

MALVERN HILLS DISTRICT COUNCIL STATEMENT OF ACCOUNTS 2014/15

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WELCOME TO THE STATEMENT OF ACCOUNTS FOR 2014/15

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 £611,000 for 2014/15, which is around 7% of the original budget. Our updated Medium Term Financial Plan (MTFP) provides a clear strategic direction for the Council finances through to 2017/18. We are confident of achieving the challenging savings targets we have set ourselves for 2015/16 of £532,000 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's element of the Council Tax for a Band D property was £137.60 for 2014/15. This represents around 9% of an average bill of £1,511.60 and remains one of the lowest district 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.

We would like to express our thanks to the Accountancy team for continuing to produce the Statement of Accounts faster than any other district council in Worcestershire.

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

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

EXPLANATORY FOREWORD

1. Introduction

This Statement of Accounts presents the financial position of the Council for the year ended 31 March 2015. 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 foreword provides a brief explanation of the financial aspects of the Council's activities and a guide to the significant matters reported in the accounts.

2. The Accounting Statements

The accounting statements included in the accounts are listed below along with an explanation of their purpose:

Movement in Reserves Statement: This 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.

Comprehensive Income and Expenditure Statement: 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.

Balance Sheet: 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.

Cash Flow Statement: This shows the changes in cash and cash equivalents of the Council during the reporting period. 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.

Collection Fund: 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.

3. Revenue Income and Expenditure

The estimated net revenue expenditure of the Council for 2014/15 was originally £8,898,830. Subsequent to the budget being agreed this was revised to £9,080,830, for spending brought forward from 2013/14 and from earmarked reserves. Actual net expenditure for the year was £8,845,848, an underspend of £234,982 as can be seen in the table below. Budget carry forwards of £165,000 into the 2015/16 revenue budget have been approved, to meet ongoing 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.

| Service | 2014/15 Final Budget £000 | 2014/15 Net Expenditure £000 | Underspend £000 |
|---|--|---|----------------------------|
| Chief Executives | 688 | 689 | (1) |
| Policy & Governance | 423 | 428 | (5) |
| Resources | 1,982 | 1,798 | 184 |
| Community Services | 3,961 | 3,975 | (13) |
| Planning, Economy & Housing | 2,027 | 1,956 | 70 |
| Total Net Expenditure by Service | 9,081 | 8,846 | 235 |

The gross cost of service provision for 2014/15 amounts to £34,425,000. This expenditure has been analysed by type as shown below:

| Expenditure Types | 2013/14 £000 | 2014/15 £000 |
|--|-------------------------|-------------------------|
| Employees | 5,530 | 5,757 |
| Premises related | 614 | 539 |
| Transport related | 949 | 990 |
| Supplies and services | 1,415 | 1,176 |
| Third party payments | 4,754 | 4,550 |
| Transfer payments (Including payments in respect of Council Tax and Housing Benefit) | 19,423 | 20,173 |
| Capital charges | 968 | 1,238 |
| Gross Cost of Services | 33,654 | 34,425 |

The Council received gross income of £25,823,000 and this is analysed by type as follows:

| Income Type | 2013/14 £000 | 2014/15 £000 |
|----------------------------------|-------------------------|-------------------------|
| Housing and Council Tax Benefits | (18,765) | (19,375) |
| Benefits Administration | (386) | (432) |
| Other Government Grants | (727) | (777) |
| Sales, Fees & Charges | (2,097) | (2,170) |
| Other Income | (2,584) | (3,069) |
| Total Income | (24,559) | (25,823) |

4. Capital Expenditure

Capital expenditure for 2014/15 was £1,004,690 (£1,662,187 2013/14). This compares with an original estimate of £1,195,000, which was subsequently revised to £1,547,430 with the addition of schemes brought forward from the previous financial year and further approvals in year.

There was an underspend on the revised capital programme compared to budgeted expenditure of £542,740. From this underspend carry forwards of £540,460 have been approved into the 2015/16 capital programme to meet on-going commitments. A summary of the capital expenditure in 2014/15 is shown below, £332,774 was added to the value of fixed assets, the balance was written off in year as a deferred charge.

| Capital Programme | Expenditure £000 | Underspend £000 |
|--------------------------|-----------------------------|----------------------------|
| Housing Grants | 302 | 79 |
| Property Projects | 333 | 132 |
| Vehicles | - | 332 |
| Other | 370 | - |
| Total | 1,005 | 543 |

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

| Capital Financing | £000 |
|--------------------------|--------------|
| Usable Capital Receipts | 312 |
| Capital Grants | 233 |
| Earmarked Reserves | 460 |
| Total | 1,005 |

A total of £2.884m has been carried forward in capital reserves to preserve funding for existing projects in future years.

5. Joint Chief Executive

During the year, the Council and Wychavon District Council submitted a successful bid to DCLG for Transformation Challenge Funding. As a result of this funding, the Chief Executive of the Council left the authority and the Managing Director of Wychavon District Council was appointed Joint Chief Executive and Managing Director of both councils.

5. Pension Fund

The Council's share of the assets and liabilities of the Pension Fund is a net liability and has been calculated in accordance with International Accounting Standard 19. The net liability has increased by £6,160,000 to £32,653,000, a further explanation can be found in note 16 to the Core Financial Statements.

It is important to understand that the net pension liability is a position taken at just one point in time. Market prices can move up as well as down in the short term and it is therefore not possible to quantify what long term effect the movement in market prices will have on the Pension Fund.

6. Financial Planning

The Council MTFP will be reviewed in the autumn to take into account further reductions in the level of Government funding; this will set the direction of travel for the 2016/17 budget. Whilst we have worked prudently to rebuild the Council's financial base, there will be many challenges ahead.

The Council's general balances totalled £2.884m at 31 March 2015 (£3.192m at 31 March 2014) and cash balances were £4.699m (£6.191m at 31 March 2014).

7. Further Information

Further information about the accounts is available from:

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Malvern Hills District Council,
Council House,
Avenue Road,
Great Malvern,
Worcestershire,
WR14 3AF.

E-mail: andy.baldwin@malvernhills.gov.uk

STATEMENT OF ACCOUNTING POLICIES

1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2014/15 financial year and its position as at 31 March 2015. The Statement of Accounts is prepared in accordance with relevant International Financial Reporting Standards and the Code of Practice on Local Authority Accounting 2014/15 and Service Reporting Code of Practice (SERCOP), both 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 expenditure and capital transactions are 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 and Council Tax 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

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.

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 is a general grant allocated by central government. As such it is non-ringfenced and credited to Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement. Area Based Grant is allocated against the relevant service within net cost of services.

5. Support Services Allocation

In compliance with the CIPFA Service Reporting Code of Practice (SERCOP) central support costs and overheads are fully allocated to services, with the exception of Corporate and Democratic Core and Non-distributed Costs. These two cost categories are defined in SERCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement as part of the Net Cost of Services.

6. Property, Plant and Equipment

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

Recognition

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

Measurement

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

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

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

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

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

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

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

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

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 | Shares in Malvern Hills Science park, debtors |
| | Available for sale (Equity) | Fair value | Pooled property fund |
| 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 by a valuation of shareholders' funds based on the projected performance and Balance Sheet of the entity or discounted cash flow analysis.

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 NNDR 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 5 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:

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Chief Financial Officer,
Worcestershire County Council,
County Hall, Spetchley Road,
Worcester, WR5 2NP
www.worcestershire.gov.uk

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 National Non-Domestic Rates

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

Non-Domestic Rates income for the year is the Council's net accrued income (share of expected NNDR receipts less tariff payment made to Department for Communities and Local Government) 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 and the top up payment due from the Worcestershire Business Rates Pool.

The cost of collection allowance is included within the Comprehensive Income and Expenditure Statement.

The cash collected by the Council from Non-domestic 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 Non-domestic 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 Non-domestic rate payers and cash received for 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

| 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 2014 | 3,192 | 4,296 | 2,023 | - | 9,510 | (2,188) | 7,323 |
| Movement in Reserves | | | | | | | |
| Surplus/(deficit) on the provision of services | (1,886) | - | - | - | (1,886) | - | (1,886) |
| Other Comprehensive Income and Expenditure | - | - | - | - | - | (5,608) | (5,608) |
| Total Comprehensive Income & Expenditure | (1,886) | - | - | - | (1,886) | (5,608) | (7,494) |
| Adjustments between accounting basis & funding basis under regulations | 6 | 2,657 | - | (307) | 34 | 2,385 | (1,925) |
| Net Increase/ (Decrease) before Transfer to Earmarked Reserve | 771 | - | (307) | 34 | 499 | (7,533) | (7,034) |
| Transfers to/ from Earmarked Reserves | 7 | (1,079) | 566 | - | (513) | - | (513) |
| Increase/ (Decrease in) 2014/15 | (308) | 566 | (306) | 34 | (14) | (7,533) | (7,547) |
| Balance at 31 March 2015 | 2,884 | 4,862 | 1,717 | 34 | 9,497 | (9,719) | (222) |

| 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 2013 | 2,956 | 4,837 | 1,884 | 148 | 9,824 | (4,619) | 5,205 |
| Movement in Reserves | | | | | | | |
| Surplus/(deficit) on the provision of services | (628) | - | - | - | (628) | - | (628) |
| Other Comprehensive Income and Expenditure | - | - | - | - | - | 2,754 | 2,754 |
| Total Comprehensive Income & Expenditure | (628) | - | - | - | (628) | 2,754 | 2,126 |
| Adjustments between accounting basis & funding basis under regulations | 6 | 1,074 | - | 139 | (148) | 1,065 | (1,068) |
| Net Increase/ Decrease before Transfer to Earmarked Reserve | 446 | - | 139 | (148) | 437 | 1,686 | 2,123 |
| Transfers to/ from Earmarked Reserves | 7 | (210) | (541) | - | (751) | 746 | (5) |
| Increase/ Decrease in 2013/14 | 236 | (541) | 139 | (148) | (314) | 2,432 | 2,118 |
| Balance at 31 March 2014 | 3,192 | 4,296 | 2,023 | - | 9,510 | (2,188) | 7,323 |

