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Audit and Governance Committee
Monday, 29 July 2019, 10.30 am, County Hall, Worcester

Agenda

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AGENDA ITEM 6

AUDIT AND GOVERNANCE COMMITTEE
29 JULY 2019

STATUTORY ACCOUNTS AND PENSION FUND 2018/19 – EXTERNAL AUDIT FINDINGS REPORT

Recommendation

1. **The Chief Financial Officer recommends that members consider their response to the Grant Thornton Audit Findings Report for the Worcestershire County Council Statutory Accounts 2018/19 and Worcestershire County Council Pension Fund Accounts 2018/19.**

Background

2. This report has been prepared by the Council's external auditor, Grant Thornton, and summarises the conclusions and key issues arising from the recent audit of the Council's financial statements and their assessment of the Council's arrangements to secure value for money in its use of resources. It also summarises the conclusions and key issues arising from the recent audit of the Pension Fund's financial statements.

Key issues arising - Worcestershire County Council Statutory Accounts 2018/19

3. The key issues are given in the draft of the Grant Thornton report and are summarised below:

- Grant Thornton anticipates issuing an unqualified audit opinion, subject to outstanding queries being resolved

- Grant Thornton identified a number of misclassification and disclosure changes. All material changes have been adjusted.
  There remain a small number of non-material changes which have not been adjusted in the accounts and these are recommended by Grant Thornton as future improvements which are accepted.

Key issues arising - Worcestershire County Council Pension Fund Accounts 2018/19

4. The key issues are given in the draft of the Grant Thornton report and are summarised below:

- Grant Thornton anticipates issuing an unqualified audit opinion, subject to outstanding queries being resolved

- Grant Thornton have identified a small number of presentation and disclosure changes and they have all been adjusted.

Contact Points

County Council Contact Points
County Council: 01905 763763
Worcestershire Hub: 01905 765765

Specific Contact Points for this report
Michael Hudson, Chief Financial Officer
Tel: 01905 845560
Email: MHudson@worcestershire.gov.uk

Supporting Information

- Appendix 1: Grant Thornton Audit Findings Worcestershire County Council
- Appendix 2: Grant Thornton Audit Findings Worcestershire County Council Pension Fund

Background Papers

In the opinion of the proper officer (in this case the Chief Financial Officer) there are no background papers relating to the subject matter of this report.

The Audit Findings for Worcestershire County Council

Year ended 31 March 2019

24 July 2019

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Your key Grant Thornton team members are:

Peter Barber
Key Audit Partner
T: 0117 305 7897
E: peter.a.barber@uk.gt.com

Helen Lillington
Engagement Manager
T: 0121 232 5312
E: helen.m.lillington@uk.gt.com

Kathryn Kenderdine
In Charge Auditor
T: 0121 232 5316
E: Kathryn.a.kenderdine@uk.gt.com

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Headlines

This table summarises the key findings and other matters arising from the statutory audit of Worcestershire County Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2019 for those charged with governance.

Financial Statements	Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements: • give a true and fair view of the financial position of the Council and income and expenditure for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.	We commenced our post-statements onsite visit in late May and as at 24 July 2019 our audit is substantially complete. Our findings are summarised on pages 5 to 13. We have identified no material errors or adjustments to the financial statements. Following the receipt of the draft accounts the Council sought from its actuary an assessment of the impact of the McCloud legal ruling. This identified a £6.5 million increase in the actuarial present value of promised retirement benefits that has been adjusted for in the Council's Comprehensive Income and Expenditure Statement and Balance Sheet. We identified two further errors to the financial statements that are considered significant. The first is a £12.4 million classification difference on the face of the Comprehensive Income and Expenditure statement, where £12.4 million has been removed from the net cost of services line, and reclassified to the taxation and non-specific grant income and expenditure line. An associated prior period adjustment has been made in respect of this as last year's balance of £17.1 million as this is material to the financial statements. The second, a technical accounting adjustment, relates to £6.1 million of capital grants that had been incorrectly accounted for. Officers do not consider this to be material to the financial statements and we concur with this judgement and as a result this has not been adjusted for in this year's statement of accounts. We have also recommended a number of other adjustments to improve the presentation of the financial statements. Further details in relation to these adjustments are included in Appendix C. It should be noted that none of the adjustments impact on the year end outturn reporting position. The draft financial statements were presented for audit in accordance with the agreed timetable of the end of May 2019. There is a clear trajectory of improvement with the working papers from the prior year, however there remain some areas where the clarity of working papers could be improved. We have raised recommendations for management as a result of our audit work in Appendix A. The position against our prior year recommendation to management is detailed in Appendix B. We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited. Subject to a number of outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit and Governance Committee meeting on 29 July 2019. Appendix A details our audit fees for the year. We have discussed with officers a proposed additional fee of £13,450 to take account of the work needed to address the risks that have arisen during the audit. Of the £13,450, £9,000 relates to issues that affect all councils and therefore are being applied at a national level. The remaining additional fee of £4,450 relates to the additional work needed on sample testing due to the financial reporting from E5. This has previously been raised with the Audit and Governance Committee.

Headlines

Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').	We have substantially completed our risk based review of the Council's value for money arrangements. We have concluded that in respect of our identified risks of Commissioning and Financial Sustainability Worcestershire County Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. At the time of writing the audit findings report we understand that the Council is awaiting the judgement from Ofsted in respect of their recent re-inspection of Children's services. We understand that the report is due to be published before the end of July and therefore we will conclude our work in this area once the new rating is known. Our findings are summarised on pages 14 to 20.
Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • To certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties. We are unable to certify the closure of the 2018/19 audit of Worcestershire County Council (Appendix E) due to the following; • Whole of Government Accounts statement (deadline 13 September 2019) • Opinion on the consistency of the pension fund financial statements with the Pension Fund Annual Report

Acknowledgements
We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Summary

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management and will be presented to the Audit and Governance Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- An evaluation of the Council's internal controls environment, including its IT system, and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter or change our audit plan, as communicated to you on 14 December 2018.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit and Governance Committee meeting on 29 July 2019, as detailed in Appendix E. These outstanding items include:

- Review of the updated actuary report for the McCloud ruling regarding age discrimination including reviewing the adjustments to pension figures within the accounts;
- Completion of final considerations of PPE valuations;
- Completion of work on financial instruments, particularly in relation to classification of disclosure of the loan in relation to PFI;
- Receipt of management representation letter;
- Completion of a number of outstanding queries; and
- Review of the final set of financial statements, including review of adjustments made to the draft financial statements.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality calculations remain the same as reported in our audit plan. We detail in the table below our determination of materiality for Worcestershire County Council.

	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	14.533 million	• Materiality has been based on 1.9% of the Authority's gross expenditure
Performance materiality	9.446 million	• Our performance materiality has been set at 65% of our overall materiality
Trivial matters	726k	• This is set at 5% of financial statements materiality and reflects a level below which stakeholders are unlikely to be concerned by uncertainties.
Materiality for senior officer remuneration	100k	• The senior officer remuneration disclosure in the statement of accounts has been identified as an area requiring lower materiality due to its sensitive nature.

Significant findings – audit risks

	Risks identified in our Audit Plan	Commentary
1	**The revenue cycle includes fraudulent transactions** Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	**Auditor commentary** As per the audit plan this risk has been rebutted. Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Worcestershire County Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, in summary because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of Local Government authorities, including Worcestershire County Council means that all forms of fraud are difficult to rationalise i.e. the culture and ethics mitigate against fraud being seen as acceptable. **Findings** Our work has not identified any issues in respect of the recognition of revenue.
2	**Management override of controls** Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. . The Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance. Management over-ride of controls is a risk requiring special audit consideration.	**Auditor commentary** We have: • Gained an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness; • obtained a full listing of journal entries, identified and tested unusual journal entries for appropriateness; and • evaluated the rationale for any changes in accounting policies or significant unusual transactions. **Findings** Our work to date has not identified any issues in respect of the management override of controls.

Significant findings – audit risks continued

Risks identified in our Audit Plan	Commentary
3 **Valuation of property, plant and equipment** The Council revalues its land and buildings on an five year rolling programme basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements. We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.	**Auditor commentary** We have: • Reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • Considered the competence, expertise and objectivity of any management experts used; • Reviewed the basis on which the valuation is carried out and challenged the key assumptions; • Reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding; • Tested revaluations made during the year to ensure they were input correctly into the Council's asset register; and • Evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value. **Findings** Members will recall that this was a particular area of difficulty during the audit last year, and as a result there have been communications between the audit team and finance officers throughout the year. Working papers demonstrating officers' assessment in relation to the assets not revalued in year were not available at the start of the audit, the final version of the working papers were provided to the audit team on the 10th July. As a result, work is ongoing in this area at the date of writing the AFR. We will provide an update on this to Audit and Governance Committee members at the meeting on 29 July 2019.
4 **Valuation of pension fund net liability** The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements. We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.	**Auditor commentary** We have: • Identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We have also assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement; • Evaluated the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We have gained an understanding of the basis on which the valuation is carried out; • Undertaken procedures to confirm the reasonableness of the actuarial assumptions made; and • Checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary. **Findings** Our audit work has not identified any issues in respect of the Pension Fund net liability. We have worked with officers of the Council to ensure an appropriate resolution is reached in relation to the McCloud ruling. The Council have obtained a revised actuarial report and made the amendments to the draft financial statements. We are currently working through this adjustment to gain assurance that the basis is reasonable. We will provide an update on this to Audit and Governance Committee members at the meeting on 29 July 2019.

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Land and Buildings – Other - £536m	Other land and buildings comprises £536 million of specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The Council has engaged Place Property Partnership to complete the valuation of properties as at 31 March 2019 on a five yearly cyclical basis. 7% of total assets were revalued during 2018/19. The valuation of properties valued by the valuer has resulted in a net decrease of £7.8 million. Management has considered the potential valuation change for those assets revalued in prior years, to determine whether there has been a change in the total value of these properties at 31 March 2019. Management's assessment of asset valuation over this period has identified no material change to the value of these assets.	• We have assessed Place Partnership to be competent, capable and objective. • We have carried out completeness and accuracy testing of the underlying information provided to the valuer to determine the estimate and have no issues to report • We confirmed the valuation method remains consistent with the prior year and assessed the reasonableness of the estimates made by management in determining the movement of assets that have not been revalued in the current year. • We have reviewed the disclosures in relation to PPE and made a number of amendments for improvement. The accounting policies in relation to how assets are revalued and reviewed for material movements could be enhanced to explain the process followed. • Key working papers in relation to this area were not available at the start of the audit, with final working papers presented to the audit team on the 10 July, as a result work in assessing the reasonableness of the approach taken remains ongoing at the time of writing this audit findings report.	Yellow

Assessment
- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Net pension liability – £457m	The Council's net pension liability at 31 March 2019 is £457 million (PY £360 million) comprising the Worcestershire Pension Fund Local Government defined benefit pension scheme obligations. The Council uses Mercer to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £68 million actuarial loss during 2018/19.	• We have assessed the Council's actuary, Mercer, to be competent, capable and objective • We have performed additional tests in relation to the actuary on contribution figures, benefits paid and investment returns to gain assurance over the 2018/19 roll forward calculation carried out by the actuary and have no issues to note.	Green

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.4%	2.4%-2.5%	●
Pension increase rate	2.3%	2.3%-2.2%	●
Salary growth	3.7%	3.10%-4.35%	●
Life expectancy – Males at 65 (Current pensioners)	22.8	22.2 to 23.7	●
Life expectancy – Males at 65 (Future pensioners)	25.1	24.8 to 26.3	●
Life expectancy – Females at 65 (Current pensioners)	25.8	25.0 to 26.4	●
Life expectancy – Females at 65 (Future pensioners)	28.2	27.9 to 29.0	●

- The Council has considered that the impact of GMP equalisation is not material to the Statement of Accounts. Based on our review of this area we concur with this view.
- We are currently working through the McCloud adjustment to gain assurance that the basis is reasonable.

Assessment
- ● We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● We consider management's process is appropriate and key assumptions are neither optimistic or cautious

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Significant findings – matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

	Significant matter	Commentary	Auditor View
1	**Potential impact of the McCloud judgement** The Court of Appeal has ruled that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members. The Government applied to the Supreme Court for permission to appeal but this has now been denied by the High Court. The decision as to the appropriate accounting treatment is one for the Council, but our national technical advice is that we are expecting this adjustment to be made to the accounts if the estimated increase in liabilities is material. The legal ruling around age discrimination (McCloud - Court of Appeal) has implications not just for pension funds, but also for other pension schemes where they have implemented transitional arrangements on changing benefits.	This issue has been an emerging issue following receipt of the draft financial statements and it is one that by its nature is sector wide. We have been working with management to determine the most effective way to deal with this issue, recognising that pension estimates are high value, complex and important figures within the financial statements. As a result they require an appropriate degree of focus and challenge from both management and auditors alike. We have asked management to work with their actuary to gain the necessary information to determine whether the potential impact of this judgement would have a material impact to the financial statements. Management have commissioned an updated valuation from the actuary, to take account of the impact of McCloud and also to update the report to take account of the actual rate of return on assets, rather than an estimated position which was used in the original report used for the draft financial statements. Officers have demonstrated that the impact of the revised actuary report is to increase past service liabilities by £6.5 million and increase projected service cost by £1.3 million, a total impact of £7.8 million. While not material, given the magnitude of these amendments the Council have amended the draft financial statements for these movements.	We received the revised IAS 19 calculation from the Council on 18 July and are currently working through this to gain assurance that the basis of the adjustment is reasonable. We will provide an update on this to Audit and Governance Committee members at the meeting on 29 July 2019.

Going concern

Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

Going concern commentary

Management's assessment process	Auditor commentary
The Chief Financial Officer as s151 officer has a reasonable expectation that the Council will continue for the foreseeable future. Members concur with this view. For this reason, the Council continues to adopt the going concern basis in preparing the financial statements. Management have confirmed that: • they have taken into account all available information about the future, which is at least, but is not limited to, twelve months from the date when the financial statements are authorised for issue. • no material uncertainties related to events or conditions that cast significant doubt upon the Council’s ability to continue as a going concern exist that require disclosure	Chapter 6 Section 3.4 of the CIPFA Code on the *“Presentation of Financial Statements for Pension Funds*” notes going concern as a particularly important reporting requirement and that para 3.4.2.23 of the Code applies. The CIPFA Code of Practice 2017/18 Code para 3.4.2.23 states "Local authorities that can only be discontinued under statutory prescription shall prepare their financial statements on a going concern basis of accounting; that is, the financial statements shall be prepared on the assumption that the functions of the authority will continue in operational existence for the foreseeable future". Management have carried out a formal written assessment in respect of the going concern of the Council and have identified: • The Council produce financial plans and budgets for members to approve, which continue into the medium term, • The plans include an assessment of the level of balances and reserves held by the Council, with the Chief Financial Officer considers to be sufficient, • The Council do monitoring of the cash position and this has been estimated going forward to cover the 12 months from the date of approval to the financial statements. This shows the Council have appropriate cash balances. As such we consider that the preparation of accounts on a going concern basis is a reasonable and valid one and there are no indications of material uncertainty.
Work performed	**Auditor commentary**
We have reviewed the: • Written assessment provided by management, including the supporting documentation provided, and • The cash flow forecast which covers 12 months from the date of approval of the financial statements.	Our audit did not identify any events or conditions which may cast significant doubt on the going concern assumption.
Concluding comments	**Auditor commentary**
	We propose to issue an unmodified opinion for 2018/19

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1	**Matters in relation to fraud**	• We have previously discussed the risk of fraud with the Audit and Governance Committee and have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
2	**Matters in relation to related parties**	• We are not aware of any related parties or related party transactions which have not been disclosed.
3	**Matters in relation to laws and regulations**	• You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4	**Written representations**	• A letter of representation has been requested from the Council, which is appended.
5	**Confirmation requests from third parties**	• We requested from management permission to send confirmation requests to all institutions where the Council holds cash or investment balances and those who lend the Council money. This permission was granted and the requests were sent. Of these requests all were returned with positive confirmation. • We requested from management permission to send confirmation requests to the pension fund auditor. This permission was granted and the requests were sent. We have received the necessary information from the pension fund auditor.
6	**Disclosures**	• Our initial review of the draft financial statements identified a number of omissions in the financial statements, however we have made recommendations to assist the Council in achieving greater compliance with the Code. Where disclosure amendments have been made to the statement of accounts, these are set out in Appendix C.
7	**Audit evidence and explanations/significant difficulties**	• All information and explanations requested from management was provided. • There were significant improvements made in the timeliness of responses and quality of information provided in relation to individual sample items that were selected for testing. There remain areas that could be improved, however both officers and the audit team recognise that this is an improvement journey and that there is a positive trajectory. • While the audit trail from the financial system to the statement of accounts has been improved, the reporting from the finance system still includes large balances of debit and credit items that cannot be stripped from the population for testing. This continues to produce larger sample sizes for testing than we would expect for a Council of this type. This has been raised previously with both officers and members, particularly in light of the impact that this has on the audit fee (see page 27).

Other responsibilities under the Code

	Issue	Commentary
1	**Other information**	• We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement, Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. Inconsistencies have been identified but have been adequately rectified by management. We plan to issue an unmodified opinion in this respect – refer to appendix E In addition, we noted that the Council had failed to trigger the correct dates for public inspection as the AGS had not been published alongside the draft financial statements. Following discussion with officers amendments were made to the public notice and a revised inspection period was published that complied with the regulations.
2	**Matters on which we report by exception**	We are required to report on a number of matters by exception in a numbers of areas: • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties We have nothing to report on these matters
3	**Specified procedures for Whole of Government Accounts**	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. As the Council exceeds the specified group reporting threshold we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. • Note that work is not yet completed and the planned timescale for the work has been agreed with the Council, to ensure that work will be completed by the statutory deadline.
4	**Certification of the closure of the audit**	We do not expect to be able to certify the completion of the 2018/19 audit of Worcestershire County Council in our auditor's report, as detailed in Appendix E due to the following; • Whole of Government Accounts statement (deadline 13 September 2019) • Opinion on the consistency of the pension fund financial statements with the Pension Fund Annual Report

Value for Money

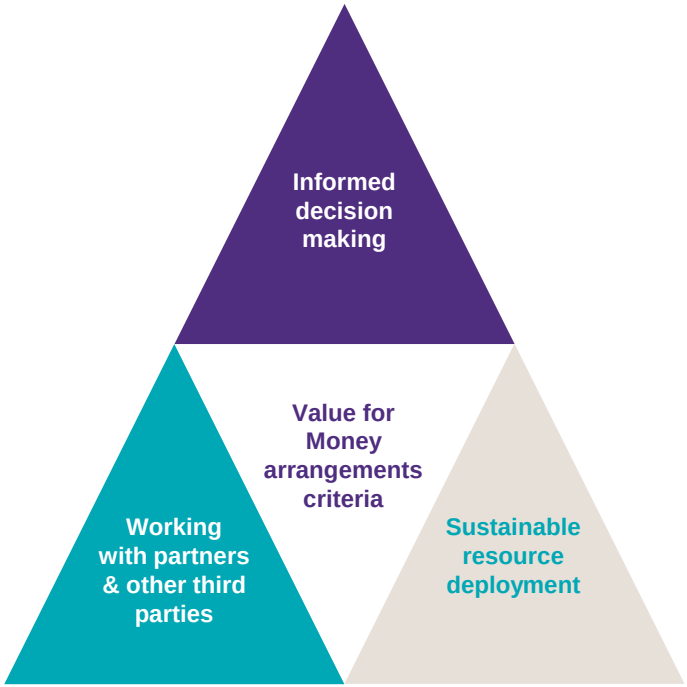
Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. AGN 03 identifies one single criterion for auditors to evaluate:

"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in December 2018 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated 14 December 2018.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment.

Value for Money

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- The continuing arrangement that the Council has put in place to respond to Ofsted and implement the service improvement plan,
- The final outturn position for 2018/19 and progress made towards closing the gap in future years,
- The current financial savings plans of the Council, and the delivery of those savings; and
- The mechanisms that officers have put in place to strengthen the arrangements around procuring major contracts.

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on pages 16 to 20.

Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources, with the exception of Children's Services where we are unable to conclude at the time of writing this report.

Members will be aware that the Council is awaiting the judgement from Ofsted in respect of their recent re-inspection of Children's services. We understand that the report is due to be published before the end of July and therefore we will conclude our work in this area once the new rating is known. We will provide members with a verbal update during the audit committee.

Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendations for improvement.

Our recommendations and management's response to these can be found in the Action Plan at Appendix A

Difficulties in undertaking our work

Work on the risk in relation to Commissioning commenced during February 2019, however obtaining the necessary supporting evidence to demonstrate how arrangements have been strengthened during the year have been difficult for the audit team to obtain. We received final working papers from officers to support this work in mid July, following the intervention of the finance team to gather the supporting evidence required.

We have included a recommendation in the action plan for working papers in relation to the VFM conclusion to be strengthened and coordinated in a similar way as to those as for the financial statements.

Significant matters discussed with management

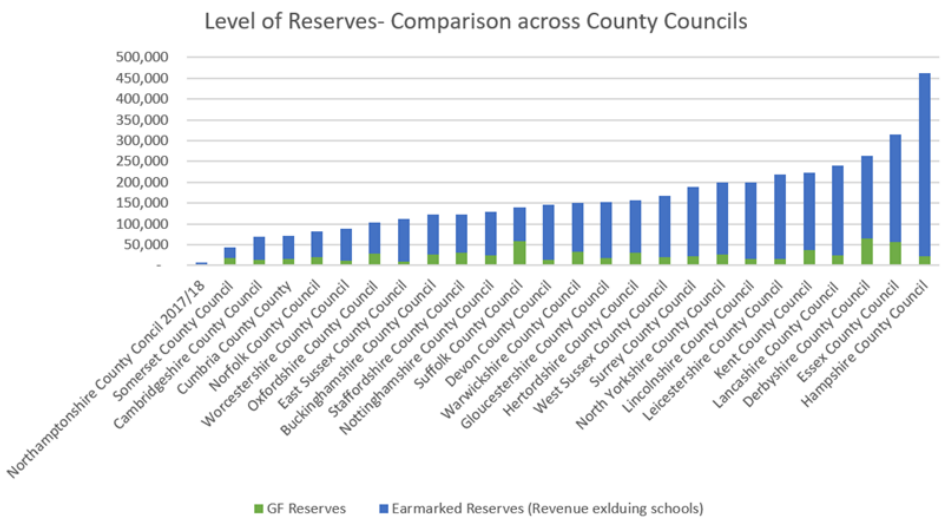
There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings	Conclusion
Children's Services Children's services was assessed by Ofsted as inadequate at its most recent inspection in January 2017. In addition the Council also received a separate inspection visit during March 2018 in relation to Special Educational Needs and Disabilities. The outcome of the inspection was to require a written statement of action because of significant weakness in the local area's practice. We will review the progress the Council is making against the recommendations arising from the Ofsted review. This includes the steps that are being taken to establish a wholly owned subsidiary company to deliver children's services.	• Since the original 'inadequate' Children's Service inspection in January 2017 the Council have received 7 monitoring visits from Ofsted. This final monitoring visit took place on the 8 and 9 January 2019. • Feedback from Ofsted from this visit continued to highlight good progress, with no areas of significant harm identified that had not been responded to by the local authority. There still remained areas for improvement, however, these were largely where processes needed to embed, or where Ofsted had reviewed case files relating to old cases where the recent improvements are not been able to be demonstrated. • On the 10 June we were informed by the NAO that the Council were due to have a full re-inspection of Children's Services in late June 2019, with a planned publication date of the 29th July 2019. Last year we issued and 'except for' VFM conclusion in respect of Children's Services. An improvement in your rating following this visit would enable us to issue a clear VFM conclusion in this area for 2018/19. We are working with officers to ensure that we are able to use any updated rating to inform our conclusion recognising our target is to issue our opinion and VFM conclusion by the 31 July 2019. • Ofsted also conducted a joint inspection of provision for children and young people with special educational needs and disabilities in March 2018 to judge the effectiveness of the area in implementing SEND reforms in Worcestershire. As a result of the inspection it was determined that a Written Statement of Action was required because of the significant weakness in the local area's practice. The action plan prepared jointly by the County Council and the CCG was submitted in August 2018. • Monitoring has taken place against this action plan and there is evidence of improvements, with the development of a new local offer website where parents, carers and providers can find information about SEND provision and services. There is evidence that this is proving successful with over 500 returning visitors to the webpage. The % of looked after children with up to date health assessments continues to improve and has increased from 59% in May 2018 to 80% in January 2019. • The department of education and NHS England advisors hold quarterly joint monitoring visits to discuss progress on delivering the SEND action plan. There have been 3 monitoring visits to date, (June 2018, September 2018 and December 2018). They have reported that key pieces of work have begun which should impact positively on outcomes for children and young people. • Worcestershire Children First is the new company that will be responsible for delivering services to children and young people across Worcestershire. Services will transfer from the Council to the wholly owned not for profit company on the 1st October 2019. The initial scope of the company has been widened to include education services, SEND and early help, which will enable a sharp focus on the needs of young people. The Company has appointed its Chief Executive and Chairman of the Board in advance of the go live date. Work is ongoing to develop a business plan for the company, as well as developing arrangements for monitoring service delivery	**Auditor view** • We await the formal view from the Ofsted re-inspection to be able to conclude our work in this area.

Significant risk	Findings	Conclusion
2 **Financial Sustainability of the Council** Like many other similar local authorities, the financial outlook remains challenging. The 2018/19 budget is predicated on the delivery of £31.6m of savings and at M6 the Council was reporting a projected overspend of £8.6m against its revenue budget. Latest financial plans indicate a further £19.6m savings will be required in 2019/20 with a further £14m in 2020/21 to achieve a balanced budget. We will review the Council's arrangements for identifying and agreeing savings plans, and communicating key findings to the Council and key decision making committees.	• Historically the Council has a strong track record of meeting its financial targets, and despite a challenging year, the Council have delivered a small deficit of £2m compared to a net budget requirement of £324m. This year end position was only achieved via some swift and decisive management action at period 4, which has enabled an initial predicted overspend of £12m to be managed down to £2m. The Council continues to actively monitor its budget and understand the cost pressures, which continue to be the demand led services for both adults and children. • Whilst the final overall outturn was £2m, there were areas of significant overspending in adult services of £12.4m and to a lessor extend children's services of £1m. These overspends have been mitigated by savings in other areas, such as a £4.7m underspend in Economy and Infrastructure and £6.4m in Finance, the later as a result of reviewing financing transactions. Transformation projects are in place in both Adult and Children's services to mitigate these demand pressures and ensure that spending can be contained within budget in future years. • Like many other local authorities, the funding for schools remains a significant challenge, with the DSG overspent by £7.7m in year. This comprises of a £9m overspend for High Needs Block and a £1.2m underspend on other DSG areas. Despite some additional funding and a depletion of prior year reserves the DSG has ended up in a deficit position of £0.6m. The Council recognises that this is not a sustainable position and is an area of concern which it continues to lobby central government about. It is likely that alternative funding in 2019/20 will need to be found to compensate for the magnitude of these overspends in the high needs block. • The original savings target included in the 2018/19 budget was £37.4m. This consisted of £31.6m that was planned in 2018/19 and £5.8m of projects that were carried forward from previous years. As part of the review of the budget for the year, it was identified early on that the £5.8m carry over from prior years was unlikely to be achieved, and similarly the original target for 2018/19 was overly ambitious and that £2m would not be achieved. This gave a revised target for savings of £29.5m, of which £27.7m has been achieved. • In addition to the original savings identified in the budget, significant management action was identified as part of the period 4 budget monitoring, which has led to further savings of £10.5m being achieved. The delivery of these savings has ensured that the outturn position has been for only a small deficit in year, which can be contained within the current level of reserves. • The s151 officer has assessed the level of reserves as appropriate at the most recent budget setting round. At year end, the general fund balance sits at £12.2m. Excluding this general fund balance the Council also has £81.5m of earmarked reserves. Removing balances relating to schools of £5.6m and a further £11.8m where the reserves could be me used to support spend, gives an earmarked position of £64.1m which could be used to support services if required. This equates to almost three times the level of savings needed in 2019/20 and 19.4% of the budget requirement. • Comparing these reserve balances with other county councils draft financial statements, Worcestershire is towards the bottom end of the scale, with only five county councils having lower level of combined general fund and earmarked reserves (when excluding schools). This is demonstrated in the graph below.	

Significant risk	Findings	Conclusion
2 Financial Sustainability of the Council Like many other similar local authorities, the financial outlook remains challenging. The 2018/19 budget is predicated on the delivery of £31.6m of savings and at M6 the Council was reporting a projected overspend of £8.6m against its revenue budget. Latest financial plans indicate a further £19.6m savings will be required in 2019/20 with a further £14m in 2020/21 to achieve a balanced budget. We will review the Council's arrangements for identifying and agreeing savings plans, and communicating key findings to the Council and key decision making committees.	 • Like many other similar local authorities, the financial outlook remains challenging with the latest medium term financial plan identifying savings, reforms and income generation of £61m needed between 2019-22. £23m of that would be needed in 2019/20. • The budget for 2019/20 was set in February. The process considered the amount of income the Council was likely to receive, as well as considering the additional pressures on expenditure. The pressures of both pay and contract inflation were considered as well as the considerations for demand led growth, and growth for investment purposes. The budget approved significant additions to budgets in adult and children's services to address the levels of overspending that had previously been identified. This was in addition to approved transformation projects in these services aimed at helping to contain expenditure within budget in future years. • Plans are in place to deliver the £23m of savings that will be needed for 2019/20, with projects, such as the Council redesign, and savings on procurement already well advanced. Other savings plans have been challenged as part of the budget process with key projects going through the star chamber process. • The latest budget monitoring for 2019/20 is predicting a small net overspend, which is predominantly made up of demand pressures on adults and children's services. In addition, the DSG High Needs Block is forecasting to overspend by a similar amount to prior year. Work is ongoing in these areas to bring spending back in line, or to fund via alternative savings.	**Auditor view** • While the Council faces a challenging financial position there remain appropriate arrangements in place for managing the budget. **Management response** • The Council will continue to monitor financial risk and resilience on an ongoing basis taking every opportunity to lobby and support central government to implement fair allocations of funding that appropriately recognise Worcestershire's circumstances. To support the 2019/20 budget and Council Tax precept, the Medium Term Financial Plan will be refreshed which will include confirming policy direction and savings/efficiency measures.

Key findings continued

Significant risk	Findings	Conclusion
3 **Commissioning arrangements** The Council continues to outsource key contracts. Last year's VFM conclusion highlighted that the arrangements around commissioning were inadequate. In particular we highlighted that lessons learned from the implementation of major contracts was not being appropriately disseminated to all officers and that there was a risk that commissioning departments do not have the necessary skills and expertise to secure the best outcome for users of the services. We will review the progress the Council has made in regard to the risk identified in the prior year.	• Following the qualified VFM conclusion and the new senior leadership team in place at the Council, there has been an obvious focus on the need to improve the procurement and commissioning arrangements in place at the Council. • The Corporate and Communities Overview and Scrutiny Board have received various reports and updates on commissioning, with the Audit and Governance Committee, also regularly updated on progress. • Improved governance is in place, with the following measures being put in place during the year; ▪ The introduction of a Commercial and Commissioning Board. The aim of which is to provide a strategic view of commissioning and commissioned services, ▪ The introduction of a category management team, whose purpose is to ensure commerciality is introduced and to identify opportunities for reducing spend, ▪ The introduction of a central buying team, and ▪ The introduction of a greater focus on commercial reporting. ▪ We have reviewed minutes of meetings from the board and noted the focus on managing the procurement process, and identifying key risks. A set of actions is produced following the end of each meeting, which are monitored to ensure that all risks are addressed and tasks managed. ▪ Where contracts are let, or where decisions have been taken to move services back in house, a lessons learned report has been produced. This is shared as appropriate, in many cases, through the well established star chamber process. This helps ensure that learning points are shared across departments. ▪ Commercial reporting is significantly improved, with a dashboard system in place that shows contracts in place, savings and an overall workplan. Officers and members are able to access this, which gives a clear overview of the work that is ongoing within commissioning and procurement. ▪ The skills and expertise of the central team have been strengthened during the year, with two qualified officers being appointed. Training is also underway with existing staff to ensure the Council has appropriately trained officers in this field. This will be reviewed based on the Council redesign, to ensure that this function is fit for purpose. ▪ The new team have already helped deliver savings that have contributed to the final outturn position for the Council in 2018/19. While it has not been possible to quantify the savings delivered, work on reducing the number of people who have purchasing cards, better management of PO numbers and a focus on essential spending has ensured that the predicted overspend has been managed down to a more acceptable level than initially predicted during the year.	

Key findings continued

Significant risk	Findings	Conclusion
3 **Commissioning arrangements** The Council continues to outsource key contracts. Last year's VFM conclusion highlighted that the arrangements around commissioning were inadequate. In particular we highlighted that lessons learned from the implementation of major contracts was not being appropriately disseminated to all officers and that there was a risk that commissioning departments do not have the necessary skills and expertise to secure the best outcome for users of the services. We will review the progress the Council has made in regard to the risk identified I the prior year.	• The audit team have reviewed two key procurement activities that have taken place during 2018/19 to ascertain whether there is evidence of improved arrangements in place. These projects were the 0-19 Prevention and Early Intervention Service and the replacement of the case management system for Adult and Children's services called Liquid Logic. • In both cases, the reports that went to the corporate commissioning board demonstrated a clear understanding of the issues and risks associated with the procurement. Lessons learned around previous system procurement had been acted on, and where appropriate decisions were taken to delay implementation to ensure that the service was provided in a way that would be most appropriate for service users.	**Auditor view** • Overall there is clear evidence that the Council has done a large amount of work in this area on the arrangements in place, and there is clear commitment from both senior officers and members to ensure that arrangements are robust and deliver the best value services for the residents of Worcestershire. • Given the nature of these projects and the long lead time, there is no evidence yet that the improved arrangements are delivering improved outcomes, however there is an expectation that the new arrangements would lead to better outcomes in the future. • The Council has appropriate arrangements in place. **Management response** • The Council has continued to strengthen it's arrangements around commissioning and this will remain a key business activity to ensure the appropriate resources are secured to undertake service provision.

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

	Fees £	Threats identified	Safeguards
Audit related			
Certification of Teachers' Pension return	4,200	Self-Interest, self-review, management	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is low.. Further, it is a fixed fee. These factors all mitigate the perceived self-interest threat to an acceptable level. Our work is undertaken after the audit is completed and there are no material judgements impacted by our work. The Council's officers are sufficiently informed to make decisions based on our work.
Non-audit related			
CFO Insights subscription	12,500	Self-Interest	We have provided subscription services only; any decisions are made independently by the Council. The work is undertaken by a team independent to the audit team.
Contract Assurance	38,750	Self – Interest, self-review, management	This is not considered a significant threat as the fee for this work is not significant in comparison to the total Worcestershire audit fee income. The work to be undertaken is not a recurring fee and it is not contingent based. The output report is designed to capture factual events and is not judgemental. The work is being performed by a team totally separate to the engagement team. The total quantum of savings expected is well below materiality and the Council has informed management who can negotiate appropriately with contractors in respect of the contracts under review. These factors all mitigate the perceived self-interest threat to an acceptable level. This will be billed during the 2019/20 audit year, however included in this table for completeness.

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit and Governance Committee None of the services provided are subject to contingent fees.

Action plan

We have identified four recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2019/20 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
●	Financial statements – working papers. While working papers have improved there remain key areas that could be improved, particularly in respect of capital working papers, working papers to support key judgements and in cases where clearer narrative is needed to articulate the views of management.	Officers should continue their focus on improving working papers. Working papers should be clear to understand and include all of the necessary information to enable another suitably qualified and experienced person to follow the trail. In a number of cases working papers would benefit from a clearer narrative. **Management response** We will continue to improve our working papers, in particular working on the narrative background to the numbers in the accounts.
●	Financial statements – disclosure checklist. The disclosure checklist is a key document for ensuring that the financial statements meet the reporting requirements as set out in the Code. While officers explained that they had used this document as part of the preparation of the draft financial statements, there was limited evidence of this provided to the audit team. Given the number of disclosure omissions identified by the audit team greater focus should be given to this document and its documentation when preparing the draft financial statements in future years.	Officers should ensure that the disclosure checklist is appropriately documented when preparing the draft financial statements, with clear referencing and explanations detailing how management consider that the statements comply with the Code. **Management response** The disclosure checklist will continue to be used in preparing the accounts and we will ensure that it is appropriately reference and annotated.
●	VFM – Working papers. The working papers provided to support the improvements made to the commissioning arrangements lacked the appropriate level of detail. The final working papers were provided to the audit team in mid July, which placed significant pressure on the timeline to ensure completion by the statutory deadline.	The same focus and attention should be given to the working papers to support the VFM conclusion as to those that support the financial statements. **Management response** Work on the VFM conclusion will be incorporated into the finance team and the work we do in preparing and evidencing the accounts.
●	VFM – Financial Sustainability	Continue to review and closely monitor the delivery of the savings plans for 2019/20 and robustly challenge the deliverability of savings plans for future years. **Management response** These will continue to be monitored as part of our standard financial management process.

Controls
- ● High – Significant effect on control system
- ● Medium – Effect on control system
- ● Low – Best practice

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Follow up of prior year recommendations

We identified the following issues in the audit of Worcestershire County Council's 2017/18 financial statements, which resulted in 3 recommendations being reported in our 2017/18 Audit Findings report. We are pleased to report that management have implemented the recommendations, however these areas are ones that will need continued focus in the current year, and this is reflected in the action plan.

