

MALVERN HILLS DISTRICT COUNCIL STATEMENT OF ACCOUNTS 2017/18

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WELCOME TO THE STATEMENT OF ACCOUNTS

We hope you find these accounts interesting and informative. The accounts, together with the accompanying notes, explain the Council's services and how your Council Tax was spent during the year.

In these times of year on year cuts in government funding for local government the Council continues to be recognised for sound financial management and providing good value services. Our external auditors have again recognised our performance in the early production of these accounts. The Council remains committed to continuous improvement in all areas and to drive forwards best practice and value for money for the services delivered in the Malvern Hills District.

The Council achieved efficiency savings in excess of £632,000 for 2017/18, which is around 7% of the original budget. Our updated Medium Term Financial Plan (MTFP) and Business Plan both provide a clear strategic direction for the Council finances through to 2022/23. We are confident of achieving the challenging savings targets we have set ourselves for 2018/19 of £550,000 both to meet the financial pressures placed upon from reductions in government grant but also to keep Council Tax levels low for our residents.

The District Council collects Council Tax for Worcestershire County Council, the Police and Crime Commissioner, the Fire Authority and town and parish councils as well as ourselves. Our element of Council Tax for a Band D property was £147.60 for 2017/18. This represents around 9% of an average bill of £1,638.21 and remains one of the lowest district's Council Tax in the country.

It is pleasing to report that the Council achieved an underspend against both its revenue and capital budgets for the year, despite the continued budget pressures arising from the unprecedented reductions in our levels of government funding.

Finally, we thank you for showing an interest in the Council's finances.

Councillor Paul Cumming, Portfolio Holder for Resources
Andy Baldwin, Deputy Chief Executive.

NARRATIVE REPORT

1. Introduction

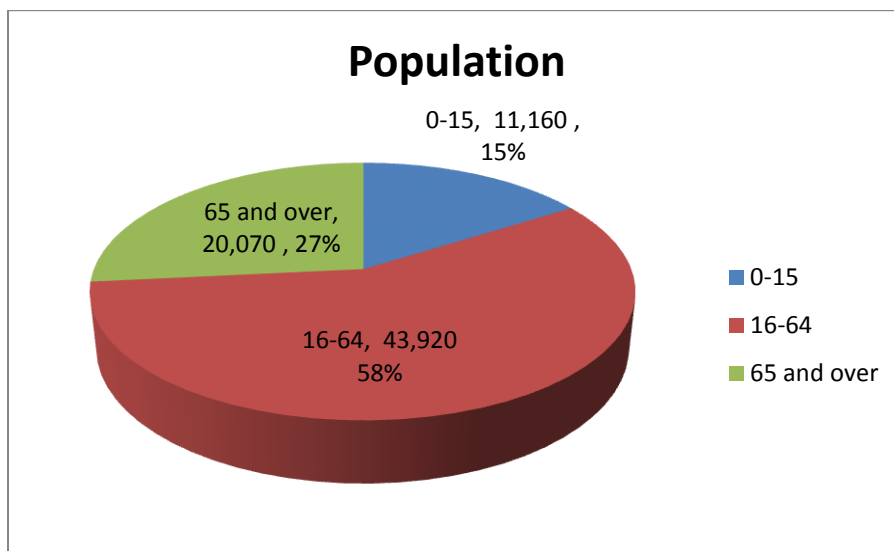
This Statement of Accounts presents the financial position of the Council for the year ended 31 March 2018. The Accounts are produced in the format stipulated by the Chartered Institute of Public Finance and Accountancy (CIPFA) in accordance with best accounting practice. This narrative report provides a brief explanation of the financial aspects of the Council's activities and a guide to the significant matters reported in the accounts. It also provides information about Malvern Hills District Council and the key issues affecting the Council and its accounts, including a summary of its financial position and non financial performance at 31 March 2018. It also provides information regarding economy, efficiency and effectiveness in its use of resources over the financial year.

2. An Introduction to Malvern Hills

Malvern Hills is a relatively small rural district council in Worcestershire, with four main town settlements (Malvern, Kempsey, Upton upon Severn and Tenbury Wells) and a number of smaller parishes. The district shares its borders with the districts of Worcester City, Wychavon, Wyre Forest, Forest of Dean, Tewkesbury Borough and the counties of Herefordshire and Shropshire. The district encompasses beautiful countryside including the Malvern Hills Area of Outstanding Natural Beauty.

Malvern Hills is a great place to live, work and visit. The area was ranked 33rd nationally in the Halifax Quality of Life Survey. In the Worcestershire Viewpoint Survey 2017, 90% of residents told us that their local area was a good place to live, which continues to be the highest score in Worcestershire.

The mid 2016 population estimates show the district had 76,600 residents with the age profile presented below.



Malvern Hills has an older population than the national average, with 27% of residents aged over 65 compared to the national average of approximately 16%.

House prices in the district are amongst the highest in Worcestershire and are above the national average. The average house price in the district is £261,000 compared with £227,000 for Worcestershire. The overall employment rate for the district is 69.1% (national average

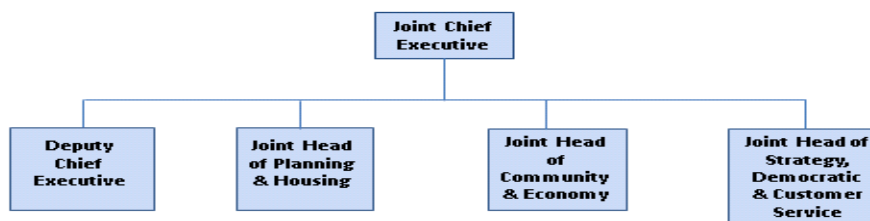
75.0%) and the JSA and benefit claimant rates are low – 0.9% and 6.7% respectively. Average household income is £36,694 slightly above the national average of £36,367.

3. About Malvern Hills District Council

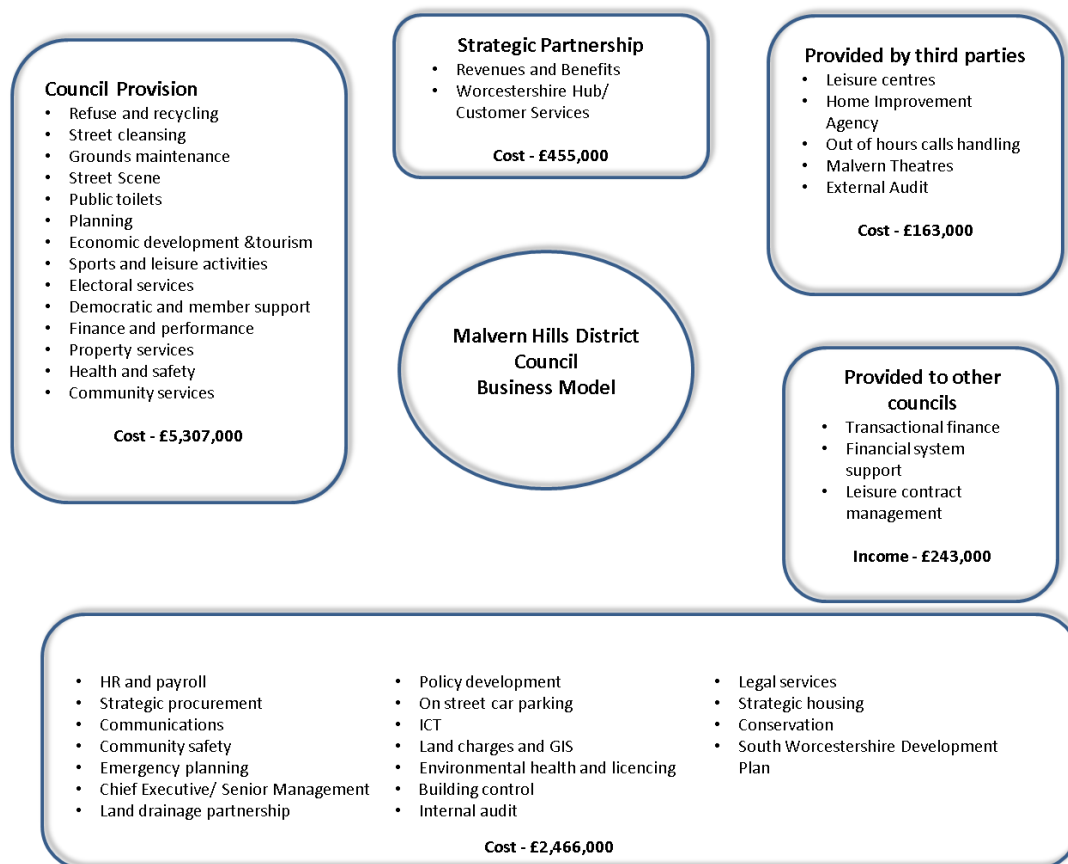
Residents of the district are represented by 38 councillors, with the political make up as follows:

| Political Party | Number of Councillors |
|------------------------|---|
| Conservative Party | 23 councillors |
| Democratic Group | 11 councillors (8 independent, 3 Green Party) |
| Liberal Democrat Party | 4 councillors |

The Council employs a work force of approximately 160 staff to manage and deliver services to residents under the direction of the senior management team. The Council shares its senior management team with Wychavon District Council. The structure of the joint senior management team is below.



The Council provides a wide range of services to residents, through direct provision, joint working, strategic partnership and via third parties as shown below.



4. The 2017/18 Budgeting Process

The budget process was influenced by the on-going need for savings whilst maintaining council services to residents. Target budget reductions of £632,000 were identified for the year. The draft budget net budget of £8,044,240 was approved by Council in February 2017, this was subsequently increased to £8,083,740 with carry forward items from the previous year. The approved budget included a £5 increase in the Council's band D Council Tax charge and an assumed increase of 2.5% in Council Taxbase resulting in an income from Council Tax of £4,428,874.

5. Financial Performance 2017/18

Actual net expenditure for the year was £7,867,430, resulting in an underspend of £216,310 as can be seen in the table below. Budget carry forwards of £72,500 into the 2018/19 revenue budget have been approved, to meet on-going commitments.

The following table details the Council's final net revenue expenditure analysed by service. This reflects the net amount to be met by local taxpayers. This differs from the Net Cost of Service in the Comprehensive Income and Expenditure Statement (CIES) by the exclusion of costs relating to depreciation, revenue expenditure funded from capital under statute and certain pension adjustments. The differences between the final net revenue expenditure below and the New Cost of Service in the CIES are explained in more detail in the Expenditure and Funding Analysis at Note 7 to the Financial Statements.

| Service | 2017/18 Final Budget £000 | 2017/18 Net Expenditure £000 | Underspend £000 |
|---|--|---|----------------------------|
| Chief Executives | 414 | 398 | 16 |
| Strategy, Democratic & Customer Service Resources | 928 | 910 | 18 |
| Community and Economy | 2,949 | 2,624 | 325 |
| Planning and Housing | 3,036 | 3,113 | (77) |
| | 757 | 823 | (66) |
| Total Net Expenditure by Service | 8,084 | 7,867 | 216 |

Net expenditure was financed by:

| Source of Funding | 2017/18 Final Budget £000 | 2017/18 Net Income £000 | Variance £000 |
|-------------------------------|--|--|--------------------------|
| Revenue Support Grant | (361) | (361) | 0 |
| Business Rates | (1,579) | (2,331) | 752 |
| New Homes Bonus | (1,434) | (1,434) | 0 |
| Council Tax | (4,429) | (4,429) | 0 |
| Use of Reserves | (47) | (47) | 0 |
| Collection Fund Surplus | (51) | (51) | 0 |
| Rural Services Delivery Grant | (182) | (182) | 0 |
| Total Funding | (8,084) | (8,836) | 752 |

The main variances relate to essentially one-off items in three areas:

- Resources – housing benefit overpayment recovery following the implementation of RTI (real time information) by DWP, additional investment income from the CCLA Property Fund and a rates refund on Portland House.

- Community Services – overspend on waste & recycling due to still operating the old service before implantation of alternate weekly collection. Increased expenditure on vehicle hire, vehicle maintenance and agency staff
- Planning and Housing – underachievement of planning income largely offset by underspends in other areas

The gross cost of service provision amounts to £32,832,000, and has been analysed by type as shown below:

| Expenditure Types | 2016/17 £000 | 2017/18 £000 |
|--|-------------------------|-------------------------|
| Employees | 5,896 | 5,963 |
| Premises related | 549 | 380 |
| Transport related | 1,034 | 986 |
| Supplies and services | 998 | 1,688 |
| Third party payments | 4,432 | 4,424 |
| Transfer payments (Including payments in respect of Housing Benefit) | 19,121 | 18,143 |
| Capital charges | 1,040 | 1,248 |
| Gross Cost of Services | 33,070 | 32,832 |

The Council received gross income of £25,811,000 and this is analysed by type as follows:

| Income Type | 2016/17 (Restated) £000 | 2017/18 £000 |
|-------------------------|--|-------------------------|
| Housing Benefits | (19,144) | (17,414) |
| Benefits Administration | (211) | (195) |
| Other Government Grants | (261) | (1,042) |
| Sales, Fees & Charges | (2,153) | (2,398) |
| Other Income | (3,694) | (4,762) |
| Total Income | (25,462) | (25,811) |

The approved capital budget was revised to £2,991,100 with the addition of schemes brought forward from the previous financial year and further approvals in year. Capital expenditure for 2017/18 was £1,034,811 (£1,989,306 2016/17).

There was an underspend on the revised capital programme compared to budgeted expenditure of £1,956,289. From this underspend carry forwards of £1,443,700 have been approved into the 2018/19 capital programme to meet on-going commitments.

A summary of the capital expenditure in 2017/18 is shown below, £522,969 was added to the value of fixed assets and the balance was written off in year as a deferred charge in relation to Housing Grants, which are Disabled Facilities Grants made to residents and do not add to the Council's assets.

| Capital Programme | Expenditure £000 | Underspend £000 |
|--------------------------|-----------------------------|----------------------------|
| Housing Grants | 512 | 328 |
| Property Projects | 402 | 1,632 |
| Vehicles | 121 | (4) |
| Total | 1,035 | 1,956 |

The table below shows how the Council financed its capital expenditure:

| Capital Financing | £000 |
|--------------------------|--------------|
| Usable Capital Receipts | 186 |
| Capital Grants | 746 |
| Earmarked Reserves | 103 |
| Total | 1,035 |

A total of £3.159m has been carried forward in capital reserves to preserve funding for existing projects in future years.

The Council's general balances totalled £3.126m at 31 March 2018 (£3.108m at 31 March 2017) and cash balances were £9.188m (£8.389m at 31 March 2017).

6. Pensions Liability

The Council is a member of the Worcestershire County Council Pension Fund, a Local Government Pension Fund, all staff are able to join this from the commencement of their employment with the Council. The Council's share of the net pensions liability of the Fund as estimated by the fund actuary at 31 March 2018, was £26.7m (£29.8m at 31 March 2017). The variation between years was largely due to changing assumptions by the Actuary, the main components of which were:

- £1.8m decrease in the pension fund liability due to experience gains, changes in financial assumptions, e.g. on the assumed rate of inflation and also changes in demographic assumptions going forward,
- An increase of £1.3m in the pension fund assets (investments) due to changes in investment assumptions and interest rates.

Further details on changes in the Council's pension assets and liabilities can be found in Note 17 to the Statement of Accounts.

It is important to understand that the net pension liability valuation at 31 March is as at one point in time and as the fund assets are mainly invested in equities and bonds then the value of these and therefore the net pension liability can vary considerably as market values change.

7. Non Financial Performance 2017/18

Despite the financial challenges facing the Council, a high level of performance was maintained throughout the year. The Council uses a RAG (red, amber, green) rating system to monitor service performance against targets. In 2017/18 67 out of 92 performance indicators were green, 13 were amber and 1 was red. Red performance indicators are being managed effectively by the relevant service area. The [Annual Performance Report](#) reports the Council's performance indicators to Committee.

Key achievements over during 2017/18 include:

- Implementation of a joint Community Safety team;
- Savings in excess of the Business Plan target for 2017/18;
- Planning appeals remained below the designation threshold throughout the year;
- 96% of properties have access to superfast broadband;
- Funding has been secured for a 5G testbed to be located at Malvern Hills Science Park;
- Continued expansion of garden waste and commercial waste recycling services with increases in customer numbers and tonnage;

- Strong resident satisfaction results from the 2017 Viewpoint survey;
- A Malvern Hills walking app has been developed with over 10,000 downloads to date;
- Planning service has launched a 'Track this App' service on the planning website with over 425 residents signing up for the service;
- The Housing Welfare Assistance Scheme was launched in July 2017, helping 24 households during the remainder of the year;
- A Peer Review was undertaken for Malvern Hills District Council and Wychavon District Council, with very positive feedback for both councils.