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

| | Notes | 2013/14 Net Expenditure £000 | 2014/15 Gross Expenditure £000 | 2014/15 Gross Income £000 | 2014/15 Net Expenditure £000 |
|--|-----------|---------------------------------------|---|------------------------------------|---------------------------------------|
| Service Expenditure Analysis | | | | | |
| Central Services to the Public | | 446 | 1,303 | (591) | 711 |
| Cultural and Related Services | | 1,013 | 1,401 | (149) | 1,253 |
| Environment and Regulatory Services | | 4,136 | 5,008 | (1,485) | 3,523 |
| Planning Services | | 1,270 | 2,481 | (1,618) | 862 |
| Transport Services | | (65) | 239 | (450) | (211) |
| Housing Services | | 720 | 21,344 | (20,828) | 516 |
| Corporate and Democratic Core | | 710 | 1,439 | (701) | 738 |
| Non-Distributed Costs | | 864 | 1,209 | - | 1,209 |
| Net Cost of Services | | 9,095 | 34,425 | (25,823) | 8,602 |
| Other Operating Expenditure | 9 | 1,448 | | | 1,623 |
| Financing & Investment Income and Expenditure | 10 | 1,267 | | | 1,090 |
| Taxation and non specific grant income | 11 | (11,183) | | | (9,429) |
| (Surplus) or Deficit on Provision of Services | | 628 | | | 1,886 |
| Surplus on revaluation of long-term assets | 20 | (314) | | | (391) |
| Re-measurement of the net defined benefit liability | 34 | (2,440) | | | 5,999 |
| Other Comprehensive Income and Expenditure | | (2,754) | | | 5,608 |
| Total Comprehensive Income and Expenditure | | (2,126) | | | 7,494 |

BALANCE SHEET at 31 March

| | Notes | 2014 | 2015 |
|-------------------------------|--------------|-----------------|-----------------|
| | | £000 | £000 |
| Property, Plant and Equipment | 20 | 23,271 | 23,029 |
| Investment Properties | 20 | 1,863 | 1,943 |
| Long Term Investments | 28 | 1,756 | 4,068 |
| Long Term Assets | | 26,890 | 29,040 |
| Assets Held for Sale | 29 | 720 | 495 |
| Inventories | 30 | 151 | 118 |
| Short Term Debtors | 31 | 2,494 | 2,307 |
| Cash and Cash Equivalents | 32 | 6,191 | 4,699 |
| Current Assets | | 9,556 | 7,619 |
| Short Term Creditors | 33 | (2,192) | (2,591) |
| Provisions | 34 | (438) | (1,637) |
| Current Liabilities | | (2,630) | (4,228) |
| Pensions Liability | 16 | (26,493) | (32,653) |
| Long Term Liabilities | | (26,493) | (32,653) |
| Net Assets | | 7,323 | (222) |
| Usable Reserves | | 9,510 | 9,497 |
| Unusable Reserves | 35 | (2,818) | (9,719) |
| Total Reserves | | 7,323 | (222) |

CASH FLOW STATEMENT

| | Notes | 2013/14 £000 | 2014/15 £000 |
|---|-------|-----------------|-----------------|
| Net (surplus) or deficit on the provision of services | | 629 | 1,886 |
| Adjustments to net surplus or deficit on the provision of services for non-cash movements | 36 | (2,120) | (2,637) |
| Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities | | 417 | 86 |
| Interest received | 37 | (56) | (63) |
| Net Cash flows from Operating Activities | | (1,129) | (729) |
| Investing Activities | 38 | 309 | 2,693 |
| Financing Activities | | 725 | (473) |
| Net (increase) or decrease in cash and cash equivalents | | (94) | 1,492 |
| Cash and cash equivalents at the beginning of the reporting period | | 6,097 | 6,191 |
| Cash and cash equivalents at the end of the reporting period | | 6,191 | 4,699 |

NOTES TO THE FINANCIAL STATEMENTS

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

The following issued accounting standards have not yet been adopted:

- IFRS 13 Fair Value Measurements – IFRS 13 defines fair value and sets out a framework for measuring fair value. It also identifies new disclosures in respect of fair value measurements. It provides a fair value hierarchy to be used in the valuation of assets and liabilities which will enable users to assess the valuation method used and its impact on the Balance Sheet and Comprehensive Income and Expenditure Statement. The changes will be presentational.

2. 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 2014/15 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 2014/15 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.

3. 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, | The effects on the net pensions liability of changes in individual assumptions can be measured and are outlined in note 16. |

| | | |
|--------------------------------------|--|--|
| | 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. | |
| Bad Debt Provisions | The Council has sundry debtor balances of £312k and Housing Benefit debtor balances of £787k. Provisions for bad debts are made according to the age of the debt and a provision of £313k 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 £31k 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 £110k 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 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.

4. 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.

5. Events after the Balance Sheet Date

The Valuation Office have reduced the rateable value of a number of doctors surgeries in the district following a valuation tribunal. This has resulted in substantial refunds being issued since year end with regard to valuations on the 2005 list. Refunds will also be issued against the 2010 list. As a result a significant increase to the NNDR provision for appeals has been made. The impact on the Statement of Accounts is outlined below:

| | Pre Post Balance Sheet Adjustment | Post Balance Sheet Event Adjustment | Balance per Statement of Accounts |
|------------------------------------|--|--|--|
| | £'000 | £'000 | £'000 |
| NNDR Provision for Appeals | 373 | 1,253 | 1,626 |
| Income from Non Domestic Rates | 1,628 | (1,253) | 375 |
| Collection Fund Adjustment Account | 73 | (1,253) | (1,179) |

6. 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 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.

2014/15

| | Usable Reserves | | | |
|--|---------------------------------|--|-------------------------------------|---|
| | General Fund Balance £000 | Capital Receipts Reserve £000 | Capital Grants Unapplied £000 | Movement in Unusable Reserves £000 |
| Adjustments involving the Capital Adjustment Account | | | | |
| <u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</u> | | | | |
| Changes for depreciation and impairment of non-current assets | 936 | - | - | (936) |
| Movements in the market value of Investment Properties | 174 | - | - | (174) |
| Revenue expenditure funded from capital under statute | 302 | - | - | (302) |
| Changes in values of Cash Investments | 84 | - | - | (84) |
| | 1,496 | - | - | (1,496) |
| <u>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</u> | | | | |
| Payments to Housing Capital Receipts Pool | - | - | - | - |
| Mortgage Capital repayments | - | 5 | - | (5) |
| Assets funded from ear-marked reserves | - | - | - | 459 |
| | - | 5 | - | 454 |
| <u>Adjustments involving the Capital Grants Unapplied Account</u> | | | | |
| Capital grants and contributions unapplied credited to the CIES | (267) | - | 34 | 233 |
| Application of grants to capital financing transferred to the Capital Adjustment Account | - | - | - | - |
| | (267) | - | 34 | 233 |
| <u>Adjustments involving the Capital Receipts Reserve</u> | | | | |
| Transfer of sale proceeds as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | - | (312) | - | 312 |
| Use of the Capital Receipts Reserve to finance new capital expenditure | - | - | - | - |
| | - | (312) | - | 312 |
| <u>Adjustments involving the Pensions Reserve</u> | | | | |
| Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement | 1,903 | - | - | (1,903) |
| Employers' pension contributions and direct payments to pensioners payable in the year | (1,742) | - | - | 1,742 |
| | 161 | - | - | (161) |
| <u>Adjustments involving the Collection Fund Adjustment Account</u> | | | | |
| Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements | (4) | - | - | 4 |
| 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 | - | - | (1,253) |
| | 1,249 | - | - | (1,249) |

Adjustments involving the Accumulated AbsencesAccount

| | | | | |
|---|--------------|--------------|-----------|----------------|
| 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 | 18 | - | - | (18) |
| Total Adjustments | 2,657 | (307) | 34 | (1,925) |

