Herefordshire Council Statement of Accounts 2015/16

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1. Introduction

Herefordshire's statement of accounts for 2015/16 set out the council's overall financial position for the year.

2015/16 saw a continuation of the need to deliver significant budget reductions, £10m in addition to those achieved in the previous four years. I'm pleased to report that the council delivered these savings whilst continuing to provide good services to the community. Further savings will be required in the coming years, £28m between now and 2019/20.

Herefordshire is a rural county with an older demographic, facing an increasing demand for services which provides a difficult environment for delivering savings. Despite this the council has set a medium term financial strategy which identifies how savings will be achieved.

2015/16 saw the councils general reserve balance increase by £0.3m to £7.3m, 5% of its 2016/17 net revenue budget. This recognises the need for increased resilience over the coming years. Herefordshire's financial management strategy also includes maintaining specific reserves to deal with expenditure commitments in future years, these totalled £28.5m, inclusive of £9.4m school reserves, as at 31 March 2016.

Councillor Tony Johnson
Leader of the Council

2. 2015/16 Narrative Report

Message from the acting Section 151 Officer

These statement of accounts have been prepared in a timely manner providing the opportunity to report our financial standing and allowing focus to move onto addressing the challenges arising from the continued funding reductions Herefordshire faces.

The accounts demonstrate the robust financial standing Herefordshire has, providing assurances in delivering the medium term financial strategy approved by Council in February.

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

- **Understand the overarching financial position of the Council and the outturn for 2015/16;**
- **Have confidence that the public money with which the Council has been entrusted has been used and accounted for in an appropriate manner; and**
- **Be assured that the financial position of the Council is sound and secure**.

An Introduction to Herefordshire

Herefordshire is located just south of the West Midlands bordering Shropshire, Worcestershire, Gloucestershire and the Wales.

Herefordshire covers a land area of 2,180 square kilometres (842 square miles) (excluding inland water), and is a predominantly rural county (95 per cent of land area classified as such), with the 4th lowest population density in England (85 persons per square kilometre).

Herefordshire's population is about 186,100, with approximately one-third of the population living in Hereford city, a third in the market towns and a third in rural areas. The five market towns are Leominster, Ross-on-Wye, Ledbury, Bromyard and Kington.

Herefordshire is a popular destination for visitors, those with holiday homes and second homes and, in some areas, for out-of-county commuters.

As a whole, Herefordshire has relatively low levels of multiple deprivation. In general people are healthy, live longer compared with nationally, and have positive experiences of the things that affect their lives and wellbeing. However, some areas of south Hereford, Leominster and Ross-on-Wye are amongst the 25% most deprived in England.

Although the government's 2010 Index of Multiple Deprivation ranks Herefordshire 145th out of 326 local authorities, there are areas of significant poverty and deprivation within the county.

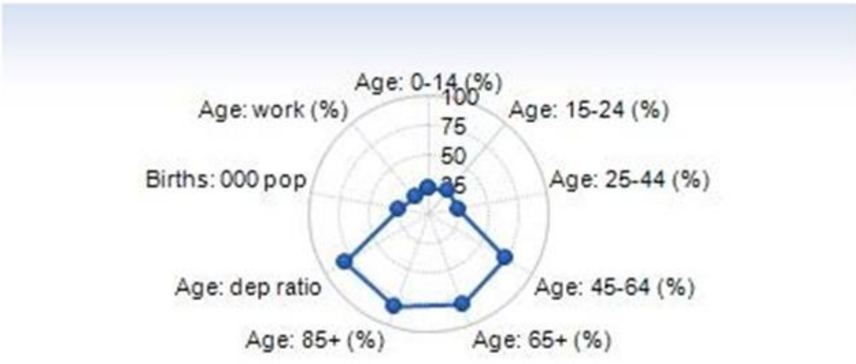
Average wages in the county are significantly below both the regional and national averages. Average house prices are high compared with elsewhere in the region. The affordable housing ratio is the worst in the West Midlands, with houses at the lower end of the market, costing around 8.6 times the annual wage of the lowest earners.

Unemployment in the county is low. Both agriculture and tourism are a more important source of jobs in the county than elsewhere in the West Midlands. Self-employment is more common in Herefordshire than in the rest of the UK.

Herefordshire has improved its performance at GCSE level over the past two years. However, vulnerable groups continue to perform significantly below their peers at all ages. Herefordshire has some very high performing sixth forms with some outstanding results but there is net migration of young adults out of the county in search of wider opportunities for employment and higher education. There are relatively few people in the workforce with higher education-level qualifications. There is limited higher education provision, and knowledge-based industries are underrepresented in the county.

Population

The county's population has a considerably older age profile than that for England and Wales, with 23% of the population aged 65 years or above, compared with 17% nationally. This includes 5,700 people aged 85 years or above, 3.1%, which is very high by national standards.



Demographic characteristics have a fundamental influence on the social and economic development of an area, as well as demand for local services. The age distribution of residents has implications for long-term economic activity rates and current, future service provision and the associated demand led budgets of the Council.

In Herefordshire, the proportion of the resident population aged 0-14 was 15.8% in 2011. This is low by national standards. The proportion aged 15-24 was 10.8% in 2011, which is low by national standards.

In between, 22.6% were aged 25-44 and 28.3% were aged 45-64. Overall 60.4% of Herefordshire's population are of working age.

The dependency ratio (the ratio of economically dependent people to those who are economically active) is very high by national standards: 0.64 compared to a national figure of 0.55.

Population Projections

The projected population growth and the impact this growth will have on the area is vital to a council's forward planning for the provision of services and the expected challenges of demographic change. At the national level, the population of over 65 is expected to increase substantially, placing considerable pressure on council services including care and housing. Alternatively, significant growth of younger age brackets will require greater provision of education, training and employment opportunities and the improvement of access to these services.

In Herefordshire the proportion of the resident population aged 0-14 is projected to change by 2.0% by 2037. This is low by national standards.

The proportion of the resident population aged over 65 is projected to change by 65.7%. This compares to 57.4% in West Midlands and 55.4% nationally.

Age Group	Population Growth to 2037	Proportion in 2037	Regional Population Growth to 2037	Regional Proportion in 2037	National Population Growth to 2037	National Proportion in 2037
0-14	2.0%	14.5%	7.0%	17.3%	3.9%	16.6%
15-24	(6.0%)	9.1%	3.3%	12.2%	0.3%	11.8%
25-44	0.5%	20.5%	3.7%	23.9%	(0.6%)	24.4%
45-64	(8.6%)	23.3%	(0.1%)	22.2%	(1.0%)	23.0%
65+	65.7%	32.7%	57.4%	24.3%	55.4%	24.2%
80+	121.2%	12.1%	103.9%	8.6%	96.3%	8.4%

Corporate Plan

The Council approved its corporate plan for the period to 2019/20 in February 2016 which sets out the vision for Herefordshire to support a strong, diverse and enterprising business base, operating in an exceptional and connected environment where the transfer of technology and skills foster innovation, investment and economic growth.

The council's ambitious plans will accelerate growth and provide opportunities for all who live and work in Herefordshire through strong stewardship and strong partnerships with the private sector.

The council's key priorities are:

- **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**

Medium Term Financial Strategy

The Council approved its medium term financial strategy for the period to 2019/20 in February 2016 which sets out how we will continue to deliver valued services whilst continuing to deliver savings.

£59m of savings have been delivered since 2010 and a further £28m are planned by 2019/20. This will equate to a total of £87m of savings being delivered between 2010 and 2020.

The savings will be achieved by moving to:

- **self-reliant, vibrant communities**
- **growing the economy**
- **supporting the most vulnerable through ensuring their families, friends and communities can support them**
- **people helping themselves through the choices they make**

Pressures and funding reductions anticipated are set out below.

Council Members

The overall political composition of the council is as follows:

Party	Number of councillors
Conservative	29
Herefordshire Independents	8
It's OUR County!	11
Liberal Democrats	2
Green Party	2
Unaffiliated	1
Total	**53**

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

Members Allowances	2014/15 £m	2015/16 £m
Basic allowances	0.4	0.4
Special allowances	0.2	0.2
Total	**0.6**	**0.6**

Financial performance, economy, efficiency and effectiveness of use of resources in 2015/16

Given the level of financial savings required within Herefordshire, we look at everything we do and prioritise accordingly. Whilst some services are statutory and have to be delivered, there are others that we do not have to provide, even though they are valued highly by the community. In order to help maintain some of these important local services we have had to identify different ways of delivering them. We have also identified cross-cutting themes all across the organisation.

As regards enabling residents to be independent and lead fulfilling lives, we have increasingly been focusing upon prevention and early support. The development of community connections and bridging the gaps between voluntary, professional and statutory services has been key to this with examples including Golden Valley Supportive Communities and Leominster Community Connections. We have also worked with families, schools and the community to build resilience so that families are able to help themselves and stop problems from escalating.

Whilst parts of the county have different needs and their capacity to respond varies, we recognise the advantages of working with those local communities who want to take ownership of certain services and do more for themselves. This has been evident through the development of community libraries throughout the county.

We have continued to build upon the benefits of public health functions becoming the responsibility of the council, ensuring that services become more outcome focused. This has also extended to other areas through improved educational outcomes and the percentage and the proportion of the county's young people who were recorded as being in full time education and training. Significant refurbishment works have taken place at leisure centres across the county in order to modernise and improve facilities which will enable local people to be more physically active.

Positive progress has been made with regard to maintaining a successful economy. We have continued to focus on growth to support our local economy. Key to this is the adoption by Council of the Local Development Framework Core Strategy which forms the basis for future planning in the county. The Enterprise Zone has continued to contribute to the local economy with the creation of new businesses and jobs. Other important aspects being infrastructure which includes the Fastershire broadband project and our two-year £40m investment programme in the roads.

Key to all of the above is the work we are doing in developing a more integrated approach with those who provide services on our behalf. This includes the unified contract for care homes providers, Herefordshire intensive placement support service and public realm services provided by Balfour Beatty Living Places.

Careful management of council budgets has enabled us to protect council services, whilst safeguarding our vulnerable children and alleviating the rising costs of adult social care for the county's higher than average ageing population. This resulted in a small underspend in 2015/16 in tandem with the delivery of £10m of savings.

Local economy

In recognition of the move towards being 100% locally funded by 2019/20 Herefordshire has approved a medium term financial strategy to secure its future financial viability. During 2015/16 we have seen performance higher than forecast in the delivery of 717 new homes (target 490) and 187 new businesses (target 181), we have included targets that will be monitored over the strategy term. The health of the local economy will impact the council's budget directly in respect of level of business rate retention especially as we move to full retention from 2020. In support of this Herefordshire has a large economy, above the national median. The area has a very large business stock and a very high business density with 69.8 businesses per 1,000 head of population.

The county's business formation rate is very low, with the area ranking in the bottom, 20% of local authorities nationally, but of new business formed the 24 month survival rate is very high by national standards.

Pressures

Herefordshire is the most sparsely populated county in England, incurring extra costs of providing services across rural areas such as:

- domiciliary care in rural parts of the county being approximately £1 per hour above those in urban areas, £0.5m per year
- higher transportation costs – subsidies, maintenance, downtime
- higher fuel costs
- difficulties in providing and accessing services
- difficulties in achieving broadband coverage
- lower earnings

In addition, demand management in social care continues to be a key issue against a demographic backdrop of older people that is rising faster than the national average and some specific areas of inequalities amongst families and young people. Focusing public health commissioning and strategy on growth management through disease prevention and behaviour change in communities, is critical for medium term change.

Risks

The council maintains both corporate and directorate risk registers. The corporate risk register is published routinely as part of the regular corporate budget and performance reporting. In addition, areas for improvement are addressed in the accompanying annual governance statement to these accounts.
The 2015/16 accounts demonstrate financial robustness with reserves proportionately comparable to similar councils, providing resilience as we face the challenges ahead.

Introduction to the accounts

The Statement of Accounts for Herefordshire Council presents the overall financial position for the year ended 31 March 2016, as in 2014/15 the amounts presented in the financial statements and notes have been rounded to the nearest £0.1m.

There were a number of minor changes to the 2015/16 Code of Practice having a minimal impact on the 2015/16 accounts.

Within the accounts, infrastructure assets (highways, footways, bridges) are included within property, plant and equipment on the balance sheet. In 2016/17 the council will need to recognise a new asset category on the balance sheet, the highways network asset. This will be disclosed as a separate line on the balance sheet and separately in the notes to the accounts. This is as a result of changes to the 2016/17 Code of Practice which will require all local authorities to value their highways network asset using a depreciated replacement cost basis rather than the current valuation basis of depreciated historical cost. It is expected that this change in accounting policy will result in a significant increase in the value of these assets and would normally require retrospective restatement of the council's balance sheet from 1 April 2015. However, CIPFA/LASAAC has introduced transitional arrangements so that this will be applied from 1 April 2016 with no requirement to restate the information in the prior year. The council is reviewing its transport infrastructure systems and data to ensure that it can meet the reporting requirements from 1 April 2016.

Revenue expenditure and income

The outturn position on the council's revenue account was a £0.3m underspend after transfers to and from specific reserves.