8. Our Business and Corporate Plans

In response to the on-going challenges facing local government and Malvern Hills District Council in particular, we have updated our five year strategic plan ([Our Five Year Plan 2017-2022 – Proud of Our Place](#)) and our [Five Year Business Plan 2018-2022](#).

Our Five Year Plan outlines the Council's vision, priorities and objectives including the actions required to achieve these.

The Council's vision is **'To make life better for everyone who lives, works in and experiences the Malvern Hills district'**.

The Council has identified three key priorities with supporting objectives:

- 1. Building stronger and healthier communities;**
 - a. Deliver quality and affordable housing;
 - b. Improve people's health;
 - c. Support and engaging with communities.
- 2. Driving economic prosperity and growth;**
 - a. Bring forward land and premises for business to grow;
 - b. Develop the skills of our young people;
 - c. Promote our area as a centre for innovation;
 - d. Improve our infrastructure and broadband speed.
- 3. Making the most of our superb environment;**
 - a. Improve our parks and open spaces;
 - b. Make the visitor experience even better;
 - c. Work with partners to reduce the impact of flooding.

Our Business Plan outlines our response to the significant financial challenges the Council continues to face and how we will maintain financial stability whilst continuing to deliver high quality services to our residents. The plan shows how we have met the financial challenge to date, saving £5.53m since 2010 and focuses on how we will meet the challenges we face over the next five years, our business model and our objectives.

The objectives established in developing this plan are:

- 1. Maintain financial sustainability;**
- 2. Deliver the business plan;**
- 3. Protect services where possible.**

The plan details how we expect our funding to change over the life of the plan and how we will maintain financial sustainability through a combination of efficiencies, partnerships and services, investment and growth and income and taxation. The 2018-19 Business Plan includes target savings over the plan of £950,000 per annum, all of which have been identified. It also examines the financial risks facing the Council and provides our financial forecast for the next five years including detailed savings/ income generation plans.

Both of these documents are reviewed and updated annually and are available on our website www.malvern hills.gov.uk or by clicking the links above.

Each service within the Council has its own service plan which is updated annually in line with the budgeting process. Service plans identify new initiatives and actions from the Five Year Plan and Business Plan that will be undertaken in the following year. Service plans identify service risks, performance indicators, targets and milestones for activities and summarise the routine day to day tasks the service undertakes. Progress on service plans is monitored on a quarterly basis and these reviews are used to inform the quarterly performance report which is reviewed by Overview and Scrutiny and Executive Committees.

On completion of the service plans, the Corporate Risk Register is reviewed and amended as necessary. The Corporate Risk Register presents the strategic risks facing the Council. These are reviewed by SMT on a quarterly basis and reported to Audit Committee annually.

9. Summary Position

The Council has faced significant challenges and change during 2017/18 but has maintained financial stability and high level of service performance. The financial challenge will continue, but the Council is well placed through its Business Plan and Five Year Plan.

10. Further Information

Further information about the accounts is available from andy.baldwin@malvern hills.gov.uk or
Deputy Chief Executive,
Malvern Hills District Council,
Council House,
Avenue Road,
Great Malvern, WR14 3AF.

STATEMENT OF ACCOUNTING POLICIES

1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2017/18 financial year and its position as at 31 March 2018. The Statement of Accounts is prepared in accordance with relevant International Financial Reporting Standards and the Code of Practice on Local Authority Accounting 2017/18 issued by CIPFA.

The accounting convention adopted is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

2. Accruals of Income and Expenditure

All revenue and capital expenditure is accounted for on an accruals basis. That is, sums due to or from the Council during the year are recorded whether or not the cash has actually been received or paid during the year. In particular:

- Fees, charges, rents and other income are accounted for as income at the point the Council provides the goods or service;
- Supplies and services provided to the Council are treated as expenditure as they are consumed;
- Interest receivable on investments is accounted for as income on the basis of the effective interest rate for the investment rather than the cash flows fixed or determined by the contract;
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where it is doubtful that a debtor balance will be recovered, the balance is written down and a charge made to revenue for the income that might not be collected.

Housing Benefit payments are an exception to this, where the expense is accounted for as payments are made. There is no material difference between the accruals and payment basis as there is little fluctuation between the payments made.

3. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy has always been applied.

Changes in accounting estimates are accounted for prospectively, i.e. the current and future years affected by the change and do not give rise to a prior period adjustment. During the year the Council changed the estimate of useful life of listed assets to be infinite as the Council has a statutory duty to maintain the assets indefinitely.

Errors discovered in prior period figures are correcting retrospectively by amending opening balances and comparative amounts for the prior period.

4. Government Grants and Contributions

Government grants and other contributions in relation to revenue expenditure are accounted for on an accruals basis and recognised in full in the accounting statements when there is reasonable assurance that the Council will comply with any conditions attached to the payments and that the payments will be received.

Amounts recognised as due are not credited to the CIES until any conditions attached to the grant or contribution have been satisfied. If conditions have not been satisfied the amounts are carried in the balance sheet as a creditor. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ringfenced grants and all capital grants) in the CIES.

Where capital grants are credited to the CIES, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to fund capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

Revenue Support Grant and New Homes Bonus are both general grant allocated by central government. As such they are non-ringfenced and credited to Taxation and Non-Specific Grant Income in the CIES.

5. Overhead and Support Services Allocation

The Council is no longer required to allocate the cost of support services across service areas. The cost of support services are monitored and reported within the Resources and Strategy, Democracy and Customer Service departments within the Council's financial reporting framework and CIES. The service costs reported in the CIES include appropriate charges for non current assets (i.e. depreciation, impairment and revaluations) and employee benefit accrued costs (i.e. pensions).

6. Property, Plant and Equipment

Assets that have physical substance and are held for use in the supply of goods and services, for rental to others or for administrative purposes and that are expected to be used in more than one financial year are classified as Property, Plant and Equipment.

Recognition

All expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment has been capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. This excludes expenditure on repairs and maintenance which is charged direct to revenue accounts. Capital expenditure on assets which is less than £50,000 is treated as deminimis and is charged to services in the year that it is incurred.

Measurement

Property, Plant and Equipment are initially measured at cost including purchase price and any costs attributable to bringing the asset into use.

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

- Community assets and the Pepperpot – depreciated historical cost;
- All other assets – fair value, determined as the amount that would be paid for the asset in existing use (existing use value).

The Pepperpot is an ancient scheduled monument used as a visitors' centre and as such the only reliable valuation basis is depreciated historical cost.

Assets included in the balance sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. For any assets not revalued during the financial year, a review is carried out to assess whether there is a material difference between carrying value and fair value.

Increases in valuation are matched by credits to the Revaluation Reserve to recognise unrealised gains.

Where decreases in value are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance up to the amount of the accumulated gains;
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service lines in the CIES.

The Revaluation Reserve contains revaluation gains since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance up to the value of the accumulated gains;
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service lines in the CIES.

If an impairment loss is subsequently reversed, the reversal is credited to the relevant service lines in the CIES, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. If there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the CIES. Gains in fair value are only recognised up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

Assets that are abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet is written off to Other Operating Expenditure in the CIES as part of the gain or loss on disposal. Any receipts from disposal are credited to the same line in the CIES as part of the gain or loss on disposal. Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts as prescribed by the Local Government Act 2003. A proportion of receipts relating to housing disposals are payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve and can then only be used for new capital investment. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against Council Tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

7. Depreciation

Depreciation is charged on all Property, Plant and Equipment assets by the allocation of depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life such as freehold land, listed buildings and Community Assets.

Depreciation is not charged in the year of acquisition but a full year is charged in the year of disposal.

The charge is calculated on the following bases:

| Asset Type | Estimated Asset Life | Depreciated Y/N | Method |
|-----------------------------|-----------------------------|------------------------|---------------|
| Land | N/A | N | |
| Buildings | 15 to 50 Years | Y | Straight Line |
| Buildings (Depot) | 80 Years | Y | Straight Line |
| Vehicles, Plant & Equipment | 5 to 25 Years | Y | Straight Line |
| Community Assets | N/A | N | |
| Investment Properties | N/A | N | |
| Assets Under Construction | N/A | N | |
| Listed Buildings | N/A | N | |

Where an item of Property, Plant and Equipment has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. A component is classed as significant if its value is greater than 20% of the total value of the asset or is over £100,000, whichever is higher. The Council has not identified any assets with components meeting this definition.

Revaluation gains are also depreciated, with the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Depreciation is charged to services for the use of fixed assets in the provision of those services. Services and support services are debited with the following amounts to record the cost of holding fixed assets during the year:

- Depreciation attributable to the assets used by the relevant service;

- Revaluation and impairment losses on assets used by services where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off;

8. Investment Properties

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the CIES. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income and Expenditure line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and, for any receipts above £10,000, the Capital Receipts Account.

9. Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of fixed assets has been charged as expenditure to the relevant service revenue account in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources, a transfer to the Capital Adjustment Account then reverses out the amounts charged in the Statement of Movement on the General Fund Balance so there is no impact on council taxpayers.

10. Leases

The Council currently has operating leases which are charged to the relevant service in the CIES on a straight line basis over the term of the lease, this means that rentals are charged when they become payable.

The Council does not have any finance leases.

11. Heritage Assets

The council has identified a small number of Heritage Assets – three statues in the local area and a mural. These are held for the enhancement and appreciation of the history of the local area. The council has no cost records for the assets and due to their nature they cannot be reliably valued. The assets are therefore not recognised in the balance sheet.

12. Investments / Financial Instruments

A financial instrument is any transaction which generates an asset in the accounts of one organisation and a liability in the accounts of another. These are generally loans, investments or borrowings.

The disclosures relating to financial instruments within the statement of accounts are made to assist the reader to evaluate:

- The significance of financial instruments on the Council's financial position and performance, and
- The risks arising from financial instruments and how the Council manages those risks.

Financial instruments (both long-term and short-term) are shown in the Balance Sheet at fair value or amortised cost as per the table below. Fair value represents the amount it could be sold for in an open market – based on the present value of future cash flows that take place over the remaining terms on the instrument. Amortised cost is arrived at by taking the initial investment amount, adding the amount due in dividend and deducting provision for non payment of dividend or the value of cash payments received. Financial instruments are valued in accordance with IFRS 7 - Financial Instruments: Disclosures and IAS 39 – Financial Instruments:

| Financial Instrument | Classes | Balance Sheet Valuation | Examples in statement of Accounts |
|-----------------------------|-----------------------------|--------------------------------|---|
| Financial Assets | Loans & receivables (Debt) | Amortised cost | Preference shares in Malvern Hills Science park, debtors |
| | Available for sale (Equity) | Fair value | Pooled property fund, ordinary shares in Malvern Hills Science Park |
| Financial Liabilities | | Amortised cost | Creditors |

Loans and Receivables

Loans and receivables are financial assets which have fixed and determinable payments and are not quoted in an active market. They are recognised on the Balance Sheet, initially at fair value and subsequently at their amortised cost. Annual credits are made to the Financing and Investment Income and Expenditure line in the CIES for dividends receivable based on preference dividend rate multiplied by the cost of the asset. The amount presented in the Balance Sheet is therefore the initial cost of the preference shares plus any unpaid dividend receivable.

If assets are impaired due to the likelihood arising from a past event that preference dividends will not be paid, the value of the asset is written down and a charge is made to Financing and Investment Income and Expenditure line in the CIES. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effected interest rate.

Available for Sale Assets

Available for sale investments are financial assets which do not meet the definition of any other type of financial asset and could be easily sold in an open market (typically equity shareholdings and quoted investments). Assets are measured and carried at fair value. Where the asset has fixed or determinable payments, credits are made to the Financing and Investment Income and Expenditure line for interest receivable, based on the effective interest rate applicable to the asset multiplied by its amortised cost.

Assets are maintained in the Balance Sheet at fair value. Fair value is determined using the following techniques:

- Instruments with quoted prices – the market price;
- Other instruments with fixed and determinable prices – discounted cash flow analysis
- Equity shares with no quoted prices – independent appraisal of company valuation based the projected performance and Balance Sheet of the entity.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

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

Changes in fair value are balanced by an entry in the Financial Instruments Reserve and the gain/loss is recognised in the CIES. The exception is where impairment losses have been incurred – these are debited to the CIES, along with any net gain/loss for the asset accumulated in the reserve.

If assets are impaired due to the likelihood arising from a past event that preference dividends will not be paid, the value of the asset is written down and a charge is made to Financing and Investment Income and Expenditure line in the CIES. If the asset has determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise the impairment loss is measured as the difference between fair value and the acquisition cost of the asset.

13. Inventories

Inventories are included at the latest price paid or net realisable value, if lower. This is a departure from the requirements of the Code, which requires stocks to be shown at actual cost or net realisable value. The effect of the different treatment is immaterial.

14. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours.

Cash equivalents are short-term highly liquid investments that are readily convertible within 24 hours to known amounts of cash and which are subject to an insignificant risk of changes in value.

15. Reserves

In addition to its general revenue balances, the Council has set aside specific earmarked reserves for future identified expenditure. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When this expenditure is incurred it is charged against the Surplus or Deficit on the Provision of Services in the CIES. The reserve is then appropriated back into the General Fund Balance statement so that there is no net charge against council tax payer for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable reserves for the Council – these reserves are explained in the relevant policies.

16. Provisions and Contingent Liabilities

Provisions are made in accordance with IAS37. Provisions are made where an event has taken place that gives the Council an obligation that is likely or certain to require a settlement but where there is no certainty of the amount or where the timing is uncertain.

Provisions based on the best estimate of the likely settlement are charged to the relevant service revenue account in the CIES in the year that the Council becomes aware of the obligation.

When the expenditure is eventually incurred it is charged to the Provisions set up in the Balance Sheet. These Provisions are reviewed at the end of each financial year and if no longer required are reversed and credited back to the relevant service revenue account in the CIES.

Where some or all of the payment required to settle a provision is expected to be met by another party (e.g. from an insurance claim) this is only recognised as income in the relevant service revenue account in the CIES if it is virtually certain that reimbursement will be received if the obligation is settled.

The Council maintains provisions for bad and doubtful debts in respect of council tax, business rates, housing benefit overpayments and sundry debtors and also business rates appeals. Provisions have been estimated in accordance with recommended practice and past experience. Provisions for bad and doubtful debts reduce the value of total debtors shown on the Balance Sheet. Provisions for Business Rates appeals are held within short-term creditors on the balance sheet.

Other provisions are maintained for present obligations which will require settlement in future financial years.

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the Council's control. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

17. Events after the Balance Sheet Date

A non adjusting post balance sheet event is disclosed in note 6 to the accounts in accordance with IAS 10 Events After the Balance Sheet Date.

18. Estimation Techniques

In line with IFRS 8, a distinction is made between accounting policies and estimation techniques. Estimation techniques are the methods adopted to arrive at estimated monetary amounts, corresponding to the measurement bases selected for assets, liabilities, gains, losses and changes in reserves. Throughout the notes to the accounts, reference is made to the bases of any estimation techniques used. There have not been any material changes to the basis of the estimation techniques used since the preparation of the last Statement of Accounts.

19. Employee Benefits

Benefits Payable During Employment

Short term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements and other forms of leave earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to the Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement age or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the relevant service line in the CIES when the Council is demonstrably committed to the termination of employment of an officer or a group of officers.

When termination benefits involve the enhancement of pension benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits or the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at year-end.

Post Employment Benefits

The Council participates in one defined benefits scheme for its employees, administered by Worcestershire County Council. Pension costs are assessed in accordance with the advice of an independent qualified actuary using the projected unit method. A new actuarial valuation was undertaken by the funds actuaries Mercer Human Resource Consulting Limited as at 31 March 2013. This has revised contribution rates payable by the Council in future financial years.

The liabilities of the Worcestershire County Council Local Government Pension Scheme attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – an assessment of future payments based on assumptions. Liabilities are discounted to their value at current prices using a discount rate prescribed by the actuary.

The assets of the pension scheme are included in the Balance Sheet at their fair value.

The change in the net pensions liability is analysed into the following components:

- Service cost comprising:
 - Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the CIES to the services for which the employees worked;
 - Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the CIES as part of Non Distributed Costs;
 - Net interest on the defined benefit liability (asset) i.e. the net interest expense for the authority – the change during the period in the net defined benefit liability (asset) that

arises from the passage of time charged to the Financing and Investment line of the CIES. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period, taking account of any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

- Remeasurements comprising:
 - Return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset), charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
 - Changes in the net defined benefits liability – changes to the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions, charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- Contributions paid to the pension scheme – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with the debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Further information can be found in Worcestershire County Council's Superannuation Fund Annual Report, available on request from www.worcestershire.gov.uk

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Worcester, WR5 2NP

20. Accounting for Council Tax

As a billing authority, the Council acts as an agent, collecting and distributing Council Tax income on behalf of its major preceptors - Worcestershire County Council, West Mercia Police Authority and Hereford and Worcester Fire Authority and itself.