2013/14 Comparable FiguresUsable Reserves

| | General Fund Balance | Capital Receipts Reserve | Capital Grants Unapplied | Movement in Unusable Reserves |
|--|----------------------|--------------------------|--------------------------|-------------------------------|
| | £000 | £000 | £000 | £000 |
| Adjustments involving the Capital Adjustment Account | | | | |
| <u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</u> | | | | |
| Changes for depreciation and impairment of non-current assets | 581 | - | - | (581) |
| Movements in the market value of Investment Properties | 330 | - | - | (330) |
| Revenue expenditure funded from capital under statute Donated asset | 387 | - | - | (387) |
| | 1,298 | - | - | (1,298) |
| <u>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</u> | | | | |
| Payments to Housing Capital Receipts Pool | 1 | - | - | (1) |
| Mortgage Capital repayments | (2) | 2 | - | (2) |
| | (1) | 2 | - | (3) |
| <u>Adjustments involving the Capital Grants Unapplied Account</u> | | | | |
| Capital grants and contributions unapplied credited to the CIES | (768) | - | (148) | 916 |
| Application of grants to capital financing transferred to the Capital Adjustment Account | - | - | - | - |
| | (768) | - | (148) | 916 |
| <u>Adjustments involving the Capital Receipts Reserve</u> | | | | |
| Transfer of sale proceeds as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | (113) | 137 | - | (24) |
| Use of the Capital Receipts Reserve to finance new capital expenditure | - | - | - | - |
| | (113) | 137 | - | (24) |
| <u>Adjustments involving the Pensions Reserve</u> | | | | |
| Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement | 1,888 | - | - | (1,888) |
| Employers' pension contributions and direct payments to pensioners payable in the year | (1,200) | - | - | 1,200 |
| | 688 | - | - | (688) |
| <u>Adjustments involving the Collection Fund Adjustment Account</u> | | | | |
| Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements | (43) | - | - | 43 |

Adjustments involving the Accumulated AbsencesAccount

| | | | | |
|---|--------------|------------|--------------|----------------|
| 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) |
| Total Adjustments | 1,074 | 139 | (148) | (1,068) |

7. 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 2014/15.

| | Balance at 31 March 2013 £000 | Transfers (Out) / In 2013/14 £000 | Balance at 31 March 2014 £000 | Transfers (Out) / In 2014/15 £000 | Balance at 31 March 2015 £000 |
|---|--|--|--|--|--|
| General Fund: | | | | | |
| S106 Balances | 520 | 254 | 774 | 266 | 1,040 |
| Enhanced Recycling | 80 | - | 80 | (80) | - |
| Local Pay and Grading | 90 | - | 90 | (90) | - |
| Tenbury Business Park | 50 | - | 50 | - | 50 |
| Langland Centre | - | - | - | - | - |
| Capital Replacement | 1000 | (446) | 554 | 580 | 1,134 |
| Flooding Prevention | 48 | 31 | 79 | 51 | 130 |
| Planning Delivery | 202 | (31) | 171 | (46) | 125 |
| Elections | 25 | 35 | 60 | (2) | 58 |
| Development Control | 100 | - | 100 | - | 100 |
| Health Initiatives | 107 | (31) | 75 | (33) | 42 |
| Community Safety | 46 | (2) | 44 | (3) | 41 |
| Pickersleigh AOHN | 71 | 63 | 134 | (58) | 76 |
| Sports Development | 36 | (18) | 18 | 7 | 25 |
| Organisational Review | 287 | 26 | 313 | (283) | 30 |
| Investments and Priorities | 101 | (101) | - | - | - |
| Route to the Hills | - | - | - | - | - |
| Ward Budgets | 11 | (11) | - | - | - |
| Fuel Poverty | 13 | (8) | 4 | - | 4 |
| Youth Centre | 20 | (10) | 10 | (10) | - |
| Repairs and Maintenance | 74 | (26) | 48 | 45 | 93 |
| Civil Parking Enforcement | 83 | (83) | - | - | - |
| Theatre Joint Working | 8 | (8) | - | - | - |
| WBP Broadband | 50 | - | 50 | (50) | - |
| Weekly Collection Support Scheme | 1032 | (863) | 169 | - | 169 |
| MHSP Investment | 350 | - | 350 | (350) | - |
| Emergency Planning | 14 | - | 14 | - | 14 |
| Malvern Vale Community Centre Maintenance | 419 | (1) | 418 | - | 418 |
| Economic Development | - | 500 | 500 | 34 | 534 |
| Flooded Business Support Grant | - | 190 | 190 | (122) | 68 |
| Development Control | - | - | - | 588 | 588 |
| Transformation Challenge Award | - | - | - | 123 | 123 |
| Total | 4,837 | (542) | 4,296 | 566 | 4,862 |

8. Segmental Analysis

The following tables detail the Council's net revenue expenditure by service as reported under management reporting arrangements and how this reconciles to the comprehensive income and expenditure statement and the subjective analysis within the explanatory forward.

| 2014/15 | Resources | Community Services | Planning, Economy & Housing | Other | Total Net Expenditure by Service |
|------------------------------|------------------|---------------------------|--|--------------|---|
| | £000 | £000 | £000 | £000 | £000 |
| Fees, charges & other income | (1,704) | (1,504) | (2,144) | (158) | (5,510) |
| Government grants | (20,531) | (563) | (17) | (44) | (21,155) |
| | (22,235) | (2,067) | (2,161) | (202) | (26,665) |
| Employee expenses | 1,775 | 1,893 | 1,858 | 1,562 | 7,088 |
| Other expenses | 23,600 | 3,162 | 1,465 | 195 | 28,422 |
| Support service recharges | (1,342) | 987 | 794 | (439) | - |
| | 24,033 | 6,042 | 4,117 | 1,318 | 35,510 |
| Net Cost of Services | 1,798 | 3,975 | 1,956 | 1,116 | 8,845 |

| 2013/14 | Resources | Community Services | Planning, Economy & Housing | Other | Total Net Expenditure by Service |
|------------------------------|------------------|---------------------------|--|--------------|---|
| | £000 | £000 | £000 | £000 | £000 |
| Fees, charges & other income | (1,483) | (1,379) | (1,977) | (173) | (5,012) |
| Government grants | (19,497) | (716) | (25) | (199) | (20,437) |
| | (20,980) | (2,095) | (2,002) | (372) | (25,449) |
| Employee expenses | 1,397 | 1,847 | 1,806 | 1,385 | 6,435 |
| Other expenses | 22,509 | 3,279 | 1,164 | 638 | 27,590 |
| Support service recharges | (1,303) | 1,038 | 810 | (546) | - |
| | 22,603 | 6,164 | 3,780 | 1,477 | 34,024 |
| Net Cost of Services | 1,623 | 4,069 | 1,778 | 1,105 | 8,575 |

Reconciliation to Net Cost of Services in Comprehensive Income & Expenditure Statement

| | 2013/14 | 2014/15 |
|---|----------------|----------------|
| | £000 | £000 |
| Net Cost of Service from Service Analysis | 8,575 | 8,845 |
| Add amounts not reported to management | 295 | (539) |
| Amounts not included in the Comprehensive Income and Expenditure Statement | 224 | 296 |
| Net Cost of Services in Comprehensive Income and Expenditure Statement | 9,094 | 8,602 |

Reconciliation to Subjective Analysis

| 2014/15 Figures | Service analysis £000 | Not reported to management £000 | Not included in CIES £000 | Net Cost of Services £000 | Corporate Amounts £000 | Total £000 |
|--|--------------------------|------------------------------------|------------------------------|------------------------------|---------------------------|-----------------|
| Housing & Council Tax Benefits | (19,375) | - | - | (19,375) | - | (19,375) |
| Benefits Administration | (432) | - | - | (432) | - | (432) |
| Other Government Grants | (777) | - | - | (777) | (3,878) | (4,655) |
| Interest & Investment Income | (121) | - | 119 | (2) | 1,007 | 1,005 |
| Rents | (229) | - | 200 | (29) | (200) | (229) |
| Sales, Fees and Charges | (2,170) | - | - | (2,170) | - | (2,170) |
| Income from Council Tax | - | - | - | - | (5,551) | (5,551) |
| Other Income | (3,056) | - | 18 | (3,038) | (18) | (3,056) |
| Total Income | 26,160 | - | 337 | (25,823) | (8,640) | (34,463) |
| Employee expenses | 6,704 | (947) | - | 5,757 | - | 5,757 |
| Premises related expenses | 566 | - | (27) | 539 | 27 | 566 |
| Transport related expenses | 990 | - | - | 990 | - | 990 |
| Supplies & services | 1,190 | - | (13) | 1,177 | 13 | 1,190 |
| Third party payments | 4,553 | - | (3) | 4,550 | 3 | 4,553 |
| Transfer payments | 21,003 | - | (829) | 20,174 | 1,623 | 21,797 |
| Capital charges | - | 1,496 | (257) | 1,238 | 257 | 1,496 |
| Gross Cost of Services | 35,006 | 549 | (1,129) | 34,425 | 1,923 | 36,349 |
| Surplus or deficit on the provision of services | 8,845 | 549 | (886) | 8,602 | (6,717) | 1,886 |

| 2013/14 Comparative Figures | Service analysis £000 | Not reported to management £000 | Not included in CIES £000 | Net Cost of Services £000 | Corporate Amounts £000 | Total £000 |
|--|--------------------------|------------------------------------|------------------------------|------------------------------|---------------------------|-----------------|
| Housing & Council Tax Benefits | (18,765) | - | - | (18,765) | - | (18,765) |
| Benefits Administration | (386) | - | - | (386) | - | (386) |
| Other Government Grants | (727) | - | - | (727) | (5,823) | (6,550) |
| Interest & Investment Income | (98) | - | 98 | - | 1,064 | 1,064 |
| Rents | (223) | - | 195 | (28) | (195) | (223) |
| Sales, Fees and Charges | (2,069) | - | - | (2,069) | - | (2,069) |
| Income from Council Tax | - | - | - | - | (5,630) | (5,630) |
| Other Income | (2,596) | - | 12 | (2,584) | (12) | (2,596) |
| Total Income | (24,864) | - | 305 | (24,559) | (10,596) | (35,155) |
| Employee expenses | 5992 | (463) | - | 5,529 | - | 5,529 |
| Premises related expenses | 639 | - | (25) | 614 | 25 | 639 |
| Transport related expenses | 949 | - | - | 949 | - | 949 |
| Supplies & services | 1,461 | - | (46) | 1,415 | 46 | 1,461 |
| Third party payments | 4,764 | - | (10) | 4,754 | 10 | 4,765 |
| Transfer payments | 19,633 | - | (211) | 19,422 | 2,050 | 21,472 |
| Capital charges | - | 1,299 | (330) | 969 | - | 969 |
| Gross Cost of Services | 33,439 | 836 | (622) | 33,653 | 2,131 | 35,784 |
| Surplus or deficit on the provision of services | 8,575 | 836 | (317) | 9,095 | (8,465) | 629 |

