new accounting standards that have been issued but not yet been adopted. These are listed below and are expected to have a limited impact on the council's group accounts.

- IAS28 Investments in Associates and Joint Ventures: amendments to long term interests
- Annual improvements to IFRS Standards 2015-2017 Cycle
- IAS19 Employee Benefits: amendments to plan amendment, curtailment or settlement. This could result in a negative or positive impact on the net pension liability.

IFRS 16 Leases. This standard introduces new presentation and disclosure requirements in relation to arrangements that convey the right to use an asset. The standard requirements will become applicable from 1 April 2021, this follows a one year delay recognising the impact of Covid 19 pandemic. This will result in lessee arrangements being disclosed as finance leases. The impact of this change is expected to be immaterial in value.

1.47 Critical judgements in applying accounting policies

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

The critical judgements made in these Statement of Accounts are:

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

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

- Herefordshire Council has committed to guarantee any deficit shortfall that may arise in Hoople Limited's Local Government Pension Scheme. For this reason both entities will be treated as a single entity for the purpose of determining contributions falling due and the council accounts report the combined deficit position.

- The council has determined that its accountable body status between the new Hereford University - the New Model in Technology & Engineering (NMiTE), and the Department of Education represents an agency arrangement and has disclosed this in note 23.

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

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

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

The estimations and assumptions have been revisited to reflect the uncertainty and volatility impact of the global outbreak of the Covid-19 virus pandemic. To date there is an expected impact however this is immaterial so no changes have been made. The virus however continues to prevail therefore the 2020/21 accounts may present material changes in the assumptions used.

This means that there is a significant risk of material adjustment in the forthcoming financial year for the following items in the council's Balance Sheet at 31 March 2020.

Item	Uncertainties	Effect if actual results differ from assumptions
Pensions liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. The pension fund actuary Mercer Limited is employed by the pension fund to provide expert advice about the assumptions to be applied. In March 2020 there have been substantial falls in equity markets around the world in relation to the COVID-19 pandemic. This will have consequences for asset values, and these falls in equity markets will be reflected in the accounting figures as at March 2020. The Worcestershire Pension Fund has reported a material valuation uncertainty due to the Covid-19 pandemic relating to property fund investments as at 31 March 2020.	Changes in any of the assumptions can have a significant effect on the pension liability shown in the accounts. An increase in the discount rate used of 0.1% would decrease the liability stated by £10.7m. An increase of 0.1% in the inflation rate used would increase the stated liability by £10.8m. An increase of 0.1% in the rate of pay growth used would increase the stated liability by £1.0m. A one year increase in the assumed life expectancy would increase the stated liability by £17.3m. However, the assumptions interact in complex ways, the re-measurement of the net liability in 2019/20 totalled £20.8m. The value of property fund assets is £22.1m. A 1% reduction in the value of these assets would have a £0.2m impact on the Council's net pension liability.
Non-current assets - depreciation	Non-current assets held on the Balance Sheet have an estimated useful life. This is based the professional judgement of officers and external valuers.	Depreciation is applied on a straight line basis over the useful life of the asset. Variations to the useful life will alter the amount of depreciation charged to the Comprehensive Income and Expenditure Statement. The impact of this is minimised by a review of the useful life of an asset being undertaken at each valuation.
Provisions	A reliable estimate of sums falling due in future years have been included as year-end provisions, the most significant being in relation to insurance claims and business rate appeals.	Actual settlements could differ from the independent, professionally valued estimate provided for. Where the actual settlement is less unused provisions are released to the Comprehensive Income and Expenditure Statement. Where settlements exceed the provision value earmarked reserve funding is released.

Property, plant, and equipment	A full valuation of assets held is completed in accordance with the professional standards of the Royal Institution of Chartered Surveyors at least every 5 years. In addition an annual impairment and valuation review is carried out for properties not valued in the year.	There is a risk of an adjustment in the year when the property is revalued. The risk of value misstatement of a fair value to its carrying value is reviewed annually and amended where considered significant. All assets requiring an independent professional valuation were valued in 2018/19 or 2019/20 therefore the risk of a value misstatement is considered to be low.
Land and Buildings	The outbreak of COVID-19, has seen many sectors of real estate markets experiencing significantly lower levels of transactional activity and liquidity. As at the valuation date, there is a shortage of market evidence for comparison purposes, to inform opinions of value. Valuations are therefore reported as being subject to ‘material valuation uncertainty’ as set out in VPS 3 and VPGA 10 of the RICS Valuation – Global Standards. Consequently, less certainty – and a higher degree of caution – can be attached to the valuations than would normally be the case. For the avoidance of doubt, the inclusion of the ‘material valuation uncertainty’ declaration above does not mean that the valuation cannot be relied upon. Rather, the declaration has been included to ensure transparency of the fact that – in the current extraordinary circumstances – less certainty can be attached to the valuation than would otherwise be the case.	The material uncertainty clause is to serve as a precaution and does not invalidate the valuation. Given the unknown future impact of COVID-19 on many sectors of the real estate market and the difficulty in differentiating between short term impacts and longer term structural market changes, valuations will be kept under frequent review.
Investment properties	As they are valued on a Market Value basis and can be more susceptible to valuation swings, linked to underlying market conditions and other asset specific changes; Investment Properties are subject to an annual valuation review and update to ensure the carrying amount does not differ materially from that which would be determined using fair value at the Balance Sheet date. The outbreak of COVID-19, has seen many sectors of real estate markets experiencing significantly lower levels of transactional activity and liquidity. As at the valuation date, there is a shortage of market evidence for comparison	A 1% movement in Investment Property valuations would result in a £0.3m movement in the valuation of Investment Properties. The material uncertainty clause is to serve as a precaution and does not invalidate the valuation. Given the unknown future impact of COVID-19 on many sectors of the real estate market and the difficulty in differentiating between short term impacts and longer term structural market changes, valuations will be kept under frequent review.

	purposes, to inform opinions of value. Valuations are therefore reported as being subject to 'material valuation uncertainty' as set out in VPS 3 and VPGA 10 of the RICS Valuation – Global Standards. Consequently, less certainty – and a higher degree of caution – can be attached to the valuations than would normally be the case. For the avoidance of doubt, the inclusion of the 'material valuation uncertainty' declaration above does not mean that the valuation cannot be relied upon. Rather, the declaration has been included to ensure transparency of the fact that – in the current extraordinary circumstances – less certainty can be attached to the valuation than would otherwise be the case.	

2. Expenditure and Funding Analysis 2019/20

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

		Adjustments between the funding and accounting basis				
2019/20	**Net expenditure chargeable to the General Fund**	**Adjustments for capital purposes (1)**	**Net change for pension adjustments**	**Other adjustments (2)**	**Total**	**Net Expenditure in CIES**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Adults and Communities	**51.9**	1.1	1.1	(1.0)	**1.2**	**53.1**
Children and Families	**32.3**	3.7	1.5	(0.3)	**4.9**	**37.2**
Economy and Place	**29.5**	13.9	1.5	(7.5)	**7.9**	**37.4**
Corporate Services	**36.8**	(2.8)	(4.1)	4.4	**(2.5)**	**34.3**
Net cost of services	**150.5**	**15.9**	**-**	**(4.4)**	**11.5**	**162.0**
Other income and expenditure	**(163.6)**	(22.4)	6.4	5.5	**(10.5)**	**(174.1)**
Total (surplus) / deficit	**(13.1)**	**(6.5)**	**6.4**	**1.1**	**(1.0)**	**(12.1)**
Opening general fund balance as at 1 April 2019	**(75.5)**					
(Surplus) / deficit on general fund	(13.1)					
Closing general fund balance as at 31 March 2020	**(88.6)**					

Comparative EFA 2018/19

2018/19	Net expenditure chargeable to the General Fund	Adjustments between the funding and accounting basis: Adjustments for capital purposes (1)	Net change for pension adjustments	Other adjustments (2)	Total	Net Expenditure in CIES
	£m	£m	£m	£m	£m	£m
Adults and Communities	**50.2**	0.6	1.2	(0.4)	**1.4**	**51.6**
Children and Families	**26.1**	3.9	1.4	(3.1)	**2.2**	**28.3**
Economy and Place	**32.6**	15.7	1.5	(12.1)	**5.1**	**37.7**
Corporate Services	**34.6**	(8.0)	(1.6)	1.6	**(8.0)**	**26.6**
Net cost of services	**143.5**	**12.2**	**2.5**	**(14.0)**	**0.7**	**144.2**
Other income and expenditure	**(153.3)**	(21.9)	5.8	10.9	**(5.2)**	**(158.5)**
Total (surplus) or deficit	**(9.8)**	**(9.7)**	**8.3**	**(3.1)**	**(4.5)**	**(14.3)**
Opening general fund balance as at 1 April 2018	**(65.7)**					
(Surplus)/deficit on general fund	(9.8)					
Closing general fund balance as at 31 March 2019	**(75.5)**					

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

2019/20	Depreciation	REFCUS	MRP	RCCO	Loss on disposals	Revaluations	Capital grants	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Adults and Communities	0.1	0.8	-	-	-	0.2	-	**1.1**
Children and Families	3.5	-	-	-	-	0.2	-	**3.7**
Economy and Place	12.5	0.5	-	-	-	0.9	-	**13.9**
Corporate Services	1.6	-	(5.7)	-	-	1.3	-	**(2.8)**
Net cost of services	**17.7**	**1.3**	**(5.7)**	**-**	**-**	**2.6**	**-**	**15.9**
Other operating expenditure	-	-	-	(0.4)	1.3	-	(23.3)	**(22.4)**
Total	**17.7**	**1.3**	**(5.7)**	**(0.4)**	**1.3**	**2.6**	**(23.3)**	**(6.5)**

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

2018/19	Depreciation / impairment £m	REFCUS £m	MRP £m	RCCO £m	Profit/loss on sale £m	Revaluation of investment assets £m	Capital grants £m	Total £m
Adults and Communities	0.2	0.1	-	-	-	0.3	-	**0.6**
Children and Families	5.1	-	-	-	-	(1.2)	-	**3.9**
Economy and Place	12.0	0.3	-	-	-	3.4	-	**15.7**
Corporate Services	1.8	-	(6.7)	(4.5)	-	1.4	-	**(8.0)**
Net cost of services	**19.1**	**0.4**	**(6.7)**	**(4.5)**	**-**	**3.9**	**-**	**12.2**
Other operating expenditure	-	-	-	-	(0.3)	-	(21.6)	**(21.9)**
Total	**19.1**	**0.4**	**(6.7)**	**(4.5)**	**(0.3)**	**3.9**	**(21.6)**	**(9.7)**

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

2018/19					2019/20			
Total £m	PFI £m	Other £m	Collection fund £m		Recharges & movements £m	Other £m	PFI £m	Total £m
(0.4)	(0.9)	0.5	-	Adults and Communities	-	0.1	(1.1)	**(1.0)**
(3.1)	(1.8)	(1.3)	-	Children and Families	1.3	0.2	(1.8)	**(0.3)**
(12.1)	(3.7)	(8.4)	-	Economy and Place	(3.6)	(0.2)	(3.7)	**(7.5)**
1.6	-	1.6	-	Corporate Services	3.5	0.9	-	**4.4**
(14.0)	**(6.4)**	**(7.6)**	**-**	**Net cost of services**	**1.2**	**1.0**	**(6.6)**	**(4.4)**
10.9	3.7	7.6	(0.4)	**Other operating expenditure**	6.7	(1.2)	-	**5.5**
(3.1)	**(2.7)**	**-**	**(0.4)**	**Total**	**7.9**	**(0.2)**	**(6.6)**	**1.1**

Material Items of Income and Expense

There were no material items of income and expense included the Comprehensive Income and Expenditure Account for 2019/20.

Events after the Balance Sheet Date

The draft unaudited Statement of Accounts was authorised for issue on 26 June 2020 by the Section 151 Officer.

Council agreed on the 2 February 2021 to stop the progress of the southern link road and western bypass schemes and make amendments to the capital programme such that the Hereford Transport Package and South Wye Transport Package projects are removed from the programme. The implication of this decision is that capital spend on the two schemes, £11.2m, requires moving from capital investment to revenue expenditure. Of the £11.2m, £3.7m funded by the prudential borrowing will require charging to the income and expenditure account in 2020/21 and financed through utilisation of the financial resilience reserve. The grant funded element – either in part or in full - may also require repaying to the grant awarding body, the grant funding value totalled £3.8m and the financial resilience reserve totalled £14.2m.Full Council received a report on 27 April 2021 following a high court judgement relating to children and families published on 16 April 2021. At the same meeting it was agreed that £5.2m of reserve funding would be made available to support service delivery improvements (this reserve balance is reported in the 2020/21 statement of accounts). A non-statutory Improvement Notice from the Department for Education is expected and an Improvement Board will ensure we address the key priorities and issues identified, to deliver a sustainable and improved children's services department.

3. Movement in Usable Reserves Analysis

2019/20 Movements	General Fund Revenue £m	Earmarked Reserves £m	Revenue Reserves £m	Capital Receipts Reserve £m	Capital Grants Unapplied £m	Total Usable Reserves £m
Opening balance	**(8.5)**	**(67.0)**	**(75.5)**	**(41.5)**	**(4.4)**	**(121.4)**
(Surplus)/deficit on provision of services	(12.1)	-	**(12.1)**	-	-	**(12.1)**
Depreciation	(17.7)	-	**(17.7)**	-	-	**(17.7)**
Impairment / downwards revaluation	(2.6)	-	**(2.6)**	-	-	**(2.6)**
Net revenue expenditure funded by capital under statute	(1.3)	-	**(1.3)**	-	-	**(1.3)**
Net book value of assets sold	(7.0)	-	**(7.0)**	-	-	**(7.0)**
Capital receipts from assets sold	5.6	-	**5.6**	(5.6)	-	**-**
Adjustments for Council Tax and NDR Receivable	2.5	-	**2.5**	-	-	**2.5**
Capital Financed by Receipts	-	-	**-**	2.9	-	**2.9**
Revenue Contribution to Capital Outlay	0.3	-	**0.3**	-	-	**0.3**
Minimum Revenue Provision (MRP)	8.4	-	**8.4**	-	-	**8.4**
Short term leave adjustment	(0.4)	-	**(0.4)**	-	-	**(0.4)**
Reversal of IAS19 Pension Charges	(12.0)	-	**(12.0)**	-	-	**(12.0)**
Capital grants unapplied	7.1	-	**7.1**	-	(7.1)	**-**
Capital Financed by Grants and Contributions	16.1	-	**16.1**	-	2.8	**18.9**
Transfer to/from reserves	12.5	(12.5)	**-**	-	-	**-**
Total movement	**(0.6)**	**(12.5)**	**(13.1)**	**(2.7)**	**(4.3)**	**(20.1)**
Closing balance	**(9.1)**	**(79.5)**	**(88.6)**	**(44.2)**	**(8.7)**	**(141.5)**

Movement in Usable Reserves 2018/19 Comparative Movements

Comparative 2018/19 Movements	General Fund Revenue £m	Earmarked reserves £m	Revenue Reserves £m	Capital Receipts Reserve £m	Capital Grants Unapplied £m	Total Usable Reserves £m
Opening balance	**(7.9)**	**(57.8)**	**(65.7)**	**(42.6)**	**(2.7)**	**(111.0)**
(Surplus)/deficit on provision of services	(14.3)	-	**(14.3)**	-	-	**(14.3)**
Depreciation	(19.1)	-	**(19.1)**	-	-	**(19.1)**
Impairment / downwards revaluation	(3.9)	-	**(3.9)**	-	-	**(3.9)**
Net revenue expenditure funded by capital under statute	(0.5)	-	**(0.5)**	-	-	**(0.5)**
Net book value of assets sold	(7.3)	-	**(7.3)**	-	-	**(7.3)**
Capital receipts from assets sold	7.4	-	**7.4**	(7.4)	-	**-**
Adjustments for Council Tax and NDR Receivable	0.4	-	**0.4**	-	-	**0.4**
Capital Financed by Receipts	-	-	**-**	8.5	-	**8.5**
Minimum Revenue Provision (MRP)	9.1	-	**9.1**	-	-	**9.1**
Revenue Contribution to Capital Outlay	4.9	-	**4.9**	-	-	**4.9**
Reversal of IAS19 Pension Charges	(8.2)	-	**(8.2)**	-	-	**(8.2)**
Capital grants unapplied	4.0	-	**4.0**	-	(4.0)	**-**
Reversal of unusable reserve	(0.3)	-	**(0.3)**	-	-	**(0.3)**
Capital Financed by Grants and Contributions	18.0	-	**18.0**	-	2.3	**20.3**
Transfer to/from reserves	9.2	(9.2)	**-**	-	-	**-**
Total movement	**(0.6)**	**(9.2)**	**(9.8)**	**1.1**	**(1.7)**	**(10.4)**
Closing balance	**(8.5)**	**(67.0)**	**(75.5)**	**(41.5)**	**(4.4)**	**(121.4)**

4. Movement in Unusable Reserves Analysis

2019/20 Movements	Short Term Absences Account £m	Capital Adjustment Account £m	Collection Fund Adjustment Account £m	Financial Instruments Adjustment Account £m	Pensions Reserve £m	Revaluation Reserve £m	Total Unusable Reserves £m
Opening balance	**2.5**	**(266.2)**	**(0.9)**	**0.4**	**269.1**	**(117.1)**	**(112.2)**
Depreciation	-	17.7	-	-	-	-	**17.7**
Revaluations and Impairments	-	2.6	-	-	-	-	**2.6**
Net revenue expenditure funded by capital under statute	-	1.2	-	-	-	-	**1.2**
Net book value of assets sold	-	4.7	-	-	-	2.2	**6.9**
Adjustments for Council tax and NDR receivable	-	-	(2.5)	-	-	-	**(2.5)**
Capital Financed by Receipts	-	(2.9)	-	-	-	-	**(2.9)**
Provision for the Redemption of Debt	-	(8.3)	-	-	-	-	**(8.3)**
Revenue Contribution to Capital Outlay	-	(0.3)	-	-	-	-	**(0.3)**
Reversal of IAS 19 Pensions Charges	-	-	-	-	12.0	-	**12.0**
Net movement on Revaluation Reserve	-	-	-	-	-	(9.2)	**(9.2)**
Short term leave adjustment	0.4	-	-	-	-	-	**0.4**
Actuarial Gain/Loss on Pensions	-	-	-	-	(20.9)	-	**(20.8)**
Capital Financed by Grants and Contributions	-	(18.9)	-	-	-	-	**(18.9)**
Depreciation Revaluation Adjustment	-	(1.6)	-	-	-	1.6	**-**
Total movement	**0.4**	**(5.8)**	**(2.5)**	**-**	**(8.9)**	**(5.4)**	**(22.2)**
Total Reserves	**2.9**	**(272.0)**	**(3.4)**	**0.4**	**260.2**	**(122.5)**	**(134.4)**

Movement in unusable reserves analysis 2018/19 comparative movements

2018/19 comparative Movements	Short Term Absences Account £m	Capital Adjustment Account £m	Collection Fund Adjustment Account £m	Financial Instruments Adjustment Account £m	Pensions Reserve £m	Revaluation Reserve £m	Deferred Capital Receipts Reserve £m	Total Unusable Reserves £m
Opening balance	**2.5**	**(243.4)**	**(0.5)**	**0.4**	**226.0**	**(124.3)**	**(0.3)**	**(139.6)**
Recognition of subsidiary liability	-	-	-	-	6.9	-	-	**6.9**
Depreciation	-	19.1	-	-	-	-	-	**19.1**
Revaluations and Impairments	-	3.9	-	-	-	-	-	**3.9**
Net revenue expenditure funded by capital under statute	-	0.5	-	-	-	-	-	**0.5**
Net book value of assets sold	-	1.1	-	-	-	6.2	-	**7.3**
Adjustments for Council tax and NDR receivable	-	-	(0.4)	-	-	-	-	**(0.4)**
Capital Financed by Receipts	-	(8.5)	-	-	-	-	-	**(8.5)**
Provision for the Redemption of Debt	-	(9.1)	-	-	-	-	-	**(9.1)**
Revenue Contribution to Capital Outlay	-	(4.9)	-	-	-	-	-	**(4.9)**
Reversal of IAS 19 Pensions Charges	-	-	-	-	8.2	-	-	**8.2**
Net movement on Revaluation Reserve	-	-	-	-	-	(3.6)	-	**(3.6)**
Actuarial Gain/Loss on Pensions	-	-	-	-	28.0	-	-	**28.0**
Capital Financed by Grants and Contributions	-	(20.3)	-	-	-	-	-	**(20.3)**
Reversal of unusable reserve	-	-	-	-	-	-	0.3	**0.3**
Depreciation Revaluation Adjustment	-	(4.6)	-	-	-	4.6	-	**-**
Total movement	**-**	**(22.8)**	**(0.4)**	**-**	**43.1**	**7.2**	**0.3**	**27.4**
Total Reserves	**2.5**	**(266.2)**	**(0.9)**	**0.4**	**269.1**	**(117.1)**	**-**	**(112.2)**

5. Transfers (to)/from Earmarked Reserves

This note sets out the amounts set aside from the General Fund balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to the General Fund in 2019/20.

Reserve	01/04/19 £m	Transfer out £m	Transfer in £m	31/03/20 £m
Additional Pension Costs from McCloud	-	-	(1.5)	(1.5)
Business Rate smoothing	(7.3)	0.2	(2.1)	(9.2)
Collection Fund Surplus	(1.5)	1.5	-	-
Education Redundancy	(0.2)	-	-	(0.2)
Hereford Enterprise Zone	(0.4)	0.1	-	(0.3)
ICT	(0.6)	0.2	-	(0.4)
Industrial Estates	(0.4)	-	(0.2)	(0.6)
Insurance	(0.3)	-	-	(0.3)
Library Services	(0.1)	-	-	(0.1)
Financial Resilience	(10.0)	1.1	(5.3)	(14.2)
Pensions Risk	(1.2)	1.2	-	-
Remedial Road Works	(1.7)	1.7	(0.5)	(0.5)
Risk mitigation	(3.3)	-	-	(3.3)
School balances	(8.9)	1.3	(1.2)	(8.9)
Schools' sickness	(0.3)	0.3	-	-
Settlement monies	(5.0)	-	-	(5.0)
Severe Weather Fund	(1.2)	0.3	-	(0.9)
Short Breaks	(0.5)	0.2	(0.1)	(0.4)
Social Care Contingency	(2.0)	1.7	(0.2)	(0.5)
Sparsity Reserve	(0.9)	0.5	-	(0.4)
Technology Enabled Communities	-	-	(1.5)	(1.5)
Three Elms Trading Estate	(0.6)	0.5	(0.2)	(0.3)
Waste Disposal	(7.7)	2.3	(3.1)	(8.5)
Whitecross School PFI	(1.2)	-	(0.2)	(1.4)
Other small reserves	(5.1)	3.2	(3.3)	(5.2)
Unused grants carried forward	(6.6)	3.3	(12.7)	(15.9)
Total	**(67.0)**	**19.6**	**(24.9)**	**(79.5)**

The note above incorporates the recommendations from the annual review of the earmarked reserves reported to Cabinet in October 2019. The next review is scheduled after the approval of the 2019/20 statement of accounts and that review will also include a review of the general fund reserve.

6. Nature of Expenses Disclosure

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

2018/19 £m		2019/20 £m
	Income	
(55.2)	Fees, charges and other service income	(55.6)
(2.3)	Trading and investment income	(2.4)
(4.0)	Interest and investment income	(3.5)
(135.2)	Income from council tax and non-domestic rates	(143.2)
(190.0)	Government grants and contributions	(197.4)
(386.7)	**Total Income**	**(402.1)**
	Expenditure	
107.2	Employee benefits expenses	118.3
213.9	Other service expenses	218.1
5.2	Support service recharges (net)	5.1
-	Loss on disposal of non-current assets	1.3
23.7	REFCUS, depreciation, amortisation and impairment	26.7
2.8	Trading and investment expenditure	0.2
15.1	Interest Expenditure	15.5
4.5	Precepts and levies	4.8
372.4	**Total Expenditure**	**390.0**
(14.3)	**(Surplus) or Deficit on the Provision of Services**	**(12.1)**

Following the reporting requirements stipulated by the Code on accounting for schools, the local authority single entity financial statements include an analysis of the income and expenditure of the authority's maintained schools as if it were the expenditure of the authority. Voluntary Aided (VA) and Trust school employees are not the employees of the authority but, as indicated above, are required to be consolidated into the single entity financial statements of the local authority (i.e. as employee expenditure). The total of employee expenses in respect of VA and Trust schools was £17.5m in 2019/20 (£16.5m in 2018/19).