Council Tax income for the year is the Council's accrued income for the year and not the amount required to be transferred from the Collection Fund under regulation. The difference between the amount included in the CIES and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserve Statement.

The cash collected by the Council from Council Tax debtors belongs proportionately to the billing authority and major preceptors. This results in a debtor/ creditor position between the Council and major preceptors for the difference between the cash collected from Council Tax debtors and the precept paid over during the year. The Balance Sheet includes the Council's share of Council Tax arrears and impairment for bad debts, Council Tax over payments and prepayments and the debtor/ creditor from the preceptors.

The Council's share of net cash collected from Council Tax debtors in the year is included within the Cash Flow Statement.

21. Accounting for Business Rates

As a billing authority, the Council acts as an agent, collecting and distributing Business Rates income on behalf of its major preceptors – Department for Communities and Local Government, Worcestershire County Council, Hereford and Worcester Fire Authority and itself.

Business Rates income for the year is the Council's net accrued income (share of expected receipts less tariff payment made to DCLG) and not the amount required to be transferred from the Collection Fund under regulation. The difference between the amount included in the CIES and the amount required by regulation to be credited to the General Fund (deficit) is accounted for during the year and offset by small business rate relief and transitional relief paid by DCLG.

The cost of collection allowance is included within the CIES.

The cash collected by the Council from business rate payers belongs proportionately to the billing authority and major preceptors. This results in a debtor/ creditor position between the Council and major preceptors for the difference between the cash collected business rate payers and the amounts paid over during the year. The Balance Sheet includes the Council's share of Council Tax arrears and impairment for bad debts, Council Tax over payments and prepayments and the debtor/ creditor from the preceptors.

The Council's share of net cash collected from business rate payers, cost of collection and small business rate relief in the year is included within the Cash Flow Statement.

22. Accounting for Jointly Controlled Operations

The Council is a partner the Worcestershire Regulatory Shared Service Joint Committee. This arrangement is accounted for as a Jointly Controlled Operation. A Jointly Controlled Operation uses the assets and resources of the partner authorities without the establishment of a separate entity. Under this arrangement, each participant in the arrangement accounts separately for its own transactions arising within the agreement, including the assets, liabilities, income, expenditure and cash flows.

MOVEMENT IN RESERVES STATEMENT

This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (those that can be applied to fund expenditure, reduce local taxation or repay debt) and non usable reserves (which cannot be used to fund services). The surplus (or deficit) on the Provision of Services shows the true economic cost of providing the council's services, more details of which are shown in the CIES. These are different from the statutory accounts 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.

| | Note | General Fund Balance £000 | Earmarked Reserves £000 | Capital Receipts Reserve £000 | Capital Grants Unapplied £000 | Total Usable Reserves £000 | Unusable Reserves £000 | Total Authority Reserves £000 |
|---|-------------|--|--|--|--|---|---------------------------------------|--|
| Balance at 31 March 2017 (restated) | | 2,701 | 6,880 | - | 603 | 10,184 | (2,804) | 7,380 |
| Movement in Reserves | | | | | | | | |
| Surplus on the provision of services | | 2,185 | - | - | - | 2,185 | - | 2,185 |
| Other Comprehensive Income and Expenditure | | - | - | - | - | - | 3,337 | 3,337 |
| Total Comprehensive Income & Expenditure | | 2,185 | - | - | - | 2,185 | 3,337 | 5,522 |
| Adjustments between accounting basis & funding basis under regulations | 8 | 496 | 450 | - | (179) | 767 | (713) | 54 |
| Net Increase/ Decrease before Transfer to Earmarked Reserve | | 2,681 | 450 | - | (179) | 2,952 | 2,624 | 5,576 |
| Transfers to/ from Earmarked Reserves | 9 | (2,255) | 2,255 | - | - | - | - | - |
| Increase/ (Decrease) in 2016/17 | | 426 | 2,705 | - | (179) | 2,952 | 2,624 | 5,576 |
| Balance at 31 March 2018 | | 3,126 | 9,585 | - | 424 | 13,136 | (180) | 12,956 |

| | Note | General Fund Balance £000 | Earmarked Reserves £000 | Capital Receipts Reserve £000 | Capital Grants Unapplied £000 | Total Usable Reserves £000 | Unusable Reserves £000 | Total Authority Reserves £000 |
|--|----------|------------------------------------|-------------------------------|--|--|-------------------------------------|------------------------------|--|
| Balance at 31 March 2016 (restated) | | 2,335 | 5,707 | 1,267 | 90 | 9,399 | (6,561) | 2,838 |
| Movement in Reserves | | | | | | | | |
| Surplus on the provision of services | | 2,377 | - | - | - | 2,377 | - | 2,377 |
| Other Comprehensive Income and Expenditure | | - | - | - | - | - | 2,292 | 2,292 |
| Total Comprehensive Income & Expenditure | | 2,377 | - | - | - | 2,377 | 2,292 | 4,669 |
| Adjustments between accounting basis & funding basis under regulations | 8 | (508) | (298) | (1,267) | 482 | (1,591) | 1,466 | (125) |
| Net Increase/ (Decrease) before Transfer to Earmarked Reserve | | 1,869 | (298) | (1,267) | 482 | 786 | 3,757 | 4,544 |
| Transfers to/ from Earmarked Reserves | 9 | (1,502) | 1,471 | - | 31 | - | - | - |
| Increase/ (Decrease) in 2016/17 | | 367 | 1,173 | (1,267) | 513 | 786 | 3,757 | 4,544 |
| Balance at 31 March 2017 | | 2,701 | 6,880 | - | 603 | 10,184 | (2,804) | 7,380 |

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT (CIES)

This reconciliation 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.

| | Notes | 2016/17 Net Expenditure Restated £000 | 2017/18 Gross Expenditure £000 | 2017/18 Gross Income £000 | 2017/18 Net Expenditure £000 |
|---|-------|---|---|------------------------------------|---------------------------------------|
| Service Expenditure Analysis | | | | | |
| Chief Executive | | 442 | 441 | (61) | 381 |
| Strategy, Democratic & Customer Services | | 839 | 1,178 | (327) | 851 |
| Resources | | 2,821 | 23,066 | (20,433) | 2,633 |
| Community and Economy | | 3,053 | 5,697 | (1,682) | 4,015 |
| Planning and Housing | | 452 | 2,449 | (3,309) | (859) |
| Net Cost of Services | | 7,607 | 32,832 | (25,811) | 7,021 |
| Other Operating Expenditure | 10 | 1,794 | | | 1,801 |
| Financing & Investment Income and Expenditure | 11 | (52) | | | 281 |
| Taxation and non specific grant income | 12 | (11,725) | | | (11,289) |
| (Surplus) on Provision of Services | | (2,377) | | | (2,185) |
| Surplus on revaluation of long-term assets | 21 | (385) | | | 248 |
| Surplus on revaluation of financial assets | 29 | 81 | | | (74) |
| Re-measurement of the net defined benefit liability | 17 | (1,907) | | | (3,511) |
| Other Comprehensive Income and Expenditure | | (2,210) | | | (3,337) |
| Total Comprehensive Income and Expenditure | | (4,587) | | | (5,522) |

BALANCE SHEET at 31 March

This statement shows the value on 31 March of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by usable and non usable reserves.

| | Notes | 2016 (Restated) £000 | 2017 (Restated) £000 | 2018 £000 |
|-------------------------------|-------|----------------------------|----------------------------|-----------------|
| Property, Plant and Equipment | 21 | 23,448 | 24,774 | 23,654 |
| Investment Properties | 21 | 1,635 | 2,423 | 2,423 |
| Long Term Investments | 29 | 4,276 | 5,226 | 6,396 |
| Long Term Assets | | 29,359 | 32,423 | 32,473 |
| Assets Held for Sale | 30 | 978 | 978 | 1,638 |
| Inventories | 31 | 91 | 52 | 90 |
| Short Term Debtors | 32 | 3,730 | 2,285 | 2,564 |
| Cash and Cash Equivalents | 33 | 4,740 | 8,389 | 9,188 |
| Current Assets | | 9,538 | 11,704 | 13,479 |
| Short Term Creditors | 34 | (3,336) | (5,410) | (5,421) |
| Provisions | 35 | (1,215) | (1,562) | (895) |
| Current Liabilities | | (4,551) | (6,972) | (6,316) |
| Pensions Liability | 17 | (31,508) | (29,775) | (26,680) |
| Long Term Liabilities | | (31,508) | (29,775) | (26,680) |
| Net Assets | | 2,838 | 7,380 | 12,955 |
| Usable Reserves | | 9,399 | 10,184 | 13,136 |
| Unusable Reserves | 36 | (6,561) | (2,804) | (181) |
| Total Reserves | | 2,838 | 7,380 | 12,955 |

CASH FLOW STATEMENT

This shows the changes in cash and cash equivalents of the Council during the financial year. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows 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 Council services. 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 authority.

| | Notes | 2016/17 (Restated) £000 | 2017/18 £000 |
|---|-------|-------------------------------|-----------------|
| Net surplus on the provision of services | | 2,377 | 2,185 |
| Adjustments to net surplus or deficit on the provision of services for non-cash movements | 37 | 3,841 | 208 |
| Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities | | (937) | (753) |
| Net Cash flows from Operating Activities | | 5,281 | 1,640 |
| Investing Activities | 39 | (1,632) | (841) |
| Net (increase) in cash and cash equivalents | | 3,649 | 798 |
| Cash and cash equivalents at the beginning of the reporting period | | 4,740 | 8,390 |
| Cash and cash equivalents at the end of the reporting period | | 8,390 | 9,188 |

NOTES TO THE FINANCIAL STATEMENTS

1. Prior Period Adjustments

An error in respect of the accounting for business rates has been found whereby the surplus/deficit on the Collection Fund was miscalculated in 2015/16 and 2016/17. This has resulted in adjustments to the Council's share of business rates income and the end of year balances owed to the government and major precepting bodies.

The opening and prior year Balance Sheets, prior year CIES, prior year Cash Flow Statement and corresponding notes have been restated. A summary of the adjustments is shown below:

| | Opening Balance Sheet | | 2016/17 | |
|---|------------------------------|-----------------|-----------------|-----------------|
| | Reported | Restated | Reported | Restated |
| | £000 | £000 | £000 | £000 |
| Short-term Debtors | | | | |
| Local Authorities | 1,050 | 871 | 841 | 841 |
| Government Departments | 1,518 | 1,431 | 277 | 277 |
| Short-term Creditors | | | | |
| Local Authorities | 977 | 977 | 1,045 | 1,174 |
| Government Departments | 742 | 742 | 2,407 | 2,617 |
| Other Creditors | 635 | 778 | 457 | 536 |
| Provisions | 1,226 | 1,216 | 1,573 | 1,563 |
| Useable Reserves | | | | |
| General Fund | 2,734 | 2,335 | 3,107 | 2,700 |
| Comprehensive Income & Expenditure | | | | |
| Net Cost of Services | | | 7,546 | 7,607 |
| Taxation & Non Specific Grant Income | | | 11,672 | 11,725 |

2. Accounting Standards That Have Been issued But Not Yet Been Adopted

The following issued accounting standards have not yet been adopted:

- IFRS 9 – Financial Instruments. This replaces IAS 39 Financial Instruments: Recognition and Measurement. The potential changes include classification and measurement and impairment. There are new disclosure requirements and transitional arrangements will be in place. Available for sale financial assets will no longer be a class of asset and assets will be valued under amortised cost or fair value. The Council has no available for sale financial assets and currently values all financial assets using fair value calculations so there is unlikely to be a material impact upon the Statement of Accounts.

3. Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in the Statement of Accounting Policies, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- The Council revalues its property assets regularly and assesses each year whether or not there is anything that could have a material impact of the value of an asset. Where there is a potential material impact the assets are revalued. All revaluations are undertaken by the Council's RICS qualified valuer with specialist advice as appropriate. Investment properties are revalued annually and an impairment review is also undertaken annually. When assets are revalued their useful lives are re-assessed. During 2017/18 two assets were valued and the revised values are incorporated within the accounts. The impact of the revaluations and any subsequent changes in useful lives are not considered material for depreciation purposes. The Council holds an investment in preference and ordinary shares in Malvern Hills Science Park. This investment is held at fair value in the balance sheet, with the preference shares being valued at cost plus any accrued dividends and ordinary shares being valued based on projected share holders funds. This arrangement is deemed a long-term investment and is treated as such in the balance sheet.
- The Council has identified components within long-term assets as being an individual component such as a boiler, air conditioning unit or lift with a value in excess of 20% of the total value of the asset or £100,000 (which ever is higher). Any components meeting this criteria will be accounted for in accordance with the requirements for component accounting. There are currently no components separately identified.
- The Council has made a provision for business rates appeals, based on various factors including the outcomes of previous appeals, local knowledge and indicative information from the valuation office.

4. Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

| 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. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied. | The effects on the net pensions liability of changes in individual assumptions can be measured and are outlined in note 17. |
| Bad Debt Provisions | The Council has sundry debtor balances of £899k and Housing Benefit debtor balances of £895k. Provisions for bad debts are made according to the age of the debt and a provision of £1,044k is in place. | If recoverability of these balances falls, the amount set aside as a provision for bad debts would have to increase. For example, if recoverability of all ages of debt falls by 10%, an additional £129k would have to be set aside. |
| Provision for Business Rates Appeals | The Council maintains a provision for outstanding business rates appeals. The provision has been calculated based on the current list of live appeals, using analysis of previous appeals by third party advisors. | The Council has calculated the appeals provision based on likely percentage reductions in rateable values determined by class of property. If the percentage reduction increased by 1% across all classes of property, an additional £105k would have to be set aside. |

The impact of changing depreciable useful lives was reviewed, however the impact of changing the depreciable useful life on a single asset or group of assets would be immaterial to the financial statements. The estimated useful life for listed buildings was reviewed and changed to indefinite during the year. The Council has four listed buildings – three within property, plant and equipment and one within assets held for sale. The impact of the change is immaterial to the Statement of Accounts.

The fair value of the investment in ordinary shares in Malvern Hills Science Park has been calculated based on projected share holders' funds. The impact of changing the method of valuation would not have a material impact on the financial statements.

5. Material Items of Income and Expense

There have been no material items of income and expense during the financial year occurring outside of the normal course of business.

6. Post Balance Sheets Events

The Council purchased a property on 6 April 2018 at a cost of £142,500.