9. Other Operating Expenditure

| | 2013/14 £000 | 2014/15 £000 |
|--|-----------------|-----------------|
| Parish council precepts | 1,235 | 1,249 |
| Levies | 325 | 374 |
| Payments to the Government Housing Capital Receipts Pool | 1 | - |
| (Gains) on the disposal of non current assets | (113) | - |
| Total | 1,448 | 1,623 |

10. Financing and Investment Income and Expenditure

| | 2013/14 £000 | 2014/15 £000 |
|---|-----------------|-----------------|
| Net Pensions interest cost | 1,162 | 1,126 |
| Interest receivable and similar income | (98) | (36) |
| Income and expenditure in relation to investment properties and changes in their fair value | 204 | - |
| Total | 1,268 | 1,090 |

11. Taxation and Non Specific Grant Income

| | 2013/14 £000 | 2014/15 £000 |
|----------------------------------|-----------------|-----------------|
| Council tax income | (5,360) | (5,551) |
| Non domestic rates | (1,597) | (375) |
| Revenue support grant | (3,458) | (3,236) |
| Capital grants and contributions | (768) | (267) |
| Total | (11,183) | (9,429) |

12. Business Rates

Income from business rates comprises:

| | 2013/14 £000 | 2014/15 £000 |
|---|-----------------|-----------------|
| Business rates (after tariff payment) | (1,497) | (1,119) |
| S31 Grant Income | (377) | (599) |
| Safety net Payment from Business Rates Pool | (176) | - |
| Collection Fund Deficit | 446 | 1,569 |
| Provision Adjustment | 8 | (226) |
| Total | (1,597) | (375) |

13. 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 2013/14 £000 | Trade Refuse 2014/15 £000 | Property 2014/15 £000 | Total 2014/15 £000 |
|---------------------------------------|-----------------------------------|--|--------------------------------------|-----------------------------------|
| Income | (574) | (392) | (218) | (610) |
| Expenditure | 362 | 332 | 43 | 375 |
| (Surplus) / Deficit on Trading | (212) | (60) | (175) | (235) |

14. Members' Allowances

The amount of allowances paid to members was £242,143 (£241,907 2013/14).

15. Employees' Remuneration

Expenses recognised for employee benefits are analysed below:

| | 2013/14 £000 | 2014/15 £000 |
|--|-------------------------|-------------------------|
| Wages and salaries | 3,851 | 3,842 |
| National Insurance contributions | 280 | 276 |
| Pensions – defined benefit plans employer contribution | 382 | 523 |
| Pensions – defined benefit plans back funding payments | 676 | 1,005 |
| Total Employee benefits expense | 5,189 | 5,646 |

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

| Remuneration Band | 2013/14 | 2014/15 |
|--------------------------|----------------|----------------|
| £50,000 - £54,999 | - | - |
| £55,000 - £59,999 | - | 1 |
| £60,000 - £64,999 | - | - |
| £65,000 - £69,999 | - | - |
| £70,000 - £74,999 | 4 | 4 |
| £75,000 - £79,999 | - | - |
| £80,000 - £84,999 | - | - |
| £85,000 - £89,999 | - | - |
| £90,000 - £94,999 | - | - |
| £95,000 - £99,999 | - | - |
| £100,000 - £104,999 | - | - |
| £105,000 - £109,999 | 1 | - |
| £110,000 - £114,999 | - | - |
| £115,000 - £119,999 | - | - |
| £120,000 - £124,999 | - | - |
| £125,000 - £129,999 | - | - |
| £195,000 - £199,999 | - | 1 |
| Total | 5 | 6 |

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

| Job Title | 2014/15 | | | | | |
|-------------------------------------|----------------|----------------------|-------------------------------|--------------------|-----------------------|----------------|
| | Salary | Termination Payments | Allowances & Benefits in Kind | Total Remuneration | Pension Contributions | Total |
| | £ | £ | £ | £ | £ | £ |
| Chief Executive | 102,211 | 87,819 | 8,752 | 198,782 | 10,408 | 209,189 |
| Head of Policy & Governance | 71,747 | - | 2,470 | 74,217 | 10,547 | 84,764 |
| Deputy Chief Executive | 71,472 | - | 4,306 | 75,779 | 10,506 | 86,285 |
| Head of Community Services | 71,747 | - | 1,539 | 73,286 | 10,547 | 83,833 |
| Head of Planning, Economy & Housing | 71,747 | - | 1,275 | 73,022 | 10,547 | 83,569 |
| Finance Manager | 55,672 | - | 2,612 | 58,284 | 8,184 | 66,468 |
| | 444,596 | 87,819 | 20,955 | 553,370 | 60,739 | 614,109 |

| Job Title | 2013/14 | | | | | |
|-------------------------------------|----------------|----------------------|-------------------------------|--------------------|-----------------------|----------------|
| | Salary | Termination Payments | Allowances & Benefits in Kind | Total Remuneration | Pension Contributions | Total |
| | £ | £ | £ | £ | £ | £ |
| Chief Executive | 100,786 | - | 8,443 | 109,229 | 12,213 | 121,442 |
| Head of Community Services | 71,390 | - | 846 | 72,236 | 8,210 | 80,446 |
| Head of Resources | 71,390 | - | 2,918 | 74,308 | 8,210 | 82,518 |
| Head of Policy & Governance | 71,390 | - | 1,946 | 73,336 | 8,210 | 81,546 |
| Head of Planning, Economy & Housing | 71,390 | - | 846 | 72,236 | 8,210 | 80,446 |
| | 386,346 | - | 14,999 | 401,345 | 45,053 | 446,398 |

The Council incurred £127,720 in relation to termination payments during 2014-15 (2013/14 £16,926). In addition the Council incurred pension strain costs of £82,709 in relation to the departure of the Chief Executive.

On 1st December 2014 the Chief Executive left the authority following the appointment of a Joint Chief Executive with Wychavon District Council. Jack Hegarty is now Joint Chief Executive of Malvern Hills District Council and Managing Director of Wychavon District Council. As such the Council makes a payment to Wychavon District Council for its proportion of the costs of the appointment.

16. 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 in the scheme. 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 | |
|--|---------------------------------|-----------------|-------------------------------------|-----------------|
| | 2013/14 £000 | 2014/15 £000 | 2013/14 £000 | 2014/15 £000 |
| Comprehensive Income & Expenditure Account | | | | |
| Cost of Service | | | | |
| <i>Service cost comprising</i> | | | | |
| Current service cost | 714 | 655 | - | - |
| Administration expenses | 12 | 13 | - | - |
| Financing Income & Expenditure | | | | |
| Net interest expense | 1,061 | 1,017 | 101 | 109 |
| Total Post-employment Benefits charged to the Surplus or Deficit on the Provision of Services | 1,787 | 1,685 | 101 | 109 |
| 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) | (784) | (3,366) | - | - |
| Actuarial gains and losses arising on changes in demographic assumptions | 400 | - | 12 | - |
| Actuarial gains and losses arising on changes in financial assumptions | (3,469) | 9,128 | (55) | 237 |
| Other | 1,283 | - | 173 | - |
| Total Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement | (783) | 5,762 | 231 | 237 |

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 | (1,787) | (1,775) | (101) | (109) |
|--|---------|---------|-------|-------|

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

| | | | | |
|---|-------|-------|-------|-------|
| Employers' contribution payable to scheme | 1,022 | 1,562 | 178 | 180 |
| Retirement benefits payable to pensioners | 2,020 | 2,692 | (178) | (180) |

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 | |
|--|---------------------------------|-----------------|-------------------------------------|-----------------|
| | 2013/14 £000 | 2014/15 £000 | 2013/14 £000 | 2014/15 £000 |
| Present value of the defined benefit | 65,387 | 75,640 | 2,567 | 2,733 |
| Fair value of plan assets | (41,461) | (45,720) | - | - |
| Sub-total | 23,926 | 29,920 | 2,567 | 2,733 |
| Other movements in the liability (asset) | - | - | - | - |
| Net liability arising from defined benefit obligation | 23,926 | 29,920 | 2,567 | 2,733 |

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

| | Local Government Pension Scheme | | Discretionary Benefits Arrangements | |
|--|---------------------------------|-----------------|-------------------------------------|-----------------|
| | 2013/14 £000 | 2014/15 £000 | 2013/14 £000 | 2014/15 £000 |
| Opening fair value of scheme assets | 39,835 | 41,461 | - | - |
| Interest Income | 1,656 | 1,805 | - | - |
| Remeasurement gain/(loss): | | | | |
| - The return on plan assets, excluding the amount included in the net interest expense | 784 | 3,366 | - | - |
| Administration expenses | (12) | (13) | | |
| Contributions from employer | 1,022 | 1,562 | 178 | 180 |
| Contributions from employees into the scheme | 196 | 231 | - | |
| Benefits paid | (2,020) | (2,692) | (178) | (180) |
| Closing fair value of scheme assets | 41,461 | 45,720 | - | - |