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	✓	The reporting output from the new financial system should be reviewed and tested to ensure that the appropriate information can be obtained to produce the financial statements in a more timely and efficient manner. Officers need to continue to work to understand the reporting mechanisms that the new financial system has. In particular it should work with the supplier or other local authorities that utilise the same system to ascertain how key reports can be obtained.	Working papers provided by officers of the finance team this year demonstrate a much greater understanding of the reporting output from the financial system. Populations that have been produced for year end have been clearly reconciled back to populations provided for the interim audit. With the working papers showing how these populations fit with the amounts presented in the draft financial statements. As highlighted earlier, the system currently operates in a way that produces a large number of debit and credit type balances for one line in the financial statements, which generates an increased amount of testing at year end when compared to other similar authorities. We understand that this is a function of the system which cannot be eliminated, and therefore we will discuss with officers other ways that sample sizes could be reduced in future years, including the option of controls testing.
2	✓	Working papers. The working papers provided to support the transaction testing lacked the appropriate level of detail, and in many cases required officers to undertake additional work prior to audit staff being able to test the transaction. This has led to significant delays in the process. The working papers that support the financial statements need to be improved. A particular area of focus needs to be the evidence provided to support individual transaction testing.	Working papers have improved when compared to prior years, particularly around the level of detail that has been provided for individual transaction testing. There remain areas where working papers could be improved, particularly in respect of capital working papers, working papers to support key judgements and in cases where clearer narrative is needed to articulate the views of management
3	✓	VFM – Financial Sustainability Continue to review and closely monitor the delivery of the savings plans for 2018/19 and robustly challenge the deliverability of savings plans for future years.	Our work on the VFM conclusion has clearly demonstrated that the level of financial monitoring and reporting has been more robust than in prior years. There is clear evidence of where management have stepped in to ensure savings are either delivered or alternative savings are identified to reduce overspends to a level that the Council can manage in the short term. Given the current climate, this remains an area where the Council will need to focus significant efforts if it is to remain sustainable in the long term.

Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2019.

	Detail	Impact on financial statements
1	Following a review of the McCloud judgement, the Council have worked with their actuary to revise their estimate in respect of pension liabilities. The key impact of this is to increase past service liabilities by £6.5m. A further consequence of the McCloud judgement revision by the actuary is to increase projected service cost by £1.3m, which is an impact for future years. In updating the actuary statement, the Council, like many others have taken the opportunity to ensure that a final year end position is used for the rate of return on assets, which has previously been based on an estimate. This impact of this is also reflected in the final version of the statements as part of note 24.2.2 , which is a decrease of £2m in the fair value of assets. The final consequence of all of these adjustment is an £8.5m increase in the deficit as shown on the Comprehensive Income and Expenditure Statement.	£8.500m
2	In the draft financial statements REFCUS of £12.4m was included as income in the net cost of services with a reduction in capital grants and contributions (included in the line Taxation and non-specific grants) of the same amount. This is not in accordance with the Code, the total amount of capital grants should be shown in the line taxation and non-specific grants. Officers have agreed to amend the CIES and the associated notes. This error was also present in the financial statements in the prior year and we have agreed with officers a prior period adjustment of £17.1m.	Nil
	Overall impact	**£8.500m**

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2018/19 audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below:

	Detail	Reason for not adjusting
1	The Council have incorrectly accounted for capital grants unapplied. The necessary adjustment should be made via the MIRS and should not impact on the amount of income recognised in the CIES under proper accounting principles. The impact of this is understate the income on the CIES by £6.1m. Given the impact on the CIES, MIRS and associated supporting notes and the value below materiality, the Council have declined to amend for this error. The audit team agree with this view.	The balance is not material

Audit Adjustments

Misclassification and disclosure issues

The table below provides details of misclassification and disclosure issues identified during the audit which have been discussed with officers. We indicate on the table below which areas have been adjusted for in the final version of the financial statements and which have not been adjusted for and will be considered as areas for improvement in future years.

Disclosure omission	Detail	Adjusted?
Presentation and disclosure – reporting of the financial statements of the County Council and the Pension Fund	The Council chose to publish their draft financial statements for the County Council and the Pension Fund in two separate documents. While we appreciate that officers wish to give the the pension fund accounts greater prominence, the Code requires that these two sets of accounts are published in one document. We have agreed with officers that a revised document will be produced for publication that incorporates both sets of accounts as required by the Code.	Yes
Presentation and disclosure	This year the Council have undertaken a significant exercise to streamline and declutter the accounts. In doing so, they have incorporated the accounting policies, critical judgements and estimation uncertainty in the relevant note to the accounts rather than highlighting separately. While this overall approach is in line with the Code, the desire to declutter has led to the omission of some key policies and narrative which are specifically needed. In particular additional disclosure has been made in relation to the following items; • PPE • Policies in relation to council tax, NNDR and grant revenue. The Council have not included a policy in relation to the recognition of fees and charges revenue, and it has been agreed that this will be an area for improvement in future years. • A policy on expenditure recognition • An explanation in respect of the creation and use of reserves • Further narrative relating to PFI, however improvements are still needed to ensure full compliance with the Code • Improved disclosure in relation to IFRS 15 and material revenue streams • Further narrative in relation to pension valuation, however improvements are still needed to ensure full compliance with the Code. In addition to those specifically highlighted above, our review of the accounts identified other minor improvements that were required to be made to the accounts. None of these were individually significant and they have been made to improve the final presentation and aid clarity for the reader. Examples of these amendments include missing note references, references to the incorrect year, references made to the incorrect regulations and a range of typographical errors. The proposed minor adjustments were agreed with officers and changes have been made to the final version of the statements.	Yes
Critical Judgements	The narrative reflected in the financial statements does not make it clear which judgements the Council consider to be critical in applying accounting policies. While judgements are reflected in the narrative for particular notes, it is often not clear what the judgement is, or why the Council consider this to be critical. The FRC recently carried out a thematic review in this area, and highlighted that in many cases disclosures in relation to critical judgements were not sufficient. The audit team have reviewed the judgements as described in the accounts, in most instances they are not material, or simply demonstrate how the Council has complied with the Code. We have agreed with officers that this is an area of improvement for future years and therefore no amendments have been made to the financial statements. We do not consider this a material omission for the purposes of the opinion.	No

Audit Adjustments

Misclassification and disclosure changes continued

Disclosure omission	Detail	Adjusted?
Estimates	As for critical judgements, the narrative within the accounts does not clearly signpost which accounting estimates have been made that have a significant risk of resulting in a material adjustment. . The FRC recently carried out a thematic review in this area, and highlighted that in many cases disclosures in relation to estimates were not sufficient. We have agreed with officers that this is an area of improvement for future years and therefore no amendments have been made to the financial statements. We do not consider this a material omission for the purposes of the opinion.	No
Financial Instruments	2018/19 saw the introduction of IFRS 9 in relation to financial instruments. This was a fundamental accounting change. The draft financial statements omitted a number of disclosures in relation to this change, and while the impact of the change was not material for the Council, the use of old terminology suggested that the requirements had not been implemented as required. Officers have made amendments to improve the disclosures, however this is an area that requires improvement in futures years. We do not consider this a material omission for the purpose of the opinion.	No
Surplus Assets	Surplus assets of £7.4m have been included with assets held for sale and reported as a single line called 'non-operational assets' on the face of the balance sheet. This is not in accordance with the Code. Officers have agreed to amend the balance sheet and the associated notes.	Yes
Note 6 Section 75 Agreement	The disclosure in the draft financial statements is not sufficiently clear for a reader of the accounts to understand the nature of the arrangements. Work is still ongoing in this area at the time of writing the AFR.	No

Fees

We confirm below our final proposed fees charged for the audit and provision of non-audit services. Please note that these proposed additional fees are estimates based on our best projection of work and will be subject to approval by PSAA in line with the Terms of Appointment.

Additional Audit Fees

Area of work	Timing	Comment	£
Assessing the impact of the McCloud Ruling	June-July 2019	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we considered the impact on the financial statement along with any audit reporting requirements. This included consultation with our own internal actuary in their capacity as an auditor expert.	3,000
Pensions – IAS 19	June-July 2019	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year.	3,000
PPE Valuation – work of experts	June-July 2019	As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE Valuations across the sector. We have increased the volume and scope of our audit work to reflect this.	3,000
Overruns as a result of the need to test additional sample items and additional queries on key working papers.	March and June 2019	As highlighted previously, given the nature of the output from the financial system, we have had to undertake additional substantive testing on balances compared to the level anticipated within the fixed fee. Key working papers, particularly on assets not revalued in year were not available at the start of the audit, and the audit team have taken additional time to work with officers to ensure that the accounts are not materially misstated.	4,450

Audit *fee*	Actual 2017/18 fee £	Planned 2018/19 fee £	Final 2018/19 fee £
Council Audit	95,446	73,493	73,493
Additional Audit Fee (see above)	28,185		13,450
Total audit fees (excl VAT)	**123,631**	**73,493**	**86,943**

The fees reconcile to the financial statements as per the reconciliation below.

- fees per financial statements £98k
- reconciling item – (£20k) overrun from 2017/18 charged in 2018/19 not accrued for
- reconciling item 2 – (£4k) TPA grant certification
- total proposed fees per above £74k

Non Audit Fees

Fees for other services	Fees
Audit related services:	£4,200
• Certification of teachers' pension return	
Non-audit services	
• CFO Insights	£12,500
	£16,700

Audit opinion

We anticipate we will provide the Council with an unmodified audit report

Independent auditor's report to the members of Worcestershire County Council

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Worcestershire County Council (the 'Authority') for the year ended 31 March 2019 which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2019 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Financial Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Financial Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Chief Financial Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts, the Narrative Report, the Annual Governance Statement other than the financial statements and, our auditor's report thereon and our auditor's report on the pension fund financial statements. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and

Audit opinion

controls or that risks are satisfactorily addressed by internal controls.
We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, the Narrative Report, and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters**.**

Responsibilities of the Authority, the Chief Financial Officer and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities set out on page 20, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Financial Officer. The Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Financial Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.
The Audit and Governance Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Responsibilities of the Authority

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

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Audit opinion

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.
We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Delay in certification of completion of the audit
We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2019.

We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Use of our report
This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 [and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited]. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

[Signature]

Peter A Barber, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

Birmingham

[Date]

Management Letter of Representation

Worcestershire County Council
Financial Statements for the year ended 31 March 2019

This representation letter is provided in connection with the audit of the financial statements of Worcestershire County Council for the year ended 31 March 2019 for the purpose of expressing an opinion as to whether the Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

We have fulfilled our responsibilities for the preparation of the Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

ii. We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.

iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. There are no other material judgements that need to be disclosed.

vi. Except as disclosed in the financial statements:

a. there are no unrecorded liabilities, actual or contingent

b. none of the assets of the Council has been assigned, pledged or mortgaged

c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

vii. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The Council financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

xi. We have considered the unadjusted misstatements schedule included in your Audit Findings Report and attached. We have not adjusted the financial statements for these misstatements brought to our attention as they are [either] immaterial to the results of the Council and its financial position at the year-end [or] for the reasons noted on the schedule [or] for the reasons noted below:

The financial statements are free of material misstatements, including omissions.

xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

xiii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Management Letter of Representation

xiv. We believe that the Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements.

Information Provided

xv. We have provided you with:

a. access to all information of which we are aware that is relevant to the preparation of the Council financial statements such as records, documentation and other matters;

b. additional information that you have requested from us for the purpose of your audit; and

c. unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.

xvi. We have communicated to you all deficiencies in internal control of which management is aware.

xvii. All transactions have been recorded in the accounting records and are reflected in the financial statements.

xviii. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xix. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council and involves:

a. management;

b. employees who have significant roles in internal control; or

c. others where the fraud could have a material effect on the financial statements.

xx. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

xxi. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xxii. We have disclosed to you the identity of the Council's related parties and all the related party relationships and transactions of which we are aware.

xxiii. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

xxiv. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

xxv. The disclosures within the Narrative Report fairly reflect our understanding of the Council's financial and operating performance over the period covered by the Council financial statements.

Approval

The approval of this letter of representation was minuted by the Council's Audit and Governance Committee at its meeting on 29 July 2019.

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The Audit Findings for Worcestershire County Council Pension Fund

Year ended 31 March 2019

22 July 2019

Contents

Your key Grant Thornton team members are:

Peter Barber
Pensions Key Audit Partner
T: 0117 305 7897
E: peter.a.barber@uk.gt.com

Helen Lillington
Pensions Audit Manager
T: 0121 232 5312
E: helen.m.lillington@uk.gt.com

Kathryn Kenderdine
In Charge Auditor
T: 0121 232 5316
E:Kathryn.a.Kenderdine@uk.gt.com

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Appendices

A. Action plan

B. Follow up of prior year recommendations

C. Audit adjustments

D. Audit Opinion

E. Management Letter of Representation

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Headlines

This table summarises the key findings and other matters arising from the statutory audit of Worcestershire County Council Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2019 for those charged with governance, (in the case of Worcestershire Pension Fund, the Audit and Governance Committee).

Financial Statements	Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Pension Fund's financial statements: • give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.	We commenced our post-statements onsite visit in early June and as at 22 July 2019 our audit is substantially complete. Our findings are summarised on pages 4 to 9. We have identified no material errors or adjustments to the financial statements that have resulted in a change to the Pension Fund's reported financial position for the year ended 31 March 2019. We have recommended a small number of adjustments to improve the presentation of the financial statements. The draft financial statements were presented for audit in accordance with the agreed timetable of the end of May 2019. The accounts were supported by working papers. The quality of the working papers has improved from last year, however there remain some areas where the clarity of the information could be enhanced. The position against our prior year recommendation to management is detailed in Appendix B. Audit adjustments are detailed in Appendix C. Subject to a small number of outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit and Governance Committee meeting on 26 July 2019, as detailed in Appendix D. Appendix A details our audit fees for the year. We have discussed with officers an additional fee of £1,500 to take account of the additional work that was required in relation to McCloud. We have also proposed fees of £8,000 for the work we are required to undertake for other auditors. Details of this are shown on page 11 and referred to in Appendix A

Acknowledgements
We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

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Summary

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Pension Fund's business and is risk based, and in particular included:

- An evaluation of the Pension Fund's internal controls environment, including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter or change our audit plan, as communicated to you 14 December 2018.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding items being resolved, we anticipate issuing an unqualified audit opinion following the Audit and Governance Committee meeting on 29 July 2019, as detailed in Appendix D.

These outstanding items include:

- receipt of management representation letter (see appendix E)
- review of the final set of financial statements
- obtaining and reviewing the annual report
- completion of our subsequent events review

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality calculations remain the same as reported in our audit plan. We detail in the table below our determination of materiality for Worcestershire Pension Fund.

	Pension Fund Amount (£)	Qualitative factors considered
Materiality for the financial statements	27.010m	• We considered the proportion of the net assets to the Fund to be an appropriate benchmark for the financial year. In the prior year we used the same benchmark. Our materiality equates to 1% of your net assets for the year ended 31 March 2018. We have reconsidered this benchmark on receipt of the draft financial statements and have determined that this level of materiality remains appropriate.
Performance materiality	18.9m	• We have calculated this using 70% of materiality. This is considered an appropriate benchmark as we have not identified a history of significant deficiencies in the control environment or a large number of significant misstatements in prior year audits. The management and finance team remain stable and this is the second year of implementation of the new general ledger system.
Trivial matters	1.35m	• This is based on 5% of materiality, which we consider to be an appropriate threshold to use in terms of our reporting to the Audit and Governance Committee as 'Those Charged with Governance'

Significant findings – audit risks

	Risks identified in our Audit Plan	Commentary
1	**Revenue transactions include fraudulent transactions** Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	**Auditor commentary** We reported as part of our audit plan that having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Fund, we determined that the risk of fraud arising from revenue recognition could be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Worcestershire County Council as the Administering Authority of Worcestershire County Council Pension Fund, mean that all forms of fraud are seen as unacceptable. We have reconsidered this as part of our audit work on the financial statements and have not changed our assessment and therefore we confirm that we do not consider this to be a significant risk for Worcestershire County Council Pension Fund.
2	**Management override of controls** Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. Management over-ride of controls is a risk requiring special audit consideration.	**Auditor commentary** As part of our audit work in this area we have; • Gained an understanding of the accounting estimates, judgements and decisions made by management and considered their reasonableness, • Obtained a full listing of journal entries, identified and tested unusual journal entries for appropriateness, and • Evaluated the rationale for any changes in accounting policies or significant unusual transactions. Our testing of estimates, judgements and journals have not identified any evidence of management override of controls. Our testing of journals did however identify one journal out of nine where the journal had not been authorised. While this had not followed the pension fund control procedures we considered the journal to be appropriate and therefore did not extend our testing in this area.

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
3 The valuation of Level 3 investments is incorrect Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end. We identified the valuation of Level 3 investments as a risk requiring special audit consideration.	**Auditor commentary** As part of our audit work in this area we have; • Gained an understanding of the Fund's process for valuing level 3 investments and evaluated the design of the associated controls; • reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments; • considered the competence, expertise and objectivity of any management experts used; • reviewed the qualifications of the expert to value Level 3 investments at year end and gained an understanding of how the valuation of these investments has been reached; and • for a sample of investments, tested the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. We have reconciled those values to the values at 31 March 2019 with reference to known movements in the intervening period. **Our audit work has not identified any significant issues in relation to the risk identified.** As part of testing of our classification of investment assets we noted that the Pension Fund initially received the market value report from it's custodian Mellon. On review of the report, the Pension Fund have amended some of the categories that Mellon had assigned to the investments. The audit team have checked the re-classifications and are satisfied that the changes are in line with the evidence received from the Fund Managers. This provides appropriate evidence of challenge by the Pension Fund of the work undertaken by the expert. The Pension Fund have informed the audit team that they are going to raise this issue with Mellon as part of the wash-up session after the accounts to ensure consistency of approach in future years.

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Significant findings - Going concern

Our responsibility

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

Going concern commentary

Management's assessment process	Auditor commentary
The Chief Financial Officer as s151 officer has a reasonable expectation that the Fund will continue for the foreseeable future. Members concur with this view. For this reason, the Fund continues to adopt the going concern basis in preparing the financial statements. Management have confirmed that: • No decision has been made to wind up the Pension Fund and no events have occurred that would trigger wind up. • They have taken into account all available information about the future, which is at least, but not limited to, twelve months from the date when the financial statements are authorised for issue. • No material uncertainties related to events or conditions that cast significant doubt upon the Pension Fund's ability to continue as a going concern exist that require disclosure.	Chapter 6 Section 3.4 of the CIPFA Code on the "Presentation of Financial Statements for Pension Funds" notes going concern as a particularly important reporting requirement and that para 3.4.2.23 of the Code applies. The CIPFA Code of Practice 2018/19 Code para 3.4.2.23 states "Local authorities that can only be discontinued under statutory prescription shall prepare their financial statement on a going concern basis of accounting; that is, the financial statement shall be prepared on the assumption that the function of the authority will continue in operational existence for the foreseeable future". For defined benefit schemes the Pension SORP 2015 give further guidance (paragraph 3.29.6) in that even where a defined benefit scheme is significantly underfunded it should continue to be treated as a going concern for accounting purposes unless a decision has been made to wind up the scheme. The LGPS is a statutory scheme which can only be wound up by government and the presumption in local government is that the going concern assumption does apply unless there is specific evidence to the contrary from factors such as an announcement to wind up the administering authority. Management have carried out a formal written assessment in respect of the going concern of the pension. As a result we have identified; • The fund is a statutory pension provider and therefore cannot legally close. • The actuary has set contribution rates for all employers up to 2019/20, with a full revaluation underway to determine future contribution rates from April 2020, this re-affirms that the fund intends to continue as a going concern. • The fund also do daily monitoring of the cash position and this has been estimated going forward to cover the 12 months from the date of approval of the financial statements. This shows a positive cash balance is maintained throughout. In addition; • our audit did not identify any events or conditions which may cast significant doubt on the going concern assumption, • As at the 2016 actuarial valuation, the fund was assessed as 75% funded. This corresponds to a deficit of £654m • The aim is to achieve 100% over a period of 18 years. • The cashflow forecast shows positive cash balance throughout the period. As such we consider that the preparation of accounts on a going concern basis is a reasonable and valid one and there are no indications of material uncertainty.

Significant findings – matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

	Significant matter	Commentary	
1	**McCloud ruling re age discrimination** • The Court of Appeal has ruled that there was age discrimination in the judges and firefighters pension schemes where there was transitional protections given to scheme members. • The Government applied to the Supreme Court for permission to appeal but this has now been denied at the High Court. • The decision as to the appropriate accounting treatment is one for the Fund but our national technical advice is that we are expecting this adjustment to be made to the accounts if the estimated increase in liabilities is material. • The legal ruling around age discrimination also has implications for other pension schemes where they have implemented transitional arrangements on changing benefits..	• This issue has been an emerging issue following receipt of the draft financial statements and it is one that by its nature is sector wide. We have been working with management to determine the most effective way to deal with this issue, recognising that pension estimates are high value, complex and important figures within the financial statements. As a result they require an appropriate degree of focus and challenge from both management and auditors alike. • We have asked management to work with their actuary to gain the necessary information to determine whether the potential impact of this judgement would have a material impact to the statement of accounts. For the pension fund, this will be via an amendment to the disclosure note on the 'Actuarial Present Value of Promised Retirement Benefits for the Purpose of IAS 26'. • The fund have amended note 2 to the accounts to reflect an increase in the liability of £24m in relation to the McCloud judgement.	**Auditor view** • We have reviewed the methodology applied by the pension fund to obtain this estimate from the actuary, and considered it appropriate. The amended disclosures are considered appropriate.

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Level 3 investments	The Pension Fund has investments in unquoted equity investments, pooled property investments and pooled infrastructure investments that in total are valued on the balance sheet as at 31 March 2019 at £343.6m. These investments are not traded on an open exchange/market and the valuation of the investment is highly subjective due to a lack of observable inputs. In order to determine the value, management has employed expert fund managers who have the necessary experience and technical expertise to ensure the correct valuation of these investments in the year end accounts. The fund are also supported by investment advisors who are independent from the fund managers who can advise on the performance of this type of investments. The performance of these investments are scrutinised by the pension fund investment board. The value of the investment has increased by £119m in 2018/19, largely due to the fund investing funds with two new fund managers as part of their investment strategy.	As outlined in our testing of the valuation of level 3 investments we have; • Assessed management's expert, reviewing their competence, expertise and objectivity where appropriate, • Considered the valuation techniques used against industry practice, and • Reviewed the adequacy of disclosure of estimate in the financial statements.	●
Level 2 investment	The Pension Fund have investments in level 2 investments total are valued on the balance sheet as at 31 March 2019 at £1,294.2m. The investments are not traded on an open exchange/market and the valuation of the investment is subjective. In order to determine the value, management has employed expert fund managers who have the necessary experience and technical expertise to ensure the correct valuation of these investments in the year end accounts. The fund are also supported by investment advisors who are independent from the fund managers who can advise on the performance of this type of investments. The performance of these investments are scrutinised by the pension fund investment board. The value of the investment has increased by £22m which equates to 1.7%.	Similar to our approach for level 3 investments, we have; • Assessed management's expert, reviewing their competence, expertise and objectivity where appropriate, • Considered the valuation techniques used against industry practice, and • Reviewed the adequacy of disclosure of estimate in the financial statements.	●

Assessment
- ● We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● We consider management's process and key assumptions to be reasonable

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1	**Matters in relation to fraud**	• We have previously discussed the risk of fraud with the Audit and Governance Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
2	**Matters in relation to related parties**	• From the work we carried out, we have not identified any related party transactions which have not been disclosed. We have identified a minor amendment to the narrative to the note to add the correct job title for a member of staff.
3	**Matters in relation to laws and regulations**	• You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4	**Written representations**	• A letter of representation has been requested from the Pension Fund, which is appended.
5	**Confirmation requests from third parties**	• We requested from management permission to send confirmation requests to all of the fund managers that work with the Fund. This permission was granted and the requests were sent, of these requests all were returned with positive confirmation.
6	**Disclosures**	• The pension fund have worked hard to streamline the accounts this year, looking to incorporate accounting policies into the related note. Our review of disclosures has identified some where they could be improved. We have highlighted these for officers and members, and where appropriate amendments to the draft financial statements have been made.
7	**Matters on which we report by exception**	• We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. We propose to issue our 'consistency' opinion on the Pension Funds Annual Report by 31 July 2019, at the same time as the opinion on the financial statements.

Independence, ethics and fees

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council and Pension Fund and the following non-audit service was identified. We set out the threat to our independence and safeguard that has been applied to mitigate this threat. Both PSAA, in the Terms of Appointment, and the National Audit Office, in its Auditor Guidance Notes, expects that auditors will cooperate with other local government auditors and therefore we are required to undertake this work.

	Expected Fee £	Threats identified	Safeguards
Audit related			
Pension Assurance Letters	£8,000	Self review	This is not considered a significant threat as we are not reviewing any information that we have prepared. As this is an audit related service, it is acceptable for the audit team to carry out this work. In addition, we have not prepared the financial information on which our assurances will be used by the requesting auditor to form an opinion on as part of their opinion on the financial statements of the admitted body.
		Management	The scope of the work does not include making decisions on behalf of management or recommending or suggesting a particular course of action for management to follow. We will not be making any recommendations as part of this work.
Non-audit related			
None			

Audit Fees

We confirm below our final proposed fees charged for the audit.

Planned Audit Fees

Our Audit Plan included a PSAA published scale fee for 2018/19 of £19,222. Our audit approach, including the risk assessment, continues as the year progresses and fees are reviewed and updated as necessary as our work progresses.

Update to our risk assessment – additional work in respect of the audit code

The table below sets out the additional work which we have undertaken to complete the audit, along with the impact on the audit fee where possible. Please note that these proposed additional fees are estimates based on our best projection of work and will be subject to approval by PSAA in line with the Terms of Appointment.

Additional Audit Fees

Area of work	Timing	Comment	£
Assessing the impact of the McCloud ruling	June-July 2019	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we considered the impact on the financial statements along with any audit reporting requirements. This included consultation with our own internal actuary in their capacity as an auditor expert.	1,500

Total Audit Fees

	Actual 2017/18 fee £	Proposed 2018/19 fee £	Final 2018/19 fee £
Pension Fund Audit	24,963	19,222	19,222
Additional Audit Fees (see above)	5,200		1,500
Total audit fees (excluding VAT)	**30,163**	**19,222**	**20,722**

Audit Related Services Fees

In addition to the audit fees we set out below our final proposed fees for audit related services provided during the course of our audit.

Audit related	£	Description
IAS 19 assurance letters to other auditors In addition to the audit of the main financial statements, we are also responsible for the audit of the Pension Fund. In that capacity, we have been contacted by the audits of ten other local authorities who are admitted bodies of the pension scheme to provide assurance in terms of our work on the Pension Fund audit. Both PSAA, in the Terms of Appointment, and the National Audit Office, in its Auditor Guidance Notes, expects that auditors will cooperate with other local government auditors and therefore we are required to respond. We are required to respond to requests received from other auditors of admitted bodies for assurance in respect of information held by the Fund and provided to the actuary to support their individual IAS 19 calculations. The Chief Financial Officers has given his consent for us to respond directly to the auditors of these admitted bodies in relation to these requests.	£8,000	The Financial Reporting Council has highlighted that the quality and scope of work by audit firms in respect of IAS 19 assurance letters needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year. Historically the majority of the cost of this work has been absorbed within the audit fee of the administering and admitted bodies (last year we charged the Pension Fund £1,193 for this work). Given the lower fees we are now recovering the cost of this extra work through an additional invoice to Worcestershire Pension Fund. It will be for the Pension Fund to determine any appropriate recharges. For 2018/19 IAS 19 letters of assurance were provided to the following admitted bodies of Worcestershire Pension Fund.: • Worcestershire County Council • Worcester City Council • Wychavon Council • Wyre Forest District Council • Malvern Hills District Council • Hereford and Worcester Fire and Rescue Authority • Redditch Borough Council • Bromsgrove District Council • West Mercia Police • Herefordshire Council Our estimate is that the fee for this will be £3,000 plus an additional £500 for each local government body which requests a letter of assurance.

Follow up of prior year recommendations

We identified the following issues in the audit of Worcestershire County Council Pension Fund's 2017/18 financial statements, which resulted in 2 recommendations being reported in our 2017/18 Audit Findings report. We are pleased to report that management have actioned all of our recommendations from prior years, although recognise that there remains more work to do in terms of improving working papers in future years.

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	✓	**Working papers** The introduction of the new financial system has created a number of challenges for the production of the pension fund financial statements for the current year. As a result there are a number of areas where working papers could be improved to demonstrate how the output from the ledger is translated into the financial statements. In addition, where information has been provided by third parties, for example, the custodian, there should be clear working papers to demonstrate how these reports link into the financial statements. Where appropriate, a brief narrative should be added to the working papers to demonstrate the rationale and any assumptions made. In key areas, the fund should be able to demonstrate that it understands the judgements made by third parties, and that there is appropriate evidence of challenge.	Working papers have improved compared to the prior year, and there is a greater understanding and clarity of how the reports from the financial system link to the financial statements. There still remain some key areas, particularly in relation to investments, where the working papers would benefit from some clear narrative to demonstrate the source of the information, the method followed and any assumptions made. In some cases the working papers provided to the audit team did not 'stand alone' and it was necessary for the preparer to explain the working papers before the audit team could commence work. Officers have recognised this, and are committed to further improvements in future years.
2	✓	**Compliance with the Code** We have identified areas where the pension fund accounts are not in accordance with the Code. In some cases, because of the nature of these areas of non compliance we have agreed with officers that these improvements can be made in future years	Officers have worked hard to streamline the accounts, in particular, they have incorporated the accounting policies into the associated note. The most significant area of non- compliance was the intention of the fund to publish the financial statements of the pension fund outside of the main administering authority accounts. We have discussed this with officers, and the final document will be amalgamated to ensure compliance.

Assessment
✓ Action completed
X Not yet addressed

Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. We have not identified any audit adjustments to the draft financial statements that are required to be reported.

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Detail	Adjusted?
Presentation and disclosure	Our review of the accounts highlighted minor improvements that were required to be made to the accounts. None of these were individually significant and they have been made to improve the final presentation and aid clarity for the reader. The proposed minor adjustments were agreed with officers and changes have been made to the draft accounts submitted for audit. Examples included the need to add some additional narrative to note 14C to clarify the notes' purpose, the need to include a policy in relation to contingent liabilities, the need to amend the wording in the narrative report to confirm that it is the audit and governance committee that are 'those charged with governance' for the purpose of the accounts, and the need to amend the prior year comparators in note 12a. This is in addition to the need to tidy up formatting and some punctuation prior to publication.	✓
Fair Value Hierarchy	The Council are to remove the line 'Financial Assets at Amortised Cost' from the note as they are outside the scope for valuation level disclosures.	✓

Audit opinion

We anticipate we will provide the Pension Fund with an unmodified audit report

Independent auditor's report to the members of Worcestershire County Council on the pension fund financial statements of Worcestershire Pension Fund
Opinion

We have audited the financial statements of Worcestershire (the 'pension fund') administered by Worcestershire County Council (the 'Authority') for the year ended 31 March 2019 which comprise the Fund Account, the Net Assets Statement and notes to the pension fund financial statements. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2019 and of the amount and disposition at that date of the fund's assets and liabilities,
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the pension fund's financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Financial Officer's use of the going concern basis of accounting in the preparation of the pension fund's financial statements is not appropriate; or
- the Chief Financial Officer has not disclosed in the pension fund's financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for the pension fund for a period of at least twelve months from the date when the pension fund's financial statements are authorised for issue.

Other information
The Chief Financial Officer is responsible for the other information. The other information comprises the information included in the Annual Financial Report and Statement of Accounts 2018/19 and the Annual Report, other than the pension fund's financial statements, our auditor's report thereon and our auditor's report on the Authority's financial statements. Our opinion on the pension fund's financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the pension fund's financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the pension fund's financial statements or our knowledge of the pension fund obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the pension fund's financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Audit opinion

Opinion on other matter required by the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)

In our opinion, based on the work undertaken in the course of the audit of the pension fund's financial statements and our knowledge of the pension fund the other information published together with the pension fund's financial statements in the Annual Financial Report and Statement of Accounts, and the Annual Report for the financial year for which the financial statements are prepared is consistent with the pension fund's financial statements.

Matters on which we are required to report by exception
Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters**.**

Responsibilities of the Authority, the Chief Financial Officer and Those Charged with Governance for the financial statements
As explained more fully in the Statement of Responsibilities [set out on page(s) x to x], the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Financial Officer. The Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the pension fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the pension fund's financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report
This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

[Signature]

Peter Barber, Director
for and on behalf of Grant Thornton UK LLP, Local Auditor
Birmingham

Date:

Management Letter of Representation

Dear Sirs,

Worcestershire Pension Fund
Financial Statements for the year ended 31 March 2019

This representation letter is provided in connection with the audit of the financial statements of **Worcestershire Pension Fund** ('the Fund) for the year ended 31 March 2019 for the purpose of expressing an opinion as to whether the Fund financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

i. We have fulfilled our responsibilities for the preparation of the Fund's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

ii. We have complied with the requirements of all statutory directions affecting the Fund and these matters have been appropriately reflected and disclosed in the financial statements.

iii. The Fund has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

v. We acknowledge our responsibilities for making the accounting estimates included in the financial statements. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Where it was necessary to choose between estimation techniques that comply with the Code, we selected the estimation technique considered to be the most appropriate to the Fund's particular circumstances for the purpose of giving a true and fair view. Those estimates reflect our judgement based on our knowledge and experience about past and current events and are also based on our assumptions about conditions we expect to exist and courses of action we expect to take.

vi. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. There are no other material judgements that need to be disclosed.

vii. Except as disclosed in the financial statements:

   a. there are no unrecorded liabilities, actual or contingent

   b. none of the assets of the Council has been assigned, pledged or mortgaged

   c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.The financial statements are free of material misstatements, including omissions.

x. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

xi. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xii. We believe that the Fund's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Fund's needs. We believe that no further disclosures relating to the Fund's ability to continue as a going concern need to be made in the financial statements

Management Letter of Representation

Information Provided

i. We have provided you with:

ii. access to all information of which we are aware that is relevant to the preparation of the Fund financial statements such as records, documentation and other matters;

iii. additional information that you have requested from us for the purpose of your audit; and

iv. unrestricted access to persons within the Fund from whom you determined it necessary to obtain audit evidence.

v. We have communicated to you all deficiencies in internal control of which management is aware.

vi. All transactions have been recorded in the accounting records and are reflected in the financial statements.

vii. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

viii. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Fund and involves:

   a. management;

   b. employees who have significant roles in internal control; or

   c. others where the fraud could have a material effect on the financial statements.

ix. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

x. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xi. There have been no communications with The Pensions Regulator or other regulatory bodies during the year or subsequently concerning matters of non-compliance with any legal duty.

xii. We have disclosed to you the identity of the Fund's related parties and all the related party relationships and transactions of which we are aware.

xiii. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Approval

The approval of this letter of representation was minuted by the Audit and Governance Committee at its meeting on 29 July 2019.

Yours faithfully

Name……

Position……..

Date……..

Name……

Position……..

Date……..

Signed on behalf of Worcestershire County Council as administering body of the Worcestershire Pension Fund

DRAFT

Grant Thornton

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worcestershire countycouncil

AGENDA ITEM 7

AUDIT AND GOVERNANCE COMMITTEE
29 JULY 2019

ANNUAL GOVERNANCE STATEMENT 2018/2019

Recommendation

1. **The Chief Financial Officer recommends that the Annual Governance Statement 2018/2019 be approved.**

Background

2. The Council is required, as part of its ongoing review of the effectiveness of its governance arrangements, to produce an Annual Governance Statement (AGS) for 2018/19. This has been signed by the Leader of the Council and Chief Executive. The AGS will form part of the Annual Statement of Accounts.

3. The AGS is primarily retrospective. It reports on the assurance framework and measures in place for the financial year 2018/19 and takes into account any significant issues of governance up to the date of publication of the Statement of Accounts. The AGS outlines the actions taken or proposed to address governance issues identified.

4. The AGS is drafted by the Corporate Risk Management Group based on information provided by senior officers. The evidence comes from a variety of sources, including service / plans, relevant lead officers within the organisation, internal and external auditors and inspection agencies.

Content

5. The AGS demonstrates how the Council is meeting the principles of good governance in accordance with the CIPFA / SoLACE Delivering Good Governance in Local Government Framework. These principles aim to ensure that the Council is:

- Conducting our business in accordance with all relevant laws and regulations;
- Safeguarding and properly accounting for public money; and
- Using resources economically, efficiently and effectively to achieve agreed priorities which benefit local people.

6. As part of the review of the Council's effectiveness significant internal control issues affecting the Council are identified. In accordance with CIPFA guidance, an issue is regarded as significant if:

- The issue has seriously prejudiced or prevented achievement of a principal objective

- The issue has resulted in a need to seek additional funding to allow it to be resolved, or has resulted in significant diversion of resources from another aspect of the business

- The issue has led to a material impact on the accounts

- The Audit and Governance Committee has advised that it should be considered significant for this purpose

- The Chief Internal Auditor has reported on it as significant, for this purpose, in the annual opinion on the internal control environment

- The issue, or its impact, has attracted significant public interest or has seriously damaged the reputation of the organisation

- The issue has resulted in formal action being taken by the Chief Financial Officer and / or the Monitoring Officer.