7. Expenditure and Funding Analysis

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (government grants, council tax and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting principles. It also shows this expenditure is allocated for decision making purposes between the Council's service areas. An analysis of the nature of the Council's income and expenditure is set out in section 5 Financial Performance of the Narrative Report.

| 2017/18 | Notes | Net Expenditure Chargeable to the General Fund Balance | Adjustments between the Funding and Accounting Basis | Transfers to and from Earmarked Reserves | Net Expenditure in the Comprehensive Income and Expenditure Statement |
|---|-------|--|--|--|---|
| | 7a | £000 | £000 | £000 | £000 |
| Chief Executive | | 398 | 18 | - | 381 |
| Strategy, Democratic and Customer Service Resources | | 910 | 16 | 42 | 851 |
| Community and Economy Planning and Housing | | 2,624 | (720) | 710 | 2,633 |
| | | 3,113 | (274) | (628) | 4,015 |
| | | 823 | (448) | 2,131 | (859) |
| Net Cost of Services | | 7,868 | (1,408) | (2,255) | 7,021 |
| Other Income and Expenditure | | (8,793) | 413 | | (9,206) |
| (Surplus) or Deficit | | (925) | (995) | (2,255) | (2,185) |
| Opening General Fund Balance | | 2,701 | | | |
| In year transfer to Earmarked Reserve | | (500) | | | |
| Surplus on General Fund Balance | | 925 | | | |
| Closing General Fund Balance at 31 March | | 3,126 | | | |
| Opening Earmarked Reserves Balance | | | | 6,880 | |
| Transfers from General Fund | | | | 2,755 | |
| Capital Funding from Earmarked Reserves | | | | (50) | |
| Closing Earmarked Reserves Balance at 31 March | | | | 9,585 | |

| 2016/17 (Restated) | Notes | Net Expenditure Chargeable to the General Fund Balance £000 | Adjustments between the Funding and Accounting Basis £000 | Transfers to and from Earmarked Reserves £000 | Net Expenditure in the Comprehensive Income and Expenditure Statement £000 |
|---|-------|--|--|--|---|
| | 7a | | | | |
| Chief Executive | | 364 | 51 | (130) | 442 |
| Strategy, Democratic and Customer Service Resources | | 934 | 48 | 47 | 839 |
| Community and Economy | | 3,780 | (385) | 1,343 | 2,821 |
| Planning and Housing | | 2,991 | 7 | (68) | 3,053 |
| Net Cost of Services | | 8,642 | (467) | 1,502 | 7,607 |
| Other Income and Expenditure | | (9,007) | 977 | | (9,984) |
| (Surplus) or Deficit | | (365) | 510 | 1,502 | (2,377) |
| Opening General Fund Balance | | 2,335 | | | |
| Surplus on General Fund Balance | | 365 | | | |
| Closing General Fund Balance at 31 March | | 2,701 | | | |
| Opening Earmarked Reserves Balance | | | | 5,707 | |
| Transfers from General Fund | | | | 1,502 | |
| Capital Funding from Earmarked Reserves | | | | (329) | |
| Closing Earmarked Reserves Balance at 31 March | | | | 6,880 | |

7a. Notes to the Expenditure and Funding Analysis

2017/18 Adjustments between Funding and Accounting Basis

| Adjustments from the General Fund to arrive at the CIES amounts | Adjustments for Capital Purposes £000 | Net Changes for Pensions Adjustments £000 | Other Differences £000 | Total Adjustments £000 |
|--|--|--|---------------------------|---------------------------|
| Chief Executive | - | (18) | - | (18) |
| Strategy, Democratic and Customer Service Resources | - | (16) | - | (16) |
| Community and Economy | 346 | (74) | 449 | 720 |
| Planning and Housing | 390 | (116) | - | 274 |
| Net Cost of Services | 512 | (63) | - | 448 |
| | 1,248 | (288) | 449 | 1,408 |
| Other income and expenditure from the Expenditure and Funding Analysis | (753) | 704 | (365) | (413) |
| Difference between General | 495 | 416 | 84 | 995 |

**fund surplus/ deficit and
CIES Surplus or Deficit on
the Provision of Services**

2016/17 Adjustments between Funding and Accounting Basis

| Adjustments from the General Fund to arrive at the CIES amounts | Adjustments for Capital Purposes £000 | Net Changes for Pensions Adjustments £000 | Other Differences £000 | Total Adjustments £000 |
|--|--|--|---------------------------------------|---------------------------------------|
| Chief Executive | - | (51) | - | (51) |
| Strategy, Democratic and Customer Service Resources | - | (48) | - | (48) |
| Community and Economy | (493) | (227) | 1,105 | 385 |
| Planning and Housing | 344 | (351) | - | (7) |
| | 390 | (201) | - | 189 |
| Net Cost of Services | 241 | (879) | 1,105 | 467 |
| Other income and expenditure from the Expenditure and Funding Analysis | (935) | 1,053 | (1,095) | (976) |
| Difference between General fund surplus/ deficit and CIES Surplus or Deficit on the Provision of Services | (694) | 174 | 10 | (511) |

Adjustments for Capital Purposes

This column adds in the depreciation and impairment and revaluation gains and losses to net cost of services and for:

- **Other operating expenditure** – adjusts the capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.
- **Taxation and non specific grant income and expenditure** – capital grants are adjusted for income not chargeable under generally accepted accounting practices and capital grants receivable in the year without conditions or for which conditions were satisfied in the year are credited to Taxation and Non Specific Grant Income.

Net Change for Pensions Adjustments

Net change for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:

- **Net cost of services** - represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.
- **Financing and investment income and expenditure** – the net interest on the defined benefit liability is charged to the CIES.

Other Differences

Other differences between amounts debited/ credited to the CIES and amounts payable/ receivable to be recognised under statute.

- **Net cost of services** – represents the adjustments required in respect of employee benefits holiday pay, transfers to and from ear marked reserves and adjustments for items reported through services which fall under financing and investment income and expenditure within the CIES, including Investment Properties and Interest Received.

- **Taxation and non-specific grant income and expenditure** – the difference between what is chargeable under statutory regulations for council tax and business rates income projected at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

7b. Segmental Income and Expenditure

The table below presents the segmental analysis net expenditure chargeable to the general fund balance.

| 2017/18 | Chief Executive | Strategy, Democracy & Customer Service | Resources | Community and Economy | Planning and Housing | Total |
|--------------------------------------|-----------------|--|-----------------|-----------------------|----------------------|-----------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Income | | | | | | |
| Revenues from external customers | - | (12) | (1,183) | (1,151) | (3,059) | (5,406) |
| Interest income | - | - | (334) | - | - | (334) |
| Housing benefit subsidy | - | - | (17,414) | - | - | (17,414) |
| Grants | - | (186) | (577) | (297) | (178) | (1,237) |
| Income from other local authorities | (58) | (128) | (575) | (176) | (17) | (954) |
| Other income | (3) | (1) | (864) | (58) | (54) | (981) |
| | (61) | (327) | (20,948) | (1,682) | (3,309) | (26,326) |
| Expenditure | | | | | | |
| Employee expenses | 273 | 629 | 2,181 | 2,425 | 718 | 6,225 |
| Housing benefit claims | - | - | 18,143 | - | - | 18,143 |
| Charges from other local authorities | 174 | 273 | 1,253 | 623 | 810 | 3,133 |
| Transfer to/ (from) reserves | - | 42 | 710 | (628) | 2,131 | 2,255 |
| Other expenditure | 12 | 293 | 1,284 | 2,375 | 473 | 4,438 |
| | 459 | 1,237 | 23,571 | 4,795 | 4,132 | 34,194 |
| Net Cost of Service | 398 | 910 | 2,624 | 3,113 | 823 | 7,867 |

| 2016/17 | Chief Executive | Strategy, Democracy & Customer Service | Resources | Community and Economy | Planning and Housing | Total |
|--------------------------------------|-----------------|--|-----------------|-----------------------|----------------------|-----------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Income | | | | | | |
| Revenues from external customers | - | (28) | (852) | (1,598) | (1,685) | (4,163) |
| Interest income | - | - | (231) | - | - | (231) |
| Housing benefit subsidy | - | - | (18,350) | - | - | (18,350) |
| Grants | - | (295) | (592) | (170) | (209) | (1,266) |
| Income from other local authorities | (100) | - | (682) | (232) | (27) | (1,041) |
| Other income | (2) | (1) | (822) | (4) | (20) | (849) |
| | (102) | (324) | (21,529) | (2,004) | (1,941) | (25,900) |
| Expenditure | | | | | | |
| Employee expenses | 392 | 632 | 2,477 | 2,353 | 922 | 6,776 |
| Housing benefit claims | - | - | 19,121 | - | - | 19,121 |
| Charges from other local authorities | 178 | 272 | 1,325 | 658 | 406 | 2,839 |
| Transfer to/ (from) reserves | (130) | 47 | 1,316 | (69) | 310 | 1,474 |
| Other expenditure | 26 | 307 | 1,070 | 2,053 | 876 | 4,332 |
| | 466 | 1,258 | 25,309 | 4,995 | 2,514 | 34,542 |
| Net Cost of Service | 364 | 934 | 3,780 | 2,991 | 573 | 8,642 |

7c. Expenditure and Income Analysed by Nature

| | 2016/17 £'000 | 2017/18 £'000 |
|--|------------------|------------------|
| Expenditure | | |
| Employee benefits expenses | 2,027 | 1,892 |
| Other employee costs | 4,990 | 4,071 |
| Other service expenditure | 26,197 | 26,418 |
| Depreciation | 603 | 703 |
| Losses/ (gains) on revaluation | (772) | 33 |
| Revenue funded from capital under statute | 412 | 512 |
| Precepts and levies | 1,793 | 1,987 |
| Loss/ (gain) on the disposal of assets | 1 | (186) |
| Total expenditure | 35,250 | 35,430 |
| Income | | |
| Fees, charges and other service income | (6,498) | (7,340) |
| Interest and investment income | (231) | (335) |
| Income from council tax and business rates | (7,800) | (8,740) |
| Government grants and contributions | (23,098) | (21,200) |
| Total income | (37,627) | (37,615) |
| Surplus or Deficit on the Provision of Services | (2,377) | (2,185) |

8. Adjustments between Accounting Basis and Funding Basis under Regulations

The following table details the adjustments that are made to the total CIES 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 Authority to meet future capital and revenue expenditure.

| 2017/18 | Usable Reserves | | | | |
|---|-------------------------|-----------------------|--------------------------------|-----------------------------|-------------------------------------|
| | General Fund Balance | Earmarked Reserves | Capital Receipts Reserve | Capital Grants Unapplied | Movement in Unusable Reserves |
| / | £000 | £000 | £000 | £000 | £000 |
| <u>Reversal of items debited or credited to the CIES:</u> | | | | | |
| Changes for depreciation and impairment of non-current assets | 736 | - | - | - | (736) |
| Movements in the market value of Investment Properties | - | - | - | - | - |
| Revenue expenditure funded from capital under statute | 512 | - | - | (512) | - |
| Changes in the value of cash investments | | | | | |
| | 1,248 | - | - | (512) | (736) |
| <u>Insertion of items not debited or credited to the CIES:</u> | | | | | |
| Assets funded by ear marked reserves | | (338) | - | | 338 |
| Transfers between reserves | (500) | 788 | - | (234) | - |
| | (500) | 450 | - | (234) | 338 |
| <u>Adjustments involving the Capital Grants Unapplied Account</u> | | | | | |
| Capital grants and contributions unapplied credited to the CIES | - | - | - | - | - |
| Application of grants to capital financing transferred to the Capital Adjustment Account | (567) | - | - | 567 | - |
| | (567) | - | - | 567 | - |
| <u>Adjustments involving the Capital Receipts Reserve</u> | | | | | |
| Transfer of sale proceeds as part of the gain/loss on disposal to the CIES | (186) | - | 186 | - | - |
| Use of the Capital Receipts Reserve to finance new capital expenditure | - | - | (186) | - | 186 |
| | (186) | - | - | - | 186 |
| <u>Adjustments involving the Pensions Reserve</u> | | | | | |
| Reversal of items relating to retirement benefits debited or credited to the CIES | 1,892 | - | - | - | (1,892) |
| Employers' pension contributions and direct payments to pensioners payable in the year | (1,476) | - | - | - | 1,476 |
| | 416 | - | - | - | (416) |
| <u>Adjustments involving the Collection Fund Adjustment Account</u> | | | | | |
| Amount by which council tax income credited to the CIES is different from council tax income calculated for the year in accordance with statutory requirements | 58 | - | - | - | (58) |
| | 58 | - | - | - | (58) |
| <u>Adjustments involving the Accumulated Absences Account</u> | | | | | |
| Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | 26 | - | - | - | (26) |
| Total Adjustments | 496 | 450 | - | (179) | (713) |

2016/17 Comparable Figures

| | Usable Reserves | | | | |
|---|-------------------------|-----------------------|--------------------------------|-----------------------------|-------------------------------------|
| | General Fund Balance | Earmarked Reserves | Capital Receipts Reserve | Capital Grants Unapplied | Movement in Unusable Reserves |
| | £000 | £000 | £000 | £000 | £000 |
| <u>Reversal of items debited or credited to the CIES:</u> | | | | | |
| Changes for depreciation and impairment of non-current assets | 631 | - | - | - | (631) |
| Movements in the market value of Investment Properties | (881) | - | - | - | 788 |
| Revenue expenditure funded from capital under statute | 412 | - | - | - | (412) |
| Changes in the value of cash investments | 81 | - | - | - | (81) |
| | 243 | - | - | - | (336) |
| <u>Insertion of items not debited or credited to the CIES:</u> | | | | | |
| Mortgage Capital repayments | - | - | - | - | - |
| Assets funded by ear marked reserves | - | (298) | - | - | 298 |
| Prior year revaluation adjustment | (1) | - | - | - | - |
| | - | (298) | - | - | 298 |
| <u>Adjustments involving the Capital Grants Unapplied Account</u> | | | | | |
| Capital grants and contributions unapplied credited to the CIES | (935) | - | - | - | 934 |
| Application of grants to capital financing transferred to the Capital Adjustment Account | - | - | - | 513 | (513) |
| | (935) | - | - | 513 | 421 |
| <u>Adjustments involving the Capital Receipts Reserve</u> | | | | | |
| Transfer of sale proceeds as part of the gain/loss on disposal to the CIES | 1 | - | 3 | - | (4) |
| Use of the Capital Receipts Reserve to finance new capital expenditure | - | - | (1,270) | - | 1,270 |
| | 1 | - | (1,267) | - | 1,266 |
| <u>Adjustments involving the Pensions Reserve</u> | | | | | |
| Reversal of items relating to retirement benefits debited or credited to the CIES | 2,026 | - | - | - | (2,026) |
| Employers' pension contributions and direct payments to pensioners payable in the year | (1,852) | - | - | - | 1,852 |
| | 174 | - | - | - | (174) |
| <u>Adjustments involving the Collection Fund Adjustment Account</u> | | | | | |
| Amount by which council tax income credited to the CIES is different from council tax income calculated for the year in accordance with statutory requirements | 10 | - | - | - | (10) |
| | 10 | - | - | - | (10) |
| <u>Adjustments involving the Accumulated Absences Account</u> | | | | | |
| Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | | - | - | - | 1 |
| Total Adjustments | (508) | (298) | (1,267) | 513 | 1,466 |

9. Transfers to/ from Earmarked Reserves

The following table details the amounts set aside from the General Fund balance in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from the earmarked reserves to meet General Fund expenditure in 2017/18.

| | Balance at 31 March 2016 £000 | Transfers (Out) / In 2016/17 £000 | Balance at 31 March 2017 £000 | Transfers (Out) / In 2017/18 £000 | Balance at 31 March 2018 £000 |
|--------------------------------|--|--|--|--|--|
| General Fund: | | | | | |
| S106 Balances | 1,720 | 375 | 2,095 | 2,063 | 4,157 |
| Tenbury Business Park | 50 | - | 50 | - | 50 |
| Capital Replacement | 1,634 | 503 | 2,137 | 1,022 | 3,159 |
| Flooding Prevention | 70 | (16) | 54 | - | 54 |
| Elections | - | 47 | 47 | 50 | 97 |
| Planning Enforcement | 21 | (21) | - | - | - |
| Health Initiatives | 31 | 2 | 33 | (1) | 32 |
| Community Safety | 84 | (14) | 70 | (28) | 42 |
| Pickersleigh AOHN | 10 | (10) | - | - | - |
| Sports Development | 25 | 7 | 32 | (13) | 19 |
| Repairs and Maintenance | 87 | 40 | 127 | 48 | 174 |
| Waste and Recycling | 161 | 627 | 788 | (531) | 256 |
| Emergency Planning | 14 | (1) | 13 | - | 13 |
| Malvern Vale Community Centre | 384 | 2 | 386 | (5) | 381 |
| Priorities | 666 | (281) | 386 | 37 | 422 |
| Flooded Business Support | 48 | (12) | 36 | - | 36 |
| Development Control | 515 | (213) | 302 | (10) | 291 |
| Transformation Challenge Award | 67 | (67) | - | - | - |
| Route to the Hills | 83 | 10 | 93 | (23) | 70 |
| Welfare Payments | 37 | - | 37 | - | 37 |
| Community Housing Fund | - | 168 | 168 | (6) | 162 |
| Malvern Theatres | - | 27 | 27 | (27) | - |
| Neighbourhood Planning | - | - | - | 33 | 33 |
| Custom Build | - | - | - | 30 | 30 |
| Flexible Homelessness Support | - | - | - | 40 | 40 |
| Preventing Homelessness | - | - | - | 25 | 25 |
| Total | 5,707 | 1,174 | 6,881 | 2,704 | 9,585 |

10. Other Operating Expenditure

| | 2016/17 £000 | 2017/18 £000 |
|--|-----------------|-----------------|
| Parish council precepts | 1,412 | 1,550 |
| Levies | 380 | 437 |
| (Gain)/ loss on the disposal of non current assets | 1 | (186) |
| Total | 1,794 | 1,801 |

11. Financing and Investment Income and Expenditure

| | 2016/17 £000 | 2017/18 £000 |
|----------------------------|-----------------|-----------------|
| Net Pensions interest cost | 1,053 | 704 |

| | | |
|---|-------------|------------|
| Interest receivable and similar income | (134) | (301) |
| Income and expenditure in relation to investment properties and changes in their fair value | (971) | (122) |
| Total | (52) | 281 |

12. Taxation and Non Specific Grant Income

| | 2016/17 (Restated) £000 | 2017/18 £000 |
|----------------------------------|--|-------------------------|
| Council Tax income | (5,970) | (6,408) |
| Non domestic rates | (1,830) | (2,331) |
| Revenue support grant | (2,991) | (1,981) |
| Capital grants and contributions | (934) | (567) |
| Total | (11,725) | (11,289) |

13. Business Rates

Income from business rates comprises:

| | 2016/17 (Restated) £000 | 2017/18 £000 |
|---|--|-------------------------|
| Business rates (after tariff payment) | (1,360) | (1,431) |
| S31 Grant Income | (482) | (1,067) |
| Collection Fund Deficit / (Surplus) | (2,478) | (485) |
| Amounts paid or due to MHLHC | 85 | 553 |
| Amounts paid in respect of previous year deficits | 2,407 | 101 |
| Total | (1,830) | (2,331) |

14. Trading Operations

The Council operates a trade refuse service in competition with private companies; the trading objective is to break even. The Council also operates a number of industrial and commercial properties.