7. Other Operating Expenditure

2018/19 £m		2019/20 £m
4.3	Parish Council precepts	4.6
0.2	Levies	0.2
-	(Gains)/losses on the disposal of non-current assets	1.3
4.5	**Total**	**6.1**

8. Financing and Investment Income and Expenditure

2018/19 £m		2019/20 £m
9.3	Interest payable and similar charges	9.1
5.8	Pensions net interest and admin charge	6.4
(3.8)	Interest receivable	(3.3)
0.5	Income and expenditure in relation to trading accounts/investment properties and changes to their fair value, note 22	(2.2)
(0.1)	Other investment income	(0.2)
11.7	**Total**	**9.8**

9. Taxation and Non Specific Grant Income

2018/19 £m		2019/20 £m
(103.5)	Council tax income	(110.1)
(31.7)	Non domestic rates	(33.1)
(17.9)	Non-ring fenced government grants	(22.0)
(21.6)	Capital grants and contribution	(23.3)
(174.7)	**Total**	**(188.5)**

10. Property, Plant and Equipment

Cost 2019/20	Land & Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus assets	Assets Under Construction & WIP	Sub total	Investment Assets	Intangibles & Other Assets	Heritage Assets	Assets Held for Sale	Total Property, Plant & Equipment	PFI assets included in PPE
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Opening balance at 1 April 2019	338.8	9.2	340.8	8.1	3.9	0.6	**701.4**	34.2	0.1	3.2	5.8	**744.7**	**45.9**
Additions	5.0	1.3	16.8	-	0.1	4.4	**27.6**	1.3	0.1	-	-	**29.0**	**0.3**
Disposals	(1.3)	-	-	-	-	-	**(1.3)**	(1.6)	-	-	(4.1)	**(7.0)**	**-**
Revaluation	5.2	-	-	-	0.7	-	**5.9**	-	-	-	0.7	**6.6**	**0.9**
Reverse Acc dep'n	(2.1)	(3.6)	-	-	-	-	**(5.7)**	-	-	-	-	**(5.7)**	**(3.5)**
Asset Transfers	(1.0)	-	-	-	0.2	-	**(0.8)**	(0.1)	-	-	0.9	**-**	**-**
At 31 March 2020	**344.6**	**6.9**	**357.6**	**8.1**	**4.9**	**5.0**	**725.5**	**33.8**	**0.2**	**3.2**	**3.3**	**766.0**	**42.0**
Depreciation/ amortisation													
Opening balance at 1 April 2019	(1.9)	(5.9)	(80.7)	-	-	-	**(88.5)**	-	(0.1)	-	-	**(88.6)**	**(5.8)**
Charge for the year	(5.6)	(1.3)	(10.8)	-	-	-	**(17.7)**	-	-	-	-	**(17.7)**	**(1.0)**
Reverse Acc dep'n	2.1	3.6	-	-	-	-	**5.7**	-	-	-	-	**5.7**	**3.5**
At 31 March 2020	**(5.4)**	**(3.6)**	**(91.5)**	**-**	**-**	**-**	**(98.9)**	**-**	**(0.1)**	**-**	**-**	**(99.0)**	**(1.7)**
Carrying amount at March 2020	**339.2**	**3.3**	**266.1**	**8.1**	**4.9**	**5.0**	**626.7**	**33.8**	**0.1**	**3.2**	**3.3**	**667.0**	**40.3**
Opening carrying amount at 1 April 2019	**336.9**	**3.3**	**260.1**	**8.1**	**3.9**	**0.6**	**612.9**	**34.2**	**-**	**3.2**	**5.8**	**656.1**	**40.1**

Cost 2018/19	**Land & Buildings**	**Vehicles, Plant, Furniture & Equipment**	**Infrastructure Assets**	**Community Assets**	**Surplus assets**	**Assets Under Construction & WIP**	**Sub total**	**Investment Assets**	**Intangibles**	**Heritage Assets**	**Assets Held for Sale**	**Total Property, Plant & Equipment**	**PFI assets included in PPE**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Opening balance at 1 April 2018	362.4	9.1	312.9	2.4	3.6	-	**690.4**	34.6	2.9	3.2	8.2	**739.3**	**44.1**
Additions	3.0	0.4	27.9	5.7	-	0.1	**37.1**	2.8	-	-	-	**39.9**	**0.3**
Disposals	(0.9)	-	-	-	-	-	**(0.9)**	(0.1)	-	-	(6.3)	**(7.3)**	**-**
Revaluation	(1.4)	-	-	-	0.3	-	**(1.1)**	(2.6)	-	-	3.4	**(0.3)**	**1.5**
Reverse Acc dep'n	(23.8)	-	-	-	-	-	**(23.8)**	-	-	-	-	**(23.8)**	**-**
Asset Transfers	(0.5)	-	-	-	-	0.5	**-**	(0.5)	-	-	0.5	**-**	**-**
Other movements	-	(0.3)	-	-	-	-	**(0.3)**	-	(2.8)	-	-	**(3.1)**	**-**
At 31 March 2019	**338.8**	**9.2**	**340.8**	**8.1**	**3.9**	**0.6**	**701.4**	**34.2**	**0.1**	**3.2**	**5.8**	**744.7**	**45.9**
Depreciation/ Amortisation													
Opening balance at 1 April 2018	(18.8)	(4.3)	(70.4)	-	-	-	**(93.5)**	-	(2.8)	-	-	**(96.3)**	**(4.1)**
Charge for the year	(6.9)	(4.3)	(10.3)	-	-	-	**(19.1)**	-	-	-	-	**(19.1)**	**(1.6)**
Reverse Acc dep'n	23.8	0.3	-	-	-	-	**24.1**	-	2.7	-	-	**26.8**	**(0.1)**
At 31 March 2019	**(1.9)**	**(5.9)**	**(80.7)**	**-**	**-**	**-**	**(88.5)**	**-**	**(0.1)**	**-**	**-**	**(88.6)**	**(5.8)**
Carrying amount at March 2019	**336.9**	**3.3**	**260.1**	**8.1**	**3.9**	**0.6**	**612.9**	**34.2**	**-**	**3.2**	**5.8**	**656.1**	**40.1**
Opening carrying amount at 1 April 2018	**343.6**	**4.8**	**242.5**	**2.4**	**3.6**	**-**	**596.9**	**34.6**	**0.1**	**3.2**	**8.2**	**643.0**	**40.0**

Depreciation

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

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

Analysis of Capital Charges to Directorates

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

	Depreciation £m	Revaluations £m	Total 2019/20 £m
Adults and Communities	0.1	0.2	0.3
Children and Families	3.5	0.2	3.7
Economy and Place	12.5	0.9	13.4
Corporate and Central Services	1.6	1.3	2.9
Total	**17.7**	**2.6**	**20.3**

Capital Commitments

At 31 March 2020 the council had a £2m commitment to complete the Hereford Enterprise Shell Store project (31 March 2019 £-).

Revaluations

The council carries out a rolling programme that ensures all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. More frequent valuations are carried out if the rolling programme is insufficient to keep pace with material changes in value. Wilks, Head and Eve LLP completed all valuations in 2019/20. The council made the decision to value all property assets that hadn't been valued in 2018/19. Valuations of land and buildings are carried out in accordance with the methodologies and bases for estimation as set out in the professional standards of the Royal Institution of Chartered Surveyors. Valuations of vehicle, plant and equipment are based on depreciated costs as a proxy for fair value.

The carrying amount of assets on the rolling programme held at 31 March 2020 total £407.2m. The effective date of the revaluations are as follows:

Valued as at:	Carrying amount of revalued assets £m
31 March 2020	109.3
31 March 2019	297.9
Total	**407.2**

Impact of Covid 19 – material valuation uncertainty

The Covid-19 pandemic commenced within the last two weeks of the 2019-20 financial year and created a large uncertainty in financial markets and the market for other assets. The Royal Institute of Chartered Surveyors subsequently issued guidance identifying that all valuations will have a material valuation uncertainty as at 31 March 2020. There remains limited information and the future impact that Covid 19 might have therefore the valuation of assets is kept under frequent review.

Schools

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

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

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

Investment Properties

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

2018/19 £m		2019/20 £m
(2.4)	Rental income from investment property	(2.3)
0.2	Direct operating expenses arising from investment property	0.2
(2.2)	**Total**	**(2.1)**

Details of the council's investment properties and information about the fair value hierarchy as at March 2020 and March 2019 are as follows (fair value method disclosed in accounting policies note 1):

Recurring fair value measurements using:	Other significant observable inputs Level2 £m
Investment properties as at 31 March 2020	33.8
Investment properties as at 31 March 2019	34.2

11. Financial Instruments

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

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

Financial Assets

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

2018/19			2019/20	
Per Balance Sheet £m	Financial Instruments £m		Per Balance Sheet £m	Financial Instruments £m
		Long term debtors		
40.1	40.1	Loans	38.9	38.9
2.5	-	PFI lifecycle costs	2.5	-
42.6	**40.1**	**Total**	**41.4**	**38.9**
		Investments		
10.1	10.1	Short term investments	19.1	19.1
22.5	22.5	Cash and cash equivalents	23.3	23.3
32.6	**32.6**	**Total**	**42.4**	**42.4**
		Short term debtors		
21.0	21.0	Sales invoices and contractual rights	32.5	32.5
8.0	-	Statutory debts (council tax, VAT etc.)	8.4	-
1.4	-	Prepayments	1.5	-
(5.5)	-	Bad debt provisions	(7.5)	-
24.9	**21.0**	**Total**	**34.9**	**32.5**

Financial Liabilities

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

2018/19			2019/20	
Per Balance Sheet £m	Financial Instruments £m		Per Balance Sheet £m	Financial Instruments £m
4.3	4.3	Cash and cash equivalents	8.8	8.8
4.3	**4.3**	**Total**	**8.8**	**8.8**
		Short term borrowing		
0.2	0.2	Bank loans	0.1	0.1
8.3	8.3	Public Works Loan Board	4.3	4.3
8.5	**8.5**	**Total**	**4.4**	**4.4**
		Short term creditors		
23.1	23.1	Invoiced amounts and other contractual liabilities	17.1	17.1
4.7	-	Statutory liabilities (PAYE etc.)	9.1	-
11.1	2.5	Accruals and receipts in advance	17.3	-
1.6	-	Funds and deposits held	0.2	-
40.5	**25.6**	**Total**	**43.7**	**17.1**
		Long term borrowing		
12.5	12.5	Bank loans	12.4	12.4
118.2	118.2	Public Works Loan Board	114.8	114.8
130.7	**130.7**	**Total**	**127.2**	**127.2**
		Other long term liabilities		
53.3	53.3	PFI liabilities and finance leases	50.7	50.7
269.1	-	Pensions liability	260.2	-
322.4	**53.3**	**Total**	**310.9**	**50.7**

Income, Expense, Gains and Losses

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

2018/19				2019/20		
Financial Liabilities at amortised cost £m	Financial assets: Loans and receivables £m	Total £m		Financial Liabilities at amortised cost £m	Financial assets: Loans and receivables £m	Total £m
			Interest payable and similar charges			
			Interest expense relating to:			
5.6	-	5.6	Loans	5.4	-	5.4
3.7	-	3.7	PFI liabilities	3.7	-	3.7
9.3	**-**	**9.3**	**Total expense in surplus on the provision of services**	**9.1**	**-**	**9.1**
			Interest receivable:			
-	(3.8)	(3.8)	On loans	-	(3.3)	(3.3)
-	**(3.8)**	**(3.8)**	**Total income in surplus on the provision of services**	**-**	**(3.3)**	**(3.3)**
9.3	**(3.8)**	**5.5**	**Net loss/(gain) for the year**	**9.1**	**(3.3)**	**5.8**

Fair Values of Assets and Liabilities

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

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

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

31 March 2019				31 March 2020		
Carrying Amount £m	Fair Value (using premature repayment rate) £m	Fair Value (using new loan rate) £m		Carrying Amount £m	Fair Value (using premature repayment rate) £m	Fair Value (using new loan rate) £m
139.0	201.7	175.9	Total borrowing	131.6	212.0	161.4

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

The carrying amounts of other long term financial assets and liabilities in the balance sheet include commitments falling due under PFI schemes. The fair value of these commitments exceeds the carrying amount and represents the additional cost that could fall due if we were to terminate the PFI schemes as at the balance sheet date. The total PFI carrying amount is £50.7m and the fair value as at 31 March 2020 totals £67.3m. The statements have not been adjusted for this as the PFI schemes are set to continue until expiry.

31 March 2019				31 March 2020		
Carrying Amount £m	Fair Value (using premature repayment rate) £m	Fair Value (using new loan rate) £m		Carrying Amount £m	Fair Value (using premature repayment rate) £m	Fair Value (using new loan rate) £m
			Financial Assets			
42.6	42.6	42.6	Long term debtors	41.4	41.4	41.4
10.1	10.1	10.1	Short term investments	19.1	19.1	19.1
22.5	22.5	22.5	Cash and cash equivalents	23.3	23.3	23.3
24.9	24.9	24.9	Short term debtors	34.9	34.9	34.9
100.1	**100.1**	**100.1**	**Total Financial Assets**	**118.7**	**118.7**	**118.7**
			Financial Liabilities			
126.6	179.1	157.4	Public Works Loan Board	119.1	185.4	143.9
12.6	22.6	18.5	Bank loans (LOBOs)	12.6	26.6	17.5
40.5	40.5	40.5	Short term creditors	49.4	49.4	49.4
53.3	74.5	74.5	PFI liabilities and finance leases	50.7	67.3	67.3
233.0	**316.7**	**290.9**	**Total Financial Liabilities**	**231.8**	**328.7**	**278.1**

31 March 2019 £m	Recurring fair value measurements	Input level in fair value hierarchy	Valuation technique used to measure fair value	31 March 2020 £m
	Assets			
35.6	Long term debtors - Mercia Waste Management Loan	2	Discount contractual cash flows at the market rate for a similar instrument of the same remaining term with a counterparty of similar credit standing	34.4
4.6	Long term debtor - Other	3	Valued at amortised cost due to absence of comparable evidence or principal market	4.5
2.4	PFI lifecycle costs	2	Discount contractual cash flows of the remaining term	2.5
42.6	**Subtotal long-term debtors**			**41.4**
57.5	Other – short term	N/A	Fair value disclosure is not required for short term investments, short-term debtors or cash	77.3
100.1	**Total Assets**			**118.7**
	Liabilities			
157.4	PWLB and other debt	2	Discount contractual cash flows at the market rate for LA loans of the same remaining term	143.9
18.5	Bank loans (LOBOs)	2	Discount contractual cash flows at the market rate for LA loans of the same remaining term and add the value of the lenders' option from a market option pricing model	17.5
74.5	PFI Scheme Liabilities and Finance Lease Payables	2	Discount contractual cash flows of the remaining term	67.3
40.5	Other including Short Term Loans	N/A	Fair value disclosure is not required for short term liabilities that are held on the balance sheet at amortised cost	49.4
290.9	**Total Liabilities**			**278.1**

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

Amounts arising from expected credit losses

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

12. Debtors

31 March 2019 £m		31 March 2020 £m
3.4	Central government bodies	10.7
2.2	Other local authorities	1.4
1.6	NHS bodies	1.2
17.7	Other entities and individuals	12.7
-	Agency BEIS Business Support Grants	8.9
24.9	**Total**	**34.9**

13. Cash and Cash Equivalents

31 March 2019 £m		31 March 2020 £m
4.3	Cash held by the council	4.3
18.2	Short term deposits	19.0
22.5	**Total**	**23.3**
(4.3)	Bank current accounts	(8.8)
18.2	**Total Cash and Cash Equivalents**	**14.5**

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

2018/19 £m		2019/20 £m
-	Net movement in Inventories	0.1
3.5	Net movement in Debtors	8.8
(7.3)	Net movement in Creditors	(3.2)
(23.0)	Depreciation, amortisation and impairment of non-current assets	(17.7)
(7.0)	Net Gain/Loss on sale of non-current assets (net book value of assets)	(6.9)
(8.2)	Net charges made for retirement benefits in accordance with IAS19	(12.0)
(0.3)	Net movement in Provisions	(0.4)
(42.3)	**Total**	**(31.3)**

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

2018/19 £m		2019/20 £m
7.4	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	5.6
7.4	**Total**	**5.6**

16. Investing Activities

2018/19 £m		2019/20 £m
39.6	Purchase of property, plant and equipment, investment property and intangible assets	28.8
(7.4)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(5.6)
(0.1)	Other receipts from investing activities	1.1
32.1	**Total**	**24.3**

17. Financing Activities

2018/19 £m		2019/20 £m
2.2	Cash payments for the reduction of the outstanding liability relating to finance leases and on-balance sheet PFI contracts	2.6
10.7	Repayments of short and long term borrowing, as shown below	7.2
12.9	**Total**	**9.8**

Reconciliation of liabilities arising from financing activities

	Long term borrowings	Short term borrowings	Total
1 April 2019	**137.5**	**-**	**137.5**
Cashflows: Repayment, note 17 above	(7.2)	-	(7.2)
31 March 2020	**130.3**	**-**	**130.3**

18. Creditors

31 March 2019 £m		31 March 2020 £m
(11.2)	Central government bodies	(17.0)

(3.3)	Other local authorities	(2.2)
(0.9)	NHS Bodies	(1.1)
(23.8)	Other entities and individuals	(23.4)
(1.3)	Monies due to agency NMiTE	-
(40.5)	**Total**	**(43.7)**

19. Capital Grants Receipts in Advance

31 March 2019 £m		31 March 2020 £m
(1.7)	Central government bodies	(1.0)
(0.8)	Other local authorities	-
(7.4)	Other grants and contributions	(7.2)
(9.9)	**Total**	**(8.2)**

20. Provisions

The movement on provisions from 1 April 2019 to 31 March 2020 is set out below:

	Long term £m	Short term £m	Total £m
Balance at 1 April 2018	**(3.6)**	**(2.5)**	**(6.1)**
Additional provisions made in 2018/19	(1.1)	(0.4)	(1.5)
Amounts used in 2018/19	-	1.1	1.1
Unused amounts reversed in 2018/19	-	0.1	0.1
Balance at 31 March 2019	**(4.7)**	**(1.7)**	**(6.4)**
Additional provisions made in 2019/20	-	(0.9)	(0.9)
Amounts used in 2019/20	-	0.2	0.2
Unused amounts reversed in 2019/20	0.3	-	0.3
Balance at 31 March 2020	**(4.4)**	**(2.4)**	**(6.8)**

The provisions held at 31 March 2020 are:

31/03/19 £m	Provision Name	Description	Additional Provisions £m	Amounts Used £m	Unused Amounts Reversed £m	31/03/20 £m
(0.1)	Redundancy	Based on the number of planned redundancies and staff identified at risk of redundancy at 31 March 2019	-	0.1	-	-

(2.0)	Insurance	For potential future insurance claims based on external professional assessment	-	-	-	(2.0)
-	ECC Property Provision	For potential energy costs on property lease	(0.2)	-	-	(0.2)
-	Provisions for children's services	Expected payments relating to children for schools, high needs and early years funding	(0.4)	-	-	(0.4)
(4.3)	NNDR Appeals	For future lodged and unlodged appeals against rating valuations.	(0.3)	0.1	0.3	(4.2)
(6.4)		**Total**	**(0.9)**	**0.2**	**0.3**	**(6.8)**

21. Pensions Reserve

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

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

2018/19 £m		2019/20 £m
226.0	**Balance at 1 April**	**269.1**
6.9	Recognition of subsidiary undertaking liability	-
28.0	Re-measurement of the net defined benefit liability	(20.9)
22.4	Reversal of items relating to retirement benefits debited or credited to the (Surplus) / Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	27.5
(14.2)	Employer's pension contributions and direct payments to pensioners payable in the year	(15.5)
269.1	**Balance at 31 March**	**260.2**
268.2	Local Government pension scheme	259.5
0.9	Teachers	0.7
269.1	**Balance at 31 March**	**260.2**

22. Trading Operations

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

2018/19 £m		
	Markets The council generates income from letting of premises and market stalls	
(0.5)	Turnover	(0.4)
(0.3)	Asset revaluation movement	(0.3)
0.2	Expenditure	0.1
(0.6)	**(Surplus)/deficit**	**(0.6)**
	Industrial Estates The council owns and manages a number of industrial estates throughout the county	
(1.4)	Turnover	(1.4)
2.4	Asset revaluation movement	0.2
-	Expenditure	0.1
1.0	**(Surplus)/deficit**	**(1.1)**
	Retail Properties The council owns retail premises in Hereford city centre from which it receives commercial rents	
(0.5)	Turnover	(0.5)
0.6	Asset revaluation movement	-
-	Expenditure	-
0.1	**(Surplus)/deficit**	**(0.5)**
0.5	**Total**	**(2.2)**

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

23. Agency Services

During 2019/20 the council incurred spend in relation to the Fastershire capital project to provide improved broadband speeds throughout the rural areas of Herefordshire, Gloucestershire, Shropshire and Telford and Wrekin. In 2019/20 spend included £1.0m (2018/19 £0.3m) outside of Herefordshire that is not shown in the council accounts as this spend is incurred under an agency arrangement.

During 2019/20 Herefordshire Council acted as an intermediary in the pass through of Department of Education grant funding towards the establishment of a new Hereford University – the New Model in Technology & Engineering (NMiTE). This totalled £2.3m (2018/19 £5.4m) and is not included in the council's accounts as the council is acting as an agent only.

In response to Covid 19 central government announced the small business support grant scheme to be administered by councils. Herefordshire received a £60.5m grant from the Department for Business, Energy and Industrial Strategy (BEIS) (England) on the 3rd April 2020. Ahead of this the council spent £8.9m before 31 March 2020. The council applied government guidance to award this funding to eligible small businesses and businesses in the retail, hospitality and leisure industry. Herefordshire Council has determined it was acting as an intermediary in pass porting this funding onto businesses therefore the £8.9m spend is not included in the councils accounts and the grant funding due to fund this spend is included as a year-end debtor.

24. Pooled Budgets

The council has three pooled budgets for 2019/20: the pooled budget arrangement for the Better Care Fund, the pooled budget for services for children, and the pooled budget for the Integrated Community Equipment Store. All of the pooled budgets are covered by a single section 75 agreement.

Better Care Fund

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

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

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

Minimum Revenue Pool

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

Better Care Fund- Minimum Mandatory Fund (Revenue)

2018/19 £m		2019/20 £m
	Funding provided to the pooled budget	
-	Herefordshire Council	-
(12.2)	Herefordshire CCG	(12.9)
(12.2)	Total Funding	**(12.9)**
	Expenditure met from pooled budget	
5.1	Herefordshire Council	4.5
6.9	Herefordshire CCG	7.4
12.0	Total Expenditure	**11.9**
(0.2)	**Net deficit / (surplus) on the pooled budget during the year**	**(1.0)**
(0.2)	**Herefordshire Council share of net deficit / (surplus)**	**(1.0)**

Capital Pool

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

Better Care Fund- Minimum Mandatory Fund (Capital)

2018/19 £m		2019/20 £m
	Funding provided to the pooled budget	
(2.1)	Herefordshire Council	(2.0)
-	Herefordshire CCG	-
(2.1)	Total Funding	**(2.0)**
	Expenditure met from pooled budget	
2.1	Herefordshire Council	2.0
-	Herefordshire CCG	-
2.1	Total Expenditure	**2.0**
-	**Net deficit / (surplus) on the pooled budget during the year**	-
-	**Herefordshire Council share of net deficit / (surplus)**	**-**

Additional Revenue Pool

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

Better Care Fund- Additional Revenue Fund

2018/19 £m		2019/20 £m
	Funding provided to the pooled budget	
(21.3)	Herefordshire Council	(24.9)
(9.6)	Herefordshire CCG	(9.6)
(30.9)	Total Funding	**(34.5)**
	Expenditure met from pooled budget	
23.2	Herefordshire Council	24.9
9.6	Herefordshire CCG	10.8
32.8	Total Expenditure	**35.7**
1.9	**Net deficit / (surplus) on the pooled budget during the year**	**1.2**
1.9	**Herefordshire Council share of net deficit / (surplus)**	**-**

Improved Better Care Fund

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

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

Better Care Fund- Improved Better Care Fund

2018/19 £m		2019/20 £m
	Funding provided to the pooled budget	
(4.7)	Herefordshire Council	(5.7)
-	Herefordshire CCG	-
(4.7)	Total Funding	**(5.7)**
	Expenditure met from pooled budget	
4.7	Herefordshire Council	5.5
-	Herefordshire CCG	-
4.7	Total Expenditure	**5.5**
-	**Net deficit / (surplus) on the pooled budget during the year**	**(0.2)**
-	**Herefordshire Council share of net deficit / (surplus)**	**(0.2)**

Adult Social Care Winter Pressures Grant

For 2018/19 and 2019/20 grant funding to alleviate winter pressures was paid directly to Local Authorities as a direct grant under Section 31 of the Local Government Act 2003.

for the purposes of supporting the local health and care system to manage demand pressures on the NHS with particular reference to seasonal winter pressures including on interventions which support people to be discharged from hospital, who would otherwise by delayed, with the appropriate social care support in place, and which help promote people's independence.

2019/20 grant conditions require the funding to be pooled into the local Better Care Fund; this was not a condition of the funding in 2018/19.

