

MALVERN HILLS DISTRICT COUNCIL STATEMENT OF ACCOUNTS 2016/17

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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 £610,000 for 2016/17, 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 2021/22. We are confident of achieving the challenging savings targets we have set ourselves for 2017/18 of £632,000 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 £142.60 for 2016/17. This represents around 9% of an average bill of £1,593.49 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 James O'Donnell, Portfolio Holder for Resources
Andy Baldwin, Deputy Chief Executive.

NARRATIVE REPORT

1. Introduction

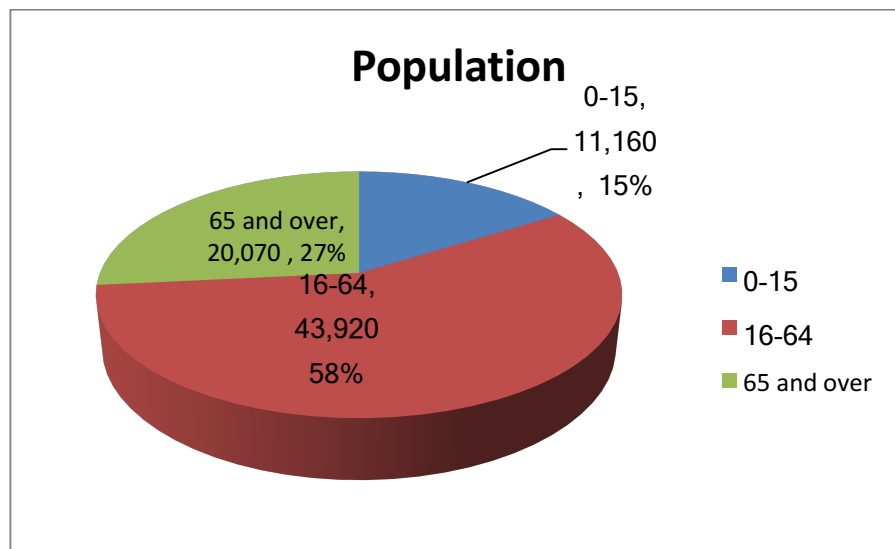
This Statement of Accounts presents the financial position of the Council for the year ended 31 March 2017. The Accounts are produced in the format stipulated by the Chartered Institute of Public Finance and Accountancy (CIPFA) in accordance with best accounting practice. This narrative report provides 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 at 31 March 2017.

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 24th nationally in the Halifax Quality of Life Survey. In the Worcestershire Viewpoint Survey 2016, 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 2015 population estimates show the district had 75,731 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%.

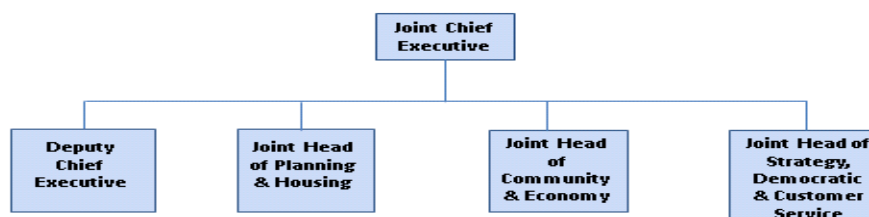
House prices in the district are amongst the highest in Worcestershire and are above the national average. The average house price in the district is £246,000 compared with £218,000 for Worcestershire. The overall employment rate for the district is 69.7% (national average 75.0%) and the JSA and benefit claimant rates are low – 0.7% and 6.7% respectively. Average household income is £36,694 slightly above the national average of £36,367.

3. About Malvern Hills District Council

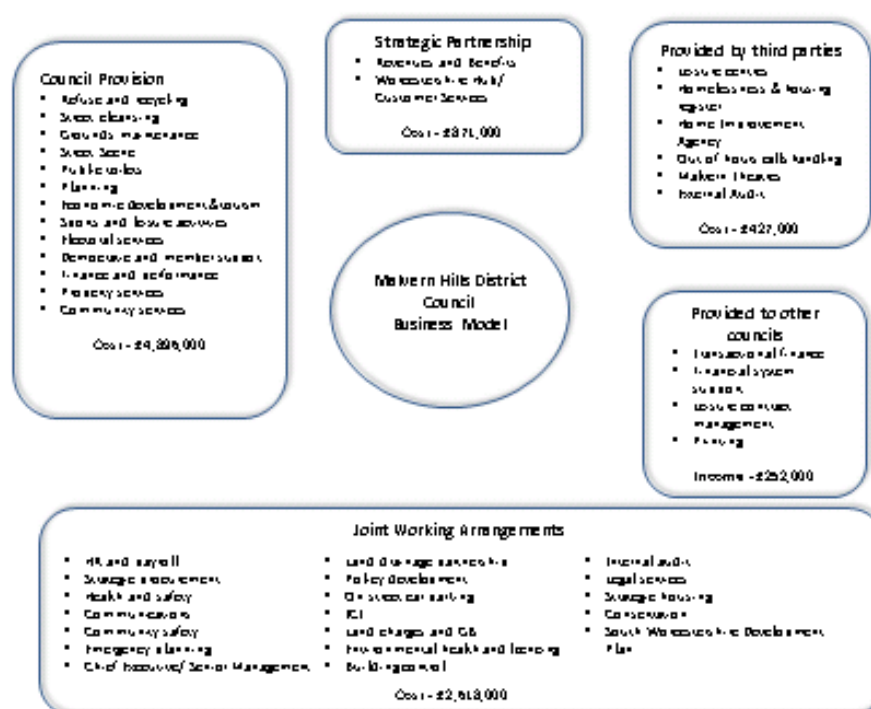
Residents of the district are represented by 38 councillors, with the political make up as follows:

Political Party	Number of Councillors
Conservative Party	23 councillors
Democratic Group	10 councillors (7 independent, 3 Green Party)
Liberal Democrat Party	5 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 2016/17 Budgeting Process

The budget process was influenced by the on-going need for savings whilst maintaining council services to residents. Target budget reductions of £610,000 were identified for the year. The draft budget net budget of £8,641,090 was approved by Executive Committee and Council in February 2016. This was subsequently increased to £8,734,090 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 £4,188,625.

5. Financial Performance 2016/17

The net revenue budget approved by Executive Committee and Council in February was increased to £8,734,090, for spending brought forward from 2015/16. Actual net expenditure for the year was £8,581,291, resulting in an underspend of £152,799 as can be seen in the table below. Budget carry forwards of £39,500 into the 2017/18 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 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 Comprehensive Income and Expenditure Statement are explained in more detail in the Expenditure and Funding Analysis at Note 7 to the Financial Statements.

Service	2016/17 Final Budget £000	2016/17 Net Expenditure £000	Underspend £000
Chief Executives	408	364	45
Strategy, Democratic and Customer Service	960	934	26
Resources	3,746	3,719	26
Community and Economy	2,909	2,991	(82)
Planning and Housing	711	573	138
Total Net Expenditure by Service	8,734	8,581	153

Net expenditure was financed by:

Source of Funding	2016/17 Final Budget £000	2016/17 Net Income £000	Variance £000
Revenue Support Grant	(779)	(779)	-
Business Rates	(1,548)	(1,778)	(230)
New Homes Bonus	(1,982)	(1,982)	-
Council Tax	(4,189)	(4,189)	-
Use of Reserves	(10)	372	382
Rural Services Delivery Grant	(226)	(226)	-
Total Funding	(8,734)	(8,581)	153

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

- Chief Executive – impact of the transition to a fully shared senior management team.

- Resources – housing benefit overpayment recovery following the implementation of RTI (real time information) by DWP and additional investment income from the CCLA Property Fund.
- Planning and Housing – implementation of joint strategic housing service and joint working in Planning Policy and Heritage and Conservation with Wychavon District Council.

The gross cost of service provision amounts to £33,070,000, and has been analysed by type as shown below:

Expenditure Types	2015/16 £000	2016/17 £000
Employees	5,779	5,896
Premises related	534	549
Transport related	1,019	1,034
Supplies and services	1,073	998
Third party payments	4,596	4,432
Transfer payments (Including payments in respect of Council Tax and Housing Benefit)	19,472	19,121
Capital charges	1,111	1,040
Gross Cost of Services	33,584	33,070

The Council received gross income of £25,524,000 and this is analysed by type as follows:

Income Type	2015/16 £000	2016/17 £000
Housing and Council Tax Benefits	(18,800)	(19,144)
Benefits Administration	(231)	(211)
Other Government Grants	(566)	(322)
Sales, Fees & Charges	(1,997)	(2,153)
Other Income	(4,173)	(3,694)
Total Income	(25,767)	(25,524)

This approved capital budget was revised to £3,102,040 with the addition of schemes brought forward from the previous financial year and further approvals in year. Capital expenditure for 2016/17 was £1,989,306 (£761,364 2015/16).