Reconciliation of Present Value of the Scheme Liabilities

| | Funded Liabilities: Local Government Pension Scheme | | Unfunded Liabilities: Discretionary Benefits Arrangements | |
|---|---|-----------------|---|-----------------|
| | 2013/14 £000 | 2014/15 £000 | 2013/14 £000 | 2014/15 £000 |
| Opening balance at 1 April | 65,566 | 65,387 | 2,514 | 2,567 |
| Current service cost | 714 | 655 | | |
| Interest cost | 2,717 | 2,822 | 101 | 109 |
| Contributions from scheme participants | 196 | 231 | - | |
| Remeasurement (gains) and losses: | | | | |
| - Experience (gain)/ loss | 1,283 | - | 173 | - |
| - Actuarial gains/ losses arising from changes in demographic assumptions | 400 | - | 12 | - |
| - Actuarial gains/ losses arising from changes in financial assumptions | (3,469) | 9,128 | (55) | 237 |
| Past service cost | - | - | - | - |
| Losses/(gains) on curtailment | - | 109 | - | - |
| Liabilities assumed on entity combinations | - | - | - | - |
| Liabilities extinguished on settlement | - | - | - | - |
| Benefits paid | (2,020) | (2,692) | (178) | (180) |
| Closing balance at 31 March | 65,387 | 75,640 | 2,567 | 2,733 |

Local Government Pension Scheme Assets Comprised:

| | Fair value of scheme assets | |
|---|--------------------------------|-----------------|
| | 2013/14 £000 | 2014/15 £000 |
| Cash and cash equivalents | 996 | 732 |
| Equity instruments: | | |
| <i>By type</i> | | |
| - UK quoted | 10,737 | 10,150 |
| - Overseas quoted | 14,926 | 17,511 |
| - PIV UK Managed Funds | 4,851 | 4,663 |
| - PV UK Managed Funds (Overseas equities) | 7,090 | 9,327 |
| - PIV Overseas Managed Funds | 249 | 366 |
| Sub-total equity | 37,853 | 42,017 |
| Bonds: | | |
| <i>By sector</i> | | |
| - Corporate | 2,612 | 2,972 |
| - Government | | |
| Sub-total bonds | 2,612 | 2,972 |
| Total assets | 41,461 | 45,720 |

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:

| Assumptions | 2013/14 Local Government Pension Scheme & Unfunded Benefits | 2014/15 Local Government Pension Scheme & Unfunded Benefits |
|--|--|--|
| Long term expected rate of return on assets in the scheme | | |
| Equity Investments | 7.0% | 6.5% |
| Government Bonds | 3.4% | 2.2% |
| Other Bonds | 4.3% | 2.9% |
| Property | 6.2% | 5.9% |
| Cash / Liquidity | 0.5% | 0.5% |
| Mortality rates | | |
| Longevity at 65 for current pensioners | | |
| Male | 23.3 | 23.4 |
| Female | 25.7 | 25.8 |
| Longevity at 65 for future pensioners | | |
| Male | 25.5 | 25.6 |
| Female | 28 | 28.1 |
| Other | | |
| Rate of inflation (CPI) | 2.4% | 2.0% |
| Rate of increase in salaries | 3.9% | 3.5% |
| Rate of increase in pensions | 2.4% | 2.0% |
| Rate for discounting scheme liabilities | 4.4% | 3.2% |
| 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) | 1,554 |
| Rate of inflation (increase or decrease by 0.1%) | 1,233 |
| Rate of increase in salaries (increase or decrease by 0.1%) | 150 |
| Rate of discounting scheme liabilities (increase or decrease by 0.1%) | (1,215) |

Impact on the Council's Cash Flows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The County Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 21 years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed on 31 March 2016.

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 anticipated to pay £1.701m expected contributions to the scheme in 2015/16.

The weighted average duration of the defined benefit obligation for scheme members is 16 years for 2014/15.

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 2014 | 31 March 2015 |
|-------------------------------|----------------------|----------------------|
| | £000 | £000 |
| Present value of liabilities | (21,545) | (27,790) |
| Fair value of assets | 17,397 | 19,841 |
| Surplus / (Deficit) in scheme | (4,148) | (7,949) |
| Malvern Share | (400) | (769) |

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.

17. External Audit and Inspection

The Council is liable for fees relating to external audit and statutory inspection work undertaken. During 2013/14 the following fees were paid to Grant Thornton LLP and the Audit Commission:

| | 2013/14 | 2014/15 |
|---|----------------|----------------|
| | £000 | £000 |
| Certification of grant claims and returns | 15 | 13 |
| Audit fees | 53 | 56 |
| VAT Advice | - | 7 |
| Total | 68 | 76 |

18. Grant Income

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

| | 2013/14 £000 | 2014/15 £000 |
|---|-----------------|-----------------|
| Credited to Taxation and Non Specific Grant Income | | |
| DCLG Revenue Support Grant | 2,401 | 1,857 |
| New Homes Bonus | 1,057 | 1,378 |
| Business Rates Income | 1,597 | 375 |
| DCLG Weekly Collection Support Scheme Capital Grant | 387 | - |
| DCLG Disabled Facilities | 212 | 222 |
| Football Foundation Capital Grant | 169 | 46 |
| Total | 5,823 | 3,878 |
| Credited to Services | | |
| DWP Housing Benefit Subsidy | 18,765 | 19,375 |
| DWP Housing Benefit Admin | 386 | 432 |
| DCLG NNDR Cost of Collection | 108 | 108 |
| Flood Protection | 32 | - |
| Areas of Highest Need – Pickersleigh | 200 | - |
| Flooding Business Support | 190 | 14 |
| DCLG Weekly Collection Support Scheme Grant | 291 | 191 |
| DCLG Transformation Challenge Award | - | 400 |
| Council Tax Support Scheme | 43 | 24 |
| Other Grants | 255 | 285 |
| DEFRA Repair & Renew Grant | - | 275 |
| Total | 20,270 | 21,104 |

19. 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 8 and in detail in Note 18.

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 14. The Council maintains a register of Councillors' interests that is regularly updated and available for public inspection.

During 2014/15, 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 £72,810 and owed Nil to Malvern Theatres Trust, £77,190 to Malvern Citizens' Advice Bureau, £10,000 to Malvern Youth and Community Trust, £70,000 to Tenbury Swimming Pool Guild and £2,500 to the Upton Hills Centre.

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 care and repair partnerships. The Council also undertakes litter picking on behalf of Fortis Living. The Council paid a total of £238,037 inclusive of VAT to Festival Housing Group during the year and owed £20,994 to Fortis Living at 31 March 2015. The Council received £48,057 from Fortis Living during the year and was owed £4,991 at 31 March 2015.

Officers

The Council's Chief Executive was a board member of Malvern Hills Science Park Ltd during 2014/15, up until 01st December 2014. Additional preference shares (P2 shares) were purchased in Malvern Hills Science Park Ltd during 2014/15 for £369,810.14. Preference Share Dividends due to Malvern Hills District Council remain outstanding amounting to £156,736 at 31 March 2015.

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 2014/15 the Council paid £683,451 to Wychavon District Council the host of the Revenues and Benefits Shared Service, £183,261 (net) to Worcestershire County Council for the Worcestershire Hub and £63,133 relating to 13/14 was paid to Worcestershire County Council and £435,933 (net) for 14/15 to Wychavon District Council for the provision of the ICT Shared Service. At 31 March 2015 £14,456 was owed to Wychavon District Council in respect of the Revenues and Benefits shared service, £875 was owed to Worcestershire County Council in respect of the Worcestershire Hub shared service and NIL was owed to Wychavon District Council in respect of the ICT shared service.

As host of the South Worcestershire Building Control Shared Service the Council received £285,280 (net) from Wychavon District Council and £116,955 (net) from Worcester City Council. At 31 March 2015 £14,178 was owed to Wychavon District Council and £25,558 was owed to Worcester City Council and £27,195 was paid to Worcester City Council and £8,385 was paid to Wychavon District Council relating to 13/14.

Under the Worcestershire Regulatory Shared Service Joint Committee the Council paid £411,500 (net) and owed £19,724 to Bromsgrove District Council, the host authority. During 2014/15 £28,234 was paid to Bromsgrove District Council relating to 2013/14.

Under the Internal Audit Shared Service the Council paid £10,090 relating to 2013/14 and £33,612 relating to 2014/15 and owed £11,618 to Worcester City Council.

Under the HR Shared Service the Council paid £132,796. The Council also paid £35,000 to Wychavon District Council in respect of Land Drainage.

In relation to Strategic Procurement advice, the Council paid £5,534 (net) to Wychavon District Council and owed £8,287.

In relation to Communications Support the Council paid £12,291 (net) to Wychavon District Council and owed £1,600

Following a successful bid to DCLG for Transformation Challenge Award funding, the Chief Executive of Malvern Hills District Council left the authority and the Managing Director of Wychavon District Council was appointed as Joint Chief Executive/ Managing Director of both councils. Under this arrangement the Council paid £Nil to Wychavon District Council and owed £148,082.