Better Care Fund- Winter Pressures Grant

2018/19 £m		2019/20 £m
	Funding provided to the pooled budget	
-	Herefordshire Council	(0.9)
-	Herefordshire CCG	-
-	Total Funding	**(0.9)**
	Expenditure met from pooled budget	
-	Herefordshire Council	0.8

-	Herefordshire CCG	-
-	Total Expenditure	**0.8**
-	**Net deficit / (surplus) on the pooled budget during the year**	(0.1)
-	**Herefordshire Council share of net deficit / (surplus)**	**(0.1)**

Children's Services

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

Children's Services

2018/19 £m		2019/20 £m
	Funding provided to the pooled budget	
(3.6)	Herefordshire Council	(3.2)
(0.6)	Herefordshire CCG	(0.6)
(4.2)	Total Funding	**(3.8)**
	Expenditure met from pooled budget	
3.1	Herefordshire Council	4.8
0.5	Herefordshire CCG	0.9
3.6	Total Expenditure	**5.7**
(0.6)	**Net deficit / (surplus) on the pooled budget during the year**	**1.9**
(0.6)	**Herefordshire Council share of net deficit / (surplus)**	**1.7**

Integrated Community Equipment Store

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

Integrated Community Equipment Store

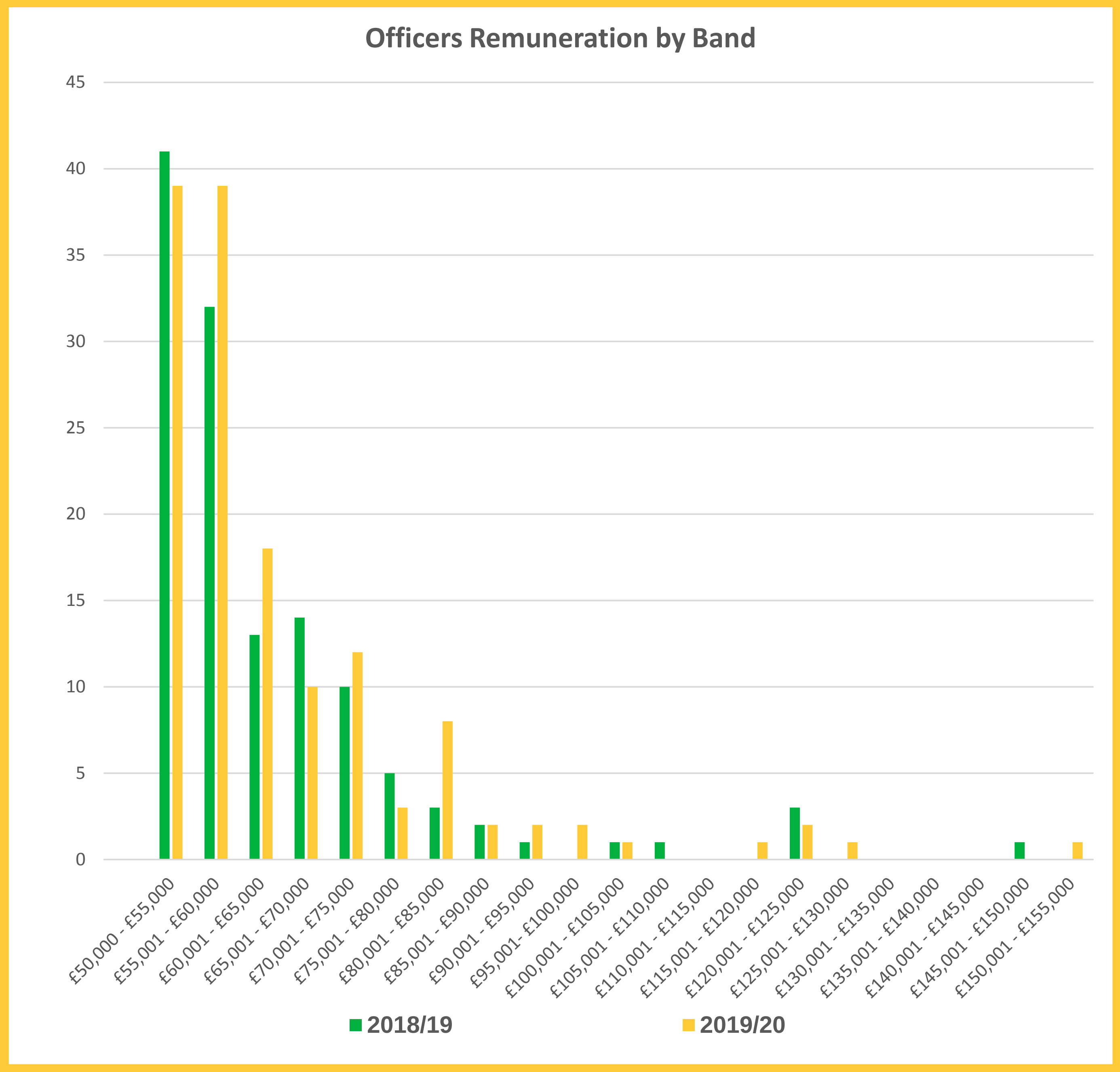
2018/19 £m		2019/20 £m
	Funding provided to the pooled budget	
(0.4)	Herefordshire Council	(0.5)
(0.6)	Herefordshire CCG	(0.8)
(1.0)	Total Funding	**(1.3)**
	Expenditure met from pooled budget	

0.4	Herefordshire Council	0.5
0.8	Herefordshire CCG	0.9
1.2	Total Expenditure	**1.4**
0.2	**Net deficit / (surplus) on the pooled budget during the year**	**0.1**
0.1	**Herefordshire Council share of net deficit / (surplus)**	**0.0**

25. Officers' Remuneration

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

The 2019/20 salary banding information is set out below. Employees receiving remuneration for the year (excluding employer's pension contributions) were paid the following amounts per pay band. These numbers include the employees shown in the senior employees disclosure note.



The total number of employees at 31 March 2020 was 1,290 non-school staff (1,208 at 31 March 2019) and 2,059 schools' staff (2,169 at 31 March 2019).

Post		Note	Salary, Fees & Allowances	Compensation for loss of office / Benefits in kind	Pension contributions	Total
			£000s	£000s	£000s	£000s
Chief Executive - A Neill	2019/20		153	-	24	177
	2018/19		149	-	24	173
Director for Economy, Communities and Corporate	2019/20	1	-	-	-	-
	2018/19		61	-	10	71
Director for Children and Families	2019/20	3	126	-	20	146
	2018/19		123	-	19	142

Chief Finance Officer/ Section 151 Officer	2019/20		101	-	16	117
	2018/19		100	-	16	116
Director for Adults and Communities	2019/20	4	124	-	19	143
	2018/19		121	-	19	140
Solicitor for the Council (Monitoring Officer)	2019/20		77	-	12	89
	2018/19		72	-	11	83
Director of Public Health	2019/20	5	81	-	13	94
	2018/19		63	-	1	64
Director of Economy and Place	2019/20	2	124	-	19	143
	2018/19		71	-	11	82

Notes:

1. The Director for Economy, Communities and Corporate retired on 30 September 2018
2. The Director for Economy and Place started on 10 September 2018
3. The Director for Children and Families was previously called the Director for Children's Wellbeing but was changed following a restructure in September 2018
4. The Director for Adults and Communities was previously called the Director for Adults Wellbeing but was changed following a restructure in September 2018
5. The Director of Public Health is paid a market forces supplement of £12,000

26. Termination Benefits

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

In addition, the total cost of actuarial strain relating to 2019/20 terminations was £0.1m (£0.2m in 2018/19). The total amount of actuarial strain paid to Worcestershire County Council in 2019/20 was £0.1m (£0.2m in 2018/19).

Exit package cost band (including special payments	**2018/19**	**2019/20**	**2018/19**	**2019/20**	**2018/19**	**2019/20**	**2018/19**	**2019/20**
	Number of compulsory redundancies		**Number of other agreed departures**		**Total number of exit packages by cost band**		**Total cost of exit packages in each band**	
							£000s	**£000s**
£0 - £20,000	7	5	15	19	22	24	130	124
£20,001 - £40,000	1	1	2	3	3	3	91	68
£40,001 - £60,000	-	-	-	1	-	1	-	53
Total	**8**	**6**	**17**	**22**	**25**	**28**	**221**	**245**

27. External Audit Costs

The council incurred the following fees relating to external audit. During 2019/20 £31k (2018/19 £19k) was incurred in relation to not statutory audit work.

2018/19		**2019/20**
£m		**£m**

0.1	Fees payable with regard to external audit services carried out by the appointed auditor	0.1
0.1	**Total**	**0.1**

28. Dedicated Schools Grant

The council's expenditure on schools is funded by the Dedicated Schools Grant (DSG) provided by the Department for Education. DSG is a ring-fenced grant and can only be applied to meet expenditure properly included in the Schools Budget. The Schools Budget includes elements for a restricted range of services provided on a council- wide basis and for the Individual Schools Budget, which is divided into a budget share for each school. Over and under spends on the two elements are required to be accounted for separately. Details of the deployment of DSG receivable for 2019/20 are as follows:

Total 2018/19 £m		**Central Expenditure 2019/20 £m**	**Individual Schools Budget 2019/20 £m**	**Total 2019/20 £m**
121.5	Final DSG allocation before academy recoupment			**126.1**
(42.4)	Less academy figure recouped			**(46.3)**
79.1	**Total DSG after academy recoupment for the year**			**79.8**
2.1	Brought forward from previous year			**2.5**
(2.0)	Less carry forward to following year agreed in advance			**(2.2)**
79.2	**Agreed budgeted distribution in the year**	**12.1**	**68.0**	**80.1**
(11.2)	Less: Actual central expenditure	(13.2)	-	**(13.2)**
(67.5)	Less: Actual Individual Schools Budget deployed to schools	-	(68.0)	**(68.0)**
0.5	**Less: Overspend 2019/20**	**(1.1)**	**-**	**(1.1)**
2.5	**Carried forward to following year**			**1.1**

As at 31 March 2020 total DSG reserves were £1.1m which included £0.5m committed to early years for additional speech and language services provider training and prenatal advice to parents.

The deficit on central expenditure in 2019/20 was mainly due to overspends in the high needs block of £0.8m on pupils with complex needs and £0.4m on pupils placed in out-county independent special schools due to the unavailability of local provision.

29. Grant Income

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

2018/19 £m		**2019/20 £m**
	Credited to Taxation and Non Specific Grant Income	
5.4	Revenue Support Grant	0.6
12.5	Other non-ring fenced grants	21.4

103.5	Council Tax income	110.1
31.7	Business rates income	33.1
21.6	Capital grants	23.3
174.7	**Credited to Taxation and Non Specific Grant Income**	**188.5**
	Credited to Services	
85.4	Department for Education	88.6
9.7	Ministry for Housing, Communities and Local Government	13.4
41.8	Department for Work and Pensions	35.6
0.6	Department for Transport	0.7
0.1	Department for Culture, Media and Sport	1.8
0.2	Department for Environment, Food and Rural Affairs	0.2
11.7	Department of Health	11.2
23.3	Other grants and contributions	22.2
172.8	**Credited to Services**	**173.7**
347.5	**Total**	**362.2**

30. Related Parties

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

Central Government

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

Members

Members of the Council have direct control over the council's financial and operating policies. There are a number of Councillors who serve on outside bodies and school governing bodies either as a representative of the council or as a private individual. Details of these interests are recorded in the Register of Members' interests, which are updated annually. An examination of the Register indicates that the council's financial transactions with these bodies in 2019/20 are not material.

Officers

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

Other Public Bodies

During the year the council made payments of £30.7m to Worcestershire County Council (£29.7m in 2018/19), including payments to the pension fund and for the joint waste disposal contract. Payments to the CCG in 2019/20 totalled £3.0m (£2.5m in 2018/19). A total of £3.2m was paid to Wye Valley NHS Trust (£3.1m in 2018/19). Payments to the Local Enterprise Partnership totalled £0.1m in 2019/20 (£nil in 2018/19).

Significant long term contracts

The council awarded the public realm services contract to Balfour Beatty Living Places on 1 September 2013. The contracted services include highways maintenance and improvement, street lighting, traffic signals, street cleaning, parks and public rights of way, fleet maintenance and professional consultancy services. The council paid £29.6m to Balfour Beatty in 2019/20 (£39.2m in 2018/19).

FOCSA Services (UK) Limited

In 2009 the council entered into a 7 year contract with FOCSA for the collection of household, recycling and commercial waste, this has been extended by a further 7 years to end in 2023. The value of the contract over 7 years is around £30.5m. Payments to FOCSA Services (UK) Limited totalled £4.5m in 2019/20 (£4.0m in 2018/19).

Other organisations – West Mercia Energy

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

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

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

However, in the interests of transparency and accountability an extract of the unaudited 2019/20 WME accounts are included below, along with a disclosure of this Council's proportion of those balances.

WEST MERCIA ENERGY EXTRACT FROM DRAFT ACCOUNTS AS AT 31 MARCH 2020		
	31-Mar-20	**Herefordshire Council share**
	£m	**£m**
Short term debtors	11.8	2.9
Cash and cash equivalents	7.4	1.8
Current assets	**19.2**	**4.8**
Short term creditors	(17.4)	(4.4)
Current liabilities	**(17.4)**	**(4.4)**
Net current assets	**1.7**	**0.4**
Other long term liabilities	(6.9)	(1.7)
Long term liabilities	**(6.9)**	**(1.7)**
Net liabilities	**(5.2)**	**(1.3)**
Financed by:		
General Fund	0.9	0.2
Result for year	0.9	0.2
Pensions reserve	(6.9)	(1.7)
Total reserves	**(5.2)**	**(1.3)**
INCOME		
Turnover	(70.2)	(1.4)

Subsidiary group undertaking

Hoople Limited is a company created in April 2011 to deliver business support services to clients across the public and private sector. During the review period Hoople Limited was wholly owned by Herefordshire Council and Wye Valley NHS Trust. Herefordshire Council is the majority shareholder and included in this statement of accounts is a statement of group accounts section that reports the performance of the group for 2019/20.

31. Capital Expenditure and Capital Financing

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

2018/19 £m		2019/20 £m
313.6	**Opening capital financing requirement**	**315.5**
	Capital investment	
37.3	Property, Plant and Equipment	27.3
-	Intangible	0.1
2.8	Investment Properties	1.3
3.4	Revenue expenditure funded from capital under statute	6.4
0.3	Assets acquired under PFI contracts	0.3
3.5	Long term debtors (including loans and PFI prepayments)	-
	Sources of finance	
(8.5)	Capital receipts	(2.9)
-	Loan Repayment	0.6
(23.3)	Government grants and other contributions	(23.9)
	Sums set aside from revenue	
(4.5)	Direct revenue contributions	(0.3)
(9.1)	Minimum Revenue Provision (MRP)	(8.4)
315.5	**Closing capital financing requirement**	**316.0**
	Explanation of movements in year	
10.7	Increase in underlying need to borrow	8.6
0.3	Assets acquired under PFI contracts	0.3
(9.1)	Minimum Revenue Provision (MRP)	(8.4)
1.9	**Adjusted to Services**	**0.5**

32. Leases

Council as Lessee

Finance Leases

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

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

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2019/20 £0.1m contingent rents were payable by the council (£0.1m in 2018/19).

Council as Lessor

Finance Leases

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

Operating Leases

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

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

	Amounts Payable						Amounts Receivable	
	Minimum Lease Payments		Finance Lease Liabilities		Operating Leases		Operating Leases	
	2019/20 £m	2018/19 £m	2019/20 £m	2018/19 £m	2019/20 £m	2018/19 £m	2019/20 £m	2018/19 £m
Payable/receivable in the year	-	-	-	-	0.6	0.7	-	-
Not later than one year	-	-	-	-	0.4	0.5	2.0	1.7
Later than one year and not later than five years	0.1	0.1	-	-	1.4	1.5	6.5	5.9
Later than five years	1.6	1.7	0.3	0.3	1.8	2.1	35.8	37.9
Total due in future years	**1.7**	**1.8**	**0.3**	**0.3**	**4.2**	**4.8**	**44.3**	**45.5**

33. Private Finance Initiatives and Similar Contracts

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

Mercia Waste Management Limited – Waste Management PFI contract

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

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

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

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

Stepnell Limited – School PFI Contract

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

Shaw Homes

The council has a contract with Shaw Healthcare for the development and provision of residential homes and day care centres previously operated directly by the council. The contract expires in 2033/34 for all homes. The level of payments are dependent on the volume and nature of service elements and Shaw Healthcare's performance in providing services. The payments in respect of this contract were £4.0m in 2019/20 (£3.9m in 2018/19).

Assets

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

	Land & Buildings £m	**Equipment £m**	**Total £m**
Balance at 1 April 2019	40.1	-	**40.1**
Additions	-	0.3	**0.3**
Revaluations	0.9	-	**0.9**
Depreciation	(1.0)	-	**(1.0)**
Balance at 31 March 2020	**40.0**	**0.3**	**40.3**

Liabilities

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

2018/19		2019/20			
Total		Shaw Healthcare	Whitecross School	Waste Disposal	Total
£m		£m	£m	£m	£m
55.3	Balance outstanding at start of year	7.1	12.2	33.8	**53.1**
(2.5)	Payments during the year	(0.3)	(0.6)	(1.8)	**(2.7)**
0.2	Capital expenditure in the year	0.0	0.0	0.0	**0.0**
53.0	**Balance outstanding at year end**	**6.8**	**11.6**	**32.0**	**50.4**

Payments

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

	Service Charges	Lifecycle Costs	Finance Liability	Interest & Similar	Total
	£m	£m	£m	£m	£m
Within 1 year	10.3	0.4	3.1	3.7	**17.5**
Within 2 to 5 years	27.9	1.6	35.5	11.4	**76.4**
Within 6 to 10 years	24.7	2.1	7.9	6.3	**41.0**
Within 11 to 15 years	20.3	1.0	5.1	3.0	**29.4**
Within 16 to 20 years	0.0	0.0	0.0	0.0	**0.0**
Balance outstanding at year end	**83.2**	**5.1**	**51.6**	**24.4**	**164.3**

The PFI future year commitments total of £164.3m shown above includes inflation assumptions, without inflation the future year commitments would be £62.3m lower.

34. Capitalisation of Borrowing Costs

The council has a policy of capitalising borrowing costs on relevant projects i.e. where schemes last more than 12 months and with at least £10k of interest associated with the project. In 2019/20 no borrowing costs were capitalised (also none in 2018/19).

35. Pension Schemes accounted for as Defined Contribution Schemes

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

In 2019/20 the council paid employer contributions of £6.0m (2018/19 £4.6m) in respect of teachers' pension costs. The increase reflects the increase in the contribution rate from 16.48% to 23.68% applied from September 2019. In addition, the council is responsible for all pension payments relating to added years it, or its predecessor authority has awarded, together with the related increases, this cost is £0.2m per annum. The liability to former Hereford and Worcester teachers' unfunded added years' benefits of £0.7m is included in the pension fund liability in the balance sheet in 2019/20 (£0.8m in 2018/19).

36. Defined Benefit Pension Schemes

Participation in Pension Schemes

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

Transactions Relating to Post-employment Benefits

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

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

Local Government Pension Scheme

2018/19 £m		2019/20 £m
	Comprehensive Income and Expenditure Statement	
	Cost of Services:	
13.6	Current service cost	17.0
0.2	(Gain)/loss from settlements and curtailments	0.2
2.8	Past service cost	3.9
	Financing and Investment Income and Expenditure:	
5.6	Net interest expense	6.2
0.2	Administration expenses	0.2
22.4	**Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services**	**27.5**
	Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	
	Actuarial (gains) and losses arising on changes in the following assumptions:-	
-	Experience (gain) / loss	(11.2)
33.3	(Gain) / loss on financial assumptions	(13.2)
-	(Gain) / loss on demographic assumptions	(20.5)
(5.3)	Re-measurements of assets	24.1
28.0	**Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement**	**(20.8)**
	Movement in Reserves Statement	
8.2	Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post-employment benefits	12.0
	Amount charged to the General Fund balance for pensions in the year	
14.2	Employer's contribution payable to the scheme	15.5

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to 31 March 2020 (since the introduction of the statement in the 2009/10 restated accounts) is a loss of £95.4m.

The net defined benefit obligation reflects the assessed financial impact of the McCloud case law decision in respect of the protections for members nearing retirement being deemed to have given rise to an unlawful age discrimination to younger workers without those protections. The net defined benefit obligation also reflects the guaranteed minimum pension (GMP).

Pensions Assets and Liabilities Recognised in the Balance Sheet

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

Local Government Pension Scheme

2018/19 £m		2019/20 £m
661.9	Present value of the defined benefit obligation	638.6
(393.6)	Fair value of plan assets	(379.2)
268.3	**Net liability arising from defined benefit obligation**	**259.4**

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

The table below shows the movement on the pension liability

2018/19 £m		2019/20 £m
594.6	**Opening balance**	**661.8**
17.3	Recognition of subsidiary undertaking	-
13.7	Current Service Cost	17.0
2.8	Past Service Cost	3.9
15.2	Interest Cost	15.7
2.7	Contributions by Scheme Participants	3.2
	Re-measurement (gains) and losses	
33.3	Actuarial (gains)/losses arising from changes in assumptions	(44.8)
0.2	Losses/(gains) on curtailments	0.2
(18.0)	Benefits/transfers paid	(18.4)
661.8	**Closing balance**	**638.6**

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

The table below shows the movement on the pension assets

2018/19 £m		2019/20 £m
369.5	**Opening fair value of scheme assets**	**393.6**
10.3	Recognition of subsidiary undertaking	-
9.7	Interest income	9.5
5.3	Re-measurement gain/(loss): the return on plan assets, excluding amount included in the net interest expense	(24.1)
(0.2)	Administration expenses	(0.1)
14.2	Contribution from employer	15.5
2.7	Contributions from employees into the scheme	3.2
(18.0)	Benefits/transfers paid	(18.4)
393.5	**Closing fair value of scheme assets**	**379.2**

The actual return on scheme assets in the year was £18.4m, 4.9% of the period end assets (2018/19 £15.4m, 4.4%).

Local Government Pension Scheme assets (at fair value) comprised

31 March 2019 £m		Quoted (Y/N)	31 March 2020 £m
	Cash		
1.6	Cash instruments	Y	0.8
3.1	Cash accounts	Y	0.8
4.3	Net current assets	N	0.8
	Equity instruments		
0.8	UK quoted	Y	0.8
103.9	Overseas quoted	Y	91.7
52.7	Pooled investment vehicle - UK managed funds	N	47.8
125.5	Pooled investment vehicle - UK managed funds (overseas equities)	N	127.0
-	Pooled investment vehicle - overseas managed funds	N	0.4
	Property		
10.2	European property funds	N	8.7
3.5	UK property debt	N	2.7
2.4	Overseas property debt	N	1.9
8.7	UK property funds	N	8.0
-	Overseas real estate investment trust	N	0.8
	Alternatives		
14.2	UK infrastructure	N	18.5
7.5	European Infrastructure	N	10.2
1.2	US Infrastructure	N	6.8
2.7	UK Stock Options	N	2.7
-	Overseas Stock Options	N	(2.3)
-	Corporate Private Debt	N	4.5
	Bonds		
1.2	UK Corporate	Y	1.5
18.1	Overseas Corporate	Y	17.4
31.9	UK Government Fixed	Y	27.3
-	Overseas Government	Y	0.4
393.5	**Closing fair value of scheme assets**		**379.2**

Impact of Covid 19 – material valuation uncertainty

The Covid-19 pandemic commenced within the last two weeks of the 2019-20 financial year and created a large uncertainty in financial markets and the market for other assets. The Royal Institute of Chartered Surveyors subsequently issued guidance identifying that all valuations will have a material valuation uncertainty as at 31 March 2020. There remains limited information and the future impact that Covid 19 might have therefore the valuation of pension assets is kept under frequent review.

Basis for estimating Assets and Liabilities

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

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

Beginning of the period (p.a.)		End of the period (p.a.)
	Mortality assumptions	
	Longevity at 65 for current pensioners (years)	
22.8	Men	22.6
25.8	Women	25.0
	Longevity at 65 for future pensioners (years)	
25.1	Men	24.2
28.2	Women	27.0
	Financial Assumption	
2.2%	Rate of CPI inflation	2.1%
3.7%	Rate of increase in salaries	3.6%
2.3%	Rate of increase in pensions	2.2%
2.4%	Rate for discounting scheme liabilities	2.4%

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

	Increase / (decrease) in assumption £m
0.1% increase in discount rate	(10.7)
1 year increase in member life expectancy	17.3
0.1% increase in the salary increase rate	1.0
0.1% increase in the inflation increase rate	10.8
0.1% increase in investment returns	(3.8)
0.1% decrease in investment returns	3.8

Impact on the Councils Cash Flows

A tri-annual valuation was completed as at 31 March 2020 setting the recovery cashflows for the next three years. The employers cash deficit contribution has been agreed at £4.0m in 2020/21, £4.2m in 2021/22 and £4.4m in 2022/23, post early settlement discount. The actuary also confirmed that the future employers service contribution rate, which is paid as a percentage of current employees' gross pay, at 17.6%. This excludes the McCloud estimated increase in contribution rates which have been set aside in an ear marked reserve (see note 5).

Total employer contributions expected to be made to the Local Government Pension Scheme by the council in the year ended 31 March 2021 is £13.3m.

Scheme History

Scheme History	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Present value of liabilities	(419.6)	(500.0)	(486.0)	(602.1)	(594.6)	(661.9)	(638.6)
Value of Scheme assets	260.2	288.6	281.7	355.1	369.5	393.6	379.2
(Deficit) in scheme	**(159.4)**	**(211.4)**	**(204.3)**	**(247.0)**	**(225.1)**	**(268.3)**	**259.4**

37. Contingent Liabilities

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

38. Nature and Extent of Risks Arising from Financial Instruments

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

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

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

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

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

Credit Risk

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

During 2019/20 the council continued to restrict investments to only the largest and strongest of the banks, building society, other local authorities and instant access Money Market Funds.

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

	Amount at 31 March 2020 £m	Historical experience of default %	Historical experience adjusted for market conditions at 31 March 2020 %	Estimated maximum exposure to default and uncollectability 31 March 2019 £m	Estimated maximum exposure to default and uncollectability 31 March 2020 £m
Deposits with banks and financial institutions	24.0	-	-	-	-
Customers	7.4	0.5	0.5	-	-

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

31 March 2019 £m		31 March 2020 £m
3.9	Less than 3 months	3.8
0.6	3 to 6 months	0.5
1.9	6 months to 1 year	0.7
2.3	More than 1 year	2.4
8.7	**Total**	**7.4**

Liquidity Risk

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

31 March 2019 £m		31 March 2020 £m
8.4	Less than 1 year	4.5
	More than 1 year	
3.5	Between 1 and 2 years	2.4
11.7	Between 2 and 5 years	15.9
24.4	Between 5 and 10 years	18.2
91.2	More than 10 years	90.7
139.2	**Total borrowing per balance sheet**	**131.7**

Market Risk

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

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

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

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

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

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

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

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

	1% increase in interest rates £m
Increase in interest payable on borrowing	-
Increase in interest receivable on investment balances	(0.4)

39. Trust Funds

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

	Balance at 31 March 2019 £m	Repayment of Trust Fund Balances £m	Balance at 31 March 2020 £m
Other Funds	0.1	-	0.1

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

Herefordshire Council

Statement of Group Accounts and Explanatory Notes

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40. Statement of Group Accounts

Introduction

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

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

Hoople Limited had revenue of £14.3m in 2019/20 (2018/19: £13.2m). This included revenue from services provided to Herefordshire Council of £8.5m in 2019/20 (2018/19: £8.2m). The council provided services to Hoople Limited of £1.0m in 2019/20 (2018/19: £1.0m). These transactions were all made on an arms-length basis.

The group accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (The Code) published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The aim of the statement of group accounts is to provide the reader with an overall view of the material economic activities of the Group. The statement of group accounts provides a summary of the group's financial position and details of material items that have impacted on the accounts during the year. The statement of group accounts has been prepared using uniform accounting policies.