There was an underspend on the revised capital programme compared to budgeted expenditure of £1,112,734. From this underspend carry forwards of £845,200 have been approved into the 2017/18 capital programme to meet on-going commitments.

A summary of the capital expenditure in 2016/17 is shown below, £1,577,274 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. Housing Grants are Disabled Facilities Grants made to residents of the district and do not add to the Council's assets.

Capital Programme	Expenditure £000	Underspend £000
Housing Grants	390	323
Property Projects	874	454
Vehicles	703	236
Other	22	100
Total	1,989	1,113

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

Capital Financing	£000
Usable Capital Receipts	1,270
Capital Grants	421
Earmarked Reserves	298
Total	1,989

A total of £2.741m has been carried forward in capital reserves to preserve funding for existing projects in future years.

The Council's general balances totalled £3.108m at 31 March 2017 (£2.734m at 31 March 2016) and cash balances were £8.389m (£4.740m at 31 March 2016).

6. Pensions Liability

The Council is a member of the Worcestershire County Council Pension Fund, a Local Government Pension Fund, and 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 at 31 March 2017, as estimated by the fund actuary, was £29.8m compared to £31.5m at 31 March 2016. The variation between years was largely due to changing assumptions by the Actuary, the main components of which were:

- £9.7m increase 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 offsetting increase of £11.6m 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 only 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 2016/17

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 2016/17 80 out of 94 performance indicators were green, 8 were amber and 6 were red. Red performance indicators are being managed effectively by the relevant service area.

Key achievements over during 2016/17 include:

- Implementation of fully shared senior management team;
- Implementation of a joint Strategic Housing Service, joint Heritage team and joint Planning Policy team;
- Savings in excess of the Business Plan target for 2016/17;
- The approval of the Council's updated Five Year and Business Plans;
- Major planning appeals remained below the designation threshold throughout the year;
- On-going expansion of Malvern Hills Science Park, with 43 new jobs created, 2 new business re-locating to the site and land clearance for Phase 5 underway ;

- Continued expansion of the Garden Waste service, with customer numbers up by 9% on the previous year;
- Continued expansion of the Commercial Waste Recycling service, with a 16% increase in the number of customers since 2015/16;
- Strong resident satisfaction results from the 2016 Viewpoint survey;
- Purchase of land at Park Farm to support our key priorities;
- Conclusion of the joint waste procurement exercise with a decision to continue to provide the waste/recycling and street cleansing services in house by the current operational team;

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 developed a five year strategic plan ([Our Five Year Plan 2017-2022 – Proud of Our Place](#)) and our [Five Year Business Plan 2017-2022](#).

Our Five Year Plan outlines the Council's vision, priorities and objectives including the actions required to achieve these. In summary, 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 promote volunteering.
- 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 £4.0m 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. 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 link(s) 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, actions from the Five Year Plan and Business Plan as appropriate 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 undertake. Progress on service plans is monitored on a quarterly basis throughout the year. These reviews are used to inform the quarterly performance report which is reviewed by the 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 2016/17 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,
Worcestershire,
WR14 3AF.

STATEMENT OF ACCOUNTING POLICIES

1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2016/17 financial year and its position as at 31 March 2017. The Statement of Accounts is prepared in accordance with relevant International Financial Reporting Standards and the Code of Practice on Local Authority Accounting 2016/17 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. Changes in Accounting Policies and Estimates

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.

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 Comprehensive Income and Expenditure Account 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 Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, 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 Comprehensive Income and Expenditure Statement.

5. Overhead and Support Services Allocation

Following the CIPFA Consultation on the presentation of Local Authority Accounts entitled telling the story and the subsequent publication of the the publication of the Code of Practice on Local Authority Accounting 2016/17 and Service Reporting Code of Practice 2016/17, the Council no longer allocates the cost of support services across service areas. The cost of support services are now monitored and reported as within the Resources and Strategy, Democracy and Customer Service service areas within the Council's financial reporting framework and Comprehensive Income and Expenditure Statement (CIES). The 2015/16 CIES has been restated to reflect this change. 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 de minimis 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 Comprehensive Income and Expenditure Statement.

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 Comprehensive Income and Expenditure Statement.

If an impairment loss is subsequently reversed, the reversal is credited to the relevant service lines in the Comprehensive Income and Expenditure Statement, 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 Comprehensive Income and Expenditure Statement. 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 Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Any receipts from disposal are credited to the same line in the Comprehensive Income and Expenditure Statement 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 Comprehensive Income and Expenditure Statement. 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 Comprehensive Income and Expenditure Statement 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 Comprehensive Income and Expenditure Statement 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 Comprehensive Income and Expenditure Statement. 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 care 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 Comprehensive Income and Expenditure Statement. The exception is where impairment losses have been incurred – these are debited to the Comprehensive Income and Expenditure Statement, 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 Comprehensive Income and Expenditure Statement. 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 effected 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 Comprehensive Income and Expenditure Statement. 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 Comprehensive Income and Expenditure Statement 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 Comprehensive Income and Expenditure Statement.

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 Comprehensive Income and Expenditure Statement 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 Comprehensive Income and Expenditure Statement 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 Comprehensive Income and Expenditure Statement 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 Comprehensive Income and Expenditure Statement 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 Comprehensive Income and Expenditure Statement. 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

Mr S. Pearce C.P.F.A.
Chief Financial Officer,
Worcestershire County Council,
County Hall, Spetchley Road,
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 Comprehensive Income and Expenditure Statement 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 Comprehensive Income and Expenditure Statement 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 Comprehensive Income and Expenditure Statement.

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 participates in a number of shared services under contractual arrangements with other Councils and is a partner in the South Worcestershire Shared Service Joint Committee and the Worcestershire Regulatory Shared Service Joint Committee. Both of these arrangements are accounted for as Jointly Controlled Operations. 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.

The Council hosts the Building Control Shared Service and as such accounts for the expenditure incurred for Worcester City Council and Wychavon District Council, its partners in the arrangement. The arrangement is consolidated into the Council's accounts, however where appropriate, the notes to the accounts show both the details to support the accounts and the comparative details excluding the amounts for the Shared Service.

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 Comprehensive Income and Expenditure Statement. 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 2016		2,734	5,707	1,267	90	9,798	(6,561)	3,237
Movement in Reserves								
Surplus/(deficit) on the provision of services		2,385	-	-	-	2,385	-	2,385
Other Comprehensive Income and Expenditure		-	-	-	-	-	2,292	2,292
Total Comprehensive Income & Expenditure		2,385	-	-	-	2,385	2,292	4,677
Adjustments between accounting basis & funding basis under regulations	8	(510)	(298)	(1,267)	482	(1,593)	1,466	(127)
Net Increase/ Decrease before Transfer to Earmarked Reserve		1,875	(298)	(1,267)	482	793	3,757	4,550
Transfers to/ from Earmarked Reserves	9	(1,502)	1,471	-	31	-	-	-
Increase/ Decrease in 2016/17		374	1,173	(1,267)	513	793	3,757	4,550
Balance at 31 March 2017		3,108	6,880	-	603	10,591	(2,804)	7,787

	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 2015		2,884	4,862	1,717	34	9,497	(9,719)	(222)
Movement in Reserves								
Surplus/(deficit) on the provision of services		895	-	-	-	895	-	895
Other Comprehensive Income and Expenditure		-	-	-	-	-	2,439	2,439
Total Comprehensive Income & Expenditure		895	-	-	-	895	2,439	3,334
Adjustments between accounting basis & funding basis under regulations	8	(303)	-	(450)	56	(697)	700	3
Net Increase/ (Decrease) before Transfer to Earmarked Reserve		592	-	(450)	56	198	3,138	3,337
Transfers to/ from Earmarked Reserves	9	(742)	845	-	-	103	20	123
Increase/ (Decrease in) 2014/15		(150)	845	(450)	56	301	3,158	3,460
Balance at 31 March 2016		2,734	5,707	1,267	90	9,798	(6,561)	3,237