The income and expenditure associated with the trade refuse service is included within Environment and Regulatory Services within Net Cost of Services on the CIES and the income and expenditure from investment property is shown within Financing and Investment Income and Expenditure.

The income and expenditure related to these operations is shown below, but does not include any share of central overhead costs which these services would accrue.

| | Total 2016/17 £000 | Trade Refuse 2017/18 £000 | Property 2017/18 £000 | Total 2017/18 £000 |
|---------------------------------------|-----------------------------------|--|--------------------------------------|-----------------------------------|
| Income | (787) | (570) | (181) | (751) |
| Expenditure | 554 | 369 | 60 | 429 |
| (Surplus) / Deficit on Trading | (233) | (201) | (121) | (322) |

15. Members' Allowances

The amount of allowances paid to members was £238,604 (£242,923 2016/17).

16. Employees' Remuneration

Expenses recognised for employee benefits are analysed below:

| | 2016/17 £000 | 2017/18 £000 |
|--|-----------------|-----------------|
| Wages and salaries | 3,988 | 3,805 |
| National Insurance contributions | 339 | 331 |
| Pensions – defined benefit plans employer contribution | 536 | 508 |
| Pensions – defined benefit plans back funding payments | 1,062 | 1,034 |
| Total Employee benefits expense | 5,925 | 5,679 |

The above table does not agree to employee costs in the subjective analysis as it only includes direct staff costs and not costs relating to agency, members and other indirect employee expenses.

The total remuneration of senior employees (including pension contributions) earning between £50,000 and £150,000 per year was:

| | 2017/18 | | | | | |
|----------------------------|----------------|----------------------|-------------------------------|--------------------|-----------------------|----------------|
| | Salary | Termination Payments | Allowances & Benefits in Kind | Total Remuneration | Pension Contributions | Total |
| Job Title | £ | £ | £ | £ | £ | £ |
| Deputy Chief Executive | 87,394 | - | 3,192 | 90,586 | 12,088 | 102,674 |
| Head of Planning & Housing | 81,129 | - | 1,871 | 83,000 | 11,845 | 94,845 |
| | 168,523 | - | 5,063 | 173,586 | 23,933 | 197,519 |

| | 2016/17 | | | | | |
|----------------------------|----------------|----------------------|-------------------------------|--------------------|-----------------------|----------------|
| | Salary | Termination Payments | Allowances & Benefits in Kind | Total Remuneration | Pension Contributions | Total |
| Job Title | £ | £ | £ | £ | £ | £ |
| Deputy Chief Executive | 86,408 | - | 627 | 87,035 | 12,139 | 99,174 |
| Head of Planning & Housing | 80,305 | - | 929 | 81,234 | 11,808 | 93,042 |
| | 166,713 | 0 | 1,556 | 168,269 | 23,947 | 192,216 |

The Council has a joint senior management team, shared with Wychavon District Council. The Joint Chief Executive, Head of Strategy, Democracy and Customer Service and Head of Community and Economy are employed by Wychavon District Council and a proportion of their costs recharged to Malvern Hills District Council. The Head of Planning and Housing is employed by Malvern Hills District Council and a proportion of their costs are recharged to Wychavon District Council.

The number of Council employees, whose remuneration (excluding employer's pension contributions) was in excess of £50,000, was:

| Remuneration Band | 2016/17 | 2017/18 |
|---------------------|----------|----------|
| £50,000 - £54,999 | 4 | 4 |
| £55,000 - £59,999 | - | - |
| £60,000 - £64,999 | 1 | - |
| £65,000 - £69,999 | - | 1 |
| £70,000 - £74,999 | - | - |
| £75,000 - £79,999 | 1 | - |
| £80,000 - £84,999 | 1 | 1 |
| £85,000 - £89,999 | 1 | - |
| £90,000 - £94,999 | - | 1 |
| £95,000 - £99,999 | - | - |
| £100,000 - £104,999 | - | - |
| £105,000 - £109,999 | - | - |
| Total | 8 | 7 |

The Council incurred £12,115 in relation to termination payments (2016/17 £61,254). The table below sets out the numbers of exit packages per band and total cost of the compulsory and other redundancies.

| Cost Band | No. of Compulsory Redundancies | | No of Other Departures Agreed | | Total | | Total Cost of Exit Packages per Band | |
|-------------------|--------------------------------|----------|-------------------------------|----------|----------|----------|--------------------------------------|---------------|
| | 2016/17 | 2017/18 | 2016/17 | 2017/18 | 2016/17 | 2017/18 | 2016/17 £ | 2017/18 £ |
| £0 - £20,000 | 1 | 1 | 1 | 2 | 2 | 3 | 1,295 | 12,115 |
| £20,001 - £40,000 | - | - | - | - | - | - | - | - |
| £40,001- £60,000 | - | - | 1 | - | 1 | - | 59,960 | - |
| Total | 1 | 1 | 2 | 2 | 3 | 3 | 61,254 | 12,115 |

17. Trade Union Facility Time

Malvern Hills District Council recognises UNISON for collective bargaining purposes. Facility time details for the period 1 April 2017 to 31 March 2018 were as follows:

| | |
|--|-------------------|
| Number of employees who were relevant union officials in the relevant period | 4 |
| Full time equivalent employee number | 3.53 |
| Percentage of working hours spent on facility time | |
| 0% of working hours | 1 representatives |
| 1 to 50% of working hours | 3 representatives |
| 51 to 99% of working hours | 0 representatives |
| 100% of working hours | 0 representatives |
| Total pay bill | £5,682,448.36 |
| Total cost of facility time | £1,441.83 |
| Percentage of pay spent on facility time | 0.03% |
| Hours spent on paid facility time | 109.5 |
| Hours spent on paid trade union activities | 0 |
| Percentage of hours spent on paid facility time | 0.00% |

18. Pensions Costs

As part of the terms and conditions of employment the Council offers retirement benefits to its employees. Although these benefits are not actually paid until the employee retires, the Council has a commitment to make the payments that need to be disclosed at the time that employees earn their future entitlement.

The Council participates in one defined benefit scheme which is administered by Worcestershire County Council. This means that retirement benefits are determined independently of the investments of the fund and the Council has an obligation to make contributions where assets are insufficient to meet employee benefits. The Council and employees pay contributions into the fund, calculated at a level intended to balance pensions' liabilities with investment assets.

The principal risks to the Council of the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme (i.e. large-scale withdrawals from the scheme), changes to inflation, bond yield and the performance of the equity investments held. These are mitigated to a certain extent by the statutory requirements to charge to the General Fund the amounts required by statute as highlighted in the Statement of Accounting Policies.

Discretionary Post-retirement Benefits

Discretionary post-retirement benefits on early retirement are an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. There are no plan assets built up to meet these pension liabilities.

Transactions Relating to Retirement Benefits

The Council recognises the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the cash payable in the year, so the real cost of post-employment/ retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the CIES and the General Fund Balance via the Movement in Reserves Statement during the year:

| | Local Government Pension Scheme | | Discretionary Benefits Arrangements | |
|--|------------------------------------|--------------|--|----------|
| | 2016/17 | 2017/18 | 2016/17 | 2017/18 |
| | £000 | £000 | £000 | £000 |
| Comprehensive Income & Expenditure Account | | | | |
| Cost of Service | | | | |
| <i>Service cost comprising</i> | | | | |
| Current service cost | 790 | 1,172 | - | - |
| Administration expenses | 13 | 13 | - | - |
| Curtailments | 170 | 3 | | |
| Financing Income & Expenditure | | | | |
| Net interest expense | 1,053 | 704 | - | - |
| Total Post-employment Benefits charged to the | 2,026 | 1,892 | - | - |
| Surplus or Deficit on the Provision of Services | | | | |

Other Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement

Remeasurement of the net defined benefit liability comprising:

| | | | | |
|---|--------------|--------------|--------------|-----------|
| Return on plan assets (excluding the amount included in the net interest expense) | 11,615 | 693 | - | - |
| Actuarial gains and losses arising on changes in demographic assumptions | 1,146 | - | 41 | - |
| Actuarial gains and losses arising on changes in financial assumptions | (15,153) | 2,757 | (386) | 61 |
| Other | 4,615 | - | 29 | - |
| Total Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement | 2,223 | 3,450 | (316) | 61 |

Movement in Reserves

| | | | | |
|--|---------|---------|------|------|
| Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post-employment benefits in accordance with the Code | (1,939) | (1,824) | (87) | (68) |
|--|---------|---------|------|------|

Actual amount charged against the General Fund balance for pensions in the year

| | | | | |
|---|---------|---------|-------|-------|
| Employers' contribution payable to scheme | 1,684 | 1,328 | 168 | 148 |
| Retirement benefits payable to pensioners | (2,650) | (2,359) | (168) | (148) |

Pension Assets and Liabilities Recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the authority's obligation in respect of its defined benefit plan is as follows:

| | Local Government Pension Scheme | | Discretionary Benefits Arrangements | |
|--|--|-------------------------|--|-------------------------|
| | 2016/17 £000 | 2017/18 £000 | 2016/17 £000 | 2017/18 £000 |
| Present value of the defined benefit | 83,445 | 81,788 | 2,791 | 2,650 |
| Fair value of plan assets | (56,461) | (57,758) | - | - |
| Sub-total | 26,984 | 24,030 | 2,791 | 2,650 |
| Net liability arising from defined benefit obligation | 26,984 | 24,030 | 2,791 | 2,650 |

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

| | Local Government Pension Scheme | | Discretionary Benefits Arrangements | |
|--|--|-------------------------|--|-------------------------|
| | 2016/17 £000 | 2017/18 £000 | 2016/17 £000 | 2017/18 £000 |
| Opening fair value of scheme assets | 44,053 | 56,461 | - | - |
| Interest Income | 1,547 | 1,422 | - | - |
| Remeasurement gain/(loss): | | | | |
| The return on plan assets, excluding the amount included in the net interest expense | 11,615 | 693 | - | - |
| Administration expenses | (13) | (13) | | |
| Contributions from employer | 1,684 | 1,328 | 168 | 148 |
| Contributions from employees into the scheme | 225 | 226 | - | - |
| Benefits paid | (2,650) | (2,359) | (168) | (148) |
| Closing fair value of scheme assets | 56,461 | 57,758 | - | - |

Reconciliation of Present Value of the Scheme Liabilities

| | Funded Liabilities: Local Government Pension Scheme | | Unfunded Liabilities: Discretionary Benefits Arrangements | |
|---|---|-----------------|---|-----------------|
| | 2016/17 £000 | 2017/18 £000 | 2016/17 £000 | 2017/18 £000 |
| Opening balance at 1 April | 73,005 | 83,445 | 2,556 | 2,791 |
| Current service cost | 790 | 1,172 | - | - |
| Interest cost | 2,513 | 2,058 | 87 | 68 |
| Contributions from scheme participants | 225 | 226 | - | - |
| Remeasurement (gains) and losses: | | | | |
| - Experience (gain)/ loss | (4,615) | - | (29) | - |
| - Actuarial gains/ losses arising from changes in demographic assumptions | (1,146) | - | (41) | - |
| - Actuarial gains/ losses arising from changes in financial assumptions | 15,153 | (2,757) | 386 | (61) |
| Past service cost | - | - | - | - |
| Losses/(gains) on curtailment | 170 | 3 | - | - |
| Liabilities assumed on entity combinations | - | - | - | - |
| Liabilities extinguished on settlement | - | - | - | - |
| Benefits paid | (2,650) | (2,359) | (168) | (148) |
| Closing balance at 31 March | 83,445 | 81,788 | 2,791 | 2,650 |

Local Government Pension Scheme Assets Comprised:

| | Fair value of scheme assets | |
|--|--------------------------------|-----------------|
| | 2016/17 £000 | 2017/18 £000 |
| Cash and cash equivalents | 1,294 | 693 |
| Equity instruments by type: | | |
| - UK quoted | 294 | 231 |
| - Overseas quoted | 15,775 | 16,519 |
| - PIV UK Managed Funds | 15,222 | 14,151 |
| - PIV UK Managed Funds (Overseas equities) | 16,887 | 19,002 |
| - PIV Overseas Managed Funds | - | - |
| Sub-total equity | 48,178 | 49,903 |
| Bonds by sector: | | |
| - Corporate | 3,071 | 2,772 |
| Sub-total bonds | 3,071 | 2,772 |
| Property by region: | | |
| - European Property Funds | 1,587 | 1,444 |
| - UK Property Debt | 525 | 462 |
| - Overseas Property Debt | 282 | 289 |
| - UK Property Funds | - | 231 |
| Sub-total property | 2,394 | 2,426 |
| UK Infrastructure | 1,524 | 1,964 |
| Total assets | 56,461 | 57,758 |

All scheme assets have quoted prices in active markets.

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 including mortality rates and salary levels. Both the Local Government Pension Scheme and discretionary benefits liabilities have been estimated by Mercers, an independent firm of actuaries. The last full valuation of the scheme was as at 1 April 2016.

The principal assumptions used by the actuary have been:

| Local Government Pension Scheme & Unfunded Benefits Assumptions | 2016/17 | 2017/18 |
|--|----------------|----------------|
| Long term expected rate of return on assets in the scheme | | |
| Equity Investments | 6.5% | 6.5% |
| Government Bonds | 2.2% | 2.2% |
| Other Bonds | 2.6% | 2.6% |
| Property | 5.9% | 5.9% |
| Cash / Liquidity | 0.5% | 0.5% |
| Mortality rates | | |
| Longevity at 65 for current pensioners | | |
| Male | 22.6 | 22.7 |
| Female | 25.6 | 25.7 |
| Longevity at 65 for future pensioners | | |
| Male | 24.8 | 24.9 |
| Female | 27.9 | 28 |
| Other | | |
| Rate of inflation (CPI) | 2.3% | 2.1% |
| Rate of increase in salaries | 3.8% | 3.6% |
| Rate of increase in pensions | 2.3% | 2.2% |
| Rate for discounting scheme liabilities | 2.5% | 2.6% |
| Take up of option to convert annual pension into retirement lump sum | n/a | n/a |

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 the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. 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. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

Impact on the Defined Benefit Obligation Scheme

| | Increase in Assumption £'000 |
|---|-------------------------------------|
| Longevity (increase or decrease in 1 year) | 1,724 |
| Rate of inflation (increase or decrease by 0.1%) | 1,305 |
| Rate of increase in salaries (increase or decrease by 0.1%) | 98 |
| Rate of discounting scheme liabilities (increase or decrease by 0.1%) | (1,286) |

Impact on the Council's Cash Flows

The scheme will need to take account of the national changes to the scheme under the Public Pensions Services Act 2013. Under the Act, the Local Government Pension Scheme in England

and Wales and the other main existing public services schemes may not provide benefits in relation to service after 31 March 2014 (or service after 31 March 2015 for other main existing public service pension schemes in England and Wales). The Act provides for scheme regulations to be made within a common framework, to establish new career average revalued earnings schemes to pay pensions and other benefits to certain public servants.

The Council anticipates paying £1.504m expected contributions to the scheme in 2018/19.

The weighted average duration of the defined benefit obligation for scheme members is 15 years for 2017/18.

Pensions Liability Relating to the Regulatory Shared Service

The Regulatory Shared Service is governed by a Joint Committee; this Council transferred its staff to the host authority (Bromsgrove District Council) on a fully funded basis. The shared services was admitted to the pension fund as a ghost admitted body, any liability or surplus that accrues is the responsibility of the partners to the shared services.

The tables below show the overall deficit for Worcestershire Regulatory Shared Service. The council's share of assets and liabilities in this scheme represents 9.67% of the total.

| | 31 March 2017 | 31 March 2018 |
|-------------------------------|----------------------|----------------------|
| | £000 | £000 |
| Present value of liabilities | (28,798) | (28,404) |
| Fair value of assets | 21,040 | 21,774 |
| Surplus / (Deficit) in scheme | (7,758) | (6,630) |
| Malvern Share | (750) | (597) |

No provision is made to recover this deficit within these accounts. The deficit will be made good over time, either through improved fund performance or through higher contribution rates being paid into the fund, on the advice of the independent actuaries.