7. The AGS includes the following governance issues as areas for improvement. Items which were included in the 2017/18 AGS and remain governance issues following review in 2018/19 are:

- Sustainable improvement in Children's Services – following an Ofsted assessment that our Children's Services were inadequate, and, whilst the Worcestershire Children First will go live on 1 October 2019, the response to the statutory improvement notice remains live.

- Ensuring the delivery of the Council's vision and corporate objectives, in line with the Medium-Term Finance Plan – 2018/19 was a challenging year financially for the Council, with a net reported overspend of £2 million. Robust planning in terms of annual budget setting and medium-term financial planning will go some way to mitigating these pressures, however uncertainties around funding and cost pressures will continue to pose challenges for the Council.

- Staff capacity, recruitment and retention – the Council now has a fully resourced Strategic Leadership Team and they have begun the development of a robust performance and management culture alongside an Organisational Redesign programme which will consider and develop strategies for the recruitment and retention of staff.

8. The following new issues have been identified as part of the 2018/19 review process:

- Sustainable improvement in Children's Services – Worcestershire Children First will provide all aspects of Children’s Services for the County Council. A programme board is in place to ensure a smooth transition

- Serous harm or death of a child or young person – safeguarding risk because of the serious harm or death of a child or failure to safeguard children.

- Activity exceeds budget allocation – inadequate budgets and / or ineffective financial management will impact on the County Council's ability to effectively provide services and impair our ability to forward plan

- Serious harm or death of a vulnerable adult – a safeguarding risk because of serious harm / death from failure to safeguard a vulnerable adult

- Staff capacity, recruitment and retention – our ability to deliver front line and key services will be impacted unless the Council adopts a range of strategies to attract and retain a highly skilled and specialised workforce.

9. At the end of 2018/19 pressures on the Children's Services High Needs budget, particularly within funds delegated to schools under the Dedicated Schools Grant were reported. The Council will be working with the Schools Forum to explore ways to manage these costs and to lobby central government to resolve the shortfall in funding.

10. The governance of the Council will continue to be monitored by Cabinet, Audit and Governance and other councillor committees, and the Council's Strategic and Wider Leadership Teams.

11. Grant Thornton, the Council's external auditors, have considered the AGS as part of their external audit, and have confirmed that it is consistent with their knowledge of our organisation and the financial statements.

Contact Points

County Council Contact Points
County Council: 01905 763763
Worcestershire Hub: 01905 765765

Specific Contact Points for this report
Michael Hudson, Chief Financial Officer
Tel: 01905 845560
Email: MHudson@worcestershire.gov.uk

Supporting Information

- Appendix: Annual Governance Statement

Background Papers

In the opinion of the proper officer (in this case the Chief Financial Officer there are no background papers relating to the subject matter of this report.

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Worcestershire County Council Annual Governance Statement

Introduction

The Annual Governance Statement is a review of our activities to ensure that the County Council is carrying out its functions effectively. Our risk management process is a key part of our governance arrangements and provides assurance that:

- our business is conducted in accordance with all relevant laws and regulations
- public money is safeguarded and properly accounted for
- resources are used economically, efficiently and effectively to achieve agreed priorities which benefit local people.

The governance framework

This Annual Governance Statement is published in accordance with the CIPFA/SoLACE Delivering Good Governance in Local Government Framework (2016) (The Framework). This comprises systems and processes for the direction and control of the County Council and its activities through which it accounts to, engages with and leads the community. It enables us to monitor the achievement of strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The County Council has approved the requirements of the Framework and several specific strategies and processes for strengthening corporate governance such as the Corporate Risk Management Group and the Balanced Scorecard.

Our system of internal control is designed to manage risk to a reasonable level and is based on an ongoing process to identify and manage risks to the achievement of policies, aims and objectives, to evaluate the likelihood of those risks being realised, and to manage them efficiently, effectively and economically. It cannot eliminate all risk of failure but provides reasonable assurance of effectiveness.

The Balanced Scorecard is used to show the relationship between the intended outcomes of the Corporate Plan - Shaping Worcestershire's Future with the finance, workforce and process measures that support their delivery. The Balanced Scorecard is available to the public via the County Council's website to improve accountability to local communities. Performance is measured and reported against areas of focus internally on a quarterly basis and publicly every six months.

Set out below are the activities carried out by the County Council which contribute to our delivery of the seven principles in the CIPFA/SoLACE Framework during 2018/19.

Core Principle A: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

We have arrangements in place to provide assurance that our values are upheld, and that members and officers demonstrate high standards of conduct and behaviour.

These include:

- Codes of conduct for officers and members;
- The inclusion of ethical values in policies and procedures for all areas;
- A complaints procedure ensuring appropriate investigation and response;
- A commitment to equality of opportunity for all citizens, in line with the Public Sector Duty as set out in the Equality Act 2010;
- Our Constitution which sets out the conditions to ensure that all officers, key post holders and members can fulfil their responsibilities in accordance with legislative requirements. Roles, responsibilities and delegated authority for individual Members, the Council, Cabinet and senior officers are documented.

Core Principle B: Ensuring openness and comprehensive stakeholder engagement

The Chief Executive and Strategic Leadership Team value and are committed to acting on staff feedback. The County Council has an annual staff survey, frequent pulse surveys and staff briefings. Staff are involved in issue resolution arrangements.

Throughout 2018/19 the County Council's "Have Your Say" Roadshows have enabled Councillors and Officers to actively engage with members of the local community. Feedback from these sessions helps to inform the council's four corporate priorities: supporting Children and families, promoting Health and Well Being, protecting the Environment and championing Open for Business.

We are registered as a data controller under the Data Protection Act as we collect and process personal information. We have procedures in place that explain how we use and share information and arrangements for members of the public to access information. We have also adopted the model publication scheme produced by the Information Commissioner's Office.

Core Principle C: Defining outcomes in terms of sustainable economic, social, and environmental benefits

Our Corporate Plan, Shaping Worcestershire's Future, identifies four key priorities that help us shape the future vision for Worcestershire and focus the delivery of our services.

Open for Business – we have a significant programme of improvements in workforce skills, employment, infrastructure and productivity. We are aiming to become a financially self-sufficient Council and to achieve this aim we are promoting and supporting businesses in the County and those looking to relocate here.

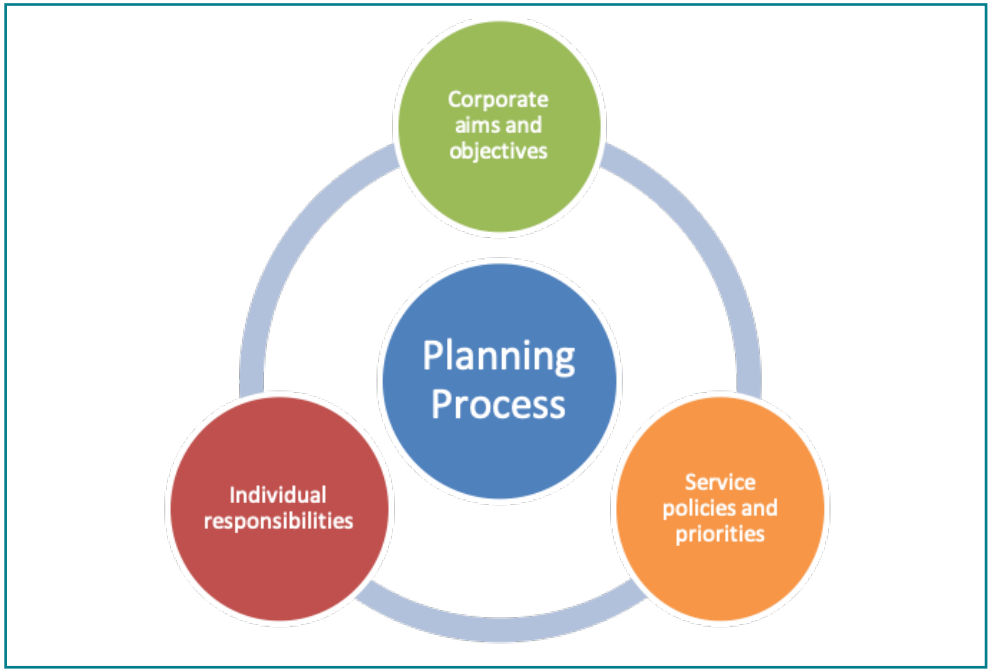
Children and Families – we have a strong focus on improving outcomes for the children, young people and families of Worcestershire. We support schools with achieving a good or outstanding rating by Ofsted and facilitating young people achieving five or more good GCSE's, and support young people moving successfully into employment.

The Environment - Worcestershire's environment is one of our key features and contributes to enhancing the quality of life for residents and visitors. We are committed to improving our infrastructure networks, including transport and digital technology to support business and encourage investment. We also have a key focus on minimising waste which goes to landfill.

Health and Wellbeing – we are working with local partners to support our residents to be healthier, live longer, have better quality of life and remain independent for as long as possible. Our focus on adult social care aims to keep people with support and care needs as independent as possible by providing choice in how to live their lives.

All services have plans in place in line with approved budgets to deliver the key outcomes contained in the Corporate Plan. Management of these plans varies by service, but includes key performance indicators, ongoing outcome monitoring and reports to management teams and committees as appropriate.

Core Principle D: Determining the interventions necessary to optimise the achievement of the intended outcomes



The County Council's planning process works to support and optimise delivery and identify and mitigate any risks.

Each key area of focus identifies several aims and targets, which are managed through the Balanced Scorecard. Responsibility for achieving these lies with individual directorates, and relevant aims and targets are included in individual service delivery plans. Risks and issues are managed through the Corporate Risk Management Group and regular updates are provided to SLT and the Audit & Governance Committee.

Progress against the Corporate Plan is monitored and reported to councillors on a regular basis.

Core Principle E: Developing the entity's capacity, including the capability of its leadership and the individuals within it

To deliver our objectives, we rely on our staff to carry on the great work they already do daily which is underpinned by Our People Values:

- Customer Focus - putting the customer at the heart of everything we do
- 'Can do' Culture – being proactive to achieve excellence
- Freedom within Boundaries – courage to make constructive change

We aim to drive change, develop talent and optimise potential and enable managers and leaders to develop and motivate our workforce to allow it to be future fit. Reviewing the talent and potential of our workforce enables us to better understand and identify the potential we can develop over the coming years

Our annual performance review scheme forms a central part of our planning process. Discussions and review sessions take place between every member of staff and their line manager to agree and track personal objectives and actions, with formal mid-year reviews as a key part of the process. 90% of staff received mid-year reviews during 2018/19.

Core Principle F: Managing risks and performance through robust internal control and strong public financial management

Risk management is about the identification, analysis and control of threats or events that adversely affect the achievement of the County Council's strategic and operational objectives. It also enables positive risks to be taken to innovate and improve service provision. The Risk Management Strategy details the methodology for evaluating corporate risk management arrangements and its delivery is enabled by the Corporate Risk Management Group.

The County Council's anti-fraud and corruption strategy embeds effective standards in countering fraud, corruption and theft. The County Council supports and submits data for the National Fraud Initiative (NFI) and assesses all matches for review and, where appropriate, mitigation. The Chief Financial Officer is responsible for ensuring this strategy is applied and that the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption is followed.

Financial Regulations form part of the Constitution and set out our financial management framework for ensuring we make the best use of the money we have available to spend. It outlines the financial roles and responsibilities for staff and Members and provides a framework for financial decision-making. Where there are specific statutory powers and duties the Financial Regulations seek to ensure these are duly complied with, as well as reflecting best professional practice and decision-making.

Core Principle G: Implementing good practices in transparency, reporting, and audit to deliver effective accountability

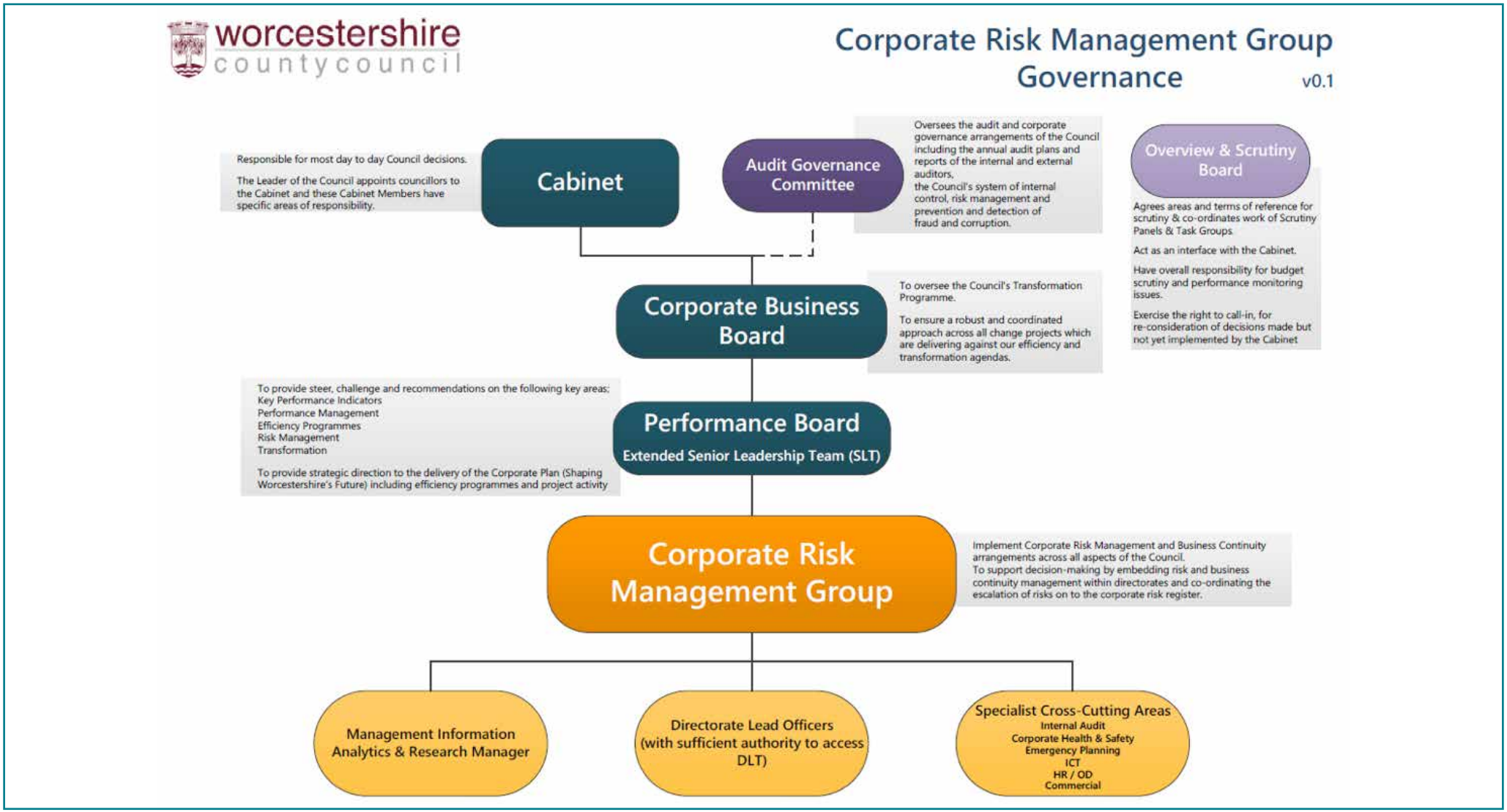
We endeavour to always be open and transparent through our officer and member activity. A large amount of information is available on the County Council website which gives details of the working of the organisation, what we spend, and how our decisions are made.

We have a forward plan which provides information about all the decisions that the County Council has scheduled. Formal agenda, reports and minutes for all committee meetings are published on our website which ensures that people know what decisions the County Council is planning to take, and the decisions taken.

Arrangements are in place to ensure that we fully comply with the requirements of the Public Sector Internal Audit Standards (PSIAS) and CIPFA Statement on the Role of the Head of Internal Audit. During 2018/19 the County Council's internal audit service has been provided by Warwickshire County Council whose Internal Audit and Insurance Manager was designated as the Head of Internal Audit and has regular formal meetings with the directors and Chief Financial Officer. From 1 April 2019 the Internal Audit service will be provided internally.

Review of Effectiveness

The effectiveness of risk management within the County Council is reviewed throughout the year by the Corporate Risk Management Group. The outcomes of this Group have informed this Statement. The governance process undertaken by the Group are detailed below:



The Internal Audit service has completed 30 audits in 2018/19. Of these 4 have received limited assurance results:

1. Offmore Primary
2. School themed audit – budget management, payroll, procurement, ordering and creditor payment processes
3. School theme audit – schools in financial difficulties
4. Accounts payable

Based on the results of work undertaken during the year, the audit opinion is that the County Council's control environment provides moderate assurance that the significant risks facing the County Council are addressed.

Significant Governance Issues

2017/18 Governance Issues

2017/18 issues Governance issues	Update on progress
Sustainable improvement in Children's Services. As noted in the 2016/17 AGS the response to the statutory improvement notice in Children's Services remains live. An improvement plan and plans to establish an alternative delivery model are well underway with regular programme monitoring and independent checking. It is envisaged that this will thus remain a key risk for the County Council to address in 2018/19, although at this stage response is being well managed and mitigations are in place. As is being seen in most councils across the country, demand pressures within children's social care continue to be a risk for the County Council due to the rise in numbers of children looked after and the complexity of need within the looked after children population. Children's Services will also be responding to the outcomes of the 2017/18 Special Educational Needs and Disabilities (SEND) inspection.	As noted in the 2017/18 AGS the response to the statutory improvement notice in Children's Services remains live. The improvement plan continues with regular programme monitoring and independent checking. The new wholly owned Council Company 'Worcestershire Children First' is in shadow form and will become live from 1 October 2019. A programme board is in place to ensure a smooth transition. Even with the many service improvements and mitigations this will remain a significant risk for the County Council to address in 2019/20. As highlighted last year most councils across the country are seeing demand pressures within children's social care continuing to be a risk due to the rise in demand for resources and numbers of children looked after and the complexity of need within the looked after children population. Children's Services will also continue to respond to the outcomes of the 2017/18 Special Educational Needs and Disabilities (SEND) inspection which resulted in a requirement for a written statement of action. A comprehensive improvement plan is in place overseen by a programme board. Continued pressures are the rising numbers of children with additional needs, school placements and SEND transport costs. Funding for the 16-25 cohort continues to present a challenge. The County Council and schools continue to lobby central government on this matter.
Migration of Human Resources and Finance System. Implementation of the Independent review actions recommended by SOCITM are well progressed. Whilst 2017/18 saw responses to immediate issues following Go Live of the General Ledger system (E5) and HR system (iTrent), the longer-term issues are being addressed. The County Council is now in a period of improvement and transformation with its partner (Liberata), and progress is being monitored regularly by the County Council's Audit and Governance Committee.	Both the General Ledger and HR system are operating effectively and enabling the County Council to conduct its operational activities. We continue to work with Liberata to effect ongoing improvements to the systems. This governance issue can be closed.

2017/18 issues Governance issues	Update on progress
Ensuring delivery of the County Council's vision and corporate objectives, in line with the Medium-Term Financial Plan. The County Council has set a balanced budget for 2018/19 as well as an indicative longer-term financial plan. However, at this time there is considerable uncertainty over the funding for local government. It is expected that over the summer of 2018 there will be further clarity and the County Council will need to respond accordingly. As such this potential risk needs continual review and councillors will be kept abreast of progress in delivering the 2018/19 budget and the funding position for future years through Cabinet monitoring reports in 2018/19. In addition, following a review by Overview and Scrutiny of a CIPFA resilience review officers will be working closely with councillors to ensure greater engagement and levels of debate in the budget setting process. In addition to this the County Council's maintained school's balances have again reduced and with the changes in funding formula this is an area of potential risk that requires further review.	2018/19 was a challenging year financially for the County Council, with a net reported overspend of £2.0 million. Stringent management in year and regular reporting to members and all staff ensured that the position was effectively managed in year. Cost pressures were also seen in DSG-funded schools, with particular issues around High Needs Funding. Robust future planning in terms of annual budget setting and medium-term financial planning, including comprehensive transformation and savings plans, will go some way to mitigating financial pressures, however uncertainties around funding and cost pressures will continue to pose challenges for the Council.
Adult Social care - Operational Pressures The local health and social care economy are under considerable demand pressure. As well as financial implications this is seen in pressure points such as delayed transfers of care from hospitals and lack of capacity in specific sectors of the care market. The County Council is actively working with its partners in the Health and Independent Sectors.	During 2018/19 the County Council has worked closely with all partners and had an agreed s75 agreement in place that was managed through joint bodies. The County Council rolled out its three-conversation model across the county following successful pilots. Demand continues to be a pressure and the County Council will continue to hold this as a key challenge to be addressed with its partners.

2017/18 issues Governance issues	Update on progress
Staff capacity, recruitment and retention: The County Council has undergone a significant change in its Senior Leadership Team over the last six months. There will inevitably be a period of settling and challenge which may lead to further changes. The risk of staff retention and workforce planning thus needs to be considered and mitigated as appropriate during the next 12 to 18 months as part of any change programme to ensure the right capacity is maintained and staff development is maximised. Staff capacity may be impacted by national health issues such as Human Pandemic Flu. Epidemiological modelling suggests that an outbreak is possible at any time and its impact is likely to be severe.	The Chief Financial Officer took up post in April 2018 leading to a fully resourced Strategic Leadership Team who have been able to begin the development of a robust performance and management culture within the County Council. This work includes the launch of an Organisational Redesign programme which will consider and develop strategies for the recruitment and retention of staff. Staff resources, including well-being and turnover, are regularly monitored by the Strategic Leadership Team. An output of the County Council's redesign programme will be a new workforce strategy. Pandemic influenza and its impact on staffing issues have been considered by HR and the view is that there will need to be a dynamic decision-making process during an outbreak.

2018/19 Governance Issues

2018/19 issues Governance issues	Update on progress
Sustainable improvement in Children's Services. As noted in the 2017/18 AGS the response to the statutory improvement notice in Children's Services remains live. The improvement plan continues with regular programme monitoring and independent checking. The new wholly owned Council Company 'Worcestershire Children First' is in shadow form and will become live from 1 October 2019. A programme board is in place to ensure a smooth transition.	Worcestershire Children's First (WCF) will provide all aspects of Children's Services for the County Council. Arrangements in place to safeguard vulnerable children are referenced in the risk below. WCF's remit will include ensuring education services for all children in Worcestershire. Control measures in this area include a SEND improvement action plan, High Needs funding review, work with schools in deficit budget positions and the involvement in the Corporate Transport Board. Risks relating to the implementation of WCF in 2019/20 have action plans and mitigations attached. Key staff have been appointed to the Company to manage these alongside County Council staff and members.

2018/19 issues Governance issues	Update on progress
Serious harm or death of a child or young person Safeguarding risk because of serious harm or death of a child or failure to safeguard children. Reputational risk as a result of poor inspection or service breakdown.	There is a comprehensive improvement plan in place. The creation of a wholly owned Company (Worcestershire Children's First) will increase the focus on safeguarding issues. A comprehensive social worker training programme is in place. We have also implemented a "signs of safety" social work model. Issues of capacity of social workers are being addressed by improved recruitment and retention measures, including the recruitment and retention of high quality and experienced managers. We are also cross-referencing learning from other regional and national safeguarding case reviews.
Activity exceeds budget allocation Inadequate budgets and / or ineffective financial management will impact on the County Council's ability to effectively provide services and impair our ability to forward plan. The level of earmarked and general reserves could also be impacted by any unplanned draw down.	Engagement with operational staff to determine required service budgets. Regular budget monitoring and operational challenge is in place. Robust forward planning through the Medium-Term Financial Plan. Redesign work is underway to identify £3 million corporate savings alongside a procurement review to identify £3.5 million.
Serious harm or death of a vulnerable adult A safeguarding risk because of serious harm / death from failure to safeguard a vulnerable adult. We also face reputational risk as a result of service breakdown.	A Safeguarding Adult Board is in place with representation from safeguarding partners. A centralised Adult Safeguarding Team located within the Safeguarding Hub ensures competency of staff, information sharing and consistency in decision making. The Adult Safeguarding Team are aligned with the Locality Teams and 3 Conversations processes. Staff are assessed against WSAB safeguarding competency framework.
Staff capacity, recruitment and retention Our ability to deliver front line and key services will be impacted unless the County Council adopts a range of strategies to attract and retain a highly skilled and specialised workforce.	There is a dedicated HR team supporting social work recruitment. We are using agency workers to cover specialist and hard to fill roles and considering enhanced payment packages to attract / retain the right staff as part of the Organisational Redesign programme. The development of a workforce strategy to identify future needs and potential gaps is underway. We are also working to develop and train internal resource, including maximisation of internal secondments. Human flu pandemic – PH EP – pan flu scenario BCP exercise to be undertaken in 2019/20

At the end of 2018/19 the Council reported pressures on its High Needs budget, in particular within funds delegated to schools under the Dedicated Schools Grant (DSG). In total the gross position across all schools was a £7.1 million overspend which was offset or carried forward using DSG reserves as allowed under statutory provision. This meant the DSG reserves were in technical deficit at 31 March 2019 by £0.6 million. In addition the County Council saw an overspend on its High Needs related budgets. The County Council is aware that the vast majority of councils across the country are facing similar pressures arising from a change in the way these services are provided arising from the 2014 Children and Families Act. The extension of the legislation up to 25-year-olds and the introduction of Early Health and Care Plans have brought pressures. None of which was adequately funded by central government, with no new burdens financing made available. Whilst some additional grant (£1.2 million) was awarded for 2018/19 and 2019/20 it is not sufficient to bridge the gap. As reported to Cabinet in June 2019 (paragraph 28 of the Revenue Outturn report) during 2019/20 the County Council will be working with the Schools Forum to explore ways to manage these costs as best it can, but at the same time will be lobbying central government to resolve the shortfall in funding arising from its changes.

Issues identified for 2019/20

A number of the issues raised above continue to be the key focus for the County Council's leadership:

- Establishment of Worcestershire Children's First
- Safeguarding vulnerable children and adults
- Ensuring a financially sustainable short and medium-term budget
- Monitoring and effective establishment and developing staffing.

A further factor to be managed in 2019/20 is the implementation of a new adult and children's case management system. In October 2019 and February 2020, the County Council's current system (Framework-i) will be replaced for Adult and Children's Services respectively with Liquidlogic. This process is being managed through project management practices, including regular reporting on progress, and, if appropriate, escalation of matters to the County Council's leadership.

Certification

To the best of our knowledge, the governance arrangements, as defined above have been effective. We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation during the year and as part of our next annual review and through the County Council's Corporate Risk Management Group.

Paul Robinson
Chief Executive
Date: 29 July 2019

Simon Geraghty
Leader of the County Council
Date: 29 July 2019

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worcestershire countycouncil

AGENDA ITEM 8

AUDIT AND GOVERNANCE COMMITTEE
29 JULY 2019

ANNUAL STATUTORY FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

Recommendation

1. **The Chief Financial Officer recommends that the Final Accounts Pack, including the Statement of Accounts for the financial year ended 31 March 2019, be approved.**

Background

2. The Council and Pension Fund are required to prepare annual Statement of Accounts and to arrange for them to be audited and reported in accordance with the Accounts and Audit Regulations 2016, and the 2018/19 Code of Practice on Local Authority Accounting in the United Kingdom, issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Statement of Accounts presents the overall financial position of the Council and the Pension Fund, reflecting the Council's outturn position and the Pension Fund net asset position.

3. This report sets out the key issues arising from the external audit of the Statutory Accounts and the process for their publication. The external audit was carried out by the Council's External Auditor, Grant Thornton UK LLP, who has provided audit reports for the County Council and Pension Fund accounts. Grant Thornton are required to report on any amendments from the draft Statement of Accounts as part of the submission of the final version to the Audit and Governance Committee. The full report arising from this audit is included in the ISA 260 report to those charged with governance, which is included in the committee papers, and should be read in conjunction with this document.

Key issues arising

4. The draft accounts were signed by the Chief Financial Officer and published on the Council's external website on 17 May 2019, ahead of the statutory deadline of 30 June 2019. Grant Thornton commenced their audit on 28 May 2019. The draft accounts were taken to Cabinet on 6 June 2019. The Statutory Deadline for audited accounts publication is 31 July 2019.

5. The financial position reported in the Council's Statutory Accounts for 2018/19 was an overspend of £2 million against the net budget of £324 million, with an accounting deficit, which includes adjustments of £49.7 million, for pension's actuarial costs, capital costs and other financial adjustments, of £52.6 million. The County Council's General Fund reserve balance remains at £12.2 million, whilst there has been a decrease of £2.9 million on available earmarked reserves taking their balance at 31 March 2019 to £81.5 million.

6. The value of the Pension Fund's net assets increased by £94.3 million from £2,701.0 million at 31 March 2018 to £2,795.3 million at 31 March 2019. During the year a surplus resulted on the Pension Fund accounts totalling £16.8 million, a decrease of £98 million from a surplus of £114.8 million in the previous year. This was mainly due to some Fund contributors paying their 3-year contributions fully in 2017/18.

7. The Court of Appeal judgement in relation to the McCloud pension case has indicated that the LGPS pension fund is likely to be liable for adjustments relating to age discrimination relating to the implementation of transitional arrangements on changing benefits. The Pension Fund, on behalf of the employers in the scheme, commissioned an updated valuation for the actuary to take account of this judgement. This resulted in a £6.5 million increase in past service liabilities and a £1.3 million projected service cost increase for the County Council.

8. The external audit has identified a number of non-material corrections which have been agreed and completed. We have also identified improvements to the process and working papers which we will implement as part of our ongoing Statutory Accounts process.

9. There have continued to be improvements in the quality of the working papers in general, including how we report from the e5 financial system and the quality of some source documentation, which caused several issues in the 2017/18 accounts. Further areas for improvement have been identified including the need for increased narrative information to support the numbers in the accounts and working papers, a greater focus on the disclosure checklist to assist the external auditors in assuring that our accounts are consistent with the Code and further work to improve property, plant and equipment working papers.

10. The Value for Money assessment has concluded that the Council has proper arrangements in all significant areas, except for Children's Services where the outstanding judgement from Ofsted in respect of their recent re-inspection means the auditors are unable to conclude their work at the time of writing this report. It is expected that this report will be issued before the end of July and there will be a verbal update during committee.

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Contact Points

County Council Contact Points
County Council: 01905 763763
Worcestershire Hub: 01905 765765

Specific Contact Points for this report
Michael Hudson, Chief Financial Officer
Tel: 01905 845560
Email: MHudson@worcestershire.gov.uk

Supporting Information

- Appendix: Annual Financial Report and Statement of Accounts

Background Papers

In the opinion of the proper officer (in this case the Chief Financial Officer) there are no background papers relating to the subject matter of this report.

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Annual Financial Report and Statement of Accounts 2018 / 19

Find out more online:
www.worcestershire.gov.uk

worcestershire county council

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Worcestershire County Council Annual Financial Report

Leaders Introduction

2018/19 has been a challenging but productive year. We have continued to grow our economy with low unemployment and more homes and businesses. Consequently, we have raised more income through council tax and business rates. However, demand for our services, in particular adults' and children's social care, is growing faster. As a result of this fast growth in demand, during 2018/19, in common with many councils, we reported a potential significant overspend, however I am pleased to say that after a considerable effort by Cabinet, Management and staff we managed to reduce this to a £2 million overspend. That is in line with our planning and acceptable use of reserves position. You will see in note 2 our overall position on reserves with general fund balances at £12.2 million and earmarked reserves at £84.4 million. I am please that following strong scrutiny we have set a robust budget for 2019/20 that took account of all the issues we identified in 2018/19.

Alongside our financial challenges last year saw significant strides forward for our County, in particular we saw:

- Living independently is more likely if people are active in their local community. In 2018/19 we created an innovative social prescribing pilot in which people attending their GP can be seen by social prescribers who can support them with social issues and refer where appropriate to other community services.

- Stage 3 of dualling of the Southern Link Road was completed on time with the new railway bridge over Crookbarrow recognised nationally. The final stage has started, with £55 million funding the dualling of the road between the Ketch and Powick roundabouts. Planning has been secured and completion is due during 2021.

- Our economic "game changer" sites in the County continue to grow. Worcester Six has seen five new investors taking over 700,000 sq. ft. of commercial space. Redditch Gateway has been granted outline planning consent for 1,000,000 sq. ft. Malvern Hills Science Park continues to develop high quality defence and cyber security jobs with construction complete on Phase 5 and further expansion planned.

Looking forward to 2019/20 we have a strong financial base on which to build, and I was pleased that this includes our capital programme. As a result, Council were able to approve £26 million more of investment into the County to strengthen and develop our economy.

2019/20 will see the creation of Worcestershire Children First, a wholly owned company of the Council that is driving forward continual improvement in children's care, safeguarding and education. The Council is investing a further £8.5 million into these services.

So, whilst local government funding remains a constraint, we are effectively managing our resources to ensure we deliver improvement for our residents and businesses of Worcestershire.

Simon Geraghty, Leader of Worcestershire County Council
May 2019

Chief Executive's Introduction

At the end of my first year and the reporting of our 2018/19 Accounts I would like to start by thanking all staff and councillors for their efforts in what has been a challenging year. Over the last 12 months we have recruited a new leadership team, challenged our budgets and delivered significant improvement. That has taken hard work and resilience from everyone that has not gone unrecognised.

Local Government has been topical over the last twelve months and particularly with regard to the sectors financial stability. Against this context my initial priority was to establish Worcestershire County Council's financial position and to understand the pressures facing the organisation. The budget for 2018/19 contained all of the essential funding decisions expected, however the assumptions made around demand management were proving to be over optimistic in terms of timescales to deliver against the experience on the ground, particularly in the field of Adult Social Care. This resulted in a significant in-year pressure of almost £18 million and as such required urgent action to ensure the pressure was reduced and if possible completely removed. Whilst we are reporting an overspend it is in line with our forecasts and have addressed the long-term issues in 2019/20. This has meant we are moving away from the previous years' trend of relying on our reserves.

Shaping Worcestershire's Future continues to guide the Council's work. It sets an ambitious vision for Worcestershire with refreshed aims around our four priorities up to 2022.

It includes cross-cutting themes covering: moving towards self-sufficiency by growing our income base and better utilising our assets, an enabling authority helping individuals, families and communities to do more for themselves, evaluating providers and securing value for money and finally, working better together as One Worcestershire. Against this plan an incredible amount of work and progress has been achieved over the last 12 months:

- Worcestershire LEP is continuing to make great progress, contributing towards the delivery of 21,500 new homes by 2025. Worcestershire is playing its part at a regional level in the Midlands Engine, Midlands Connect and West Midlands Rail as well as the North Cotswold Line.
- Our investment in digital infrastructure continues, with superfast broadband (24Mbps+) now available to over 95% of premises in the county. In March 2018, Worcestershire was one of only six projects across the country to be awarded funding as part of DCMS' 5G Testbed and Trials programme.
- Investment in the County's rail network continues as a pace with Worcestershire Parkway, Bromsgrove and Kidderminster development progressing.
- We have continued to complete a range of drainage and flood mitigation schemes in key locations to improve the County's resilience. During the last 12 months the major flood adaptation schemes at New Road in Worcester and Upton-upon-Severn have been completed.

- The last 12 months in Children's services have concentrated on the continual improvement agenda and the creation of the new Council-owned company Worcestershire Children First. We continue to improve strongly having completed six interim Ofsted visits, all of which have shown good progress, with the final visit at the beginning of January prior to a full re-inspection expected during the spring / summer of 2019.
- Within Adult services despite the financial pressure the service has developed and implemented the new Three Conversation model of social care with very positive early results both in terms of resource requirements and feedback from service users.

Governance is important in ensuring the Council operates ethically and effectively and as Chief Executive this forms a fundamental part of the role. Since starting in post, I have placed an emphasis on improving our performance and risk management frameworks. You will see in our Annual Governance Statement the progress we have made, particularly around our financial controls and processes. Also, we have set out the focus of our improvement over 2019/20, including improving our organisational culture and accountability through our redesign programme. This will be informed by our staff, with over 120 volunteers helping us define new ways of working.

Worcestershire has an excellent history of partnership working and shared services and this continues to be a core objective and priority.

I was, therefore, delighted that Worcestershire Councils were one of 15 chosen to pilot changes proposed to the Business Rates Retention system. This means in 2019/20 Worcestershire will keep 75% of its Business Rates in County instead of 50%. That means an extra £4.5 million. Our bid was chosen due to its innovation and the strength of our partnership with districts, as all of this additional money will go towards preventing some of the future demand and cost of care, which is the biggest pressure the County Council faces going forward. We will be allocating this additional money to and working with local government, public and voluntary sector partners. We hope to show the rest of the public sector how such a strong partnership can improve the lives of residents and push for retaining income from business rates in County.

Paul Robinson, Chief Executive
May 2019

Chief Financial Officer's Narrative Report

Worcestershire is a County with a proud heritage. Home to over half a million people, with a mix of urban and rural communities, and a thriving economy. The County Council, like its peers and public sector partners, continues to deal with a significant increase in demand for and cost of our services, most of which relates to social care. Through good financial management the County Council continues to set and deliver a balanced budget, whilst also improving its performance in key areas.