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	2015/16 Net Expenditure (Restated) £000	2016/17 Gross Expenditure £000	2016/17 Gross Income £000	2016/17 Net Expenditure £000
Service Expenditure Analysis					
Chief Executive		514	545	(102)	442
Strategy, Democratic and Customer Services		552	1,164	(325)	839
Resources		1,720	23,911	(21,151)	2,760
Community and Economy		4,495	5,056	(2,004)	3,053
Planning and Housing		536	2,393	(1,941)	452
Net Cost of Services		7,817	33,070	(25,524)	7,546
Other Operating Expenditure	10	1,643			1,794
Financing & Investment Income and Expenditure	11	704			(52)
Taxation and non specific grant income	12	(11,060)			(11,672)
(Surplus) or Deficit on Provision of Services		(895)			(2,385)
Surplus on revaluation of long-term assets	21	(960)			(385)
Surplus on revaluation of financial assets	29	(134)			81
Re-measurement of the net defined benefit liability	17	(1,344)			(1,907)
Other Comprehensive Income and Expenditure		(2,438)			(2,210)
Total Comprehensive Income and Expenditure		(3,333)			(4,595)

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 £000	2017 £000
Property, Plant and Equipment	21	23,448	24,774
Investment Properties	21	1,635	2,423
Long Term Investments	29	4,276	5,226
Long Term Assets		29,359	32,423
Assets Held for Sale	30	978	978
Inventories	31	90	52
Short Term Debtors	32	3,996	2,285
Cash and Cash Equivalents	33	4,740	8,389
Current Assets		9,804	11,704
Short Term Creditors	34	(3,192)	(4,992)
Provisions	35	(1,226)	(1,573)
Current Liabilities		(4,418)	(6,565)
Pensions Liability	17	(31,508)	(29,775)
Long Term Liabilities		(31,508)	(29,775)
Net Assets		3,237	7,787
Usable Reserves		9,798	10,591
Unusable Reserves	36	(6,561)	(2,804)
Total Reserves		3,237	7,787

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	2015/16 £000	2016/17 £000
Net (surplus) or deficit on the provision of services		(895)	(2,385)
Adjustments to net surplus or deficit on the provision of services for non-cash movements	37	(1,354)	(199)
Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities		637	1,877
Interest received	38	(147)	(160)
Net Cash flows from Operating Activities		(1,758)	(867)
Investing Activities	39	407	2,129
Financing Activities		1,310	(4,911)
Net (increase) or decrease in cash and cash equivalents		(41)	(3,649)
Cash and cash equivalents at the beginning of the reporting period		4,699	4,740
Cash and cash equivalents at the end of the reporting period		4,740	8,390

NOTES TO THE FINANCIAL STATEMENTS

1. Significant Changes in Accounting Policies

Following the CIPFA review of and consultation on the presentation of local authority financial statements entitled 'Telling the Story', the Council has chosen to no longer report the cost of individual services in the Comprehensive Income and Expenditure Statement (CIES) in accordance with the format specified in the CIPFA Service Reporting Code of Practice. This means that the CIES now reflects the Council's financial reporting framework rather than CIPFA's standard presentation and there is no need to provide a segmental analysis (formerly at Note 8) which gave a reconciliation between the CIPFA standard presentation and the Council's priorities. In addition, the cost of support services is no longer being charged to individual services but is reported in the CIES within the Resources and Strategy, Democracy and Customer Service service areas as this reflects the Council's management structure and financial reporting framework.

In addition a new Expenditure and Funding Analysis (EFA) is required to show how the Council's expenditure is used and funded from grants, council tax and business rates in comparison with those resources consumed or earned, in accordance with generally accepted accounting practices as shown in the CIES. The EFA is now shown at Note 6.

The 2015/16 comparative figures in the CIES have been restated to reflect the above changes and a reconciliation between the Service Expenditure Analysis in the previous format and the revised format is given below:

	2015/16 Gross Expenditure £000	2015/16 Gross Income £000	2015/16 Net Expenditure £000
Service Expenditure – Previous Format			
Central Services to the Public	1,338	(717)	621
Cultural and Related Services	1,558	(486)	1,072
Environment and Regulatory Services	4,338	(1,110)	3,229
Planning Services	2,764	(2,405)	359
Highways, Road and Transport Services	419	(452)	(33)
Housing Services	20,493	(20,101)	392
Corporate and Democratic Core	1,457	(497)	961
Non Distributed Costs	1,216	-	1,216
Net Cost of Services	33,584	(25,767)	7,817
Service Expenditure – Revised Format			
Chief Executive	593	(79)	514
Strategy, Democratic and Customer Services	741	(189)	552
Resources	22,762	(21,042)	1,720
Community and Economy	6,535	(2,040)	4,495
Planning and Housing	2,952	(2,417)	536
Net Cost of Services	33,584	(25,767)	7,817

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 2016/17 a number of 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. In 2016/17 projected shareholders' funds assumes completion of Phase 4 of Malvern Hills Science Park, on the basis that financial contributions from the council and Worcestershire County Council have been made and development work has commenced on site. 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 determined that the South Worcestershire Shared Services Joint Committee meets the definition of Jointly Controlled Operation. The Council has therefore accounted for its share of the Joint Committee's assets and liabilities and income and expenditure as documented in the Legal Agreement.
- 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 16.
Bad Debt Provisions	The Council has sundry debtor balances of £680k and Housing Benefit debtor balances of £895k. Provisions for bad debts are made according to the age of the debt and a provision of £334k 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 £65k 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 £117k 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 three listed buildings – two 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

There are no post balance sheet events to report.

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.

2016/17	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		364	51	(130)	442
Strategy, Democratic and Customer Service		934	48	47	839
Resources		3,719	(385)	1,343	2,760
Community and Economy		2,991	7	(68)	3,053
Planning and Housing		573	(189)	310	452
Net Cost of Services		8,581	(467)	1,502	7,545
Other Income and Expenditure		(8,953)	978		(9,931)
(Surplus)		(373)	510	1,502	(2,385)
Opening General Fund Balance		2,734			
Surplus on General Fund Balance		373			
Closing General Fund Balance at 31 March		3,107			
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	

2015/16	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		473	71	(112)	514
Strategy, Democratic and Customer Service		509	44	(87)	552
Resources		1,628	(723)	631	1,720
Community and Economy		4,274	13	(234)	4,495
Planning and Housing		1,081	-	545	536
Net Cost of Services		7,965	(595)	743	7,817
Other Income and Expenditure		(7,815)	(897)	-	(8,712)
(Surplus) or Deficit		150	(1,492)	743	(895)
Opening General Fund Balance		2,884			
Deficit on General Fund Balance		(150)			
Closing General Fund Balance at 31 March		2,734			
Opening Earmarked Reserves Balance				4,862	
Transfers from General Fund				743	
Other Reserve Increases				102	
Closing Earmarked Reserves Balance at 31 March				5,707	

7a. Notes to the Expenditure and Funding Analysis

2016/17 Adjustments between Funding and Accounting Basis

Adjustments from the General Fund to arrive at the CIES amounts	Adjustments for Capital Purposes	Net Changes for Pensions Adjustments	Other Differences	Total Adjustments
	£000	£000	£000	£000
Chief Executive	-	(51)	-	(51)
Strategy, Democratic and Customer Service	-	(48)	-	(48)
Resources	(493)	(227)	1,105	385
Community and Economy	344	(351)	-	(7)
Planning and Housing	390	(201)	-	189

Net Cost of Services	241	(879)	1,105	467
Other income and expenditure from the Expenditure and Funding Analysis	(934)	1,053	(1,094)	(976)
Difference between General fund surplus/ deficit and CIES Surplus or Deficit on the Provision of Services	(693)	174	10	(510)

2015/16 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	-	(71)	-	(71)
Strategy, Democratic and Customer Service	-	(44)	-	(44)
Resources	591	(170)	302	723
Community and Economy	285	(298)	-	(13)
Planning and Housing	236	(236)	-	-
Net Cost of Services	1,112	(819)	302	595
Other income and expenditure from the Expenditure and Funding Analysis	347	(1,018)	1,568	897
Difference between General fund surplus/ deficit and CIES Surplus or Deficit on the Provision of Services	1,459	(1,837)	1,870	1,492

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.