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

Basis of Consolidation

In 2019/20 Herefordshire Council held 84% (2018/19 84%) of the ordinary share capital of Hoople Limited. The council effectively controlled and controls Hoople Limited and as such, it is accounted for as a subsidiary undertaking. It holds equal voting rights with the other shareholder, Wye Valley NHS Trust. In accordance with IAS 27 and IFRS 10, income and expenditure and assets and liabilities have been consolidated with the Council's accounts on a line-by-line basis, eliminating inter-organisational transactions and year end balances.

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

Group Comprehensive Income & Expenditure Statement

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

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

2018/19					2019/20			
Net Core £m	Group entities £m	Adjs £m	Group £m		Net Core £m	Group entities £m	Adjs £m	Group £m
51.6	-	(0.7)	50.9	Adults and Communities	53.1	-	(1.0)	52.1
28.3	-	(1.2)	27.1	Children and Families	37.2	-	(1.4)	35.8
37.7	-	(0.1)	37.6	Economy and Place	37.4	-	0.1	37.5
26.6	0.2	2.0	28.8	Corporate and Central Services	32.8	(0.5)	2.3	34.6
144.2	**0.2**	**-**	**144.4**	**Net Cost of Services**	**160.5**	**(0.5)**	**-**	**160.0**
4.5	-	-	4.5	Other Operating Expenditure	6.1	-	-	6.1
11.7	0.1	-	11.8	Financing, Investment Income and Expenditure	9.8	-	-	9.8
(174.7)	-	-	(174.7)	Taxation and Non-Specific Grant Income	(188.5)	-	-	(188.5)
(14.3)	**0.3**	**-**	**(14.0)**	**(Surplus) or deficit on the provision of services**	**(12.1)**	**(0.5)**	**-**	**(12.6)**
(3.6)	-	-	(3.6)	(Surplus) / deficit in revaluation of non-current assets	(9.4)	-	-	(9.4)
34.9	(5.8)	-	29.1	Re-measurement of net Defined Benefit Liability	(20.8)	-	-	(20.8)
31.3	**(5.8)**	**-**	**25.5**	**Other comprehensive (income) / expenditure**	**(30.2)**	**-**	**-**	**(30.2)**
17.0	**(5.5)**	**-**	**11.5**	**Total comprehensive (income) / expenditure**	**(42.3)**	**(0.5)**	**-**	**(42.8)**

The Surplus on the Provision of Services of £6.9m includes a Surplus of £0.1m attributable to the Minority Interest (2018/19: £-m).

The Total comprehensive (income) / expenditure attributable to the Minority Interest is £0.1m income (2018/19: £0.9m income).

These Minority Interests represent 16% (2018/19 16%) of the Income and Expenditure of Hoople Limited, the subsidiary undertaking.

Group Movement in Reserves Statement

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

2019/20	**General Fund Balance £m**	**Earmarked Reserves £m**	**Revenue Fund Reserves £m**	**Capital Receipts Reserve £m**	**Capital Grants Unapplied £m**	**Usable Reserves £m**	**Unusable Reserves £m**	**Total Council Reserves £m**	**Council's share of Reserves of subsidiary £m**	**Total Group Reserves £m**
Balance brought forward	**(8.5)**	**(67.0)**	**(75.5)**	**(41.5)**	**(4.4)**	**(121.4)**	**(112.2)**	**(233.6)**	**(1.9)**	**(235.5)**
(Surplus) or deficit on the provision of services	(12.1)	-	(12.1)	-	-	**(12.1)**	-	(12.1)	(0.5)	(12.6)
Other comprehensive income and expenditure	-	-	-	-	-	**-**	(30.2)	(30.2)	-	(30.2)
Total comprehensive income and expenditure	**(12.1)**	**-**	**(12.1)**	**-**	**-**	**(12.1)**	**(30.2)**	**(42.3)**	**(0.5)**	**(42.8)**
Adjustments between accounting basis and funding basis under regulations	(1.0)	-	(1.0)	(2.7)	(4.3)	**(8.0)**	8.0	-	-	-
Net (increase)/decrease before transfers to earmarked reserves	**(13.1)**	**-**	**(13.1)**	**(2.7)**	**(4.3)**	**(20.1)**	**(22.2)**	**(42.3)**	**(0.5)**	**(42.8)**
Transfers to or from earmarked reserves	12.5	(12.5	-	-	-	**-**	-	-	-	-
Decrease/(Increase) for the Year	**(0.6)**	**(12.5**	**(13.1)**	**(2.7)**	**(4.3)**	**(20.1)**	**(22.2)**	**(42.3)**	**(0.5)**	**(42.8)**
Balance Carried Forward	**(9.1)**	**(79.5)**	**(88.6)**	**(44.2)**	**(8.7)**	**(141.5)**	**(134.4)**	**(275.9)**	**(2.4)**	**(278.3)**

Total Group Reserves at 31 March 2020 includes Minority Interest in the subsidiary undertaking of £0.4m (2018/19 £0.3m).

Group Movement in Reserves Statement 2018/19 Comparative

2018/19	General Fund Balance £m	Earmarked Reserves £m	Revenue Fund Reserves £m	Capital Receipts Reserve £m	Capital Grants Unapplied £m	Usable Reserves £m	Unusable Reserves £m	Total Council Reserves £m	Council's share of Reserves of subsidiary £m	Total Group Reserves £m
Balance brought forward	**(7.9)**	**(57.8)**	**(65.7)**	**(42.6)**	**(2.7)**	**(111.0)**	**(139.6)**	**(250.6)**	**3.6**	**(247.0)**
(Surplus) or deficit on the provision of services	(21.5)	-	(21.5)	-	-	**(21.5)**	-	(21.5)	7.5	(14.0)
Other comprehensive income and expenditure	-	-	-	-	-	**-**	31.3	31.3	(5.8)	25.5
Total comprehensive income and expenditure	**(21.5)**	**-**	**(21.5)**	**-**	**-**	**(21.5)**	**31.3**	**9.8**	**1.7**	**11.5**
Adjustments between Group accounts and authority accounts	7.2	-	7.2	-	-	**7.2**	-	7.2	(7.2)	-
Net (increase)/ decrease before transfers	**(14.3)**	**-**	**(14.3)**	**-**	**-**	**(14.3)**	**31.3**	**17.0**	**(5.5)**	**11.5**
Adjustments between accounting basis and funding basis under regulations	4.5	-	4.5	1.1	(1.7)	**3.9**	(3.9)	-	-	-
Net (increase)/ decrease before transfers to earmarked reserves	**(9.8)**	**-**	**(9.8)**	**1.1**	**(1.7)**	**(10.4)**	**27.4**	**17.0**	**(5.5)**	**11.5**
Transfers to or from earmarked reserves	9.2	(9.2)	-	-	-	**-**	-	-	-	-
Decrease/(Increase) for the Year	**(0.6)**	**(9.2)**	**(9.8)**	**1.1**	**(1.7)**	**(10.4)**	**27.4**	**17.0**	**(5.5)**	**11.5**
Balance Carried Forward	**(8.5)**	**(67.0)**	**(75.5)**	**(41.5)**	**(4.4)**	**(121.4)**	**(112.2)**	**(233.6)**	**(1.9)**	**(235.5)**

Total Group Reserves at 31 March 2019 includes Minority Interest in the subsidiary undertaking of £0.3m.

Group Balance Sheet

Summarised

The Group Balance Sheet shows the assets and liabilities recognised by the Group at 31 March 2020 and the reserves the company holds which are split into usable and unusable in accordance with CIPFA requirements. A detailed balance sheet may be found on the next page.

2018/19			2019/20	
Core £m	Group £m		Core £m	Group £m
692.9	692.9	Long term assets	705.1	705.1
63.4	67.3	Current assets	80.8	85.2
(55.0)	(57.0)	Current liabilities	(59.3)	(61.3)
(467.7)	(467.7)	Long term liabilities	(450.7)	(450.7)
233.6	**235.5**	**Net Assets**	**275.9**	**278.3**
		Represented by:		
(121.4)	(123.3)	Usable reserves	(141.5)	(143.9)
(112.2)	(112.2)	Unusable reserves	(134.4)	(134.4)
(233.6)	**(235.5)**	**Total Group Reserves**	**(275.9)**	**(278.3)**

The Minority Interest share of subsidiary reserves represents an Unusable reserve to the Council in 2019/20 of £0.4m (2018/19: £0.3m).

The audited 2019/20 financial statements of Hoople Limited will be filed with Companies House before the statutory due date of 31 December 2020. Further details of the financial performance of that company will be contained therein. The financial performance of Hoople Limited, as consolidated into these group accounts may be found within note G2 to these accounts.

The unaudited group accounts were authorised for issue on 26 June 2020.

Group Balance Sheet

Detailed

The Group Balance Sheet shows the assets and liabilities recognised by the Group at 31 March 2020 and the reserves the company holds which are split into usable and unusable in accordance with CIPFA requirements.

31 March 2019 £m		Notes	31 March 2020 £m
612.9	Property, Plant and Equipment		626.7
34.2	Investment Property		33.8
-	Intangible Assets		-
3.2	Heritage Assets		3.2
42.6	Long Term Debtors		41.4
692.9	**Long Term Assets**		**705.1**
10.1	Short term Investments		19.1
0.1	Inventories		0.2
25.6	Short Term Debtors	G7	36.4
25.7	Cash & Cash equivalents	G5	26.2
5.8	Assets held for Sale		3.3
67.3	**Current Assets**		**85.2**
(8.5)	Short Term Borrowing		(4.4)
(42.2)	Short Term Creditors	G6	(45.6)
(2.0)	Short Term Provisions		(2.5)
(4.3)	Cash & Cash equivalents	G5	(8.8)
(57.0)	**Current Liabilities**		**(61.3)**
(4.7)	Long term provisions		(4.4)
(130.7)	Long term borrowing		(127.2)
(9.9)	Capital Grants Receipts in Advance		(8.2)
(322.4)	Other Long Term Liabilities		(310.9)
(467.7)	**Total Long Term Liabilities**		**(450.7)**
235.5	**Net Assets**		**278.3**
(123.3)	Usable Reserves		(143.9)
(112.2)	Unusable Reserves		(134.4)
(235.5)	**Total Reserves**		**(278.3)**

Group Cash Flow Statement

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

2018/19 £m		Notes	2019/20 £m
(14.0)	Net (surplus) or deficit on the provision of services		(12.6)
(42.5)	Adjust net (surplus) or deficit on the provision of services for non-cash movements		(31.1)
7.4	Adjust for items included in the net (surplus) or deficit on the provision of services that are investing and financing activities		5.6
(49.1)	**Net cash flows from operating activities**		**(38.1)**
32.1	Net cash flows from investing activities		24.3
12.9	Net cash flows from financing activities		9.8
(4.1)	**Net decrease or (increase) in cash and cash equivalents**		**4.0**
(17.3)	Cash and cash equivalents at the beginning of the reporting period	G5	(21.4)
(21.4)	Cash and cash equivalents at the end of the reporting period	G5	(17.4)
(4.1)	**Net decrease or (increase) in cash and cash equivalents**		**4.0**

Notes to the statement of group accounts

G1. Group Accounting Policies

General Principles

The council is required to produce an annual statement of group accounts in accordance with the Accounts and Audit Regulations 2015, which requires the accounts to be prepared in accordance with proper accounting practices. These practices under section 21 of the 2003 Act primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 "The Code", supported by International Financial Reporting Standards.

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

Consolidation of subsidiaries, associate companies and joint operations

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

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

The accounting policies applied to the statement of group accounts are therefore consistent with those set out in Note 1 to the core Herefordshire Council notes to the accounts on page 22.

Taxation

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

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

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

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

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

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

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

G2. Financial performance of group undertaking

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

Statement of comprehensive income	2018/19 £m	2019/20 £m
Turnover	(13.2)	(14.3)
(Profit) / Loss on ordinary activities before taxation	**0.3**	**(0.5)**
Tax on profit on ordinary activities	-	-
(Profit) / Loss for the financial year after taxation	**0.3**	**(0.5)**
Other comprehensive (income) / expenditure	(5.8)	0
Total comprehensive (income) / expenditure for the year	**(5.5)**	**(0.5)**

Statement of financial position	2018/19 £m	2019/20 £m
Non-current assets	-	-
Current assets	4.7	4.8
Liabilities due within one year	(2.8)	(2.4)
Liabilities due after one year	-	-
Net Liabilities and Reserves	**1.9**	**2.4**

G3. Group Nature of Expenses Disclosure

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

2018/19 £m		2019/20 £m
	Income	
(59.2)	Fees, charges and other service income	(60.4)
(2.2)	Trading and investment income	(2.4)
(4.3)	Interest and investment income	(3.5)
(135.2)	Income from council tax and non-domestic rates	(143.2)
(190.1)	Government grants and contributions	(197.4)
-	Gains on disposal of non-current assets	-
(391.0)	**Total Income**	**(406.9)**
	Expenditure	
116.2	Employee benefits expenses	127.4
209.1	Other service expenses	213.3
5.2	Support service recharges (net)	5.1
-	Loss on disposal of non-current assets	1.3
23.7	Depreciation, amortisation and impairment	26.7
2.8	Trading and investment expenditure	0.2
15.5	Interest expenditure	15.5
4.5	Precepts and levies	4.8
377.0	**Total Expenditure**	**394.3**
(14.0)	**(Surplus) / Deficit on the Provision of Services**	**(12.6)**

G4. Pensions

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

LGPS Pension Scheme

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

The total contribution made for the year ended 31 March 2020 was £0.7m of which employer's contributions totalled £0.5m and employees' contributions totalled £0.2m. The agreed employer contribution rates for the year ended 31 March 2020 was 15.4%.

NHS Pension Scheme

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

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

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

The employer contribution rate is set through a process known as the scheme valuation. A scheme valuation is carried out every four years and it measures the full cost of paying pension benefits (to current pensioners). The most recent 2016 scheme valuation identified the need to increase the employer contribution from 14.3% to 20.6% from 1 April 2019.

Hoople Limited Defined Contribution pensions scheme

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

2018/19 £m		2019/20 £m
0.1	Employees' contributions	0.1
0.2	Employers' contributions	0.2
0.3	**Total**	**0.3**

G5. Group Cash and Cash Equivalents

31 March 2019 £m		31 March 2020 £m
7.5	Cash held by the Group	7.2
18.2	Short term deposits	19.0
25.7	**Total**	**26.2**
(4.3)	Bank current accounts	(8.8)
21.4	**Total Cash and Cash Equivalents**	**17.4**

Hoople Limited held £2.9m of short term cash balances as at 31 March 2020 (31 March 2019: £3.2m)

G6. Group Short Term Creditors

31 March 2019 £m		31 March 2020 £m
(11.7)	Central government bodies	(17.6)
(3.7)	Other local authorities	(2.5)
(0.9)	NHS bodies	(1.7)
(24.6)	Other entities and individuals	(23.8)
(1.3)	Monies due to agency NMiTE	-
(42.2)	**Total**	**(45.6)**

Hoople Limited had short term liabilities totalling £2.4m as at 31 March 2020 (31 March 2019: £2.8m). These included Trade creditors, Accruals and VAT liability in line with normal business activities.

G7. Group Short Term Debtors

31 March 2019 £m		31 March 2020 £m
3.7	Central government bodies	11.0
2.5	Other local authorities	1.4
2.1	NHS bodies	2.2
17.3	Other entities and individuals	12.9
-	Agency BEIS Business Support Grants	8.9
25.6	**Total**	**36.4**

Hoople Limited had short term assets totalling £4.8m as at 31 March 2020 (31 March 2019: £4.7m). These included trade debtors and their short term cash balances.

G8. External audit costs

2018/19 £m		2019/20 £m
0.1	Fees payable with regard to external audit services carried out by the appointed auditor	0.1
0.1	**Total**	**0.1**

The above fees included £20k in respect of Hoople Limited audit fees (2018/19: £16k)

Herefordshire Council

Supplementary Accounts- Collection Fund

41Collection Fund

The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection of council tax and business rates. From April 2013 the system of funding local authorities changed allowing council to retain 49% of the county's business rates.

2018/19		2019/20		
Total £m		Council Tax £m	Business Rates £m	Total £m
	Amounts required to be credited to the Collection Fund			
123.0	Council Tax	131.5	-	**131.5**
47.5	Business Rates Income	-	46.6	**46.6**
0.8	Transitional Protection Payments Receivable	-	1.2	**1.2**
	Contribution towards previous year's Deficit			
0.4	Central Government	-	0.9	**0.9**
-	Hereford and Worcester Fire Authority	-	-	**-**
0.4	Herefordshire Council	-	0.9	**0.9**
172.1	**Total**	**131.5**	**49.6**	**181.1**
	Amounts required to be debited from the Collection Fund			
	Precepts, Demands and Shares			
23.0	Central Government	-	22.9	**22.9**
6.1	Hereford and Worcester Fire Authority	5.8	0.5	**6.3**
121.0	Herefordshire Council	104.2	22.5	**126.7**
4.3	Parish and Town Councils	4.6	-	**4.6**
13.4	West Mercia Police	14.9	-	**14.9**
	Contribution towards previous year's Surplus			
-	Central Government	-	-	**-**
-	Hereford and Worcester Fire Authority	-	-	**-**
0.4	Herefordshire Council	0.4	-	**0.4**
0.1	West Mercia Police	0.1	-	**0.1**
	Charges to Collection Fund			
0.3	Cost of collection Allowance	-	0.3	**0.3**
0.5	Write offs of uncollectable debt	0.2	0.1	**0.3**
0.1	Increase/(decrease) of Bad Debt Provision	0.3	0.3	**0.6**
2.0	Increase/(decrease) of Appeals Provision	-	(0.3)	**(0.3)**
0.3	Other transfers to General Fund	-	0.3	**0.3**
171.5	**Total**	**130.5**	**46.6**	**177.1**
0.6	**Surplus/(Deficit) for the Year**	**1.0**	**3.0**	**4.0**
0.8	**Balance brought forward**	**1.0**	**0.4**	**1.4**
1.4	**Balance carried forward**	**2.0**	**3.4**	**5.4**

Notes to the Collection Fund

The total non-domestic rateable value at the year-end was £135.4m and the national non-domestic rate multiplier for 2019/20 was 50.4p

Non - Domestic Rates Income	2019/20 £m
Annual Debit	(66.8)
Less	
Empty Allowances	1.7
Transitional Relief	1.5
Discretionary Relief	0.6
Mandatory Relief	5.0
Small Business Rate Relief	9.6
Funded Reliefs	1.4
Enterprise Zone Relief	0.4
Total	**46.6**

Council tax income is derived from charges raised according to the value of residential properties, which have been classified into eight valuation bands. Estimated values at 1 April 1991 are used for this specific purpose. Individual charges are calculated by estimating the amount of income required to be taken from the collection fund by the council, West Mercia Police and Hereford & Worcester Fire & Rescue Authority, and dividing this by the council tax base (the total number of properties in each band adjusted by a proportion to convert the number to a Band D equivalent and adjusted for discounts etc.). The amount of council tax for a Band D property is multiplied by a specified proportion to give an amount due for other property valuation bands. The average council tax for a Band D property in 2019/20 was £1,882.86 including fire, police and parish precepts, with a range of between £1,815.70 and £1,986.75. The council tax base used for setting the council tax in 2019/20 was 68,826.03. The Band D equivalents in each valuation band are shown in the table below:

Band	Valuation Range	Charge Factor	Band D Equivalent
A	Up to £40,000	6/9	5,398.73
B	£40,001 to £52,000	7/9	11,431.15
C	£52,001 to £68,000	8/9	12,109.43
D	£68,001 to £88,000	9/9	11,493.63
E	£88,001 to £120,000	11/9	12,956.44
F	£120,001 to £160,000	13/9	9,259.61
G	£160,001 to £320,000	15/9	5,578.23
H	Over £320,000	18/9	311.91
Crown			286.90
Total			**68,826.03**

Council Taxpayer Income	2019/20 £m
Council Tax debit at 1 April	(156.2)
Banding change	(2.7)
Less	
Discounts	12.6
Exemptions	3.6
Council Tax Reduction	11.0
Disablement Relief	0.2
Total	**131.5**

The Collection Fund surplus or (deficit) at 31 March 2020 is split as follows:

	Council Tax £m	Business Rates £m	Total £m
Central Government	-	1.7	1.7
Hereford and Worcester Fire Authority	0.1	-	0.1
Herefordshire Council	1.7	1.7	3.4
West Mercia Police	0.2	-	0.2
Total	**2.0**	**3.4**	**5.4**

42. Definitions

Accounting Policies

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

Accumulated Absences Account

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

Assets

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

Borrowing costs

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

Capital Adjustment Account

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

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

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

Carrying amount

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

Contingent Liability

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

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

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

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

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

Creditors

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

Collection Fund Adjustment Account

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

Core

The single entity, being Herefordshire Council.

Covid 19

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

Debtors

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

Deferred Capital Receipts Reserve

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

Depreciation

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

Exchange Transactions

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

Fair value

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

Finance lease

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

Financial Instruments Adjustment Account

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

Financial Instrument

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

Grants and contributions

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

Historical cost

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

IFRIC

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

IFRS

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

Impairment loss

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

Intangible Asset

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

Inventories

These are assets;

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

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

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

d) In the process of production for sale or distribution

Investment property

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

Liabilities

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

Material

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

Minimum Revenue Provision (MRP)

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

Non-Exchange Transactions

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

Operating lease

A lease other than a finance lease

Property, plant and equipment

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

Provision

A liability of uncertain timing or amount.

Related Party

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

Revaluation Reserve

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

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

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

Revenue

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

Soft loan

A loan at less than the market interest rate.

43Annual Governance Statement

To follow

[LETTER TO BE WRITTEN ON CLIENT HEADED PAPER]

Grant Thornton UK LLP
2 Glass Wharf
Temple Quay
BRISTOL
BS2 0EL

[Date] – {TO BE DATED SAME DATE AS DATE OF AUDIT OPINION]

Dear Sirs

Herefordshire Council
Financial Statements for the year ended 31 March 2020

This representation letter is provided in connection with the audit of the financial statements of Herefordshire Council and its subsidiary undertaking, HoopleLimited, for the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the group and Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and applicable law.

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 group and Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

ii. We have complied with the requirements of all statutory directions affecting the group and Council and these matters have been appropriately reflected and disclosed in the financial statements.

iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the group and Council financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements.

vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

vii. Except as disclosed in the group and Council financial statements:

a. there are no unrecorded liabilities, actual or contingent

b. none of the assets of the [group and]Council has been assigned, pledged or mortgaged

c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

viii. 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.

ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The group and Council financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

xi. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

xii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xiii. We have updated our going concern assessment and cashflow forecasts in light of the Covid-19 pandemic. We continue to believe that the group and Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern 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 group and Council's ability to continue as a going concern need to be made in the financial statements

Information Provided

xiv. We have provided you with:

a. access to all information of which we are aware that is relevant to the preparation of the group and Council's 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. access to persons within the Council via remote arrangements, in compliance with the nationally specified social distancing requirements established by the government in response to the Covid-19 pandemic. from whom you determined it necessary to obtain audit evidence.

xv. We have communicated to you all deficiencies in internal control of which management is aware.

xvi. All transactions have been recorded in the accounting records and are reflected in the financial statements.

xvii. 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.

xviii. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the group and 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.

xix. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

xx. 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.

xxi. We have disclosed to you the identity of the group and Council's related parties and all the related party relationships and transactions of which we are aware.

xxii. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

xxiii. 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.

Narrative Report

xxiv. The disclosures within the Narrative Report fairly reflect our understanding of the group and Council's financial and operating performance over the period covered by the financial statements.

Approval

The approval of this letter of representation was minuted by the Council's Audit and Governance Committee at its meeting on 30 July 2021.

Yours faithfully

Name……Mr A Lovegrove………………………

Position…Chief Finance Office……………………….

Date…………………………….

Name……Cllr N Shaw………………………

Position…Chairman of the Audit and Governance Committee……………………….

Date…………………………….

Signed on behalf of the Group

Herefordshire Council

Title of report: Annual external audit letter 2019/20

Meeting: Audit and governance committee

Meeting date: Friday 30 July 2021

Report by: Chief finance officer

Classification

Open

Decision type

This is not an executive decision

Wards affected

(All Wards)

Purpose

For the committee to receive the external auditor’s annual audit letter for 2019/20 and determine whether further action or inclusion in the committeee’s work programme is appropriate.

The annual audit finding reports is also being presented today; formal receipt of the annual audit letter completes the annual external audit process.

Recommendation(s)

That:

a) having regard to the external auditor’s annual audit letter 2019/20, attached at appendix A, the committee determine any further actions to be recommended or items to be included in the work programme

Further information on the subject of this report is available from
Josie Rushgrove, Tel: 01432 261867, email: jrushgrove@herefordshire.gov.ukl

Alternative options

1. None, the sharing of an annual audit letter from the external auditors forms part of a statutory external audit process, therefore no alternatives are appropriate.

Key considerations

2. The code of audit practice in local government requires external auditors to report to those charged with governance the conclusions they have drawn from their audit work and their opinion on the financial statements and value for money. The annual audit letter 2019/20, attached at appendix A provides this detail. It follows the audit findings report shared with the committee at this same meeting. The committee is requested to consider whether any additional action relevant to the remit of the audit and governance committee is required.

3. The external auditors issued an unqualified opinion on the statement of accounts for 2019/20 and a qualified conclusion was issued in respect of the value for money assessment for 2019/20. The external auditors are satisfied that the council has proper arrangements in place securing the economy, efficiency and effectiveness in its use of resources except for in relation to the governance over the capital programme and Children's Services.

4. Grant Thornton have completed the audit of the financial statements of the council in accordance with the requirements of the Code of Audit Practice in July 2021 and, due to the matter that had resulted in certificates of completion being withheld for a number of years being recently resolved, they were also able to certify completion of all prior years.

Community impact

5. The council is responsible for ensuring that appropriate safeguards are in place to ensure that it operates effective governance arrangements and internal controls; the reports and opinions of external audit inform future improvement action.

6. One of the principles in the council's code of corporate governance is to implement good practices in transparency, reporting, and audit to deliver effective accountability. To support effective accountability the council is committed to reporting on actions completed and outcomes achieved, and ensuring stakeholders are able to understand and respond as the council plans and carries out its activities in a transparent manner.

