Herefordshire Council

# Appendix 2 Accounting Estimates for 2024/25

| Estimate | Method / model used to make the estimate | Controls used to identify estimates | Whether management have used an expert | Underlying assumptions:<br>- Assessment of degree of uncertainty<br>- Consideration of alternative estimates | Has there been a change in accounting method in year? |
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| Land and buildings valuations | Assets are subject to professional revaluation on a rolling programme. Any assets that are not revalued in the year are considered for risk of material misstatement. Methods used by the qualified professional expert valuers are recognised by the Royal Institute of Chartered Surveyors (RICS) and are listed in the suite of documents issued each year by the valuers. | Control activities are:-<br>Check opening asset values to closing asset values on FAR.<br>Check with property for any changes.<br>Detailed work instruction to the valuers.<br>Check of valuation report – source data relied upon, calculation, explanations for any significant changes in valuation. | External valuers used are Wilks Head & Eve LLP (for assets generally) and Hilco (for Energy from Waste asset). | The uncertainty over asset values is increased due to economic uncertainty, rising inflation, and the impact this has on the interest rates. Assumptions used by the qualified professional expert valuers are recognised by the Royal Institute of Chartered Surveyors (RICS) and are listed in the suite of documents issued each year by the valuers. The disclosure in the estimation uncertainty note (note 4) considers a variation of 5% in the net book value of PPE. This gives an indication of the sensitivity of the revaluations on the balance sheet. | No change |

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| Investment property valuations | Assets are subject to professional revaluation on a rolling programme. Any assets that are not revalued in the year are considered for risk of material misstatement. Methods used by the qualified professional expert valuers are recognised by the Royal Institute of Chartered Surveyors (RICS) and are listed in the suite of documents issued each year by the valuers. | Control activities are:-<br>Check opening asset values to closing asset values on FAR.<br>Check with property for any changes.<br>Detailed work instruction to the valuers.<br>Check of valuation report – source data relied upon, calculation, explanations for any significant changes in valuation. | External valuers used are Wilks Head & Eve LLP (for assets generally). | There is uncertainty over investment property values due to the impact the economic downturn has on rental income. Assumptions used by the qualified professional expert valuers are recognised by the Royal Institute of Chartered Surveyors (RICS) and are listed in the suite of documents issued each year by the valuers. | No change |
| Depreciation | Those assets subject to external valuation are assigned a useful economic life (UEL) by the external valuers. Those assets not subject to external valuation are assigned a UEL by an officer from the council with relevant subject knowledge within expected ranges. | Control activities are:-<br>Check of FAR net book values to prior year.<br>Reasonableness check on UELs.<br>Check of calculation cells<br>Reasonableness check on overall depreciation charge.<br>Check of assumptions used by external valuer.<br>Engagement with colleagues in Service to confirm UELs. | External valuers used are Wilks Head & Eve LLP (for assets generally). | The uncertainty over UELs is increased due to economic uncertainty and the impact this has on the repairs and maintenance programmes.<br>Assumptions are:-<br>• There are no residual economic values to assets<br>• There is no depreciation chargeable in the first year of the asset<br>Assumptions used by the qualified professional expert valuers are recognised by the Royal Institute of Chartered Surveyors (RICS) and are listed in the suite of documents issued each year by the valuers.<br>The estimation uncertainty disclosure in the financial statements (see note 4) ascertains the estimated increase in the depreciation charge that would occur if the UELs were reduced by 1 year. This gives an indication of how sensitive the depreciation charge is to changes in UELs. | No change |

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| Valuation of defined benefit net pension fund asset/liabilities | Methods and assumptions used are industry standard and are listed in a report issued by the actuary | Control activities are:-<br>Check of source data to ledger.<br>Check of source data used by the actuary to source data sent.<br>Overview of assumptions used by the actuary.<br>Challenge of any movements in IAS 19 figures since the prior year. | Hymans Robertson are the actuaries used to estimate the net pension asset/liability. | There is uncertainty over this estimate due to the reliance on many complex and interacting assumptions.<br>These risks are addressed through the use of a qualified professional actuary, who uses methodologies and assumptions as recognised by The Institute and Faculty of Actuaries (IFA).<br>The actuary supplies calculations of how changes in certain assumptions impact the net pension asset/liability on the balance sheet.<br>These are disclosed in the estimation uncertainty disclosure (note 4). | No change |
| Provisions | Each provision is individually considered and calculated. | Control activities are:-<br>Review of provisions balance to prior year.<br>Review of insurance/legal/property registers for potential areas of provision.<br>Review of provision calculation working papers for evidence and reasonableness. | No | Provisions (excluding impairment allowances) are not a material balance on the balance sheet and are therefore unlikely to result in a material misstatement due to estimation uncertainty. | No change |

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| Loans | Methods used by MUFG Corporate Markets are included in their portfolio valuation | Control activities are:-<br>Check of ledger balances to loan agreements.<br>Check of ledger balances to portfolio valuation.<br>Reasonableness check on assumptions used.<br>Comparison of balances and fair values to the prior year. | Treasury Management advisors (MUFG Corporate Markets) provide a portfolio valuation of financial assets and liabilities at the year-end. | The council has loans from the bank and public works loan board (PWLB). These are valued on the balance sheet at amortised cost. The loans are also included in fair value disclosures, the fair value is provided by Treasury Management advisors (MUFG Corporate Markets) based on accepted methodologies and assumptions. Fair value disclosures compare the balance sheet carrying value to fair values based on the premature repayment rate and also based on the new loan rate. | No change |
| Accruals | Each manually journalled debtor or creditor is individually considered and calculated. | Control activities are:-<br>Review of ledger for accruals needed.<br>Comparison to prior year for accruals needed.<br>Calculation of accrual and completion of QA checklist for each accrual.<br>Review and challenge for significant accruals.<br>Review of outturn to forecast for missing/over accruals. | No | As the council operates a no PO/no pay policy, most expenditure accruals are system driven by the PO accrual process. Manually journalled debtors and creditors are not material balances on the balance sheet and are therefore unlikely to result in a material misstatement due to estimation uncertainty. | No change |

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| Credit loss and impairment allowances | Debtors in each category are individually assessed and an impairment allowance is determined based on debtors age and knowledge of individual debtors. | Control activities are:-<br>Review of aged debt reports.<br>Comparison to prior year allowance.<br>Review and challenge by The Financial Accounting Manager. | No | There are 8 categories of impairment allowances, none of which are individually material. Categories are housing benefits, council tax, business rates, court costs, housing, fairer charging, business support grants and a general impairment allowance. Debtors in each category are individually assessed and an impairment allowance is determined based on debtors age and knowledge of individual debtors. A general impairment allowance is assessed to be 50% of debtors over 90 days. | No change |
| PFI Liabilities | The liabilities are taken from the financial models set up at the start of the PFI schemes. IFRS 16 requires the opening liability to be remeasured each year if indexation is applied to the unitary payments. | Control activities are:-<br>Check of balances from ledger to financial model.<br>Review of balances compared to prior year. | Yes | The liabilities on the balance sheet relating to the three PFI schemes are based on financial models which are subject to estimates and assumptions. | No change |