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)	(653)	(170)	(209)	(1,327)
Income from other local authorities	(100)	-	(682)	(232)	(27)	(1,041)
Other income	(2)	(1)	(822)	(4)	(20)	(849)
	(102)	(324)	(21,590)	(2,004)	(1,941)	(25,961)
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	3,719	2,991	573	8,581

2015/16	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	-	(43)	(894)	(1,442)	(2,278)	(4,657)
Interest income	-	-	(226)	-	-	(226)
Housing benefit subsidy	-	-	(18,800)	-	-	(18,800)
Grants	-	(132)	(601)	(48)	(17)	(797)
Income from other local authorities	(79)	(6)	(314)	(209)	(99)	(708)
Other income	-	-	(938)	(2)	(22)	(960)
	(79)	(181)	(21,773)	(1,701)	(2,416)	(26,151)
Expenditure						
Employee expenses	457	630	2,223	2,167	1,134	6,611
Housing benefit claims	-	-	19,472	-	-	19,472
Charges from other local authorities	94	255	1,401	723	164	2,637
Transfer to/ (from) reserves	(112)	(87)	631	(234)	545	742
Other expenditure	113	(108)	(326)	3,320	1,656	4,656
	551	690	23,401	5,976	3,499	34,117
Net Cost of Service	473	509	1,628	4,274	1,082	7,966

7c. Expenditure and Income Analysed by Nature

	2015/16 £'000	2016/17 £'000
Expenditure		
Employee benefits expenses	1,911	2,027
Other employee costs	4,886	4,923
Other service expenditure	26,762	26,262
Depreciation	583	603
Losses/ (gains) on revaluation	293	(772)
Revenue funded from capital under statute	236	412
Precepts and levies	1,699	1,793
Loss/ (gain) on the disposal of assets	(56)	1
Total expenditure	36,315	35,249
Income		
Fees, charges and other service income	(6,329)	(6,498)
Interest and investment income	(223)	(231)
Income from council tax and business rates	(7,656)	(7,747)
Government grants and contributions	(23,002)	(23,159)
Total income	(37,210)	(37,634)
Surplus or Deficit on the Provision of Services	(895)	(2,385)

8. Adjustments between Accounting Basis and Funding Basis under Regulations

The following table details the adjustments that are made to the total comprehensive income and expenditure (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.

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	(3)	-	-	-	-
	(3)	(298)	-	-	298
<u>Adjustments involving the Capital Grants Unapplied Account</u>					
Capital grants and contributions unapplied credited to the CIES	(934)	-	-	-	934
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	-	482	(513)
	(934)	-	-	482	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)

Adjustments involving the Accumulated Absences Account

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)	-	-	-	1
Total Adjustments	(510)	(298)	(1,267)	482	1,466

2015/16 Comparable Figures

	Usable Reserves			
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
<u>Reversal of items debited or credited to the CIES:</u>				
Changes for depreciation and impairment of non-current assets	876	-	-	876
Movements in the market value of Investment Properties	-	-	-	-
Revenue expenditure funded from capital under statute	235	-	-	235
Changes in values of Cash Investments	-	-	-	-
	1,111	-	-	1,111
<u>Insertion of items not debited or credited to the CIES:</u>				
Payments to Housing Capital Receipts Pool	-	-	-	-
Mortgage Capital repayments	-	1	-	(1)
Assets funded from ear-marked reserves	-	-	-	3
	-	1	-	2
<u>Adjustments involving the Capital Grants Unapplied Account</u>				
Capital grants and contributions unapplied credited to the CIES	(291)	-	-	291
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	56	(56)
	(291)	-	56	235
<u>Adjustments involving the Capital Receipts Reserve</u>				
Transfer of sale proceeds as part of the gain/loss on disposal to the CIES	(56)	56	-	-
Use of the Capital Receipts Reserve to finance new capital expenditure	-	(507)	-	507
	(56)	(451)	-	507
<u>Adjustments involving the Pensions Reserve</u>				
Reversal of items relating to retirement benefits debited or credited to the CIES	1,911	-	-	(1,911)
Employers' pension contributions and direct payments to pensioners payable in the year	(1,712)	-	-	1,712
	199	-	-	(199)
<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	(1)	-	-	1
Amount by which NDR income credited to the CIES is	(1,253)	-	-	1,253

different from the NDR income calculated for the year in accordance with statutory requirements

(1,254)	-	-	1,254
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Adjustments involving the Accumulated Absences

Account

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	(12)	-	-	12
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Total Adjustments	(303)	(450)	56	700
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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 2016/17.

	Balance at 31 March 2015 £000	Transfers (Out) / In 2015/16 £000	Balance at 31 March 2016 £000	Transfers (Out) / In 2016/17 £000	Balance at 31 March 2017 £000
General Fund:					
S106 Balances	1,040	680	1,720	375	2,095
Tenbury Business Park	50	-	50	-	50
Capital Replacement	1,134	500	1,634	503	2,137
Flooding Prevention	130	(60)	70	(16)	54
Planning Delivery	125	(125)	-	-	-
Elections	58	(58)	-	47	47
Planning Enforcement	100	(79)	21	(21)	-
Health Initiatives	42	(11)	31	2	33
Community Safety	41	44	84	(14)	70
Pickersleigh AOHN	76	(66)	10	(10)	-
Sports Development	25	-	25	7	32
Organisational Review	30	(30)	-	-	-
Fuel Poverty	4	(4)	-	-	-
Repairs and Maintenance	93	(6)	87	40	127
Waste and Recycling Reserve	169	(8)	161	627	788
Emergency Planning	14	-	14	(1)	13
Malvern Vale Community Centre	418	(34)	384	2	386
Priorities Reserve	534	133	666	(281)	386
Flooded Business Support Grant	68	(20)	48	(12)	36
Development Control	588	(73)	515	(213)	302
Transformation Challenge Award	123	(56)	67	(67)	-
Route to the Hills	-	83	83	10	93
Welfare Payments	-	37	37	-	37
Community Housing Fund	-	-	-	168	168
Malvern Theatres	-	-	-	27	27
Total	4,862	845	5,707	1,174	6,881

10. Other Operating Expenditure

	2015/16 £000	2016/17 £000
Parish council precepts	1,344	1,412
Levies	355	380
(Gain)/ loss on the disposal of non current assets	(56)	1
Total	1,643	1,794

11. Financing and Investment Income and Expenditure

	2015/16 £000	2016/17 £000
Net Pensions interest cost	1,018	1,053
Interest receivable and similar income	(210)	(134)
Income and expenditure in relation to investment properties and changes in their fair value	(104)	(971)
Total	704	(52)

12. Taxation and Non Specific Grant Income

	2015/16 £000	2016/17 £000
Council Tax income	(5,681)	(5,970)
Non domestic rates	(1,975)	(1,777)
Revenue support grant	(3,113)	(2,991)
Capital grants and contributions	(291)	(934)
Total	(11,060)	(11,672)

13. Business Rates

Income from business rates comprises:

	2015/16 £000	2016/17 £000
Business rates (after tariff payment)	(1,209)	(1,159)
S31 Grant Income	(618)	(482)
Safety net Payment from Business Rates Pool	(316)	147
Collection Fund Deficit / (Surplus)	168	(1,590)
Amounts due to DCLG and Preceptors	-	1,306
Total	(1,975)	(1,777)

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 Comprehensive Income and Expenditure Statement 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 2015/16 £000	Trade Refuse 2016/17 £000	Property 2016/17 £000	Total 2016/17 £000
Income	(623)	(547)	(240)	(787)
Expenditure	493	414	140	554
(Surplus) / Deficit on Trading	(130)	(133)	(100)	(233)

15. Members' Allowances

The amount of allowances paid to members was £242,923 (£239,482 2015/16).

16. Employees' Remuneration

Expenses recognised for employee benefits are analysed below:

	2015/16 £000	2016/17 £000
Wages and salaries	3,953	3,988
National Insurance contributions	259	339
Pensions – defined benefit plans employer contribution	532	536
Pensions – defined benefit plans back funding payments	1,046	1,062
Total Employee benefits expense	5,790	5,925

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:

	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

Job Title	2015/16					Total
	Salary	Termination Payments	Allowances & Benefits in Kind	Total Remuneration	Pension Contributions	
	£	£	£	£	£	£
Head of Policy & Governance	45,367	58,048	2,448	105,863	6,699	112,562
Deputy Chief Executive	74,765	-	3,026	77,791	10,991	88,781
Head of Community Services	72,818	-	1,992	74,810	10,704	85,514
Head of Planning, Economy & Housing	76,504	-	959	77,462	11,246	88,708
	269,454	58,048	8,425	335,926	39,640	375,566

Since the appointment of Jack Hegarty as Joint Chief Executive with Wychavon District Council, the councils have been implementing a joint senior management team. The full joint senior management team became effective in April 2016 when the post of Head of Community Services was made redundant and the Joint Head of Community and Economy was appointed. The joint structure is shown in the Narrative Report on page 4 of this Statement of Accounts.