7. External audit contributes to effective accountability.

Environmental impact

8. Herefordshire Council provides and purchases a wide range of services for the people of Herefordshire. Together with partner organisations in the private, public and voluntary sectors we share a strong commitment to improving our environmental sustainability, achieving carbon neutrality and to protect and enhance Herefordshire's outstanding natural environment.

9. Whilst this is a decision on back office functions and will have minimal environmental impacts, consideration has been made to minimise waste and resource use in line with the council's Environmental Policy.

Equality duty

10. Under section 149 of the Equality Act 2010, the 'general duty' on public authorities is set out as follows:

    A public authority must, in the exercise of its functions, have due regard to the need to –

    a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;

    b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;

    c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

11. The public sector equality duty (specific duty) requires us to consider how we can positively contribute to the advancement of equality and good relations, and demonstrate that we are paying 'due regard' in our decision making in the design of policies and in the delivery of services. As this is a factual summary, we do not believe that it will have an impact on our equality duty.

Resource implications

12. The cost of the external audit is provided in the appendix, pages 16 and 17. The cost has been increased where the scope of audit work has changed and additional work has been required. The fee variation is subject to public sector audit appointments ltd (PSAA) approval.

Legal implications

13. The annual audit letter is shared as part of the statutory duty of the external audit function as set out in the Local Audit and Accountability Act 2014

14. The authority of the committee to review the external audit letter 2019/20 is set out in the constitution at paragraph 3.5.11.

Risk management

15. Appendix A identifies significant audit risks, the external audit response and findings and conclusions. The audit plan for 2020/21 elsewhere on today's agenda details the risk response to the value for money weaknesses identified.

Consultees

16. None

Appendices

Appendix A   Annual external audit letter 2019/20

Background papers

None identified.

Grant Thornton

The Annual Audit Letter for Herefordshire Council

Year ended 31 March 2020

July 2021

Contents

Your key Grant Thornton team members are:

Jon Roberts
Partner
T: 0117 305 7699
E: Jon.Roberts@uk.gt.com

Gail Turner-Radcliffe
Audit Manager
T: 029 2034 7546
E: Gail.Turner-Radcliffe@uk.gt.com

Zarak Zaman
Audit Associate
T: 0121 232 5392
E: Zarak.S.Zaman@uk.gt.com

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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Herefordshire Council (the Council) and its subsidiaries (the group) for the year ended 31 March 2020.

This Letter is intended to provide a commentary on the results of our work to the group and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit and Governance Committee as those charged with governance in our Audit Findings Report in July 2021.

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council and group's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council and group's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Our work

Materiality	We determined materiality for the audit of the Council’s financial statements to be £6,700,000 and the group to be £6,710,000, which is 1.8**%** of the gross cost of services.
Financial Statements opinion	We gave an unqualified opinion on the group's financial statements in July 2021. We included an emphasis of matter paragraph in our report in respect of the uncertainty over valuations of the Council's land and buildings, investment properties and the property assets of its pension fund given the Coronavirus pandemic. This does not affect our opinion that the statements give a true and fair view of the Council's financial position and its income and expenditure for the year.
Whole of Government Accounts (WGA)	We completed work on the Council’s consolidation return following guidance issued by the NAO.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.

Executive Summary

Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources except for in relation to the governance over the capital programme and Children's Services. We therefore qualified our value for money conclusion in our audit report to the Council in July 2021.
Certificate	We certified that we have completed the audit of the financial statements of Herefordshire Council in accordance with the requirements of the Code of Audit Practice in July 2021.

Working with the Council

Working remotely presented a number of challenges, for auditors and officers, including remotely accessing financial systems, video calling and additional procedures to verify the completeness and accuracy of information produced by the Authority. This resulted in considerably more audit time than initially planned.

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We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff .

Grant Thornton UK LLP
July 2021

Audit of the Financial Statements

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Our audit approach

Materiality

In our audit of the group's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the group financial statements to be £6,710,000, which is 1.8**%** of the group’s gross cost of services. We determined materiality for the audit of the Council’s financial statements to be £6,000,000, which is 1.8**%** of the Council’s gross cost of services. We used this benchmark as, in our view, users of the group and Council's financial statements are most interested in where the group and Council has spent its revenue in the year.

We set a lower threshold of £6,700,000, above which we reported errors to the Audit and Governance Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statement of Accounts to check it is consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the group's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

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Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Covid-19 The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to; • Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation • Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates • Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and • Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.	We: • worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported. The draft financial statements were provided on 26 June 2020; • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the Council's property valuation expert • evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic; • evaluated whether sufficient audit evidence could be obtained through remote technology; • evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations ; • evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment; • discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence.	Our audit work has not identified any issues in respect of the Covid-19 significant risk.

Audit of the Financial Statements

Significant Audit Risks - continued

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

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Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
The revenue cycle includes fraudulent transactions Under ISA240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.	This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. We rebutted the risk at the planning stage of our audit. Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we determined that the risk of fraud arising from revenue recognition could be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Herefordshire Council, mean that all forms of fraud are seen as unacceptable	No circumstances arose that indicated we needed to reconsider this judgement.
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We: • evaluated the design effectiveness of management controls over journals; • analysed the journals listing and determined the criteria for selecting high risk and unusual journals; • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence; and • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.	We have raised a control recommendation in respect of journals as journals posted by finance users do not require authorisation prior to being posted to the system and journals can be posted without a narrative being entered. Our testing of journal entries made in year did not identify any issues.

Audit of the Financial Statements

Significant Audit Risks - continued

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of property, plant and equipment The Authority revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority and group financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used. We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk.	We: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • evaluated the competence, capabilities and objectivity of the valuation expert; • wrote to the valuer to confirm the basis on which the valuation was carried out; • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding; • we challenged management about their treatment of the waste plant; • tested revaluations made during the year to see if they had been input correctly into the group's asset register; and • evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.	No issues were identified from our audit work on the valuation of land and buildings. We will be including an Emphasis of Matter paragraph into our audit opinion to draw the readers attention to the disclosures made around the estimation uncertainty in the valuation.

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Audit of the Financial Statements

Significant Audit Risks - continued

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of pension fund net liability The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements and group accounts. The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Council's pension fund net liability as a significant risk. The Council is a statutory member of the Hereford and Worcestershire Local Government Pension Scheme administered by Worcestershire County Council. Herefordshire Council remain responsible for the accuracy of disclosures within the accounts and this will include having a clear understanding of key assumptions within the estimate.	We: • updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertook procedures to confirm the reasonableness of the actuarial assumptions, including the experience item, made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; • reviewed the McCloud position; • challenged the Actuary on the experience item figures included in the IAS19 report; • agreed the advance payment made to the pension fund during the year to the expected accounting treatment and relevant financial disclosures; and • obtained assurances from the auditor of the Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.	No issues have been identified from our audit work on the valuation of pension fund net liability. We will be including an Emphasis of Matter paragraph into our audit opinion to draw the readers attention to the disclosures made around the estimation uncertainty in the valuation.

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the group's financial statements in July 2021.

Preparation of the financial statements

The Council presented us with draft financial statements on 3 July 2020 in accordance with the agreed timescale, and provided a good set of working papers to support them. The nature of the new remote access working arrangements, i.e. remote accessing financial systems, video calling and verifying the completeness and accuracy of information produced by the Council, resulted in additional time to complete the audit and, consequently, the cost of delivering the final audit.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the group's Audit and Governance Committee in July 2021.

Annual Governance Statement and Narrative Report

We are also required to review the Council’s Annual Governance Statement and Narrative Report. It published them on its website and alongside the draft Statement of Accounts in June 2020.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Whole of Government Accounts (WGA)

We carried out work in line with instructions provided by the NAO . We issued an assurance statement which confirmed the Council was below the audit threshold in July 2021.

Other statutory powers

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

Certificate of closure of the audit

We certified that we have completed the audit of the financial statements of Herefordshire Council in accordance with the requirements of the Code of Audit Practice in July 2021. As the matter that had resulted in certificates of completion being withheld for a number of years had recently been resolved, we were also able to certify completion of all prior year audits where this was the case.

Value for Money conclusion

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Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in April 2020 which specified the criterion for auditors to evaluate:
In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work.

The risks we identified and the work we performed are set out overleaf.

Overall Value for Money conclusion

We are satisfied that, in all significant respects, except for the matter we identified overleaf, the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2020.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
The significant risk identified was financial sustainability. If the key assumptions within the Medium-Term Financial Strategy are not reasonably based, then the future financial position of the Council could be at risk. Audit work proposed to address this risk: we will discuss with Officers the key assumptions in the Medium-Term Financial Strategy and consider supporting evidence, particularly around looked after children as this appears to be an area where there has been consistent pressures against the budget.	The MTFS for 2019/20 -2021/22 was presented to Council on 15 February 2019 and a revenue budget of £151,092 was approved for the 2019/20 financial year. This MTFS included savings for 2019/20 of £3.6m which was achieved during the year. In June 2020, the Council reported an outturn position of £150.5m which agreed to the draft financial statements. This resulted in a small underspend against budget and the General Fund Balance increased by £5.9m to £81.4m. On 26 November 2020, Cabinet received a paper showing the impact that Covid-19 has had on the financial position as at September 2020. This shows that the Council are forecasting an outturn of £172m against a budget of £157m meaning a forecast year end position of an overspend of £15m, £10.8m being directly attributable to Covid-19. Officers are currently updating the MTFS and are exploring savings schemes to mitigate this overspend. The original budget for the Children & Families Directorate was £30.8m and £18.6m specifically in relation to looked after children. The reported outturn for 2019/20 was £32.3m and £20.6m for looked after children. The overall overspend for the Directorate was £1.4m, however £1.9m was the overspend on looked after children. The reason for the increase is both the increase in numbers and costs associated with each case as the cases are becoming more complex. Ofsted undertook a focused visit in December 2019 and as a result of this, the service will require additional support to address the findings raised.	Whilst the Council continues to operate under significant financial pressures, in particular due to the impact of Covid-19, it has effective arrangements in place to routinely monitor its budget and has a good track record of delivering the required savings. We therefore conclude that overall the Council has appropriate arrangements in place to manage its financial sustainability. However, the impact of Covid-19 is not yet fully known. Consequently, the Council will need to maintain and strengthen its financial monitoring arrangements to ensure that funding and spending pressures are identified and acted upon swiftly.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
The significant risk identified related to the Council's capital programme. There has been a number of issues identified in recent years around the capital programme. Whilst the Council is responding to the issues, we consider that this represents a significant on-going risk to our vfm conclusion. The audit work proposed to address this risk is that we will consider the actions that the Council is taking to respond to concerns raised around the governance of the capital programme. We will also consider the governance of capital projects in support of NMiTE.	To address the issues highlighted in previous years, the Council employed a Consultant to undertake a review of the governance arrangements around the capital programme. The brief provided to the Consultant was reviewed and found to be comprehensive. The consultant provided the S151 Officer with a series of findings and where these could be implemented immediately, were done so. Other longer-term recommendations are currently being worked through by the Management team. In our 2018/19 Audit Findings Report, we reported that there was a delay in procurement around the by-pass however we issued an unqualified opinion based on the fact that as no contract had actually been awarded, there was no loss to the Council. A 'pause and review' process was undertaken and a review of the options surrounding the by-pass were examined. In December 2020, Cabinet agreed to formally stop construction of the by-pass and in the Council meeting on 20 January this was discussed, with £11.3m being written back to revenue after the capital write back. A major contract performance review was undertaken on behalf of the Council and the findings from this were taken to Cabinet on 24th September 2020. The review specifically focused on the Public Realm Services and Property and Facilities management service contracts provided by the Council's contractor. The review highlighted that there were concerns over performance monitoring, financial monitoring and contract compliance monitoring. Concerns were also listed under: • risk management - as the risk register does not sufficiently log actions related to risks; • relationship management - as there was "little constructive tension" between the two parties leading to a lack of competitive dialogue and the contractor not always providing 'proactive support or the collaborative behavior that would be expected from a strategic partner' and a lack of clear demarcation between the Council and its contractor, as both sides were co-located in the same office; and • change management - as the framework agreements were not included in the contracts register. Concerns were also highlighted around the Council's internal governance, whereby the Council did not appear to be adhering to the contract procedure rules, when commissioning works outside the core programme.	

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
	There were further concerns about the Council's 'lack of clarity' around managing the contract and commissioning further work. Key recommendations arising from this report were: • build technical knowledge within the Council - the Council relies on its contractor for technical assistance which limits the Council's ability to scrutinse or monitoring effectively; • improve internal communication and education – the Council needed to better understand the contract in order to achieve value for money; • increase the involvement of the Council's procurement team – to assist with governance and provide expertise; • set up a contract management framework; and • consider an appropriate contract management system. The Cabinet member for infrastructure and transport proposed that a progress review be brought back to Cabinet after six months. Whilst the Council is working on implementing these recommendations, the six-month review suggested by Cabinet has not been achieved. The s151 Officer also had concerns over a specific contract and therefore commissioned a review by Internal Audit. The contract relates to the Hereford City Centre Transport Package (HCCTP). The s151 Officer's concerns had arisen as this was a long term contract and, given the issues raised over the Public Realm contract, wanted assurance that the nine project objectives would be delivered within budget. A position statement was issued by Internal Audit on 25 September 2020 and the review was paused at that point. The position statement highlighted a number of issues, the main issue being the raising of compensation events (I.e. invoice variations). The s151 Officer decided to commission a different review into this particular contract, by using individuals who had no background knowledge about prior issues with the contract. The Assistant Director Corporate Support and Head of Information Compliance and Equality therefore undertook the review. The report produced highlighted a number of weaknesses with regards to the way in which the Council manages and monitors the contract. Several recommendations were made and a highlight report was taken to Cabinet in July 2021. The Cabinet was also informed in July 2021 that there will now be insufficient budget to complete the remaining elements of the programme. These recommendations will need to be taken into account by the Council and a lessons learnt exercise undertaken to ensure that these issues do no flow into future contracts awarded by the Council. Of particular concern is the number and value of compensation events that have been issued by the contractor, alongside weaknesses in governance arrangements over the contract. Actions taken by the Council to address the recommendations were set out in the Cabinet papers in July 2021 and included creating a contract management and commissioning resource within the Corporate Centre, with the commissioning role reporting to the Monitoring Officer and the contract management role reporting to the Chief Finance Officer. We have no issues to raise in relation to NMiTE.	**In light of the concerns raised over the contractual arrangements and the findings identified from the internal investigations, we have concluded that the Council does not have appropriate arrangements in place over its capital programme. Our vfm conclusion will therefore be qualified in this respect.**

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
The significant risk identified was governance arrangements. Following the Authority's political change, new policies will be considered and implemented. It is likely that significant political decisions will be taken and there is a consequent need to ensure that the governance arrangements supporting such decisions remains sound. Audit work proposed to address this risk: we will discuss with Officers the impact that the political change has had and consider how this has been reflected in the governance arrangements in place.	Following the 2019 elections, a three-way coalition between 'Herefordshire Independents', 'It's our County' and the Green Party were formed. This resulted in new Cabinet positions and new members now holding senior positions. Discussions were held with the Chief Executive, S151 Officer and Monitoring Officer to discuss the impact of the political change. The Council had procedures in place to provide training to the new Administration as this is a typical change in local government. Officers agreed that the new Administration appears to be working as a collective and the Cabinet Officers like the support of the full Cabinet so have been sharing information through the Cabinet briefing more than has been happening in the past. An on-going training programme is being developed to address training needs as they arise.	Overall we conclude that the new Administration has settled into a coalition and is accepting Officers' guidance and advice when needed.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
During our audit we were informed by the s151 Officer that a case relating to Children's Services was being heard at the High Court. We therefore identified a risk that the decision made by the Court would be at the detriment of the Council.	The case relates to four siblings who had been placed in care by the Council. Whilst in care, one of the children health deteriorated and the child ultimately passed away. The case was brought against the Council due to a number of concerns over the treatment of the children by the Council spanning a number of years and the handling of the decisions over the sick child. Within the judgement, Mr Justice Keehan stated: "*My strongest criticism must be directed at this local authority. In the whole of my professional life I have rarely encountered such egregious and long-standing failures by a local authority. The worst of it is, I cannot after the closest possible enquiry, understand why or what motivated the local authority to fail these children, this mother and the interveners as appallingly and for as extended a period of time. The whole history of the role of this local authority in the lives of these children is highly inexplicable. The only matter which is clear to me is that it did not have the welfare best interests of the children at the heart of its decision-making, such as it was*" (paragraph 226) "*This must call into question whether this local authority's children's services department is fit for purpose. That is a question which is not for me to answer. I can say that they had failed these children in an extraordinary manner over a prolonged period of time.*" (paragraph 227) The Council has developed an Assurance and Improvement Strategy and an Independently chaired children and families Improvement Board and this was approved in an extraordinary meeting of the Council was held on 27 April 2021.	We have therefore concluded that the Council does not have appropriate governance or performance management arrangements in place over the children's services department. Our vfm will therefore be qualified in this respect.

A. Reports issued and fees

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

Fees

	Fees £
Council scale fee	95,792
Additional proposed audit fee	35,159
Total fees (excluding VAT)	**130,951**

Reports issued

Report	Date issued
Audit Plan	January 2020
Audit Findings Report	July 2021
Annual Audit Letter	July 2021

Audit fee variation

As outlined in our audit plan, the 2019-20 scale fee published by PSAA of £95,792 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the following table.

Fee variations are subject to PSAA approval.

A. Herefordshire Council audit fee variations – Further analysis

Final proposed audit fees

The table below shows the proposed variations to the original scale fee for 2019/20 subject to PSAA approval.

Audit area	£	Rationale for fee variation
Scale fee	£95,792	
Increased challenge and depth of work	2,500	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity.
Pensions – valuation (IAS) 19	3,000	We have increased the granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting.
PPE - valuations	3,000	The FRC has highlighted that auditors need to improve the quality of audit challenge on Property, Plant and Equipment (PPE) valuations across the sector. We will therefore increase the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin PPE valuations
New standards/developm ents	2,500	You are required to respond effectively to new accounting standards and we must ensure our audit work in these new areas is robust. This year we responded to the introduction of IFRS16.
Covid-19 and client delays	19,159	Over the past six months the current Covid-19 pandemic has had a significant impact on all of our lives, both at work and at home. The impact of Covid-19 on the audit of the financial statements for 2019/20 has been multifaceted. This includes: • Revisiting planning - we have needed to revisit our planning and refresh risk assessments, materiality and testing levels. This has resulted in the identification of a significant risk at the financial statements level in respect of Covid-19 necessitating the issuing of an addendum to our original audit plan as well as additional work on areas such as going concern and disclosures in accordance with IAS1 particularly in respect to material uncertainties. • Management's assumptions and estimates - there is increased uncertainty over many estimates including pension and other investment valuations. Many of these valuations are impacted by the reduction in economic activity and we are required to understand and challenge the assumptions applied by management. We have also engaged an auditor's expert to review investment property valuations in light of Covid-19. • Financial resilience assessment – we have been required to consider the financial resilience of audited bodies. Our experience to date indicates that Covid-19 has impacted on the financial resilience of all local government bodies. This has increased the amount of work that we need to undertake on the sustainable resource deployment element of the VFM criteria necessitating enhanced and more detailed reporting in our ISA260. • Remote working – the most significant impact in terms of delivery is the move to remote working. We, as other auditors, have experienced delays and inefficiencies as a result of remote working, including the delays in receiving accounts, quality of working papers, and delays in responses. These are understandable and arise from the availability of the relevant information and/or the availability of key staff (due to shielding or other additional Covid-19 related demands). In many instances the delays are caused by our inability to sit with an officer to discuss a query or working paper. Gaining an understanding via Teams or phone is more time-consuming.
Additional Value for Money fee	5,000	Additional fees following further work required to complete the Value for Money work
Total proposed final audit fees	**£130,951**	

A. Reports issued and fees continued

Fees for non-audit services

Service	Fees £
Audit related services	
- Certification of Teacher's pension return	£5,500
- Certification of Housing Benefits return	£13,698
- Certification of Education Skills and Funding Agency return	£3,000

Non- audit services

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

- We have considered whether non-audit services might be perceived as a threat to our independence as the group's auditor and have ensured that appropriate safeguards are put in place.

The above non-audit services are consistent with the group's policy on the allotment of non-audit work to your auditor.

Herefordshire Council

Title of report: External auditors annual plan 2020/21

Meeting: Audit and governance committee

Meeting date: Friday 30 July 2021

Report by: Chief finance officer

Classification

Open

Decision type

This is not an executive decision

Wards affected

(All Wards)

Purpose

To review and agree the external auditor's audit plan for 2020/21.

The external audit of Herefordshire Council's statement of accounts for 2020/21 is targeted to be completed before the 30 September, achieving this is reflected in the audit plan attached at appendix A.

Recommendation(s)

That:

a) **subject to any recommendations the committee wish to make to the external auditor, the proposed external audit plan 2020/21 at appendix A and associated informing the audit risk assessment attached at appendix B be approved; and**

b) **the committee determine any recommendations it wishes to make to maximise the value of the combined internal and external audit process.**

Further information on the subject of this report is available from
Josie Rushgrove, Tel: 01432 261867, email: jrushgrove@herefordshire.gov.ukl

Alternative options

1. There are no alternative options to approving an external audit plan. The audit plan must meet statutory requirements, however it is open to the committee to identify any additional areas of risk they wish the external audit to consider and to recommend additional actions to maximise the value of the combined internal and external audit process.

Key considerations

2. The constitution provides that the audit and governance committee will:

    a. Review and agree the External Auditor's annual plan and receive regular update reports on progress.

    b. To comment on the scope and depth of external audit work and to ensure it gives value for money.

    c. Ensure that there are effective relationships between external and internal audit that the value of the combined internal and external audit process is maximised.

3. Attached at appendix A is the external audit plan for the audit of the 2020/21 statement of accounts. The 2020/21 external audit aims to complete by the target deadline of 30 September 2021 with the value for money conclusion to be delivered within three months thereafter.

4. The appendix shares the audit approach, the focus of external audit work and the preparation work requirements. There are three standard presumed risks for all Grant Thornton clients, being management over ride of controls, valuation of land and building and investment properties and valuation of pension fund net liability to be addressed during the audit.

5. Materiality has been determined as £7m being 1.8% of prior years' gross expenditure. Clearly trivial has been set at £0.35m.

6. Following the new Code of Audit Practice 2020/21 there is a revised approach to value for money external audit work. The Code requires auditors to structure their commentary on value for money arrangements under the following three specified reporting criteria:-

    a. Financial sustainability – risks that the council cannot effectively plan and manage its resources to meet financial pressures.

    b. Governance – a risk that the council has not made informed decisions and is not effectively managing its risks.

c. Improving economy, efficiency and effectiveness – there is a risk that the council is not using its cost and performance data to improve the way it manages and delivers services.

7. Page 17 of appendix A describes the work Grant Thornton will complete to provide their value for money commentary.

8. The committee is asked to consider whether there are any comments it would like to make with reference to the external audit plan. Progress against the plan will be reported at future audit and governance committee meetings.

Community impact

9. One of the principles in the council's code of corporate governance is to implement good practices in transparency, reporting, and audit to deliver effective accountability. To support effective accountability the council is committed to reporting on actions completed and outcomes achieved, and ensuring stakeholders are able to understand and respond as the council plans and carries out its activities in a transparent manner. External audit contributes to effective accountability.

Environmental impact

10. Herefordshire Council provides and purchases a wide range of services for the people of Herefordshire. Together with partner organisations in the private, public and voluntary sectors we share a strong commitment to improving our environmental sustainability, achieving carbon neutrality and to protect and enhance Herefordshire's outstanding natural environment.

11. Whilst this is a decision on statutory external audit plan and will have minimal environmental impacts, consideration has been made to minimise waste and resource use in line with the council's Environmental Policy, for example by completing the work remotely.

Equality duty

12. Under section 149 of the Equality Act 2010, the 'general duty' on public authorities is set out as follows:

    A public authority must, in the exercise of its functions, have due regard to the need to –

    a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;

b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;

c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

13. The public sector equality duty (specific duty) requires us to consider how we can positively contribute to the advancement of equality and good relations, and demonstrate that we are paying ‘due regard’ in our decision making in the design of policies and in the delivery of services. As this is a decision on the statutory external audit plan, we do not believe that it will have an impact on our equality duty.

Resource implications

14. The cost of the external audit is detailed in appendix A and is expected to be £157k, higher than previous years reflecting the additional work required.

Legal implications

15. The Accounts and Audit Regulations 2015 requires the council to produce and publish an annual Statement of Accounts in accordance with the regulations and “proper practice”, 12. Section 21 of the Local Government Act 2003 defines “proper practice” for this purpose to be the CIPFA Code of Practice on Local Authority Accounting (The Code) for the relevant year. The Code specifies the principles, practices, format and content required in the preparation of the Statement of Accounts.

16. The Accounts and Audit (Amendment) Regulations 2021 temporarily extends the statutory reporting deadlines.

Risk management

17. Appendix B documents the auditor’s questions and management responses in informing the audit risk assessment. The committee is invited to review the management responses provided.

Consultees

18. None

Appendices

Appendix A External audit plan 2020/21

Appendix B Informing the audit risk assessment 2020/21

Background papers

None identified

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.
This draft has been created from the template dated DD MMM YYYY

Appendix A

Herefordshire Council audit plan

Year ending 31 March 2021

Herefordshire Council

July 2021

Contents

Your key Grant Thornton team members are:

Jon Roberts
Key Audit Partner
T 0117 305 7600
E Jon.Roberts@uk.gt.com

Gail Turner-Radcliffe
Audit Manager
T 029 2023 5591
E Gail.Turner-Radcliffe@uk.gt.com

Zarak Zaman
Audit In-Charge
T 0121 232 5392
E Zarak.S.Zaman@uk.gt.com

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

Key matters

Factors

Council developments

Herefordshire Council is currently responding to a number of challenges within its social care and capital programme service areas and our VFM conclusion for the previous year was qualified in these respects. A new management team is being put together following the recent appointment of a new Chief Executive Officer and the Council now needs to address past issues to rebuild effectively for the future. It is doing so in the aftermath of the Covid pandemic, which has disrupted plans for economic growth and partnership developments, such as the new University, but has, in our opinion, a strong financial basis on which to build its improvement agenda.