19. External Audit and Inspection

The Council is liable for fees relating to external audit and statutory inspection work undertaken. The following fees were paid to Ernst and Young LLP:

| | 2016/17 | 2017/18 |
|---|----------------|----------------|
| | £000 | £000 |
| Certification of grant claims and returns | 11 | 12 |
| Audit fees | 42 | 42 |
| Total | 53 | 54 |

20. Grant Income

The Council credited the following grants, contributions and donations to the CIES

| | 2016/17 £000 | 2017/18 £000 |
|---|-----------------|-----------------|
| Credited to Taxation and Non Specific Grant Income | | |
| DCLG Rural Services Delivery Grant | 226 | 183 |
| DCLG Revenue Support Grant | 779 | 365 |
| DCLG New Homes Bonus | 1,982 | 1,434 |
| Business Rates Income | 1,778 | 2,331 |
| DCLG Disabled Facilities | 478 | 567 |
| Other Capital Grants | 452 | - |
| Total | 5,695 | 4,880 |
| Credited to Services | | |
| DWP Housing Benefit Subsidy | 18,350 | 17,415 |
| DWP Housing Benefit Admin | 211 | 195 |
| DCLG NNDR Cost of Collection | 108 | 107 |
| Other Grants | 569 | 935 |
| Total | 19,237 | 18,651 |

21. Related Party Transactions

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, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. Council tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis in Note 7 and in detail in Note 19.

Members

Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in the financial year is shown in note 15. The Council maintains a register of Councillors' interests that is regularly updated and available for public inspection.

During 2017/18, many Malvern Hills District Councillors were also County Councillors and/ or elected members of town and parish councils. The Council also has member representatives on various outside bodies, including Malvern Hills Citizens' Advice Bureau, Malvern Hills Conservators, Malvern Theatres Trust, Malvern Youth and Community Trust and Upton Hill Centre. Members also represent the Council on the Worcestershire Regulatory Shared Service Joint Committee.

In accordance with contractual arrangements the Council paid grants of £71,685 to Malvern Citizens' Advice Bureau, £68,476 to Freedom Leisure in respect of Tenbury swimming pool and £56,960 to Malvern Theatres Trust.

Officers

The Council has officer representation on the board of Malvern Hills Science Park. Preference share dividends due to the Council of £257,282 remain outstanding at 31 March 2018.

Entities Controlled or Significantly Influenced by the Authority

The Council is a partner in the Worcestershire Regulatory Shared Service Joint Committee, which is a jointly controlled operation. Under this arrangement the Council paid £425,370 to Bromsgrove District Council, the host authority

The Council during 2017/18 also participated in the following shared services governed by SLA with other local authorities with the respective payments and amounts owed as at 31 March where applicable:

| Shared Service | Council | Payments To/ (From) £'000 | Amounts Owed To / (From) £'000 |
|----------------------------|------------------|--|---|
| Revenues & Benefits | Wychavon | 639 | (7) |
| Customer Services | Worcester County | 214 | |
| ICT | Wychavon | 331 | |
| Building Control | Wychavon | (240) | (74) |
| Building Control | Worcester City | (103) | (35) |
| Internal Audit | Worcester City | 48 | |
| Finance | Worcester City | (147) | |
| Finance | Gloucester City | (74) | |
| Human Resources | Wychavon | 137 | |
| Land Drainage | Wychavon | 40 | |
| Procurement | Wychavon | 15 | |
| Legal Services | Wychavon | (258) | |
| Housing | Wychavon | 155 | 45 |
| Planning Policy & Heritage | Wychavon | 304 | |
| Communications & Strategy | Wychavon | 56 | |
| SMT (net) | Wychavon | 116 | |

22. Movement of Non Current Assets

The movement in the Council's non current asset base is detailed in the table below. All of the assets of the Council were employed in 2017/18 by services contained within the CIES.

| | Land and Buildings | Vehicles, Plant & Equipment | Community Assets | Investmen ¹ Properties | Surplus Assets | Total Fixed Assets |
|---|-----------------------|-----------------------------------|---------------------|--------------------------------------|-------------------|-----------------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Cost or Valuation | | | | | | |
| At 1 April 2017 | 23,195 | 5,021 | 203 | 2,423 | 978 | 31,820 |
| Additions | 401 | 121 | - | - | - | 523 |
| Revaluation increases (decreases) recognised in the Revaluation Reserve | (248) | - | - | - | - | (248) |
| Revaluation increases (decreases) recognised in the Surplus/ Deficit on the Provision of Services | (119) | - | - | - | - | (119) |
| Transfer to surplus assets | (659) | - | - | - | 659 | - |
| Disposals | - | (52) | - | - | - | (52) |
| At 31 March 2018 | 22,571 | 5,090 | 203 | 2,423 | 1,638 | 31,924 |
| Accumulated Depreciation and Impairment | | | | | | |
| At 1 April 2017 | (348) | (3,297) | - | - | - | (3,645) |
| Depreciation charge | (336) | (367) | - | - | - | (703) |
| Depreciation written out to the Revaluation Reserve | 86 | - | - | - | - | 86 |
| Disposals | - | 52 | - | - | - | 52 |
| At 31 March 2018 | (599) | (3,612) | - | - | - | (4,210) |
| Net Book Value At 31 March 2018 | 21,972 | 1,478 | 203 | 2,423 | 1,638 | 27,714 |
| | | | | | | |
| | Land and Buildings | Vehicles, Plant & Equipment | Community Assets | Investmen ¹ Properties | Surplus Assets | Total Fixed Assets |
| | £'000 | £'000 | £'000 | £'000 | £000 | £'000 |
| Cost or Valuation | | | | | | |
| At 1 April 2016 | 22,138 | 4,342 | 203 | 1,635 | 978 | 29,296 |
| Additions | 874 | 703 | - | - | - | 1,577 |
| Revaluation increases (decreases) recognised in the Revaluation Reserve | 210 | - | - | - | - | 210 |
| Revaluation increases (decreases) recognised in the Surplus/ Deficit on the Provision of Services | (27) | - | - | 788 | - | 760 |
| Disposals | - | (24) | - | - | - | (24) |
| At 31 March 2017 | 23,195 | 5,021 | 203 | 2,423 | 978 | 31,820 |
| Accumulated Depreciation and Impairment | | | | | | |
| At 1 April 2016 | (193) | (3,042) | - | - | - | (3,235) |
| Depreciation charge | (330) | (274) | - | - | - | (604) |
| Depreciation written out to the Revaluation Reserve | 174 | - | - | - | - | 174 |
| Disposals | - | 19 | - | - | - | 19 |
| At 31 March 2017 | (348) | (3,297) | - | - | - | (3,645) |
| Net Book Value at 31 March 2017 | 22,847 | 1,724 | 203 | 2,423 | 978 | 28,175 |

No special assumptions were made in estimating current values of property assets.

23. Capital Expenditure and Financing

| | 2016/17 £000 | 2017/18 £000 |
|--|-----------------|-----------------|
| Capital Expenditure adding to Fixed Asset Valuation | | |
| Land & Buildings | 874 | 402 |
| Vehicles Plant & Equipment | 703 | 121 |
| Assets Under Construction | - | - |
| Investment Properties | - | - |
| Additions to Fixed Assets | 1,577 | 523 |

| | | |
|--|--------------|--------------|
| Capital Expenditure not adding to Fixed Asset Valuation | | |
| Revenue expenditure funded from capital under statute | 412 | 512 |
| Total Capital Expenditure | 1,989 | 1,035 |

| | | |
|--------------------------------|--------------|--------------|
| Financed By: | | |
| Usable Capital Receipts | 1,270 | 186 |
| Grants and other contributions | 421 | 746 |
| Earmarked Reserves | 298 | 103 |
| Total Capital Financing | 1,989 | 1,035 |

24. Capital Commitments

The Council has no capital commitments at 31 March 2018.

25. Information on Assets Held

The number of main fixed assets owned by the Council includes the following:

| | 31 March 2017 | 31 March 2018 | Value £000 |
|--|------------------|------------------|---------------|
| Operational Assets | | | |
| Offices (Administrative Buildings) | 4 | 3 | 965 |
| Tourist Information Centres | 1 | 1 | 197 |
| Car parks | 13 | 14 | 3,549 |
| Public conveniences | 8 | 8 | 478 |
| Leisure facilities | 5 | 5 | 7,354 |
| Depot | 1 | 1 | 561 |
| Heritage centre / museum | 2 | 2 | 269 |
| Theatre | 1 | 1 | 8,599 |
| Community Assets | | | |
| Parks, Open spaces, Recreational areas | 4 | 4 | 203 |
| Non-Operational Assets | | | |
| Commercial properties | 5 | 5 | 646 |
| Industrial properties | 4 | 4 | 1,777 |
| Assets Held for Sale | | | |
| Offices (Administrative Buildings) | 1 | 2 | 1,155 |
| Commercial Properties | 1 | 1 | 483 |
| Total | 50 | 51 | 26,237 |

26. Fixed Asset Valuation

Properties which comprise the Council's operational portfolio (excluding vehicles, plant and equipment) are valued by MHDC's Estates and Valuations Officer (RICS qualified) in accordance with the RICS Appraisal and Valuation Manual and the requirements of the Accounting Code of Practice. All assets held by the Council are valued on a regular basis having regard to use and type of asset. For 2017/18 the following assets were revalued as at 31 March 2018.

| Asset Type | (Decrease) £000 |
|------------------------------------|----------------------------|
| Offices (Administrative Buildings) | (281) |
| Total | (281) |

27. Investment Properties

The following items have been accounted for in the Financing and Investment Income and Expenditure line in the CIES.

| | 2016/17 £000 | 2017/18 £000 |
|--|-------------------------|-------------------------|
| Rental income from investment property | 240 | 181 |
| Direct operating expenses arising from investment property | (140) | (60) |
| Net gain | 100 | 121 |

There are no restrictions on the Council's ability to realise the value inherent in its investment property or on the Council's right to the remittance of income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement.

The Council's investment properties comprise industrial units, office units and sports facilities, which are rented out to third party organisations to earn rental income.

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

| | 2016/17 £000 | 2017/18 £000 |
|---|-------------------------|-------------------------|
| Balance at 1 April | 1,635 | 2,423 |
| Transfer in of assets | - | - |
| Additions to investment properties | - | - |
| Transfers to assets held for sale | - | - |
| Net gains/ losses from fair value adjustments | 788 | - |
| Balance at 31 March | 2,423 | 2,423 |

Fair Value Hierarchy

Details of the Council's investment properties and information about the fair value hierarchy as at 31 March 2018 are as follows:

| Significant observable inputs (Level 2) £'000 | Fair value at 31 March 2018 £'000 |
|--|--|
|--|--|

| | | |
|------------------|--------------|--------------|
| Industrial units | 1,777 | 1,777 |
| Commercial units | 646 | 646 |
| Total | 2,423 | 2,423 |

2016/17 Comparative Figures

| | Significant observable inputs (Level 2) £'000 | Fair value at 31 March 2017 £'000 |
|------------------|---|---|
| Industrial units | 1,567 | 1,777 |
| Commercial units | 646 | 646 |
| Total | 2,213 | 2,423 |

There were no transfers between levels of the fair value hierarchy during the year.

Valuation Techniques used to determine Fair Value of Investment Properties

Significant observable inputs (Level 2)

Industrial and commercial units are valued using the market approach using current market conditions and recent sales prices and other relevant information for similar assets in the local authority area. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs are significant, leading to the properties being categorised at Level 2 in the fair value hierarchy.

There has been no change in the valuation techniques used during the year for investment properties.

Highest and Best Use of Investment Properties

In estimating the fair value of investment properties, the highest and best use of the properties is their current use.

28. Heritage Assets

The council has identified a small number of Heritage Assets (three statues and a mural). These are held for the enhancement and appreciation of the history of the local area. The council has no cost records for the assets and due to their nature they cannot be reliably valued. Therefore they have not been recognised in the council's balance sheet as assets.

29. Leased Assets

Operating lease payments relating to photocopiers and printers of £13,154 were made (£21,762 2016/17). The Council's outstanding obligations under operating lease agreements at 31 March 2018 were as follows:

| Financial Year | £000 |
|-----------------|------|
| 2018/19 | 13 |
| 2019/20 onwards | 54 |

30. Investments and Financial Instruments

The Council's financial instruments held at fair value were:

| | Amortised Cost 31 March 2018 £ | Fair Value 31 March 2017 £ | Fair Value 31 March 2018 £ |
|--|---|---|---|
| Investments | | | |
| Malvern Hills Science Park Ltd (Ordinary shares) | 9 | 590,349 | 601,256 |
| | 9 | 590,349 | 601,256 |
| Loans and Receivables | | | |
| Malvern Hills Science Park Ltd (3% Preference shares) | 1,044,909 | 1,264,340 | 1,295,687 |
| Malvern Hills Science Park Ltd (6.37% Preference shares) | 654 | 413,376 | 427,661 |
| Mortgages | - | 527 | - |
| | 1,045,563 | 1,678,243 | 1,723,348 |
| Available for Sale Financial Assets | | | |
| Charities Official Investment Trust | 2,025 | 2,025 | 2,025 |
| Pooled Property Fund | 4,000,000 | 2,956,649 | 4,070,572 |
| | 4,002,025 | 2,958,674 | 4,072,597 |

Fair value of assets

Financial assets are represented by investments and available for sale financial assets. They are held in the balance sheet at their fair value – the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction.

Malvern Hills Science Park (MHSP) is a joint venture company in partnership with Worcestershire County Council, and Worcester Chamber of Commerce. The purpose of the venture is the promotion of job creation and economic development in the Malvern area. The Council has 1,044,900 1p non-voting cumulative preference shares (P1), 654 £1 non-voting cumulative preference shares (P2) and 9 of the 100 1p voting shares in the company. The Council is entitled to a 3% dividend on the P1 preference shares and 6.37% dividend on the P2 dividends.

The value of preference shares is based on the initial investment value of £1,044,909 in P1 preference shares, the investment value of the P2 preference shares of £389,610 plus the preference share dividend receivable for 2010/11 to 2017/18 of £288,629 (2016/17 net dividend receivable £242,988). The fair value of the ordinary shares represents the Council's proportion of the projected future shareholders funds. The Council owns 9% of the ordinary share capital of MHSP and the projected shareholders funds are £6,680,622, giving an investment fair value of £601,256.

MHSP is a company with limited liability and as such the Council's liability is restricted to the value of its shareholding in the event of losses or deficits. Copies of the audited accounts for MHSP are available from Companies House and can be ordered via their website www.companieshouse.gov.uk.

Available for sale financial assets includes units in a pooled property fund, purchased during the year. Their value has been determined by reference to quoted market prices at 31 March 2018 for the purchase price of the units for the pooled fund. Interest accrues on this investment at 5% per annum. No investments were impaired.

| Income, Expense, Gains and Losses | Investments 2017/18 £000 | Available for Sale Financial Assets 2017/18 £000 |
|---|---|---|
| Investments | | |
| Interest income included in surplus/ deficit on the provision of services | 56 | 197 |
| Gain on revaluation | 10 | 114 |
| Net gain for the year | 66 | 311 |

Nature and Extent of Risk Arising from Financial Instruments

The Council's activities expose it to a variety of financial risks, the key risks are:

- Credit risk – the possibility that other parties might fail to pay amounts due to the Council;
- Liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments;
- Re-financing risk – the possibility that the Council might be requiring to renew a financial instrument on maturity at disadvantageous interest rates or terms;
- Market risk – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates movements.

Overall Procedures for Managing Risk

The Council's overall risk management procedures focus on the unpredictability of financial markets and implementing restrictions to minimise these risks. The procedures for risk management are through a legal framework set out in the Local Government Act 2004 and associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Treasury Management in the Public Services Code of Practice and Investment Guidance issued through the Act.

These procedures require the Council to manage risk in the following ways:

- Formal adoption of the requirements of the Code of Practice;
- Annually approving prudential indicators for the following three years limiting:
 - The Council's overall borrowing;
 - Maximum and minimum exposures to fixed and variable rates;
 - Maximum and minimum for exposures to the maturity structure of its debt;
 - Maximum annual exposures to investments maturing beyond a year.
- Approving an investment strategy for the coming year setting out criteria for both investing and selecting investment counterparties in compliance with Government guidance.

The Council's Treasury Management Strategy and Prudential Indicators are approved annually by Council prior to the start of the year to which they relate. This document outlines the detailed approach to managing risk in relation to the Council's treasury activity and any financial instrument exposure. Actual performance is reported quarterly to Members.

The Council maintains written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk and the investment of surplus cash through Treasury Management Practices (TMP). These TMP are a requirement of the code of Practice and are reviewed periodically.

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers.

This risk is minimised through the annual investment strategy which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard & Poors Ratings Services. The annual investment strategy also imposes a maximum amount and time to be invested within each category. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above.

At 31 March 2018 the Council had £4,000,000 (fair value £4,070,502) invested in the CCLA Pooled Property Fund, £1,000,000 invested in the CCLA Diversified Income Fund, an instant access deposit fund (fair value £949,094) and cash balances of £8,389,000. All cash deposits continue to be short-term (maturity less than one year). During the year the Council deposited funds with, Qatar National Bank (rated F1), Lloyds (rated F1), HSBC (rated F1) and CCLA.