2018/19 presented a significant challenge for the Council. The budget of £324.2 million faced service pressures of £17.9 million at the beginning of the year which was brought down to a £2 million overspend at the end of the financial year following a number of management actions to reduce or defer expenditure and optimise use of income. In total the Council achieved £27.7 million of planned recurrent savings. The outturn shows that we have overspent by £2 million, which will be funded from our earmarked reserves. The position by directorate is given below:

Service area	Budget £m	Outturn £m	Variance £m
Adult Services	125.396	138.03	12.634
Children, Families & Communities	96.361	97.813	1.452
Economy & Infrastructure	63.544	59.001	-4.543
Commercial & Change	39.722	32.207	-7.515
Public Health	-0.831	-0.831	0
Total	**324.192**	**326.22**	**2.028**

Whilst any overspend is a matter of concern and is a draw on reserves, it is within the expectation of the Council's approved Medium-Term Financial Plan (MTFP). The MTFP was strengthened in February 2019 when the 2019/20 budget and MTFP was approved recognising both the need to increase the budget to support vital adults and children's demand led social care services together with the successful actions implemented during 2018/19 to reduce service pressures.

Our key financial service performance measures saw a mixed outcome for 2018/19 with 99% of our creditors paid within 30 days of invoice date, compared to our 2017/18 performance of 98%. We also sought to make savings by agreeing new payment terms with our major national suppliers. However, the time taken to collect our debt has slipped in 2018/19 with 97% collected in 90 days, compared to 98% in 2017/18. As a result, we have increased the impairment allowance for trade debtors by £0.3 million. At the same time, we are reviewing and looking to standardise and centrally manage this process going forward.

Finance staff continue to work closely with our service partner Liberata and our external auditors Grant Thornton to improve performance to ensure a robust close-down process and produce the statutory accounts more quickly, and I express my thanks for their hard work.

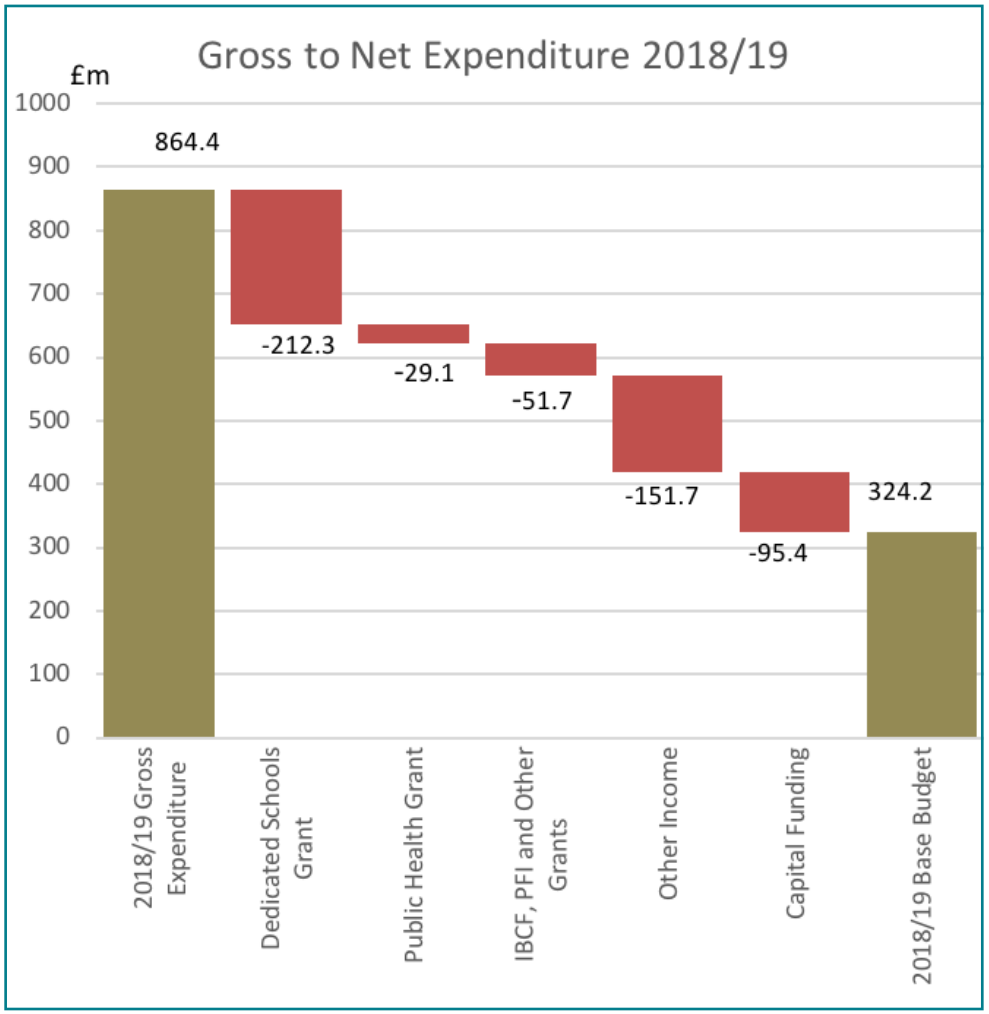
As the financial pressures facing council's increase, it is imperative that we continue to put financial strength and competence at the heart of all decision making to deliver an innovative, strong, resilient and sustainable financial performance. To that end, we have a Financial Improvement Programme that is driving change, and this programme is monitored and reported to our Audit and Governance Committee on a regular basis. Further in-depth highlights of the 2018/19 Statement of Accounts are contained in the Finance and Performance Review section below.

Michael Hudson LLB (Hons), LLM, CPFA
Chief Financial Officer
May 2019

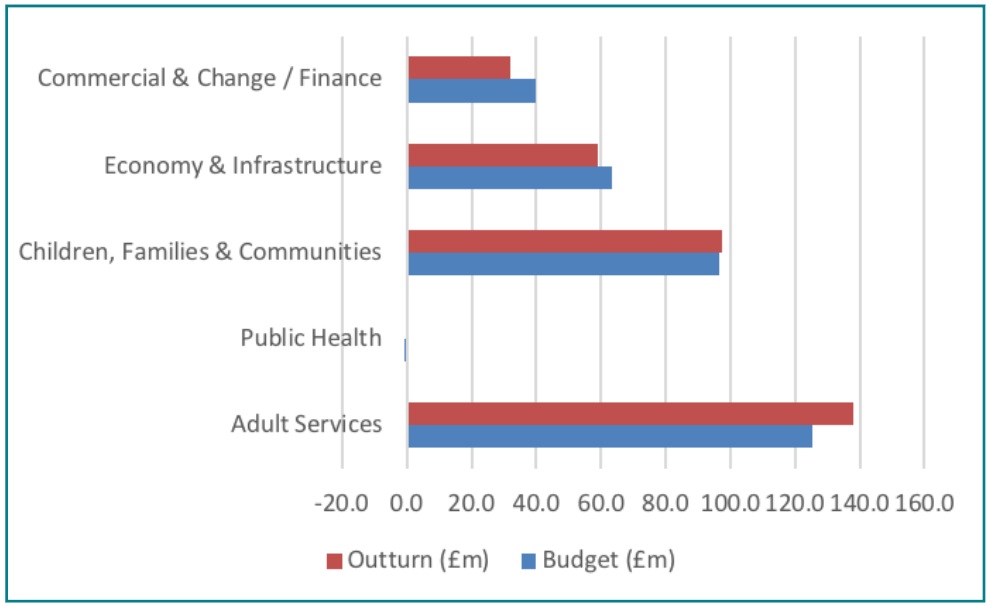
Finance and Performance Review

2018/19 Financial performance

The County Council net budget for 2018/19 was £324.192 million. The breakdown of gross to net expenditure is shown in the graph below.



In line with budget monitoring throughout the year the County Council overspent by £2 million in 2018/19, with pressures in Adult Services and Children, Families and Communities being offset by underspends in Economy and Infrastructure and Corporate Services. The graph below gives details of the outturn position by directorate.



Significant management action has been undertaken in year to reduce the scale of the overspend in addition to delivering the original savings plan. Savings of £27.7 million have been delivered. The key financial and performance for each directorate is drawn out in the following paragraphs.

Adult Services

The Adult Social Care budget has overspent by £12.6 million, a combination of pressures in all areas of social care. In particular the increased demand and cost in the learning and physical disability service saw £8.9 million more spent than the original budget. The use of grants, changes to income, service delivery and vacancy management have enabled managers to offset some of these pressures. The 2019/20 budget has sought to redirect resources to rebalance these budgets.

Children, Families and Communities

Children's social care placements demand and costs continued to increase in 2018/19, resulting in an overspend of £1.5 million. In addition, home to school transport for children with special education and needs disabilities returned an overspend of £0.5 million. Whilst underspends in other areas of the service have partly offset these pressures, there was a recognition of the need to reprioritise resources for these services in 2019/20, with a net increase of £8.5 million agreed by Council in February 2019.

The increasing cost of high needs provision has placed significant pressure on the Dedicated School's Grant (DSG) funding as well as the Council. At the end of 2018/19 this budget reported a net £0.6 million overspend. This will be carried forward to be found in future years from the DSG, however the Council continues to lobby with schools the need for this to be addressed nationally.

Economy and Infrastructure

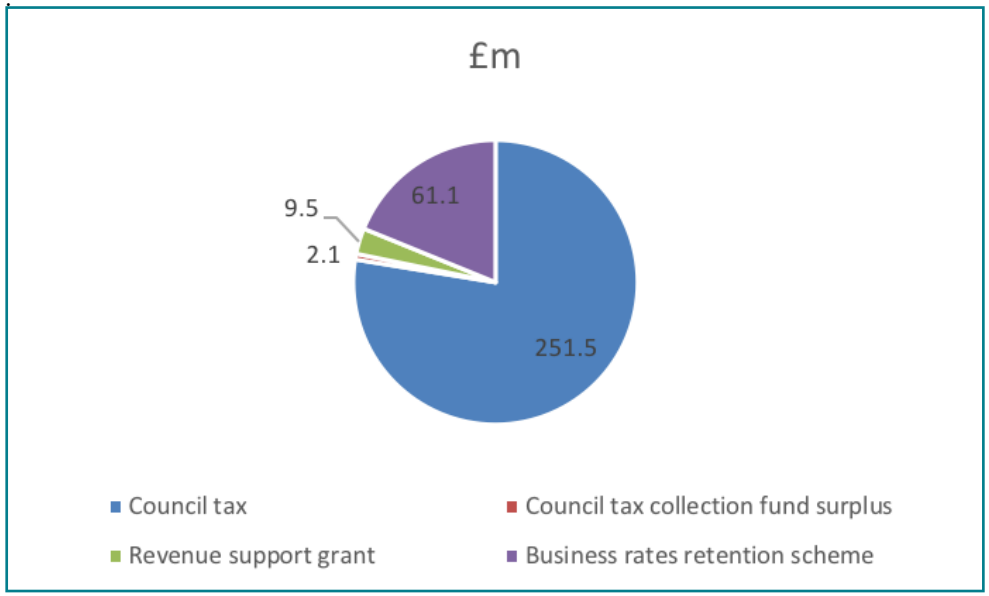
The directorate has delivered an underspend of £4.5 million, with a significant proportion of this relating to the capitalisation of works and in part due to a reduction in tonnages in Waste Services.

Commercial, Change and Corporate Items

Following strong financial management, it was possible to defer a large element of planned borrowing during the year. This resulted in financing borrowing costs being £4.4 million less than budget.

Funding sources

The Council's core revenue expenditure was funded by a combination of locally raised funds and resource allocated from central government. This is the final year the County Council will receive Revenue Support Grant.



The Council Tax Band D equivalent was set at £1,212.38, including £78.71 relating to the ring-fenced Adult Social Care precept.

Services also derive funding from specific grants, contributions and fees and charges. Key grants are the Improved Better Care Fund, Public Health Ring-fenced Grant and Dedicated Schools Grant. The terms and conditions of these grants vary, and the funding may be non-recurrent.

Impact on the Council's Assets and Liabilities

Property plant and equipment has increased by a net £6.1 million in 2018/19. We have disposed of £41 million of assets, including 12 schools which have converted to academy status during 2018/19 resulting in a £36.2 million reduction to the Council's assets at nil consideration.

We secured £7 million of capital receipts which have helped us manage our borrowing requirement and fund transformation. At the same time, we are reporting a further £8.4 million of assets held for sale (note 14.8 Non-operational assets). Of these a quarter of the value is linked to the disposal of the former Kidderminster School which has planning permission for a new adult's residential home which will increase capacity for care in the County.

The County Council's pensions liabilities have increased by £111.7 million. Of this £68.1 million relates to an actuarial loss from changes in financial assumptions surrounding discount rates and CPI inflation assumptions. The increase in liabilities is consistent with the 5% to 10% anticipated in the actuary's report. £6.5 million additional liability is because of the McCloud judgement, where it has been judged that the transitional protections afforded to older members when Public Service Pension Schemes were amended constituted unlawful age discrimination. Our actuary has carried out an additional valuations exercise to determine the estimated level of liability this judgement exposes us to. The full implications will be assessed as part of the 2019/20 triennial actuarial review.

We are undertaking a programme of active debt management which started in the latter part of 2018/19. We saw the average time to collect a debt slip from 35 days to 39 days in 2018/19. As a result, we have increased our impairment allowance for trade debtors by £0.3 million, however we are seeking to actively manage debts going forward through more standardised and centralised processes. Action in the latter few months has already seen a significant improvement and our trade debtors of £7 million less than 2017/18.

Whilst our time to pay creditors continues to be high (99% of all creditors paid within 30 days), we have undertaken a review of creditor payment terms to secure savings where we can negotiate reduced costs. Overall the increase of our trade creditors at 31 March 2019 by £6.4 million is more related to timing than any other changes.

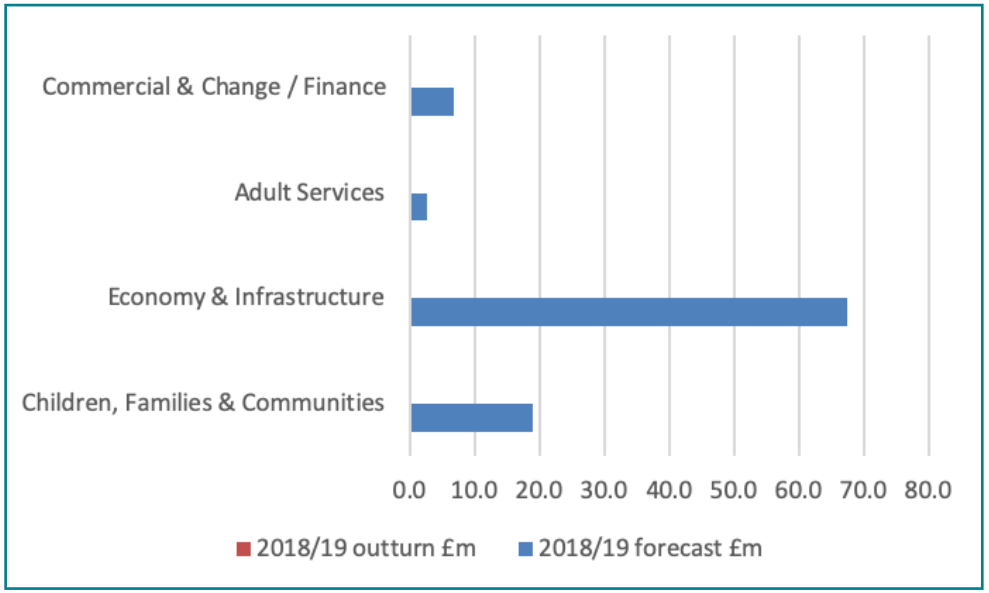
Our earmarked and other usable reserves have decreased slightly over the year. This reflects the financial position of the County Council in the year, with directorates drawing down amounts put by in previous years to support service delivery. Further detail is given below.

Financial risks and our reserves

Underlying cost pressures and extensive use of specific grants and other reserves has significantly increased since previous financial years. Our General Fund Reserve balance at 31 March 2019 was unchanged at £12.2 million, whilst the net movement of our earmarked reserves saw a small reduction of £2.9 million, including the funding of the £2 million overspend.

Capital Programme

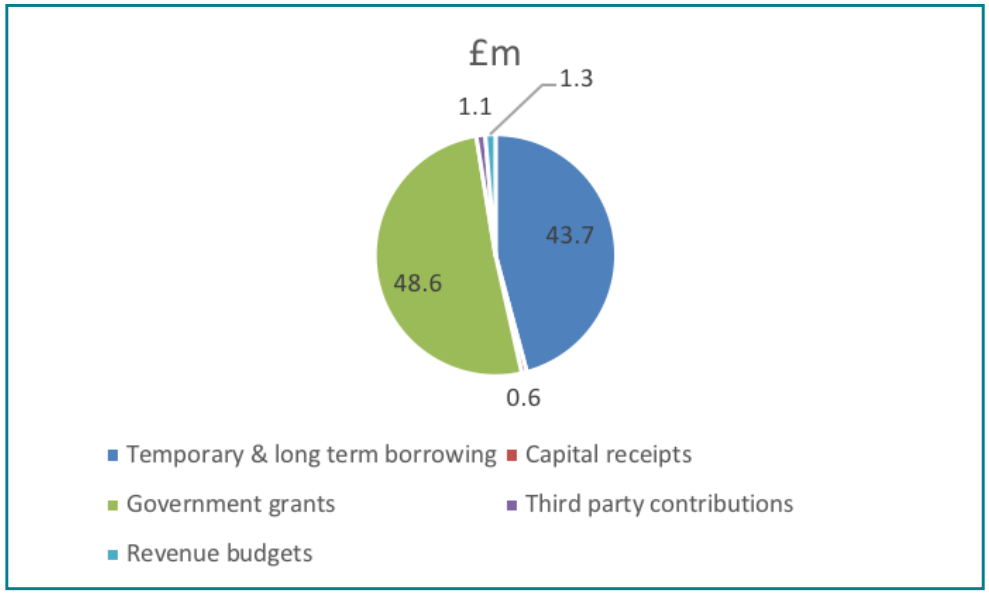
The capital programme for 2017/18 to 2020/21 and beyond totals £380.9 million, with £95.4 million in 2018/19. Expenditure is most significant in the Economy & Infrastructure Directorate which includes infrastructure support for Open for Business priorities.



Key schemes supported during 2018/19 are:

- Southern Link Road Dualling
- Upton upon Severn Drainage
- Pavement Improvement Programme
- Social Care Case Management System Replacement

Funding for capital schemes comes mainly from government grants, usually for specific developments, and borrowing, as shown below.



Impact on Treasury Management and cash flow

Our short-term borrowing has reduced by £20.9 million whilst our long-term borrowing has increased by £42.4 million. We continue to manage this and report separately to Cabinet and Council. All transactions have been completed in accordance with our Treasury Management Strategy for the year.

Delivering the Corporate Plan

The Council's 2017-22 Corporate Plan – Shaping Worcestershire's Future, sets a clear vision and four distinct priorities for the organisation and wider partnership to focus on delivering. This is set out alongside a revised way of working, move towards financial self-sufficiency and encouraging those individuals, families and communities who can to do more for themselves, enabling limited resources to be targeted on protecting the most vulnerable in society. Regular public engagement has consistently highlighted the following important aspects to consider when allocating resources:

- Safeguarding vulnerable young people, particularly those in or leaving care to ensure they are safe and can make the most of the opportunities they have
- Protecting vulnerable older people, particularly those with physical, learning and mental health difficulties
- Maintenance of the highway.

Political structure

The County Council is run by 57 elected Councillors who are responsible for making sure that the services we provide meet the needs of residents and those who work in the county. They do this by setting the overall policies and strategies for the County Council and by monitoring the way in which these are implemented.

Full Council meetings are held regularly throughout the year. Council is responsible for agreeing the main policies and priorities for all services, including the County Council's budget. Cabinet is responsible for most day to day Council decisions. The Leader of the Council, Simon Geraghty, appoints councillors to the Cabinet and these Cabinet members have specific areas of responsibility. There are currently ten members of Cabinet.

Cabinet makes its decisions in line with overall policies, priorities and budget. All of its decisions are made in accordance with governance arrangements and details of Cabinet meetings are available at the following: Browse meetings - Cabinet - Worcestershire County Council. The work of Council is supported by a number of other committees:

Further information about the County Council's governance arrangements can be found on the County Council website www.worcestershire.gov.uk., in the Council, Democracy and Councillor Information section and in the Annual Governance Statement which forms part of this document.

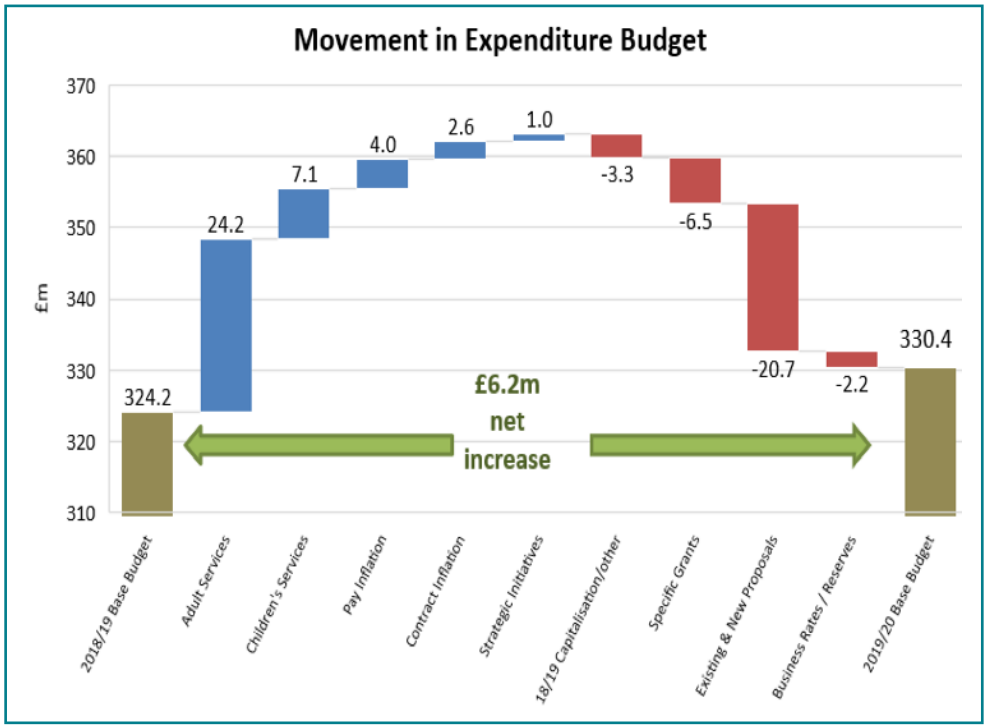
The County Council is operationally managed by the Strategic Leadership Team, comprising the Chief Executive, directors from the 5 directorates and the Chief Financial Officer.

Looking ahead and going concern

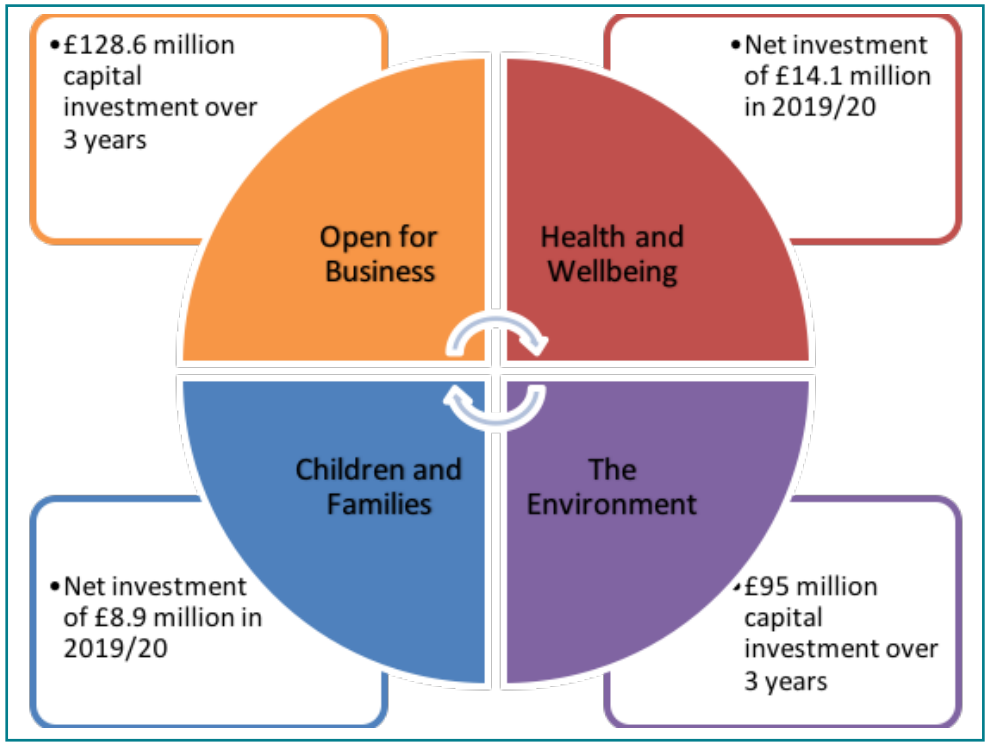
The 2019/20 budget was approved at Council on 14 February 2019, with the detailed proposals presented to Cabinet on 31 January 2019.

Expenditure

The net revenue budget requirement for 2019/20 is £330.390 million. That is a net £6.2 million more than 2018/19, however to achieve a balanced budget a number of investments and £20.7 million of savings were approved by Council in February 2019.



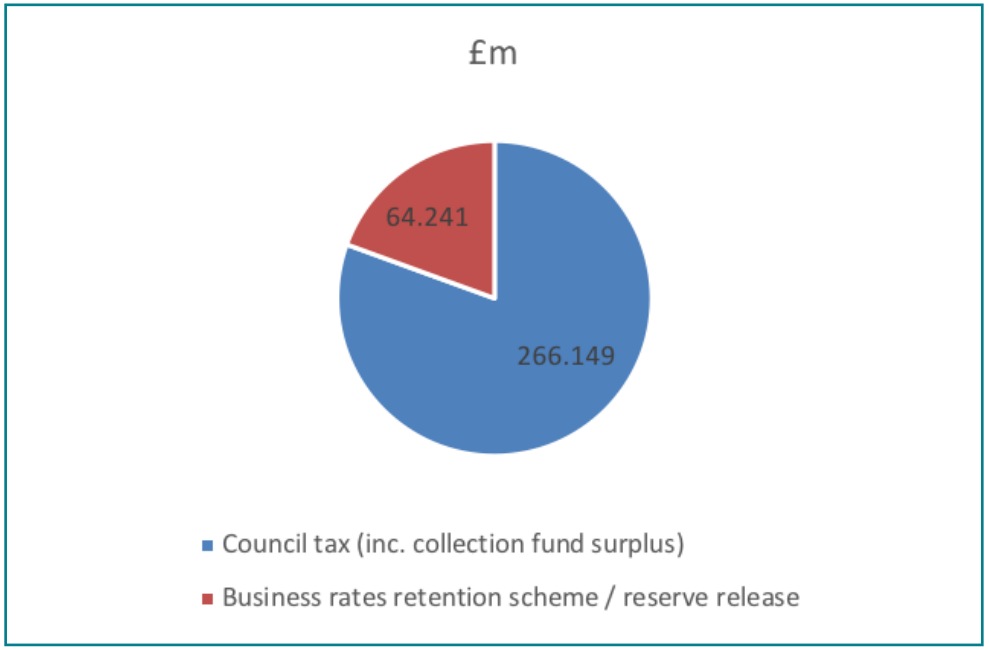
The medium-term financial plan confirms the commitment to continue to resource the Council's Corporate Plan priorities. It includes a capital programme of £397.5 million to deliver regeneration, infrastructure and other changes during 2019-22.



We are supporting this with a commitment to invest £31.9 million to ensure that the County Council is operating efficiently, prepared for the future including more digitally enabled operations, and closer working with our key partners.

Funding

The Revenue Support Grant ceased in 2018/19 resulting in the main sources of the County Council's income being collected locally, with local taxation, through Council Tax and the Adult Social Care Precept, accounting for 80% of core funding income in 2019/20.



The County Council and its six District Council partners have been successful in its application to be a 75% Business Rates Retention Pilot. This is for one year only (2019/20) and is worth around £4.9 million and the money will be spent on District or County Council services specifically to help prevent or reduce the costs of Adults' and Children's social care across the County.

Additional one-off grants will be received for 2019/20, including £1.2 million for Special Education Needs and Disabilities and £0.9 million from Central Government's Business Rates Levy surplus

Medium Term Financial Plan 2019-22

The Medium-Term Financial Plan takes account of the Corporate Plan commitment, the cost of providing our services and current central government funding announcements. Our current assumption is that there will need to be a total of around £60 million of savings, reforms and income generation over the period 2019-22, with around £23 million required in 2019/20.

Medium Term Financial Plan	2019/20 £000	2020/21 £000	2021/22 £000	Total £000
Funding	330,390	339,259	351,938	1,021,587
Projected Budget Requirement	353,354	356,199	373,210	1,082,763
Funding Gap (Before Reforms)	22,964	16,940	21,272	61,176

Worcestershire Children First

In September 2017, following the Worcestershire Children's Commissioner report, the Department for Education directed that the County Council should move the operational delivery of Social Care Services for children to an Alternative Delivery Model. The development of a Wholly Owned Council Company was approved at Cabinet on 29 March 2018. The company is called Worcestershire Children First and is a private company limited by guarantee, meaning that the company is not for profit and will hold assets in its own name and invest funds. The company is set to go-live on 1 October 2019, following a 6-month shadow period.

Cabinet on 14 March 2019 agreed proposals to broaden the scope for the new company to ensure a single focus on children and young people. The Company will provide:

- Education Services
- Early Help Services
- Commissioning of community health services
- Virtual school
- Services for children with special educational needs and / or disabilities
- Participation and engagement
- Facilitation of the implementation of Worcestershire's Children and Young People Plan

The County Council will account for the activity of Worcestershire Children First through group accounts.

Brexit – the potential impacts of the United Kingdom leaving the European Union

Following a referendum in June 2016, the UK government invoked Article 50 of the Treaty of the European Union, starting the process for the exit from the European Union. The process was due to conclude on 29 March 2019 but has now been extended to 31 October 2019. The extension means that there is minimal, if any, impact on the County Council's accounts for 2018/19. We have been reviewing the potential impacts in the period to 31 March and ongoing discussions have been held with key partners, including our financial advisors, Place Partnership Ltd valuers and the Pension Fund. The County Council will continue to actively manage risk related to the exit process.

Feedback

We are always seeking to improve our Statement of Accounts and view our residents and businesses as shareholders. We therefore want to actively engage with the residents and businesses of Worcestershire who provide our funding. If you have any feedback on any items in the Accounts or ideas on how we can improve the presentation, please contact us at statutoryaccounts@worcestershire.gov.uk. We welcome your comments.

Further information about the County Council, including Cabinet and Council agenda and minutes, can be found at www.worcestershire.gov.uk.

Statement of Responsibilities

This sets out the respective responsibilities of the County Council and the Chief Financial Officer in respect of preparation of the Statement of Accounts.

The Council is required to:

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

Responsibilities of the Chief Financial Officer

The Chief Financial Officer is responsible for the preparation of the County 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 the United Kingdom (the Code).

In preparing this Statement of Accounts, the Chief Financial Officer has:

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent; and
- Complied with the Code of Practice on Local Authority Accounting

The Chief Financial Officer has also:

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

Approval of Accounts

The date that the Statement of Accounts was approved is 17 May 2019. All known material events that have occurred up to and including this date which relate to 2018/19 or before are reflected in the accounts.

In accordance with Regulation 9(1) of the Accounts and Audit Regulations 2016 I certify that the Statement of Accounts 2018/19 provides a true and fair view of the financial position of the County Council at 31 March 2019 and its income and expenditure for the year 2018/19.

Michael Hudson,
Chief Financial Officer

In accordance with Regulation 9(2) b of the Accounts and Audit Regulations 2016 I certify that the Audit & Governance Committee approved the Statement of Accounts 2018/19 on 29 July 2019.

Chairman of the Audit & Governance Committee

Worcestershire County Council Annual Governance Statement

Introduction

The Annual Governance Statement is a review of our activities to ensure that the County Council is carrying out its functions effectively. Our risk management process is a key part of our governance arrangements and provides assurance that:

- our business is conducted in accordance with all relevant laws and regulations
- public money is safeguarded and properly accounted for
- resources are used economically, efficiently and effectively to achieve agreed priorities which benefit local people.

The governance framework

This Annual Governance Statement is published in accordance with the CIPFA/SoLACE Delivering Good Governance in Local Government Framework (2016) (The Framework). This comprises systems and processes for the direction and control of the County Council and its activities through which it accounts to, engages with and leads the community. It enables us to monitor the achievement of strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The County Council has approved the requirements of the Framework and several specific strategies and processes for strengthening corporate governance such as the Corporate Risk Management Group and the Balanced Scorecard.

Our system of internal control is designed to manage risk to a reasonable level and is based on an ongoing process to identify and manage risks to the achievement of policies, aims and objectives, to evaluate the likelihood of those risks being realised, and to manage them efficiently, effectively and economically. It cannot eliminate all risk of failure but provides reasonable assurance of effectiveness.

The Balanced Scorecard is used to show the relationship between the intended outcomes of the Corporate Plan - Shaping Worcestershire's Future with the finance, workforce and process measures that support their delivery. The Balanced Scorecard is available to the public via the County Council's website to improve accountability to local communities. Performance is measured and reported against areas of focus internally on a quarterly basis and publicly every six months.

Set out below are the activities carried out by the County Council which contribute to our delivery of the seven principles in the CIPFA/SoLACE Framework during 2018/19.

Core Principle A: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

We have arrangements in place to provide assurance that our values are upheld, and that members and officers demonstrate high standards of conduct and behaviour.

These include:

- Codes of conduct for officers and members;
- The inclusion of ethical values in policies and procedures for all areas;
- A complaints procedure ensuring appropriate investigation and response;
- A commitment to equality of opportunity for all citizens, in line with the Public Sector Duty as set out in the Equality Act 2010;
- Our Constitution which sets out the conditions to ensure that all officers, key post holders and members can fulfil their responsibilities in accordance with legislative requirements. Roles, responsibilities and delegated authority for individual Members, the Council, Cabinet and senior officers are documented.

Core Principle B: Ensuring openness and comprehensive stakeholder engagement

The Chief Executive and Strategic Leadership Team value and are committed to acting on staff feedback. The County Council has an annual staff survey, frequent pulse surveys and staff briefings. Staff are involved in issue resolution arrangements.

Throughout 2018/19 the County Council's "Have Your Say" Roadshows have enabled Councillors and Officers to actively engage with members of the local community. Feedback from these sessions helps to inform the council's four corporate priorities: supporting Children and families, promoting Health and Well Being, protecting the Environment and championing Open for Business.

We are registered as a data controller under the Data Protection Act as we collect and process personal information. We have procedures in place that explain how we use and share information and arrangements for members of the public to access information. We have also adopted the model publication scheme produced by the Information Commissioner's Office.

Core Principle C: Defining outcomes in terms of sustainable economic, social, and environmental benefits

Our Corporate Plan, Shaping Worcestershire's Future, identifies four key priorities that help us shape the future vision for Worcestershire and focus the delivery of our services.

Open for Business – we have a significant programme of improvements in workforce skills, employment, infrastructure and productivity. We are aiming to become a financially self-sufficient Council and to achieve this aim we are promoting and supporting businesses in the County and those looking to relocate here.

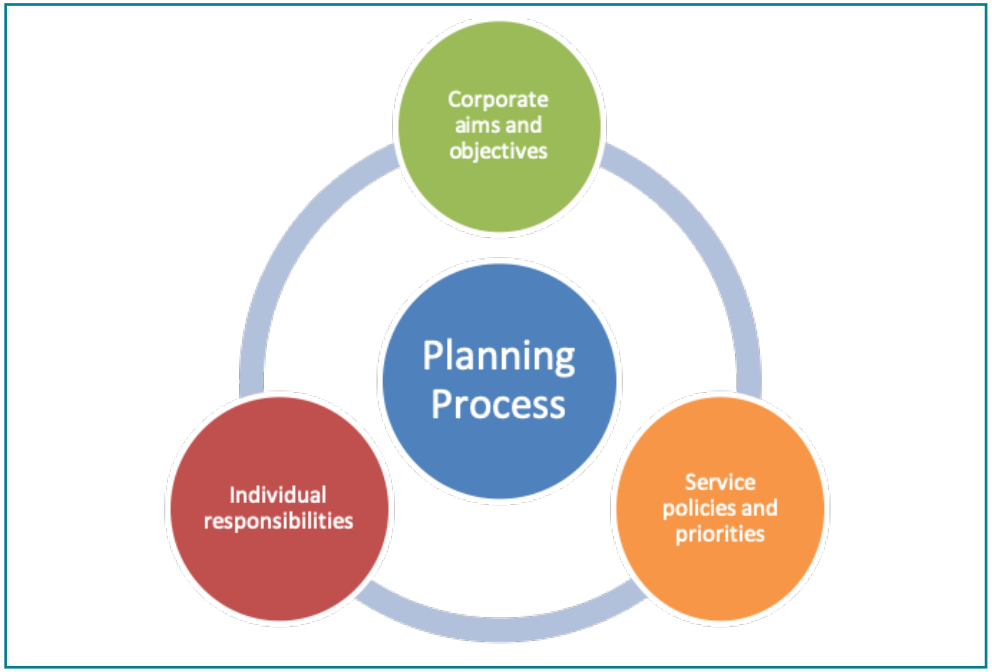
Children and Families – we have a strong focus on improving outcomes for the children, young people and families of Worcestershire. We support schools with achieving a good or outstanding rating by Ofsted and facilitating young people achieving five or more good GCSE's, and support young people moving successfully into employment.