The wider economy and political uncertainty

Local Government funding continues to be stretched with increasing cost pressures and demand from residents. For Herefordshire Council, there is a forecast overspend which is predominantly due to an increase in looked after children.

At a national level, from 1 January 2021 the Brexit transition period ended the EU-UK Trade Cooperation agreement formally came into force on 1 May 2021. There is still however much uncertainty as the UK is no longer part of the political and economic union it once was and its long term effects are not known. The Authority will need to ensure that it is prepared for all outcomes, including in terms of any impact on contracts, on service delivery and on its support for local people and businesses.

Impact of Covid 19 pandemic

Financially, Central Government support is sufficient for Herefordshire Council. On track to achieve their budget as a result of this support.

Operationally, there has been relatively minimal impact on the our audit of the Council. The finance team is capable of working remotely and has been doing so since March 2020.

Business and self-employed support grants have been awarded during the pandemic. Covid grants to businesses and their expected accounting treatment will be need to be reviewed by the audit team.

There are two types of grants in 2020-21. We need to understand what type of grants the Council has received and if accounted for correctly. For some grants the Council will act as an agent of government, whilst other grants are for more discretionary use.

Funding aside, Covid-19 is not a specific risk in 20/21. Impact of Covid will be looked at in more detail in specific sections of the audit. For example when looking at provisions around bad debts for NNDR and Council Tax, Receivables, credit loss, valuations, grants etc.

Rotational PPE valuation.

We are expecting a larger pool of valuations carried out in 2020/21 relative to the prior year. As the Council's valuer may not have the same physical access to properties we will need to engage with officers on this at an early stage in the audit.

Our response

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set further in our Audit Plan, has been agreed with the Director of Finance.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in completing our Value for Money work.

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Herefordshire Council ('the Council') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Herefordshire Council We draw your attention to both of these documents.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the:

- Council [and group]'s financial statements that have been prepared by management with the oversight of those charged with governance (the Audit committee); and
- Value for Money arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit and Governance Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Council's business and is risk based.

Group Audit

The Council is required to prepare group financial statements that consolidate the financial information of:

- Herefordshire Council
- Hoople Limited

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

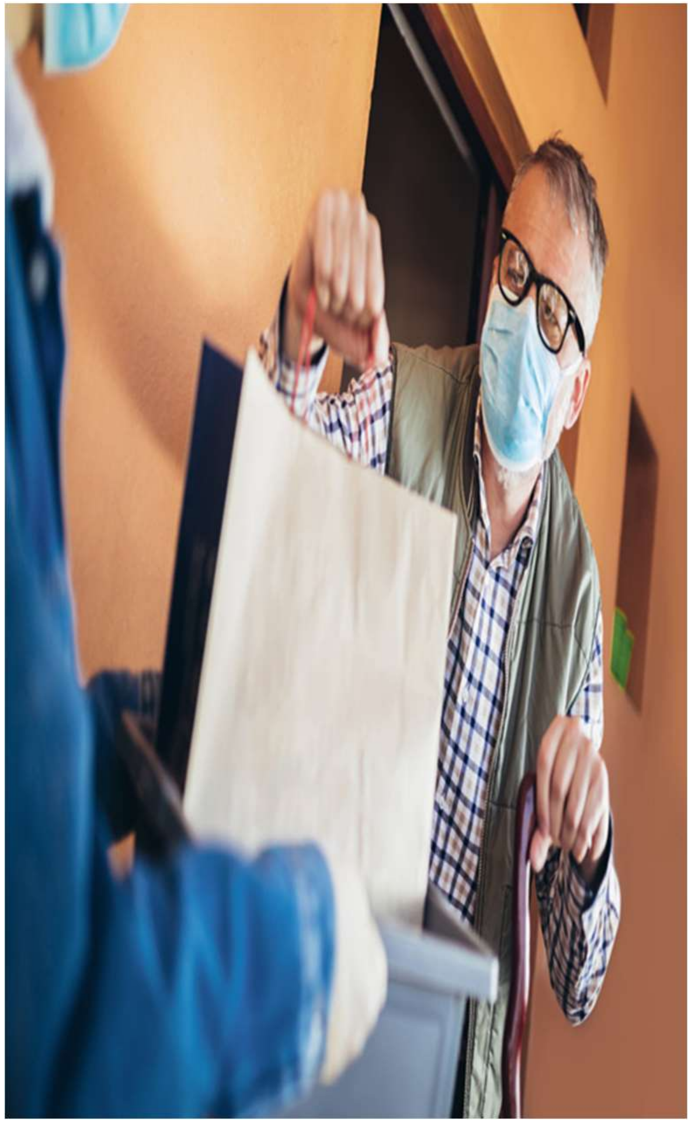
- Management override of controls
- Valuation of land and buildings and investment properties
- Valuation of pension fund net liability

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £7.1m (PY £6.71m) for the group and £7m (PY £6.7m) for the Council, which equates to 1.8% of your prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £0.35m (PY £0.3m).

Introduction and headlines cont.



Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money have identified the following risks of significant weakness:

- Financial Sustainability - Whilst the Council has secured a sound financial base, recent events raise risks that the Council can not effectively plan and manage its resources to meet these financial pressures.
- Governance - there is a risk that Council has not made informed decisions and is not effectively managing its risks, as reflected in previous years VfM audits. In 2020/21 there were changes to the officer leadership team which will be finalised in 2021/22
- Improving economy, efficiency and effectiveness - there is a risk that the Council is not using its cost and performance data to improve the way that it manages and delivers its services

Audit logistics

Our planning stage has taken place during January – April 2021 and our final visit will take place in June – September 2021. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report. Our audit approach is detailed in Appendix A.

Our fee for the audit will be £156,792 (PY: £130,951) for the Council, subject to the Council delivering a good set of financial statements and working papers.

Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Individually Significant?	Level of response required under ISA (UK) 600	Risks identified	Planned audit approach
Herefordshire Council	Yes	Audit of the financial information of the component using component materiality	• Risks set out on pages 8-10 of this report.	Full scope audit performed by Grant Thornton UK LLP
Hoople Limited	[No]		None	Analytical review performed by Grant Thornton UK LLP.

Audit scope

- Audit of the financial information of the component using component materiality
- Analytical procedures at group level

Significant risks identified

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

Risk	Risk relates to	Reason for risk identification
Presumed risk of fraud in revenue recognition ISA (UK) 240	Not applicable- risk partially rebutted.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Herefordshire Council, mean that all forms of fraud are seen as unacceptable. Therefore we do not consider this to be a significant risk for Herefordshire Council. We will however review the financial accounting treatment of the Covid-19 grants to ensure these have been reported correctly.
Risk of fraud related to expenditure recognition Public Audit Forum- Practice Note 10	Not applicable- risk rebutted	Practice Note 10 states that as most public bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure may be greater than the risk of material misstatement due to fraud related to revenue recognition. Having considered the expenditure streams of Herefordshire Council, and on the same basis as that set out above for revenue, we have determined that there is no significant risk of material misstatement arising from improper expenditure recognition. We will revisit this assessment once we receive the Council's draft accounts for the year.

Significant risks identified ctd

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Management override of controls ISA (UK) 240	Council	Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We have also considered the impact of Covid-19 on the risks of and opportunities for management override of controls and we are satisfied that opportunities have not been increased, although we will ensure that our audit work considers the accounting for unusual transaction streams such as Covid-19 grants and any new estimates or judgements around these. We therefore identified management override of control, in particular journals, consolidation adjustments, management estimates and transactions outside the normal course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration using the Detect module of the Inflo software. Our expectation is that the number of journals we will review will increase in number compared to previous years • test consolidation adjustments made to arrive at group account balances • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions • test Covid-19 related grant income to ensure it has been accounted for appropriately, including consideration of any conditions or restrictions
Valuation of land and buildings and investment properties	Council	The Authority revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority and group financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used. We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk.	We will: • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluate the competence, capabilities and objectivity of the valuation expert • write to the valuer to confirm the basis on which the valuation was carried out • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding • test revaluations made during the year to see if they had been input correctly into the Authority's asset register • evaluate the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.

Significant risks identified ctd

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of pension fund net liability	Council	The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements and group accounts. The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Authority's pension fund net liability as a significant risk. The Council is a statutory member of the Hereford and Worcestershire Local Government Pension Scheme administered by Worcestershire County Council. Herefordshire Council remain responsible for the accuracy of disclosures within the accounts and this will include having a clear understanding of key assumptions within the estimate.	We will: • update our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; • assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; • test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report.

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Other risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Employee remuneration	Council	Payroll expenditure represents a significant percentage of the Council's operating expenses. As the payroll expenditure comes from a significant number of individual transactions throughout the year, including transactions involving new-starters, grade changes and leavers, there is a risk that payroll expenditure in the accounts could be understated. We therefore identified occurrence of payroll expenses as a risk requiring particular audit attention.	We will • Evaluate the Council's accounting policy for recognition of payroll expenditure for appropriateness; • Gain an understanding of the Authority's system for accounting for payroll expenditure and evaluate the design of the associated controls; • Obtain the year-end payroll reconciliation and ensure the amount in the accounts can be reconciled to ledger and through to payroll reports. We will investigate significant adjusting items; • Agree payroll related accruals (e.g. unpaid leave accrual) to supporting documents and review any estimate for reasonableness; and

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We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report.

Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* which includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

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Introduction

Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit and Governance Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

Accounting estimates and related disclosures

Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2021.

Based on our knowledge of the Council we have identified the following material accounting estimates for which this is likely to apply:

- Valuation estimates for Other Land & Buildings; Investment Properties;
- Valuation estimate for depreciation, including assessment of useful lives
- Valuation estimate for the net defined benefit pensions liability
- Fair value measurements for financial instruments
- Provisions for liabilities
- Allocation of overheads across cost of services
- Accruals for income and expenditure

The Council's Information systems

In respect of the Council's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Council uses management experts in deriving some of its more complex estimates, e.g. asset valuations and pensions liabilities. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Council (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.

Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- What the assumptions and uncertainties are;
- How sensitive the assets and liabilities are to those assumptions, and why;
- The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and
- An explanation of any changes made to past assumptions if the uncertainly is unresolved.

Planning enquiries

As part of our planning risk assessment procedures we have made a number of enquiries of management, which include general enquiries, fraud risk assessment questions, and going concern considerations. We have also made additional enquiries on your accounting estimates in a similar way.

We would appreciate a prompt response to these enquires in due course.

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council’s website:

https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
  - giving electors the opportunity to raise questions about your 2020/21 financial statements, consider and decide upon any objections received in relation to the 2020/21 financial statements;
  - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act).
  - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
  - issuing an advisory notice under section 29 of the Act
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

The Public Audit Forum has been designated by the Financial Reporting Council as a "SORP-making body" for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).

PN 10 has recently been updated to take account of revisions to ISAs (UK), including ISA (UK) 570 on going concern. The revisions to PN 10 in respect of going concern are important and mark a significant departure from how this concept has been audited in the public sector in the past. In particular, PN 10 allows auditors to apply a 'continued provision of service approach' to auditing going concern, where appropriate. Applying such an approach should enable us to increase our focus on wider financial resilience (as part of our VfM work) and ensure that our work on going concern is proportionate for public sector bodies. We will review the Council's arrangements for securing financial sustainability as part of our Value for Money work and provide a commentary on this in our Auditor's Annual Report. We will also need to identify whether any material uncertainties in respect of going concern have been reported for the Council's subsidiary, Hoople. If such a situation arises, we will consider our audit response for the group.

Materiality

The concept of materiality

Materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

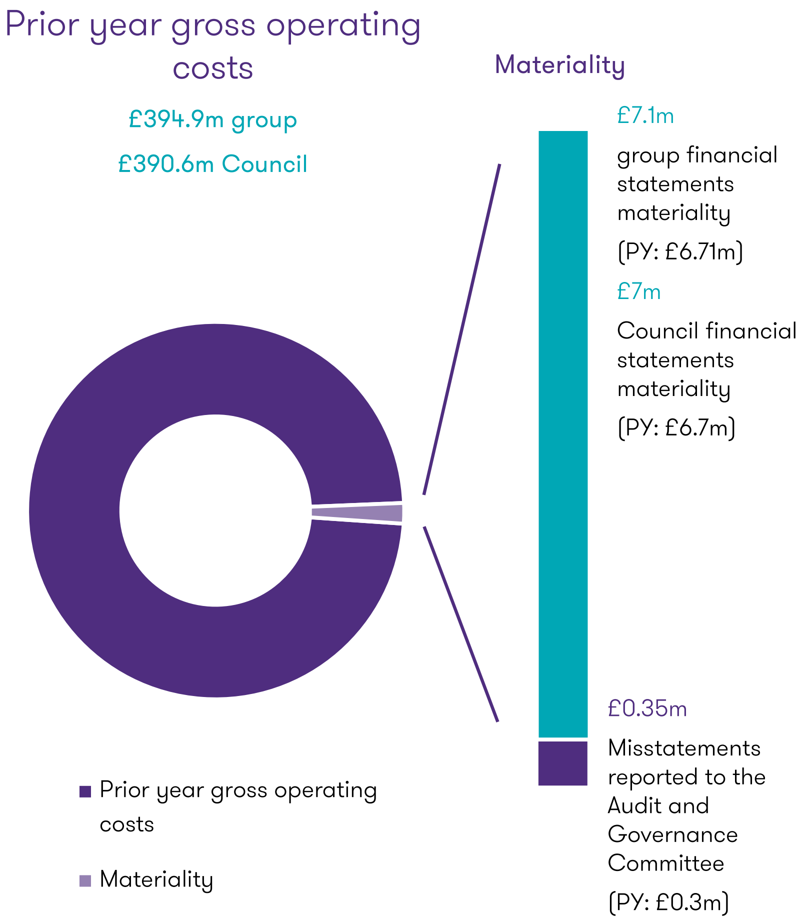
We have determined financial statement materiality based on a proportion of the gross expenditure of the group and Council for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £7.1m (PY £6.71m) for the group and £7m (PY £6.7m) for the Council, which equates to 1.8% of your forecast gross expenditure for the year. We design our procedures to detect errors in specific accounts at a lower level of precision which would reflect the heightened public interest in these disclosures in our work.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the group and Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.35m (PY £0.3m).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit and Governance Committee to assist it in fulfilling its governance responsibilities.



Value for Money arrangements

Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary qualified / unqualified approach to VFM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria. These are as set out below:

Improving economy, efficiency and effectiveness

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

Financial Sustainability

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

Governance

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

Risks of significant VFM weaknesses

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we have identified are detailed in the first table below, along with the further procedures we will perform.

Risks of significant weakness

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the body to deliver value for money. Where these risks are linked we will coordinate our response.

Risk title: Financial Sustainability

Risk description: Whilst the Council has secured a sound financial base, recent events raise risks that the Council can not effectively plan and manage its resources to meet these financial pressures. More specifically, significant additional financial pressures have arisen as a result of :

- The Court judgement for Children's Services
- The write back of the by-pass costs

Risk response: We will therefore:

- Review the financial pressures identified by management when setting the 2020/21 budget and the planned mitigations
- Review the process for identifying the budget gaps in the medium term and the plans the Council has in place to address these shortfalls
- Explore the impact of the unforeseen financial pressures i.e. the costs of setting up the Improvement Board in Children's Services and the reversal of the by-pass decision
- Explore significant in year overspends such as Looked After Children's Services

Risk title: Governance

Risk description: there is a risk that Council has not made informed decisions and is not effectively managing its risks, as reflected in previous years VfM audits. In 2020/21 there were changes to the officer leadership team which will be finalised in 2021/22.

Risk response: We will therefore:

- Review how the Council responds to the independent review of its Public Realm contract
- Review the Council's response to the internal review of the HCCTP
- Understand the impact that the court judgement had had on the Children's Services Department and review the Council's actions taken to date
- Consider the impact of the changes in the management team in 2020/21 on the governance arrangements

Risk title: Improving economy, efficiency and effectiveness

Risk description: there is a risk that the Council is not using its cost and performance data to improve the way that it manages and delivers its services

Risk response: We will therefore:

- Review the Council's response to the internal review of the HCCTP
- Review how the Council is responding to the regulatory engagement regarding Children's Services

Risks of significant VFM weaknesses

Other areas of focus

Our initial risk assessment procedures regarding the Council's arrangements to secure value for money have not identified any other risks of significant weaknesses in arrangements, however we will complete further risk assessment procedures as part of our detailed work. The work is currently planned to primarily focus on the arrangements in the following areas, but may increase in scope as further work is performed.

- Changes in response to Covid- 19 and the impact of the pandemic on the Council's financial position, including the capital programme
- Setting the Medium Term Financial Plan and Capital Strategy and achieving financial sustainability.
- Governance arrangements
- Service transformation and innovation
- Working with your key partners to deliver services efficiently and improve the lives of local residents.

We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the second table below.

Potential types of recommendations

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A range of different recommendations could be made following the completion of work on risks of significant weakness, as follows:

Statutory recommendation

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

Key recommendation

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

Improvement recommendation

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

Audit logistics and team

Planning and risk assessment

Audit committee July 2021
Audit Plan

20/21 Year end audit
June – September 2021

Audit committee tbc
Audit Findings Report/Draft Auditor's Annual Report

Audit committee tbc
Audit opinion

Jon Roberts, Key Audit Partner

As your engagement lead, Jon will have the ultimate responsibility for the delivery of your audit service. He will lead your relationship with Grant Thornton and take overall responsibility for delivering a high quality audit, which meets the highest professional standards whilst adding value.

Gail Turner-Radcliffe, Audit Manager

As your engagement manager, Gail is responsible for overseeing the delivery of our service and managing the audit process. She will work with officers and the audit team to ensure the smooth planning and delivery of the audit. She will oversee the audit team and discuss any issues with you during the audit process as well as any questions you may have throughout the year.

Zarak Zaman, Audit Incharge

As your Audit Incharge, Zarak will lead the on-site audit team and is responsible for the performance of the audit fieldwork and day-to-day liaison with the finance team. He will ensure that your audit is delivered effectively, efficiently and supportively, keeping the finance team abreast of any issues arising as and when they occur.

Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audits. Where the elapsed time to complete an audit exceeds that agreed due to a body not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a body not meeting its obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the agreed timetable you have agreed with us, including all notes, the Narrative Report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

Audit fees

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PSAA awarded a contract of audit for Herefordshire Council to begin with effect from 2018/19. The fee agreed in the contract was £95,792. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2020/21 audit.

As referred to on page 19, the 2020/21 Code introduces a revised approach to our VFM work. This requires auditors to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach. Auditors now have to make far more sophisticated judgements on performance, as well as issue key recommendations if any significant weaknesses in arrangements are identified during the audit. We will be working with the NAO and other audit firms to discuss and share learning in respect of common issues arising across the sector.

The new approach will be more challenging for audited bodies, involving discussions at a wider and more strategic level. Both the reporting, and the planning and risk assessment which underpins it, will require more audit time, delivered through a richer skill mix than in previous years. Our estimate is that for your audit, this will result in an increased fee of £61,000 (46.6%). This is in line with increases we are proposing at all our local audits.

Additionally, across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, as noted in the number of revised ISA's issued by the FRC that are applicable to audits of financial statements commencing on or after 15 December 2019, as detailed in Appendix 1..

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. Our proposed work and fee for 2020/21, as set out below, is detailed overleaf and has been agreed with the Chief Finance Officer.

	Actual Fee 2019/20	Proposed fee 2020/21
Herefordshire Council Audit	£95,792	£95,792
Additional Fee	£35,159	£61,000
Total audit fees (excluding VAT)	£130,951	£156,792

Assumptions

In setting the above fees, we have assumed that the Council will:

- prepare a good quality set of accounts, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard (revised 2019) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Audit fees – detailed analysis

Scale fee published by PSAA	£95,792
Ongoing increases to scale fee first identified in 2019/20	
Raising the bar/regulatory factors	£2,500
Enhanced audit procedures for Property, Plant and Equipment	£3,000
New standards	£2,500
Enhanced audit procedures for Pensions	£3,000
Covid-19	£19,159*
Additional value for money fee	£5,000*
Audit fee 2019/20	**£130,951**
2019/20 factors not carried forward	(£24,159)*
New issues for 2020/21	
Additional work on Value for Money (VfM) under new NAO Code	£25,000
Increased audit requirements of revised ISAs	£20,000
Local risk factors	£5,000
Total audit fees (excluding VAT)	**£156,792**

Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons. relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard (Revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

Other services

Other services provided by Grant Thornton were identified as set out on the following page.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors.

Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

Independence and non-audit services

<table>
<tr><th>Service</th><th>Fees £</th><th>Threats</th><th>Safeguards</th></tr>
<tr><td colspan="4">Audit related</td></tr>
<tr><td>Certification of 2019/20 Teachers’ Pensions return</td><td>5,500</td><td rowspan="3">For these 3 audit-related services, we consider that the following perceived threats may apply:

• Self- Interest (because these are recurring fees

• Self Review

• Management</td><td rowspan="3">The level of recurring fees taken on their own are not considered significant in comparison to the confirmed scale fee for the audit of £95,792 and in particular relative to Grant Thornton UK LLP’s turnover overall. Further, each service is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

Our team has no involvement in the preparation of the form which is certified, and do not expect material misstatements in the financial statements to arise from the performance of the certification work. Although related income and expenditure is included within the financial statements, the work required in respect of certification is separate from the work required to audit the financial statements.

The scope of the work does not include making decisions on behalf of management or recommending or suggesting a particular course of action for management to follow. Our team perform these engagements in line with set instructions and reporting frameworks. Any amendments made as a result of our work are the responsibility of informed management.</td></tr>
<tr><td>Certification of 2019/20 Housing Benefits subsidy</td><td>13,698</td></tr>
<tr><td>Certification of 2019/20 the Education and Skills Funding Agency return</td><td>3,000</td></tr>
</table>

Non-audit related – None identified.

Appendix 1: Revised Auditor Standards and application guidance

FRC revisions to Auditor Standards and associated application guidance

The following Auditing Standards and associated application guidance that were applicable to 19/20 audits, have been revised or updated by the FRC, with additional requirements for auditors for implementation in 2020/21 audits and beyond.

	Date of revision	Application to 2020/21 Audits
ISQC (UK) 1 – Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and other Assurance and Related Service Engagements	November 2019	✓
ISA (UK) 200 – Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (UK)	January 2020	✓
ISA (UK) 220 – Quality Control for an Audit of Financial Statements	November 2019	✓
ISA (UK) 230 – Audit Documentation	January 2020	✓
ISA (UK) 240 – The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements	January 2020	✓
ISA (UK) 250 Section A – Consideration of Laws and Regulations in an Audit of Financial Statements	November 2019	✓
ISA (UK) 250 Section B – The Auditor's Statutory Right and Duty to Report to Regulators od Public Interest Entities and Regulators of Other Entities in the Financial Sector	November 2019	✓

Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 260 – Communication With Those Charged With Governance	January 2020	✓
ISA (UK) 315 – Identifying and Assessing the Risks of Material Misstatement Through Understanding of the Entity and Its Environment	July 2020	
ISA (UK) 500 – Audit Evidence	January 2020	✓
ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures	December 2018	✓
ISA (UK) 570 – Going Concern	September 2019	✓
ISA (UK) 580 – Written Representations	January 2020	✓
ISA (UK) 600 - Special considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)	November 2019	✓
ISA (UK) 620 – Using the Work of an Auditor's Expert	November 2019	✓
ISA (UK) 700 – Forming an Opinion and Reporting on Financial Statements	January 2020	✓

Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 701 – Communicating Key Audit Matters in the Independent Auditor's Report	January 2020	✓
ISA (UK) 720 – The Auditor's Responsibilities Relating to Other Information	November 2019	✓
Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom	December 2020	✓

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Appendix B

Informing the Audit Risk Assessment for Herefordshire Council 2020/21

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Jon Roberts
Engagement Lead
T +44 (0)117 305 7600
E jon.roberts@uk.gt.com

Gail Turner-Radcliffe
Audit Manager
T +44 (0)29 2023 5591
E Gail.Turner-Radcliffe@uk.gt.com

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

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Purpose

The purpose of this report is to contribute towards the effective two-way communication between Herefordshire Council's external auditors and Herefordshire Council's Audit & Procurement Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit & Procurement Committee under auditing standards.

Background

Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the Audit & Procurement Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Audit & Procurement Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit & Procurement Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit & Procurement Committee and supports the Audit & Procurement Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Authority's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Related Parties, and
- Accounting Estimates.

Purpose

This report includes a series of questions on each of these areas and the response we have received from Herefordshire Council's management. The Audit & Procurement Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

General Enquiries of Management

Question	Management response
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2020/21?	The Covid 19 pandemic impacted the 2020/21 financial statements through incurring additional grant funded expenditure, by acting as agent in providing financial support to others and through awarding significantly reduced business rates charges. This is reflected in increased usable reserves as at 31 March 2021 where spend was incurred in 2021/22.
2. Have you considered the appropriateness of the accounting policies adopted by Herefordshire Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies?	There have been no events or transactions in 2020/21 that required a change to or adoption of new accounting policies.
3. Is there any use of financial instruments, including derivatives?	The council invests funds with approved counterparties listed in the treasury management strategy. We borrow funds from the public works loan board. We do not directly use derivatives.

General Enquiries of Management

Question	Management response
4. Are you aware of any significant transaction outside the normal course of business?	Covid 19 resulted in changes to the normal course of business to those directed and funded by central government.
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	No
6. Are you aware of any guarantee contracts?	The council provides a joint operational void guarantee to a new student accommodation block in Hereford city centre due to open in September 2021. As part of the preparation of the statement of accounts we will be assessing whether there are any disclosure requirements needed.
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	Adjustments have been made for known potential losses

General Enquiries of Management

Question	Management response
8. Other than in house solicitors, can you provide details of those solicitors utilised by Herefordshire Council during the year. Please indicate where they are working on open litigation or contingencies from prior years.	This detail has been provided in an audit working paper
9. Have any of Herefordshire Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	No
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	Treasury management consultants on as part of an ongoing service contract Various Counsel on various matters where required Specialist advisors to support the valuations in the Statement of Accounts including actuarial support and property valuations.

