Appendix A

Further to minute 18 of the Audit and Governance Committee held on 25 July 2022, this document contains queries from Councillor Shaw and the responses of the Director of Resources and Assurance in relation to the 2021/22 Draft Statement of Accounts, as at 2 September 2022			
No	**Page Ref.**	**Query**	**Response**
1	27	**Collection fund. Income/expenditure from council taxpayers and business ratepayers £21.4m increase (12% on 2020/21). Why?**	The increase in Collection Fund income in 2021/22 is as a result of the reduction in relief offered by Central Government (funded through the s31 Grant). In 2020/21, 100% Covid Retail Relief was granted to businesses totalling £29m; in 2021/22 this relief was reduced to £15m.
2	42	**What proportion of these are competitive (ie. bid for) grants as opposed to allocated funding. What proportion are capital and what revenue? Could they be shown separately in the pie chart?**	Capital grants are shown separately in the pie chart and represent 4% of gross funding and income for 2021/22. Receipts of grant income are recorded in the Council's accounting system, analysed by 'Government grants' and 'Other grants, reimbursements and contributions' to allow for reporting in the annual statement of accounts in the format prescribed by the CIPFA Code. The accounting system does not analyse amounts bid for/allocated for financial reporting purposes.
3	46	**Provision for outstanding insurance contracts £1.6m Legal provision £2.6m . Why are these not earmarked reserves or are they accruals? What risk is allotted as they are not reflected in the risk register?**	The Council's Earmarked Reserves represent amounts set aside from the General Fund for specific policy purposes and general contingencies. The amounts recognised as provisions per Note 20 represent amounts assessed as an obligation to settle a liability as a result of a past event, in accordance with *IAS 37: Provisions, Contingent Liabilities and Contingent Assets.* At the reporting date, amounts recognised as provisions are measured as a reasonable estimate of the probable economic outflow and expected settlement, taking risks and uncertainties into account. Risks recorded in the Council's Corporate Risk Register are identified as future events which may have an impact on the Council's activity and delivery of services. Such risks are identified and classified to understand the potential impact and severity as part of effective risk management and governance arrangements. As per the Risk Management Plan, the Council operates 3 tiers of risk registers: a corporate risk register, directorate risk register and service risk register in addition to project and programme risk registers to record relevant risks with one set of risk scores to evaluate and move risks between registers. Communication and sharing of information between Heads of Service and Directors ensures that risks are managed and reported at the appropriate level.
4	46	**March 2003 for triannual revaluation of pensions. Concern that both bond and share markets have fallen. Is there any implication for the MTFS? Should any associated specific risk been reflected in risk register?**	The Pension Fund briefs member organisations on a regular basis on the Fund's financial performance and in particular will consult with the Council on any changes as a result of triannual revaluations. In practice this takes place over a period of time which enables the Council to consider as part of the financial planning process and include the latest implications for the MTFS.
5	47	**Has such a significant capital underspend have implications for the overhead of project management, which , as a revenue expense, remains fixed, until the project progresses to the point that such costs can be capitalised? Have all such revenue costs been written off in year? Are there any project costs that are at risk of being decapitalised?**	There are controls in place to ensure that only eligible costs (those directly attributable to bringing an asset to the location and condition necessary for it to be operating) are capitalised and these costs are subject to testing by external audit. Whilst eligible salary costs may be capitalised, general overheads and admin costs are not eligible for capitalisation and are accounted for as revenue expenditure. The revenue budget is based on the establishment with a recharge budget for a proportion of time expected to be attributed to work on capital projects. Recharges of eligible staff costs are based on timesheets and accounted for as the work is completed. Performance against budget is monitored and reported through monthly budget monitoring processes. There are no capitalised project costs at risk of reverting to revenue expenditure at this time.
6	49	**C&Fs s106 what is C&F doing with a s.106 capital budget – is this education spend?**	Children & Families S106 amounts represent education based expenditure.