The following table summarises the overall outturn, with 70% of the council's net budget being spent on adult's and children's wellbeing:

Service	Outturn Budget	Outturn Actual	Outturn over/(under)
	£m	£m	£m
Adults and wellbeing	58.9	58.9	-
Children's wellbeing	38.3	40.3	2.0
Economy, communities and corporate (ECC)	70.8	69.5	(1.3)
Directorate outturn	**168.0**	**168.7**	**0.7**
Corporate	0.8	0.4	(0.4)
Net expenditure outturn per accounts	**168.8**	**169.1**	**0.3**
Other budgets and reserves	(26.8)	(27.4)	(0.6)
Total	**142.0**	**141.7**	**(0.3)**

The table above complies with CIPFA's Service Reporting Code of Practice (SERCOP) which changes the budgets approved, monitored and reported on throughout the year which are set to reflect management responsibilities and accountabilities in line with normal practice. These changes are reflected in the accounts by transferring budget and actual costs to recognised service headings. This ensures that the statement of accounts are comparable to other councils for benchmarking purposes. The adjustments include allocating central budgets and technical accounting movements to comply with International Financial Reporting Standards (IFRS), including pensions, PFIs and holiday accruals. A reconciliation between the directorate totals and amounts included in the Comprehensive Income and Expenditure Accounts is shown on page 54.

Capital Programme

Capital investment for 2015/16 totalled £77.0m and included:

- Road network investment and improvements - £23m
- EnviRecover, energy from waste plant loan to be operational in 2017 - £17.4m
- Fastershire, continued investment in the rural broadband network throughout Herefordshire and Gloucestershire - £10.3m
- Hereford enterprise zone site investment works - £5.1m
- Improvements to Hereford, Ross, Bromyard and Leominster leisure centres - £3.3m

Prudential Borrowing

When capital grants cannot fund a scheme in full then the use of prudential borrowing can be considered. In 2015/16 the council utilised £31.9m of prudential borrowing to fund the capital programme, including:

- Energy from waste plant loan, £17.4m, to be funded by future loan repayments
- Road investment of £5.2m, the cost of borrowing to be financed by revenue maintenance cost savings
- LED street lighting investment of £4.0m, to be financed by energy cost savings
- Investment in leisure centres of £2.8m, to be financed by rental charges
- Purchase of three elms trading estate, £1.8m, to be funded by rental income

Future years' capital programme

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

Capital Financing	31/03/17 Estimate £m	31/03/18 Estimate £m
Capital grants	24.4	35.9
Capital receipts	7.9	6.4
Salix loan	0.3	-
Prudential borrowing	42.5	8.4
Total capital investment	**75.1**	**50.7**

Balance Sheet

The net assets on the balance sheet total £133.7m (£119.6m as at 31 March 2015), an increase of £14.1m over the course of the year mainly due to movements in year-end valuations of the pension deficit (decrease of £7.3m) and valuation of fixed assets (increase of £8.6m).

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 taken out to support the council's capital programme and borrowing limits are set in accordance with the Prudential Code for Capital Finance in Local Authorities.

In 2015/16 the council secured £13.0m of new long-term borrowing. Principal debt repayments of £8.6m were paid to the public works loan board under existing annuity and EIP (equal instalments of principal) agreements. Total interest of £5.9m was paid on all council borrowing during the year.

During the year the council continued using short-term borrowing from other local authorities to cover liquidity requirements and capital spend. At 31 March 2016 £46.5m of short-term loans from other local authorities were outstanding.

Total borrowing at the year end, including short-term loans, was £198.1m (compared to £166.3m as at 31 March 2015) with the increase representing capital investment funded by borrowing, the cost of which will be funded by the savings generated.

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

Net borrowing (after offsetting investments) was £189.0m as at 31 March 2016, compared to £161.8m as at 31 March 2015.

Council reserves

General reserves
As at 31 March 2016 the council held general reserves of £7.3m, 5% of the council's 2016/17 net budget requirement, providing resilience for the budget challenges ahead.

Earmarked reserves
As at 31 March 2016 the council held £19.1m of earmarked reserves plus £9.4m school balances, a total increase of £1.8m from 31 March 2015. Earmarked reserves include unused grants of £4.3m carried forward into 2016/17, the largest being the dedicated schools grant of £1.6m. A summary is provided below and detailed in note 11.

Balance as at:	General fund £m	Other specific £m	Total council reserves £m	Schools £m	Total earmarked £m	Total £m
31 March 2015	7.1	20.5	27.6	6.2	26.7	33.8
31 March 2016	7.3	19.1	26.4	9.4	28.5	35.8

Significant provisions, contingencies and write-offs

The council held provisions of £5.7m at 31 March 2016, as detailed in note 24.

The most significant provision is the rates appeal provision of £3.0m based on an independent external assessment of the council's liability in relation to business rate appeals at 31 March 2016.

At 31 March 2016 the council also held a provision of £2.0m for independently assessed outstanding insurance commitments. Herefordshire Council pays the first £5k to £50k of most insurance claims (depending on the type or class of the claim), known as the excess. During 2014/15 the council commissioned an actuary review of the outstanding insurance liabilities to determine the provision allowance and instructed an update to the estimation as at 31 March 2016.

A list of contingent liabilities are set out in note 42 to the Statements. Although contingent liabilities are not required to be accounted for, there is a risk reserve of £4.0m held as a general contingency against future spend.

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

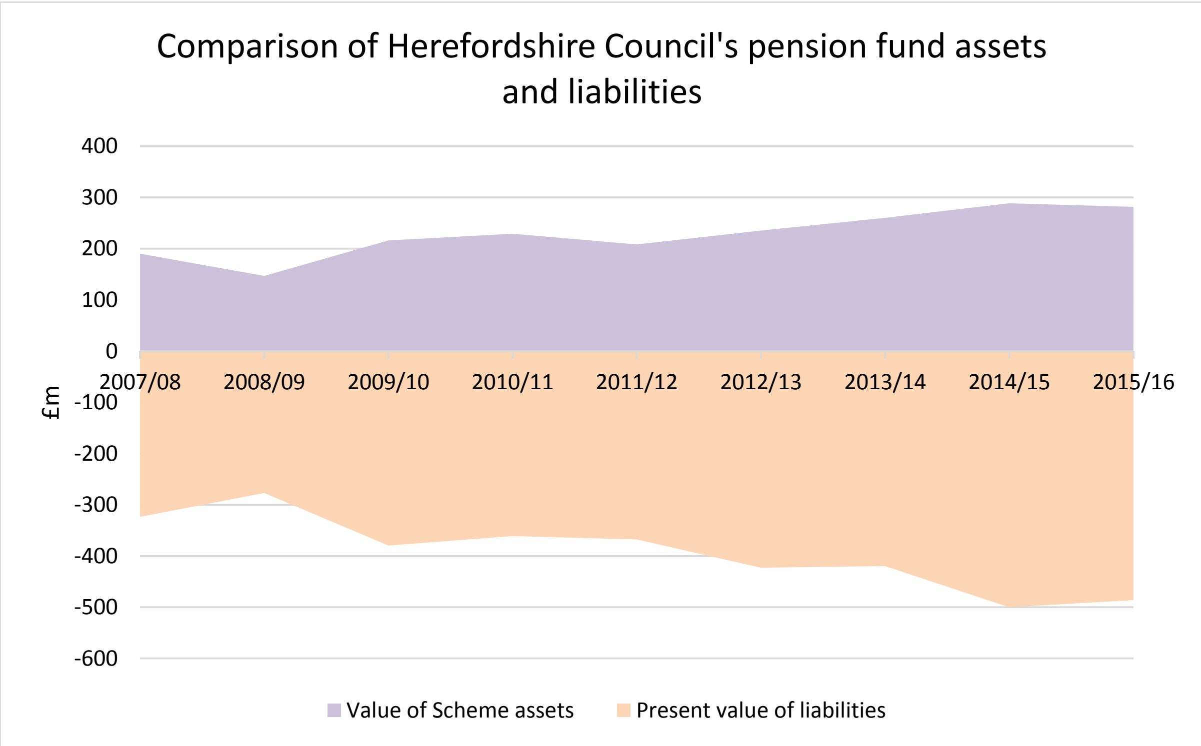
Pensions

In accordance with International Accounting Standard 19 on Retirement Benefits (IAS 19), note 41 sets out the council's assets and liabilities in respect of the Local Government Pension Scheme (LGPS). Herefordshire Council's non-teaching staff are members of the Worcestershire County Council Pension Fund. Occupational therapists who transferred during 2014/15 retained their NHS pensions.

Herefordshire's proportion of the net deficit on the Worcestershire County Council Pension Fund as at 31 March 2016 is £204.3m. Whilst this deficit does not have to be met immediately from the council's reserves, action must be taken over a period of years to eliminate it. In addition the balance sheet deficit also includes £1m relating to ex-Hereford and Worcester teachers' unfunded benefits (£1.2m at 31 March 2015).

Pension fund	As at 31 March 15 £m	As at 31 March 16 £m
Present value of obligations	500.0	486.0
Fair value of assets	(288.6)	(281.6)
Deficit	**211.4**	**204.4**

The historic movement of assets to obligations is shown below:



The council has agreed with the Actuary that in order to recover the deficit over 21 years that the employer's deficit contribution increases from £4.2m in 2013/14 to £7.6m in 2016/17. The Actuary has also requested that the element of the employer's contribution related to clearing the deficit is paid as an annual cash sum. The Actuary has confirmed that the future employers service contribution rate, which is paid as a percentage of current employees' gross pay, is to increase from 11.7% in 2013/14 to 19.3% in 2016/17. The pension fund position is reviewed every three years and was last revalued as at 31 March 2013. During 2016/17 a full review will be undertaken for the position as at 31 March 2016.

Impact of the 2015/16 economic climate

The economic climate has had an impact on the 2015/16 accounts in a number of areas:

Children's Wellbeing

The economic climate continues to affect the lives of children and young people in Herefordshire and the services that support them. Herefordshire has experienced an increase in the numbers of children needing to be looked after in 2015/16 creating cost pressures for the service, demonstrated by the directorate overspend.

In order to maintain provision for children's social care, additional cuts were made across the rest of the children's wellbeing directorate in 2015/16 balancing the need to meet the increasing cost of providing children's social care. In addition, the budget for social care placements was increased to reflect increased demand. The council continued to focus on developing approaches to prevent the need for high cost interventions, making the most of the troubled families initiative and the Herefordshire intensive placement support service.

Herefordshire has seen a significant slowdown in the number of schools converting to Academy status, with no conversions taking place in 2015/16. Academies are outside of council control with funding towards central and children's services being reduced following conversions however a number of statutory duties remain with the council creating funding pressures.

Adults and Wellbeing

The growing needs of the local population and financial pressures facing the local NHS Trust remain a key factor in the pressure on council finances. In particular, the increased demand on the social care system to enable the early discharge and prevention of admission to hospital has continued to create pressures on the council's community equipment and domiciliary care support budgets.

The 'in year' cuts to public health funding have resulted in financial pressures and additional savings requirements for 2016/17.

The devolution of and reduction in the independent living fund monies from central government has led to reductions in some care packages.

Economy, Communities and Corporate

This directorate underspent in the year demonstrating the improved performance achieved. The amount of household and commercial waste collected by the council has increased, with particularly high increases at household recycling centres. This may partly reflect an improving economy.

Increased levels of interest in business and industrial premises has been noted over the last year. This may reflect higher levels of confidence in this sector. In particular the Rotherwas enterprise zone, the county's main employment area, has seen a slight upward movement in new rents being achieved and almost all available space is now occupied.

Treasury Management activities

During the year deposit interest rates fell further with the average rate earned on the council's investments falling from 0.66% in 2014/15 to 0.59% in 2015/16. The bank base rate has been held at 0.50% for more than seven years and has significantly reduced the income that the council is able to earn on its investments.

The continuing low interest rate regime also meant that the cost of short-term finance remained favourable with the average interest rate payable on short-term borrowing from other local authorities being 0.56%, including brokers' commission. It is council strategy to maintain borrowing and investments below their underlying levels by using "internal borrowing". This means borrowing is reduced by utilising usable reserves and keeping investment balances relatively low.

Academy schools

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

Many schools in Herefordshire have become Academies. At 31 March 2016 there were 29 Academies and two free schools. When schools become Academies the ownership of the school land and buildings is transferred from the council to the school by issuing a long-term lease at a peppercorn rent.

Core Financial Statements and Explanatory Notes

2015/16 Financial Statements
The council's financial statements are set out on the following pages and comprise:

Movement in Reserves Statement (page 16)
This statement shows the movement in the year on the different reserves held by the council.

Comprehensive Income and Expenditure Statement (page 18)
This statement shows the comprehensive cost in the year of providing services, not just the cost funded from council tax.

Balance Sheet (page 19)
The Balance Sheet summarises the council's assets, liabilities and other balances at the end of the financial year.

Cash Flow Statement (page 20)
This statement represents a summary of all cash flowing in and out of the council arising from transactions with third parties. All internal transactions between the various accounts maintained by the council are excluded.

Notes to the Financial Statements (page 21)
The notes to the core financial statements provide further information on the financial activities of the council.

The Collection Fund (page 82)
This statement shows all income collected from council taxpayers and business ratepayers (NNDR). Expenditure includes council tax precept payments to the West Mercia Police and Hereford & Worcester Fire and Rescue Authority, representing income collected from council taxpayers on their behalf. Similarly the account distributes shares of the business rates collected between the council, central government and the fire authority.