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 is 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	2015/16	2016/17
£50,000 - £54,999	-	4
£55,000 - £59,999	1	-
£60,000 - £64,999	1	1
£65,000 - £69,999	-	-
£70,000 - £74,999	2	-
£75,000 - £79,999	2	1
£80,000 - £84,999	-	1
£85,000 - £89,999	-	1
£90,000 - £94,999	-	-
£95,000 - £99,999	-	-
£100,000 - £104,999	-	-
£105,000 - £109,999	1	-
Total	7	8

The Council incurred £61,254 in relation to termination payments (2015/16 £139,157). 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	
	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16 £	2016/17 £
£0 - £20,000	-	1	2	1	2	2	18,615	1,295
£20,001 - £40,000	2	-	-	-	2	-	62,338	-
£40,001 - £60,000	1	-	-	1	1	1	58,204	59,960
Total	3	1	2	2	5	3	139,157	61,254

17. 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 Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2015/16	2016/17	2015/16	2016/17
	£000	£000	£000	£000
Comprehensive Income & Expenditure Account				
Cost of Service				
<i>Service cost comprising</i>				
Current service cost	880	790	-	-
Administration expenses	13	13	-	-
Curtailments		170		
Financing Income & Expenditure				
Net interest expense	1,018	1,053	-	-
Total Post-employment Benefits charged to the Surplus or Deficit on the Provision of Services	1,911	2,026	-	-
Other Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement				
<i>Remeasurement of the net defined benefit liability comprising:</i>				
Return on plan assets (excluding the amount included in the net interest expense)	(2,281)	11,615	-	-
Actuarial gains and losses arising on changes in demographic assumptions		1,146		41
Actuarial gains and losses arising on changes in financial assumptions	3,537	(15,153)	88	(386)
Other		4,615		29
Total Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement	1,256	2,223	88	(316)
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	(1,826)	(1,939)	(85)	(87)
Actual amount charged against the General Fund balance for pensions in the year				
Employers' contribution payable to scheme	1,538	1,684	174	168
Retirement benefits payable to pensioners	(2,584)	(2,650)	(174)	(168)

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	
	2015/16	2016/17	2015/16	2016/17
	£000	£000	£000	£000
Present value of the defined benefit	73,005	83,445	2,556	2,791
Fair value of plan assets	(44,053)	(56,461)	-	-
Sub-total	28,952	26,984	2,556	2,791
Net liability arising from defined benefit obligation	28,952	26,984	2,556	2,791

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

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2015/16	2016/17	2015/16	2016/17
	£000	£000	£000	£000
Opening fair value of scheme assets	45,720	44,053	-	-
Interest Income	1,450	1,547	-	-
Remeasurement gain/(loss):				
The return on plan assets, excluding the amount included in the net interest expense	(2,281)	11,615	-	-
Administration expenses	(13)	(13)		
Contributions from employer	1,538	1,684	174	168
Contributions from employees into the scheme	223	225	-	-
Benefits paid	(2,584)	(2,650)	(174)	(168)
Closing fair value of scheme assets	44,053	56,461	-	-

Reconciliation of Present Value of the Scheme Liabilities

	Funded Liabilities: Local Government Pension Scheme		Unfunded Liabilities: Discretionary Benefits Arrangements	
	2015/16	2016/17	2015/16	2016/17
	£000	£000	£000	£000
Opening balance at 1 April	75,640	73,005	2,733	2,556
Current service cost	880	790		-
Interest cost	2,383	2,513	85	87
Contributions from scheme participants	223	225	-	-
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	(3,537)	15,153	(88)	386
Past service cost	-	-	-	-
Losses/(gains) on curtailment	-	170	-	-
Liabilities assumed on entity combinations	-	-	-	-
Liabilities extinguished on settlement	-	-	-	-
Benefits paid	(2,584)	(2,650)	(174)	(168)
Closing balance at 31 March	73,005	83,445	2,556	2,791

Local Government Pension Scheme Assets Comprised:

	Fair value of scheme assets	
	2015/16	2016/17
	£000	£000
Cash and cash equivalents	933	1,294
Equity instruments by type:		
- UK quoted	323	294
- Overseas quoted	15,045	15,775
- PIV UK Managed Funds	12,336	15,222
- PIV UK Managed Funds (Overseas equities)	8,764	16,887

- PIV Overseas Managed Funds	324	-
Sub-total equity	36,792	48,178
Bonds by sector:		
- Corporate	2,700	3,071
Sub-total bonds	2,700	3,071
Property by region:		
- European Property Funds	1,379	1,587
- UK Property Debt	516	525
- Overseas Property Debt	99	282
Sub-total property	1,994	2,394
UK Infrastructure	1,634	1,524
Total assets	44,053	56,461

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 2013.

The principal assumptions used by the actuary have been:

Local Government Pension Scheme & Unfunded Benefits Assumptions	2015/16	2016/17
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	2.9%	2.6%
Property	5.9%	5.9%
Cash / Liquidity	0.5%	0.5%
Mortality rates		
Longevity at 65 for current pensioners		
Male	23.5	22.6
Female	25.9	25.6
Longevity at 65 for future pensioners		
Male	25.8	24.8
Female	28.5	27.9
Other		
Rate of inflation (CPI)	2.0%	2.3%
Rate of increase in salaries	3.5%	3.8%
Rate of increase in pensions	2.0%	2.3%
Rate for discounting scheme liabilities	3.5%	2.5%
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)	1,761
Rate of inflation (increase or decrease by 0.1%)	1,333
Rate of increase in salaries (increase or decrease by 0.1%)	137
Rate of discounting scheme liabilities (increase or decrease by 0.1%)	(1,313)

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 £1.489m expected contributions to the scheme in 2017/18.

The weighted average duration of the defined benefit obligation for scheme members is 15 years for 2016/17.

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 2016 £000	31 March 2017 £000
Present value of liabilities	(27,242)	(28,798)
Fair value of assets	19,638	21,040
Surplus / (Deficit) in scheme	(7,604)	(7,758)
Malvern Share	(735)	(750)

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.

18. 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 (2014/15 Grant Thornton LLP) and the Audit Commission:

	2015/16 £000	2016/17 £000
Certification of grant claims and returns	12	11
Audit fees	53	42
Total	65	53

19. Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement.

	2015/16 £000	2016/17 £000
Credited to Taxation and Non Specific Grant Income		
DCLG Rural Services Delivery Grant	-	226
DCLG Revenue Support Grant	1,346	779
DCLG New Homes Bonus	1,766	1,982
Business Rates Income	1,975	1,778
DCLG Disabled Facilities	291	478
Other Capital Grants	-	452
Total	5,378	5,695
Credited to Services		
DWP Housing Benefit Subsidy	18,800	18,350
DWP Housing Benefit Admin	231	211
DCLG NNDR Cost of Collection	108	108
Other Grants	452	569
DEFRA Repair & Renew Grant	7	-
Total	19,598	19,237

20. 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 2016/17, 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 Hills Centre. Members also represent the Council on the South Worcestershire Shared Services Joint Committee and Worcestershire Regulatory Shared Service Joint Committee.

In accordance with contractual arrangements the Council paid grants of £70,190 to Malvern Citizens' Advice Bureau, £68,476 to Freedom Leisure in respect of Tenbury Swimming Pool and £116,810 to Malvern Theatres Trust.

The Council has entered into a contract with Fortis Living (formerly Festival Housing Group) for the provision of homelessness services and is part of the Worcestershire wide choice based lettings housing allocations service and Home Improvement Agency partnerships. The Council also undertakes litter picking on behalf of Fortis Living. The Council paid a net total of £219,155 inclusive of VAT to Fortis during the year and no amounts were outstanding at 31st March 2017.

Officers

The Council has officer representation on the Board of Malvern Hills Science Park. Preference Share Dividends due to Malvern Hills District Council remain outstanding amounting to £244,261 at 31 March 2017.