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Fraud

Issue

Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit & Procurement Committee and management. Management, with the oversight of the Audit & Procurement Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit & Procurement Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As Herefordshire Council's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit & Procurement Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit & Procurement Committee oversees the above processes. We are also required to make inquiries of both management and the Audit & Procurement Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from Herefordshire Council's management.

Fraud risk assessment

Question	Management response
1. Has Herefordshire Council assessed the risk of material misstatement in the financial statements due to fraud? How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process? How do the Authority's risk management processes link to financial reporting?	Yes, this risk is considered low. All reports to decision-makers and those charged with governance include a financial implications section that is signed-off in advance by the senior managers in the finance team. Significant risks are actively managed through the risk register. The risk of fraud is considered at many points in council process, from contract procurement to processing payments. Internal audit of processes provides comfort that the council has adequate controls in place to prevent and detect fraud. The council also has a counter fraud strategy and counter fraud specialist post. The risk management team is within the corporate centre that includes financial services, each quarter a combined report is presented at Cabinet.
2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?	This is detailed in our published counter fraud strategy and is reviewed regularly as new potential routes of fraudulent activity are identified. Generally procurement fraud and social care fraud are key fraud risk areas, specifically in response to Covid 19 the inappropriate payment of support grants was a new risk.
3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Herefordshire Council as a whole or within specific departments since 1 April 2020? As a management team, how do you communicate risk issues (including fraud) to those charged with governance?	Yes, the counter fraud specialist leads this work with internal audit and provides an annual report to the audit and governance committee.

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Fraud risk assessment

Question	Management response
4. Have you identified any specific fraud risks? Do you have any concerns there are areas that are at risk of fraud? Are there particular locations within Herefordshire Council where fraud is more likely to occur?	Yes this is completed as part of risk assessment work There are many areas at risk and mitigation action is taken to reduce this risk along with regular sharing of fraud awareness communications The risk is not increased at specific physical locations, 2020/21 saw the majority of council support services being provided remotely. The councils governance and control environment helps to mitigate the risk both in terms of the likelihood and impact.
5. What processes does Herefordshire Council have in place to identify and respond to risks of fraud?	This depends on the risk area however the counter fraud specialist post supports council departments in responding to risks. The counter fraud strategy has a flowchart that summarises this. We also participate in the National Fraud Initiative to ensure any risks of fraud are identified through partnership and data sharing arrangements.

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Fraud risk assessment

Question	Management response
6. How do you assess the overall control environment for Herefordshire Council, including: • the existence of internal controls, including segregation of duties; and • the process for reviewing the effectiveness the system of internal control? If internal controls are not in place or not effective, where are the risk areas and what mitigating actions have been taken? What other controls are in place to help prevent, deter or detect fraud? Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?	Our approach is set out in the Annual Governance Statement which is reviewed by Audit & Governance Committee following consultation with senior managers across the organisation. The internal audit plan includes reviewing the control environment and can include recommendations for improvements that are followed up. A status report is shared with the audit and governance committee and representative officers are invited to attend. The council also uses an enterprise resource planning system that has access controls and approval requirements to minimise the risk of successful fraud. In addition there are manual controls that include authorisation requirements before transactions can be actioned. There is limited need and ability to do this, weekly management board meetings provide a forum for highlighting & addressing issues that may arise ensuring the overall budget position is not breached.
7. Are there any areas where there is potential for misreporting?	Financial misreporting is unlikely due to the monthly reconciliation processes that are in place.

Fraud risk assessment

Question	Management response
8. How does Herefordshire Council communicate and encourage ethical behaviours and business processes of its staff and contractors? How do you encourage staff to report their concerns about fraud? What concerns are staff expected to report about fraud? Have any significant issues been reported?	Through the Staff Code of Conduct, Member Code of Conduct, Contract Procedure Rules and Financial Procedure rules. These are regularly reviewed. We also have a staff register of interests and declarations plus a register of gifts and hospitality The council also has a Code of Corporate Governance and whistleblowing policy in place. This is also a single point of contact available to report concerns about fraud. Employees are encouraged to report all concerns and that these will then be dealt with as appropriate. No significant issues have been reported.
9. From a fraud and corruption perspective, what are considered to be high-risk posts? How are the risks relating to these posts identified, assessed and managed?	High risk posts are all posts capable of having significant individual influence/control over resources in the absence of adequate controls and division of duties. Risks are managed through general controls such as division of duties, procedures to manage resources, reporting requirements, IT security arrangements, training and professional qualification requirements, risk based internal auditing activity planning and whistleblowing procedures.

Fraud risk assessment

Question	Management response
10. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? How do you mitigate the risks associated with fraud related to related party relationships and transactions?	We are not aware of any related party relationships or transactions that could give rise to instances of fraud. We have a Register of Interests and additional declarations are completed annually. All staff and Members are required to declare any interests with related parties that could impact on their role within the council and also ongoing in any involvement in the procurement of services or where that relationship may have other affects on their work.
11. What arrangements are in place to report fraud issues and risks to the Audit & Governance Committee? How does the Audit & Governance Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control? What has been the outcome of these arrangements so far this year?	Updates are included in the regular internal audit reports and an annual standalone report is also shared. The committee approves the strategy and reviews the action plan. Feedback on strategy improvements from the committee have been actioned this year.

Fraud risk assessment

Question	Management response
12. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?	No
13. Have any reports been made under the Bribery Act?	No

Law and regulations

Issue

Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit & Procurement Committee, is responsible for ensuring that Herefordshire Council's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit & Procurement Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

Question	Management response
1. How does management gain assurance that all relevant laws and regulations have been complied with? What arrangements does Herefordshire Council have in place to prevent and detect non-compliance with laws and regulations? Are you aware of any changes to the Authority's regulatory environment that may have a significant impact on the Authority's financial statements?	Our Constitution sets out the framework to ensure that all officers, key post holders and members are able to fulfil their responsibilities in accordance with legislative requirements. Roles and responsibilities for individual members, the Council, Cabinet and senior officers, along with the executive functions are documented. A formal induction programme for members is undertaken. All reports to member bodies receive financial and legal checks prior to submission to ensure they comply with regulatory requirements. All staff complete mandatory e-learning. There are no changes to the regulatory environment that may have a significant impact on the accounts.
2. How is the Audit & Procurement Committee provided with assurance that all relevant laws and regulations have been complied with?	Through regular reporting on all matters covered by forward plan and audit workplan. Specifically through the Annual Governance Statement and through the planning and reporting of internal audit work. The committee is supported by attendance by the Monitoring Officer and S151 Officer.

Impact of laws and regulations

Question	Management response
3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2020 with an on-going impact on the 2020/21 financial statements?	No
4. Is there any actual or potential litigation or claims that would affect the financial statements?	No
5. What arrangements does Herefordshire Council have in place to identify, evaluate and account for litigation or claims?	Through reports to Directorate Management Teams and statutory officers meetings. Responses to formal claims are routed via Legal and all appropriate senior managers (including the Monitoring Officer and S151 Officer) are alerted. Employment settlements are subject to approval via a vires arrangement by the Monitoring Officer and S151 Officer
6. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	No

Related Parties

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Issue

Matters in relation to Related Parties

Herefordshire Council is required to disclose transactions with entities/individuals that would be classed as related parties. These may include:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by Herefordshire Council;
- associates;
- joint ventures;
- an entity that has an interest in the authority that gives it significant influence over the Authority;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Authority, or of any entity that is a related party of the Authority.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the Council's perspective but material from a related party viewpoint then the Authority must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Related Parties

Question	Management response
1. Have there been any changes in the related parties including those disclosed in Herefordshire Council's 2019/20 financial statements? If so please summarise: • the nature of the relationship between these related parties and Herefordshire Council • whether Herefordshire Council has entered into or plans to enter into any transactions with these related parties • the type and purpose of these transactions	No
2. What controls does Herefordshire Council have in place to identify, account for and disclose related party transactions and relationships?	As part of the closedown of accounts a number of processes have been out into place to determine any related parties and the nature of the relationships that exists. This includes reviewing the register of interests declarations and canvassing key staff members to identify any partnerships or other related parties and ensure the appropriate disclosures are reported in the financial statements.

Related Parties

Question	Management response
3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?	Any significant transactions and arrangements with related parties outside of the budgetary framework would require approval in line with financial regulations and the Constitution.
4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?	Any significant transactions and arrangements with related parties outside of the budgetary framework would require approval in line with financial regulations and the Constitution.

Accounting estimates

Issue

Matters in relation to Related Accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit & Procurement Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

We would ask the Audit & Procurement Committee to satisfy itself that the arrangements for accounting estimates are adequate.

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Accounting Estimates - General Enquiries of Management

Question	Management response
1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	There is always a need for professional judgement in reporting the value of the councils assets and pension liabilities. Covid-19 and the impact it has had on the value of financial assets volatility is a circumstance that the authority will continue to need to consider and report on within the financial statements.
2. How does the Authority's risk management process identify and addresses risks relating to accounting estimates?	There is a risk that the professional judgement proves different to actual amounts however the frequency of valuations and sensitivity analysis reported minimises the risk and explains the potential outcome to the accounts users.
3. How does management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	There is regular dialogue between the interested parties and corporate finance team where national and local considerations and their potential impact on estimates and judgements are discussed and considered. The Cipfa Code guidance is always followed.
4. How does management review the outcomes of previous accounting estimates?	A reasonableness and calculation re-performance / reconciliation is completed by the corporate finance team.
5. Were any changes made to the estimation processes in 2020/21 and, if so, what was the reason for these?	None

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Accounting Estimates - General Enquiries of Management

Question	Management response
6. How does management identify the need for and apply specialised skills or knowledge related to accounting estimates?	The council procures external expert advice in valuing assets and pension liabilities.
7. How does the Authority determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?	Control is exercised by ensuring the external service providers are independent, appropriately qualified and correctly commissioned.
8. How does management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?	Monitoring is completed through regular communications ensuring an agreed approach is adopted and the methodology of the approach is captured.
9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including: - Management's process for making significant accounting estimates - The methods and models used - The resultant accounting estimates included in the financial statements.	The nature and extent of the oversight in relation to accounting estimates includes: • The agreement of assumptions in advance, including their appropriateness • Verification of the underlying data in advance • The methodology to be used to determine the value of estimates and its appropriateness • Review of the results for reasonableness, including comparative analysis with previous years • Sensitivity of the results to the key assumptions to assess materiality

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Accounting Estimates - General Enquiries of Management

Question	Management response
10. Is management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement?	No
11. Are the management arrangements for the accounting estimates reasonable?	Yes
12. How is the Audit & Governance Committee provided with assurance that the arrangements for accounting estimates are adequate ?	We quantify the financial impact of estimation and uncertainty and reported to Audit & Governance Committee as part of the Statement of Accounts. We report this risk assessment to the committee and provide them with the opportunity to consider and comment.

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Herefordshire Council

Title of report: Internal audit annual report and opinion 2020/21

Meeting: Audit and governance committee

Meeting date: Friday 30 July 2021

Report by: Chief finance officer / head of internal audit

Classification

Open

Decision type

Non-key

Wards affected

(All Wards)

Purpose

The purpose of this report is to enable the committee to provide independent assurance on the adequacy of the risk management framework together with the internal control of the financial reporting and the annual governance processes by considering the head of internal audit's annual report and opinion, and the level of assurance it gives over the council's corporate governance arrangements.

Recommendation(s)

That:

(a) **The committee having regard to the assurance provided by the annual opinion report 20-2021 (Appendix A) determine any potential items for inclusion in its future work programme.**

Further information on the subject of this report is available from
Andrew Lovegrove, email: Andrew.Lovegrove@herefordshire.gov.ukl

Alternative options

1. There are no alternative recommendations. This summary of the findings of internal audit and the opinion are not matters which the committee may alter.

Key considerations

2. The annual report is required to ensure that the committee is informed of the internal audit work undertaken in 2020/21.

3. The report provides an overall opinion, reached in light of the work undertaken, on the adequacy and effectiveness of the council's governance, risk management and control processes. The work of internal audit informs the development of the annual governance statement and action plan.

4. Sufficient internal audit work has been carried out to enable the head of internal audit to draw a reasonable conclusion about the adequacy and effectiveness of the council's risk management, control and governance processes.

5. In the opinion of the head of internal audit, and having considered the balance of audit work, the assurance levels provided and outcomes together with the response from senior management and the audit and governance committee, the head of internal audit can offer 'reasonable assurance' in respect of the areas reviewed during the year. The control framework is adequate and controls to mitigate key risks are generally operating effectively, although a number of controls need to improve to ensure business objectives are met. Where this is the case, there has been a positive response to ensuring that action is taken to improve the adequacy of controls.

Community impact

6. The council's code of corporate governance commits the council to managing risks and performance through robust internal control and strong public financial management and to implementing good practices in transparency, reporting, and audit to deliver effective accountability. By ensuring robust management responses to identified risks, the council will be better able to meet its corporate plan priority to secure better services, quality of life and value for money.

Environmental impact

7. Herefordshire Council provides and purchases a wide range of services for the people of Herefordshire. Together with partner organisations in the private, public and voluntary sectors we share a strong commitment to improving our environmental sustainability, achieving carbon neutrality and to protect and enhance Herefordshire's outstanding natural environment.

8. Whilst this is a decision on back office functions and will have minimal environmental impacts, consideration has been made to minimise waste and resource use in line with the council's Environmental Policy

Equality duty

9. Under section 149 of the Equality Act 2010, the 'general duty' on public authorities is set out as follows:

   A public authority must, in the exercise of its functions, have due regard to the need to –

   (a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;

   (b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;

   (c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

10. The public sector equality duty (specific duty) requires us to consider how we can positively contribute to the advancement of equality and good relations and demonstrate that we are paying 'due regard' in our decision making in the design of policies and in the delivery of services. As this is an annual opinion report , we do not believe that it will have an impact on our equality duty.

Resource implications

11. None arising from the recommendations; any additional recommendations made by the committee will be considered by the relevant manager or cabinet member and the financial implications of accepting those recommendations will be considered then.

Legal implications

12. Section 5 of the Accounts and Audit Regulations 2015 require the council to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.

13. It is a function of this committee, under 3.5.10 (a) of the council's constitution to consider the Head of Internal Audit's annual report and opinion, and the level of assurance it can give over the Council's corporate governance arrangements.

Risk management

14. There is a risk that the level of work required to give an opinion on the council’s systems of internal control is not achieved. This is mitigated by the regular active management and monitoring of progress against the agreed internal audit plan.

15. Risks identified by internal audit are mitigated by actions proposed by management in response. Progress on implementation of agreed actions is reported to this committee every six months.

Consultees

None.

Appendices

Appendix A – Internal Audit Annual Report and Opinion 2020-21

Background papers

None identified.

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SWAP INTERNAL AUDIT SERVICES

Helping Organisations to Succeed

Appendix A

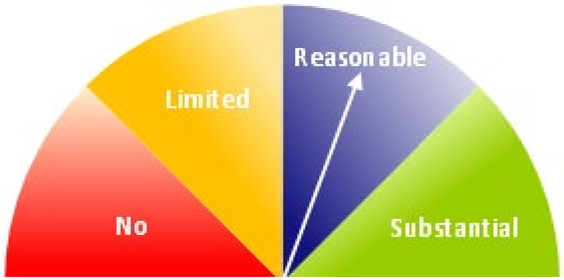
Herefordshire Council

Internal Audit Annual Opinion Report 2020/21

Internal Audit ▪ Risk ▪ Special Investigations ▪ Consultancy

Internal Audit Annual Opinion – 2020/21: 'At a Glance'

Annual Opinion



There is generally a sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives.

The Headlines

No Significant Risks identified in year.
No Priority 1 Recommendations made in year.

57 reviews delivered as part of the 2020/21 Internal Audit Plan.
Includes assurance, advisory and follow up reviews.

Internal Audit staff redeployed to support the Council to assist with the COVID response.
COVID 19 Business Grant processing and post payment checks.

Completion of baseline assessment of maturity to fraud and introduction of fraud quarterly updates.

Range of innovations and enhancements made to our internal audit process throughout the year.
One-page audit report and quarterly planning.

Internal Audit Assurance Opinions 2020/21	
Substantial	7
Reasonable (inc. Grant Certifications)	24
Limited	7
No Assurance	0
Internal Audit Agreed Actions 2020/21	
Priority 1	0
Priority 2	22
Priority 3	73
Total	95

SWAP work is completed to comply with the International Professional Practices Framework of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS) and the CIPFA Local Government Application Note.

Executive Summary

Internal Audit provides an independent and objective opinion on the effectiveness of the Authority's risk management, control and governance processes.

Purpose

The Head of Internal Audit (SWAP Assistant Director) should provide a written annual report to those charged with governance to support the Authority's Annual Governance Statement (AGS). This report should include the following:

- An opinion on the overall adequacy and effectiveness of the organisation's governance, risk management and internal control environment, including an evaluation of the following:
  - the design, implementation and effectiveness of the organisation's ethics-related objectives, programmes, and activities,
  - whether the information technology governance of the organisation supports the organisation's strategies and objectives,
  - the effectiveness of risk management processes, and
  - the potential for the occurrence of fraud and how the organisation manages fraud risk.
- Disclose any qualifications to that opinion, together with the reasons for the qualification.
- Present a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies.
- Draw attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the Annual Governance Statement.
- Compare the work undertaken with the work that was planned and summarise the performance of the internal audit function against its performance measures and criteria.
- Comment on compliance with these standards and communicate the results of the internal audit quality assurance programme.

The purpose of this report is to satisfy this requirement and Members are asked to note its content and the Annual Internal Audit Opinion given.

Executive Summary

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Three Lines Model

To ensure the effectiveness of an organisation's risk management framework, the Audit and Governance Committee and senior management need to be able to rely on adequate line functions – including monitoring and assurance functions – within the organisation.

The 'Three Lines' model is a way of explaining the relationship between these functions and as a guide to how responsibilities should be divided:

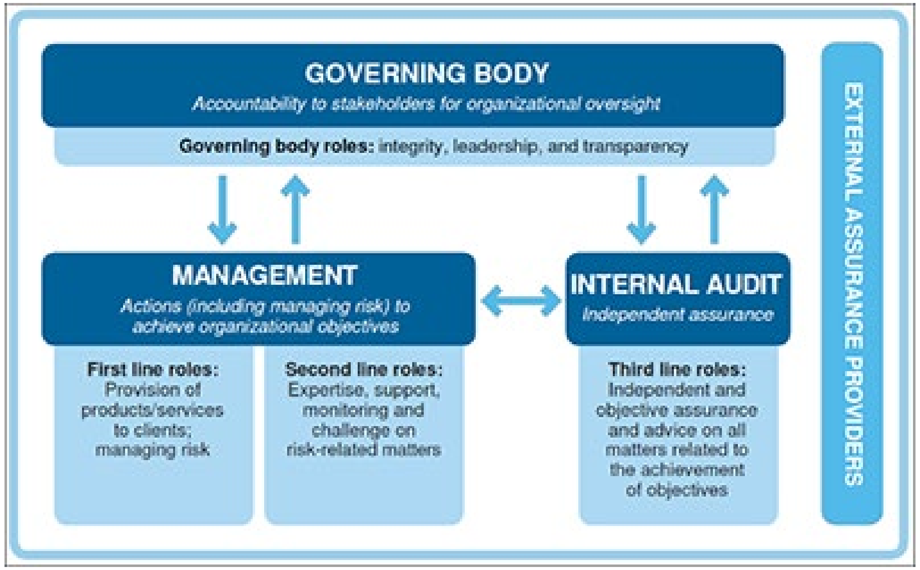
- **the first line – functions that own and manage risk.**
- **the second line – functions that oversee or specialise in risk management, compliance.**
- **the third line – functions that provide independent assurance.**

Background

The Internal Audit service for Herefordshire Council is provided by SWAP Internal Audit Services. The team's work is completed to comply with the International Professional Practices Framework of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS) and the CIPFA Local Government Application Note. The work of the team is guided by the Internal Audit Charter which is reviewed annually.

Internal Audit provides an independent and objective opinion on the Authority's control environment by evaluating its effectiveness. This report summarises the activity of the Internal Audit team for the 2020/21 year.

The position of Internal Audit within an organisation's governance framework is best summarised in the Three Lines model shown below.



The Head of Internal Audit (SWAP Assistant Director) is required to provide an opinion to support the Annual Governance Statement.

Annual Opinion

On the balance of our 2020/21 audit work for Herefordshire Council, enhanced by the work of external agencies, I am able to offer a **Reasonable Assurance** opinion in respect of the areas reviewed during the year.

Just as in more normal times, audit work has been planned to ensure that sufficient assurance will be available to support the annual opinion. The professional requirements of PSIAS have remained unchanged and in line with these, new audit priorities to cover the risks from the impact of the COVID-19 pandemic have been agreed throughout the year and that work supports the annual opinion.

The additional audits performed to carry out assurance work on new risks associated with the COVID-19 pandemic emergency response were (these are identified clearly outlined within the summary audit table on pages 15 and 16):

- Work around business support grants including focused analytical work,
- Audit of COVID-19 grants,
- Relevant advisory work.

As a result of the additional work arising from the COVID-19 pandemic, it has been agreed to defer some of the less urgent audit work to 2021/22. Audits had to be deferred due to:

- Additional audit work on new risks associated with the COVID-19 pandemic being delivered.
- Some areas of the Council facing significant resource challenges as leading the Council's response to the pandemic, meaning key staff/information/systems not accessible to internal auditors.
- Redeployment of audit staff to support the Council's response reducing the resource base for internal audit.
- Some demands on internal audit for advisory and non-audit support work that may not directly support the audit opinion.

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Plan Performance 2020/21

The Head of Internal Audit (SWAP Assistant Director) is required to provide an opinion to support the Annual Governance Statement.

Planning meetings will be held with relevant officers for the 2021/22 plan and consideration will be given to all audits deferred from the 2020/21 plan for inclusion in the 2021/22 plan.

Largely the COVID-19 pandemic related work carried out was grant certification work and therefore we were able to give assurance opinions to support the annual opinion.

The following are considered key pieces of audit work that support the annual opinion on the overall adequacy and effectiveness of the organisation's governance, risk management and control:

- Key Financial Controls
- Medium Term Financial Strategy
- Commercial Investments
- Project Governance
- Contract/Commissioning

Over the year, the Internal Audit Team have found Senior Management of Herefordshire Council to be supportive of Internal Audit findings and responsive to the recommendations made. In addition, there is a good relationship with Management whereby they feel they can approach the Internal Audit Team openly in areas where they perceive potential problems.

Generally, the follow up work confirms the responsive nature of management at Herefordshire Council in implementing agreed actions to mitigate exposure to areas of significant risk. There have however been some actions that have resulted in lengthy delays for implementation, mainly because of the complexity of implementing the action. This needs careful consideration when defining actions and targets dates for future work.

Although no areas of significant corporate risk have been identified there has been a number of findings around debt management and monitoring across various areas and as reported in my last annual opinion a number of findings relating to Record of Officer Decisions. Both these areas will need careful monitoring by management to ensure the actions are implemented to drive forward an improvement in both areas. Work has also been completed on the Hereford City Centre Transport Package (HCCTP) and a position statement was issued in September 2020. The position statement highlighted a number of issues, the main issue being the raising of

The Head of Internal Audit (SWAP Assistant Director) is required to provide an opinion to support the Annual Governance Statement.

compensation events. Further work has been requested by the Council and the findings of this work will be shared with the Committee.

Summary of Audit Work 2020/21

Definitions of Corporate Risk

High Risk
Issues that we consider need to be brought to the attention of both senior management and the Audit Committee.

Medium Risk
Issues which should be addressed by management in their areas of responsibility.

Low Risk
Issues of a minor nature or best practice where some improvement can be made.

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Significant Corporate Risks

For those audits which have reached report stage through the year, no risks were assessed as 'High' at corporate level.

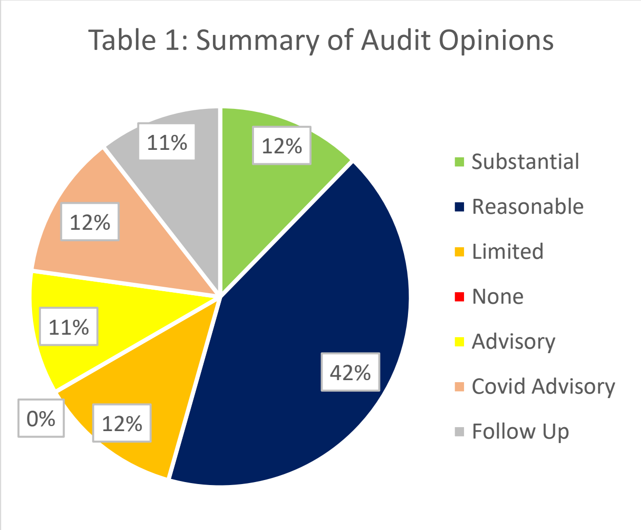
Summary of Audit Work 2020/21

At the conclusion of audit assignment work each review is awarded a "Control Assurance Definition"

Assurance Definitions

No Assurance	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.
Limited	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
Reasonable	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Substantial	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

Summary of Audit Opinion



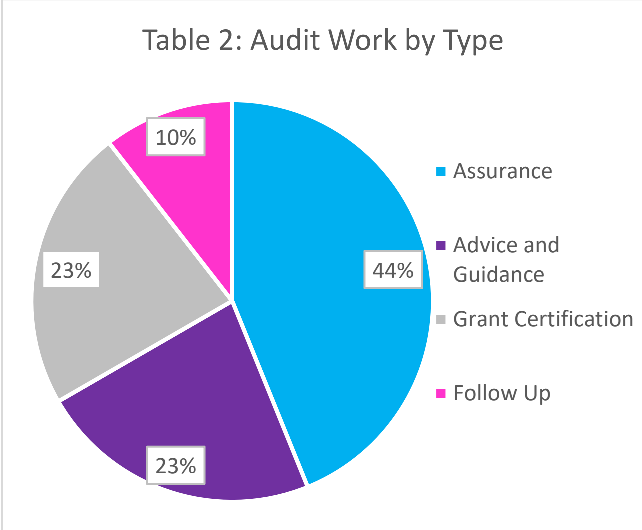


Table 1 above indicates the spread of assurance opinions across our work during the past year.