The unaudited Statement of Accounts, which may be subject to change, take into account events up to 9 June 2016 have been authorised for issue on 9 June 2016 by the Section 151 Officer.

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

3. Statement of Responsibilities

The Council's Responsibilities

The council is required to:

a. Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this council, that officer is the Section 151 Officer.

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

c. Approve the statement of accounts.

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.

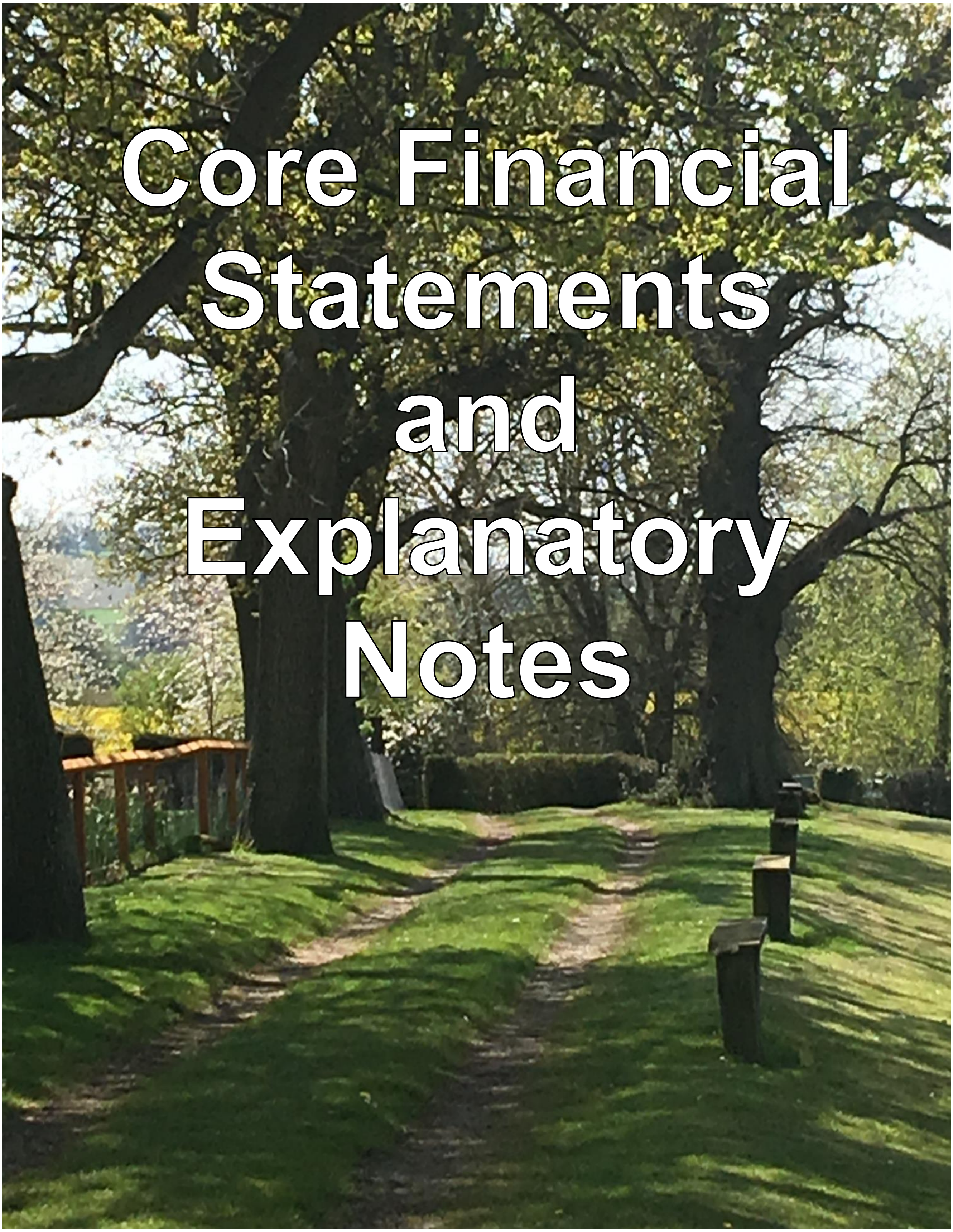
The Section 151 Officer has also:

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 acting Section 151 Officer

I certify that the Statement of Accounts gives a true and fair view of the financial position of Herefordshire Council at 31 March 2016 and its income and expenditure for the year ended 31 March 2016.


Core Financial
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4. Movement in Reserves Statement

2015/16	Notes	General Fund balance £m	Earmarked Reserves £m	Capital Receipts Reserve £m	Capital Grants Unapplied £m	Total usable reserves £m	Unusable Reserves £m	Total Reserves £m
Balance Brought Forward		**(7.1)**	**(26.7)**	**(4.4)**	**(2.5)**	**(40.7)**	**(78.9)**	**(119.6)**
Surplus or deficit on the provision of services		8.0				8.0		8.0
Other comprehensive income and expenditure							(22.1)	(22.1)
Total comprehensive income and expenditure		8.0				8.0	(22.1)	(14.1)
Adjustments between accounting basis and funding basis under regulations	9	(10.0)		3.9	1.3	(4.8)	4.8	
Net increase/decrease before transfers to earmarked reserves		(2.0)		3.9	1.3	3.2	(17.3)	(14.1)
Transfers to or from earmarked reserves	11	1.8	(1.8)					
Decrease/ (Increase) for the Year		(0.2)	(1.8)	3.9	1.3	3.2	(17.3)	(14.1)
Balance Carried Forward		**(7.3)**	**(28.5)**	**(0.5)**	**(1.2)**	**(37.5)**	**(96.2)**	**(133.7)**

2014/15 Comparative	Notes	General fund balance £m	Earmarked Reserves £m	Capital Receipts Reserve £m	Capital Grants Unapplied £m	Total usable reserves £m	Unusable Reserves £m	Total Reserves £m
Balance Brought Forward		**(5.1)**	**(23.9)**	**(5.9)**	**(6.4)**	**(41.3)**	**(119.3)**	**(160.6)**
(Surplus) or deficit on the provision of services		(7.0)				(7.0)		(7.0)
Other comprehensive income and expenditure							48.0	48.0
Total comprehensive income and expenditure		(7.0)				(7.0)	48.0	41.0
Adjustments between accounting basis and funding basis under regulations	9	2.2		1.5	3.9	7.6	(7.6)	
Net increase/decrease before transfers to earmarked reserves		(4.8)	0.0	1.5	3.9	0.6	40.4	41.0
Transfers to or from earmarked reserves	11	2.8	(2.8)			0.0		
Decrease/ (Increase) for the Year		(2.0)	(2.8)	1.5	3.9	0.6	40.4	41.0
Balance Carried Forward		**(7.1)**	**(26.7)**	**(4.4)**	**(2.5)**	**(40.7)**	**(78.9)**	**(119.6)**

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

5. Comprehensive Income and Expenditure Statement

2014/15 Expenditure £m	2014/15 Income £m	2014/15 Net £m		Notes	2015/16 Expenditure £m	2015/16 Income £m	2015/16 Net £m
71.5	(17.7)	53.8	Adult Social Care		77.8	(19.2)	58.6
135.9	(91.9)	44.0	Children's and education services		139.2	(92.4)	46.8
7.7	(1.1)	6.6	Cultural and Related Services		9.3	(0.7)	8.6
20.6	(5.4)	15.2	Environmental and Regulatory		25.9	(4.3)	21.6
14.2	(8.9)	5.3	Planning Services		17.2	(12.0)	5.2
20.8	(6.0)	14.8	Highways and Transport Services		25.2	(5.8)	19.4
55.7	(52.5)	3.2	Housing Services		55.9	(52.6)	3.3
3.8	(1.7)	2.1	Corporate and Democratic Core		1.7	0.0	1.7
1.9	(1.0)	0.9	Non-distributed Costs		2.4	(0.7)	1.7
3.0	(1.9)	1.1	Central Services to the Public		5.3	(3.6)	1.7
7.9	(8.0)	(0.1)	Public Health		8.8	(8.8)	0.0
343.0	(196.1)	146.9	**Cost of Services**		368.7	(200.0)	168.6
7.4		7.4	Other Operating Expenditure	12	3.5	(0.4)	3.1
15.2	(3.1)	12.1	Financing, Investment Income & Expenditure	13	16.3	(3.8)	12.5
			Surplus or deficit on Discontinued Operations				
	(173.4)	(173.4)	Taxation and Non-Specific Grant Income	14		(176.2)	(176.2)
		(7.0)	**Surplus or deficit on the provision of services**				8.0
		(0.9)	Surplus or deficit on revaluation of non-current assets	15			(9.6)
		48.8	Re-measurement of net defined Benefit Liability				(12.5)
			Surplus or deficit on revaluation of available-for-sale financial assets				
		40.9	**Total comprehensive income and expenditure**				**(14.1)**

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

6. Balance Sheet

31/03/2015 £m		Notes	31/03/2016 £m
492.6	Property, Plant and Equipment	15	493.5
32.0	Investment Property	15	40.6
1.2	Intangible Assets	15	0.8
2.8	Heritage Assets	15	2.8
8.9	Long Term Debtors	16	27.1
537.5	**Long-term Assets**		564.8
0.2	Short-term Investments	16	2.5
0.1	Inventories		0.2
21.5	Short Term Debtors	17	25.1
4.2	Cash & Cash Equivalents	18	7.7
3.5	Assets held for Sale	15	6.3
29.5	**Current Assets**		41.8
(28.8)	Short Term Borrowing	16	(46.2)
(29.0)	Short Term Creditors	23	(29.3)
(2.1)	Short Term Provisions	24	(0.8)
(4.0)	Cash and Cash equivalents	18	(5.5)
(2.3)	Capital Receipts in Advance		(1.4)
(66.2)	**Current Liabilities**		(83.2)
(3.2)	Long-term provisions	24	(4.9)
(137.5)	Long-term borrowing	16	(152.0)
(1.5)	Capital Grants Receipts in Advance		(2.2)
(239.0)	Other Long Term Liabilities	16	(230.6)
(381.2)	**Total Long-term Liabilities**		(389.7)
119.6	**Net Assets**		**133.7**
(40.7)	Usable Reserves	9	(37.5)
(78.9)	Unusable Reserves	10	(96.2)
(119.6)	**Total Reserves**		**(133.7)**

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

- The first category of reserves are usable reserves i.e. those reserves that the council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use.
- The second category of reserves is those that the council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve) where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line ‘Adjustments between accounting basis and funding basis under regulations’.

7. Cash flow Statement

2014/15 £m		Notes	2015/16 £m
(7.0)	Net surplus or deficit on the provision of services		8.0
(37.1)	Adjust net surplus or deficit on the provision of services for non-cash movements	19	(28.0)
2.5	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	20	1.7
(41.6)	**Net cash flows from operating activities**		(18.3)
42.0	Net cash flows from investing activities	21	47.0
4.7	Net cash flows from financing activities	22	(30.8)
5.1	**Net increase or decrease in cash and cash equivalents**		**(2.1)**
(5.2)	Cash and cash equivalents at the beginning of the reporting period		(0.1)
(0.1)	Cash and cash equivalents at the end of the reporting period		(2.2)
5.1	**Net increase or decrease in cash and cash equivalents**		**(2.1)**

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

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

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

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

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

8. Notes to the accounts

Accounting Policies

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 primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and the Service Reporting Code of Practice (SERCOP) 2015/16, supported by International Financial Reporting Standards.

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

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

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.

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

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

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.

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 for restructuring. Termination benefits are payable as a result of either:

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

b) An employee's decision to accept voluntary redundancy

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

Post-employment benefits
Employees of the council are members of three separate pension schemes;

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

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

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

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

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

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

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

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

b) Liabilities are discounted to their value at current prices using a discount rate of 3.6% (based on market yields and other factors);

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

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

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

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

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

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

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

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

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 note 41 to the Statements.

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.

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 accounts.

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.

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, please see fair value policy below for more detail.

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 on Reserves Statement.

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

Financial assets are classified into two types:

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

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

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

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.

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.

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

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.

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

Where Level 1 inputs are not available the Council's valuation team (Hub) uses 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

• 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

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.

Finance leases

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

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

Operating leases

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

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

Arrangements containing a lease

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

a) The arrangement depends on use of a specific asset

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

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

Overheads and Support Services

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

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

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

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 the 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 scheme operator to pay for the assets.

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.

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.

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

Property, plant and equipment

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

Recognition

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-minimus thresholds.

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

Schools

In line with accounting standards and the Code, maintained 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 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.

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)

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 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 up to the credit balance existing in respect of the asset and thereafter 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.

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 worth at least 20% of the asset value as being significant. This applies to enhancement expenditure and revaluations carried out from 1 April 2010. Where a component is replaced or restored, the carrying amount of the old component is derecognised.

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

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

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

b) Evidence of obsolescence or physical damage of an asset

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

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

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

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

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

Assets Held for Sale

An asset is transferred to this category when the council is committed to a plan to sell, 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.

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

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 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.

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.

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.

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

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

Charges to revenue for non-current assets
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

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

Value added tax
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.

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 entity, 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.