The Environment - Worcestershire's environment is one of our key features and contributes to enhancing the quality of life for residents and visitors. We are committed to improving our infrastructure networks, including transport and digital technology to support business and encourage investment. We also have a key focus on minimising waste which goes to landfill.

Health and Wellbeing – we are working with local partners to support our residents to be healthier, live longer, have better quality of life and remain independent for as long as possible. Our focus on adult social care aims to keep people with support and care needs as independent as possible by providing choice in how to live their lives.

All services have plans in place in line with approved budgets to deliver the key outcomes contained in the Corporate Plan. Management of these plans varies by service, but includes key performance indicators, ongoing outcome monitoring and reports to management teams and committees as appropriate.

Core Principle D: Determining the interventions necessary to optimise the achievement of the intended outcomes



The County Council's planning process works to support and optimise delivery and identify and mitigate any risks.

Each key area of focus identifies several aims and targets, which are managed through the Balanced Scorecard. Responsibility for achieving these lies with individual directorates, and relevant aims and targets are included in individual service delivery plans. Risks and issues are managed through the Corporate Risk Management Group and regular updates are provided to SLT and the Audit & Governance Committee.

Progress against the Corporate Plan is monitored and reported to councillors on a regular basis.

Core Principle E: Developing the entity's capacity, including the capability of its leadership and the individuals within it

To deliver our objectives, we rely on our staff to carry on the great work they already do daily which is underpinned by Our People Values:

- Customer Focus - putting the customer at the heart of everything we do
- 'Can do' Culture – being proactive to achieve excellence
- Freedom within Boundaries – courage to make constructive change

We aim to drive change, develop talent and optimise potential and enable managers and leaders to develop and motivate our workforce to allow it to be future fit. Reviewing the talent and potential of our workforce enables us to better understand and identify the potential we can develop over the coming years

Our annual performance review scheme forms a central part of our planning process. Discussions and review sessions take place between every member of staff and their line manager to agree and track personal objectives and actions, with formal mid-year reviews as a key part of the process. 90% of staff received mid-year reviews during 2018/19.

Core Principle F: Managing risks and performance through robust internal control and strong public financial management

Risk management is about the identification, analysis and control of threats or events that adversely affect the achievement of the County Council's strategic and operational objectives. It also enables positive risks to be taken to innovate and improve service provision. The Risk Management Strategy details the methodology for evaluating corporate risk management arrangements and its delivery is enabled by the Corporate Risk Management Group.

The County Council's anti-fraud and corruption strategy embeds effective standards in countering fraud, corruption and theft. The County Council supports and submits data for the National Fraud Initiative (NFI) and assesses all matches for review and, where appropriate, mitigation. The Chief Financial Officer is responsible for ensuring this strategy is applied and that the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption is followed.

Financial Regulations form part of the Constitution and set out our financial management framework for ensuring we make the best use of the money we have available to spend. It outlines the financial roles and responsibilities for staff and Members and provides a framework for financial decision-making. Where there are specific statutory powers and duties the Financial Regulations seek to ensure these are duly complied with, as well as reflecting best professional practice and decision-making.

Core Principle G: Implementing good practices in transparency, reporting, and audit to deliver effective accountability

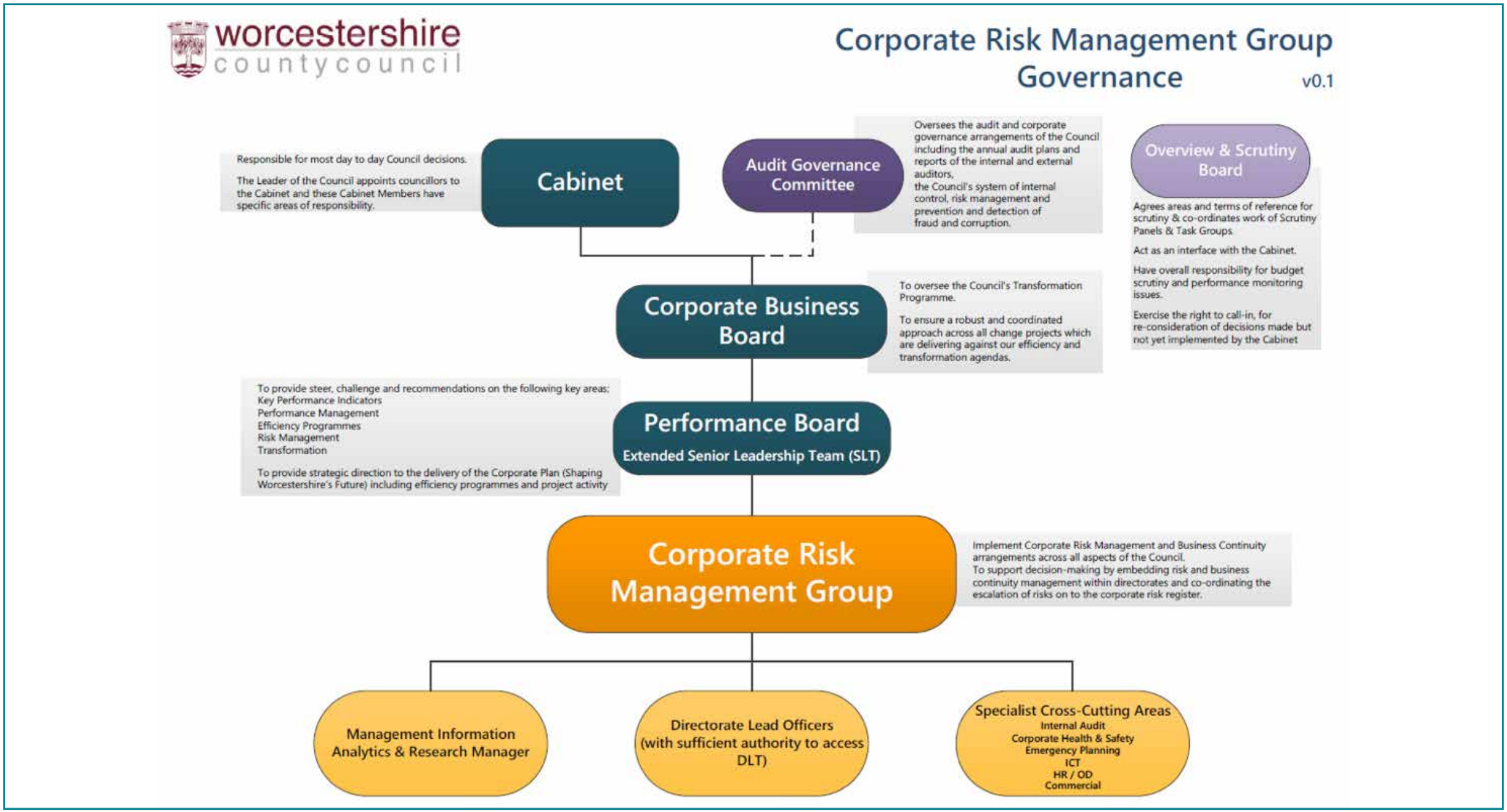
We endeavour to always be open and transparent through our officer and member activity. A large amount of information is available on the County Council website which gives details of the working of the organisation, what we spend, and how our decisions are made.

We have a forward plan which provides information about all the decisions that the County Council has scheduled. Formal agenda, reports and minutes for all committee meetings are published on our website which ensures that people know what decisions the County Council is planning to take, and the decisions taken.

Arrangements are in place to ensure that we fully comply with the requirements of the Public Sector Internal Audit Standards (PSIAS) and CIPFA Statement on the Role of the Head of Internal Audit. During 2018/19 the County Council's internal audit service has been provided by Warwickshire County Council whose Internal Audit and Insurance Manager was designated as the Head of Internal Audit and has regular formal meetings with the directors and Chief Financial Officer. From 1 April 2019 the Internal Audit service will be provided internally.

Review of Effectiveness

The effectiveness of risk management within the County Council is reviewed throughout the year by the Corporate Risk Management Group. The outcomes of this Group have informed this Statement. The governance process undertaken by the Group are detailed below:



The Internal Audit service has completed 30 audits in 2018/19. Of these 4 have received limited assurance results:

1. Offmore Primary
2. School themed audit – budget management, payroll, procurement, ordering and creditor payment processes
3. School theme audit – schools in financial difficulties
4. Accounts payable

Based on the results of work undertaken during the year, the audit opinion is that the County Council's control environment provides moderate assurance that the significant risks facing the County Council are addressed.

Significant Governance Issues

2017/18 Governance Issues

2017/18 issues Governance issues	Update on progress
Sustainable improvement in Children's Services. As noted in the 2016/17 AGS the response to the statutory improvement notice in Children's Services remains live. An improvement plan and plans to establish an alternative delivery model are well underway with regular programme monitoring and independent checking. It is envisaged that this will thus remain a key risk for the County Council to address in 2018/19, although at this stage response is being well managed and mitigations are in place. As is being seen in most councils across the country, demand pressures within children's social care continue to be a risk for the County Council due to the rise in numbers of children looked after and the complexity of need within the looked after children population. Children's Services will also be responding to the outcomes of the 2017/18 Special Educational Needs and Disabilities (SEND) inspection.	As noted in the 2017/18 AGS the response to the statutory improvement notice in Children's Services remains live. The improvement plan continues with regular programme monitoring and independent checking. The new wholly owned Council Company 'Worcestershire Children First' is in shadow form and will become live from 1 October 2019. A programme board is in place to ensure a smooth transition. Even with the many service improvements and mitigations this will remain a significant risk for the County Council to address in 2019/20. As highlighted last year most councils across the country are seeing demand pressures within children's social care continuing to be a risk due to the rise in demand for resources and numbers of children looked after and the complexity of need within the looked after children population. Children's Services will also continue to respond to the outcomes of the 2017/18 Special Educational Needs and Disabilities (SEND) inspection which resulted in a requirement for a written statement of action. A comprehensive improvement plan is in place overseen by a programme board. Continued pressures are the rising numbers of children with additional needs, school placements and SEND transport costs. Funding for the 16-25 cohort continues to present a challenge. The County Council and schools continue to lobby central government on this matter.
Migration of Human Resources and Finance System. Implementation of the Independent review actions recommended by SOCITM are well progressed. Whilst 2017/18 saw responses to immediate issues following Go Live of the General Ledger system (E5) and HR system (iTrent), the longer-term issues are being addressed. The County Council is now in a period of improvement and transformation with its partner (Liberata), and progress is being monitored regularly by the County Council's Audit and Governance Committee.	Both the General Ledger and HR system are operating effectively and enabling the County Council to conduct its operational activities. We continue to work with Liberata to effect ongoing improvements to the systems. This governance issue can be closed.

2017/18 issues Governance issues	Update on progress
Ensuring delivery of the County Council's vision and corporate objectives, in line with the Medium-Term Financial Plan. The County Council has set a balanced budget for 2018/19 as well as an indicative longer-term financial plan. However, at this time there is considerable uncertainty over the funding for local government. It is expected that over the summer of 2018 there will be further clarity and the County Council will need to respond accordingly. As such this potential risk needs continual review and councillors will be kept abreast of progress in delivering the 2018/19 budget and the funding position for future years through Cabinet monitoring reports in 2018/19. In addition, following a review by Overview and Scrutiny of a CIPFA resilience review officers will be working closely with councillors to ensure greater engagement and levels of debate in the budget setting process. In addition to this the County Council's maintained school's balances have again reduced and with the changes in funding formula this is an area of potential risk that requires further review.	2018/19 was a challenging year financially for the County Council, with a net reported overspend of £2.0 million. Stringent management in year and regular reporting to members and all staff ensured that the position was effectively managed in year. Cost pressures were also seen in DSG-funded schools, with particular issues around High Needs Funding. Robust future planning in terms of annual budget setting and medium-term financial planning, including comprehensive transformation and savings plans, will go some way to mitigating financial pressures, however uncertainties around funding and cost pressures will continue to pose challenges for the Council.
Adult Social care - Operational Pressures The local health and social care economy are under considerable demand pressure. As well as financial implications this is seen in pressure points such as delayed transfers of care from hospitals and lack of capacity in specific sectors of the care market. The County Council is actively working with its partners in the Health and Independent Sectors.	During 2018/19 the County Council has worked closely with all partners and had an agreed s75 agreement in place that was managed through joint bodies. The County Council rolled out its three-conversation model across the county following successful pilots. Demand continues to be a pressure and the County Council will continue to hold this as a key challenge to be addressed with its partners.

2017/18 issues Governance issues	Update on progress
Staff capacity, recruitment and retention: The County Council has undergone a significant change in its Senior Leadership Team over the last six months. There will inevitably be a period of settling and challenge which may lead to further changes. The risk of staff retention and workforce planning thus needs to be considered and mitigated as appropriate during the next 12 to 18 months as part of any change programme to ensure the right capacity is maintained and staff development is maximised. Staff capacity may be impacted by national health issues such as Human Pandemic Flu. Epidemiological modelling suggests that an outbreak is possible at any time and its impact is likely to be severe.	The Chief Financial Officer took up post in April 2018 leading to a fully resourced Strategic Leadership Team who have been able to begin the development of a robust performance and management culture within the County Council. This work includes the launch of an Organisational Redesign programme which will consider and develop strategies for the recruitment and retention of staff. Staff resources, including well-being and turnover, are regularly monitored by the Strategic Leadership Team. An output of the County Council's redesign programme will be a new workforce strategy. Pandemic influenza and its impact on staffing issues have been considered by HR and the view is that there will need to be a dynamic decision-making process during an outbreak.

2018/19 Governance Issues

2018/19 issues Governance issues	Update on progress
Sustainable improvement in Children's Services. As noted in the 2017/18 AGS the response to the statutory improvement notice in Children's Services remains live. The improvement plan continues with regular programme monitoring and independent checking. The new wholly owned Council Company 'Worcestershire Children First' is in shadow form and will become live from 1 October 2019. A programme board is in place to ensure a smooth transition.	Worcestershire Children's First (WCF) will provide all aspects of Children's Services for the County Council. Arrangements in place to safeguard vulnerable children are referenced in the risk below. WCF's remit will include ensuring education services for all children in Worcestershire. Control measures in this area include a SEND improvement action plan, High Needs funding review, work with schools in deficit budget positions and the involvement in the Corporate Transport Board. Risks relating to the implementation of WCF in 2019/20 have action plans and mitigations attached. Key staff have been appointed to the Company to manage these alongside County Council staff and members.

2018/19 issues Governance issues	Update on progress
Serious harm or death of a child or young person Safeguarding risk because of serious harm or death of a child or failure to safeguard children. Reputational risk as a result of poor inspection or service breakdown.	There is a comprehensive improvement plan in place. The creation of a wholly owned Company (Worcestershire Children's First) will increase the focus on safeguarding issues. A comprehensive social worker training programme is in place. We have also implemented a "signs of safety" social work model. Issues of capacity of social workers are being addressed by improved recruitment and retention measures, including the recruitment and retention of high quality and experienced managers. We are also cross-referencing learning from other regional and national safeguarding case reviews.
Activity exceeds budget allocation Inadequate budgets and / or ineffective financial management will impact on the County Council's ability to effectively provide services and impair our ability to forward plan. The level of earmarked and general reserves could also be impacted by any unplanned draw down.	Engagement with operational staff to determine required service budgets. Regular budget monitoring and operational challenge is in place. Robust forward planning through the Medium-Term Financial Plan. Redesign work is underway to identify £3 million corporate savings alongside a procurement review to identify £3.5 million.
Serious harm or death of a vulnerable adult A safeguarding risk because of serious harm / death from failure to safeguard a vulnerable adult. We also face reputational risk as a result of service breakdown.	A Safeguarding Adult Board is in place with representation from safeguarding partners. A centralised Adult Safeguarding Team located within the Safeguarding Hub ensures competency of staff, information sharing and consistency in decision making. The Adult Safeguarding Team are aligned with the Locality Teams and 3 Conversations processes. Staff are assessed against WSAB safeguarding competency framework.
Staff capacity, recruitment and retention Our ability to deliver front line and key services will be impacted unless the County Council adopts a range of strategies to attract and retain a highly skilled and specialised workforce.	There is a dedicated HR team supporting social work recruitment. We are using agency workers to cover specialist and hard to fill roles and considering enhanced payment packages to attract / retain the right staff as part of the Organisational Redesign programme. The development of a workforce strategy to identify future needs and potential gaps is underway. We are also working to develop and train internal resource, including maximisation of internal secondments. Human flu pandemic – PH EP – pan flu scenario BCP exercise to be undertaken in 2019/20

At the end of 2018/19 the Council reported pressures on its High Needs budget, in particular within funds delegated to schools under the Dedicated Schools Grant (DSG). In total the gross position across all schools was a £7.1 million overspend which was offset or carried forward using DSG reserves as allowed under statutory provision. This meant the DSG reserves were in technical deficit at 31 March 2019 by £0.6 million. In addition the County Council saw an overspend on its High Needs related budgets. The County Council is aware that the vast majority of councils across the country are facing similar pressures arising from a change in the way these services are provided arising from the 2014 Children and Families Act. The extension of the legislation up to 25-year-olds and the introduction of Early Health and Care Plans have brought pressures. None of which was adequately funded by central government, with no new burdens financing made available. Whilst some additional grant (£1.2 million) was awarded for 2018/19 and 2019/20 it is not sufficient to bridge the gap. As reported to Cabinet in June 2019 (paragraph 28 of the Revenue Outturn report) during 2019/20 the County Council will be working with the Schools Forum to explore ways to manage these costs as best it can, but at the same time will be lobbying central government to resolve the shortfall in funding arising from its changes.

Issues identified for 2019/20

A number of the issues raised above continue to be the key focus for the County Council's leadership:

- Establishment of Worcestershire Children's First
- Safeguarding vulnerable children and adults
- Ensuring a financially sustainable short and medium-term budget
- Monitoring and effective establishment and developing staffing.

A further factor to be managed in 2019/20 is the implementation of a new adult and children's case management system. In October 2019 and February 2020, the County Council's current system (Framework-i) will be replaced for Adult and Children's Services respectively with Liquidlogic. This process is being managed through project management practices, including regular reporting on progress, and, if appropriate, escalation of matters to the County Council's leadership.

Certification

To the best of our knowledge, the governance arrangements, as defined above have been effective. We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation during the year and as part of our next annual review and through the County Council's Corporate Risk Management Group.

Paul Robinson
Chief Executive
Date: 29 July 2019

Simon Geraghty
Leader of the County Council
Date: 29 July 2019

Worcestershire County Council Statement of Accounts

Introduction to the Statutory Accounts

The Statutory Accounts presents Worcestershire County Council's (the County Council) financial position in line with financial reporting requirements. The accounts are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the Code) and the Accounts and Audit Regulations 2015. The main objective of the Code is to give a true and fair view of the financial position of the County Council, including information about financial position, performance, the results of stewardship of management and any risks and uncertainties.

Comprehensive Income and Expenditure Statement

This statement shows the accounting costs in year of providing services by the County Council. This is prepared in accordance with International Financial Reporting Standards (IFRS) rather than the amount to be funded from taxation. The taxation position is shown in the Movement in Reserves Statement. The Expenditure and Funding Analysis note reconciles the position between taxation related expenditure and accounting related transactions. The surplus or deficit on the provision of services shows the true economic cost of providing the County Council's services.

Movement in Reserves Statement

This shows the movement on the different reserves held, analysed into usable and unusable reserves. The net increase / decrease before transfers to / from earmarked reserves shows the statutory General Fund balance before any discretionary transfers are undertaken.

Balance Sheet

This shows the value of the assets and liabilities of the County Council, with the net assets matched by the reserves held. Reserves are categorised as usable, i.e. those the County Council can use to provide services, and unusable, i.e. those which cannot be used to provide services.

Cash Flow Statement

This shows the change in cash and cash equivalents of the County Council, and classifies the cash as operating, investing and financing activities. The amount of net cash arising from operating activities is a key indicator of the extent to which the operations of the County Council are funded by way of taxation, grant income and fees and charges.

Notes to the Accounts

These give further detail in support of the information provided in the main accounts. Notes are only provided where the amounts involved are material. Materiality is determined by the nature or magnitude of the disclosure and the potential for the user of the accounts being influenced by any omission. The notes include the relevant accounting policies which explain the basis for the figures included in the accounts and details of relevant estimates and judgements. Any estimations which are likely to lead to a material adjustment in the 2019/20 accounts are evaluated and detailed in the notes.

Comprehensive Income and Expenditure Statement

2017/18 Expenditure £m	Restated 2017/18 Income £m	2017/18 Net £m		2018/19 Expenditure £m	2018/19 Income £m	2018/19 Net £m	Note
			Service Expenditure Analysis				2,3,4,5,6.1
200.8	(66.3)	134.5	Adult Services	209.6	(73.1)	136.5	7
385.0	(255.8	129.2	Children, Families and Communities	382.5	(265.3)	117.2	6.3, 7
112.6	(20.4)	92.2	Economy and Infrastructure	111.0	(34.5)	76.5	
37.1	(9.4)	27.7	Commercial and Change, Finance & Chief Executive	58.8	(20.5)	38.3	
29.4	(30.4)	(1.0)	Public Health	29.7	(30.0)	(0.3)	
764.9	**(382.3)**	**382.6**	**Net Cost of Services**	**791.6**	**(423.4)**	**368.2**	
5.5	(0.1)	5.4	Other operating expenditure	3.9	(1.9)	2.0	8
86.2	(30.9)	55.3	Financing, investment income & expenditure	97.4	(32.5)	64.9	9
0.2	(379.1)	(378.9)	Taxation & non-specific grant income and expenditure	0.2	(382.7)	(382.5)	6.2, 10
856.8	**(792.4)**	**64.4**	**(Surplus) / deficit on the provision of services**	**893.1**	**(840.5)**	**52.6**	
			Other comprehensive income and expenditure:				
		(148.6)	(Surplus) on revaluation of property, plant & equipment			(11.9)	14.3
		16.4	Downward revaluations on non-current assets charged to Revaluation Reserve			10.5	14.3
		(60.5)	Actuarial (gains) / losses on pension assets & liabilities			56.4	25.2.2
		(192.7)	**Total other comprehensive income and expenditure**			**55.0**	
		(128.3)	**Total comprehensive income and expenditure (surplus)/deficit**			**107.6**	

Movement in Reserves Statement 2018/19

	General Fund (Non-Earmarked) Balance	General Fund (Earmarked) Reserves	General Fund Total	Capital Receipts Reserve	Capital Grants Unapplied Account	Total Usable Reserves	Unusable Reserves	Total Reserves
	£m	£m	£m	£m	£m	£m	£m	£m
Balance at 31 March 2018	**12.2**	**84.4**	**96.6**	**4.8**	**34.9**	**136.3**	**39.6**	**175.9**
Movement in reserves during 2018/19:								
Total Comprehensive Income and Expenditure	(52.6)		(52.6)			(52.6)	(55.0)	(107.6)
Adjustments between accounting basis & funding basis under regulations (Note 11)	52.6	(2.9)	49.7	(4.7)	6.2	51.2	(51.2)	
Increase / (decrease) in 2018/19		(2.9)	(2.9)	(4.7)	6.2	(1.4)	(106.2)	(107.6)
Balance at 31 March 2019 carried forward	**12.2**	**81.5**	**93.7**	**0.1**	**41.1**	**134.9**	**(66.6)**	**68.3**
Note Reference		12.1				12	13	

Movement in Reserves Statement 2017/18 Comparison

	General Fund (Non-Earmarked) Balance	General Fund (Earmarked) Reserves	General Fund Total	Capital Receipts Reserve	Capital Grants Unapplied Account	Total Usable Reserves	Unusable Reserves	Total Reserves
	£m	£m	£m	£m	£m	£m	£m	£m
Balance at 31 March 2017	**12.0**	**98.5**	**110.5**	**5.4**	**31.5**	**147.4**	**(99.7)**	**47.7**
Movement in reserves during 2017/18								
Total Comprehensive Income and Expenditure	(64.5)		(64.5)			(64.5)	192.7	128.2
Adjustments between accounting basis & funding basis under regulations (Note 11)	64.7	(14.1)	50.6	(0.6)	3.4	53.4	(53.4)	
Increase / (decrease) in 2017/18	0.2	(14.1)	(13.9)	(0.6)	3.4	(11.1)	139.3	128.2
Balance at 31 March 2018 carried forward	**12.2**	**84.4**	**96.6**	**4.8**	**34.9**	**136.3**	**39.6**	**175.9**
Note Reference		12.1				12	13	

Balance Sheet

31 March 2018 £m		31 March 2019 £m	Note
1,049.8	Property, plant and equipment	1,052.5	14,15
1.4	Heritage assets	1.7	
0.6	Intangible assets	4.0	
3.1	Long-term investments	3.0	16,17
122.9	Long-term debtors	119.6	18
1,177.8	**Long term assets**	**1,180.8**	
6.1	Non-Operational Assets	8.3	14.8
1.5	Short-term investments	7.1	16
1.0	Inventories	1.2	
61.6	Short-term debtors	56.2	18
15.4	Cash and cash equivalents	38.1	19
85.6	**Current assets**	**110.9**	
(78.3)	Short-term borrowing	(57.4)	16
(75.1)	Short-term creditors	(81.4)	20
(153.4)	**Current liabilities**	**(138.8)**	

31 March 2018 £m		31 March 2019 £m	Note
(0.3)	Long-term creditors	(0.3)	20
(2.7)	Long-term provisions	(3.2)	
(366.9)	Long-term borrowing	(409.3)	16
(548.1)	Other long-term liabilities	(646.9)	21
(16.1)	Grants receipts in advance	(24.9)	22
(934.1)	**Long-term liabilities**	**(1,084.6)**	
175.9	**Net assets**	**68.3**	
	Financed by:		
136.3	Usable reserves	134.9	12
39.6	Unusable reserves	(66.6)	13
175.9	**Total reserves**	**68.3**	

Cash Flow Statement

2017/18		2018/19	
£m		£m	Note
(64.5)	Net surplus/(deficit) on the provision of services	(52.6)	
29.1	Adjust net (surplus)/deficit for non-cash movements	137.3	
(62.0)	Adjust for items included in the net (surplus)/deficit on the provision of services that are investing and financing activities	(61.7)	
(97.4)	**Net cash flows from operating activities**	**23.0**	23.1
23.4	Net cash flows from investing activities	(22.9)	23.2
69.8	Net cash flows from financing activities	22.6	23.3
(4.2)	**Net increase/(decrease) in cash or cash equivalents**	**22.7**	
	Cash and cash equivalents		19
19.6	Balance at 1 April	15.4	
15.4	Balance at 31 March	38.1	
(4.2)	**Movement in cash and cash equivalents increase / (decrease)**	**22.7**	

Notes to the Financial Statements

These comprise further information about material items, a summary of significant accounting policies, detail of entries in the prime Statements and other explanatory information and disclosures.

1	General accounting policies and prior period adjustment
2	Expenditure & funding analysis
3	Adjustments between funding & accounting basis
4	Segmental reporting
5	Expenditure & income analysed by nature
6	Grants & contribution income
7	Section 75 framework partnership agreements
8	Other operating expenditure
9	Financing & investment income & expenditure
10	Taxation & non-specific grants
11	Adjustment between accounting basis & funding basis under regulation
12	Usable reserves
13	Unusable reserves
14	Property, plant & equipment
15	Private finance initiatives
16	Financial instruments
17	Long-term investments
18	Debtors
19	Cash & cash equivalents
20	Creditors
21	Other long-term liabilities
22	Grants receipts in advance
23	Cash activities
24	Officers remuneration
25	Pension schemes
26	Termination benefits & exit packages
27	Related parties
28	Leases
29	External audit costs
30	Events after the Balance Sheet date

1a. General accounting policies

The Statement of Accounts summarises the County Council's transactions for the 2018/19 financial year and its position at the year-end of 31 March 2019. The County Council is required by the Accounts and Audit Regulations 2015 to prepare an annual Statement of Accounts in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and International Financial Reporting Standards (IFRS). The Accounts have been prepared on a going concern basis, under the assumption that the Council will continue in existence for the foreseeable future.

The County Council has taken a judgement and, in accordance with accounting standards and the Code of Practice on group accounts and consolidation, all maintained schools in the Worcestershire area are now considered to be separate entities controlled by the County Council. Rather than produce group accounts the revenue costs and associated balances of all maintained schools, such as accruals, provisions and cash balances, are included in the County Council's financial statements.

Local authority school assets, liabilities, reserves and cash flows are recognised in the County Council's financial statements. Maintained schools comprise: Community, Voluntary Aided, Voluntary Controlled and Trust schools. Academies and Free schools are not maintained by the County Council and are not included in the consolidation. Consolidation of other accounts held by schools such as school funds and devolved capital accounts were reviewed and judged to be immaterial and are not recognised on the County Council's Balance Sheet.

The Statement of Accounts contains estimated figures based on assumptions made by the County Council. Estimates are made considering historical experience, current trends and other relevant factors. Actual results may potentially be different from the assumptions and estimates used by the County Council and relevant notes include an assessment of the potential material impact of any changes in estimates which lead to significant risk of material adjustment in 2019/20.

1b. Prior period adjustment

There has been a material change to the presentation of REFCUS (Revenue Expenditure Funded from Capital Under Statute) grant income, which has resulted in a prior period adjustment to the 2017/18 Comprehensive Income & Expenditure Statement and related notes. Previously this was presented above net cost of services in the Comprehensive Income and Expenditure Statement, it is now presented within Taxation and non-specific grant income and expenditure in accordance with accepted accounting policies.

Statements	Published accounts 2017/18	Change	Restated 2017/18	Notes amended
	£m	£m	£m	
Comprehensive Income & Expenditure Statement				
Children, Families and Communities				2
- Income	(263.8)	8.0	(255.8)	5, 6
- Net	121.2	8.0	129.2	
Economy and Infrastructure				2
- Income	(29.5)	9.1	(20.4)	5, 6
- Net	83.1	9.1	92.2	
Net Cost of Services				2
- Income	(399.4)	17.1	(382.3)	5, 6
- Net	365.5	17.1	382.6	
Taxation and non-specific grant income and expenditure				2, 10
- Income	(362.0)	(17.1)	(379.1)	
- Net	(361.8)	(17.1)	(378.9)	

2. Expenditure and funding analysis

The Expenditure and Funding Analysis (EFA) demonstrates how the funding available to the County Council for the year has been applied in providing services in comparison with those resources consumed or earned by the County Council. It also shows how this expenditure is allocated for decision-making purposes between the County Council's services. Income and expenditure are presented more fully in the Comprehensive Income and Expenditure Statement. Service analysis within the accounts is based on the County Council's operational directorates.

2017/18 restated				2018/19		
Net Expenditure Chargeable to General Fund Balances	Adjustments between the Funding & Accounting Basis	Net Expenditure in the CI&ES		Net Expenditure Chargeable to General Fund Balances	Adjustments between the Funding & Accounting Basis	Net Expenditure in the CI&ES
£m	£m	£m		£m	£m	£m
132.0	2.4	134.4	Adult Services	134.6	1.9	136.5
87.2	42.0	129.2	Children, Families & Communities	92.2	25.0	117.2
56.8	35.4	92.2	Economy & Infrastructure	46.3	30.2	76.5
28.7	(1.0)	27.7	Commercial & Change	24.6	13.7	38.3
(1.1)	0.1	(1.0)	Public Health	(0.4)	0.1	(0.3)
303.6	**78.9**	**382.5**	**Net Cost of Services**	**297.3**	**70.9**	**368.2**
(289.7)	(28.4)	(318.1)	Other Income and Expenditure	(294.4)	(21.2)	(315.6)
13.9	**50.5**	**64.4**	**Net Deficit**	**2.9**	**49.7**	**52.6**
110.5			Opening General Fund Balance	96.6		
(13.9)			Less Deficit on General Fund Balance in Year	(2.9)		
96.6			**General Fund Balance**	**93.7**		

	General Fund	Earmarked Reserves	Total
	£m	£m	£m
Opening General Fund Balance	**12.2**	**84.4**	**96.6**
Surplus / (deficit) on general fund balance in year		(2.9)	(2.9)
Closing General Fund Balance	**12.2**	**81.5**	**93.7**

In respect of the net revenue outturn, the County Council's 2018/19 General Fund budget and actual spend figures are in the table below:

	Original budget	Actual	Variance
	£m	£m	£m
Total General Fund (a)	**324.2**	**326.2**	**2.0**
Funded by:			
Council tax	(251.5)	(251.5)	
Revenue support grant	(9.4)	(9.4)	
Business rates retention scheme	(61.2)	(61.2)	
Collection fund surplus	(2.1)	(2.1)	
Contribution from earmarked reserves		(2.0)	(2.0)
Total funding (b)	**(324.2)**	**(326.2)**	**(2.0)**
Movement on General Fund (a) + (b)	**-**	**-**	**-**

The overspend against the 2018/19 budget was £2.0 million which has been met by use of earmarked reserves. More details about the County Council's revenue spending on services are given in the Comprehensive Income and Expenditure Statement and subsequent notes.

3. Adjustments between funding and accounting basis

This note provides additional analysis of the adjustments between the funding and accounting basis column in note 2 (Expenditure and funding analysis) and detail the movement from the General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts.

2018/19	Adjustments for Capital Purposes	Net Change for the Pensions Adjustments	Other Differences	Total Adjustments
	£m	£m	£m	£m
Adult Services	0.3	1.6		1.9
Children, Families & Communities	20.4	4.6		25.0
Economy & Infrastructure	29.3	0.9		30.2
Commercial & Change, Finance & Chief Executive	(2.8)	17.7	(1.2)	13.7
Public Health		0.1		0.1
Net Cost of Services	**47.2**	**24.9**	**(1.2)**	**70.9**
Other Income and Expenditure from the Expenditure and Funding Analysis	(21.7)		0.5	(21.2)
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	**25.5**	**24.9**	**(0.7)**	**49.7**

Adjustments for capital purposes adds in depreciation, impairment and revaluation gains and losses in the service lines. For other income and expenditure includes the statutory charges for capital financing and investment and capital grant adjustments.

Net change for the pensions adjustments represents the removal of the employer pension contributions made by the County Council as allowed by statute and the replacement with current and past service costs.

Other differences are statutory adjustments including the employee annual leave accrual.

2017/18	Adjustments for Capital Purposes	Net Change for the Pensions Adjustments	Other Differences	Total Adjustments
	£m	£m	£m	£m
Adult Services	0.4	2.0		2.4
Children, Families and Communities	35.0	7.0		42.0
Economy & Infrastructure	34.0	1.4		35.4
Commercial & Change, Finance & Chief Executive	(14.1)	11.7	1.4	(1.0)
Public Health		0.1		0.1
Net Cost of Services	**55.3**	**22.2**	**1.4**	**78.9**
Other Income and Expenditure from the Expenditure and Funding Analysis	(28.4)			(28.4)
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	**26.9**	**22.2**	**1.4**	**50.5**

4. Segmental reporting

The segments below represent the County Council's directorate structure which is used for internal reporting.

2018/19	Adult Services	Children, Families & Communities	Economy & Infrastructure	Commercial & Change	Public Health	Total
	£m	£m	£m	£m	£m	£m
Income for Fees and Charges	(40.1)	(26.8)	(22.1)	(6.8)	(0.4)	(96.2)
Depreciation and Impairment	2.3	12.0	25.3	5.1		44.7
Premises Costs	1.2	26.2	(10.2)	4.7		21.9
Transport Costs	1.9	14.9	2.3	0.2		19.3
Third Party Payments	171.8	92.2	65.4	11.1	21.5	362.0

2017/18	Adult Services	Children, Families & Communities	Economy & Infrastructure	Commercial & Change	Public Health	Total
	£m	£m	£m	£m	£m	£m
Income for Fees and Charges	(41.1)	(25.1)	(21.9)	(6.3)	(0.5)	(94.9)
Depreciation and Impairment	0.4	5.7	26.1	5.8		38.0
Premises Costs	1.1	25.0	(9.8)	4.4		20.7
Transport Costs	2.1	14.1	2.7	0.1		19.0
Third Party Payments	162.1	77.4	67.6	5.0	21.3	333.4

5. Expenditure and income analysed by nature

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the authority.

Revenue from the provision of services is recognised when the authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the authority. IFRS15 Revenue from Contracts with Customers has been adopted in 2018/19. The County Council has undertaken a detailed assessment of income streams and determined that there is no material impact on either the opening balances or the revenue recognised during the year. As such no adjustments have been made to opening balances or revenue and no transitional disclosures have been made.

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, subject to a de minimis of £5,000.

2017/18 restated £m		2018/19 £m
	Expenditure	
272.1	Employee benefits expenses	275.9
455.2	Other service expenses	473.4
38.0	Depreciation amortisation and impairment	44.7
31.8	Loss on disposal of non-current assets	37.8
59.5	Interest payments	61.1
0.2	Precepts and levies	0.2
856.8	**Total Expenditure**	**893.1**
	Income	
(98.1)	Fees and charges and other service income	(99.7)
(297.6)	Income from council tax and business rates	(315.9)
(288.2)	Grants and contributions credited to services	(312.2)
(81.6)	Grants and contributions credited to taxation and non-specific grant income	(66.8)
(30.9)	Interest and Investment Income	(32.5)
4.0	Other	(13.4)
(792.4)	**Total Income**	**(840.5)**
64.4	**Net Deficit on Provision of Services**	**52.6**

Value Added Tax (VAT) payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

6. Grant and contribution income

Government grants, third-party contributions, and donations are recognised as due to the County Council when there is reasonable assurance that:

- the County Council will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts are credited to the Comprehensive Income and Expenditure Statement once the conditions attached to the grant or contribution have been satisfied. Where the conditions have not been satisfied they are carried in the Balance Sheet as creditors or receipts in advance and credited once the conditions are met.