20. 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 2013/14 by services contained within the Comprehensive Income and Expenditure Statement

| | Land and Buildings | Vehicles, Plant & Equipment | Community Assets | Investment Properties | Total Fixed Assets |
|---|-----------------------|-----------------------------------|---------------------|--------------------------|-----------------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Cost or Valuation | | | | | |
| At 1 April 2014 | 22,272 | 4,097 | 203 | 1,863 | 28,436 |
| Additions | 79 | - | - | 254 | 333 |
| Revaluation increases (decreases) recognised in the Revaluation Reserve | 391 | - | - | - | 391 |
| Revaluation increases (decreases) recognised in the Surplus/ Deficit on the Provision of Services | (301) | - | - | (174) | (475) |
| Transfers | 225 | - | - | - | 225 |
| Disposals | - | - | - | - | - |
| At 31 March 2015 | 22,667 | 4,097 | 203 | 1,943 | 28,909 |
| Accumulated Depreciation and Impairment | | | | | |
| At 1 April 2014 | (798) | (2,503) | - | - | (3,301) |
| Depreciation charge | (348) | (288) | - | - | (636) |
| Depreciation written out to the Revaluation Reserve | - | - | - | - | - |
| Disposals | - | - | - | - | - |
| At 31 March 2015 | (1,146) | (2,791) | - | - | (3,937) |
| Net Book Value | | | | | |
| At 31 March 2015 | 21,520 | 1,306 | 203 | 1,943 | 24,747 |

| | Land and Buildings | Vehicles, Plant & Equipment | Community Assets | Investment Properties | Assets Under Construction | Total Fixed Assets |
|---|--------------------|-----------------------------|------------------|-----------------------|---------------------------|--------------------|
| Comparative Movements for 2013/14 | £000 | £000 | £000 | £000 | £000 | £000 |
| Cost or Valuation | | | | | | |
| At 1 April 2013 | 22,046 | 3,194 | 203 | 1,873 | 190 | 27,506 |
| Additions | 141 | 903 | - | - | 231 | 1,275 |
| Revaluation increases (decreases) recognised in the Revaluation Reserve | 389 | - | - | - | - | 389 |
| Revaluation increases (decreases) recognised in the Surplus/ Deficit on the Provision of Services | - | - | - | (330) | - | (330) |
| Transfers | (125) | - | - | 321 | (421) | (225) |
| Disposals | (28) | - | - | - | - | (28) |
| At 31 March 2014 | 22,423 | 4,097 | 203 | 1,863 | - | 28,587 |
| Accumulated Depreciation and Impairment | | | | | | |
| At 1 April 2013 | (533) | (2,267) | - | - | - | (2,800) |
| Depreciation charge | (345) | (236) | - | - | - | (581) |
| Depreciation written out to the Revaluation Reserve | (75) | - | - | - | - | (75) |
| Disposals | 4 | | | | | 4 |
| At 31 March 2014 | (948) | (2,503) | - | - | - | (3,452) |
| Net Book Value | | | | | | |
| At 31 March 2014 | 21,475 | 1,594 | 203 | 1,863 | - | 25,135 |

21. Capital Expenditure and Financing

| | 2013/14 £000 | 2014/15 £000 |
|--|-----------------|-----------------|
| Capital Expenditure adding to Fixed Asset Valuation | | |
| Land & Buildings | 141 | 79 |
| Vehicles Plant & Equipment | 903 | - |
| Assets Under Construction | 231 | - |
| Investment Properties | - | 254 |
| Additions to Fixed Assets | 1,275 | 333 |
| Capital Expenditure not adding to Fixed Asset Valuation | | |
| Revenue expenditure funded from capital under statute | 387 | 302 |
| Total Capital Expenditure | 1,662 | 635 |
| Financed By: | | |
| Usable Capital Receipts | - | 312 |
| Grants and other contributions | 916 | 233 |
| Earmarked Reserves | 746 | 90 |
| Total Capital Financing | 1,662 | 635 |

22. Capital Commitments

The Council has no capital commitments at 31st March 2015.

23. Information on Assets Held

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

| | 31 March 2014 | 31 March 2015 | Value £000 |
|--|------------------|------------------|---------------|
| Operational Assets | | | |
| Offices (Administrative Buildings) | 3 | 4 | 1,661 |
| Tourist Information Centres | 1 | 1 | 152 |
| Car parks | 13 | 13 | 3,659 |
| Public conveniences | 8 | 8 | 475 |
| Leisure facilities | 4 | 4 | 6,486 |
| Depot | 1 | 1 | 570 |
| Heritage centre / museum | 2 | 2 | 83 |
| Theatre | 1 | 1 | 8,434 |
| Community Assets | | | |
| Parks, Open spaces, Recreational areas | 4 | 4 | 203 |
| Non-Operational Assets | | | |
| Commercial properties | 6 | 7 | 954 |
| Industrial properties | 4 | 4 | 989 |
| Assets Held for Sale | | | |
| Offices (Administrative Buildings) | 2 | 1 | 495 |
| Total | 49 | 50 | 24,161 |

24. 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 2013/14 the following assets were revalued as at 31 March 2014.

| Asset Type | Increase/ (decrease) £000 |
|-----------------------|---------------------------------|
| Depot | 325 |
| Museums | (234) |
| Leisure Facilities | 41 |
| Public Conveniences | (41) |
| Investment properties | (174) |
| Total | (84) |

25. 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.

| | 2013/14 £000 | 2014/15 £000 |
|--|-----------------|-----------------|
| Rental income from investment property | 207 | 218 |
| Direct operating expenses arising from investment property | (81) | (43) |
| Net gain | 126 | 175 |

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.

| | 2013/14 | 2014/15 |
|---|----------------|----------------|
| | £000 | £000 |
| Balance at 1 st April | 1,873 | 1,864 |
| Transfer in of assets | 546 | - |
| Additions to investment properties | - | 254 |
| Transfers out of assets | (225) | - |
| Net gains/ losses from fair value adjustments | (330) | (174) |
| Balance at 31st March | 1,864 | 1,943 |

26. 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.

27. Leased Assets

Operating lease payments relating to photocopiers and printers of £12,787 were made (£12,934 2013/14). The Council's outstanding obligations under operating lease agreements at 31 March 2015 were as follows:

| Financial Year | £000 |
|-----------------------|-------------|
| 2015/16 | 14 |
| 2016/17 onwards | 30 |

28. Investments and Financial Instruments

On 31 March 2015 the Council's financial instruments held at fair value were:

| | Amortised Cost 31 March 2015 £ | Fair Value 31 March 2014 £ | Fair Value 31 March 2015 £ |
|--|---|---|---|
| Investments | | | |
| Malvern Hills Science Park Ltd (Ordinary shares) | 9 | 577,607 | 577,607 |
| | 9 | 577,607 | 577,607 |
| Loans and Receivables | | | |
| Malvern Hills Science Park Ltd (3% Preference shares) | 1,044,909 | 1,170,298 | 1,201,645 |
| Malvern Hills Science Park Ltd (6.37% Preference shares) | 654 | - | 369,810 |
| Mortgages | 1,404 | 7,144 | 1,404 |
| | 1,046,976 | 1,177,442 | 1,572,859 |

Available for Sale Financial Assets

| | | | |
|-------------------------------------|------------------|--------------|------------------|
| Charities Official Investment Trust | 2,025 | 2,025 | 2,025 |
| Pooled Property Fund | 2,000,000 | - | 1,916,492 |
| | 2,002,025 | 2,025 | 1,918,517 |

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 P2 preference shares were purchased during 2014/15.

The value of preference shares is based on the initial investment value of £1,044,909 plus the preference share dividend receivable for 2010/11 to 2014/15 of £125,389 (2013/14 net dividend receivable £94,041). 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 £6,417,858, giving an investment fair value of £577,607.

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 2015 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 2014/15 £'000 | Available for Sale Financial Assets 2014/15 £'000 |
|---|--|--|
| Investments | | |
| Interest income included in surplus/ deficit on the provision of services | 33 | 17 |
| Losses on revaluation | | (84) |
| Net gain/(loss) for the year | 33 | 67 |

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 arise 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 2015 the Council had £2,000,000 (fair value £1,916,482) invested in the CCLA Pooled Property Fund and cash balances of £4,699,000. All cash deposits continue to be short-term (maturity less than one year). During the year the Council deposited funds with Royal Bank of Scotland (rated F1), HSBC (rated F1), Close Brothers 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 2015 is shown in the table below:

| | 2013/14 £000 | 2014/15 £000 |
|-------------------|-----------------|-----------------|
| Current | 48 | 102 |
| Less than 30 days | 99 | 81 |
| 30-90 days | 24 | 21 |
| 90- 150 days | 5 | - |
| Over 150 days | 176 | 111 |
| Total | 353 | 315 |

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 ration 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 and 1,044,900 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.