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 over the entity demonstrated through ownership such as a shareholding in an entity or representation on an entity's board of directors and materiality. The production of group accounts are not required. These accounts have been prepared on a single entity basis with the interests in companies and other entities recorded as financial assets at cost, less any provision for losses, or at valuation as appropriate.

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

The council holds an interest in a company called Hereford Futures, whose role was to facilitate development and regeneration within Hereford. This company did not trade in 2015/16.

West Mercia Energy (WME) operates as a joint arrangement with Herefordshire, Shropshire, Worcestershire and Telford and Wrekin councils. The financial advantage of bulk purchasing arrangements is reflected in the Comprehensive Income and Expenditure Statement. The council's share is not considered material to the accounts. At 20.8%, based on the estimated proportion of the surplus attributable to the council, the council's share of WME net liabilities of £2.2m amounted to £0.4m at 31 March 2016.

The council holds 74.7% shareholding in Hoople Ltd. This is a joint venture which the council entered into with Wye Valley NHS Trust and Herefordshire Primary Care Trust in 2011. The purpose of the joint venture was to increase efficiency and reduce back office costs for all partners. The balance sheet value of Hoople Ltd at 31 March 2015 was £3.5m (the value as at 31 March 2016 is not currently available) this is sufficient insignificant to consider preparing group accounts.

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 14 local authorities. SWAP is a company controlled within the meaning of the 1989 Local Government and Housing Act and with effect from April 1st 2013 became a publicly owned Company, Limited by Guarantee. Herefordshire Council is one of its 14 local authority partner bodies. Upon joining SWAP each partner can nominate a director to the board. Each partner, including Herefordshire Council has done this. During 2015/16 Herefordshire Council paid SWAP £0.2m for their internal audit services.

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

Non Domestic Rates (NDR)

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

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.

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

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

The 2016/17 Code will adopt the measurement requirements of the CIPFA Code of Transport Infrastructure Assets i.e. measurement on a Depreciated Replacement Cost basis and moved away from valuing Transport Infrastructure Assets on the basis of historical cost. This will represent a significant change in accounting policy from 1 April 2016. However CIPFA have indicated that no prior period restatement will be required.

This change will require the establishment of a separate class of assets for transport infrastructure assets in accordance with the types of assets classified in the Code of Practice on Transport Infrastructure assets. The Code also requires separate sub-divisions of transport infrastructure asset category for disclosure in the statement of financial accounts. Assets will be categorised into the following broad categories:

- Carriageways
- Footways and cycle tracks
- Structures
- Street lighting
- Street furniture
- Traffic Management Systems
- Land

The Accounting Code currently measures infrastructure assets at depreciated historical cost, which is compliant with the requirements of IFRS. However, CIPFA believe that depreciated replacement cost value accounting is the more appropriate measurement base of local authority assets. This would have the impact of significantly increasing the value of non-current assets held on the balance sheet with an associated significant increase in value of depreciation charges on the Comprehensive Income and Expenditure Statement.

IAS 1 Presentation of Financial Statements. This standard provides guidance on the form of the financial statements. The ‘Telling the Story’ review of the presentation of the Local Authority financial statements as well as the December 2014 changes to IAS 1 under the International Accounting Standards Board (IASB) Disclosure Initiative will result in changes to the format of the accounts in 2016/17. The format of the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement will change and introduce a new Expenditure and Funding Analysis.

Other minor changes due to Annual Improvement to IFRSs cycles, IFRS11 Joint arrangements, IAS 16 Property Plant, Equipment and IAS 38 Intangible Assets and IAS 19 Employee Benefits are minor and are not expected to have a material effect on the Council’s Statement of Accounts. The Code requires implementation from 1 April 2016 and there is therefore no impact on the 2015/16 Statement of Accounts.

From 2017/18, the 2017/18 accounts must be approved by the S151 Officer by 31 May 2018 (one month early than the current statutory deadline of 30 June), and the 2017/18 audited accounts must be published by 31 July 2018 (two months earlier than the current statutory deadline of 30 September).

The Council is already in a strong position to meet these significant challenges. There will also be additional pressure on external auditors to meet much more challenging timescales.

Critical judgements in applying accounting policies

In applying the accounting policies set out in note 8, the council has had to make certain judgements about complex transactions or those involving uncertainty about future events.

The critical judgements made in the Statement of Accounts are:

- The council is deemed to control the services provided by Shaw Healthcare under the contract for the development and provision of residential homes and day care centres. The accounting policies for PFI schemes and similar contracts have been applied to the arrangement with the associated non-current assets included in the balance sheet with a corresponding finance liability.
- The accounts have been prepared on a going concern basis.
- The council has relationships with a number of companies as detailed in note 8 but it has been determined that there is no requirement for group accounts.

- Included in current assets are assets held for sale valued at £6.3m in accordance with accounting practice. These assets are being actively marketed and as such are not depreciated.
- Long term assets include heritage assets of £2.8m that have been recognised in the accounts at open market value having been professionally valued in May 2012. Heritage assets will not be depreciated and the carrying amount will be reviewed at least every five years in addition to a review if there is evidence of impairment. Any variations to individual valuations will not have a material impact on the accounts.
- The council has examined its leases and classified them as either operational or finance leases depending on the transfer of risks and rewards of ownership. In some cases the council has used its judgement to determine the correct accounting treatment.

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.

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 2016:

Item	Uncertainties	Effect if actual results differ from assumptions
Pensions liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. The pension fund actuary Mercer Ltd is employed by the pension fund to provide expert advice about the assumptions to be applied.	Changes in any of the assumptions can have a significant effect on the pensions liability shown in the accounts. An increase in the discount rate used of 0.1% would decrease the liability stated by £8.8m. An increase of 0.1% in the inflation rate used would increase the stated liability by £9.0m. An increase of 0.1% in the rate of pay growth used would increase the stated liability by £1.6m. A one year increase in the assumed life expectancy would increase the stated liability by £9.5m. However, the assumptions interact in complex ways. During 2015/16 the council's actuaries advised that the net pension's liability had reduced by £12.4m as a result of the updating of assumptions.

Non-current assets - depreciation	Non-current assets held on the Balance Sheet have an estimated useful life. This is based the professional judgement of our external valuers.	Depreciation is applied on a straight line basis over the useful life of the asset. Variations to the useful life will alter the amount of depreciation charged to the Comprehensive Income and Expenditure Statement. The impact of this is minimised by a review of the useful life of an asset being undertaken at each valuation.
Provisions	A reliable estimate of sums falling due in future years have been included as year-end provisions, the most significant being in relation to insurance claims and rate appeals.	Actual settlements could differ from the professionally valued estimate provided for. Where the actual settlement is less unused provisions are released to the Comprehensive Income and Expenditure Statement. Where settlements exceed the provision value earmarked reserve funding is used.
Property, plant, equipment and investment properties	A full valuation of assets held is completed in accordance with the professional standards of the Royal Institution of Chartered Surveyors every 5 years. In addition an annual impairment and valuation review is carried out as a desk top exercise for properties not valued in the year.	There is a risk of an adjustment in the year when the property is revalued. The risk of value misstatement of a fair value to its carrying value is reviewed annually and amended where considered significant.

Material Items of Income and Expense
There were no material items of income and expense included the Comprehensive Income and Expenditure Account for 2015/16.

Events after the Balance Sheet Date
The unaudited Statement of Accounts was authorised for issue on 9 June 2016 by the Section 151 Officer. Events taking place after this date are not reflected in the financial statements or notes.

On 23 June the country voted to leave the European Union. The actual leaving process is yet to commence and will include two years of negotiating the final exit package. No adjustments have been made to the statement of accounts in recognition of this vote. The council will play an active role in managing the risks of departure wherever possible by providing support to businesses, individuals and funding opportunities through playing an active role in any consultation process.

9. Adjustments between Accounting Basis and Funding Basis under Regulations

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

2015/16 movements	General Fund Revenue £m	Capital Receipts Reserve £m	Capital Grants Unapplied Account £m	Total Usable Reserves £m
Depreciation	(14.8)			(14.8)
Impairment	(28.1)			(28.1)
Net revenue expenditure funded by capital under statute	(0.8)			(0.8)
Net book value of assets sold	(1.3)			(1.3)
Capital receipts from assets sold	1.8	(1.8)		0.0
Net Gains/Losses on Value of Investment Assets	0.1			0.1
Adjustments for Council Tax Receivable	1.2			1.2
Short Term Leave Adjustment	(0.2)			(0.2)
Capital Financed by Receipts		5.7		5.7
Provision for the Redemption of Debt	11.6			11.6
Revenue Contribution to Capital Outlay	0.6			0.6
Reversal of IAS19 Pensions Charges	(5.1)			(5.1)
Capital Financed by Grants and Contributions	25.0		1.3	26.3
Total adjustment	**(10.0)**	**3.9**	**1.3**	**(4.8)**

Comparative 2014/15 movements	General Fund Revenue £m	Capital Receipts Reserve £m	Capital Grants Unapplied Account £m	Total Usable Reserves £m
Depreciation	(15.6)			(15.6)
Impairment	(6.7)			(6.7)
Write down of Deferred Charges	(0.4)			(0.4)
Net P/L on Sale of Fixed Assets (NBV)	(6.1)			(6.1)
Net P/L on Sale of Fixed Assets (Receipts)	2.0	(2.0)		0.0
Adjustments for Council Tax Receivable	(0.6)			(0.6)
Short Term Leave Adjustment	(0.3)			(0.3)
Capital Financed by Receipts		3.5		3.5
Capital Expenditure Funded Under Direction	19.0			19.0
Capital Grants Receivable Adjustment	0.4		(0.4)	0.0
Provision for the Redemption of Debt	11.1			11.1
Revenue Contribution to Capital Outlay	2.8			2.8
Reversal of IAS19 Pensions Charges	(3.4)			(3.4)
Capital Financed by Grants & Contributions			4.3	4.3
Total adjustment	**2.2**	**1.5**	**3.9**	**7.6**

10. Movement in unusable reserves analysis

2015/16 movements	Short Term Absences Account	Capital Adjustment Account	Collection Fund Adjustment Account	Financial Instruments Adjustment Account	Pensions Reserve	Revaluation Reserve	Deferred capital receipts reserve	Total Unusable Reserves
Opening Balance	**2.0**	**(241.5)**	**2.3**	**0.4**	**212.7**	**(54.5)**	**(0.3)**	**(78.9)**
Depreciation		14.8						14.8
Impairment		28.0						28.0
Net revenue expenditure funded by capital under statute		0.8						0.8
Net book value of assets sold		1.3						1.3
Net Gains/Losses on Value of Investment Assets		(0.1)						(0.1)
Adjustments for Council Tax Receivable			(1.2)					(1.2)
Short Term Leave Adjustment	0.2							0.2
Capital Financed by Receipts		(5.7)						(5.7)
Provision for the Redemption of Debt		(11.6)						(11.6)
Revenue Contribution to Capital Outlay		(0.6)						(0.6)
Reversal of IAS19 Pensions Charges					5.1			5.1
Net Movement in Revaluation Reserve						(9.6)		(9.6)
Actuarial Gain/Loss on Pensions					(12.4)			(12.4)
Capital Financed by Grants and Contributions		(26.3)						(26.3)
Depreciation Revaluation Adjustment		(1.0)				1.0		0.0
Total adjustment	**0.2**	**(0.4)**	**(1.2)**	**0.0**	**(7.3)**	**(8.6)**	**0.0**	**(17.3)**
Closing Balance	**2.2**	**(241.9)**	**1.1**	**0.4**	**205.4**	**(63.1)**	**(0.3)**	**(96.2)**

2014/15 Comparative	Short Term Absences Account	Capital Adjustment Account	Collection Fund Adjustment Account	Financial Instruments Adjustment Account	Pensions Reserve	Revaluation Reserve	Deferred Capital Receipts Reserve	Total Unusable Reserves
Opening Balance	**1.7**	**(227.9)**	**1.7**	**0.4**	**160.4**	**(55.3)**	**(0.3)**	**(119.3)**
Revaluation Gains						(0.9)		(0.9)
Depreciation		15.6						15.6
Impairment		6.7						6.7
Write down of Deferred Charges		0.4						0.4
Net P/L on Sale of Fixed Assets (NBV)		6.1				0.1		6.2
Adjustments for Council Tax Receivable			0.6					0.6
Short Term Leave Adjustment	0.3							0.3
Capital Financed by Receipts		(3.6)						(3.6)
Capital Expenditure Funded Under Direction		(19.0)						(19.0)
Provision for the Redemption of Debt		(11.1)						(11.1)
Revenue Contribution to Capital Outlay		(2.8)						(2.8)
Reversal of IAS19 Pensions Charges					3.4			3.4
Actuarial Gain/Loss on Pensions					48.9			48.9
Capital Financed by Grants and Contributions		(4.3)						(4.3)
Depreciation Revaluation Adjustment		(1.6)				1.6		0.0
Total adjustment	**0.3**	**(13.6)**	**0.6**	**0.0**	**52.3**	**0.8**	**0.0**	**40.4**
Closing Balance	**2.0**	**(241.5)**	**2.3**	**0.4**	**212.7**	**(54.5)**	**(0.3)**	**(78.9)**

11. 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 2015/16:

Reserve	31/03/15 £m	Transfer out 2015/16 £m	Transfer (in) 2015/16 £m	31/03/16 £m
School balances	(6.2)		(1.2)	(7.4)
Industrial Estates	(0.4)			(0.4)
Schools sickness	(0.2)		(0.1)	(0.3)
Waste Disposal	(3.2)		(0.2)	(3.4)
Contingent liabilities	(0.3)	0.3		0.0
Hereford Futures	(0.4)	0.3		(0.1)
Whitecross school PFI	(0.4)		(0.2)	(0.6)
Economic Development	(0.1)			(0.1)
Community Equipment	(0.1)	0.1		0.0
Insurance	0.0		(0.2)	(0.2)
Risk mitigation	(4.5)	0.5		(4.0)
Business Rate smoothing	(3.2)			(3.2)
Land charges	(0.5)	0.5		0.0
ICT	(0.6)		(0.3)	(0.9)
Library services	(0.4)			(0.4)
Herefordshire Local Plan	(0.2)			(0.2)
Special Educational Needs	(0.1)			(0.1)
Section 256	(0.1)			(0.1)
Severe Weather Fund	(0.5)		(0.3)	(0.8)
Infrastructure Development Fund	(0.2)	0.2		0.0
AWB Invest to Save	(0.3)	0.2		(0.1)
Herefordshire Relief Road	0.0		(0.5)	(0.5)
Property Development Vehicle	0.0		(0.2)	(0.2)
Merton Meadow Car Park	0.0		(0.3)	(0.3)
Colwall Mobiles	0.0		(0.4)	(0.4)
Other small reserves	(0.3)	0.1	(0.3)	(0.5)
Unused grants carried forward	(4.5)	0.9	(0.7)	(4.3)
Total	**(26.7)**	**3.1**	**(4.9)**	**(28.5)**

12. Other Operating Expenditure

2014/15 £m		2015/16 £m
3.1	Parish Council precepts	3.3
0.2	Levies	0.2
4.1	(Gains)/losses on the disposal of non-current assets	(0.4)
7.4	**Total**	**3.1**

13. Financing and Investment Income and Expenditure

2014/15 £m		2015/16 £m
7.2	Interest payable and similar charges	8.0
7.1	Pensions net interest and admin charge	6.8
(0.4)	Interest receivable	(0.8)
(1.4)	Income and expenditure in relation to trading accounts/investment properties and changes in their fair value	(1.1)
(0.4)	Other investment income	(0.4)
12.1	**Total**	**12.5**

14. Taxation and Non Specific Grant Income

2014/15 £m		2015/16 £m
(85.5)	Council tax income	(88.4)
(27.3)	Non domestic rates	(29.9)
(41.2)	Non-ring fenced government grants	(32.9)
(19.4)	Capital grants and contribution	(25.0)
(173.4)	**Total**	**(176.2)**

15. Fixed assets

	Carrying Value at 01/04/15															Carrying Value at 31/03/16		
	Gross Value	Accumulated Depreciation/ Impairment	Net Value	Additions	Impairment	Disposals (Gross Value)	Disposals (Accumulated Depreciation/Impairment)	Revaluation Reserve increases/(decreases)	Revaluation increases/ (decreases) recognised in CIES	Impairment	Depreciation writeback	Asset category transfer Gross Value	Asset category transfer Accumulated depreciation	Depreciation Writeback on Revaluation	Depreciation	Gross Value	Accumulated Depreciation/ Impairment	Net Value
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m		£m	£m	£m	£m	£m
Land & Buildings	283.6	(17.9)	265.7	8.6	(6.2)	(0.7)	0.1	9.9	(17.2)	0.5	(9.2)	32.4	(16.1)	9.2	(6.3)	301.2	(30.5)	270.7
Vehicles, Plant, Furniture & Equipment	22.2	(17.1)	5.1	1.1	(16.6)			0.6		14.3		(0.5)	0.5		(0.1)	6.8	(2.4)	4.4
Infrastructure Assets	231.3	(45.2)	186.1	29.3	(4.2)					2.1		5.1			(8.3)	261.5	(51.4)	210.1
Community Assets	1.9		1.9	0.1	(0.2)							0.8				2.6		2.6
Surplus Assets	4.5		4.5		(0.6)							(3.2)				0.7		0.7
Assets under Construction	29.3		29.3			(0.6)						(23.7)				5.0		5.0
Intangible Assets	12.2	(11.0)	1.2	0.1	(9.4)					8.9						2.9	(2.1)	0.8
Heritage Assets	2.8		2.8		0.1							(0.1)				2.8		2.8
Assets Held For Sale	3.5		3.5			(0.1)		1.0				1.9				6.3		6.3
Investment	32.0		32.0	7.2	(1.6)				0.1			2.9				40.6		40.6
Total Fixed assets	**623.3**	**(91.2)**	**532.1**	**46.4**	**(38.7)**	**(1.4)**		**11.5**	**(17.1)**	**25.8**	**(9.2)**	**15.6**	**(15.6)**	**9.2**	**(14.7)**	**630.4**	**(86.4)**	**544.0**
PFI assets incl. in PPE	14.8	(2.6)	12.2	0.4												15.2	(2.6)	12.6

Comparative Movements in 2014/15:

Carrying Value at	01/04/14													Carrying Value at 31/03/15		
	Gross Value	Accumulated Depreciation/ Impairment	Net Value	Additions	Disposals (Gross Value)	Disposals (Accumulated Depreciation/Impairment)	Revaluation Reserve increases/(decreases)	Revaluation increases/ (decreases) recognised in CIES	Impairment	Depreciation writeback	To held for sale	Depreciation Writeback on Revaluation	Depreciation	Gross Value	Accumulated Depreciation/ Impairment	Net Value
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Land & Buildings	293.6	(19.3)	274.3	11.2	(6.3)	0.5	0.5	(6.8)		(7.8)	(0.8)	7.8	(6.9)	283.6	(17.9)	265.7
Vehicles, Plant, Furniture & Equipment	20.6	(15.8)	4.8	1.7	(0.1)								(1.3)	22.2	(17.1)	5.1
Infrastructure Assets	198.3	(39.5)	158.8	33.0									(5.7)	231.3	(45.2)	186.1
Community Assets	1.9		1.9											1.9		1.9
Surplus Assets	4.2		4.2		(0.1)		0.4							4.5		4.5
Assets under Construction	15.2		15.2	14.1										29.3		29.3
Intangible Assets	12.2	(9.3)	2.9										(1.7)	12.2	(11.0)	1.2
Heritage Assets	2.8		2.8											2.8		2.8
Assets Held For Sale	2.7		2.7								0.8			3.5		3.5
Investment	30.2		30.2	1.8										32.0		32.0
Total Fixed assets	581.7	(83.9)	497.8	61.8	(6.5)	0.5	0.9	(6.8)		(7.8)		7.8	(15.8)	623.3	(91.2)	532.1
PFI assets incl. in PPE	10.6	(2.9)	7.7	0.1			2.5	1.9		(0.3)		0.3		14.8	(2.6)	12.2

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

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

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

Directorate	Depreciation £m	Impairments / revaluations £m	Total 2015/16 £m
Adults and Wellbeing	0.1	1.2	1.3
Children's Wellbeing	3.4	8.1	11.5
Economy, Communities and Corporate	11.3	18.8	30.1
Total	**14.8**	**28.1**	**42.9**

Capital Commitments
At 31 March 2016 the council did not have major capital commitments (31 March 2015 £5.8m).

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

Of the land buildings held at fair value as at 31 March, £366.9m, the effective date of revaluations are as follows:

Valued at fair value as at:	Land and buildings £m
31st March 2016	105.8
31st March 2015	122.8
31st March 2014	53.3
31st March 2013	61.4
31st March 2012	23.6
Total	**366.9**

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

2014/15 £m		2015/16 £m
(2.3)	Rental income from investment property	(0.9)
0.7	Direct operating expenses arising from investment property	0.1
(1.6)	**Net gain**	**(0.8)**

Details of the council's investment properties and information about the fair value hierarchy as at 31 March 2015 and 2016 are as follows:

Recurring fair value measurements using:	Quoted prices in active markets for identical assets Level 1 £m	Other Significant observable inputs Level 2 £m	Significant unobservable inputs Level 3 £m
Investment properties as at 31 March 2015	0	30.2	0
Investment properties as at 31 March 2016	0	32.0	0

16. 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, general rates etc, are not classed as financial instruments as they do not arise from contracts. Also excluded from the above analysis are accounting adjustments relating to accruals and payments in advance.

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.

2014/15 Per Balance Sheet £m	2014/15 Financial Instruments £m		2015/16 Per Balance Sheet £m	2015/16 Financial Instruments £m
		Long-term debtors		
7.1	7.1	Loans	25.2	25.2
1.8	0.0	PFI lifecycle costs	1.9	0.0
8.9	**7.1**	**Total**	**27.1**	**25.2**
		Investments		
0.2	0.2	Short-term investments	2.5	2.5
4.2	4.2	Cash and cash equivalents	7.7	7.7
4.4	**4.4**	**Total**	**10.2**	**10.2**
		Short-term debtors		
15.1	15.1	Sales invoices and contractual rights	20.2	20.2
7.1	0.0	Statutory debts (council tax, VAT etc)	6.5	0.0
2.1	0.0	Prepayments	1.8	0.0
(3.1)	0.0	Bad debt provisions	(3.4)	0.0
0.3	0.3	Loans	0.0	0.0
21.5	**15.4**	**Total**	**25.1**	**20.2**

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

2014/15 Per Balance Sheet £m	2014/15 Financial Instruments £m		2015/16 Per Balance Sheet £m	2015/16 Financial Instruments £m
		Cash and cash equivalents		
4.0	**4.0**	**Total**	**5.5**	**5.5**
		Short-term borrowing		
0.1	0.1	Bank loans	0.1	0.1
9.5	9.5	Public Works Loan Board	9.4	9.4
19.1	19.1	Borrowing from other local authorities	36.6	36.6
0.1	0.1	Other loans (Salix loan)	0.1	0.1
28.8	**28.8**	**Total**	**46.2**	**46.2**
		Short-term creditors		
20.5	20.4	Invoiced amounts and other contractual liabilities	18.4	18.4
1.4	0	Statutory liabilities (PAYE etc)	2.8	0
6.8	2.0	Accruals and receipts in advance	7.6	2.2
0.3	0	Funds and deposits held	0.5	0
29.0	**22.4**	**Total**	**29.3**	**20.6**

		Long-term borrowing		
124.9	124.9	Public Works Loan Board	129.5	129.5
12.5	12.5	Bank loans	12.5	12.5
0	0	Borrowing from other local authorities	10.0	10.0
0.1	0.1	Other loans (Salix loan)	0	0
137.5	**137.5**	**Total**	**152.0**	**152.0**
		Other long-term liabilities		
26.3	26.3	PFI liabilities and finance leases	25.3	25.3
212.7	0	Pensions liability	205.3	0.0
239.0	**26.3**	**Total**	**230.6**	**25.3**

Income, Expense, Gains and Losses

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

2014/15 Financial Liabilities at amortised cost	2014/15 Financial assets: Loans and receivables	2014/15 Total		2015/16 Financial Liabilities at amortised cost	2015/16 Financial assets: Loans and receivables	2015/16 Total
£m	£m	£m		£m	£m	£m
			Interest payable and similar charges			
			Interest expense relating to:			
5.1		5.1	Loans	5.9		5.9
2.1		2.1	PFI liabilities	2.1		2.1
7.2		**7.2**	**Total expense in surplus on the provision of services**	**8.0**		**8.0**
			Interest receivable:			
	(0.2)	(0.2)	On loans		(0.8)	(0.8)
	(0.2)	(0.2)	On investments			
	(0.4)	**(0.4)**	**Total income in surplus on the provision of services**		**(0.8)**	**(0.8)**
7.2	**(0.4)**	**6.8**	**Net loss/(gain) for the year**	**8.0**	**(0.8)**	**7.2**

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 premature repayment rates at the year end.
- The fair values of the bank loans have been assessed using the market cost of equivalent loans with the same remaining periods to maturity.
- No early repayment or impairment is recognised.

- Where an instrument will mature in the next 12 months, the carrying amount is assumed to approximate to fair value.
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

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

31 March 2015			31 March 2016	
Carrying amount	Fair value		Carrying amount	Fair value
£m	£m		£m	£m
166.3	213.9	Total borrowing	198.2	248.5

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 £25.2m and the fair value as at 31.03.16 totals £39.4m. The accounts have not been adjusted for this as the PFI schemes are set to continue until expiry.