7	50	**In 2021/22 actual spend £37m from original budget of £97m. 2022/23 budget is £133m, now we are in month 4 are we on budget to spend this amount? Do we anticipate a re-profiling?**	Q1 Capital outurn to Cabinet reports a forecast spend position of £64.3m which represents and underspend of £69.5m against the £133.8m budget. The underspend comprises £2.6m of projects that are expected to deliver below the project budget and a further £66.9m of budgets to be carried forward to 2023/24. In line with standard practice, capital budgets will be reprofiled at Q2 to reflect expected project delivery.
8	50	**EXTERNAL AUDIT might comment on Capital expenditure planning?**	The Council's Capital Strategy is considered as part of the Value for Money review undertaken by external audit in the area of financial sustainability. This work includes a review of the delivery of the capital programme against agreed budget and arrangements to report performance in year.
9	67	**Management aim for a 4% return on investment costs perhaps should be better expressed as CPI + X% (eg CPI +2%) now that inflation has returned as a factor? EXTERNAL AUDIT comment ?**	Disclosure in the accounts refers to the Council's aim to achieve a 4% return on investment property assets. As part of external audit's review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources for VFM purposes, the Council's investments will be considered in the context of its approved Treasury Management Strategy.
10	83	**Movement in Usable reserves analysis. Impairment/downwards revaluation 13.7m This is a upwards revaluation- what does it relate to? Why does capital grants unapplied (£7.9m) now appear in a revenue reserve? Capital Financed by grants and contributions 15.7m comes from 9.3m of revenue and 6.4 m from capital grants unapplied (is this from a previous year or an in year movement). Where is this reconciled?**	£13.7m represents the net upwards movement of assets revalued in 2021/22 as part of the Council's rolling programme. Valuations are performed by RICS registered external valuers: Wilks Head & Eve LLP and the results of this work is subject to additional audit scrutiny and testing by Grant Thornton to ensure that source data (in respect of the usage, condition, floor and land areas for land and building assets) on which the valuations are based is accurate. Grant Thornton's 2021/22 Audit Plan identifies the valuations of Land & Building and Investment Properties as a significant audit risk on account of its material value and, in accordance with their approach at similar councils, an auditors valuation expert has been appointed in this areas for 2021/22. Increases in asset values in year are as a result of a variety of factors which inform the valuation methods used by the valuers: BCIS Cost index prepared by RICS (informed by location factor and unit build cost), general inflation, wage awards, change in material prices, contractor and supply chain activity, market competition and availability of labour and materials. When capital grants/contributions have been recognised in the CI&ES but expenditure to be financed has not been incurred at 31 March, the amount is transferred to the Capital Grants Unapplied Account. When expenditure is subsequently incurred, the grant is transferred from the Capital Grant Unapplied Account through the Capital Adjustment Account to reflect the application of capital resources to finance expenditure. £7.9m represents amount received in 21/22 transferred to the Capital Grants Unapplied Account where expenditure has not been incurred. £15.7m represents £9.3m capital grants received and applied in 2021/22 plus £6.4m of capital grants (received and unapplied in prior years) transferred from the Capital Grants Unapplied Account in 2021/22. Details of these transactions are prepared to support the entries in the accounts and are provided to Grant Thornton for sample testing as part of the annual audit.
11	85	**Revaluation and impairments provides a movement of £13.7m in the capital adjustment account. As this is in brackets I infer that it is an increase in the value (see P83 above?) Why is there a movement related to capital financed by grants and contributions of £15.7m.. What is the explanation for the final two entries in the table relating to DSG operating balance and closedown?**	Please see explanation above for revaluation increase of £13.7m and movement between reserves of £15.7m. In line with the School and Early Years Finance (England) Regulations 2020, the DSG earmarked reserve was reclassified as an unusable reserve from 1 April 2020.
12	87	**Settlement monies. These have now been in the accounts for 7 years+? Why can they not be transferred to E&P for roads?**	The settlement monies balance was retained until a final agreement reached. This reserve balance may be considered as part of use of one-off reserves to achieve a balanced budget for 2023/24.
13	92	**Depreciation –Is there a schedule of depreciation for assets whose lives are known? Is there a schedule for depreciation by class? (Presumably so – such would normally be published in a commercial set of accounts?)**	The Council's accounting policy for depreciation is disclosed at Note 1.29 (page 71 of the Report pack). Depreciation is charged over the useful life of each assets as per IAS 16: Property, Plant and Equipment and the CIPFA Code. The useful life of each asset is considered at initial recognition and assessed annually as part of asset management procedures to identify impairment and as informed by the Council's external valuers as part of the rolling programme.