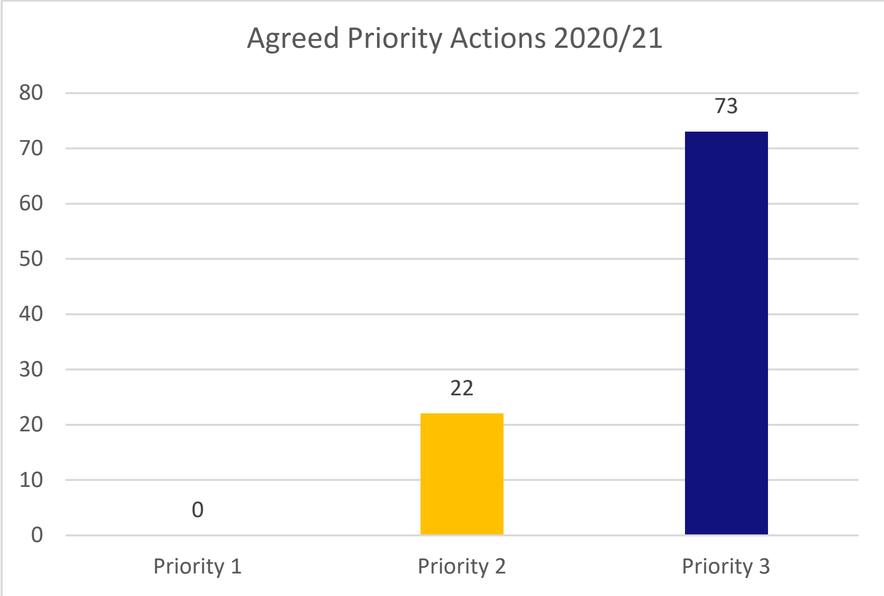
Table 2 indicates the audit work by type. Whilst assurance work is the main focus of internal audit, in a time of crisis such as the pandemic, internal audit has the knowledge and skills to be able to provide advisory work that supports the organisation through such turbulence. In addition, it was possible to progress COVID related advisory work whilst our normal assurance work was temporarily paused.

Summary of Audit Work 2020/21

SWAP Performance - Summary of Audit Actions by Priority

We rank our actions on a scale of 1 to 3, with 3 being medium or administrative concerns to 1 being areas of major concern requiring immediate corrective action.

Priority Actions



Plan Performance 2020/21

Added Value

Extra feature(s) of an item of interest (product, service, person etc.) that go beyond the standard expectations and provide something more while adding little or nothing to its cost.

Added Value

Throughout the year, SWAP strives to add value wherever possible i.e., going beyond the standard expectations and providing something 'more' while adding little or nothing to the cost.

Benchmarking

During the year we have provided benchmarking data across either the SWAP partnership or the wider reach of the Local Authority Chief Auditors Network (LACAN) for:

- Schools Exclusions
- CIPFA Financial Resilience Indicator
- Whistleblowing Policy
- Workforce Development
- Significant Partnerships
- Commercial Properties
- Risk Management Survey
- Effectiveness of Audit Committee's
- Approved Mental Health Professionals – Terms and Conditions
- Schools Forum Governance
- Direct Debits – Adult Social Care
- Baseline assessment of maturity in relation to fraud

Innovations and Enhancements to our Audit Process

During this exceptional year, we have taken the opportunity to implement and introduce a number of innovations and enhancements to our audit process. This has included:

Introducing the concept of 'Agile Auditing' to our audit process. With increased collaboration and a joint commitment with the service under review, it is possible to complete audits more efficiently. Agile also enables us to keep the client updated throughout the review and agree actions to findings as they are identified.

Added Value

Extra feature(s) of an item of interest (product, service, person etc.) that go beyond the standard expectations and provide something more while adding little or nothing to its cost.

SWAP Internal Audit Services has seen the introduction of continuous audit reviews in relation to the key fundamental areas across some of the Partners. This is a method whereby audit testing of key controls of an area or activity, is performed on a more frequent basis. It changes the audit approach from periodic reviews incorporating a small sample of transactions, to ongoing testing of a larger overall sample, with audit results produced shortly after testing. The benefits are a more reactive and timely approach to auditing which gives a continuous assurance on systems and processes throughout the year. This will be considered for Herefordshire Council going forward.

With the help of SWAP's two newly appointed Data Analysts, we are looking to include analysis of data as part of our auditing wherever possible. This allows us not only the opportunity to test whole populations of data, but where this is not possible or appropriate, to be able to use data analytics to target our testing in a more effective manner.

SWAP's Counter Fraud Team has also facilitated access to counter fraud intelligence resources and issued alerts and newsletters to key officers in the Council.

Introduced a new one-page audit report, that summarises all the key messages of the audit on one page for ease of consumption as well as increasing impact. Feedback on the report style has again been extremely positive.

Introduced quarterly audit planning.

Summary of Internal Audit Work 2020/21

Internal audit is responsible for conducting its work in accordance with the Code of Ethics and Standards for the Professional Practice of Internal Auditing as set by the Institute of Internal Auditors and further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS).

SWAP Performance

SWAP's performance is subject to regular monitoring and review by both the SWAP Board of Directors and the Owners Board. The respective outturn performance results for Herefordshire Council for the 2020/21 year are as follows:

Performance Target	Average Performance
Audit Plan – Percentage Progress	
Final, Draft and Discussion 90%	92%
In progress/Review	8%
Not Started	0%
Customer Satisfaction Questionnaire	
Feedback 95%	100%

SWAP work is completed to comply with the International Professional Practices Framework (IPPF) of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS) and the CIPFA Local Government Application Note.

Under these standards we are required to be independently externally assessed at least every five years to confirm compliance to the required standards. SWAP was recently assessed in February 2020 and confirmed that we are in conformance to PSIAS.

Attribute Standard 1300 of the IPPF requires Heads of Internal Audit to develop and maintain a Quality Assurance and Improvement Programme (QA&IP). Standard 1310 continues this dual aspect by stating that the programme must include both internal and external assessments. This acknowledges that high standards can be delivered by managers, but it also implies that improvements can be further developed when benchmarking is obtained from outside the organisation and the internal audit function. Following our External Assessment, we have pulled together our QA&IP and included additional improvements and developments identified internally that we want to make, as aligned to SWAP's Business Plan. The QA&IP is a live document and will be regularly reviewed by the SWAP Board to ensure continuous improvement and delivery on our actions.

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Summary of Internal Audit Work 2020/21

Audit Type	Corporate Risk Reference	Audit Area	Status	Opinion	No of Actions	1 = Major ↔ 3 = Medium Action 1	2	3
Assurance	CRR10, CRR23	Accounts Payable	Complete	Reasonable	2	0	0	2
Follow Up	CRR10, CRR23	Main Accounting Follow Up	Complete	Follow Up	-	-	-	-
Assurance	CRR10, CRR23	Payroll	In Progress					
Assurance	CRR10, CRR23	Accounts Receivable	Complete	Reasonable	3	0	1	2
Assurance	CRR10, CRR23	Council Tax	Complete	Reasonable	3	0	0	3
Assurance	CRR10, CRR23	National non-domestic rates (NNDR)	Complete	Reasonable	2	0	0	2
Follow Up	CRR10, CRR23	Treasury Management Follow Up	Complete	Follow Up	-	-	-	-
Assurance	CRR10, CRR23	Housing and Council Tax Benefits	Complete	Substantial	2	0	0	2
Advice and Guidance	Accountable Body Requirement	NMITE Project (University)	Complete	Advisory Report	-	-	-	-
Assurance	CRR.24	Medium Term Financial Strategy (MTFS)	Complete	Reasonable	0	0	0	0
Assurance	CRR.21	Commercial/Strategic Investments	Complete	Reasonable	2	0	2	0
Assurance	CRR.23	Balfour Beatty Contract 1 year (minor to major repairs)	In Progress					
Assurance	CRR.10, CRR.23	Staff Car Parking – Business passes	Complete	Limited	6	0	1	5
Assurance	CRR.26	Strategic/Significant Partnerships	Complete	Limited	5	0	3	2
Assurance	CRR.09	Brexit Preparedness	Complete	Reasonable	4	0	1	3

Assurance	CRR.13, CRR.25	Cyber Security Framework	Complete	Advisory	-	-	-	-
Grant Certification	Financial Governance	Local Transport Block Funding	Complete	Reasonable – Grant Certification	-	-	-	-
Grant Certification	Financial Governance	Bus Subsidy Grant	Complete	Reasonable – Grant Certification	-	-	-	-
Assurance	-	Property Flood Resilience Support Scheme (Bellwin /Resilience Management)	Complete	Substantial	1	0	0	1
Assurance	-	Commercial Properties/Rents	Complete	Reasonable	6	0	1	5
Assurance	CRR.10, CRR. 18, CRR.20	S106 Agreements	Complete	Limited	9	0	2	7
Advice and Guidance	-	Baseline Assessment for Maturity of Fraud	Complete	Advisory	-	-	-	-
Assurance	CRR.18	Capital Programme/Capital Projects	Draft Report	Reasonable	Actions in progress of being agreed.			
Assurance	CRR.10, CRR.23	Adult Social Care Provider Payments and Client Contributions (was Client Finances)	Draft Report	Limited	8	0	0	8
Assurance	-	West Midlands Peer Review	Complete	Substantial	0	0	0	0
Assurance	CRR.17, CRR.23	Workforce Development	Complete	Substantial	0	0	0	0
Assurance	CRR.17, CRR.23	The Quality Development Framework	Draft Report	Substantial	1	0	0	1
Assurance	CRR.17, CRR.23	Supervision Practices	Complete	Substantial	1	0	0	1
Grant Certification	Financial Governance	Troubled Families – monthly review – quarterly report quarter 1	Complete	Reasonable – Grant Certification	-	-	-	-
Grant Certification	Financial Governance	Troubled Families – monthly review – quarterly report quarter 2	Complete	Reasonable – Grant Certification	1	0	0	1
Grant Certification	Financial Governance	Troubled Families – monthly review – quarterly report quarter 3	Complete	Reasonable – Grant Certification	1	0	1	0
Grant Certification	Financial Governance	Troubled Families – monthly review – quarterly report quarter 4	Complete	Reasonable – Grant Certification	-	-	-	-

Summary of Internal Audit Work 2020/21

Assurance	-	EHCP (Education, Health and Care Plans) Annual Reviews	Complete	Limited	3	0	1	2
Assurance	-	Support for young people not in education, employment, or training (NEET)	Complete	Reasonable	3	0	0	3
Assurance	-	EHCP (Education, Health and Care Plans) – Preparation for Adulthood	In Progress					
Follow Up	-	Members Expenses Follow Up	Completed	Follow Up	-	-	-	-
Follow Up	-	South Wye Transport Package Phase 1 – Follow Up	Completed	Follow Up	-	-	-	-
Follow Up	-	South Wye Transport Package Phase 2 – Follow Up	Completed	Follow Up	-	-	-	-
Follow Up	-	Homepoint – Follow Up	Completed	Follow Up	-	-	-	-
Advice and Guidance	CRR.23, CRR.39	Grant Funding Schemes – Small Business Grant Fund / Retail, Hospitality and Leisure Grant Fund	Completed	COVI 19 - Advisory	-	-	-	-
Grant Certification	CRR.23, CRR.39	Transport Contracts	Completed	Reasonable – Grant Certification	2	0	0	2
Assurance	CRR.23, CRR.39	Procurement cards	Completed	Limited	6	0	1	5
Advice and Guidance	CRR.23, CRR.39	HALO Leisure Centre – Financial review	Completed	COVID 19 Advisory	-	-	-	-
Assurance	CRR.39	Emergency Decisions	Completed	Reasonable	4	0	1	3
Grant Certification	CRR.23, CRR.39	Local Transport Authority Covid-19 Bus Service Support Restart (Revenue) Grant (CBSSG) – Tranche 1	Final Report	Reasonable – Grant Certification	0	0	0	0
Grant Certification	CRR.23, CRR.39	Local Transport Authority Covid-19 Bus Service Support Restart (Revenue) Grant (CBSSG) – Tranche 2-5	Final Report	Reasonable – Grant Certification	0	0	0	0
Assurance	CRR.23, CRR.39	Emergency Active Travel Measures Tranche 1	Completed	Substantial	1	0	0	1
Advice and Guidance	CRR.23, CRR.39	Emergency Active Travel Measures Tranche 2	Complete	COVID 19 Advisory	-	-	-	-

Summary of Internal Audit Work 2020/21

Grant Certification	CRR.23, CRR.39	Additional Dedicated Home to School and College Transport Grant	Completed	Reasonable – Grant Certification	1	0	0	1
Advice and Guidance	CRR.23, CRR.39	Test and Trace Support Payments	Complete	COVID 19 Advisory	-	-	-	-
Advice and Guidance	CRR.23, CRR.39	Test and Trace Discretionary Payments	Complete	COVID 19 Advisory	-	-	-	-
Advice and Guidance	CRR.23, CRR.39	Local Restrictions Support Grant	Complete	COVID 19 Advisory	-	-	-	-
Grant Certification	CRR.23, CRR.39	Revenue grant determination (Ringfenced) Local Authority COVID-19 Test and Trace Service Support Grant Determination 2020/21: No 31/5075	In Progress					
Advice and Guidance	CRR.23, CRR.39	HALO Leisure Centre Financial Review 2	Complete	COVID 19 Advisory	-	-	-	-
Grant Certification	CRR.23, CRR.39	Additional Dedicated Home to School and College Transport – Autumn Term	Complete	Reasonable – Grant Certification.	-	-	-	-
Grant Certification	CRR.23, CRR.39	Additional Dedicated Home to School and College Transport – Spring Term	Complete	Reasonable – Grant Certification.	-	-	-	-
Grant Certification	CRR.23, CRR.39	Revenue Grant Determination (Ring-Fenced COVID-19 Local Authority Compliance and Enforcement Grant For Lower Tier And Unitary Authorities Determination 2020: No 31/5216.	Complete	Reasonable – Grant Certification.	-	-	-	-
Advice and Guidance	CRR.10	Gypsy and Traveller Sites – Special Investigation	Completed	Advisory Report	7	0	2	5
Advice and Guidance	CRR.10	Hereford City centre Transport Package – Governance Review	Final Report	Advisory Report	-	-	-	-
Assurance	CRR.38	Contract Management – Balfour Beatty Living Places (BBLP)	In Progress					
Advice and Guidance	CRR.23	Loss of Monies – Children's - Special Investigation	Final Report	Special Investigation	2	-	2	-
Assurance	-	Commissioning and Value for Money (BBLP)	Completed	Limited	5	0	2	3

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SWAP Performance - Summary of Limited Opinions

These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Audit and Governance Committee.

Summary of Limited Assurances and Significant Service Findings (Priority 1 and 2)

Since our previous internal audit progress report eight audits have been completed or issued as a draft report. One audit is a limited assurance with no priority 2 actions, and one audit had a reasonable assurance with one priority 2 action. Once the actions have been agreed with management as both reports are currently at draft I will provide the detail of the findings in my next update report.

Follow Up audits are completed where the auditor could only provide limited assurance.

Follow Up Audits

Follow Up audits are completed where the auditor could only provide limited (previously partial) assurance. The follow-up audit is to provide assurance to the Director, Senior Management and the Audit and Governance Committee that the key risks have been mitigated to an acceptable level of risk. Evidence is obtained to demonstrate implementation and progress made in relation to all 2019/20 priority 1 and 2 recommendations. For the priority 3 recommendations progress reported is based on self-assessment by relevant officers. Where a key control audit received Reasonable or substantial assurance, the key control is included in the plan to follow up on all recommendations to provide assurance that action has been taken to address the recommendations. For key control follow up audit evidence is obtained to demonstrate implementation and progress for all recommendations.

Since the previous update, the follow up audits have been completed this quarter as identified below:

- Main Accounting
- South Wye Transport Package – Phase 1
- South Wye Transport Package – Phase 2

Summary of findings for actions not started/in progress as follows:

Main Accounting

Agreed Action: The Senior Team Leader (Transactional Team) agreed to train another officer within the Transactional Team to be able to complete the Council Tax/National Non-Domestic Rates/Housing Benefits control accounts reconciliation.

Follow Up Assessment: The Senior Team Leader (Transactional Team) stated that there were formerly two people within the Finance: Transactional Team that were able to carry out the reconciliation, these being herself and one of the Transactional Officers. However, that team member moved into another section of Finance, so there was a requirement for another member of the team to be trained. At the time of last year's Main Accounting audit, training of another officer had commenced however, she has since also moved teams, and a further two officers are now being trained. The Senior Team Leader (Transactional Team) stated that this is a work in progress and has been delayed by having to work from home / other priorities during the pandemic, but this will be progressed.

Priority 3 **Original Agreed Target Date:** 30th April 2020 **Revised Target Date:** 31st December 2021

Herefordshire Council

Title of report: Work programme update

Meeting: Audit and governance committee

Meeting date: Friday 30 July 2021

Report by: Democratic services officer

Classification

Open

Decision type

This is not an executive decision.

Wards affected

Countywide

Purpose

To provide an update on the committee's work programme.

Recommendation(s)

THAT:

Subject to any updates made by the committee, the work programme for the audit and governance committee be agreed.

Alternative options

1 There are no alternative options as regards whether or not to have a work programme as the committee will require such a programme in order to set out its objectives for the coming year.

Reasons for recommendations

2 The work programme is recommended as the committee is required to define and make known its work for the coming year. This will ensure that matters pertaining to audit and governance are tracked and progressed in order to provide sound governance for the council.

3 The committee is asked to consider any further adjustments.

Further information on the subject of this report is available from
Ben Baugh, democratic services officer on tel 01432 261882

Key considerations

4 The routine business of the committee has been reflected as far as is known, including the regular reporting from both internal and external auditors.

Community impact

5 A clear and transparent work programme provides a visible demonstration of how the committee is fulfilling its role as set out in the council's constitution.

Environmental impact

6 Whilst this is an update on the work programme and will have minimal environmental impacts, consideration has been made to minimise waste and resource use in line with the council's Environmental Policy.

Equality duty

7 This report does not impact on this area.

Resource implications

8 There are no financial implications.

Legal implications

9 The work programme reflects any statutory or constitutional requirements.

Risk management

10 The programme can be adjusted in year to respond as necessary to risks as they are identified; the committee also provides assurances that risk management processes are robust and effective.

Consultees

11 The chief finance officer, monitoring officer, chairperson and vice-chairperson have contributed to the work programme.

Appendices

Appendix 1 – work programme for audit and governance committee

Background papers

None identified.

Audit and Governance Committtee Constitution		Report	May	June	July	September	October	November	January	March
3.5.9	The purpose of an audit committee is to provide independent assurance on the adequacy of the risk management framework together with the internal control of the financial reporting and annual governance processes.									
3.5.10	**Internal Audit**	**Internal Audit**								
a	To consider the Head of Internal Audit's annual report and opinion, and a summary of internal Audit activity (actual and proposed) and the level of assurance it can give over the Council's corporate governance arrangements.	Internal Audit Plan & Internal Audit Charter Progress Report on internal audit plan (see part b for timing) Internal Audit Annual Opinion			Opinion					Audit Charter
b	To consider summaries of specific Internal Audit reports and the main issues arising and seek assurance that action has been taken where necessary.	Progress Report on internal audit plan		Progress report			Progress report		Progress report	Progress report
c	To consider reports dealing with the management and performance of the providers of Internal Audit Services.									
d	To consider a report from Internal Audit on agreed recommendations not implemented within a reasonable timescale.	Tracking of internal and external audit recommendations	Tracking Report				Tracking Report			
e	To be able to call senior officers and appropriate members to account for relevant issues within the remit of the Committee.	No specific activity required as part of normal questioning activity								
f	The Committee will not receive detailed information on investigations relating to individuals. The general governance principles and control issues may be discussed, in confidential session if applicable, at an appropriate time, to protect the identity of individuals and so as not to prejudice any action being taken by the Council.	Progress Report on internal audit plan (see part b for timing)								
3.5.11	**External Audit**	**External Audit**								
a	Review and agree the External Auditors annual plan, including the annual audit Fee and annual letter and receive regular update reports on progress.	Annual Audit fee letter External Audit progress update (see part b for timing) Tracking of internal and external audit recommendations (see part 3.5.10d for timing) Annual Audit Letter External Audit Annual Plan	Audit Fee						Annual Letter Annual Plan	
b	To consider specific reports from the External Auditor.	External Audit progress update	Progress Report				Progress Report			Progress Report
c	To meet privately with the External Auditor once a year if required.	Not required to be scheduled on work programme								
d	To comment on the scope and depth of external audit work and to ensure it gives value for money.	No specific activity required as part of normal questioning activity								
e	To recommend appointment of the council's local (external) auditor.	Not required to be scheduled on 20/21 work programme								
f	Ensure that there are effective relationships between external and internal audit that the value of the combined internal and external audit process is maximised.	No specific activity required as part of normal questioning activity. External Audit can place limited reliance on Internal Audit Work.								
3.5.12	**Governance**									
a	To maintain an overview of the council's Constitution, conduct a biennial review and recommend any changes to council other than changes to the contract procedure rules, finance procedure rules which have been delegated to the committee for adoption.	Accounting Policy Update Contract & Finance Procedure Rules			Accounting Policy Update (if required)				Contract and Financial Procedure Rules	
b	To monitor the effective development and operation of risk management and corporate governance in the council.	Work programme Corporate Risk Register	Risk Register Work programme	Work programme	Work programme	Risk Register Work programme	Work programme	Work programme Risk Register	Work programme	Risk register Work programme
c	To maintain an overview and agree changes to the council policies on whistleblowing and the 'Anti-fraud and corruption strategy'.	Whistleblowing policy Anti-fraud & corruption strategy		Anti-fraud update as part of internal audit progress report		Whistleblowing Update	Whistleblowing		Annual update on anti-fraud and corruption strategy	Anti-fraud update as part of internal audit progress report
d	To oversee the production of the authority's Statement on Internal Control and to recommend its adoption.	Statement of Accounts								
e	To annually conduct a review of the effectiveness of the council's governance process and system of internal control which will inform the Annual Governance statement.	Annual Governance Statement	Draft		Final					
f	The council's arrangements for corporate governance and agreeing necessary actions to ensure compliance.	Annual Governance Statement Progress Report							Progress Update	
g	To annually review the council's information governance requirements.	Information Governance Review								
h	To agree the annual governance statement (which includes an annual review of the effectiveness of partnership arrangements together with monitoring officer, s151 officer, caldicott guardian and equality and compliance manager reviews).	Annual Governance Statement Annual Governance Statement Progress Report								Progress Report
i	To adopt an audit and governance code.									
j	To undertake community governance reviews and to make recommendations to Council.	On an ad hoc basis only								
3.5.13	**Waste Contract**									
a	To review, in conjunction with external advisers advising the council as lender, the risks being borne as a result of the funding provided by the council to Mercia Waste Management Ltd and consider whether the risks being borne by the council, as lender, are reasonable and appropriate having regard to the risks typically assumed by long term senior funders to waste projects in the United Kingdom and best banking practice.	Energy from Waste Loan Update								
b	To monitor the administration of the loan to the waste project in line with best banking practice having regard to any such external advice, including the terms of any waivers or amendments which may be required or are desirable.	Energy from Waste Loan Update								
c	Consider what steps should be taken to protect the interests of the council as lender in the event of a default or breach of covenant by Mercia Waste Management Ltd, and make recommendations as appropriate to Council, the council's statutory officers or cabinet as appropriate to ensure the appropriate enforcement of security and litigation in relation to the loan to Mercia Waste Management Ltd	Energy from Waste Loan Update								
d	Consider and recommend appropriate courses of action to protect the position of the council as lender to the waste project: (i) make recommendation as appropriate to Council with regards to its budget and policy framework and the loan to the waste project (ii) generally to take such other steps in relation to the loan within the scope of these terms of reference as the committee considers to be appropriate.	Energy from Waste Loan Update								
3.5.14	**Code of Conduct: To promote and maintain high standards of conduct by members and co-opted members of the Council**									
a	To support Town and Parish Councils within the county to promote and maintain high standards of conduct by members and co-opted members of the Council.	Annual Code of Conduct Report								
b	To recommend to Council the adoption of a code dealing with the conduct that is expected of members and co-opted members of the Council.	Part of Re-thinking Governance Review to be scheduled in next year's work programme.								
c	To keep the code of conduct under review and recommend changes/replacement to Council as appropriate.	Part of Re-thinking Governance Review to be scheduled in next year's work programme.								
d	To publicise the adoption, revision or replacement of the Council's Code of Conduct.	Part of Re-thinking Governance Review to be scheduled in next year's work programme.								
e	To oversee the process for the recruitment of the Independent Persons and make recommendations to Council for their appointment.	Recruitment done on an as required basis and not currently scheduled.								
f	To annually review overall figures and trends from code of conduct complaints which will include number of upheld complaints by reference to individual councillors within unitary, town and parish councils and when a code of conduct complaint has been upheld by the Monitoring Officer or by the Standards Panel, after the option of any appeal has been concluded, promptly to publish the name of the councillor, the council, the nature of the breach and any recommendation or sanction applied.	Annual Code of Conduct Report								
g	To grant dispensations under Section 33 (2)(b)(d) and (c) Localism Act 2011 or any subsequent amendment.	On an ad hoc basis only								
h	To hear appeals in relation to dispensations granted under section 33 (2)(a) and (c) Localism Act 2011 by the monitoring officer.	On an ad hoc basis only								
3.5.15	**Accounts**									
	To review and approve the Statement of Accounts, external auditor's opinion and reports on them and monitor management action in response to the issues raised by external audit.	Statement of Accounts External Auditor Report			Statement & Report					