29. Current Assets Held for Sale

| | 31 March 2014 £000 | 31 March 2015 £000 |
|--|-----------------------------------|-----------------------------------|
| Balance brought forward | 495 | 720 |
| Assets newly classified as held for sale | 225 | - |
| Assets reclassified within fixed assets | - | (225) |
| Balance carried forward | 720 | 495 |

30. Stocks

| | 31 March 2014 £000 | 31 March 2015 £000 |
|----------------------------------|-----------------------------------|-----------------------------------|
| Refuse collection stock | 128 | 97 |
| Fuel stock | 14 | 11 |
| Tourist Information Centre Stock | 10 | 10 |
| Public Conveniences Stock | - | 1 |
| Balance carried forward | 152 | 119 |

31. 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 2014 £000 | 31 March 2015 £000 |
|------------------------------------|-----------------------------------|-----------------------------------|
| Council Taxpayers | 213 | 213 |
| NNDR Payers | 136 | 176 |
| Local Authorities | 654 | 283 |
| Government Departments | 749 | 782 |
| Payments in Advance | 127 | 121 |
| Other Debtors | 798 | 1,046 |
| | 2,677 | 2,621 |
| Less: Provision for Doubtful Debts | (182) | (313) |
| Total Debtors | 2,495 | 2,308 |

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

32. Cash and Cash Equivalents

| | 31 March 2014 £000 | 31 March 2015 £000 |
|--|-----------------------------------|-----------------------------------|
| Cash held by the Council | - | - |
| Bank current accounts | 6,191 | 4,699 |
| Total Cash and Cash Equivalents | 6,191 | 4,699 |

33. Short-Term Creditors

An analysis of the Council's creditors is shown below:

| | 31 March 2014 £000 | 31 March 2015 £000 |
|------------------------|-----------------------------------|-----------------------------------|
| Council Taxpayers | 72 | 88 |
| Council Tax Precepts | 170 | 442 |
| Local Authorities | 739 | 700 |
| Government Departments | 117 | 128 |
| Receipts in Advance | 289 | 325 |
| Other Creditors | 805 | 909 |
| Total Creditors | 2,192 | 2,592 |

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

34. Provisions

An analysis of provisions is shown below:

| | 31 March 2014 £000 | 31 March 2015 £000 |
|---------------------------------------|-----------------------------------|-----------------------------------|
| NNDR Appeals Provision (Pool) | 93 | 1,626 |
| NNDR Provision for Appeals and Losses | 345 | 11 |
| Total Creditors | 438 | 1,637 |

35. Unusable Reserves

| | 31 March 2014 £000 | 31 March 2015 £000 |
|---|-----------------------------------|-----------------------------------|
| Revaluation Reserve | 6,278 | 6,669 |
| Financial Instruments Reserve | 579 | 495 |
| Capital Adjustment Account | 17,429 | 17,017 |
| Pensions Reserve | (26,493) | (32,653) |
| Collection Fund Adjustment Account | 71 | (1,179) |
| Accumulating Compensated Absences Adjustment Account | (51) | (69) |
| Total Unusable Reserves | (2,188) | (9,719) |

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.

| | 2013/14 £000 | 2014/15 £000 |
|--|-----------------|-----------------|
| Balance at 1st April | 6,089 | 6,278 |
| Upward revaluation of assets | 314 | 431 |
| Downward revaluation of assets and impairment losses not charged to the Surplus/ Deficit on the Provision of Services | - | (40) |
| Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services | 314 | 391 |
| Accumulated gains on assets sold, scrapped or transferred | (125) | |
| Balance at 31st March | 6,278 | 6,669 |

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.

| | 2013/14 £000 | 2014/15 £000 |
|---|-----------------|-----------------|
| Balance at 1st April | 579 | 579 |
| Upward revaluation of investments | - | (84) |
| Balance at 31st March | 579 | 495 |

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.

| | 2013/14 | 2014/15 |
|---|----------------|----------------|
| | £000 | £000 |
| Balance at 1st April | 16,969 | 17,431 |
| Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement: | | |
| • Charges for depreciation and impairment of non current assets | (581) | (936) |
| • Revenue expenditure funded from capital under statute | (387) | (302) |
| • Amounts of non current assets written off on disposal or sale as part of the gain/ loss on disposal to the Comprehensive Income and Expenditure Statement | (27) | (5) |
| 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 | - | 312 |
| • Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing | 768 | 233 |
| • Application of grants to capital financing from the Capital Grants unapplied account | 148 | - |
| • Use of capital replacement reserve to finance new capital expenditure | 746 | 90 |
| • Use of earmarked reserves to finance new expenditure | - | 370 |
| Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement | (330) | (175) |
| Transfer of assets to investment property | 125 | - |
| Balance at 31st March | 17,429 | 17,017 |

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.

| | 2013/14 £000 | 2014/15 £000 |
|--|-----------------|-----------------|
| Balance at 1st April | (28,245) | (26,493) |
| Re-measurement of the net defined benefit liability | 2,440 | (5,999) |
| Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement | (1,888) | (1,903) |
| Employer's pension contributions and direct payments to pensioners payable in the year | 1,200 | 1,742 |
| Balance at 31st March | (26,493) | (32,653) |

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.

| | 2013/14 £000 | 2014/15 £000 |
|--|-----------------|-----------------|
| Balance at 1st April | 27 | 69 |
| Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements | 42 | 4 |
| 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 31st March | 69 | (1,179) |

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.

| | 2013/14 £000 | 2014/15 £000 |
|---|-----------------|-----------------|
| Balance at 1st April | (39) | (51) |
| Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | (12) | (18) |
| Balance at 31st March | (51) | (69) |

36. 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:

| | 2013/14 £000 | 2014/15 £000 |
|--|-----------------|-----------------|
| Depreciation | (581) | (636) |
| Impairment and downward valuation | - | (301) |
| (Increase) in provisions for bad and doubtful debts | 26 | (123) |
| (Increase) in creditors | (768) | (56) |
| Increase/ (decrease) in debtors | (659) | 68 |
| Increase in stock | 95 | 33 |
| Items relating to retirement benefits | 688 | 161 |
| Movements in the value of investment properties | (330) | (174) |
| Contributions to reserves | (210) | (829) |
| Increase/ (decrease) in the value of long term investments | 25 | (84) |
| Collection Fund (surplus)/ deficit | (43) | (1,014) |
| Adjustments to employee benefits reserve | (10) | (18) |
| Adjustment to NNDR provisions | (344) | 334 |
| Other non cash movements | 9 | (5) |
| Adjustments for Non Cash Movements | (2,120) | (2,637) |

37. Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following items:

| | 2013/14 £000 | 2014/15 £000 |
|--------------------------|-----------------|-----------------|
| Interest received | (56) | (63) |
| Interest received | (56) | (63) |

38. Cash Flow Statement – Investing Activities

The cash flows for investing activities include the following items:

| | 2013/14 £000 | 2014/15 £000 |
|--|-----------------|-----------------|
| Purchase of property, plant and equipment | 1,381 | 295 |
| Purchase of long-term investments | - | 2,369 |
| Other payments for investing activities | 387 | 302 |
| Proceeds from the sale of property, plant and equipment and investment property | (139) | - |
| Capital grants received | (768) | (267) |
| Other receipts from investing activities | (552) | (6) |
| Net cash flows from investing activities | 309 | 2,693 |

39. Contingent Liabilities

There are no contingent liabilities at 31st March 2015

COLLECTION FUND

This account reflects the Council's statutory requirement to maintain a separate collection fund, which shows the transactions of the Council in relation to non-domestic rates and council tax, and 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.

| Revenue Account | Notes | Council Tax 2013/14 £'000 | NNDR 2013/14 £'000 | Council Tax 2014/15 £'000 | NNDR 2014/15 £'000 |
|--|----------|------------------------------------|--------------------------|------------------------------------|--------------------------|
| INCOME | | | | | |
| Council Tax | 1 | (41,588) | | (43,012) | |
| Council Tax Benefits | | - | | | |
| Non-Domestic Rates | 2 | - | (14,624) | | (14,890) |
| S31 Grant | | | (14) | | (37) |
| Total Income | | (41,588) | (14,638) | (43,012) | (14,927) |
| EXPENDITURE | | | | | |
| Apportionment of Previous Year's Surplus | | | | | |
| Worcester County Council | | - | - | 210 | - |
| West Mercia Police Authority | | - | - | 36 | - |
| Hereford & Worcester Fire Authority | | - | - | 15 | - |
| Malvern Hills District Council | | - | - | 39 | - |
| | | - | - | 300 | - |
| Precepts and Demands: | | | | | |
| Worcestershire County Council | | 28,915 | 1,378 | 29,907 | 1,359 |
| Hereford & Worcester Fire Authority | | 2,049 | 153 | 2,119 | 151 |
| West Mercia Police Authority | | 4,973 | | 5,146 | - |
| Malvern Hills District Council | | 3,756 | 1,498 | 3,885 | 1,119 |
| Town and Parish Precepts and Conservators Levies | 4 | 1,561 | - | 1,623 | |
| Central Government | | | 7,658 | | 7,547 |
| Tariff payment to Business Rates Pool | | | 4,628 | | 4,718 |
| | | 41,254 | 15,315 | 42,980 | 14,894 |
| Business Rates: | | | | | |
| Provision for appeals | | | 233 | | 3,833 |
| Write offs | | | 96 | | 15 |
| NNDR Cost of Collection Allowance | | | 108 | | 108 |
| | | | 437 | | 3,956 |
| (Surplus) / Deficit for the year | | (333) | 1,114 | (32) | 3,922 |
| Movement of the Fund Balance | | | | | |
| Fund balance on 1 April | | (213) | - | (546) | 1,114 |
| (Surplus) / Deficit for year | | (333) | 1,114 | (32) | 3,922 |
| Fund Balance on 31 March | 3 | (546) | 1,114 | (578) | 5,037 |

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 council taxbase for 2014/15 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 | 5 | 4.25 | 5/9 | 2.40 |
| A | 3,591 | 1,867.52 | 6/9 | 1,245.00 |
| B | 7,023 | 4,820.74 | 7/9 | 3,749.50 |
| C | 7,236 | 5,842.96 | 8/9 | 5,193.70 |
| D | 5,342 | 4,661.44 | 9/9 | 4,661.40 |
| E | 4,680 | 4,298.88 | 11/9 | 5,254.20 |
| F | 3,405 | 3,195.30 | 13/9 | 4,615.40 |
| G | 2,170 | 2,068.42 | 15/9 | 3,447.40 |
| H | 106 | 103.75 | 18/9 | 207.50 |
| Total | 33,558 | 26,863.26 | | 28,376.50 |
| | | | | Less assumed bad debt rate: 0.5% (141.88) |
| | | | | Council Tax Base 28,234.62 |

(Some of these figures have been rounded)

The basic amount of council tax for a band 'D' property was £1,511.60 (£1,482.46 2013/14). This multiplied by the proportion specified for each band gives the council tax for each property.