No	Page Ref.	Query	Response
14	99	**Cash Flow – Am I correct to interpret figures as an improvement in cash flow of £32m (2020/21 £67m). Why in a fiscally challenged climate are we achieving such an improvement? Do we expect it to continue? Does it relate to government remittance of grant funding ahead of spending of same and therefore mask any "real" issues? (Comparable to the sea of inventory favourite of operational analysis).**	Note 13: Cash and Cash Equivalents discloses the cash balances at 31 March: £21.2m in 2020/21 and £40.2m in 2021/22, consistent with amounts disclosed on the face of the Balance Sheet and Cash Flow Statement. This increase is largely explained by the value of short-term deposits held at 31 March 2022 (£36.7m) compared with £17.6m at 31 March 2021. This represents short term investment balances at the Balance Sheet date, in accordance with the Council's Treasury Management Strategy. This balance is subject to movement as a result of the timing of cashflows, as the Council ensures it is making efficient use of its cash resources. £32.1m disclosed per Note 14 represents the total non-cash movements (such as depreciation) over the 12 month reporting period and does not reflect physical cash.
15	104	**Rental properties asset revaluation movement . An increase in £6.2m?**	Following revaluation by the Council's external valuers in 2021/22, as per the rolling programme of asset valuations, retail properties have increased in value by £6.2m since their last formal valuation.
16	106	**Pooled budgets Capital pool. Non attributed by Herefordshire CCG ? Are these pooled budgets working? (eg Improved better care fund budget..no CCG involvement?) On a note of accuracy is this Herefordshire CCG or NHS Herefordshire and Worcestershire Clinical Commissioning Group (CCG) (which has already changed title again as of last month).**	Disclosure to be amended in final version of accounts to show "NHS Herefordshire & Worcestershire CCG". The Better Care Fund pooled budget is made up of three funding streams from government which must be pooled: Better Care Fund Minimum Mandatory Revenue Fund (revenue), Disabled Facilities Grant (capital), and Improved Better Care Fund (revenue). The annual BCF plan is approved by the Health and Wellbeing Board each year, and is subject to regional and national assurance by NHS England. We report on performance and finance monthly to a partnership board comprising directors of the council and CCG. Within the BCF, funding is received and spending undertaken by one partner or the other because of the conditions of the funding; but commissioning decisions on use of all of the pooled funds are jointly agreed between the council and the CCG (now the ICB). The relationships we have with health partners, the levels of integration in Herefordshire, and the coherence and transparency of our pooled budgets are considered to be effective.
17	112	**Agreed departures numbered 32 – 100% up on previous year Cost of exit packages now approaching £0.5m . EXTERNAL AUDIT Is this something that will get a vfm comment?**	Grant Thornton will review the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources as part of its Value for Money review in 2021/22 - this will include arrangements for improving the way that services are delivered, financial sustainability and governance/decision making. Audit testing of agreed exit packages in 2021/22 will confirm whether amounts have been accurately reported, are accounted for in the correct accounting period and that packages have been agreed and authorised in line with appropriate policies and procedures. Amounts disclosed in 2021/22 represent amounts approved for leavers in respect of redundancy, lieu of notice, ill-health retirement etc as required by the CIPFA Code.
18	126	**Contingent Liabilities . These do not feature in the risk register –why?**	The contingent liabilities disclosed in the accounts provide explanation, in accordance with IAS 37, in respect of *possible* obligations (at the reporting date) whose existence will be confirmed by uncertain future events. The amount cannot be reliably measured at the reporting date and the likelihood of settlement has been assessed as not probable. Where a contingent liability arises from an event which is considered to represent a future risk to the Council's activities, it will be managed through the Risk Management Plan and the relevant risk register appropriate to its risk score. A risk in respect of amounts repayable by the Council in respect of the refurbished building is included in the Legal Services' risk register which is not publicly reported due to sensitivity and confidentiality.