31/03/15 Carrying amount	Fair value		Carrying amount	Fair value (using premature repayment rate)	31/03/16 Fair value (using new loan rate)
£m	£m		£m	£m	£m
		Financial Assets			
0.0	0.0	Long-term investments	0.0	0.0	0.0
8.9	8.9	Long-term debtors	27.1	27.1	27.1
0.2	0.2	Short-term investments	2.5	2.5	2.5
4.2	4.2	Cash and cash equivalents	7.7	7.7	7.7
21.5	21.5	Short-term debtors	25.1	25.1	25.1
34.8	34.8	**Total Financial Assets**	62.4	62.4	62.4
		Financial Liabilities			
134.5	176.1	Public Works Loan Board loans	138.8	181.9	161.3
12.6	18.5	Bank Loans (LOBOs)	12.6	19.9	16.1
19.1	19.1	Loans from other local authorities	46.6	46.7	46.6
0.2	0.2	Other loans (Salix loan)	0.1	0.1	0.1
29.0	29.0	Short-term creditors	29.3	29.3	29.3
26.4	44.4	PFI Liabilities and finance leases	25.3	39.5	39.5
221.8	287.3	**Total Financial Liabilities**	252.7	317.3	292.8

31 March 2015 £m	Recurring fair value measurements	Input level in fair value hierarchy	Valuation technique used to measure fair value	31 March 2016 £m
	Assets			
6.2	Long term debtor – Mercia Waste Management Loan	2	Discount contractual cash flows at the market rate for a similar instrument of the same remaining term with a counterparty of similar credit standing	24.4
0.9	Long Term debtor – Other	3	Valued at amortised cost due to absence of comparable evidence or principal market	0.8
1.8	PFI lifecycle costs	2	Discount contractual cash flows at of the remaining term	1.9
8.9	**Sub-total long term debtors**			**27.1**
25.9	Other – short term	N/A	Fair value disclosure is not required for short-term investments, short term debtors or cash	35.3
34.8	**Total Assets**			**62.4**
	Liabilities			
176.3	PWLB & other debt	2	Discount contractual cash flows at the market rate for LA loans of the same remaining term	161.4
18.5	LOBO	2	Discount contractual cash flows at the market rate for LA loans of the same remaining term and add the value of the lenders' option from a market option pricing model	16.1
44.4	PFI Scheme Liabilities & Finance Lease Payables	2	Discount contractual cash flows of the remaining term	39.5
48.1	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	75.8
287.3	**Total Liabilities**			**292.8**

17. Debtors

31/03/15 £m		31/03/16 £m
5.7	Central government bodies	4.2
0.4	Other local authorities	5.5
3.2	NHS bodies	2.5
15.3	Other entities and individuals	16.3
(3.1)	Provision for bad debts	(3.4)
21.5	**Total**	**25.1**

18. Cash and Cash Equivalents

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

31/03/15 £m		31/03/16 £m
1.6	Cash held by the council	2.7
2.6	Short-term deposits	5.0
4.2	**Total**	**7.7**
(4.0)	Bank current accounts	(5.5)
0.2	**Total Cash and Cash Equivalents**	**2.2**

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

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

2014/15 £m		2015/16 £m
(0.1)	Net Movement in Inventories	0.1
(0.9)	Net Movement in Debtors	21.8
(2.6)	Net Movement in Creditors	(0.3)
(22.6)	Depreciation, amortisation & impairment of non-current assets	(42.9)
(6.0)	Net Gain/Loss on sale of non-current assets (net book value of assets)	(1.3)
(3.4)	Net Charges made for retirement benefits in accordance with IAS 19	(5.1)
0.0	Movement in the market value of Investment Properties	0.1
(1.5)	Net Movement in Provisions	(0.4)
(37.1)	**Total**	**(28.0)**

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

2014/15 £m		2015/16 £m
2.5	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	1.7
2.5	**Total**	**1.7**

21. Investing activities

2014/15 £m		2015/16 £m
61.8	Purchase of property, plant and equipment, investment property and intangible assets	46.4
10.0	Purchase of short-term and long-term investments	
(2.5)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(1.7)
(27.3)	Other receipts from investing activities	2.3
42.0	**Total**	**47.0**

22. Financing activities

2014/15 £m		2015/16 £m
(76.5)	Cash receipts of short- and long-term borrowing	(154.0)
1.0	Cash payments for the reduction of the outstanding liability relating to finance leases and on-balance sheet PFI contracts	1.1
80.2	Repayments of short-and long-term borrowing	122.1
4.7	**Total**	**(30.8)**

23. Creditors

31/03/15 £m		31/03/16 £m
(4.8)	Central government bodies	(4.8)
(3.0)	Other local authorities	(0.2)
(0.2)	NHS bodies	(1.4)
(21.0)	Other entities and individuals	(22.9)
(29.0)	**Total**	**(29.3)**

24. Provisions

The movement on provisions from 1 April 2014 to 31 March 2016 is set out below:

	Long-term £m	Short-term £m	Total £m
Balance at 1 April 2014	**(1.6)**	**(2.1)**	**(3.7)**
Additional provisions made in 2014/15	(2.2)	(2.4)	(4.6)
Amounts used in 2014/15		2.0	2.0
Unused amounts reversed in 14/15	0.6	0.4	1.0
Balance at 31 March 2015	**(3.2)**	**(2.1)**	**(5.3)**
Additional provisions made in 2015/16	(1.8)	(0.7)	(2.5)
Amounts used in 2015/16	0.1	1.1	1.2
Unused amounts reversed in 15/16		0.9	0.9
Balance at 31 March 2016	**(4.9)**	**(0.8)**	**(5.7)**

The provisions held at 31 March 2016 are;

31/03/15 £m	Provision Name	Description	Additional provisions £m	Amounts used £m	Unused amounts reversed £m	31/03/16 £m
(0.2)	Redundancy	Based on the number of planned redundancies and staff identified at risk of redundancy at 31st March 2015 plus contractual commitments to cover redundancies for transferred staff in partner organisations	(0.6)	0.2		(0.6)
(2.1)	Insurance	For potential future insurance claims based on external professional assessment		0.1		(2.0)
(0.1)	Disputed Invoices	Estimated costs relating disputed invoices for provision of childcare at Ledbury Road		0.1		0.0
0.0	Special Schools	For high needs top-up funding from special schools, PRUs and home hospital service	(0.1)			(0.1)
(0.3)	Academy Recoupment	For potential monies to be claimed back by DfE		0.3		0.0
(2.6)	NNDR appeals	For future appeals against rating valuations which will affect rating income due for 2014/15 and prior years. This figure is after spreading the impact of appeals affecting pre April 2013, as allowed by legislation.	(1.8)	0.5	0.9	(3.0)
(5.3)		**Total**	**(2.5)**	**1.2**	**0.9**	**(5.7)**

25. 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 pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the 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.

2014/15 £m		2015/16 £m
160.4	**Balance at 1 April**	**212.7**
48.9	Re-measurement of the net defined benefit liability	(12.5)
13.8	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	17.6
(10.4)	Employer's pensions contributions and direct payments to pensioners payable in the year	(12.4)
212.7	**Balance at 31 March**	**205.4**
211.5	Local Government pension scheme	204.4
1.2	Teachers	1.0
212.7	**Balance at 31 March**	**205.4**

26. Amounts Reported for Resource Allocation Decisions

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

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

Directorate Income and Expenditure

The income and expenditure of the council's directorates and corporate spend as reported to Cabinet in the 2015/16 out-turn report is as follows:

Directorate Income and Expenditure	Adults Wellbeing	Children's Wellbeing	Economy, Communities & Corporate	Corporate	Total
2015/16	**£m**	**£m**	**£m**	**£m**	**£m**
Fees, charges & other service income	(17.2)	(10.3)	(22.6)	0.0	(50.1)
Government grants	(12.4)	(80.6)	(9.9)	(49.4)	(152.3)
Total Income	**(29.6)**	**(90.9)**	**(32.5)**	**(49.4)**	**(202.4)**
Employee expenses	11.5	71.3	19.4	0.8	103.0
Other service expenses	72.9	51.0	92.0	49.0	264.9
Support services	4.1	8.9	(9.4)	0.0	3.6
Total Expenditure	**88.5**	**131.2**	**102.0**	**49.8**	**371.5**
Net Expenditure	**58.9**	**40.3**	**69.5**	**0.4**	**169.1**

The following table shows the comparative figures for 2014/15:

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

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

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

2014/15 £m		2015/16 £m
145.7	**Net expenditure in the Directorate Analysis**	169.1
1.2	Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Account	(0.4)
146.9	**Cost of services in the Comprehensive Income and Expenditure Statement**	**168.7**

Reconciliation to Subjective Analysis

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

2015/16	Directorate Analysis £m	Amounts not Included in I & E £m	Cost Of Services £m	Corporate Items £m	Total £m
Fees, charges & other service income	(50.2)	2.5	(47.7)		(47.7)
Financing and investment income				(3.8)	(3.8)
Income from council tax				(88.3)	(88.3)
Gains on Disposals of PP&E				(0.4)	(0.4)
Government grants and contributions	(152.2)		(152.2)	(88.0)	(240.2)
Total Income	**(202.4)**	**2.5**	**(199.9)**	**(180.5)**	**(380.4)**
Employee expenses	103.1	(0.2)	102.9		102.9
Other service expenses	265.0	(2.2)	262.8		262.8
Support Service recharges	3.6	(0.3)	3.2		3.2
Financing and investment expenditure				16.2	16.2
Precepts & Levies		(0.2)	(0.2)	3.5	3.3
Total expenditure	**371.7**	**(2.9)**	**368.7**	**19.7**	**388.4**
(Surplus) or deficit on the provision of services	**169.3**	**(0.4)**	**168.8**	**(160.8)**	**8.0**

The following table shows the comparative figures for 2014/15:

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

27. 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.

2014/15 £m		2015/16 £m
	Markets	
	The council owns and manages open and closed markets, generating income from letting of premises and market stalls.	
(0.6)	Turnover	(0.6)
0.4	Expenditure	0.7
(0.2)	(Surplus)/deficit	0.1
	Industrial Estates	
	The council owns and manages a number of industrial estates in the county.	
(1.2)	Turnover	(1.3)
0.5	Expenditure	0.6
(0.7)	(Surplus)/deficit	(0.7)

	Retail Properties	
	The council owns retail premises in Hereford City centre from which it receives commercial rents.	
(0.5)	Turnover	(0.5)
0.0	Expenditure	0.1
(0.5)	(Surplus)/deficit	(0.4)
(1.4)	**Total**	**(1.0)**

The trading accounts are incorporated into the Comprehensive Income and Expenditure Statement as part of the line 'Financing and investment income and expenditure' (note 5).

28. Agency Services

During 2015/16 the council incurred spend in relation to the Golden Valley Fastershire capital project to provide improved broadband speeds throughout the rural areas of Herefordshire and Gloucestershire. In 2015/16 spend totalled £10.2m (2014/15 £8.0m) under the Fastershire project, of which £4.1m (2014/15 £5.4m) represents spend in the Gloucestershire area that is not shown in the council accounts as this spend is incurred under an agency arrangement.

29. Pooled Budgets

The council has two pooled budgets for 2015/16, the continuation of the complex needs solution pooled budget from 2014/15 and the new pooled budget arrangement for the Better Care Fund.

Complex Needs Solution (CNS)

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

2014/15 £m	£m		2015/16 £m	£m
		Funding provided to the pooled budget:		
(3.0)		Herefordshire Council	(3.0)	
(0.5)		Herefordshire CCG	(0.5)	
	(3.5)			(3.5)
		Expenditure met from the pooled budget		
3.0		Herefordshire Council	3.2	
0.5		Herefordshire CCG	0.5	
	3.5			3.7
	0.0	**Net deficit on the pooled budget during the year**		**0.2**
	0.0	**Council share of the net deficit**		**0.2**

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.

2015/16 is the first year of operation for the pooled fund, therefore no comparative figures are reported.

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 set national minimum contributions to the pool for both revenue and capital and specified that certain funding streams must be included within the minimum fund. Partners were permitted, and encouraged, to pool more than the minimum requirement. The Better Care Fund in Herefordshire has three components as additional funds from both partners were included in the pool.

Minimum Revenue Pool

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

		2015/16 £m
Funding provided to the pooled budget		
Herefordshire council	0	
Herefordshire CCG	11.7	
		11.7
Expenditure met from the pooled budget		
Herefordshire council	5.0	
Herefordshire CCG	6.7	
		11.7
Net surplus arising		**0**
Herefordshire council share of surplus		**0**

Capital Pool

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

		2015/16 £m
Funding provided to the pooled budget		
Herefordshire council	1.4	
Herefordshire CCG	0	
		1.4
Expenditure met from the pooled budget		
Herefordshire council	1.4	
Herefordshire CCG	0	
		1.4
Net surplus arising		**0**
Herefordshire council share of surplus		**0**

Additional Revenue Pool

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

		2015/16 £m
Funding provided to the pooled budget		

Herefordshire council	18.3	
Herefordshire CCG	8.7	
		27.0
Expenditure met from the pooled budget		
Herefordshire council	18.4	
Herefordshire CCG	9.9	
		28.3
Net surplus (deficit) arising		**(1.3)**
Herefordshire council share of surplus (deficit)		**(0.9)**

30. Officers' Remuneration

Officer's 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 2015/16 salary banding information is set out below. This includes the cost of living pay award agreed to March 2016. Employees receiving remuneration for the year (excluding employer's pension contributions) were paid the following amounts per pay band. These numbers include the employees shown in the senior employees disclosure note. Where no employees fell within a particular band the band is not shown in the table.