6.1 Comprehensive Income and Expenditure Statement - credited to services

2017/18 restated £m		2018/19 £m
	Adult Services	
10.2	Improved Better Care Fund	13.4
12.0	Better Care Fund (contribution)	12.1
4.6	Disabled Facilities Grant	5.0
3.0	Independent Living Fund	2.9
	Winter Pressures Grant	2.4
2.4	Adult Social Care Support Grant	1.5
0.2	Care Act	0.2
0.4	Other	0.3
32.8	**Total Adult Services**	**37.8**
	Children, Families & Communities	
209.8	Dedicated Schools Grant	213.2
10.0	Pupil Premium	9.5
3.6	Other Education & Skills	5.8

2017/18 £m		2018/19 £m
5.4	Universal Free School Meals	4.9
4.7	Bromsgrove Schools PFI Grant	4.7
5.1	Libraries & Community	3.7
2.7	Post 16 Learning Skills Council	2.5
1.4	Other Children's Social Care	1.8
0.3	Alternative Delivery Model Implementation Grant	1.4
0.9	Unaccompanied Asylum-Seeking Children	1.3
	Transport	0.4
0.2	Higher Education Funding Council	0.1
1.1	Education Service Grant	
245.2	**Total Children, Families & Communities**	**249.3**
	Economy & Infrastructure	
1.3	Waste Disposal PFI Grant	1.8
1.1	Transport	0.5
	Environment / Winter Damage	0.1
2.9	Other	2.1
5.3	**Total Economy & Infrastructure**	**4.5**
	Public Health	
29.9	Public Health	29.1
0.1	Other	0.5
30.0	**Total Public Health**	**29.6**

2017/18 £m		2018/19 £m
	Corporate Services	
3.3	New Homes	2.6
0.7	Other	0.8
4.0	**Total Corporate Services**	**3.4**
(17.1)	REFCUS adjustment	(12.4)
300.2	**Total Credited to Services**	**312.2**

6.2 Comprehensive Income and Expenditure Statement – credited to taxation and non-specific grant income

2017/18 restated £m		2018/19 £m
	Credited to taxation and non-specific grant income:	
19.9	Revenue Support Grant	9.5
2.5	Transition Grant	
2.4	Business Rate Reliefs – S31 Grant	3.0
	Levy Account Surplus Grant	1.0
24.8	**Total non ring-fenced Government grants**	**13.5**

2017/18		2018/19
£m		£m
	Capital grants	
14.6	Structural maintenance	21.7
9.3	Transport	12.1
8.0	Basic Needs	5.7
4.7	LA Schools Condition Allocation	5.4
15.4	Worcestershire Local Growth Fund	4.8
	European Regional Development Fund	1.9
	Great Birmingham & Solihull Local Growth Fund	1.8
1.4	Broadband Project	0.1
2.3	Other Capital Grants	2.5
55.7	**Total Capital Grants**	**56.0**
4.5	Other contributions	3.4
60.2	**Total Capital Grants and Contributions**	**59.4**
(3.4)	Less Transfer to unapplied capital grants reserve	(6.1)
56.8		**53.3**
81.6	**Total credited to taxation and non-specific grant income**	**66.8**

6.3 Dedicated schools grant

The County Council's expenditure on schools is primarily funded by Dedicated Schools Grant (DSG) from the Department for Education (DfE). An element of the DSG is recouped by the DfE to fund academy schools in the county. DSG is ringfenced and can only be applied to meet expenditure properly included in the schools budget, including county-wide education services and Individual Schools Budget.

	Central Expenditure	Individual Schools Budget	Total
	£m	£m	£m
Final DSG for 2018/19			401.3
Academy Recoupment 2018/19			(188.7)
Total DSG after recoupment			**212.6**
Brought forward from 2017/18			5.2
Agreed budgeted distribution in 2018/19	**45.0**	**172.8**	**217.8**
In year adjustments		0.6	0.6
Final budgeted distribution	**45.0**	**173.4**	**218.4**
Actual expenditure	(43.7)	(175.3)	(219.0)
Carry forward to 2019/20	**1.3**	**(1.9)**	**(0.6)**

7. Section 75 framework partnership agreements

The County Council has a Section 75 joint agreement relating to the commissioning of health and social care services in Worcestershire, which includes The Better Care Fund, between the County Council, NHS Redditch and Bromsgrove Clinical Commissioning Group, NHS South Worcestershire Clinical Commissioning Group and NHS Wyre Forest Clinical Commissioning Group. The agreement is classified as a Joint Operation, as there is joint control, and the activity is primarily to provide services to the parties within their boundaries. Within the Section 75 agreement there are budgets primarily managed by the Clinical Commissioning Groups, budgets primarily managed by the County Council, pooled budgets (jointly controlled) and aligned budgets. Where services are primarily managed by the County Council the income and expenditure are reflected within the Net Cost of Services in the Comprehensive Income and Expenditure Statement. This also includes the County Council's proportion of jointly controlled pooled budgets. Where services are hosted by the County Council, but primarily managed by the Clinical Commissioning Groups, the income and expenditure are not reflected in the County Council's accounts.

Partnership expenditure (outturn) has been split to show what is primarily managed by the Clinical Commissioning Groups and the County Council for 2018/19. Included in the County Council contribution is £25.5 million Better Care Fund.

2017/18						2018/19				
Partnership income	Partnership expenditure	Net partnership expenditure	CCG Managed	WCC contribution		Partnership income	Partnership expenditure	Net partnership expenditure	CCG Managed	WCC contribution
£m	£m	£m	£m	£m		£m	£m	£m	£m	£m
(138.2)	143.4	5.2	102.5	40.9	Consolidated Adult Social Care Services	(147.1)	149.4	2.3	103.8	45.6
(18.3)	18.5	0.2	16.3	2.2	Consolidated Children's and Education Services	(19.1)	19.1		16.1	3.0
(156.5)	**161.9**	**5.4**	**118.8**	**43.1**		**(166.2)**	**168.5**	**2.3**	**119.9**	**48.6**

The County Council had outstanding balances with the Clinical Commissioning Groups at 31 March 2019 of £1.4 million debtors (2017/18 £2.8m) and £1.0 million creditors (2017/18 £0.5m).

8. Other operating expenditure

2017/18		2018/19
£m		£m
0.4	Admin Expenses Pension	0.4
5.1	Loss on disposal of non-current assets	1.6
5.5		**2.0**

The loss on disposal relates to the removal of assets from the Balance Sheet where the County Council does not have control of the use of the asset.

9. Financing and investment income and expenditure

Financing and investment income and expenditure includes interest receivable and payable on the County Council's investment portfolio, the interest element of the pension fund liability and losses on the transfer of schools to other bodies at nil consideration.

2017/18		2018/19
£m		£m
28.3	Interest payable and similar charges	28.9
9.4	Pensions interest cost & expected return on pensions	9.3
26.6	Loss on transfer of schools to other bodies (e.g. academies)	36.3
(9.1)	Interest receivable and similar income	(9.6)
55.2		**64.9**

10. Taxation and non-specific grants

The Worcestershire district councils, in their role as billing authorities, act as agents for the County Council, the precepting authority, collecting council tax on our behalf, with transactions and balances allocated between the districts and the County Council. The Comprehensive Income & Expenditure Statement includes the County Council's proportion of the net surplus or deficit and the Balance Sheet includes amounts to reflect the County Council's share of council tax debtors, overpayments and council tax creditors and monies owed or paid in advance in relation to payments from the district councils.

The district councils collect business rate income on behalf of the County Council as well as amounts to be paid over to other precepting bodies and Central Government. The County Council maintains balances for National Non-domestic rates(NNDR) arrears, impairment allowances, prepayments and overpayments in its underlying accounting records. NNDR transactions and balances are allocated between the County Council, the District Councils and Central Government.

Government grants and third-party contributions and donations are recognised as due to the County Council when there is reasonable assurance that:

- the County Council will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contributions have been satisfied. Grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors or receipts in advance. When conditions are satisfied, the grant or contribution is credited to the relevant service line or to Taxation and Non-Specific Grant Income (non ring-fenced revenue grants and capital grants) in the Comprehensive Income and Expenditure Statement.

2017/18 restated		2018/19
£m		£m
(237.3)	Council tax income	(254.0)
(60.2)	Non-domestic rates	(61.9)
(24.8)	Non ring-fenced government grants	(13.5)
(56.8)	Capital grants and contributions	(53.3)
0.2	Environment Agency	0.2
(378.9)		**(382.5)**

11. Adjustments between accounting basis and funding basis under regulation

This note consolidates the adjustments required through the County Council's reserves to convert the surplus or deficit on the CIES to the movement on the General Fund Balance.

2018/19	Usable Reserves				
	General Fund (Non-earmarked balances)	General Fund (Earmarked reserves)	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£m	£m	£m	£m	£m
Depreciation of non-current assets	39.0				(39.0)
Amortisation of intangible assets	0.3				(0.3)
Capital grants and contributions applied	(59.4)				59.4
Revenue expenditure funded from capital under statute	13.8				(13.8)
Net loss on disposal of non-current assets	40.1				(40.1)
Statutory provision for the financing of capital investment	(10.1)				10.1
Capital expenditure charged against the General Fund	(0.7)	(0.6)			1.3
Revaluation to Capital Adjustment Account	5.3				(5.3)
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the CI&E Statement	(2.3)		2.3		
Use of Capital Receipts Reserve to finance new capital expenditure			(7.0)		7.0
Reversal of items relating to retirement benefits debited or credited to the CI&E Statement	50.1				(50.1)

2018/19	Usable Reserves				
	General Fund (Non-earmarked balances)	General Fund (Earmarked reserves)	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£m	£m	£m	£m	£m
Employer's pension contributions and direct payments to pensioners payable in the year	(25.1)				25.1
Amount by which council tax income credited to the CI&E Statement is different from council tax income calculated for the year in accordance with statutory requirements	(0.4)				0.4
Amount by which National Non-Domestic Rates income credited to the CI&E Statement is different from Non-Domestic Rates income calculated for the year in accordance with statutory requirements	0.9				(0.9)
Amount by which officer remuneration charged to the CI&E Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(1.7)				1.7
Sub Total	**49.8**	**(0.6)**	**(4.7)**		**(44.5)**
Transfer to/(from) earmarked reserves	2.8	(2.3)		6.2	(6.7)
Total Adjustments	**52.6**	**(2.9)**	**(4.7)**	**6.2**	**(51.2)**

2017/18	Usable Reserves				
	General Fund (Non-earmarked balances)	General Fund (Earmarked reserves)	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£m	£m	£m	£m	£m
Depreciation of non-current assets	37.6				(37.6)
Amortisation of intangible assets	0.3				(0.3)
Capital grants and contributions applied	(60.2)				60.2
Revenue expenditure funded from capital under statute	18.0				(18.0)
Net loss on disposal of non-current assets	33.6				(33.6)
Statutory provision for the financing of capital investment	(19.6)				19.6
Capital expenditure charged against the General Fund	(1.6)	(1.1)			2.7
Revaluation to Capital Adjustment Account	21.7				(21.7)
Capital grants & contributions unapplied credited to the CI&E Statement				60.2	(3.4)
Application of grants to capital financing transferred to Capital Adjustment Account				(56.8)	
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the CI&E Statement	(1.8)		1.8		
Use of Capital Receipts Reserve to finance new capital expenditure			(2.4)		2.4
Reversal of items relating to retirement benefits debited or credited to the CI&E Statement	45.3				(45.3)
Employer's pension contributions and direct payments to pensioners payable in the year	(22.9)				22.9
Amount by which council tax income credited to the CI&E Statement is different from council tax income calculated for the year in accordance with statutory requirements	1.4				(1.4)

2017/18	Usable Reserves				
	General Fund (Non-earmarked balances)	General Fund (Earmarked reserves)	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£m	£m	£m	£m	£m
Amount by which National Non-Domestic Rates income credited to the CI&E Statement is different from Non-Domestic Rates income calculated for the year in accordance with statutory requirements	(0.3)				0.3
Amount by which officer remuneration charged to the CI&E Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	0.2				(0.2)
Sub Total	**51.7**	**(1.1)**	**(0.6)**	**3.4**	**(53.4)**
Transfer to/(from) earmarked reserves	13.0	(13.0)			
Total Adjustments	**64.7**	**(14.1)**	**(0.6)**	**3.4**	**(53.4)**

12. Usable Reserves

The County Council sets aside specific amounts that can be used to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve may only be used to fund capital expenditure or repay debt). Where expenditure is to be financed from a reserve, the expenditure is charged to the relevant service in the Comprehensive Income and Expenditure Statement and an amount is then transferred from the reserve to the General Fund Balance via an entry in the Movement in Reserves Statement.

	Opening Balance 01/04/18	Contributions To	Contributions From	Closing Balance 31/03/19
	£m	£m	£m	£m
General fund	12.2			12.2
Earmarked specific reserves	84.4	37.6	(40.5)	81.5
Capital grants unapplied	34.9	59.4	(53.2)	41.1
Capital receipts reserve	4.8	2.3	(7.0)	0.1
Total Usable Reserves	**136.3**	**99.3**	**(100.7)**	**134.9**

12.1 Transfers to/from Earmarked Reserves

The County Council sets aside amounts from the General Fund in earmarked reserves to provide financing for future expenditure plans to support specific areas of our corporate plan priorities. These amounts are then drawn down as required. Our earmarked reserves position and plans are reviewed annually and plans for future use are approved by Cabinet and Council as part of the annual budget setting process.

	Balance at 31 March 2018	Transfers out	Transfers in	Balance at 31 March 2019	Purpose of the reserve
	£m	£m	£m	£m	
Open for Business					
Revolving Investment Fund	7.9	(5.2)	1.8	4.5	Investment in the local economy which delivers income to support future investment
Open for Business			3.9	3.9	Supporting measures to grow our local economy
Local Authority Business Growth Initiative	0.6			0.6	Residual Local Authority Business Growth Initiative funding
Sub regional mineral plan	0.3		0.3	0.6	Funds held to support the delivery of the sub regional mineral plan
Growing Places reserve	3.3	(1.0)	0.1	2.4	Supporting growth in the local economy
Regional Improvement and Efficiency Reserve	2.3	(1.6)		0.7	Money held for the Regional Improvement and Efficiency Programme (the County Council are the administering authority)
Other	0.4			0.4	Lower value reserves covering, for example, apprenticeships
Children & Families					
New Worcester Library	0.1	(0.1)			PFI grant funding supporting the ongoing delivery of the programme
Revenue grants unapplied	2.0	(0.6)	2.6	4.0	Grants held by the service for draw down as required
The Environment					
Regeneration and Infrastructure	5.9	(3.0)	0.1	3.0	Supporting measures to grow our local economy

	Balance at 31 March 2018	Transfers out	Transfers in	Balance at 31 March 2019	Purpose of the reserve
	£m	£m	£m	£m	
Revenue grants unapplied	0.4	(0.4)	0.4	0.4	Grants held by the service for draw down as required
Health and Wellbeing					
Public Health	5.7		0.5	6.2	Balances from the Ring-fenced Public Health Grant held to support the service against future changes in funding
Revenue grants unapplied			0.1	0.1	Grants held by the service for draw down as required
Efficient Council					
Transformation / Change Reserve	8.5	(3.5)	0.3	5.3	Financing invest to save schemes to change the shape and design of the County Council
Digital Reserve			3.0	3.0	Supporting the development of digitally enabled operations as part of the organisational review
Elections	0.1		0.1	0.2	Annual amounts set aside to provide County Council elections, which happen every 4 years
Property Management	0.4		0.1	0.5	Funding for property-related expenditure
Insurance	8.1	(1.0)	1.3	8.4	Covering claims below the County Council's insurance policy excess
Business Rates Pool	5.5	(2.6)	6.9	9.8	To enable smoothing of the impact of changes to the Business Rates retention across the Pool, including rate appeal losses and any fall in rates collected
Coroners Major Inquests	0.2			0.2	Amounts set aside to cover significant inquest costs
Councillors Divisional Fund	1.2	(0.6)		0.6	Funds to support Councillors' local discretionary spend
Fleet Surplus Reserve	0.4			0.4	Fleet support
Future Capital Investment	2.3	(0.5)		1.8	Supporting the revenue cost of capital investment

	Balance at 31 March 2018	Transfers out	Transfers in	Balance at 31 March 2019	Purpose of the reserve
	£m	£m	£m	£m	
Financial Services Reserve	1.6			1.6	Funding to support the employers' pension contributions
Financial Risk Reserve			5.5	5.5	Amount set aside to support financial risk on organisational change
Other reserves (not available for core spend)					
Schools balances held under delegation	9.4	(9.4)	5.6	5.6	Balances held for individual maintained schools
Schools ICT PFI Reserve	0.6	(0.2)		0.4	PFI grant funding supporting the ongoing delivery of the programme
Bromsgrove High School PFI Advance	1.7			1.7	PFI grant funding supporting the ongoing delivery of the programme
DSG c/fwd Balance Reserve	5.2	(5.9)		(0.7)	Dedicated Schools Grant unallocated or unspent balances
Waste Contract PFI Grant	10.3	(4.9)	5.0	10.4	To fund pressures relating to the increase on household waste disposal costs as the number of households in the County increases
Total	**84.4**	**(40.5)**	**37.6**	**81.5**	

13. Unusable Reserves

These reserves are set aside but cannot be used to provide services, including those that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets were sold; and those that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

	Opening Balance 01/04/18	Contributions To	Contributions From	Closing Balance 31/03/19	Purpose of the reserve
	£m	£m	£m	£m	
Pensions reserve	(411.0)	(118.3)	36.6	(492.7)	Movement in remeasurement of the net defined liability
Available for Sale reserve	(1.5)		1.5		Held the result of any gains or losses for available for sale assets. IFRS 9 has removed this category of classification so the reserve is no longer required. Balances on the reserve have transferred to the Capital Adjustment Account
Accumulated absences adjustment account	(6.8)	(5.1)	6.8	(5.1)	Balances relating to the accumulated holiday due but not taken in year
Financial instruments adjustment account	(1.1)			(1.1)	Valuation gains and losses on financial instruments carried at fair value
Capital adjustment account	214.7	61.5	(71.2)	205.0	An accounting mechanism used to reconcile the different rates at which assets are depreciated
Revaluation reserve	242.7	12.0	(29.7)	225.0	Unrealised gains and losses arising from revaluations of long-term assets
Collection fund adjustment accounts*	2.7	(0.9)	0.4	2.3	Surplus or deficit arising from agency arrangements
Rounding adjustment	(0.1)		(0.2)		
Total Unusable Reserves	**39.6**	**(50.8)**	**(55.8)**	**(66.6)**	

*figures do not add across due to rounding

14. Property, Plant and Equipment

Physical assets that support the delivery of our services and have a life of more than one financial year, are classified as Property, Plant and Equipment (PPE).

Expenditure on PPE is capitalised on an accrual basis in the accounts, unless it is maintenance only in which case it is charged to the Comprehensive Income and Expenditure Statement when it is incurred. Purchased assets are initially measured at cost. Non-purchased assets are measured at fair value, or at the carrying amount where there is no commercial substance (e.g. via exchange). The detailed bases for measuring assets are given below:

- Land and buildings – Current value based on existing use for operational assets where there is an active market or depreciated replacement cost for assets of a more specialist nature
- Vehicles, plant and equipment - Current value based on existing use for operational assets where there is an active market or depreciated replacement cost for assets of a more specialist nature
- Infrastructure – Historical cost
- Community assets – Depreciated historical cost
- Assets under construction – Historical cost
- Surplus assets - Fair value, i.e. The price which would be received to sell an asset.

Capital expenditure that does not result in the creation of a long-term asset (Revenue Expenditure Funded from Capital under Statute, known as REFCUS) is charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement. Where the cost of this expenditure is met from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account so that there is no impact on the level of council tax.

Depreciation is provided for on PPE assets over their useful lives, with major components depreciated separately. Assets without a determinable finite useful life (e.g. freehold land and certain Community Assets) or that are not yet available for use (e.g. assets under construction) are not depreciated. The calculation is on a straight-line basis over the remaining useful life of the assets as estimated by the valuer. Newly acquired assets are depreciated from the mid-point of the year. Vehicles are depreciated over the life of the asset. Equipment is generally depreciated over a 5-year life, with IT equipment depreciated over 3 years.

14.1 Movements

2018/19	Land and Buildings	Vehicles, plant, furniture & equipment	Infrastructure assets	Community Assets	Surplus Assets	Assets under Construction	Total Property, Plant & Equipment	PFI Assets included in PPE
	£m	£m	£m	£m	£m	£m	£m	£m
Cost or valuation								
At 1 April 2018	**610.5**	**176.1**	**528.7**	**0.3**	**11.5**	**49.3**	**1,376.4**	**221.7**
Restatements	(0.8)	0.1			0.4		(0.3)	
Additions	8.7	6.3	57.3			15.8	88.1	0.6
Revaluation increases / (decreases) recognised in Revaluation Reserve	(5.1)						(5.1)	
Revaluation increases / (decreases) recognised in the Surplus on the Provision of Services	(2.7)				(6.3)		(9.0)	
De-recognition/ Disposals	(41.0)						(41.0)	
Assets reclassified to Held for Sale	0.1				1.3		1.2	
Assets reclassified to other categories	(2.1)				2.1			
At 31 March 2019	**567.4**	**182.5**	**586.0**	**0.3**	**9.0**	**65.1**	**1,410.3**	**222.3**

2018/19	Land and Buildings	Vehicles, plant, furniture & equipment	Infrastructure assets	Community Assets	Surplus Assets	Assets under Construction	Total Property, Plant & Equipment	PFI Assets included in PPE
	£m	£m	£m	£m	£m	£m	£m	£m
Accumulated depreciation and impairment								
At 1 April 2018	**(31.1)**	**(64.8)**	**(230.1)**		**(0.6)**		**(326.6)**	**(18.2)**
Restatements					(0.4)		(0.4)	
Depreciation written out to the Revaluation Reserve	(3.7)						(3.7)	
Depreciation written out to the Surplus / Deficit on the Provision of Services	(4.6)	(6.6)	(23.8)		(0.1)		(35.1)	(5.5)
De-recognition – disposals	1.4						1.4	
Assets reclassified to other categories					(0.6)		(0.6)	
Depreciation written out following revaluation	7.0				0.2		7.2	
At 31 March 2019	**(31.0)**	**(71.4)**	**(253.9)**		**(1.5)**		**(357.8)**	**(23.7)**
Net book value								
At 31 March 2019	**536.4**	**111.1**	**332.1**	**0.3**	**7.5**	**65.1**	**1,052.5**	**198.6**
At 31 March 2018	**579.4**	**111.3**	**298.6**	**0.3**	**10.9**	**49.3**	**1,049.8**	**203.4**

2017/18	Land and Buildings	Vehicles, plant, furniture & equipment	Infrastructure assets	Community Assets	Surplus Assets	Assets under Construction	Total Property, Plant & Equipment	PFI Assets included in PPE
	£m	£m	£m	£m	£m	£m	£m	£m
Cost or valuation								
At 1 April 2017	**664.0**	**110.3**	**497.4**	**0.3**	**11.9**	**26.5**	**1,310.4**	**200.8**
Additions	9.1	0.3	31.6			27.7	68.7	
Revaluation increases / (decreases) recognised in Revaluation Reserve	67.9	(3.8)					64.1	20.8
Revaluation increases / (decreases) recognised in the Surplus on the Provision of Services	(18.3)	(1.3)			(4.0)		(23.6)	
De-recognition/ Disposals	(31.0)				(2.2)	(4.9)	(38.1)	
Assets reclassified to Held for Sale	(2.8)				(2.3)		(5.1)	
Assets reclassified to other categories	(78.4)	70.6	(0.3)		8.1			
At 31 March 2018	**610.5**	**176.1**	**528.7**	**0.3**	**11.5**	**49.3**	**1,376.4**	**221.6**

2017/18	Land and Buildings	Vehicles, plant, furniture & equipment	Infrastructure assets	Community Assets	Surplus Assets	Assets under Construction	Total Property, Plant & Equipment	PFI Assets included in PPE
	£m	£m	£m	£m	£m	£m	£m	£m
Accumulated depreciation and impairment								
At 1 April 2017	**(97.3)**	**(57.6)**	**(207.5)**		**(1.7)**		**(364.1)**	**(13.4)**
Depreciation written out to the Revaluation Reserve	(1.7)						(1.7)	
Depreciation written out to the Surplus / Deficit on the Provision of Services	(7.9)	(5.4)	(22.6)				(35.9)	(6.1)
De-recognition – disposals	4.3				0.3		4.6	
Assets reclassified to other categories	7.1	(5.4)			(1.1)		0.6	
Depreciation written out following revaluation	64.4	3.6			1.9		69.9	1.3
At 31 March 2018	**(31.1)**	**(64.8)**	**(230.1)**		**(0.6)**		**(326.6)**	**(18.2)**
Net book value								
At 31 March 2018	**579.4**	**111.3**	**298.6**	**0.3**	**10.9**	**49.3**	**1,049.8**	**203.4**
At 31 March 2017	**566.7**	**52.8**	**289.9**	**0.3**	**10.2**	**26.5**	**946.4**	**187.4**

14.2 Revaluations

Asset categories are revalued at least every five years on a rolling basis in accordance with the Royal Institution of Chartered Surveyors (RICS) Valuation - Global Standards 2017 and UK National Supplement. Further revaluations are carried out where there have been material changes. Assets are revalued where completed capital expenditure represents more than 15% of the asset's opening net book value or is greater than £100,000. Non-property assets with short useful lives and/or low values are valued at depreciated historical cost and where there is no market-based evidence of current value because of the specialist nature of the asset, depreciated replacement cost (DRC) is used. The County Council's valuations have been competed by:

Christopher S Finch B.Sc. (Hons) MRICS
Manager – Valuation Services
Place Partnership Ltd
Placepro House
Unit 6 Berkeley Business Park
Wainwright Road
Worcester
WR4 9FA

Where increases in value are identified, the carrying amount of the asset is increased with a corresponding entry for the gain in the Revaluation Reserve.

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

- the carrying amount of the asset writing down the balance of revaluation gains for the asset in the Revaluation Reserve; or
- the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement where there is no, or insufficient, balance in the Revaluation Reserve.

Upon revaluation (upwards or downwards) previously accumulated depreciation is eliminated and the asset shown at the newly revalued figure.

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 loss 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 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 line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is subsequently reversed, the reversal is credited to the relevant service line(s) 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.

Revaluations

	Land and Buildings	Vehicles, plant, furniture & equipment	Infrastructure assets	Community Assets	Surplus Assets	Assets under Construction	Total Property, Plant & Equipment	PFI Assets included in PPE
	£m	£m	£m	£m	£m	£m	£m	£m
Net book value as at:								
31 March 2019	37.7				5.1		42.8	3.8
31 March 2018	453.6	97.4			1.0		552.0	188.9
31 March 2017	11.1				0.9		12.0	
31 March 2016	12.3				0.5		12.8	
31 March 2015	21.7						21.7	5.9
Held at cost		13.7	332.1	0.3		65.1	411.2	
Total cost or valuation	**536.4**	**111.1**	**332.1**	**0.3**	**7.5**	**65.1**	**1,052.5**	**198.6**

14.3 Revaluation reserve

The revaluation reserve contains revaluation gains arising from increases in the value of PPE assets. 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.

2017/18		2018/19
£m		£m
117.6	**Opening Balance at 1 April**	**242.7**
148.6	Revaluations upwards during the year	12.0
(1.7)	Depreciation of revaluations	(3.7)
(16.4)	Revaluations downwards during the year	(10.5)
(5.4)	Disposal of revaluations	(15.4)
	Other adjustments	(0.1)
242.7	**Closing Balance at 31 March**	**225.0**

14.4 Downward revaluations and disposal losses

Disposal proceeds more than £10,000 are categorised as capital receipts and used for new capital investment or set aside to reduce the County Council's underlying need to borrow (the Capital Financing Requirement). Gains or losses arising from the derecognition of an asset recognises the difference between the disposal proceeds and carrying value of the asset and is included in the Surplus or Deficit on the Provision of Services. There is then a credit to the Capital Receipts Reserve equal to the disposal proceeds and a debit to the Capital Adjustment Account for the carrying amount of the fixed asset disposal.

Schools converting to academy status are transferred for nil consideration.

2017/18		2018/19
£m		£m
30.4	Downward revaluations - other land and buildings	11.6
4.3	Downward revaluations - non-operational	6.2
31.8	Disposal losses – other land & buildings	37.8
66.5		**55.6**

14.5 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 additions to those assets under statutory provisions.

2017/18		2018/19
£m		£m
237.2	**Balance at 1 April**	**214.7**
	Capital Financing:	
2.4	Capital receipts	7.0
56.7	Capital grants and contributions	53.3
1.5	Revenue contributions to capital expenditure	0.7
1.4	Capital reserve	0.5
62.0		**61.5**
(21.7)	Downward revaluations charged to Comprehensive Income and Expenditure Statement	(5.3)
(36.3)	Depreciation charged to Comprehensive Income and Expenditure Statement	(35.4)
17.2	Minimum revenue provision adjustment	7.0
2.4	Minimum revenue provision PFI adjustment	2.5
(18.0)	REFCUS adjustment	(13.8)
(28.2)	Disposal of non-current assets	(24.7)
0.1	Other adjustments	(1.5)
214.7	**Closing Balance at 31 March**	**205.0**

14.6 Contractual commitments for property, plant and equipment

As at 31 March 2019 the County Council has a capital programme comprising capital projects amounting to £257.4 million (2017/18 £195.7m). The following contracts have been entered into for the construction or enhancement of PPE.

Major schemes where contracts have been let:	£m
Worcestershire Transport Strategy Major Scheme Bid Southern Link Road Dual	4.3
Worcestershire Parkway	3.8
Kidderminster Station Improvement	2.7
Local Broadband Plan	3.7
Battenhall Bridge (SLR3)	3.7
Stourport High Expansion	2.1
Sub-total	**20.3**
Committed schemes less than £2 million	7.2
Major schemes where contracts have been let:	**27.5**

14.7 School assets

The land and buildings utilised in the provision of education services across the County are recognised in accordance with the asset recognition tests as they are judged to apply to the different type of arrangements. The accounting treatment of the schools' land and buildings is as follows:

- Community schools – land and buildings are legally held by the County Council and are shown in full on the Balance Sheet. Valuation of these assets is at depreciated replacement cost to reflect the specialist nature of the assets;
- Voluntary Controlled schools and Voluntary Aided schools - land and buildings comprising the main body of the school are legally held by the other entities. In Worcestershire this is either the Church of England or Catholic Diocese who retain the control of the asset. The review determined that, for these assets, legal ownership in conjunction with the substantive rights to the asset and future economic benefits sit with the relevant church body. Accordingly, the County Council has not shown these assets on the Balance Sheet.
- Foundation schools/ Trust schools – land and buildings comprising the body of the school are legally held by other entities. The review determined that, for these assets, legal ownership in conjunction with the substantive rights to the asset and future economic benefits sit with the relevant church body. The County Council has use of the assets but is not able to exert substantive control over them or to receive any future economic benefits. Accordingly, the County Council has not shown these assets on the Balance Sheet;
- Assets provided by the County Council as part of its responsibility for running the schools are shown on the Balance Sheet (for example the funding of mobile classrooms)
- Academy schools (previously community schools) – are not maintained by the County Council. The land and buildings comprising the body of the schools are leased to the academy on a 125-year lease and are therefore not shown on the Balance Sheet; local authority schools which are due to convert to academy status post balance sheet date are treated as non-adjusting post balance sheet date events. Where a school transfers after 31 March 2019, details are given in the Events after the Balance Sheet date note at the end of the accounts.

	Number of schools at 31 March 2019	Value held on Balance Sheet at 31 March 2019	Status
		£m	
Community	58	280.1	On Balance Sheet
PFI	7	71.9	On Balance Sheet
Voluntary controlled	50	2.3	Off Balance Sheet
Voluntary aided	23	0.3	Off Balance Sheet
Academy	100	1.1	Off Balance Sheet
Foundation	1	0.9	Off Balance Sheet
Free School	3		Off Balance Sheet
	242	**356.6**	

14.8 Non-operational assets

Assets held for sale are actively marketed and, as such, are not depreciated.

2017/18		2018/19
£m		£m
6.1	Assets Held for Sale	8.3

14.9 Capital expenditure and capital financing

2017/18 £m		2018/19 £m
533.8	**Opening capital financing requirement**	**541.4**
	Capital investment:	
68.8	Property, plant and equipment	91.7
18.0	Revenue expenditure funded from capital under statute	13.8
86.8	**Total Capital Investment**	**105.5**
	Sources of finance:	
(2.4)	Capital receipts	(7.0)
(56.7)	Government grants & other contributions	(53.3)
	Sums set aside from revenue:	
(2.9)	Direct revenue contributions	(1.2)
(17.2)	MRP/loans fund principal (excluding PFI)	(7.0)
541.4	**Closing Capital Financing Requirement**	**578.4**
	Explanation of movements in year	
7.6	Increase in underlying need to borrow (supported by government financial assistance)	37.0
7.6	**Increase / (decrease) in Capital Financing Requirement**	**37.0**

Minimum Revenue Provision (MRP) is a charge to the General Fund and is shown in the Financing and Investment Income and Expenditure on the Comprehensive Income and Expenditure Statement, with a matching entry in the Capital Adjustment Account. It represents an annual contribution from revenue towards the provision for the reduction in our overall borrowing requirement. MRP is charged over a period that is broadly commensurate with the period over which the County Council receives benefit from the asset. The charge is calculated using the asset life method on an annuity basis for either:

- The average life of all assets at 31 March 2008 for pre-2008 debts, and
- The average asset class life for post-2008 debts, using schools, highways and other assets as our key categories.

14.10 Assumptions made about the future and estimate uncertainties

Item	Uncertainties	Effect if actual results differ from assumptions
Property plant & equipment assets – depreciation	Property plant & equipment assets held on the Balance Sheet have an estimated useful life. This is based on a professional judgement by the Valuer.	Depreciation is applied on a straight-line basis over the useful life of the asset. Variations to the useful life will alter the amount of depreciation charged to the Comprehensive Income and Expenditure Statement. The impact of this is minimised by a review of the useful life of an asset being undertaken at each valuation.
Property plant & equipment assets – valuation	Property plant & equipment assets are valued by the County Council's Valuer on a five-year rolling programme, unless events indicate that a more frequent interval is required.	The Valuer uses his professional knowledge of the market and other factors to arrive at an asset value. Variations to this value would result in increased or decreased depreciation and, potentially, impairment losses being charged to the Comprehensive Income and Expenditure Statement. A 5% reduction in the Land and Buildings value of £536.4 million would result in a £26.8 million charge to the Comprehensive Income and Expenditure account if no amounts were available to cover the loss in the Revaluation Reserve.

Property plant and equipment are valued at £1,052.5 million at 31 March 2019.

15. Private finance initiatives (PFI)

PFI contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide services passes to the PFI contractor. In accordance with IFRIC 12, the County Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment as we control the services provided and will gain ownership of the property, plant and equipment at the end of the contracts for no additional charge. The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) is balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment. Non-current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the County Council.

The County Council has 4 PFI contracts providing waste services (including energy from waste), schools and library services. These contracts have been assessed as meeting the requirements of IFRIC 12 and the non-current assets relating to the service provision have been brought on to the County Council's Balance Sheet with a corresponding finance liability.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) is balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment. Non-current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the County Council.

15.1 Waste Disposal PFI

In December 1998 the County Council, in partnership with Herefordshire Council, entered into a 25-year contract with Mercia Waste Management Limited for the provision of an integrated waste management system using the Private Finance Initiative.

Under the contract the Councils are required to ensure that all waste for disposal is delivered to the Contractor who will take responsibility for recycling or recovering energy from the waste stream. In total the estimated cost over the life of the contract is approximately £500 million of which approximately 75% relates to the County Council. The contractor is at risk if waste tonnage fluctuates although the Authorities will be liable for a minimum payment of about £6 million per year in future years.

A variation to the contract was signed in May 2014 to design, build, finance and operate an Energy from Waste Plant. Actual takeover by Mercia Waste Management Limited was achieved in March 2017. Completion of the takeover tests by Mercia Waste Management Limited was achieved as planned in August 2017.

Both Councils will be providing circa 82% of the Project Finance requirement from their own planned borrowing from the Public Works and Loans Board with the remaining 18% being provided by the equity shareholders of Mercia Waste Management Limited. The loan is shown under long term Debtors on the Balance Sheet and the effective interest rate is shown under financial investments on the Comprehensive Income and Expenditure Statement.

15.2 Bromsgrove Schools PFI

In December 2005 the County Council entered into a 30-year contract with BAM PPP UK Limited (previously known as HBG PFI Projects Ltd) for the replacement of seven schools in the Bromsgrove area. The estimated cost over the life of the contract is approximately £300 million. During 2007/08 the seven new schools were completed and opened to provide educational services for the children of Bromsgrove and the surrounding area. In 2014/15 one school became an Academy. This has no impact to the main PFI contract. The Academy has entered into an agreement with the County Council to continue the obligations of the school in respect of the PFI contract.