The Council does not generally allow credit for its trade debtors. An aged analysis of the Council's debtor balances at 31 March 2018 is shown in the table below:

| | 2016/17 | 2017/18 |
|-------------------|----------------|----------------|
| | £000 | £000 |
| Current | 8 | 1 |
| Less than 30 days | 589 | 782 |
| 30-90 days | 11 | 69 |
| 90- 150 days | 6 | 11 |
| Over 150 days | 46 | 36 |
| Total | 660 | 899 |

The Council's approach to determining appropriate provisions for bad and doubtful debts is outlined in note 32.

An analysis of short term debtors is presented in note 32 and an analysis of short term creditors is presented in note 34. There are no material items within short term debtors and short term creditors which meet the definition of financial instruments.

Liquidity Risk

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of treasury and investment strategy reports), as well as through a comprehensive cash flow management system, as required by the Code of Practice. This seeks to ensure that cash is available when it is needed.

The Council has ready access to borrowings from the Money Markets to cover any day to day cash flow need, and whilst the PWLB provides access to longer term funds, it also acts as a lender of last resort to councils (although it will not provide funding to a council whose actions are unlawful). The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

Re-financing Risk

The Council currently has no debt and a limited investment portfolio, with all investments being in sterling and short term. Financial liabilities are limited to operating leases and short-term creditors. Cash flow procedures are in place and the approved treasury and investment strategies address the main risks around re-financing and maturity. The accountancy team manage the operational risks within the strategies and TMPs through monitoring investments to ensure sufficient liquidity is available for the Council's day to day cash flow needs.

Market risk

1. Interest rate risk

The Council is exposed to interest rate movements on its investments. The Council has strategies in place for managing interest rate risk. The Annual Treasury Management Strategy draws together the Council's prudential indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a prudential indicator is set for ratio of financing costs to net revenue stream. The accountancy team monitor market and forecast interest rates within the year to adjust exposures appropriately.

2. Price risk

The Council, excluding the pension fund, does not generally invest in equity shares but does hold 9% of the ordinary share capital, 1,044,900 P1 preference shares and 654 P2 preference shares in the MHSP. The holding is generally illiquid but the Council is exposed to decreases in the value of shareholders funds in MHSP. The investment in the pooled property fund exposes the Council to the risk of changes in the price of the fund units. As they are classified as available-for-sale financial assets, all gains and losses will be recognised in the CIES. For example, if the price of the units held by the Council at the year-end reduced by 1%, there would be a loss in fair value of £20,000.

3. Foreign exchange risk

The Council has no financial assets or liabilities denominated in foreign currencies and therefore has no exposure to losses arising from movements in exchange rates.

31. Current Assets Held for Sale

| | 31 March 2017 £000 | 31 March 2018 £000 |
|--|-----------------------|-----------------------|
| Balance brought forward | 978 | 978 |
| Assets newly classified as held for sale | - | 659 |
| Balance carried forward | 978 | 1,638 |

32. Stocks

| | 31 March 2017 £000 | 31 March 2018 £000 |
|----------------------------------|-----------------------|-----------------------|
| Refuse collection stock | 39 | 60 |
| Fuel stock | 2 | 13 |
| Tourist Information Centre Stock | 11 | 17 |
| Balance carried forward | 52 | 90 |

33. Short-term Debtors

An analysis of debtors falling due within a period of one year is shown below. The appropriate level of bad debt provision is based upon an age analysis of the arrears. In calculating the bad debt provision, 100% is provided for sundry debts over eight years old. The provision for more recent debts is based on a sliding scale according to the year due. For Housing Benefits and Council Tax debts, 100% is provided for debts over 5 years old. The provision for more recent debts is based on a sliding scale according to the year due. For NNDR debts, 100% is provided

for debts over 2 years old. The provision for more recent debts is based on a sliding scale according to the year due.

The outstanding dividends due from MHSP for the current financial year are included in the valuation of the preference shares within the note on Financial Instruments.

| | 31 March 2017 (Restated) £000 | 31 March 2018 £000 |
|------------------------------------|--|-------------------------------|
| Council Taxpayers | 198 | 202 |
| NNDR Payers | 173 | 185 |
| Local Authorities | 841 | 366 |
| Government Departments | 277 | 436 |
| Payments in Advance | 99 | 225 |
| Other Debtors | 1,140 | 1,864 |
| | 2,728 | 3,278 |
| Less: Provision for Doubtful Debts | (443) | (715) |
| Total Debtors | 2,285 | 2,564 |

All short-term debtors are unsecured. There are no long-term debtors.

34. Cash and Cash Equivalents

| | 31 March 2017 £000 | 31 March 2018 £000 |
|--|-------------------------------|-------------------------------|
| Bank current accounts | 8,389 | 8,239 |
| Diversified Income Fund | - | 949 |
| Total Cash and Cash Equivalents | 8,389 | 9,188 |

35. Short-Term Creditors

All short-term creditors are unsecured, there are no long-term creditors. An analysis of the Council's creditors is shown below:

| | 31 March 2017 (Restated) £000 | 31 March 2018 £000 |
|------------------------|--|-------------------------------|
| Council Taxpayers | 114 | 132 |
| Council Tax Preceptors | 667 | 373 |
| Local Authorities | 1,174 | 1,081 |
| Government Departments | 2,617 | 2,669 |
| Receipts in Advance | 302 | 334 |
| Other Creditors | 536 | 832 |
| Total Creditors | 5,411 | 5,421 |

35. Provisions

| | 31 March 2017 (Restated) £000 | 31 March 2018 £000 |
|-------------------------|-------------------------------------|-----------------------|
| NNDR Appeals Provision | 1,562 | 895 |
| Total Provisions | 1,562 | 895 |

The Council has made provision in respect of lodged appeals against business rates valuations, based on local knowledge of settlement of appeals and national trends in appeals by property class. A number of outstanding appeals currently date back to 2010. It is anticipated that appeals will be resolved during the next financial year.

36. Unusable Reserves

| | 31 March 2017 £000 | 31 March 2018 £000 |
|--|-----------------------|-----------------------|
| Revaluation Reserve | 7,919 | 7,670 |
| Financial Instruments Reserve | 549 | 623 |
| Capital Adjustment Account | 18,494 | 18,281 |
| Pensions Reserve | (29,775) | (26,680) |
| Collection Fund Adjustment Account | 66 | 7 |
| Accumulating Compensated Absences Adjustment Account | (55) | (82) |
| Total Unusable Reserves | (2,802) | (181) |

Revaluation Reserve

The revaluation reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:

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

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

| | 2016/17 £000 | 2017/18 £000 |
|--|-----------------|-----------------|
| Balance at 1 April | 7,504 | 7,919 |
| Upward revaluation of assets | 394 | |
| Downward revaluation of assets and impairment losses not charged to the Surplus/ Deficit on the Provision of Services | (9) | (249) |
| Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services | 385 | (249) |
| Accumulated gains on assets sold, scrapped or transferred | 30 | - |
| Balance at 31 March | 7,919 | 7,670 |

Financial Instruments Reserve

The Financial Instruments Reserve contains the gains made by the Authority arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments.

The balance is reduced when investments with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- disposed of and the gains are realised.

| | 2016/17 | 2017/18 |
|---|----------------|----------------|
| | £000 | £000 |
| Balance at 1 April | 630 | 549 |
| Upward/ (downward) revaluation of investments | (81) | 74 |
| Balance at 31 March | 549 | 623 |

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 CIES (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.

Note 6 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

| | 2016/17 £000 | 2017/18 £000 |
|---|-----------------|-----------------|
| Balance at 1 April | 16,794 | 18,494 |
| Reversal of items relating to capital expenditure debited or credited to the CIES: | | |
| • Charges for depreciation and impairment of non current assets | (631) | (736) |
| • Revenue expenditure funded from capital under statute | (412) | (512) |
| • Amounts of non current assets written off on disposal or sale as part of the gain/ loss on disposal to the CIES | (4) | - |
| • Prior year revaluation corrections | (30) | - |
| Net amount written out of the cost of non current assets consumed in the year | | |
| Capital financing applied in the year: | | |
| • Use of the Capital Receipts Reserve to finance new capital expenditure | 1,270 | 186 |
| • Capital grants and contributions credited to the CIES that have been applied to capital financing | 421 | 512 |
| • Use of capital replacement reserve to finance new capital expenditure | 298 | 338 |
| • Use of earmarked reserves to finance new expenditure | - | - |
| Movements in the market value of Investment Properties debited or credited to the CIES | 788 | - |
| Balance at 31 March | 18,494 | 18,281 |

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 CIES 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 the pension fund, 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 that 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.

| | 2016/17 £000 | 2017/18 £000 |
|--|-----------------|-----------------|
| Balance at 1 April | (31,508) | (29,775) |
| Re-measurement of the net defined benefit liability | 1,907 | 3,511 |
| Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the CIES | (2,026) | (1,892) |
| Employer's pension contributions and direct payments to pensioners payable in the year | 1,852 | 1,476 |
| Balance at 31 March | (29,775) | 26,680 |

Collection Fund Adjustment Account

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

| | 2016/17 £000 | 2017/18 £000 |
|--|-------------------------|-------------------------|
| Balance at 1 April | 75 | 65 |
| Amount by which council tax income credited to the CIES is different from council tax income calculated for the year in accordance with statutory requirements | (10) | (58) |
| Balance at 31 March | 65 | 7 |

Accumulating Compensated Absences Adjustment Account

The Accumulating Compensated Absences Adjustment 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.

| | 2016/17 £000 | 2017/18 £000 |
|---|-------------------------|-------------------------|
| Balance at 1 April | (57) | (55) |
| Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | 2 | (26) |
| Balance at 31 March | (55) | (82) |

37. Cash Flow Statement – Adjustments for Non Cash Movements

The adjustments for non cash movements within the net deficit on the provision of services include the following items:

| | 2016/17 £000 (Restated) | 2017/18 £000 |
|---|--|-------------------------|
| Depreciation | (600) | (703) |
| Impairment and downward valuation | (27) | (33) |
| (Increase) in provisions for bad and doubtful debts | (88) | (272) |
| (Increase) in creditors | (2,074) | (11) |
| Increase/ (decrease) in debtors | (1,456) | 551 |
| Increase in stock | (38) | 38 |
| Items relating to retirement benefits | (174) | (416) |
| Movements in the value of investment properties | 881 | - |
| Adjustments to employee benefits reserve | 1 | (26) |
| Adjustment to NNDR provisions | (348) | 667 |
| Carrying value of disposed of assets | 4 | - |
| Other non cash movements | 79 | (3) |
| Adjustments for Non Cash Movements | (3,841) | (208) |

38. Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following items:

| | 2016/17 £000 | 2017/18 £000 |
|--------------------------|-----------------|-----------------|
| Interest received | (160) | (255) |
| Interest received | (160) | (255) |

39. Cash Flow Statement – Investing Activities

The cash flows for investing activities include the following items:

| | 2016/17 £000 | 2017/18 £000 |
|---|-----------------|-----------------|
| Purchase of property, plant and equipment | 1,650 | 521 |
| Purchase of long-term investments | 1,000 | 1,000 |
| Proceeds from the sale of property, plant and equipment and investment property | (3) | (186) |
| Capital grants received | (934) | (567) |
| Adjustment in the value of long term investments | (81) | 73 |
| Net cash flows from investing activities | 1,632 | 841 |

40. Contingent Liabilities

There are no contingent liabilities at 31 March 2018

COLLECTION FUND

The Council has a statutory requirement to maintain a separate collection fund, which shows the transactions of the Council in relation to Business Rates and Council Tax. This illustrates how these have been distributed to preceptors and the General Fund. The Collection Fund is consolidated with the other accounts of the Council. Administration costs are borne by the General Fund and shown in the CIES.

The Collection Fund summarises the income received from local taxpayers and business ratepayers. It also shows how the income was distributed to this Council, the County Council, parish and town councils, and the police and fire authorities.

| Revenue Account | Notes | Council Tax 2016/17 £'000 | NNDR 2016/17 £'000 | Council Tax 2017/18 £'000 | NNDR 2017/18 £'000 |
|--|----------|------------------------------------|--------------------------|------------------------------------|--------------------------|
| INCOME | | | | | |
| Council Tax | 1 | (46,736) | - | (49,114) | |
| Non-Domestic Rates | 2 | - | (16,553) | - | (14,574) |
| Transitional Relief | | - | (22) | - | 19 |
| Total Income | | (46,736) | (16,575) | (49,114) | (14,556) |
| EXPENDITURE | | | | | |
| Apportionment of Prior Year Surplus/ (Deficits) | | | | | |
| Central Government | | - | (3,009) | - | (126) |
| Worcestershire County Council | | - | (542) | 282 | (23) |
| Hereford & Worcester Fire Authority | | - | (60) | 20 | (2) |
| West Mercia Police Authority | | - | - | 48 | - |
| Malvern Hills District Council | | - | (2,407) | 51 | (101) |
| | | - | (6,018) | 400 | (252) |
| Precepts and Demands: | | | | | |
| Worcestershire County Council | | 32,966 | 1,374 | 34,666 | 1,369 |
| Hereford & Worcester Fire Authority | | 2,299 | 153 | 2,386 | 152 |
| West Mercia Police Authority | | 5,569 | - | 5,689 | - |
| Malvern Hills District Council | | 4,188 | 6,107 | 4,428 | 6,082 |
| Town and Parish Precepts and Conservators Levies | 4 | 1,791 | - | 1,987 | - |
| Central Government | | - | 7,634 | - | 7,603 |
| | | 46,814 | 15,269 | 49,157 | 15,206 |
| Business Rates: | | | | | |
| Provision for appeals | | - | 869 | - | (1,667) |
| Write offs and adjustments for bad debt provisions | | - | 152 | - | (51) |
| Cost of Collection Allowance | | - | 108 | - | 107 |
| | | - | 1,129 | - | (1,611) |
| (Surplus) / Deficit for the year | | 78 | (6,196) | 443 | (1,213) |
| Movement of the Fund Balance | | | | | |
| Fund balance on 1 April | | (585) | 4,998 | (507) | (1,198) |
| (Surplus) / Deficit for year | | 78 | (6,196) | 443 | (1,213) |
| Fund Balance on 31 March | 3 | (507) | (1,198) | (63) | (2,412) |

NOTES TO THE COLLECTION FUND

1. Council Tax

Council Tax income derives from charges raised according to the value of residential properties, which have been classified into eight valuation bands, based upon 1 April 1991 values for this specific purpose. Individual charges are calculated by estimating the amount of income required from the Collection Fund to meet the demands of this council, Worcestershire County Council and the West Mercia Police Authority, and Hereford & Worcester Fire & Rescue Service and dividing this by the taxbase.

The council taxbase is the total number of properties in each band adjusted by a proportion to convert the total to a band 'D' equivalent. The taxbase for 2017/18 was calculated as follows:

| Tax Band | Number of properties | Adjusted number of properties after discounts, new & deleted dwellings | Band D ratio | Band D equivalent |
|----------------------------------|----------------------|--|--------------|-------------------|
| A disabled | 4 | 2.90 | 5/9 | 1.61 |
| A | 3,609 | 2,120.12 | 6/9 | 1,413.41 |
| B | 7,227 | 5,268.65 | 7/9 | 4,097.84 |
| C | 7,494 | 6,255.72 | 8/9 | 5,560.64 |
| D | 5,501 | 4,918.16 | 9/9 | 4,918.16 |
| E | 4,794 | 4,463.77 | 11/9 | 5,455.72 |
| F | 3,617 | 3,414.50 | 13/9 | 4,932.06 |
| G | 2,233 | 2,143.06 | 15/9 | 3,571.77 |
| H | 107 | 102.75 | 18/9 | 205.50 |
| Total | 34,585 | 28,689.63 | | 30,156.70 |
| Less assumed bad debt rate: 0.5% | | | | (150.78) |
| Council Tax Base | | | | 30,005.92 |

(Some of these figures have been rounded)

The basic amount of council tax for a band 'D' property was £1,638.21 (£1,593.49 2016/17). This multiplied by the proportion specified for each band gives the council tax for each property.

2. Business Rates (NNDR)

NNDR is organised on a national basis with a Government specified rate of 46.6p for the financial year (48.4p 2016/17). Subject to the effects of reliefs and provisions, local businesses pay rates calculated by multiplying their rateable value by that amount.

Following the localisation of business rates, the Council is responsible for collecting rates due from the ratepayers in its area. The Council then pays amounts over to the major preceptors – Central Government, Worcestershire County Council and Hereford & Worcester Fire & Rescue Service, in accordance with a payment schedule determined at the start of each financial year.

Business Rates income for 2017/18 was £14,575,000 (£16,510,000 2016/17). This was based on a rateable value of £46,815,548 on 31 March 2018 (£45,625,198 on 31 March 2017).