Entities Controlled or Significantly Influenced by the Authority

The Council is a partner in the South Worcestershire Shared Services Joint Committee and the Worcestershire Regulatory Shared Service Joint Committee. Both of these partnerships are jointly controlled operations. The Council is also a party to the Internal Audit Shared Service provided under an SLA arrangement by Worcester City Council and participates in a HR/ Payroll Shared Service provided under SLA arrangement by Wychavon District Council.

Under the South Worcestershire Shared Services Joint Committee Revenues and Benefits, Customer Services (through the Worcestershire Hub), Building Control and ICT are provided as shared services by the partner Councils. During 2016/17 the Council paid £696,087 to Wychavon District Council the host of the Revenues and Benefits Shared Service, £153,757 to Worcestershire County Council for the Worcestershire Hub and £483,009 to Wychavon District Council for the provision of the ICT Shared Service. At 31 March 2017 £3,794 was owed to Wychavon District Council in respect of the Revenues and Benefits shared service, £63,385 was owed to Worcestershire County Council in respect of the Worcestershire Hub shared service and £29,772 was owed by Wychavon District Council in respect of the ICT shared service. During the year, the Council received £15,369 from Worcester City Council and Wychavon District Council in respect of the ICT Shared Service.

As host of the South Worcestershire Building Control Shared Service the Council received £190,347 (net) from Wychavon District Council and £103,000 (net) from Worcester City Council. At 31 March 2016 £57,245 was owed to Wychavon District Council and £33,090 was owed to Worcester City Council.

Under the Worcestershire Regulatory Shared Service Joint Committee the Council paid £382,484 (net), owed £8,387 to Bromsgrove District Council and was owed £7,195 by Bromsgrove District Council, the host authority.

Under the Internal Audit Shared Service the Council paid £35,753 and was owed £8,713 by Worcester City Council.

The Council received £159,655 in relation to financial system administration and transaction processing services from Worcester City Council and was owed £78,605 by Gloucester City Council in respect of financial system implementation support.

Under arrangements existing prior to the appointment of the Joint Management Team the Council paid £149,892 in respect of the HR shared service, paid £46,114 (including £6,114 relating to 15/16) in respect of Land Drainage, paid £28,135 (including £12,300 relating to 2015/16) in respect of Strategic Procurement advice to Wychavon District Council.

Under further joint working arrangements with Wychavon District Council, the Council received £269,505 in respect of the shared Legal service, paid £119,208 in respect of the shared Strategic Housing service, £140,608 in respect of Heritage and Planning Policy shared services and paid £51,984 in respect of Communications and Strategy. The council was owed £73,710 in respect of the shared Legal service and owed £34,706 in respect of the shared Strategic Housing service.

In relation to the joint senior management team, the Council paid £177,825 to Wychavon District Council, received £44,076 from Wychavon District Council and was owed £55,578.

21. 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 2016/17 by services contained within the Comprehensive Income and Expenditure Statement

	Land and Buildings	Vehicles, Plant & Equipment	Community Assets	Investment 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

	Land and Buildings	Vehicles, Plant & Equipment	Community Assets	Investment Properties	Surplus Assets	Total Fixed Assets
	£'000	£'000	£'000	£'000	£000	£'000
Cost or Valuation						
At 1 April 2015	22,410	4,097	203	1,943	-	28,653
Additions	229	245	-	32	-	506
Revaluation increases (decreases) recognised in the Revaluation Reserve	(160)	-	-	-	-	(160)
Revaluation increases (decreases) recognised in the Surplus/ Deficit on the Provision of Services	(245)	-	-	-	-	(160)
Transfers	(275)	-	-	(340)	-	(435)
Disposals	-	-	-	-	-	-
At 31 March 2016	21,958	4,342	203	1,635	180	28,319
Accumulated Depreciation and Impairment						
At 1 April 2015	(886)	(2,791)	-	-	-	(3,677)
Depreciation charge	(332)	(251)	-	-	-	(583)
Depreciation written out to the Revaluation Reserve	1,025	-	-	-	-	1,025
Disposals	-	-	-	-	-	-
At 31 March 2016	(193)	(3,042)	-	-	-	(3,235)
Net Book Value						
At 31 March 2016	21,765	1,300	203	1,635	180	25,084

Revaluations

The Council carries out a rolling programme that ensures all properties required to be measured at current value are revalued at least every five years. Valuations were carried out internally by the Council's RICS qualified valuer. All valuations were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

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

22. Capital Expenditure and Financing

	2015/16 £000	2016/17 £000
Capital Expenditure adding to Fixed Asset Valuation		
Land & Buildings	229	874
Vehicles Plant & Equipment	245	703
Assets Under Construction	-	-
Investment Properties	32	-
Additions to Fixed Assets	506	1,577

Capital Expenditure not adding to Fixed Asset Valuation

Revenue expenditure funded from capital under statute	235	412
Total Capital Expenditure	741	1,989

Financed By:

Usable Capital Receipts	506	1,270
Grants and other contributions	235	421
Earmarked Reserves	-	298
Total Capital Financing	741	1,989

23. Capital Commitments

The Council has capital commitments of £138,459 relating to building works at 31 March 2017.

24. Information on Assets Held

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

	31 March 2016	31 March 2017	Value £000
Operational Assets			
Offices (Administrative Buildings)	3	4	1,860
Tourist Information Centres	1	1	201
Car parks	13	13	3,269
Public conveniences	8	8	494
Leisure facilities	4	5	7,491
Depot	1	1	564
Heritage centre / museum	2	2	255
Theatre	1	1	8,712
Community Assets			
Parks, Open spaces, Recreational areas	4	4	203
Non-Operational Assets			
Commercial properties	6	5	646
Industrial properties	4	4	1,777
Assets Held for Sale			
Offices (Administrative Buildings)	2	1	495
Commercial Properties	1	1	483
Total	50	50	26,451

25. 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 2016/17 the following assets were revalued as at 31 March 2017.

Asset Type	Increase/ (decrease) £000
Leisure Facilities	309
Public Conveniences	49
Investment Properties	788
Total	1,146

26. Investment Properties

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

	2015/16 £000	2016/17 £000
Rental income from investment property	159	240
Direct operating expenses arising from investment property	(55)	(140)
Net gain	104	100

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.

	2015/16 £000	2016/17 £000
Balance at 1 st April	1,943	1,635
Transfer in of assets	-	-
Additions to investment properties	32	-
Transfers to assets held for sale	(340)	-
Net gains/ losses from fair value adjustments	-	788
Balance at 31st March	1,635	2,423

Fair Value Hierarchy

Details of the Council's investment properties and information about the fair value hierarchy as at 31st March 2017 are as follows:

	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

2015/16 Comparative Figures

	Significant observable inputs (Level 2) £'000	Fair value at 31 March 2016 £'000
Industrial units	989	989
Commercial units	646	646
Total	1,635	1,635

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.

27. 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.

28. Leased Assets

Operating lease payments relating to photocopiers and printers of £21,762 were made (£14,978 2015/16). The Council's outstanding obligations under operating lease agreements at 31 March 2017 were as follows:

Financial Year	£000
2017/18	13
2018/19 onwards	53

29. Investments and Financial Instruments

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

	Amortised Cost 31 March 2017 £	Fair Value 31 March 2016 £	Fair Value 31 March 2017 £
Investments			
Malvern Hills Science Park Ltd (Ordinary shares)	9	596,872	590,349
	9	596,872	590,349
Loans and Receivables			
Malvern Hills Science Park Ltd (3% Preference shares)	1,044,909	1,232,992	1,264,340
Malvern Hills Science Park Ltd (6.37% Preference shares)	654	413,370	413,376
Mortgages	527	527	527
	1,046,090	1,646,889	1,678,243
Available for Sale Financial Assets			
Charities Official Investment Trust	2,025	2,025	2,025
Pooled Property Fund	3,000,000	2,031,560	2,956,649
	3,002,025	2,033,585	2,958,674

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 2016/17 of £242,988 (2015/16 net dividend receivable £211,641). 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 £6,559,435, giving an investment fair value of £590,349.