15.3 Worcester Library and History Centre (The Hive) PFI

In January 2010 the County Council entered into a PFI contract with Galliford Try Investments Ltd (now DiF Infra 3 UK Limited) for the construction and provision of a new Worcester Library and History Centre (The Hive). The Hive became operational in January 2012 and opened to the public in the summer of 2012. The Hive is a partnership initiative between the County Council and the University of Worcester ('the University') for the provision of a fully-integrated public and University library, plus the Worcestershire Record Office, Worcestershire Historic Environment and Archaeology Service and Worcestershire Hub Customer Service Centre.

The service term for the contract is 25 years from the handover of the facility and the annual unitary payment during the life of the contract is £4.6 million, at April 2007 prices. The contract allows for indexation by the retail prices index of the service element of the contract (30% of the unitary payment) annually. At the end of the contract term the assets transfer to the County Council and the University on a 70/30 basis. The contract also allows for an extension to the provision of services by Galliford Try Investments Ltd.

15.4 Value of assets and liabilities under PFI contracts

	PPE - land & buildings				PPE - vehicle, plant & equipment	PPE
	Waste disposal	Bromsgrove schools	The Hive	Total	Waste disposal	Total
	£m	£m	£m	£m	£m	£m
Balance at 31 March 2018 (restated)	**8.4**	**64.1**	**29.1**	**101.6**	**101.9**	**203.5**
Revaluations	0.5	0.1		0.6		0.6
Depreciation	(0.2)	(0.6)	(0.3)	(1.1)	(4.4)	(5.5)
Balance at 31 March 2019	**8.7**	**63.6**	**28.8**	**101.1**	**97.5**	**198.6**

Finance lease liability

	Waste disposal	Bromsgrove schools	The Hive	Total
	£m	£m	£m	£m
Balance at 31 March 2018	**(114.3)**	**(52.4)**	**(18.4)**	**(185.1)**
Additions	(0.6)			(0.6)
Payments	5.3	1.1	0.5	6.9
Balance at 31 March 2019	**(109.6)**	**(51.3)**	**(17.9)**	**(178.8)**

15.5 Details of payments due to be made under PFI contracts

	Repayment of liability	Service Charge	Interest	Total
	£m	£m	£m	£m
Payments due within one year	7.2	33.7	12.5	53.4
Payments due within 2 to 5 years	31.7	108.4	44.7	184.8
Payments due within 6 to 10 years	14.3	23.0	24.6	61.9
Payments due within 11 to 15 years	21.8	23.3	16.8	61.9
Payments due within 16 to 20 years	23.2	17.3	5.1	45.6

The payments due are based on prices at the Balance Sheet date.

16. Financial instruments

Financial instruments are contracts that give rise to a financial asset or financial liability and are represented by investments, borrowings, debtors, creditors and cash equivalents. They are recognised on the Balance Sheet when the County Council becomes party to the contractual provisions of the Financial Instrument and are carried in-line with the new Code requirements of IFRS 9.

Financial liabilities are recognised on the Balance Sheet once there is a contractual obligation and are initially measured at fair value and carried at amortised cost. Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. The fair value of loans has been assessed at current market conditions by calculating the present value of the cash flows that take place over the remaining life of the loans.

Debtors and Creditors are recognised on the Balance Sheet when the County Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and subsequently measured at their amortised cost.

Financial assets are classified as either:

- Amortised Cost – where the County Council holds the asset to collect payments of principal and interest and the cashflows arising not subject to variations in capital value. These are recognised on the Balance Sheet when we become party to the contractual provisions of the instrument and are initially valued at fair value, with subsequent measurement at amortised cost.
- Fair Value through profit and loss –in all other cases. These are recognised on the Balance Sheet when we become party to the contractual provisions of the instrument and are initially valued at fair value, with subsequent measurement at market price for instruments with quoted prices or discounted cash flow for instruments with fixed and determinable payments.

The fair value calculations have been provided by the County Council's Treasury Management advisors for PWLB loans, LOBO loans, PFI Liabilities and shares in unlisted companies.

Long-term 31 March 2018	Current 31 March 2018		Long-term 31 March 2019	Current 31 March 2019
£m	£m		£m	£m
		Investments		
	1.5	Financial assets at amortised cost		7.0
3.1		Fair value through profit & loss	3.0	0.1
3.1	**1.5**		**3.0**	**7.1**
		Cash Equivalents		
	7.2	Cash equivalents at amortised cost		8.9
	22.7	Fair value through profit & loss		35.4
	29.9			**44.3**
		Debtors		
122.9	41.6	Financial assets at amortised cost	119.6	31.9
		Borrowings		
(366.9)	(78.3)	Financial liabilities at amortised cost	(409.3)	(57.4)
		Other long-term liabilities		
(185.1)		PFI and finance lease liabilities	(178.8)	
		Creditors		
(0.3)	(50.1)	Financial liabilities at amortised cost	(0.3)	(45.2)

In 2018/19 the County Council adopted IFRS 9, which replaced IAS 39, in respect of how the Council accounts for its Financial Instruments. This change removed the following classifications:

- Available for Sale and
- Loans and Receivables

The following reflects the accounting changes. Please note: liabilities are not included.

Long-term 31 March 2018 IAS 39	Current 31 March 2018 IAS 39		Long-term 31 March 2018 IFRS 9	Current 31 March 2018 IFRS 9
£m	£m		£m	£m
		Investments		
	1.5	Loans & receivables		
3.1		Available for sale financial assets		
		Financial Assets at Amortised Cost		1.5
		Fair Value through Profit and Loss	3.1	
3.1	**1.5**		**3.1**	**1.5**
		Cash Equivalents		
	7.2	Cash equivalents at amortised cost		7.2
	22.7	Available for sale Investments		
		Fair Value Through Profit and Loss		22.7
	29.9			**29.9**
		Debtors		
122.9	41.6	Loans & receivables		
		Financial Assets at Amortised Cost	122.9	41.6
122.9	41.6		122.9	41.6

IFRS 9 provides new arrangements for the provision of credit losses, requiring expected credit losses to be considered and disclosed. We have assessed our current financial instruments and our only material expected losses relate to trade debtors. The details can be found in note 18 Debtors

16.1 Income, expense, gains and losses

2017/18				2018/19			
Financial liabilities at amortised cost	Financial assets, loans & receivables	Total		Financial liabilities at amortised cost	Financial assets at amortised cost	Financial assets at fair value through profit & loss	Total
£m	£m	£m		£m	£m	£m	£m
(28.3)		(28.3)	Interest expense	(28.9)	1.2	(1.6)	(29.3)
	9.1	9.1	Interest income		8.1	1.8	9.9
(28.3)	**9.1**	**(19.2)**	**Net gain / (loss) for the year**	**(28.9)**	**9.3**	**0.2**	**(19.4)**

16.2 Fair value of assets and liabilities

Financial liabilities and financial assets classed as loans and receivables and financial liabilities at amortised cost are carried in the Balance Sheet at amortised cost. The fair values can be estimated by calculating the present value of cash flows that will take place over the remaining term of the instruments.

31 March 2018			31 March 2019	
Carrying amount	Fair value		Carrying amount	Fair value
£m	£m		£m	£m
		Financial liabilities		
495.4	576.5	Financial liabilities	512.0	605.3
185.1	180.3	PFI liabilities	178.8	165.9
0.3	0.3	Long Term Creditors	0.3	0.3
		Financial assets		
46.2	46.2	Loans & receivables	41.9	41.9
122.9	122.9	Long Term Debtors	119.6	119.6
29.9	29.9	Short term investments held as cash	44.3	44.3

The value of investments held at fair value is analysed below. Assets are assigned as:

- Level 1 - quoted prices of identical assets or liabilities;
- Level 2 - inputs other than quoted prices that are observable, either directly or indirectly;
- Level 3 - unobservable inputs

31 March 2018			31 March 2019	
Level 2	**Level 3**		**Level 2**	**Level 3**
£m	**£m**		**£m**	**£m**
	3.0	Malvern Hills Science Park		3.0
0.1		Municipal Bonds Agency		
0.1	**3.0**	**Total Available for Sale Assets**	**0.0**	**3.0**

The maturity analysis of financial liabilities (loans) is as follows:

31 March 2018		31 March 2019
£m		**£m**
78.3	Maturing within one year	57.4
38.0	Maturing in 1-2 years	29.2
34.4	Maturing in 2-5 years	34.1
53.7	Maturing in 5-10 years	55.7
240.9	Maturing in more than 10 years	290.4
445.3	**Total**	**466.8**

16.3 Nature and extent of risks arising from financial instruments

The County 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 County Council. Other than for trade debtors (note 18) this is not material;
- Liquidity risk - the possibility that the County Council might not have funds available to meet its commitments to make payments. This is managed by our Treasury Management Strategy, referenced below; and
- Market risk - the possibility that financial loss might arise for the County Council because of changes in such measures as interest rates movements. This is not applicable to our loans as they are fixed-rate

The County Council's overall risk management procedures focus on the unpredictability of financial markets and seek to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by a central treasury team under policies approved by the County Council in the Treasury Management Strategy. The Strategy for 2018/19 was approved by Council on 14 February 2019.

17. Long term investments

31 March 2018		31 March 2019
£m		£m
3.0	Malvern Hills Science Park	3.0
0.1	Municipal Bonds Agency	
3.1	**Total**	**3.0**

Considering the financial challenges that the Municipal Bonds Agency is currently facing the County Council has taken the decision to write-down the value of the shares to zero for 2018/19 (£0.1m 2017/18).

17.1 Malvern Hills Science Park

Malvern Hills Science Park is a limited company established by the County Council with its partners Malvern Hills District Council and the Hereford and Worcester Chamber of Commerce and Enterprise. The County Council holds 9 voting shares out of a total issue of 100; this has been judged not to give the County Council a controlling influence. In addition, the County Council holds Preference shares of 957,103 P1 shares (957,103 in 2017/18) and 6,190 P2 shares (6,190 2017/18). The preference shares carry no voting rights. These are the only Level 3 investments held by the County Council. The County Council's investment, measured at fair value in 2018/19, is £3.0 million (2017/18 £3.0m). This is shown on the Balance Sheet as a Long-Term investment, and the asset is held at Fair Value Through Profit and Loss (included in note 16.2). These shares are not publicly traded therefore their value is not expected to change materially.

18. Debtors

Debtors are recognised on the Balance Sheet when the County Council becomes party to the contractual provisions of a financial instrument and are initially measured at fair value and subsequently at amortised cost.

31 March 2018 Restated £m		31 March 2019 £m
	Long term debtors:	
4.5	Trade receivables	4.4
118.4	Other receivables	115.2
122.9		**119.6**
	Short term debtors:	
37.0	Trade receivables	30.1
4.9	Prepayments	4.9
19.7	Other receivables	21.2
61.6		**56.2**
184.5	**Total debtors**	**175.8**

The categories in the note have been altered to reflect the requirements of the Code.

The County Council does not generally allow credit for trade receivables debtors, however £8.7 million of balances are past due date for payment and can be analysed as follows. The current impairment allowance for trade debtors in the Balance Sheet is £0.55 million, an increase of £0.3 million. The impairment allowance for trade debtors is calculated based on age of debt and an expected default of 100% of non-disputed debts over 3 years old and 2.025% of debts between 30 days and 3 years.

	£m
One to three months	2.4
Three to six months	0.9
Six months to one year	1.6
More than one year	3.8
Total	**8.7**

19. 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 investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

	Opening Balance 01/04/2018	Movement During the Year	Closing Balance 31/03/2019
	£m	£m	£m
Bank current accounts	(14.5)	8.3	(6.2)
Short Term investments held as cash	29.9	14.4	44.3
Total cash and cash equivalents	**15.4**	**22.7**	**38.1**

20. Creditors

Creditors are recognised on the Balance Sheet when the County Council becomes party to the contractual provisions of a financial instrument and are initially measured at fair value and subsequently at amortised cost.

31 March 2018 Restated £m		31 March 2019 £m
	Long-term creditors	
(0.3)	Other payables	(0.3)
	Short-term creditors	
(43.2)	Trade payables	(49.6)
(31.9)	Other payables	(31.8)
(75.1)		(81.4)
(75.4)	**Total creditors**	**(81.7)**

The categories in the note have been altered to reflect the requirements of the Code.

21. Other long-term liabilities

2017/18		2018/19
£m		£m
(185.1)	PFI liabilities	(178.8)
(360.0)	Re-measurement of the net defined benefit	(465.2)
(3.0)	Teachers' Pension scheme Added year	(2.9)
(548.1)	**Other Long-term Liabilities**	**(646.9)**

22. Grants receipts in advance

31 March 2018		31 March 2019
£m		£m
15.1	Section 106 Town and Country Planning Act 1990	23.4
1.0	Section 278 Highways Act 1980	1.5
16.1		**24.9**

23. Cash activities

23.1 Operating activities

2017/18 £m		2018/19 £m
1.4	Interest received	1.4
(28.5)	Interest paid	(29.1)

2017/18 £m		2018/19 £m
	The surplus/deficit on the provision of services has been adjusted for the following non-cash movements	
37.6	Depreciation	39.1
21.7	Downward revaluations	5.3
0.4	Amortisation	0.3
(10.1)	(Decrease) / Increase in creditors	6.5
(19.4)	(Increase) / decrease in debtors	5.2
(25.7)	Movement in pension liability	48.5
0.1	(Increase)/ decrease in Inventories	(0.1)
33.6	Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	40.1
(9.1)	Other non –cash items	(7.6)
29.1		**137.3**
	The surplus/deficit on the provision of services has been adjusted for the following items that are investing or financing activities	
(1.8)	Proceeds from the sale of property plant and equipment, investment property and intangible assets	(2.3)
(60.2)	Any other items for which the cash effects investing of financing cash flows	(59.4)
(62.0)		**(61.7)**

23.2 Investing activities

2017/18 £m		2018/19 £m
(66.9)	Purchase of property, plant & equipment, investment property and intangible assets	(91.3)
(817.9)	Purchase of short-term & long-term investments	(736.5)
3.2	Other payments for investing activities	7.4
1.8	Proceeds from the sale of property, plant & equipment, investment property and intangible assets	2.3
836.9	Proceeds from short-term & long-term investments	731.5
66.3	Other receipts from investing activities	63.7
23.4	**Net cash flows from investing activities**	**(22.9)**

23.3 Financing activities

2017/18 £m		2018/19 £m
102.8	Cash receipts of short-term & long-term borrowing	64.8
(1.2)	Other receipts from financing activities	8.2
(6.2)	Cash payments for the reduction of the outstanding liabilities relating to finance leases & on-Balance Sheet PFI contracts	(6.9)
(25.6)	Repayments of short- and long-term borrowing	(43.5)
69.8	**Net cash flows from financing activities**	**22.6**

24. Officers' remuneration

Short-term employee benefits, including wages and salaries, paid annual and sick leave for current employees, are recognised as an expense in the year in which the service is provided to the County Council.

24.1 Remuneration over £50,000 per annum

All amounts paid to or receivable by County Council employees, including salary, expenses allowances and compensation for loss of employment, where this total is more than £50,000 are given in the table below.

2017/18			Total Remuneration to Employees	2018/19		
Teachers	Non-Teachers	Total		Teachers	Non-Teachers	Total
68	28	96	£50,000 to £54,999	56	37	93
55	18	73	£55,000 to £59,999	40	27	67
33	12	45	£60,000 to £64,999	31	9	40
25	2	27	£65,000 to £69,999	21	4	25
9	5	14	£70,000 to £74,999	14	6	20
7	3	10	£75,000 to £79,999	2	4	6
1	5	6	£80,000 to £84,999	5	3	8
4	3	7	£85,000 to £89,999		4	4
1	4	5	£90,000 to £94,999	2	3	5
4	2	6	£95,000 to £99,999	1	2	3
			£100,000 to £104,999	2	2	4
			£105,000 to £109,999			
	1	1	£110,000 to £114,999		1	1
			£115,000 to £119,999			
	1	1	£120,000 to £124,999			
	2	2	£125,000 to £129,999		2	2
			£130,000 to £159,999			
			£160,000 to £174,999		1	1
207	**86**	**293**		**174**	**105**	**279**

24.2 Senior employees' remuneration

Senior employees are defined as those whose salary is more than £150,000 per annum, and those employed in statutory chief officer posts or who report directly to the Chief Executive.

Post Title		Salary	National Insurance	Expense allowances	Pension Contributions	Total	Position start date	Position end date
		£	£	£	£	£		
Chief Executive, Paul Robinson	**2018/19**	**172,471**	**22,638**	**62**	**25,028**	**220,199**		
Chief Executive, Paul Robinson	2017/18	5,769	701		796	7,266	19/03/2018	
Interim Chief Executive, Steve Stewart	2017/18	121,754	15,484			137,238	19/06/2017	01/03/2018
Chief Executive, Clare Marchant	2017/18	38,215	4,892		5,830	48,937		29/06/2017
Director of Adult Services *	2017/18	111,301	14,327	313	14,935	140,876		11/02/2018
Director of Children, Families and Communities	**2018/19**	**128,093**	**16,514**	**828**	**18,624**	**164,059**		
	2017/18	125,339	16,171	1,043	17,244	159,797		
Director of Economy & Infrastructure	**2018/19**	**128,341**	**16,146**		**18,624**	**163,111**		
	2017/18	125,339	15,925		17,244	158,508		
Director of Commercial & Change	**2018/19**	**111,334**	**14,208**	**76**	**16,197**	**141,815**	**30/04/2018**	
	2017/18	18,129	2,291		2,636	23,056		04/06/2017
Director of Public Health	**2018/19**	**62,766**	**7,499**		**9,113**	**79,378**		
	2017/18	81,759	10,157	315	11,911	104,142		
Chief Financial Officer	**2018/19**	**99,712**	**12,598**		**14,469**	**126,779**	**23/04/2018**	
Interim Chief Financial Officer	**2018/19**	**6,162**	**737**		**847**	**7,746**		**21/04/2018**
Interim Chief Financial Officer	2017/18	49,526	6,272	77	6,814	62,689	16/10/2017	
Chief Financial Officer	2017/18	54,688	6,723	944	7,585	69,939		17/10/2017
Total	**2018/19**	**708,879**	**90,340**	**966**	**102,902**	**903,088**		
	2017/18	731,819	92,943	2,692	84,995	912,448		

*An Interim Director of Adult Services has been employed via an agency since 19/02/2018.

25. Pension schemes

Post-employment benefits include pensions and retirement lump sums. Employees of the County Council may be members of:

- The Local Government Pensions Scheme (a defined benefit scheme), administered by the County Council under national regulations;
- The Teachers' Pension Scheme (a defined contribution scheme), administered by the Teachers' Pensions Agency on behalf of the Department for Education; or
- The NHS Pension Scheme (a defined contribution scheme), administered by the Department of Health.

25.1 Defined contribution pension schemes

It is not possible for the County Council to identify its share of the underlying liabilities attributable to our employees within these, and therefore for the purposes of the Statement of Accounts they are accounted for as defined contribution schemes, that is, actual costs are included in the revenue accounts, with no assets or liabilities in the Balance Sheet.

25.1.1 Teachers' Pension Scheme

The Teachers' Pension Scheme is a defined benefit scheme administered by the Teachers' Pensions Agency. Although the scheme is unfunded, a notional fund is used as a basis for calculating the employers' contribution rate.

In 2018/19 the County Council paid £11.8 million (2017/18 £12.4m) to the Department for Education and Skills in respect of teachers' pension costs, which represents 16.5% (2017/18 16.5%) of teachers' pensionable pay. In addition, the County Council is responsible for all pension payments relating to Teacher's added years it has awarded, together with the related increases. In 2018/19 these amounted to £0.3 million (2017/18 £0.3m), representing 0.4% (2017/18 0.4%) of pensionable pay. The County Council's Actuary has calculated a long-term liability of £2.9 million in respect of these payments that will decline over time and this is included in the balance sheet under other long-term liabilities.

25.1.2 NHS Pension Scheme

The NHS pension scheme is a defined benefit scheme administered by the NHS Superannuation Scheme.

In 2018/19 the County Council paid £0.1 million (2017/18 £0.1m) to the NHS Superannuation Scheme, which represents 14.4% (2017/18 14.4%) of NHS pensionable pay.

25.2 Defined benefit pension schemes

The Local Government Pension Scheme is accounted for as a defined benefits scheme:

- The liabilities of the Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis.
- The assets of the Pension Fund attributable to the County Council are included in the Balance Sheet at their fair value.

In relation to retirement benefits the General Fund is charged with the amount payable by the County Council to the Pension Fund or directly to pensioners in the year, not the amount calculated by the relevant accounting standards. In the Movement in Reserves Statement there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the Pension Fund and pensioners and any amounts payable to the fund but unpaid at the year-end. The negative balance on the Pensions Reserve measures the beneficial impact to the General Fund of being required to account for retirement benefits based on cash flows and not as benefits are earned by employees.

The County Council administers and participates in the Worcestershire County Council Pension Fund. Retirement benefits are determined independently of the investments of the Pension Fund, and the County Council has an obligation to make contributions where assets are insufficient to meet employee benefits. The County Council and participating employees pay contributions into the fund which are calculated at a level intended to balance pension's liabilities with investment assets.

The pension scheme is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the scheme. As the statutory Administering Authority and Scheme Manager for the Fund, the County Council is responsible for ensuring effective stewardship of the Pension Fund's affairs. The County Council has established a Pension Committee to discharge its responsibility for the management of the administration of the Pension Fund. Policy is determined in accordance with the Pensions Fund Regulations. The management of the Pension Fund's assets is operated through thirteen specialist external managers.

The three principal risks to the scheme are:

- Market risk (volatility in stock prices, increase in interest rates and fluctuations in currency exchange rates);
- Credit risk where a borrower does not make payments as promised; and
- Liquidity risk, in that a given security or asset cannot be traded quickly enough in the market.

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.

The Court of Appeal decision on the 28 June 2019 in the Sargeant/McCloud cases (generally referred to for the LGPS as "McCloud") ruled that the transitional protection afforded to older members when the Public Service Pension Schemes were amended constituted unlawful age discrimination. The County Council's actuary has provided a calculation for the anticipated impact of the judgement on the pensions' liability. The additional costs are sensitive to the assumptions made. Relevant entries are included below as McCloud judgement liability.

25.2.1 Transactions relating to post-employment benefits

The County 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. The charge against the 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:

2017/18 £m		2018/19 £m
	Comprehensive Income & Expenditure Statement	
	Cost of services:	
(34.9)	Current service cost	(33.4)
	Past Service Cost - McCloud Judgement	(6.5)
(0.6)	Settlements and curtailments	(0.5)
	Other Operating Expenses	
(0.4)	Administration expenses	(0.4)
	Financing & investment income & expenditure	
(31.2)	Interest on Pensions Liabilities	(32.2)
21.8	Interest on Pensions Assets	22.9
(45.3)	**Total post-employment benefit charged to the surplus or deficit on the Provision of Services**	**(50.1)**
	Re-measurement of the net defined liability charged to the Comprehensive Income & Expenditure Statement	
11.1	Return on Plan assets (excluding the amount included in net interest expense)	11.5
48.9	Actuarial gain / (loss) arising on changes in financial assumptions	(68.1)
14.7	**Total post-employment benefit charged to the Comprehensive Income & Expenditure Statement**	**(106.7)**

2017/18 £m		2018/19 £m
	Movement in Reserves Statement	
(22.3)	Reversal of net charges made to the surplus or deficit for the Provision of Services for post-employment benefits in accordance with the Code of Practice	(25.1)
	Actual amount charged against the General Fund Balance for pensions in the year:	
70.9	Employer's contributions payable to the scheme	1.6
(29.9)	Retirement benefits payable to pensioners	(36.2)

The 2017/18 Employer's contributions payable to the scheme included £70.2 million up front payment which equated to an estimated 90% of the County Council's liabilities for the three years 2017/18 to 2019/20. The payment in year during this period is calculated on the actuary's assessment of the actual liability balance. The impact of this payment is considered by the actuary as part of the annual IAS19 exercise and reflected in our pension's liabilities and reserve entries.

25.2.2 Pension gains and losses charged to the Comprehensive Income and Expenditure Statement

2017/18 £m		2018/19 £m
11.1	Return on Plan Assets (excluding the amount included in net interest expense)	11.5
48.9	Actuarial gain / (loss) arising from changes in financial assumptions	(68.1)
0.6	(Increase)/decrease in Teachers Pension Liability	0.2
60.6	**Total gain / (loss)**	**(56.4)**

25.2.3 Pension assets and liabilities recognised in the Balance Sheet

2017/18 £m		2018/19 £m
(1,253.6)	Present value of liabilities	(1,365.3)
893.6	Fair value of assets	900.1
(360.0)	**Deficit in the scheme**	**(465.2)**

Statutory arrangements for funding the deficit mean that the financial position of the County Council is consistent with previous financial years. The deficit on the local government pension scheme will be made good by increased contributions over the remaining working life of the employees (i.e. before payments fall due), as assessed by the scheme actuary. Finance is only required to be raised to cover discretionary benefits when the pensions are paid.

25.2.4 Liabilities and assets in relation to post-employment benefits (Local Government Pension Scheme)

This table gives detail of the assets and liabilities as calculated by the County Council's actuary. The financial assumptions included are based on yield assumptions on corporate bonds and are impacted by the duration of our employee liabilities. Increases in benefits and pensions included in these assumptions are based on CPI. Salary growth assumptions are based on long-term "real" salary inflation assumptions. Further information is given in note 25.2.6 which breaks down the fund investment assets, note 25.2.7 which provides the underlying assumptions for calculations included and note 25.2.8 which estimates the impact of any sensitivities in these assumptions.

Reconciliation of present value of the scheme liabilities:

2017/18		2018/19
£m		£m
(1,259.4)	**Opening balance at 1 April**	**(1,253.6)**
(34.9)	Current service cost	(33.4)
(31.2)	Interest cost	(32.2)
(6.3)	Contributions by scheme participants	(6.6)
	Remeasurement (gains) and losses:	
48.9	Actuarial gain / (loss) arising on changes in financial assumptions	(68.1)
29.9	Benefits paid	36.2
	Business combinations	(0.6)
	Past Service Cost - McCloud Judgement	(6.5)
(0.6)	Curtailments	(0.5)
(1,253.6)	**Closing balance at 31 March**	**(1,365.3)**

Reconciliation of fair value of the scheme assets:

2017/18		2018/19
£m		£m
813.7	**Opening balance at 1 April**	**893.6**
21.8	Interest Income	22.9
11.1	Return on plan assets, excluding the amount included in the net interest expense	11.5
(0.4)	Administration expenses	(0.4)
70.9	Employer contributions	1.6
	Business combinations	0.5
6.3	Contributions by scheme participants	6.6
(29.8)	Benefits paid	(36.2)
893.6	**Closing balance 31 March**	**900.1**

25.2.5 Pensions Reserve

2017/18 £m		2018/19 £m
(449.3)	**Balance at 1 April**	**(411.0)**
11.1	Return on Plan assets (excluding the amount included in net interest expense)	11.5
48.9	Actuarial gain / (loss) arising on changes in financial assumptions	(68.1)
	Business combinations	(0.1)
(45.2)	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income & Expenditure Statement	(50.1)
70.9	Employer's pensions contributions & direct payments to pensioners payable in the year	1.6
(48.0)	Employer's pension contributions – prepayment adjustment	23.4
0.6	Decrease in Teachers Pension Liability	0.2
(411.0)	**Balance at 31 March**	**(492.7)**

25.2.6 Local Government Pension Scheme assets

2017/18 £m		Quoted (Y/N)	2018/19 £m
	Equities:		
3.6	UK Quoted	Y	1.8
255.5	Overseas quoted	Y	237.6
218.9	Pooled Investment Vehicle - UK Managed Funds	N	120.6
294.0	Pooled Investment Vehicle - UK Managed Funds - (overseas equities)	N	287.2
	Bonds:		
3.6	UK Corporate	Y	2.7
39.3	Overseas Corporate	Y	41.4
	UK Government Fixed	Y	72.9
	Property:		
22.3	European Property Fund	N	23.4
7.1	UK Property Debt	N	8.1
4.5	Overseas Property Debt	N	5.4
3.6	UK Property Fund	N	19.8
	Alternatives:		
30.4	UK Infrastructure	N	32.4
	European Infrastructure	N	17.1
	US Infrastructure	N	2.7
	US Stock Options	N	6.3
	Cash:		
2.7	Cash Instruments	Y	3.6
5.4	Cash Accounts	Y	7.2
2.7	Net Current Assets	N	9.9
893.6	**Total**		**900.1**

25.2.7 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 about mortality rates, salary levels, etc. The Local Government Pension Scheme has been assessed by Mercer Ltd, an independent firm of actuaries, and estimates for the County Council fund are based on the latest full valuation of the scheme as at 31 March 2016, with an effective date of 1 April 2017. The principal assumptions used by the actuary are:

2017/18		2018/19
	Mortality assumptions	
	Longevity at 65 for current pensioners (years):	
22.7	Men	22.8
25.7	Women	25.8
	Longevity at 65 for future pensioners (years):	
24.9	Men	25.1
28.0	Women	28.2
	Financial assumptions	
2.1%	Rate of CPI inflation	2.2%
3.6%	Rate of increase in salaries	3.7%
2.2%	Rate of increase in pensions	2.3%
2.6%	Rate for discounting scheme liabilities	2.4%

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.

25.2.8 Impact on the Defined Benefit Obligation in the Scheme (Liabilities)

	Increase in rate of	Increase/(decrease) in Assumption
		£m
Discount Rate	0.1%	(23.3)
Inflation	0.1%	23.7
Pay	0.1%	2.6
Life Expectancy	1 year	27.0

25.2.9 Impact on the County Council's cash flows

The weighted average duration of the defined benefit obligation for scheme members is 17 years (2017/18 17 years). The County Council anticipates payments of £23.2 million expected contributions to the scheme in 2019/20.

26. Termination benefits and exit packages

This discloses both exit packages for employees who have left the County Council in 2018/19 and any provisions for packages which have been agreed where the employee will leave at a future date. The cost includes redundancy costs, costs of pension added years and any other departure costs. Termination Benefits are charged in the year in which they are paid or on an accrual basis if appropriate.

Where enhancement of retirement benefits is made the amount charged is the amount payable by the County Council to the Pension Fund or pensioner in the year.

2017/18			2018/19	
Total number of exit packages	Total cost of exit packages	Exit package cost band (including redundancy, pension strain, and settlement payments)	Total number of exit packages	Total cost of exit packages
	£m			£m
39	0.3	£0 - £20,000	107	0.8
13	0.4	£20,001 - £40,000	27	0.7
2	0.1	£40,001 - £60,000	14	0.7
2	0.1	£60,001 - £80,000	3	0.2
2	0.2	£80,001 - £200,000	2	0.3
58	**1.1**	**Total Termination Packages**	**153**	**2.7**

As part of the County Council's ongoing organisational redesign programme a voluntary redundancy programme was undertaken. Of the 153 exit packages 62 related to voluntary redundancy at a cost of £1.3 million and 91 to compulsory redundancy at a cost of £1.4 million.

27. Related parties

Joint Arrangements are activities undertaken by the County Council with other entities to jointly control an asset. Joint control involves the contractually agreed sharing of control. Arrangements subject to joint control are classified as either a joint venture, where net assets are shared, or a joint operation, which is limited to specific assets and liabilities. The County Council has considered all significant relationships with companies and other entities in line with accounting standards and the Code of Practice on group accounts. This review considered all relationships for material interests that have the nature of subsidiaries, associates and jointly-controlled entities, including assessment of control by a single entity, joint control and materiality. There are no material interests and, as such, no group accounts.

27.1 UK Central Government

The UK Central Government has significant influence over the general operations of the County Council. It is responsible for providing the statutory framework within which the County Council works, provides funding in the form of grants (note 6 refers), and sets the terms of many of the relationships that the County Council has with other organisations.

27.2 Elected Members

Elected members of the County Council have direct control over the County Council's financial and operating policies. A total of £1.0 million allowances and expenses were paid to members in 2018/19 (2017/18 £0.9 million). Elected members of the County Council may be involved with other local organisations that provide services for or receive services from the County Council. Transactions for these organisations have been reviewed and there are no related party disclosures to be made for elected members.

27.3 Officers

Officers of the County Council may be involved with other local organisations that provide services for or receive services from the County Council. Transactions for these organisations have been reviewed and there are no related party disclosures to be made for officers.

27.4 Section 75 Framework Partnership Agreements

The County Council has an integrated commissioning unit with Health through a Section 75 arrangement including the Better Care Fund (details given in note 7). Monitoring is through the Integrated Commissioning Executive Officers Group (ICEOG) and agreed and controlled through the Clinical Commissioning Group Board and the Health and Wellbeing Board.

27.5 Worcestershire County Council Pension Fund

At the year-end the County Council charged the Pension Fund £1.0 million (2017/18 £0.8m) for expenses incurred in administering the Pension Fund. Further details are given in note 25 Defined Benefit Pension Schemes.

27.6 West Mercia Energy Joint Committee

The County Council is represented by its elected members on the West Mercia Energy Joint Committee (WME), which offers energy procurement and management on behalf of its four owning authorities and several outside bodies. WME is constituted as a Joint Committee and the County Council is one of four constituent authorities, alongside Shropshire Council, Herefordshire Council and Telford and Wrekin Council. The parties have rights to the net assets of the arrangement and, as such, this is judged to be a joint venture. As this is not a material interest for the County Council, there is judged to be no requirement to produce group accounts. The County Council spent £6.7 million with WME in 2018/19 (2017/18 £5.4m) and this is reflected in the Comprehensive Income and Expenditure Statement.

27.7 Place Partnership

Place Partnership Limited is a single asset management company co-owned by the County Council, Hereford & Worcester Fire Authority, Redditch Borough Council, Warwickshire Police, West Mercia Police and Worcester City Council and each party has equal shares and equal voting rights. Any profits made by Place Partnership Limited would be distributed equally to members and any loss distribution would be limited by shareholding. Place Partnership Limited has been classified as a Joint Operation for financial reporting, because there is joint control, and the activity of the arrangement is primarily to provide services to the parties within their boundaries. In 2018/19, the operating cost for the County Council was £5.0 million (2017/18 £5.1m) and this is reflected in the Comprehensive Income and Expenditure Statement. Place Partnership Limited has not been fully consolidated into the County Council's accounts as a Joint Operation as there is judged to be no material difference to the costs already reflected.

27.8 Severn Arts

Severn Arts is a Private Company Limited by Guarantee that provides education in music and the Arts within Worcestershire. The County Council appoints one out of the ten trustees. This is a Related Party because the trustee appointed is a key management personnel of the County Council. The County Council spent £0.05 million on behalf of Severn Arts post transfer in 2018/19 and this is reflected in the Comprehensive Income and Expenditure Statement.

The Company commenced on 1 June 2018, after a transfer of service provisions and assets from the County Council. As part of the transfer the County Council loaned Severn Arts £0.4 million, which is to be paid back in monthly instalments over 7 years with 4.78% interest per annum. There is a loan balance of £0.3 million outstanding at the year-end, and a debtor balance of £0.03 million.

28. Leases

28.1 The County Council as lessee – operating leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense. Charges are made on a straight-line basis over the life of the lease.

Operating lease payments of £1.1 million were made in 2018/19 (2017/18 £1.0m). The County Council's outstanding obligations under lease agreements as at 31 March 2019 totalled £11.7 million (31 March 2018 £15.4m).

	£m
Leases expiring in less than 1 year	0.2
Leases expiring between 1 and 5 years	0.4
Leases expiring in 5 years+	11.1
	11.7

28.2 The County Council as lessor – operating leases

Where an asset is leased by the County Council to a third party as an operating lease the asset is retained in the Balance Sheet. Rental income is credited to the Comprehensive Income and Expenditure Statement on a straight-line basis over the life of the lease.

Operating lease receipts of £2.2 million were received in 2018/19 (2017/18 £1.8m). The County Council's outstanding obligations under lease arrangements as at 31 March 2019 totalled £9.8 million (2017/18 £6.2m).

	£m
Leases expiring in less than 1 year	0.9
Leases expiring between 1 and 5 years	2.2
Leases expiring in 5 years+	6.7
	9.8

28.3 Future accounting standards - IFRS 16 Leases

Implementation has been deferred in the public sector until 1 April 2020. The accounting treatment for contracts that convey the right to control the use of an identified asset for a period of time in exchange for consideration will be changing. CIPFA guidance will be issued to confirm required adaptations.

The County Council is preparing for the new standard and will:

- Liaise with our directorates and maintained schools to confirm current lease arrangements and identify relevant contracts
- Consider each material contract to determine service contracts v. operating lease
- Establish new disclosure and accounting requirements

Financial implications of new standard will not be quantifiable until CIPFA guidance issued.

29. External audit costs

2017/18		2018/19
£m		£m
0.1	Fees payable regarding external audit services	0.1

The fee of £98k paid to the Grant Thornton comprised £74k audit fee and £4k grant certification fee. An audit fee of £20k was agreed by the Public Sector Audit Appointments body to cover additional audit work required in certifying the 2017/18 accounts.

The County Council is licensed to use the CFO Insights tool provided by Grant Thornton, at a cost of £13k per annum. This is not related to the external audit services provided.