3. Surplus and Deficits

The Collection Fund surplus for Council Tax as at 31 March 2018 was £63k (31 March 2017 £528k). An estimated surplus of £400,000 was declared in January 2017.

The Collection Fund surplus for Business Rates as at 31 March 2018 was £2,214k (31 March 2017 £1,198k).

The table below shows the split of the Council Tax surplus and Business Rates deficit between the preceptors.

| Preceptor | Council Tax 2016/17 £000 | NNDR 2016/17 (restated) £000 | Council Tax 2017/18 £000 | NNDR 2017/18 £000 |
|---|---|---|---|----------------------------------|
| Central Government | - | (3,098) | - | (607) |
| Worcestershire County Council | (55) | (2,479) | 312 | (109) |
| West Mercia Police Authority | (9) | - | 51 | - |
| Hereford and Worcester Combined Fire Authority | (4) | (62) | 21 | (12) |
| Malvern Hills District Council | (10) | (558) | 58 | (485) |
| Total | (78) | (6,196) | 443 | (1,213) |

4. Town and Parish Councils

This Council's demand on the collection fund includes £1,986,968 (£1,883,995 2016/17) in respect of town and parish councils and the Malvern Hills Conservators, who precept and levy directly on the Council's CIES. This figure includes parish grants funded by the Council of £42,446 (£92,723 2016/17). Parish grants do not form part of the Collection Fund and are therefore excluded from Precepts and Demands in the Collection Fund.

5. Council Tax / NNDR Written Off

Provisions for bad and doubtful Council Tax and Business Rates debts are made in the Collection Fund. The amounts written off against this provision are included in the total income figures contained within the Collection Fund and are detailed in the table below.

| Value Written Off | 2016/17 £000 | 2017/18 £000 |
|--------------------------|-------------------------|-------------------------|
| Council Tax | 82 | 46 |
| Business Rates | 22 | 147 |

6. Collection Rates

The Council's collection rates are detailed in the table below.

| Collection Rate | 2016/17 % | 2017/18 % |
|------------------------|----------------------|----------------------|
| Council Tax | 98.9 | 98.9 |
| Business Rates | 98.8 | 98.7 |

ANNUAL GOVERNANCE STATEMENT

1. Scope and Responsibility

Malvern Hills District Council (MHDC) is responsible for ensuring that:

- its business is conducted in accordance with legal requirements and proper standards,
- public money is safeguarded, properly accounted for and used economically, efficiently and effectively.

MHDC also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, MHDC is responsible for maintaining proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, including arrangements for the management of risk.

This Annual Governance Statement has been prepared in accordance with the Delivering Good Governance in Local Government Framework.

2. The Purpose of the Governance Framework

The governance framework shown in the attached diagram comprises the cultural values, systems and processes, used by MHDC to direct and control its activities, enabling it to engage, lead and account to the community. The framework enables MHDC to monitor the achievement of its strategic objectives and to consider whether these have led to the delivery of appropriate, cost effective services.

The system of internal control is a significant part of the framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of MHDC's policies, aims and objectives, to evaluate the likelihood and potential impact of those risks being realised and to manage them efficiently, effectively and economically.

The governance framework has been in place at MHDC for the year ended 31 March 2018 and up to the date of approval of the statement of accounts.

3. The Governance Framework

The Council's vision is "to make life better for everyone who lives, works in and experiences the Malvern Hills District". MHDC's priorities are reviewed annually and cascaded through the corporate planning process into service plans and the staff annual reviews and into individual personal objectives.

MHDC's performance management framework sets out how its objectives and priorities are to be achieved. Monitoring of performance against agreed plans and strategies is undertaken by managers and reported quarterly to Executive Committee.

MHDC's Constitution contains the necessary approvals and rules for governance, including delegations to Committees and Officers. During 2017/18 The Chief Executive as the Head of Paid Service, the Joint Legal Services manager as the Monitoring Officer, and the Deputy Chief Executive as the Chief Finance Officer, each carried statutory responsibilities relating to the governance of the Council.

Executive decision making is carried out through the Executive Committee, the Planning Committee and senior management. Overview and Scrutiny Committee has responsibility to review and scrutinise the activities of the Council and provide advice on the development of policies. Audit Committee receives reports on the work of internal and external audit, sets its own work priorities and acts independently of member or officer influence.

MHDC has approved a formal risk management strategy and regularly reviews and updates its strategic and operational risks. The Council continues to ensure that a risk management culture is embedded within service management with key risks being assigned to individuals for management.

MHDC's Financial Rules set out the parameters for the financial management of the Council; Heads of Service are responsible for the financial management of the services and activities delegated to them. Budget monitoring is carried out monthly at officer level, with quarterly reports to the Executive Committee. In addition, there are a range of both nationally and locally determined performance indicators against which performance is monitored during the year and the audited results are published on an annual basis.

4. Review of Effectiveness

Regulation 6 of the Accounts and Audit Regulations 2015 set out MHDC's responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. This review is informed by the assurances provided by the Heads of Service who have responsibility for the development and maintenance of the governance environment, the Chief Internal Auditor's annual report and by comments made by the external auditor's, other review agencies and inspectorates.

The Council Constitution clearly identifies the terms of reference, role and responsibilities of full Council, the Executive, Overview and Scrutiny, Audit and Standards Committees, all of which have fully understood governance responsibilities.

Throughout 2017/18, the Council adopted a robust approach to corporate governance, which has been advised through the work of the Standards Committee, Audit Committee and Overview and Scrutiny – as well as the statutory roles of the Chief Finance Officer and Monitoring Officer. The approach taken to compiling this statement is summarised on the Annual Governance Statement framework diagram overleaf.

Audit Committee

Audit Committee played a role by reviewing and monitoring internal control issues throughout the year. This included a review of risk management and updates to the corporate risk register, regular progress reports and updates from internal audit. In addition, the committee considered the reports issued by the external auditor such as the Annual Audit and Inspection letter, as well as Council's action plans in response to any recommendations.

Internal Audit

MHDC's responsibility for maintaining an effective internal audit function is set out in Regulation 6 of the Accounts and Audit Regulations 2015.

The Worcestershire Internal Audit Shared Service Team operates in accordance with best practice professional standards and guidelines. It independently and objectively reviews on a continuous basis, the extent to which the internal control environment supports and promotes the achievement of the Council's objectives and contributes to the proper, economic, efficient and effective use of resources.

During 2017/18 the Internal Audit team delivered a comprehensive programme including:

- Core financial audits which are designed to suitably assist the external auditors to reach their “opinion”.
- A range of service area audits, follow up audits and special investigations which assisted the council to maintain/improve its control systems and risk management processes or implement/reinforce oversight of such systems.

Internal Audits work programme helps to assure Audit Committee that the framework and statement can be relied upon based on the following:

- Evidence streams which were verifiable and could be relied upon,
- Monitoring and reporting mechanisms were in place to report issues,
- These streams and reporting mechanisms are embedded in the MHDC governance process.

Based on good audit practice, audit risk scores were reviewed during the year. The risk scores are used to prioritise and inform the audit plan for the following financial year for approval by the Audit Committee.

Internal Audit reports are considered by the relevant Head of Service and Deputy Chief Executive, before submission to the Audit Committee for further scrutiny. The reports have not identified any governance issues which have caused major concern during the course of the year.

Managers’ Responsibility

Heads of Service are responsible for establishing and maintaining an adequate system of internal control within their own services. They are also required to sign off six monthly Governance and Internal Control returns during the year where they will raise any items of concern. No major issues were identified by Heads of Service in 2017/18.

The Council’s financial management arrangements conform to the governance requirements of the CIPFA Statement on The Role of the Chief Financial Officer in Local Government (2010). The Deputy Chief Executive has statutory responsibility for the proper management of the Council’s finances and is a key member of the Senior Management Team.

External Audit and Other Review Agencies

MHDC’s external auditors have not identified any significant weaknesses in our internal control arrangements when working with us throughout the year and in their annual audit letter. The external auditors have issued an unqualified Value for Money conclusion.

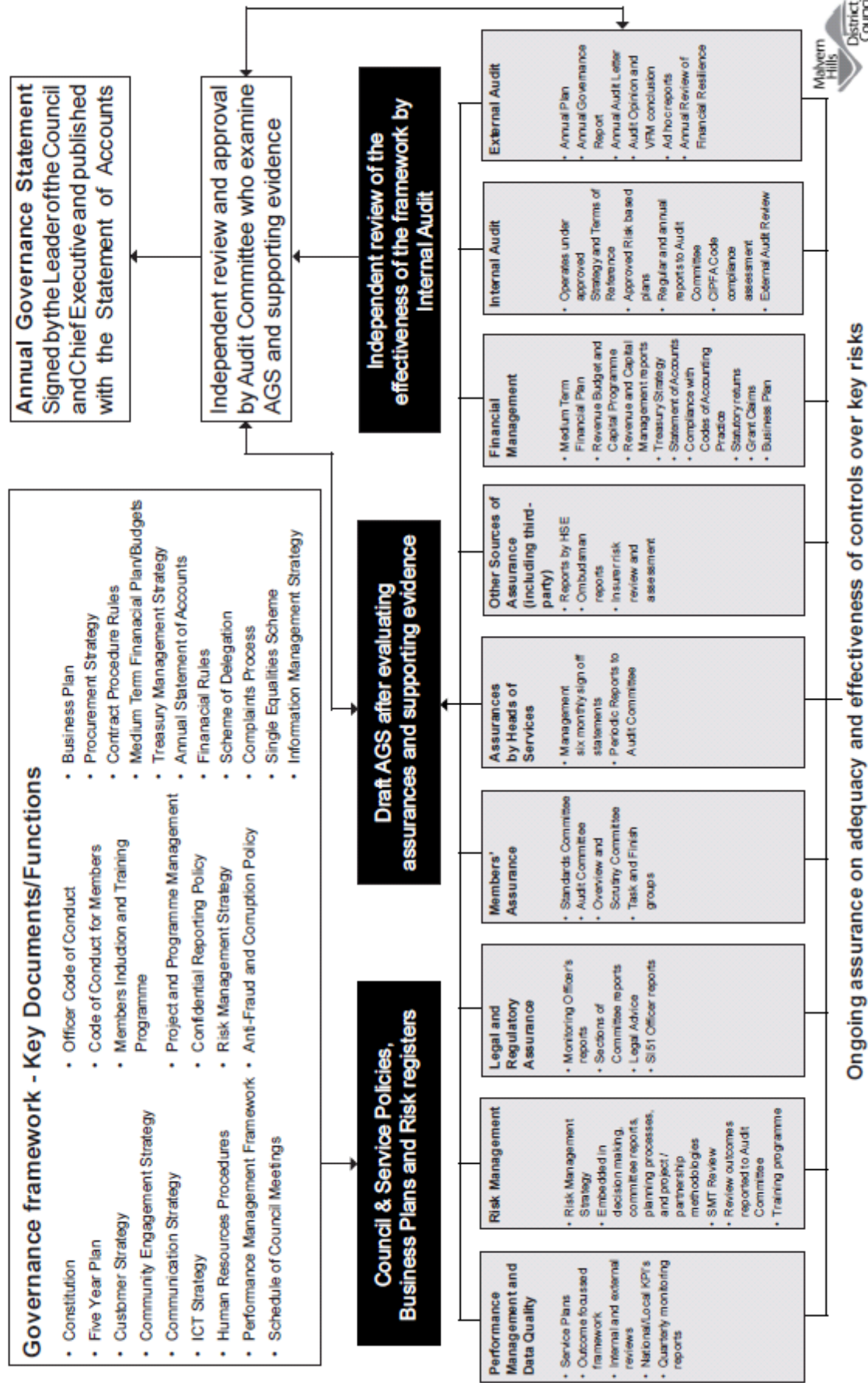
5. Significant Governance and Internal Control Issues

The statutory duties of the Monitoring Officer and the Chief Finance Officer require them to draw to members attention any improper practices, financial imprudence or problems with the systems of internal control. No significant weaknesses or issues have been identified.

Jack Hegarty, Chief Executive

Cllr David Chambers, Leader of the Council

ANNUAL GOVERNANCE STATEMENT (AGS) FRAMEWORK



GLOSSARY OF TERMS

Accruals basis

Income and expenditure are shown in the period they are earned or incurred, not as money is received or paid.

Actuary

An expert on pension scheme assets and liabilities

Asset

Something the Council owns that has a value, such as premises, vehicles, equipment or cash.

Assets under construction

Assets such as premises which are partly completed at the balance sheet date.

Balance Sheet

A summary of the Council's assets, liabilities and other balances at the end of the financial year.

Budget

A financial statement that expresses the Council's service delivery plans and capital programme in monetary terms.

Capital charges

A charge made to the CIES to reflect the cost of utilising fixed assets in the provision of services.

Capital expenditure

Expenditure on the acquisition of a fixed asset, which lasts longer than a year, or expenditure that adds value to an existing fixed asset. Or expenditure capitalised but treated as Revenue Expenditure funded from Capital under Statute.

Capital receipt

Proceeds from the sale of fixed assets, such as land or buildings. Capital receipts cannot be used to fund revenue services.

Code of Practice on Local Authority Accounting

The code is the framework for publishing local authority statutory accounts based on accounting standards and interpretations issued by the IASB and IFRIC, modified to reflect specific statutory requirements.

Collection Fund

A separate fund recording the expenditure and income relating to Council Tax and Business Rates.

Community assets

Assets that the Council intends to own forever e.g. parks and open spaces.

Comprehensive Income and Expenditure Statement (CIES)

A statement of the Council's net revenue costs in the year and how this cost was financed by Government grant and taxpayers.

Consistency

Accounting concept that requires the accounting treatment of similar items of income and expenditure to be the same both within a particular financial year and between financial years.

Contingent liability

A possible financial obligation that arises from past events and whose existence will only be confirmed by the occurrence of uncertain future events not within the Council's control.

Creditor

Amounts owed by the Council for goods and services received, but not paid for at the end of the financial year.

Debtor

Amounts owed to the Council for goods and services that have been delivered but not paid for at the end of the financial year.

Depreciation

The reduction in value of an asset as recorded in the Council's accounts.

Donated assets

Assets given to the council by benefactors where no consideration is paid.

Expenditure and Funding Analysis

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting principles (GAAP). It also shows this expenditure is allocated for decision making purposes between the council's portfolio responsibilities.

Government grants

Grants made by Government towards either revenue or capital expenditure to help with the cost of providing services or capital projects. Some grants have restrictions on their use.

IFRS

International Financial Reporting Standards advise the accounting treatment and disclosure requirements of transactions so that the Statement of Accounts "present a true and fair view" of the financial position of the Council.

Impairment

The reduction in the value of an asset as shown in the Balance Sheet to reflect its true value.

Liability

This Council has a liability when it owes money to others. A current liability is a sum of money that is likely to become payable in the next financial year for example creditors. A deferred liability is a sum of money that will not become payable until some point in the future.

Materiality

Accounting concept that the accounts include all the transactions that, if omitted would lead to a significant distortion of the financial position at the end of the financial year.

Movement in Reserves Statement

A statement which analyses movements in the Council's usable and unusable reserves during the year.

National Non Domestic Rates

National scheme for collecting Business Rates, which are based upon the properties rateable value multiplied by a flat rate in the pound set by Government.

Non operational assets

Council assets not directly used in the provision of services, such as investment properties.

Operating lease

A lease where the ownership of the fixed asset remains with the lessor.

Operational assets

Council owned fixed assets used to deliver services, such as buildings and equipment.

Precept

A levy made by one authority to another to finance its net expenditure.

Provision

Money that has been put aside in the accounts for liabilities or losses that are due but where the amount due or the timing of the payment is not known with any certainty.

Prudence

Accounting concept that income is only included in the accounts if it is likely to be received.

Related parties

Two or more parties are related parties when at any time during the financial period: -

One party has direct or indirect control of the other party

The parties are subject to common control from the same source

One party has influence over the financial and operational policies of the other party to an extent that the other party might be inhibited from pursuing its own interests

The parties, in entering a transaction, are subject to influence from the same source to such an extent that one of the parties to the transactions has subordinated its own interests.

Reserves

Amounts set aside in the accounts to be spent in future years. Some reserves are earmarked for specific purposes, or general revenue balances are available to meet future expenditure.

Revenue expenditure

Day-to-day expenses associated with the provision of services.

Revenue Expenditure funded from Capital under Statute

Capital expenditure, which does not create a fixed asset belonging to the Council.

Revenue Support Grant

Government funding to local authorities as a contribution towards the costs of services.

Stocks

These are items of raw material and stores that have been bought by the Council to use on a continuing basis but have not yet been used.

Unusable reserves

Reserves that cannot be applied to fund expenditure, or reduce local taxation.

Usable reserves

Reserves that can be applied to fund expenditure, or reduce local taxation.