2014/15			Remuneration Band		2015/16		
Non-school	School	Total	From £000	To £000	Non-school	School	Total
17	25	42	50	55	13	24	37
6	17	23	55	60	9	16	25
1	7	8	60	65	4	12	16
6	7	13	65	70	2	4	6
2	1	3	70	75	3	3	6
5	1	6	75	80	2	1	3
0	2	2	80	85	3	1	4
2	2	4	85	90	0	1	1
1	1	2	90	95	1	1	2
1	0	1	105	110	1	0	1
1	0	1	115	120	1	0	1
1	0	1	140	145	1	0	1
43	**63**	**106**			**40**	**63**	**103**

The total number of employees as at 31 March 2016 were 1,483 non-school staff (1,372 at 31 March 2015) and 2,472 schools staff (2,519 at 31 March 2015).

Senior Employees

The remuneration paid to the council's senior employees is as follows:

2014/15						Year		2015/16					
Salary, Fees and Allowances £	Compensation for loss of office £	Benefits in kind £	Total remuneration excluding pension contributions £	Pension contributions £	Total remuneration including pension contributions £	Post holder information	Note	Salary, Fees and Allowances £	Compensation for loss of office £	Benefits in kind £	Total remuneration excluding pension contributions £	Pension contributions £	Total remuneration including pension contributions £
143,887			143,887	17,554	161,441	Chief Executive		144,006			144,006	21,169	165,175
119,079			119,079	14,688	133,767	Director for Economy, Communities and Corporate		119,178		379	119,557	17,519	137,076
107,885		114	107,999	13,176	121,175	Director for Children's Wellbeing		107,885		114	107,999	15,768	123,767
33,525		105	33,630	4,480	38,110	Director of Resources/ Section 151 Officer	1	81,106		114	81,220	11,968	93,188
						Director for Adults and Wellbeing	2	69,012		67	69,079	10,220	79,299
						Solicitor to the Council (Monitoring Officer)	3	27,947		718	32,383	2,375	31,040
29,746	39,650	28	69,424	3,534	72,958	Director of Public Health	4						
89,194		114	89,308	8,217	97,525	Assistant Director - Governance (Monitoring officer)	5	43,897	24,637	57	68,591	5,913	74,504

1. Until 1st July 2015 the Section 151 Officer post was equivalent to 0.2 FTE, with additional services for financial transformation procured separately under a contract. The post was filled on a FTE permanent basis from 1 July 2015.

2. The Director for Adults and Wellbeing started on 1 September 2015

3. The Solicitor to the Council started on 1 October 2015.

4. The Director of Public Health left on the 30 June 2014. The council currently has an interim shared services arrangement to deliver the statutory responsibilities of the director of public health with Shropshire Council.

5. The Assistant Director – Governance left on 30 September 2015

31. Termination Benefits

The following table summarises the redundancies which occurred in 2015/16, with comparative numbers for 2014/15;

	Compulsory Redundancies	Other agreed departures	Total
2015/16			
Number	20	48	68
Total Cost	**£172,071**	**£374,652**	**£546,723**
Average	£8,604	£7,805	£8,040
2014/15			
Number	59	45	104
Total Cost	**£698,702**	**£476,129**	**£1,174,831**
Average	£11,842	£10,581	£11,296

In addition, the total cost of actuarial strain relating to 2015/16 terminations was £0.4m (£0.3m in 2014/15). The total amount of actuarial strain paid to Worcestershire County Council in 2015/16 was £1.1m (£0.6m in 2014/15).

The number and total cost per band of exit packages analyses between compulsory and other redundancies are set out in the table below. This includes exit packages agreed in the year although not yet actioned at the year end. The table does not include actuarial strain paid to the pension fund (see note 41)

2014/15					2015/16			
Number of compulsory redundancies	**Number of other agreed departures**	**Total number of exit packages**	**Total cost of exit packages in each band**	**Exit package cost band (including special payments)**	**Number of compulsory redundancies**	**Number of other agreed departures**	**Total number of exit packages**	**Total cost of exit packages in each band**
53	35	88	699,213	£0-£20,000	19	47	66	505,039
4	9	13	330,232	£20,001-£40,000	1	1	2	41,684
2	1	3	145,386	£40,001-£60,000	0	0	0	0
59	**45**	**104**	**1,174,831**	**Total**	**20**	**48**	**68**	**546,723**

32. External Audit Costs

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

2014/15 £m		2015/16 £m
0.2	Fees payable with regard to external audit services carried out by the appointed auditor	0.1
0.0	Certification of grant claim	0.0
0.2	**Total**	**0.1**

33. 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 (ISB), which is divided into a budget share for each school. Over and under spends on the two elements are required to be accounted for separately.

Details of the deployment of DSG receivable for 2015/16 are as follows:

Total 2014/15 £m	Total 2014/15 Restated £m		Central Expenditure 2015/16 £m	Individual Schools Budget 2015/16 £m	Total 2015/16 £m
111.1	111.0	Final DSG allocation before Academy Recoupment			115.5
(38.8)	(38.8)	Less Academy figure recouped			(42.0)
72.3	72.2	Total DSG after Academy recoupment for the year			73.5
0.6	0.6	Brought forward from previous year			1.5
(0.2)	(0.4)	Less carry forward to following year agreed in advance			(1.3)
72.7	72.4	Agreed budgeted distribution in the year	10.0	63.7	73.7
(9.5)	(9.5)	Less: Actual central expenditure	(9.6)	0.0	(9.6)
(62.2)	(61.8)	Less: Actual Individual School Budget deployed to schools	0.0	(63.8)	(63.8)
1.0	**1.1**	**Carried forward to following year**	**0.4**	**(0.1)**	**0.3**

A total DSG carry forward of £1.6m existed as at 31 March 2016 being the carry forward to following year agreed in advance of £1.3m plus the in year underspend of £0.3m as shown above.

34. Grant Income

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

2014/15 £m		2015/16 £m
	Credited to Taxation and Non Specific Grant Income	
35.8	Revenue Support Grant	26.7
5.3	Other non-ring fenced Grants	6.2
85.5	Council Tax income	88.4
27.4	Business rates income	29.9
19.4	Capital Grants	25
173.4	**Credited to Taxation and Non Specific Grant Income**	**176.2**
	Credited to Services	
79.6	Department for Education	79.8
5.8	Department for Communities and Local Government	5.3
50.7	Department for Work and Pensions	50.4
0.7	Department for Transport	0.4
2.6	Department for Culture, Media and Sport	6.2
0.3	Defra	0.5
8.4	Department of Health	9.3
0.2	Other	0.4
148.3	**Credited to Services**	**152.3**
321.7	**Total**	**328.5**

35. 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. Details of income received from government departments are set out in note 34.

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 2015/16 are not material. One member was the employee of a care home to which the council made payments in the year of £1.2m.

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 £24.4m to Worcestershire County Council (£24.8m in 2014/15), including payments to the pension fund and for the joint waste disposal contract. Payments to the CCG in 2015/16 totalled £1.3m (£1.3m in 2014/15). A total of £3.0m was paid to Wye Valley NHS Trust (£2.1m in 2014/15) and £2.8 million to 2Gether (£3.6m in 2014/15).

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 £34.7m to Balfour Beatty in 2015/16 (£42.0m in 2014/15).

Fosca UK Limited
In 2009 the council entered into a 7 year contract with Fosca for the collection of household, recycling and commercial waste. The value of the contract over 7 years is around £30.5m. Payments to Fosca totalled £3.9m in 2015/16 (£4.3m in 2014/15).

Other organisations
The council pays a management fee to Halo Leisure Trust for the provision of leisure facilities, including swimming pools and leisure centres. In 2015/16 the council paid £0.5m to Halo Leisure Trust (£0.7m in 2014/15). In 2015/16 the council paid £0.2m to the Courtyard Trust (£0.2m in 2014/15). The council has a commissioning agreement with the Trust based on agreed outcomes.

During the year the council made payments totalling £0.7m to Herefordshire Housing Ltd (£0.6m in 2014/15).

West Mercia Energy (WME) operates as a joint arrangement between Herefordshire, Shropshire, Worcestershire and Telford and Wrekin Councils Payments of £0.1m were made in 2015/16 to WME (£1.8m in 2014/15).

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

The inter-organisation transaction between the council and Hoople Ltd amounted to £7.1m in 2014/15, a similar value of £6.8m was transacted in 2015/16. There were no contingent liabilities existing with Hoople Ltd that would affect the council. There were no capital commitments outstanding at 31 March 2016 payable to Hoople Ltd.

Hoople Ltd delivered a profit before tax of £0.2m in 2014/15, the 2015/16 are not currently available. The council share of 74.7% represents an immaterial share of profit and balance sheet value supporting the council’s decision to not prepare group accounts.

Outstanding balances with related parties

As at 31 March 2016 significant amounts due to and from related parties were:

2014/15			2015/16	
Due to £000	Due from £000	Related Party	Due to £000	Due from £000
	1.9	Dept for BIS		
0.1	0.7	DCLG	1.1	0.1
		DCMS		1.4
	0.1	DEFRA		
0.1		DECC		
0.1	0.4	Dept for Transport		
0.2		Dept for education	1.0	0.6
1.2		DWP	0.1	
0.3		FOCSA	0.3	
	0.1	Hereford and Worcs Fire		0.1
0.1	1.5	Hereford CCG	1.1	1.2
0.1	0.1	Herefordshire Housing		0.6
0.2	0.1	Heritage Lottery Fund	0.2	
1.5	2.2	HM Revenue and Customs	1.4	1.5
	0.2	Home Office		0.4
0.5	0.9	Hoople Ltd	0.4	0.8
0.1		MOD		
		Ministry of Justice	0.1	
	0.2	National Lottery Commission		
	0.2	NHS England		0.4
	0.6	NHS Sutton CCG		
0.2		PWLB		
		Powys		0.2
		Rural Payments Agency		0.1
0.1	0.2	Shropshire CC	1.2	4.3
0.5		Skills Funding agency	0.5	
0.6		Teachers Pensions	0.6	
	0.1	West Mercia Police		0.2
0.2	0.4	West Mercia Energy	0.1	0.4
2.9		WCC	0.1	
	0.7	Wye Valley Trust	0.2	0.8
		Gloucester CC	0.1	0.6
	0.2	2gether		0.1
9	**10.8**	**Total**	**8.5**	**13.8**

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

In addition, there were capital grants of £1.2m (£2.5m in 2014/15) from government departments held in the Capital Grants Unapplied Reserve not yet applied to capital spend.

36. 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.

2014/15 £m		2015/16 £m
216.6	**Opening capital financing requirement**	**244.3**
	Capital investment	
59.9	Property, Plant and Equipment	38.8
1.8	Investment Properties	7.2
4.6	Revenue expenditure funded from capital under statute	9.6
0.1	Assets acquired under PFI contracts	0.3
6.3	Long term debtors (including loans and PFI prepayments)	17.7
	Sources of Finance	
(3.6)	Capital Receipts	(5.7)
(27.5)	Government grants and other contributions	(35.1)
	Sums set aside from revenue:	
(2.8)	Direct revenue contributions	(0.6)
(11.1)	MRP	(11.6)
244.3	**Closing capital financing requirement**	**264.9**
	Explanation of movements in year	
38.7	Increase in underlying need to borrowing	31.9
0.1	Assets acquired under PFI contracts	0.3
(11.1)	MRP	(11.6)
27.7	**Increase in Capital Financing Requirement**	**20.6**

37. 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 Property, Plant and Equipment in the Balance Sheet at the following net amounts:

31 March 2015 £m		31 March 2016 £m
0.5	Other land and buildings	**0.3**

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 2015/16 £0.1m contingent rents were payable by the council (£0.1m in 2014/15).

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. Apart from these long leasehold transfers to schools, the council does not have any other finance leases where the council is lessor.

Operating leases

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

- Retail
- Industrial Use
- Farming
- Other Commercial Use

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

Leases and Lease Type Arrangements

2014/15						2015/16				
Amounts Payable			Amounts Receivable			Amounts Payable			Amounts Receivable	
Finance Leases		Operating Leases	Finance Leases	Operating Leases		Finance Leases		Operating Leases	Finance Leases	Operating Leases
Minimum Lease Payments	Finance Lease Liabilities					Minimum lease payments	Finance lease liabilities			
£m	£m	£m	£m	£m		£m	£m	£m	£m	£m
		0.8			Payable/receivable in the year			0.9		
		0.5		1.6	Not later than one year			0.7		1.1
0.1		1.1		3.9	Later than one year and not later than five years	0.1		1.6		3.0
1.8	0.3	0.6		35.9	Later than five years.	1.7	0.3	0.8		33.3
1.9	**0.3**	**3.0**	**0**	**41.4**	**Total due in future years**	**1.8**	**0.3**	**4.0**	**0**	**37.4**

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

Under the contract the authorities are required to ensure that all waste for disposal is delivered to the contractor, who will take responsibility for recycling or recovering energy from the waste stream. In total 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 completion is planned for 2017 with a funding requirement of £195m and an uplift to the annual unitary charge for both councils of £2.7m.

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

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

Shaw Homes
The council has a contract with Shaw Healthcare for the development and provision of residential homes and day care centres previously operated directly by the council. The contract expires in 2033/34 for all homes. The level of payments are dependent on the volume and nature of service elements and Shaw Healthcare's performance in providing services. The payments in respect of this contract was £3.8m in 2015/16 (£3.7m in 2014/15).

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 detailed in Note 15 and summarised below.