2. National Non-Domestic Rates (NNDR)

NNDR is organised on a national basis with a Government specified rate of 47.1p for the financial year (46.2p 2013/14). Subject to the effects of transitional arrangements, 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. The Council is also a member of the Worcestershire Business Rates Pool, meaning that levy and safety net payments are calculated on a pooled rather than individual authority basis.

The NNDR income for this Council's area, after relief's and provisions, was £14,890,000 (£14,624,000 2013/14). This was based on a rateable value of £42,078,388 on 31 March 2015 (£41,946,335 on 31 March 2014).

3. Surplus and Deficits

The Collection Fund surplus for Council Tax as at 31st March 2015 was £578k (31st March 2014 £546k). There was no estimated surplus or deficit declared in January 2015.

The Collection Fund deficit for Business Rates as at 31st March 2015 was £1,904k (31st March 2014 £1,115k). There was no estimated surplus or deficit declared in January 2015.

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

| Preceptor | Council Tax 2013/14 £000 | NNDR 2013/14 £000 | Council Tax 2014/15 £000 | NNDR 2014/15 £000 |
|--|---|----------------------------------|---|----------------------------------|
| Central Government | - | (557) | - | (1,961) |
| Worcestershire County Council | 233 | (100) | 22 | (353) |
| West Mercia Police Authority | 40 | - | 4 | - |
| Hereford and Worcester Combined Fire Authority | 17 | (11) | 2 | (39) |
| Malvern Hills District Council | 43 | (446) | 4 | (1,569) |
| Total | 333 | (1,115) | 32 | (3,922) |

4. Town and Parish Councils

This Council's demand on the collection fund includes £1,780,555 (£1,560,906 2013/14) 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.

5. Council Tax / NNDR Written Off

Provisions for bad and doubtful Council Tax 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. No provision is made for bad and doubtful NNDR debts but the amounts written off during the year are detailed in the table below.

| Value Written Off | 2013/14 £000 | 2014/15 £000 |
|--------------------------|-------------------------|-------------------------|
| Council Tax | 63 | 61 |
| NNDR | 96 | 15 |

6. Collection Rates

The Council's collection rates for Council Tax and NNDR detailed in the table below.

| Collection Rate | 2013/14 % | 2014/15 % |
|------------------------|----------------------|----------------------|
| Council Tax | 98.7 | 98.8 |
| NNDR | 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.

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 2015 and up to the date of approval of the statement of accounts.

3. The Governance Framework

The Council's vision is that "through enterprise, innovation and working in partnership, the Council will deliver high quality, really good value services to improve the living, environmental and economic conditions and health of our communities". MHDC's priorities are reviewed annually and cascaded through the corporate planning process into management plans, the staff performance review and development process and into individuals personal objectives and action plans.

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 jointly by officers and members at Quarterly Performance Forums.

MHDC's Constitution contains the necessary approvals and rules for governance, including delegations to Committees and Officers. During 2014/15 The Chief Executive(s) as the Heads of Paid Service, the Head of Policy & Governance as the Monitoring Officer, and the Head of Resources 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

MHDC has 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 2014/15, 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 2011.

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 2014/15 the Internal Audit team delivered a comprehensive programme including:

- Five 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 Head of Resources, 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 2014/15.

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 Head of Resources 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.

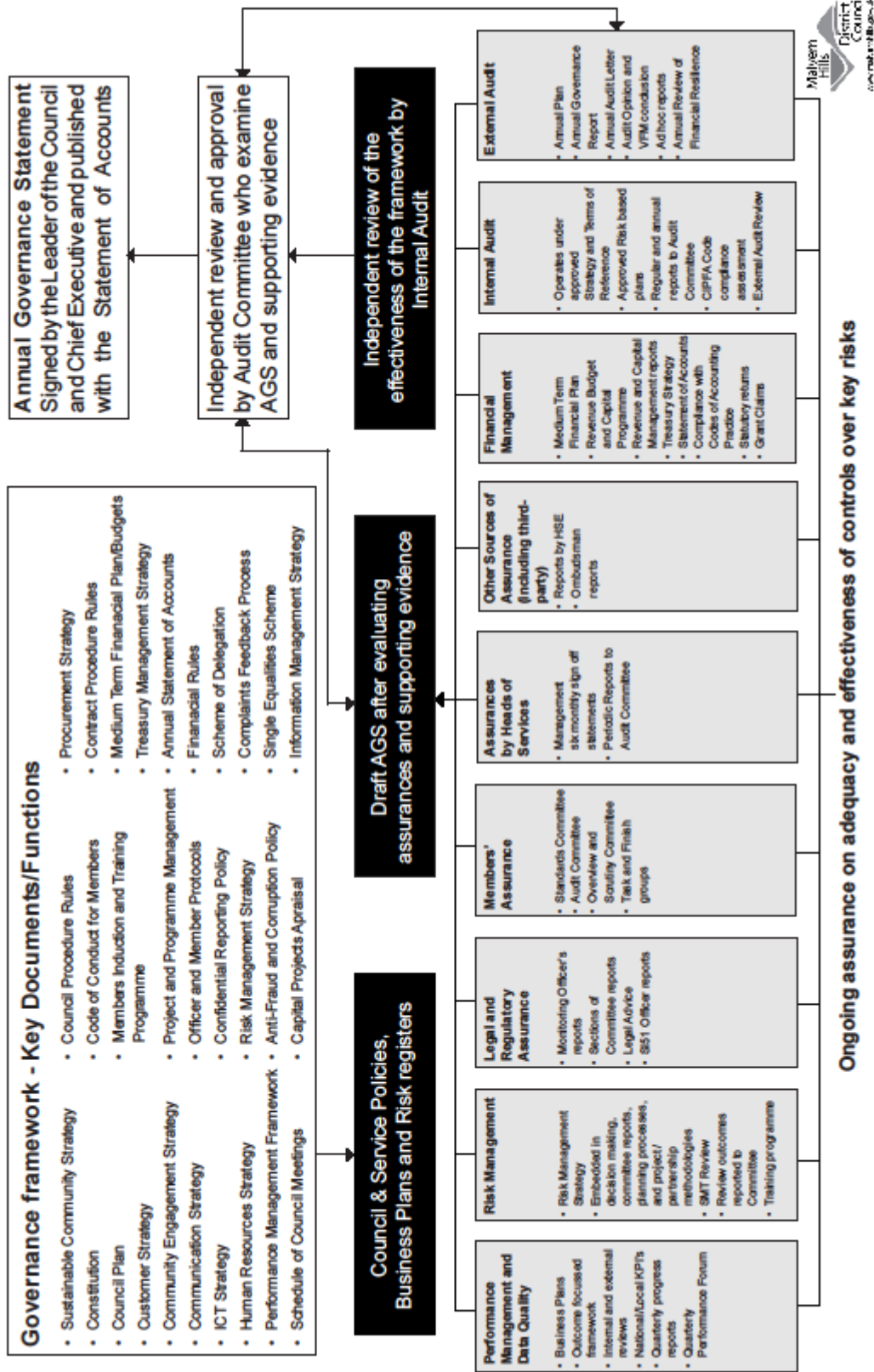


Jack Hegarty, Chief Executive



Cllr Phil Grove, Leader of the Council

ANNUAL GOVERNANCE STATEMENT (AGS) FRAMEWORK



GLOSSARY OF TERMS

Accrual

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 correctly 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 replacement for the Statement of Recommended Practice (SORP) following the implementation of International Financial Reporting Standards (IFRS). 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 Non-domestic Rates.

Community assets

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

Comprehensive Income and Expenditure Statement

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

Consistency

This is a fundamental accounting concept. It 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

This the amount of money others owe to the Council for goods and services that they have received but have not paid for by 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.

Government grants

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

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

This is a reduction in the value of a fixed asset as shown in the Balance Sheet to reflect its true value.

Liability

This Council has a liability that must be included in its accounts 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 ensuring 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

This is a national scheme for collecting contributions from businesses towards the cost of local government services. This is based upon the properties rateable value and upon 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

A sum of 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 ensures 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 and other general revenue balances are available to meet future revenue and capital expenditure.

Revenue expenditure

The 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

Grant paid by the Government to local authorities as a contribution towards the costs of their 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 by the Council to fund expenditure or reduce local taxation.

Usable reserves

Reserves that can be applied by the Council 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 2015 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 2015

**Andy Baldwin CPFA
Deputy Chief Executive
22/09/15**



Approval by the Council

I certify that the above Statement of Accounts was approved by Council at its meeting held on 22 September 2015.

Signed on behalf of Malvern Hills District Council:

**Councillor Barbara Williams
Chairman of the Council
22/09/15**