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 2017 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 2016/17 £000	Available for Sale Financial Assets 2016/17 £000
Investments		
Interest income included in surplus/ deficit on the provision of services	55	120
Gain/ (loss) on revaluation	(7)	(75)
Net gain/(loss) for the year	48	45

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 by the Executive Committee annually 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 2017 the Council had £3,000,000 (fair value £2,956,649) invested in the CCLA Pooled Property Fund 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 Santander (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 2017 is shown in the table below:

	2015/16	2016/17
	£000	£000
Current	56	8
Less than 30 days	240	589
30-90 days	20	11
90- 150 days	19	6
Over 150 days	109	46
Total	444	660

The Council's approach to determining appropriate provisions for bad and doubtful debts is outlined in note 31.

An analysis of short term debtors is presented in note 31 and an analysis of short term creditors is presented in note 33. 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 Comprehensive Income and Expenditure Statement. 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.

30. Current Assets Held for Sale

	31 March 2016 £000	31 March 2017 £000
Balance brought forward	495	978
Assets newly classified as held for sale	435	-
Assets reclassified within fixed assets	-	-
Revaluation of assets held for resale	48	-
Balance carried forward	978	978

31. Stocks

	31 March 2016 £000	31 March 2017 £000
Refuse collection stock	72	39
Fuel stock	9	2
Tourist Information Centre Stock	10	11
Public Conveniences Stock	-	-
Balance carried forward	91	52

32. 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. 100% is provided for

debts over eight years old, the percentage provision for debts which are more recent 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 2016 £000	31 March 2017 £000
Council Taxpayers	214	198
NNDR Payers	192	173
Local Authorities	1,050	841
Government Departments	1,518	277
Payments in Advance	131	99
Other Debtors	1,246	1,140
	4,350	2,728
Less: Provision for Doubtful Debts	(354)	(443)
Total Debtors	3,996	2,285

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

33. Cash and Cash Equivalents

	31 March 2016 £000	31 March 2017 £000
Bank current accounts	4,740	8,389
Total Cash and Cash Equivalents	4,740	8,389

34. 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 2016 £000	31 March 2017 £000
Council Taxpayers	73	114
Council Tax Preceptors	442	667
Local Authorities	977	1,045
Government Departments	742	2,407
Receipts in Advance	324	302
Other Creditors	634	457
Total Creditors	3,192	4,992

35. Provisions

An analysis of provisions is shown below:

	31 March 2016 £000	31 March 2017 £000
NNDR Appeals Provision	1,215	1,562
NNDR Provision for Appeals and Losses	11	11
Total Provisions	1,226	1,573

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 2016 £000	31 March 2017 £000
Revaluation Reserve	7,504	7,919
Financial Instruments Reserve	630	549
Capital Adjustment Account	16,794	18,494
Pensions Reserve	(31,508)	(29,775)
Collection Fund Adjustment Account	75	66
Accumulating Compensated Absences Adjustment Account	(57)	(55)
Total Unusable Reserves	(6,561)	(2,802)

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.

	2015/16 £000	2016/17 £000
Balance at 1st April	6,669	7,504
Upward revaluation of assets	1,577	394
Downward revaluation of assets and impairment losses not charged to the Surplus/ Deficit on the Provision of Services	(616)	(9)
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	960	385
Accumulated gains on assets sold, scrapped or transferred	(125)	30
Balance at 31st March	7,504	7,919

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.

	2015/16 £000	2016/17 £000
Balance at 1 April	495	630
Upward/ (downward) revaluation of investments	135	(81)
Balance at 31 March	630	549

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Council.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

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

	2015/16 £000	2016/17 £000
Balance at 1 April	17,017	16,794
Reversal of items relating to capital expenditure debited or credited to the CIES:		
• Charges for depreciation and impairment of non current assets	(876)	(631)
• Revenue expenditure funded from capital under statute	(235)	(412)
• 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	506	1,270
• Capital grants and contributions credited to the CIES that have been applied to capital financing	235	421
• Use of capital replacement reserve to finance new capital expenditure	-	298
• Use of earmarked reserves to finance new expenditure	20	-
Movements in the market value of Investment Properties debited or credited to the CIES	-	788
Transfer of assets to investment property	125	-
Change in accounting policy re listed buildings	3	-
Balance at 31 March	16,794	18,494

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to 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.

	2015/16 £000	2016/17 £000
Balance at 1 April	(32,653)	(31,508)
Re-measurement of the net defined benefit liability	1,344	1,907
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the CIES	(1,911)	(2,026)
Employer's pension contributions and direct payments to pensioners payable in the year	1,712	1,852
Balance at 31 March	(31,508)	(29,775)

Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement 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.

	2015/16 £000	2016/17 £000
Balance at 1 April	(1,179)	75
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	1	(10)
Amount by which NDR income credited to the CIES is different from the NDR income calculated for the year in accordance with statutory requirements	1,253	-
Balance at 31 March	75	65

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.

	2015/16 £000	2016/17 £000
Balance at 1 April	(69)	(57)
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	12	2
Balance at 31 March	(57)	(55)

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:

	2015/16 £000	2016/17 £000
Depreciation	(584)	(600)
Impairment and downward valuation	(293)	(27)
(Increase) in provisions for bad and doubtful debts	(41)	(88)
(Increase) in creditors	(784)	933
Increase/ (decrease) in debtors	498	302
Increase in stock	(27)	(38)
Items relating to retirement benefits	199	(174)
Movements in the value of investment properties	-	881
Contributions to reserves	(865)	(1,502)
Increase/ (decrease) in the value of long term investments	-	(81)
Collection Fund (surplus)/ deficit	167	1,581
Adjustments to employee benefits reserve	12	1
Adjustment to NNDR provisions	411	(1,227)
Other non cash movements	(48)	(158)
Adjustments for Non Cash Movements	(1,354)	(199)

38. Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following items:

	2015/16 £000	2016/17 £000
Interest received	(147)	(160)
Interest received	(147)	(160)

39. Cash Flow Statement – Investing Activities

The cash flows for investing activities include the following items:

	2015/16 £000	2016/17 £000
Purchase of property, plant and equipment	500	1,650
Purchase of long-term investments	20	1,000
Other payments for investing activities	235	412
Proceeds from the sale of property, plant and equipment and investment property	(56)	1
Capital grants received	(291)	(934)
Other receipts from investing activities	(1)	-
Net cash flows from investing activities	407	2,129

40. Contingent Liabilities

There are no contingent liabilities at 31 March 2017

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 Comprehensive Income and Expenditure Statement.

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 2015/16 £'000	NNDR 2015/16 £'000	Council Tax 2016/17 £'000	NNDR 2016/17 £'000
INCOME					
Council Tax	1	(44,529)	-	(46,736)	-
Non-Domestic Rates	2	-	(12,991)	-	(16,510)
S31 Grant		-	-	-	-
Total Income		(44,529)	(12,991)	(46,736)	(16,510)
EXPENDITURE					
Precepts and Demands:					
Worcestershire County Council		31,248	1,224	32,966	810
Hereford & Worcester Fire Authority		2,214	151	2,299	81
West Mercia Police Authority		5,380	-	5,569	-
Malvern Hills District Council		3,982	1,220	4,188	1,159
Town and Parish Precepts and Conservators Levies	4	1,698	-	1,791	-
Central Government		-	6,801	-	7,634
Tariff payment to Business Rates Pool		-	4,808	-	-
Tariff payment to DCLG		-	-	-	4,848
		44,522	14,204	46,814	14,534
Business Rates:					
Provision for appeals		-	(1,028)	-	869
Write offs and adjustments for bad debt provisions		-	63	-	175
Cost of Collection Allowance		-	108	-	108
Prior year Government creditor adjustments		-	64	-	(3,151)
		-	(793)	-	(2,001)
(Surplus) / Deficit for the year		(7)	419	78	(3,977)
Movement of the Fund Balance					
Fund balance on 1 April		(578)	5,037	(585)	5,456
(Surplus) / Deficit for year		(7)	419	78	(3,977)
Fund Balance on 31 March	3	(585)	5,456	(507)	1,479

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 2016/17 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	3	2.5	5/9	1.39
A	3,624	2,115.22	6/9	1,410.15
B	7,114	5,174.06	7/9	4,024.27
C	7,327	6,100.11	8/9	5,422.32
D	5,364	4,787.93	9/9	4,787.93
E	4,741	4,412.86	11/9	5,393.50
F	3,510	3,309.97	13/9	4,781.07
G	2,185	2,097.43	15/9	3,495.72
H	107	102.25	18/9	204.50
Total	33,975	28,102.33		29,520.83
Less assumed bad debt rate: 0.5%				(147.60)
Council Tax Base				29,373.23

(Some of these figures have been rounded)

The basic amount of council tax for a band 'D' property was £1,593.49 (£1,538.44 2015/16). 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 48.4p for the financial year (48.0p 2015/16). 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 2016/17 was £16,510,000 (£12,991,000 2015/16). This was based on a rateable value of £45,625,198 on 31 March 2017 (£41,782,708 on 31 March 2016).