	Land £m	Buildings £m	Equipment £m	Total £m
Balance as at 1 April 2015	1.9	9.2	1.1	12.2
Additions		0.3	0.1	0.4
Balance as at 31 March 2016	**1.9**	**9.5**	**1.2**	**12.6**

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

2014/15 Total £m		2015/16 Shaw Healthcare £m	2015/16 Whitecross School £m	2015/16 Waste Disposal £m	2015/16 Total £m
27.0	Balance outstanding at start of year	8.1	14.3	3.7	26.1
(1.0)	Payments during the year	(0.2)	(0.5)	(0.4)	(1.1)
0.1	Capital expenditure in the year			0.3	0.3
26.1	**Balance outstanding at year-end**	**7.9**	**13.8**	**3.6**	**25.3**

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

	Service Charges £m	Lifecycle Costs £m	Finance Liability £m	Interest & Similar £m	Total £m
Within 1 year	12.5	0.3	1.2	2.1	16.1
Within 2 to 5 years	53.3	1.4	5.6	8.0	68.3
Within 6 to 10 years	42.6	1.9	7.2	8.4	60.1
Within 11 to 15 years	25.3	2.2	8.4	6.7	42.6
Within 16 to 20 years	15.0	0.6	3.2	2.6	21.4
Total	**148.7**	**6.4**	**25.6**	**27.8**	**208.5**

The PFI future year commitments total of £208.5m shown above includes inflation assumptions, without inflation the future year commitments would be £32.7m lower.

39. Capitalisation of Borrowing Costs

The council has a policy of capitalising borrowing costs on relevant projects i.e. where schemes lasting more than 12 months and with at least £10k of interest associated with the project. In 2015/16 £45k borrowing costs were capitalised (2014/15 £0.6m).

40. 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.

However, in addition to the current scheme the council is contributing to former Hereford and Worcester teachers' unfunded added years' benefits. The liability of £1.0m is included in the pension fund liability in the balance sheet in 2015/16.

In 2015/16 the council paid employer contributions of £4.4m in respect of teachers' pension costs, which represented 15.5% of teachers‟ pensionable pay. In addition, the council is responsible for all pension payments relating to added years it, or its predecessor authority, has awarded, together with the related increases. In 2015/16 these amounted to £0.1m representing 0.35% of pensionable pay. At the year-end there were contributions of £0.6m remaining payable, which related to the March 2016 contributions paid to the scheme in April 2016.

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

In 2015/16 the council paid employer contributions of £0.1m in respect of NHS pension costs for public heath staff, which represented 14.3% of their pensionable pay.

41. 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

2014/15 £m		2015/16 £m
	Comprehensive Income and Expenditure Statement	
	Cost of services:	
7.7	current service cost	10.0
(1.0)	(gain)/loss from settlements	0.7
	Financing and Investment Income and Expenditure:	
7.0	Net interest expense	6.7
0.1	Admin expenses	0.1
13.8	**Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services**	**17.5**
	Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	
48.8	actuarial (gains) and losses arising on changes in financial assumptions	(12.4)

48.8	**Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement**	(12.4)
	Movement in Reserves Statement	
(13.8)	Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits	(17.5)
	Amount charged to the General Fund Balance for pensions in the year	
10.4	Employer's contribution payable to the scheme	12.4

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to 31 March 2016 (since the introduction of the statement in the 2009/10 restated accounts) is a loss of £72.5m.

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

2014/15 £m		2015/16 £m
500.0	Present value of the defined benefit obligation	486.0
(288.6)	Fair value of plan assets	(281.7)
211.4	**Net liability arising from defined benefit obligation**	**204.3**

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

The table below shows the movement on the pension liability;

2014/15 £m		2015/16 £m
419.6	**Opening balance**	500.0
7.7	Current Service Cost	10.0
18.5	Interest Cost	16.3
2.4	Contributions by scheme participants	2.5
	Re-measurement (gains) and losses;	
69.5	Actuarial (gains)/losses arising from changes in financial assumptions	(27.3)
0.4	Losses/(gains) on curtailment	0.7
(16.7)	Benefits paid	(16.2)
(1.4)	Liabilities extinguished on settlements	0.0
500.0	**Closing balance**	**486.0**

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

The table below shows the movement on the pension assets;

2014/15 £m		2015/16 £m
260.2	**Opening fair value of scheme assets**	**288.6**

11.6	Interest income	9.5
20.9	Remeasurement gain: The return on plan assets, excluding amount included in the net interest expense	(14.9)
(0.1)	Administration expenses	(0.1)
	Liabilities assumed on entity combinations	
10.3	Contribution from employer	12.3
2.4	Contributions from employees into the scheme	2.5
(16.7)	Benefits Paid	(16.2)
288.6	**Closing fair value of scheme assets**	**281.7**

The actual return on scheme assets in the year was (£5.3m), 1.9% of period end assets (2014/15 £32.5m, 11.3%).

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

31/03/15 £m		Quoted (Y/N)	31/03/16 £m
	Cash		
1.4	Cash instruments	Y	1.6
0.3	Cash accounts	Y	1.5
2.9	Net current assets	N	2.9
	Equity instruments		
64.1	UK quoted	Y	2.1
110.5	Overseas quoted	Y	96.2
29.4	Pooled investment vehicle - UK managed funds	N	78.9
58.9	Pooled investment vehicle - UK managed funds (overseas equities)	N	56.0
2.3	Pooled investment vehicle - overseas managed funds	N	2.1
	Property		
0.0	European property funds	N	8.8
0.0	UK property debt	N	3.3
0.0	Overseas property debt	N	0.6
	Alternatives		
0.0	UK infrastructure	N	10.4
	Bonds		
2.0	UK Corporate	Y	1.2
16.7	Overseas Corporate	Y	16.1
288.5	**Total assets**		**281.7**

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 Mercers, an independent firm of actuaries based on the latest full valuation of the scheme as at 1 April 2013. The principal assumptions used by the actuary have been;

Beginning of the period (p.a.)		End of the period (p.a.)
	Mortality assumptions	
	Longevity at 65 for current pensioners:	
23.4 years	Men	23.5
25.8 years	Women	25.9
	Longevity at 65 for future pensioners:	
25.6 years	Men	25.8
28.1 years	Women	28.2
	Financial Assumption	
2.00%	Rate of CPI inflation	2.00%
3.50%	Rate of increase in salaries	3.50%
2.00%	Rate of increase in pensions	2.00%
3.30%	Rate for discounting scheme liabilities	3.60%

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

	Increase in assumption £m
0.1% decrease in real discount rate	8.8
1 year increase in member life expectancy	9.5
0.1% increase in the salary increase rate	1.6
0.1% increase in the pension increase rate	9.0

Impact on the Councils Cash Flows

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

Total employer contributions expected to be made to the Local Government Pension Scheme by the council in the year ended 31 March 2017 is £13.8m.

Scheme History

	2010/11 £m	2011/12 £m	2012/13 £m	2013/14 £m	2014/15 £m	2015/16 £m
Present value of liabilities	(361.00)	(367.6)	(422.8)	(419.6)	(500.0)	(486.0)
Value of Scheme assets	(229.20)	208.3	235.4	260.2	288.6	281.6
(Deficit) in scheme	**(131.80)**	**(159.3)**	**(187.4)**	**(159.4)**	**(211.4)**	**(204.4)**

42. Contingent Liabilities

There is a risk of incurring costs in relation to settling disputed items following the cessation of the Amey contract. Work is ongoing to resolve these disputes which will determine the appropriate outcome. This is expected to reach conclusion over the next twelve months.

43. 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 councils 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 2015/16 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 31st March 2016	Historical experience of default	Historical experience adjusted for market conditions at 31st March 2016	Estimated maximum exposure to default and uncollectability 31 March 2015	Estimated maximum exposure to default and uncollectability 31 March 2016
	£m	%	%	£m	£m
Deposits with banks and financial institutions	7.5	0.0	0.0	0.0	0.0
Customers	6.6	0.4	0.5	0.0	0.0

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

31/03/15 £m		31/03/16 £m
6.0	Less than 3 months	4.2
0.7	3 to 6 months	0.5
0.5	6 months to 1 year	0.2
1.8	More than 1 year	1.7
9.0	**Total**	**6.6**

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:

31/03/15 £m		31/03/16 £m
28.8	Less than 1 year	46.2
	More than 1 year:	
7.5	Between 1 and 2 years	15.5
15.0	Between 2 and 5 years	16.2
16.4	Between 5 and 10 years	24.1
98.6	More than 10 years	96.2
166.3	**Total borrowing per Balance Sheet**	**198.2**

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.

If interest rates had been 1% higher, with all other variables held constant, the financial impact on the council's borrowings and investments in 2015/16 would have been as follows:

	1% increase in interest rates £m
Increase in interest payable on borrowing	0.3
Increase in interest receivable on investment balances	(0.2)

44. 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, including several schools. The following summarises the movement on Trust Funds balances which the council administers during the year:

	Balance at 31/03/15 £m	**Repayment of Trust Fund balances £m**	**Balance at 31/03/16 £m**
Buchanan Trust	1.0	(1.0)	0.0
Other Funds	0.1	0.0	0.1
Total	**1.1**	**(1.0)**	**0.1**

The Buchanan Trust is invested in agricultural land around Bosbury for the benefit of tenant farmers. During the year the Trust Fund balance was externalised and the council withdrew as a Trustee.

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

Supplementary Financial Statement and explanatory notes

45. Collection Fund

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

2014/15 Total £m		2015/16 Council Tax £m	Business Rates £m	Total £m
	Amounts required to be credited to the Collection Fund			
102.8	Council Tax	105.9		105.9
46.6	Business Rates Income		48.6	48.6
	Contribution towards previous year's Deficit			
0.8	Central Government		1.7	1.7
0.8	Hereford Council		1.7	1.7
	Hereford & Worcester Fire Authority			
	West Mercia Police			
151.0	**Total**	**105.9**	**52.0**	**157.9**
	Amounts required to be debited to the Collection Fund			
	Precepts, Demands and Shares			
11.8	West Mercia Police	12.2		12.2
5.4	Hereford & Worcester Fire Authority	5.0	0.5	5.5
104.5	Herefordshire Council	84.0	23.3	107.3
23.6	Central Government		23.8	23.8
2.8	Parishes	3.1		3.1
0.2	Transitional Protection Payments Payable		0.3	0.3
	Contribution towards previous year's Surplus			
	Central Government			
	Hereford Council	1.3		1.3
	Hereford & Worcester Fire Authority	0.1		0.1
	West Mercia Police	0.2		0.2
	Charges to collection fund			
0.3	Cost of collection Allowance		0.3	0.3
0.6	Write offs of uncollectable debt	0.1	0.1	0.2
0.0	Increase/(Decrease) of Bad Debt Provision		0.3	0.3
4.8	Increase/(Decrease) of Appeals Provision		1.1	1.1
(0.6)	Spreading of Backdated Appeals		(0.3)	(0.3)
153.4	Total	105.9	49.4	155.3
(2.4)	**Surplus/(Deficit) for the Year**	**0.0**	**2.6**	**2.6**
(3.5)	Balance brought forward	1.7	(7.6)	(5.9)
(5.9)	**Balance carried forward**	**1.7**	**(5.0)**	**(3.3)**

Notes to the Collection Fund

The total non-domestic rateable value at the year-end was £129.7m and the national non-domestic rate multiplier for 2015/16 was 49.3p.

Non-Domestic Rates Income	£	£
Annual Debit		(63.1)
Less:		
Empty Allowances	2.0	
Discretionary Relief	0.5	
Mandatory Relief	4.6	
Small Business Rate Relief	5.9	
Funded Reliefs	1.3	
Enterprise Zone	0.2	14.5
Total		**(48.6)**

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 2015/16 was £1,583.95 including fire, police and parish precepts, with a range of between £1,537.50 and £1,664.98. The council tax base used for setting the council tax in 2015/16 was 65,848.29.

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

Band	Valuation Range	Charge Factor	Band D Equivalent
A	Up to £40,000	6/9	4,956.69
B	£40,001 to £52,000	7/9	10,762.79
C	£52,001 to £68,000	8/9	11,716.05
D	£68,001 to £88,000	9/9	11,163.99
E	£88,001 to £120,000	11/9	12,395.67
F	£120,001 to £160,000	13/9	8,842.38
G	£160,001 to £320,000	15/9	5,407.70
H	Over £320,000	18/9	317.62
Crown			285.40
	Council Tax Base		**65,848.29**

Council Taxpayer Income	£m	£m
Council Tax debit at 1st April		(129.9)
Less:		
Discounts	10.3	
Exemptions	2.6	
Council Tax Reduction	11.0	
Disablement Relief	0.1	24.0
Total		**(105.9)**

The Collection Fund (surplus) or deficit as at 31 March 2016 is split as follows;

	Council Tax	Business Rates	Total
	£m	£m	£m
Hereford Council	1.4	(2.5)	(1.1)
West Mercia Police	0.2		0.2
Hereford & Worcester Fire Authority	0.1		0.1
Central Government		(2.5)	(2.5)
Total	**1.7**	**(5.0)**	**(3.3)**

46. 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 measures with sufficient reliability.

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

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.

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.

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

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

Inventories
These are assets;

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

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

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

d) In the process of production for sale or distribution

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

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

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

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

Operating lease
A lease other than a finance lease

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

Provision
A liability of uncertain timing or amount.

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

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.