3. Surplus and Deficits

The Collection Fund surplus for Council Tax as at 31 March 2017 was £528k (31 March 2016 £585k). An estimated surplus of £400,000 was declared in January 2017.

The Collection Fund deficit for Business Rates as at 31 March 2017 was £1,479k (31 March 2016 £5,456k). There was no estimated surplus or deficit declared in January 2017.

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

Preceptor	Council Tax 2015/16 £000	NNDR 2015/16 £000	Council Tax 2016/17 £000	NNDR 2016/17 £000
Central Government	-	(210)	-	1,989
Worcestershire County Council	5	(38)	(55)	358
West Mercia Police Authority	1	-	(9)	-
Hereford and Worcester	-	(4)	(4)	40
Combined Fire Authority				
Malvern Hills District Council	1	(169)	(10)	1,591
Total	7	(420)	(78)	3,977

4. Town and Parish Councils

This Council's demand on the collection fund includes £1,883,995 (£1,823,179 2015/16) in respect of town and parish councils and the Malvern Hills Conservators, who precept and levy directly on the Council's Comprehensive Income and Expenditure Statement. This figure includes Parish Grants funded by the Council of £92,723 (£125,290 2015/16). 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	2015/16 £000	2016/17 £000
Council Tax	106	82
Business Rates	63	22

6. Collection Rates

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

Collection Rate	2015/16 %	2016/17 %
Council Tax	98.7	98.9
Business Rates	98.2	98.8

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 2016.

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 2017 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 2016/17 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 2016/17, 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 2016/17 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 2016/17.

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.

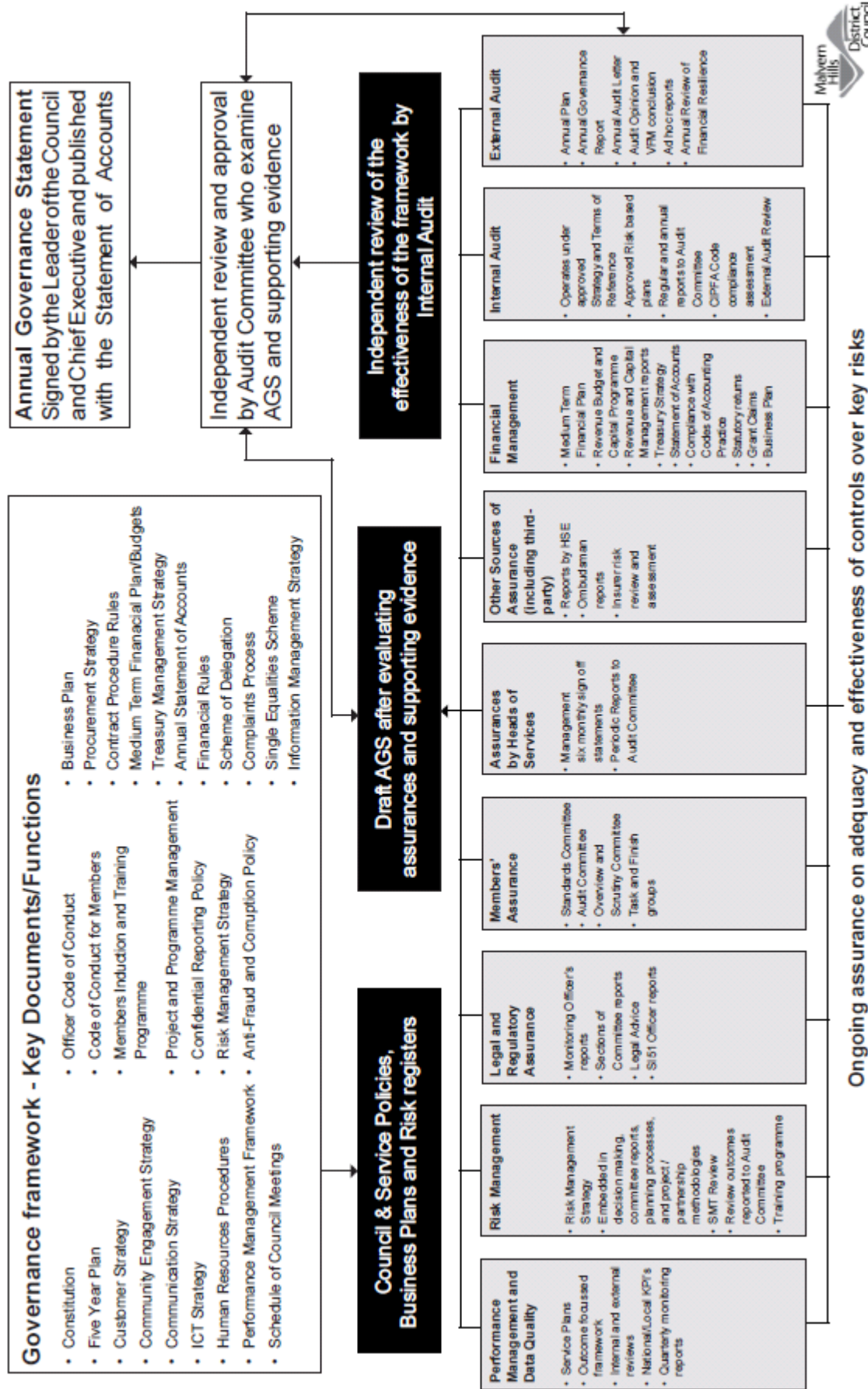
5. Significant Governance and Internal Control Issues

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 Comprehensive Income and Expenditure Statement 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.

STATEMENT OF RESPONSIBILITIES

The Council's responsibilities

The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is Andy Baldwin, the Deputy Chief Executive
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets
- Approve the Statement of Accounts

Responsibilities of the Section 151 officer (Deputy Chief Executive)

The Deputy Chief Executive is responsible for preparing the Council's statement of accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ("the Code").

As the responsible officer, I certify that in preparing this Statement of Accounts, for the year ended 31 March 2017 I have:

- Selected suitable accounting policies and then applied them consistently
- Made judgements and estimates that were reasonable and prudent
- Complied with the Code

I have also:

- Kept proper accounting records which were up to date
- Taken reasonable steps for the prevention and detection of fraud and other irregularities

These accounts present a true and fair view of the financial position of the Council and its income and expenditure for the year ended on 31 March 2017

Andy Baldwin CPFA
Deputy Chief Executive
26/09/17



Approval by the Council

I certify that the above Statement of Accounts was approved by Council at its meeting held on 26 September 2017.

Signed on behalf of Malvern Hills District Council:



Councillor Christine O'Donnell
Chairman of the Council
26/09/17

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MALVERN HILLS DISTRICT COUNCIL

Opinion on the Council's financial statements

We have audited the financial statements of Malvern Hills District Council for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Council Movement in Reserves Statement,
- Council Comprehensive Income and Expenditure Statement,
- Council Balance Sheet,
- Council Cash Flow Statement,
- Collection Fund
- and the related notes

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

This report is made solely to the members of Malvern Hills District Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council and the Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Deputy Chief Executive and auditor

As explained more fully in the Statement of the Deputy Chief Executive Responsibilities set out on pages 72, the Deputy Chief Executive is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Deputy Chief Executive; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Statement of Accounts 2016-17 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course

of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Malvern Hills District Council as at 31 March 2017 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

Opinion on other matters

In our opinion, the information given in the Statement of Accounts 2016-17 for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception¹

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects

Conclusion on Malvern Hills District Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's responsibilities

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

Auditor's responsibilities

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for

¹ This does not include any public reporting in respect of the pension fund. Where such a report has been issued for the pension fund, this section would need to be replicated in the pension fund section.

securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2015, as to whether the Malvern Hills District Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Malvern Hills District Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Malvern Hills District Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance issued by the C&AG in November 2015, we are satisfied that, in all significant respects, Malvern Hills District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Certificate

We certify that we have completed the audit of the accounts of Malvern Hills District Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

S R Clark

*Stephen Clark (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Appointed Auditor
Birmingham*

26 September 2017