30. Events after the reporting period

Events after the reporting period are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is approved. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period - the Statement of Accounts is not adjusted to reflect such events, but, where a category of events would have a material effect, disclosure is made of the nature of the events and their estimated financial effect.

Non-adjusting events

Two schools have converted to academy status after 31 March 2019. As these converted after the reporting period they are non-adjusting events and are reported below for information

Name of school	Date of conversion	Asset value at 31 March 2019 (£m)
Birchensale Middle School	01/04/2019	5.2
Holyoakes Field School	01/05/2019	2.3

Worcestershire Pension Fund

Statement of Accounts 2018/19

Draft Unaudited

Find out more online:
www.worcestershire.gov.uk/pensions

worcestershire county council

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About the Accounts

Basis of Preparation

The statement of Accounts summarises the Fund's transaction for the 2018 / 2019 financial year and its position at year-end as at 31 March 2019. The accounts have been prepared in accordance with the Code of Practice on Local Accounting in the United Kingdom 2018/19 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The Accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The Accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year.

Explanatory Foreword and a Review of the Year 2018/19

Contains a review of the year and other general information about the accounts.

The Worcestershire Pension Fund Account

Details the money received and spent within the Pension Fund during 2018/19.

Net Assets Statement

Statement showing the Pension Fund's financial position at 31 March 2019.

Notes to the Pension Fund Accounts

Notes providing additional information for the Fund Account and Net Assets Statement.

Statement of Accounting Policies

These are now shown against the relevant note as opposed to a prescribed list of accounting policies in previous year's accounts.

The accounts have been prepared on a going concern basis.

1. Explanatory Foreword and a Review of the Year 2018/19

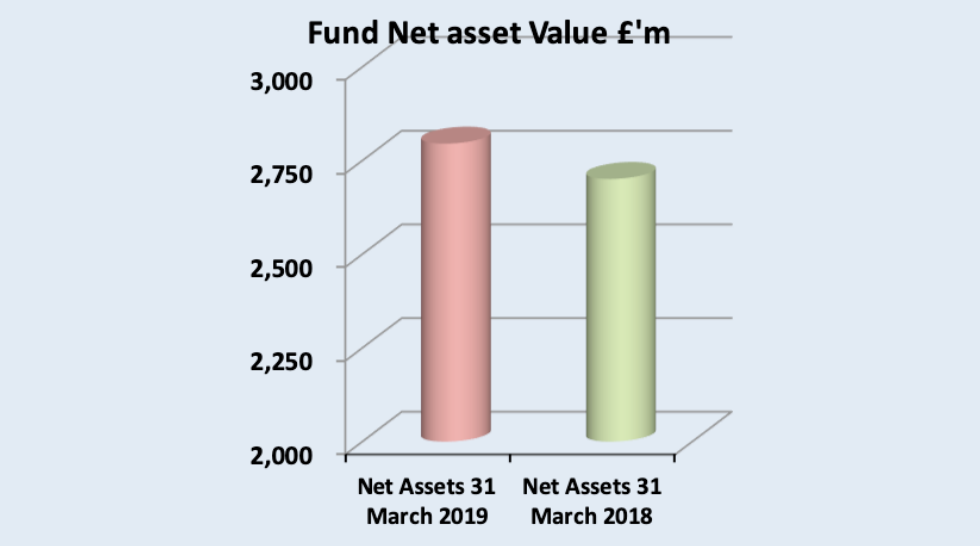
Foreword by the Chief Financial Officer

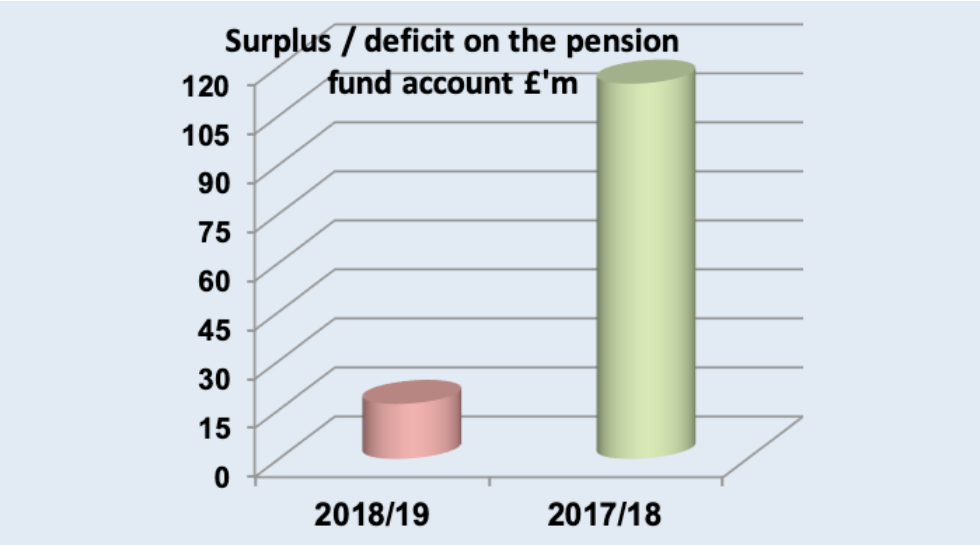
Welcome to the Worcestershire Pension Fund 2018/19 Statement of Accounts. Worcestershire County Council administers the Local Government Pension Scheme (LGPS), which provides for the occupational pensions of employees, other than teachers, police officers, and fire fighters of the local authorities within the Herefordshire and Worcestershire area. Worcestershire County Council also operates the scheme for members of other organisations which have made admission agreements with the fund and designated bodies who have passed resolutions with Worcestershire County Council.

Table 1 Aim and Purpose of the Scheme

The aims of the Scheme are to:
▪ Enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the taxpayers, scheduled, designated, community and admitted bodies. ▪ Manage employers' liabilities effectively. ▪ Ensure that sufficient resources are available to meet all liabilities as they fall due, and ▪ Maximise the returns from investments within reasonable risk parameters.
The purpose of the Scheme is to:
▪ Receive monies in respect of contributions, transfer values and investment income, ▪ Pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses.

Key headlines





- The value of the Fund's net assets increased by £94.3 million from £2,701.0 million at 31 March 2018 to £2,795.3 million at 31 March 2019:
- Income from contributions decreased by 52%, (£94.7 million from £195.6 million) due mainly to some employers paying their 3 year pension contributions upfront in 2017/18 to reduce the overall costs. This change in income level has had a knock on impact to a number of notes to the accounts.
- Net investment returns decreased by 10%, due to market volatility, tempered somewhat by the equity protection strategy. There was also some disinvestment from passively managed pooled funds to Infrastructure and property funds in line with the investment strategy.

  The investment income associated with the passive managed pooled funds and Equity Protection is retained within the pooled funds and reinvested increasing the value of the pooled funds' units and therefore increasing the market value of the Fund.
- Contributions from staff and employers were less than the benefits paid and management expenses in 2018/19 by £33million due mainly to explanation provided above.
- During the year a surplus resulted on the Pension Fund account (aside from the change in investments market value) totalling £16.8 million for 2018/19 million, a decrease of £98 million from the surplus of £114.8 million for 2017/18. This was mainly due to some employers paying their 3 year pension contributions upfront in 2017/18.

Table 2 analysis of changes within the fund's membership profile

	31 March 2018	31 March 2019	Change	Change %
Contributors to the fund	22,478	23,436	958	4.3
Pensions paid	17,507	18,089	582	3.3
Deferred members	20,351	20,729	378	1.9
	60,336	**62,254**	**1,918**	**3.2**

Scheme membership has continued to grow and is now in excess of 62,000. Active employer numbers have decreased from 208 to 196 at the end of March 2019 mainly due to a number of schools merging as Academies. The administrative challenges presented by this continued growth are considerable, given the additional data requirements of the 2014 Career Average Revalued Earnings (CARE) Scheme, and the increased emphasis on data quality demanded by the General Data Protection Regulation (GDPR) from May 2018 and new compliance standards introduced by the Pensions Regulator. In view of these challenges the Fund continues to review its systems and processes and importantly, the way it engages with, and receives data from scheme employers.

Governance

The Council has established a Pension Committee to exercise the Administering Authority's responsibility for the management of the Worcestershire Pension Fund. The Pension Committee has overall responsibility for the management of the administration of the Fund and for the strategic management of the Fund's assets. In order to discharge its responsibility effectively the Pension Committee is supported by the Pension Administration Advisory Forum and the Pension Investment Advisory Panel. Note, it is the Audit and governance Committee that are charged with governance for the purpose of the accounts.

The Council has also established a Pension Board, which has been operational since July 2015. The purpose of the Board is to assist the Administering Authority in its role as a scheme manager of the Scheme. Such assistance is to: (a) secure compliance with the Regulations, any other legislation relating to the governance and administration of the Scheme, and requirements imposed by the Pensions Regulator in relation to the Scheme and; (b) to ensure the effective and efficient governance and administration of the Scheme.

The Pension Fund's Governance Policy Statement is published on the Council's website. The Policy Statement ensures that the Fund's governance arrangements comply with the LGPS Regulations and are aligned to prescribed best practice guidance.

Management of the fund's assets

The management of the fund's assets is operated through fourteen specialist external managers with seventeen mandates in total. The Pension Committee is advised in relation to asset allocation decisions and the monitoring of external managers' performance by the Pension Investment Advisory Panel, which includes an independent financial adviser.

The fund's asset allocation is kept under regular review and the current long term investment allocation includes investments in a wide variety of UK and overseas companies, Corporate Bonds, Corporate Private Debt, Property and Infrastructure. As a result of an asset allocation review that took place in November 2016, the following Pension Committee endorsed recommendations were progressed during 2017/18 and have continued during 2018/19:

a) An increase in the allocation to Infrastructure or a mix of Infrastructure and Real Estate by 5% from the current strategic allocation of up to 10% of the Fund to 15%.

b) An increase in the Fund's allocation to alternative indices by 5% from the current strategic allocation of up to 10% of the Fund to 15%.

c) The Fund returns the Strategic Asset Allocation to North American equities to Passive Management.

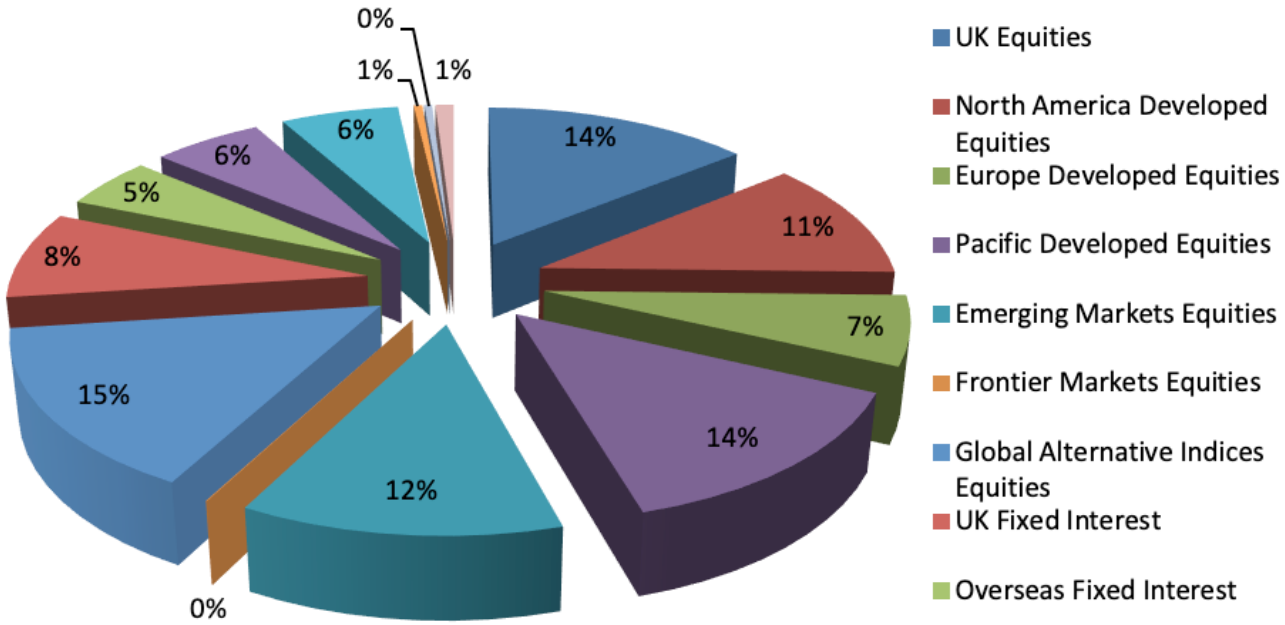
As at 31st March 2019 the 2016 strategic asset allocation review recommendation of a 15% commitment to 'Alternatives including property' continued to be implemented following investments into a pooled Infrastructure Fund; First State European Diversification Fund, implementation of the commitments to Hermes II a pooled infrastructure fund and a Corporate Private Debt mandate with EQT. Further commitments to property debt funds for Walton Street and Venn were agreed by Committee in 2018/19 and are due to be implemented in 2019/20.

The majority of the improvement in the funds' assets since the 2016 valuation is attributable to the rally in equity markets over the period. The Actuary strongly recommended that the fund consider using an equity protection strategy to

- Reduce the likelihood that further deficit contributions will be required at the 2019 valuation and
- Seek to 'bank' some of the recent upside with a view to potentially reducing contributions at future valuations

River and Mercantile continued to manage the Equity Protection Strategy using a 'static' options hedge solution that was implemented during late February / early March 2018, providing asset valuation protection for the passive equity portfolio covering a period up to the next actuarial valuation in 2019. The following chart details the distribution of the fund's assets as at 31 March 2019:

Table 3 Distribution of the Funds Assets



Impact of Brexit

Ongoing discussions have taken place throughout the year with existing fund managers and our actuary to consider the implications of Brexit particularly on the market valuation of the fund. As detailed above the fund had already taken steps to diversify some of its asset allocations from equities into property and infrastructure as well as implementing an equity protection strategy to guard against major market fluctuations. Excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. Meetings were held with the actuary to potentially update the Employers IAS19 Pension statements at year end. However, the announcement that the UK's membership of the EU has been extended until the 31st October 2019 has minimised this risk, but continuing risk management steps will be taken leading up to this date.

LGPS Central

The 2017/18 accounts highlighted the government's approach and reasoning (Opportunities for collaboration, cost savings and efficiencies) for asset pooling with responsibility for asset allocation staying with the 90 administering authorities. Worcestershire Pension Fund (WPF) in collaboration with eight other Local Authorities (Cheshire, Leicestershire, Shropshire, Staffordshire, the West Midlands, Derbyshire, Nottinghamshire, and the West Midlands Integrated Transport Authority) set up a collective investment vehicles called LGPS Central. The Company was authorised to operate as an Alternative Investment Fund Manager (AIFM) and became formally operational from the 1st April 2018.

Each Fund approved the regulatory capital requirements for LGPS central and its introduction on the 31st January 2018. All FCA regulated entities were required to hold regulatory capital designed to protect the solvency of the entity. It was calculated that £16m of capital was needed to be introduced ("Capital Introduced") by the eight Shareholding Funds to cover the capital requirement, a prudent buffer, set-up costs and operational liquidity. Each Fund provided £2million of capital on 31st January 2018, with Worcestershire's share consisting of £1.3million of equity and £0.7million of debt which has been met by Worcestershire Pension Fund

LGPS Central has been in operation just for 12 months and a number of the local authorities have transitioned some of their existing asset allocations to be managed by the company. WPF first transfer of funds is likely to be triggered by the launch of LGPS Central's Global Active Emerging Market managed mandate which is expecting to start operating from July 2019. WPF currently has two actively managed emerging market mandates with a total value of £355.3m as at the 31st March 2019.

Management of the fund's liabilities

The funding strategy is kept under regular review by the Pension Committee and the fund's actuary assesses at three yearly intervals the balance of the fund's assets against its liabilities. An actuarial valuation of the Worcestershire Pension Fund was carried out by Mercers as at 31 March 2016 to determine the contribution rates with effect from 1 April 2017 to 31 March 2020. The key outcomes of the valuation at that point in time are detailed below:

- The Fund's assets of £1,952 million represented 75% of the Fund's past service liabilities of £2,606 million (the "Funding Target") at the valuation date. This is an increase on the 69% funded position as a result of the 2013 valuation.
- A common rate of contribution of 15.3% of pensionable pay per annum is required from employers. The common rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.
- The deficit of £654 million would be eliminated by a contribution addition of £34 million per annum increasing at 3.7% per annum for 18 years.

The next actuarial valuation will be undertaken in 2019/20, with any changes to the employers' contribution rates being implemented with effect from 1 April 2020.

To meet the requirements of the Regulations, Worcestershire County Council as administering authority of the fund has set a clear long-term funding objective; to achieve and then maintain assets equal to 100% of projected accrued liabilities, assessed on an ongoing basis.

Michael Hudson
LLB (Hons), LLM, CPFA
Chief Financial Officer

2. Fund Account (money received and spent during 2018/19)

For the year ended 31 March 2019

2017/18 £m		Notes	2018/19 £m
	Dealings with members, employers and others directly involved with the Fund		
185.2	Contributions	4	81.8
10.4	Transfers in from other pension funds	5	12.9
195.6			**94.7**
(98.0)	Benefits	6	(106.3)
(8.8)	Payments to and on account of leavers	7	(8.7)
(106.8)			**(115.0)**
88.8	**Net additions / (Withdrawals) from dealings with members**		**(20.3)**
(0.8)	Administrative expenses	8	(1.1)
(9.0)	Management expenses	9	(12.0)
79.0	**Net additions / (Withdrawals) including fund management and administrative expenses**		**(33.4)**
	Returns on investments		
37.2	Investment income	10	51.7
(1.4)	Taxes on income	11	(1.5)
105.3	Profit and losses on disposal of investments and changes in the market value of investments	12a & 15b	77.5
141.1	**Net return on investments**		**127.7**
220.1	**Net increase / (decrease) in the net assets available for benefits during the year**		**94.3**
2,480.9	**Opening fund net assets of the scheme**		**2,701.0**
2,701.0	**Closing fund net assets of the scheme**		**2,795.3**

The key reason for the difference in contributions is due to a number of organisations prepaying their 3 year (2017/18 to 2019/20) employer deficit recovery contributions and 90% of their normal contributions in 2017/18 up to the next triennial valuation due to take effect from the 1st April 2020. Management expenses have increased mainly due to disinvesting some existing passive equity funds into Infrastructure and Property funds which by their nature have larger management fees. The increase in investment income is mainly due to dividends from the managed Equity Protection fund which is retained within the pooled funds and reinvested to maintain the collateral required for the strategy.

3. Net Assets Statement for the year ended 31 March 2019 (showing the financial position at 31 March 2018 and 2019)

2017/18		Notes	2018/19
£m			£m
1.9	Long term Investment Assets	12	1.4
2,692.6	Investment Assets	12 &13	2,753.1
27.1	Cash Deposits	12	32.9
2,721.6			
(32.2)	Investment Liabilities	12	(29.0)
25.6	Current Assets	17	39.2
1.8	Non-Current Assets	18	1.5
(15.8)	Current Liabilities	19	(3.8)
2,701.0	**Net Assets of the Fund available to fund benefits at the period end**		**2,795.3**

These Financial Statements do not take into account liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits (determined in accordance with IAS 19) is disclosed in the Actuarial Statement (note 2 to the Accounts). Note 14 to the Accounts provide details on the Fair Value of assets

Financial assets are included in the Net Assets Statement above on a fair value basis as at the reporting date. A financial asset is recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of asset are recognised in the Fund Account. The values of investments as shown in the Net Assets Statement have been determined as follows:

i) **Market-quoted investments** the value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.

ii) **Fixed interest securities fixed** interest securities are recorded at net market value based on their current yields.

iii) **Unquoted investments** the fair value of investments for which market quotations are not readily available is determined as follows:

a. **Valuations of delisted securities** are based on the last sale price prior to delisting, or where subject to liquidation, the amount the Fund expects to receive on wind-up, less estimated realisation costs.

b. **Securities subject to takeover offer** – the value of the consideration offered under the offer, less estimated realisation costs.

c. **Directly held investments** include investments in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement.

d. **Investments in unquoted property and infrastructure pooled funds** are valued at the net asset value or a single price advised by the fund manager.

e. **Investments in unquoted listed partnerships** are valued based on the Fund's share of the net assets in the limited partnership using the latest financial statements published by the respective fund managers in accordance with the International Private Equity and Venture Capital Valuation Guidelines 2012.

iv) **Limited partnerships** Fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership.

v) **Pooled investment vehicles** Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the fund, net of applicable withholding tax.

Financial Liabilities

The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the Net Assets Statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value or amortised cost of the liability are recognised by the Fund.

4. Notes to the Accounts (providing additional information for the Fund Account and Net Assets Statement)

These now comprise of a summary of significant accounting policies (shown against the relevant note as opposed to a prescribed list of accounting policies in previous year's accounts). Further information and detail of entries in the prime statements and other explanatory information and disclosures are as follows:-

NOTE 1: Description of Fund

a) General

The Fund is administered by Worcestershire County Council on behalf of their own employees, those of the Herefordshire Council, the District Councils, Private Sector admitted bodies with staff transferred under TUPE from the Administering Authority and other bodies in the county of Worcestershire, other than teachers, police officers, and fire fighters.

In matters relating to the management of the Fund's assets the Pensions Committee is advised in relation to asset allocation decisions and the monitoring of external managers' performance by the Pension Investment Advisory Panel, which includes an independent investment adviser and the Scheme Manager.

The Pensions Committee consists of County Councillors and an Employer and Employee Representative. Formal monitoring takes place on a quarterly basis through meetings with investment managers to discuss their performance. Asset allocation is reviewed at least annually, and pension administration issues are discussed quarterly at the Pension Administration Advisory Forum with any resulting recommendations considered by the Pensions Committee.

The day to day management of the Fund's investments is divided between external investment managers who operate in accordance with mandates set out in the Investment Strategy Statement.

b) Membership

Membership of the LGPS is voluntary and employees are free to choose to join the scheme, remain in the scheme or make their own personal arrangement outside the scheme. Organisations participating in Worcestershire County Council Pensions Fund include the following:

- Scheduled bodies which are automatically entitled to be members of the fund. These include county councils, district councils, foundation schools / colleges and academies
- Admitted bodies, which participate in the fund under the terms of an admission agreement between the fund and the employer. Admitted bodies include voluntary, charitable and similar not for profit organisations, or private contractors undertaking a local authority function following outsourcing to the private sector
- Designated bodies which are organisations that have passed resolutions with town or parish councils

Membership details are set out below:

	31 March 2018	31 March 2019
Number of employers	208	196
Employee Members of the Fund		
County Council	8,083	8,256
Other Employers	14,395	15,180
Total	**22,478**	**23,436**
Pensioner Members of the Fund		
County Council	4,968	5,240
Other Employers	12,539	12,849
Total	**17,507**	**18,089**
Deferred Members of the Fund		
County Council	8,296	8,379
Other Employers	12,055	12,350
Total	**20,351**	**20,729**
Total Number of Members in the Fund	**60,336**	**62,254**

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by employee members of the Fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending March 2019. Employee contributions are matched by employer contributions which are set based on actuarial valuations. The last such valuation was at 31 March 2016. Currently, employer contribution rates range from 5.5% to 41.9% of pensionable pay. The common 2018 / 2019 employer contribution rate for the Fund is 15.3%. In order to ensure employer contribution increases, required by the Fund's Actuary following the 31 March 2013 actuarial valuation, remained affordable, the Administering Authority agreed with employers to phase in any increases in their Secondary rate over a period of up to 6 years.

d) Pension Benefits

Prior to 1 April 2014 pension benefits under the LGPS were based on final pensionable pay and length of pensionable service. From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is updated annually in line with the Consumer Prices Index.

A range of other benefits are also provided including early retirement, disability pensions and death benefits, as explained on the LGPS website.

Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of the Internation Accounting Standard (IAS) 19 and relevant actuarial standards. As permitted under the Code, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (Note 2 below).

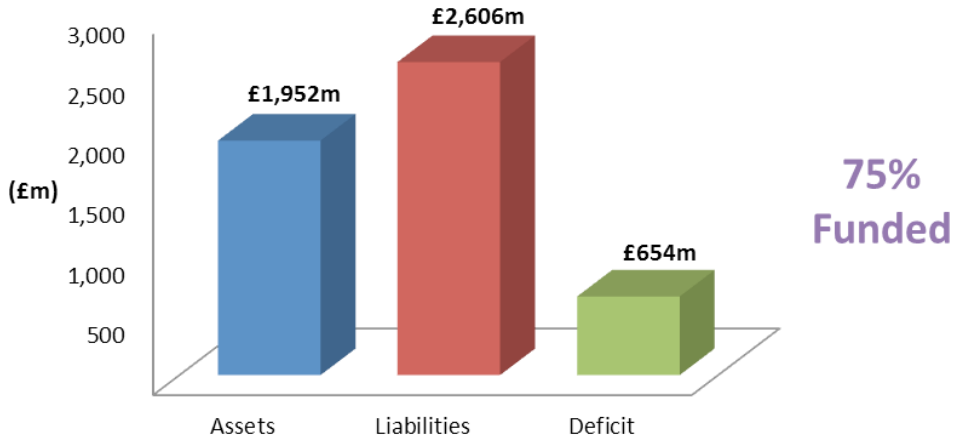
NOTE 2: FUNDING ARRANGEMENTS and Actuarial Present Value of Promised Retirement Benefits

Funding Arrangements

This statement has been provided to meet the requirements under Regulation 57(1)(d) of The Local Government Pension Scheme Regulations 2013.

An actuarial valuation of the Worcestershire Pension Fund was carried out as at 31 March 2016 to determine the contribution rates with effect from 1 April 2017 to 31 March 2020.

On the basis of the assumptions adopted, the Fund's assets of £1,952 million represented 75% of the Fund's past service liabilities of £2,606 million (the "Funding Target") at the valuation date. The deficit at the valuation was therefore £654 million.



The valuation also showed that a common rate of contribution of 15.3% of pensionable pay per annum was required from employers. The common rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

The funding objective as set out in the Funding Strategy Statement (FSS) is to achieve and maintain a solvency funding level of 100% of liabilities (the solvency funding target). In line with the FSS, where a shortfall exists at the effective date of the valuation a deficit recovery plan will be put in place which requires additional contributions to correct the shortfall (or contribution reductions to refund any surplus).

The FSS sets out the process for determining the recovery plan in respect of each employer. At this actuarial valuation the average deficit recovery period adopted is 18 years, and the total initial recovery payment (the "Secondary rate") for 2019/20 is approximately £37 million. This amount makes allowance for some employers to phase in any increases in their Secondary rate over a period of up to 6 years. For all other employers, their Secondary rate will increase at 3.7% per annum.

Finally, some employers have opted to prepay their Secondary rate, either on an annual basis each April or by paying all 3 years' total amount in April 2017. In each case, that contribution is discounted to reflect its earlier payment.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated March 2017.

In practice, each individual employer's position is assessed separately and the contributions required are set out in the report. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

The valuation was carried out using the projected unit actuarial method and the main actuarial assumptions used for assessing the Funding Target and the common contribution rate were as follows:

	For past service liabilities (Funding Target)	For future service liabilities (Common Contribution Rate)
Rate of return on investments (discount rate)	4.35% per annum	4.95% per annum
Rate of pay increases (long term)*	3.7% per annum	3.7% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.2% per annum	2.2% per annum

**allowance was also made for short-term public sector pay restraint over a 4 year period.*

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2019. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2020.

Actuarial Present Value of Promised Retirement Benefits for the Purposes of IAS 26

IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed, and for this purpose the actuarial assumptions and methodology used should be based on IAS 19 rather than the assumptions and methodology used for funding purposes.

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2019 (the 31 March 2018 assumptions are included for comparison):

	31 March 2018	31 March 2019
Rate of return on investments (discount rate)	2.6% per annum	2.4% per annum
Rate of pay increases*	3.6% per annum	3.7% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.2% per annum	2.3% per annum
Rate of CPI Inflation/CARE benefits revaluation	2.1% per annum	2.2% per annum

**includes a corresponding allowance to that made in the latest formal actuarial valuation for short-term public sector pay restraint.*

The demographic assumptions are the same as those used for funding purposes. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2017.

During the year, corporate bond yields decreased slightly, resulting in a lower discount rate being used for IAS 26 purposes at the year-end than at the beginning of the year (2.4% p.a. versus 2.6% p.a.). The expected long-term rate of CPI inflation increased during the year, from 2.1% p.a. to 2.2% p.a. Both of these factors combined served to increase the liabilities over the year.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2018 was estimated as £3,826 million. Interest over the year increased the liabilities by c£100 million, and allowing for net benefits accrued/paid over the period also increased the liabilities by c£34 million (after allowing for any increase in liabilities arising as a result of early retirements/augmentations). We have also included an amount of £24 million by way of an estimate of the effect of the McCloud judgement (see note below for further details). There was then an increase in liabilities of £218 million made up of "actuarial losses" (given the changes in the actuarial assumptions used, referred to above).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2019 is therefore £4,202 million.

The McCloud Case

In December 2018 the Court of Appeal ruled against the Government in the two linked cases of Sargeant and McCloud (which for the purposes of the LGPS has generally been shortened to "McCloud"), relating to the Firefighter unfunded pension schemes and the Judicial pension arrangements. In essence, the Court held that the transitional protections, which were afforded to older members when the reformed schemes were introduced in 2015, constituted unlawful age discrimination. The Government attempted to appeal the cases, but it was announced on 27 June 2019 that the appeal had been refused by the Supreme Court. Remedial action in the form of increases in benefits for some members of the Firefighter and Judicial arrangements will almost certainly be required.

There may well also be knock-on effects for the other public service schemes, and the LGPS might therefore also be required to take some action. At this stage it is uncertain whether remedial action will be required, nor is it clear what the extent of any potential remedial action might be.

We have carried out some costings of the potential effect of McCloud as at 31 March 2019, based on the individual member data as supplied to us for the 2016 actuarial valuation, and this results in an additional liability of £24 million using the IAS26 assumptions outlined above. The approach to the calculations is as instructed by the administering authority after consideration of the categories of members potentially affected, but in very broad terms calculates the cost of applying a "final salary underpin" (on a member by member basis) to those active members who joined the Fund before 1 April 2012 and who would not otherwise have benefited from the underpin.

GMP Equalisation

UK and European law requires pension schemes to provide equal benefits to men and women in respect of service after 17 May 1990 (the date of the "Barber" judgment) and this includes providing equal benefits accrued from that date to reflect the differences in GMPs. Previously, there was no consensus or legislative guidance as to how this might be achieved in practice for ongoing schemes, but the 26 October 2018 Lloyds Bank court judgement has now provided further clarity in this area. However, in response to this judgement HM Treasury stated that "public sector schemes already have a method to equalise guaranteed minimum pension benefits, which is why we will not have to change our method as a result of this judgment", clearly implying that the Government (who have the overall power to determine benefits provision) believe the judgement itself will not affect the benefits. Therefore, the natural conclusion for the main public service pension schemes including the Local Government Pension Scheme is that it is not appropriate for any provision to be included for the effect of the Lloyds Bank judgment, at least at the present time, and so we have not made any allowance for any additional liabilities within the above figures at this stage. However, in due course there may be a further cost to the LGPS in connection with equalisation/indexation, when the Government confirms the overall approach which it wishes to adopt in this area following its consultation.

Laura Evans
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
July 2019

NOTE 3: Events after the REPORTING Date

These are events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. Events taking place after this date are not reflected in the financial statements or notes. Management have reviewed and can confirm that there are no significant events after the reporting period.

NOTE 4: Contributions Receivable

Normal contributions, both from the members and from employers, are accounted for on an accruals basis at the percentage rate recommended by the Fund's Actuary in the payroll period to which they relate.

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme Actuary or on receipt if earlier than the due date.

Employers' augmentation contributions and pension strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets. The contributions received are detailed below:-

	2017/18	2018/19
By Category	**£m**	**£m**
Employers		
Normal contributions	52.9	36.5
Deficit recovery contributions	36.5	18.8
Augmentation contributions	2.0	3.2
Additional contributions	71.2	0.0
Employees		
Normal contributions	22.3	23.0
Additional contributions	0.3	0.3
	185.2	81.8
By authority:		
Worcestershire County Council	77.9	9.4
Scheduled bodies*	91.6	58.2
Community admission bodies	6.5	5.4

	2017/18	2018/19
By Category	**£m**	**£m**
Transferee admission bodies	8.2	7.8
Designated bodies	1.0	1.0
	185.2	81.8

The Key reason for the difference in contributions is due to a number of organisations prepaying their 3 year (2017/18 to 2019/20) employer deficit recovery contributions and 90% of their normal contributions in 2017/18 up to the next Triennial valuation due to take effect from the 1st April 2020.

NOTE 5: Transfers in and from other Pension Funds

Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund during the financial year and are calculated in accordance with LGPS regulations. Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement. The Transfers in and from other Pension Funds are as follows:-

	2017/18	2018/19
By Category	**£m**	**£m**
Individual transfers	10.4	12.9
	10.4	12.9

NOTE 6: Benefits Payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities. The benefits paid are as follows:-

By category:	2017/18	2018/19
	£m	£m
Pensions	80.4	84.3
Commutations and lump sum retirement benefits	15.7	19.9
Lump sum death benefits	1.9	2.1
	98.0	**106.3**

By authority:	2017/18	2018/19
	£m	£m
Worcestershire County Council	36.8	39.1
Scheduled bodies	50.5	55.7
Admitted bodies	1.9	1.7
Community admission bodies	5.5	6.4
Transferee admission bodies	2.6	2.8
Designated bodies	0.7	0.6
	98.0	**106.3**

NOTE 7: Payments to and on Account of Leavers

	2017/18	2018/19
	£m	£m
Individual transfers	8.8	8.7
Group transfers	0.0	0.0
	8.8	**8.7**

At year-end there were no potential liabilities in respect of individuals transferring out of the Fund upon whom the Fund is awaiting final decisions.

NOTE 8: Administrative Expenses

All administrative expenses are accounted for on an accruals basis. All staff costs of the Fund's administration team are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

	2017/18	2018/19
	£m	£m
Employee expenses	0.5	0.6
Support services	0.1	0.1
Actuarial services	0.2	0.4
Other expenses	0.0	0.0
	0.8	**1.1**

The audit fee for work completed by the Fund's external auditors for the year ended 31 March 2019 was £19,222 1.9% of total admin costs (£26,156 for the year ended 31 March 2018 3.25% of total admin costs).

NOTE 9: Management Expenses

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 permit costs incurred in connection with the investment and administration of the Fund to be charged against the Fund.

The Code of Practice does not require any breakdown of the Fund's administrative expenses. However in the interests of greater transparency, the Fund discloses its management expenses in accordance with CIPFA guidance accounting for Local Government Pension Scheme Management Costs.

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

	2017/18	2018/19
	£m	£m
Oversight and Governance	0.1	0.1
Investment Management Expenses		
Administration, management and custody fees*	8.9	11.9
Other expenses	0.0	0.0
	9.0	**12.0**

NOTE 9A: Investment Management Expenses

Fixed Income and Equity Investment Managers' expenses are charged on a percentage basis of the market value of assets under management and therefore increase or reduce as the value of these investments change. Global Custodian fees are agreed in the respective mandate governing their appointment.

The cost of obtaining investment advice from the Fund's Independent Investment Adviser is included in investment management charges. All investment management expenses are accounted for on an accruals basis. The management costs are as follows:-

	2017/18	2018/19
	£m	£m
Management fees	7.7	10.7
Custody fees	0.3	0.4
Transaction costs	0.9	0.8
	8.9	**11.9**

The £11.9m management expenses incurred in 2018/19 represent 42% or 42 basis points (bps) of the market value of the Fund's assets as at 31st March 2019 (0.33% or 33bps 31 March 2018).

The cash for the pooled property investments, pooled infrastructure investment and Equity Protection solution drawdowns were transitioned from the overweight position held in UK passive equities, which have a very low management fee in comparison.

The reason for the investment in pooled property investments and pooled infrastructure investments was to further diversify the Fund's assets whilst maintaining long term target investment returns. These investments have a J-Curve return profile, so are expected to provide increased returns as the pooled funds mature. The Equity Protection Strategy was implemented to reduce the likelihood that further deficit contributions will be required at the 2019 valuation and seek to 'bank' some of the recent upside with a view to potentially reducing contributions at future valuations.

*The Fund has applied CIPFA's guidance 'Accounting for Local Government Pension Scheme Management Costs', which requires external investment management fees and transaction costs to be deducted from asset values (rather than invoiced and paid directly). These are shown gross: the application of the guidance increases management expenses from £9.7 million to £12.0 million for 2018/19 (£7.2 million to £9.0 million for 2017/18). It is important to note that the application of the guidance does not represent an actual increase in costs, or a decrease in the Fund's resources to pay pension benefits.

NOTE 10: Investment Income

Income from equities (dividend income) is accounted for on the date stocks are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

Income from fixed interest, cash and short-term deposits is accounted for on an accruals basis, using the effective interest rate of the financial institution as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs (where material) or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis. Income from other investments is accounted for on an accruals basis.

The changes in market value of investments during the year are recognised as income and comprise all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments and unrealised changes in market value.

By authority:	2017/18	2018/19
	£m	£m
Fixed interest securities	5.0	14.4
Equity dividends	22.0	23.8
Pooled property investments	5.1	7.3
Pooled infrastructure investments	4.7	5.5
Interest on cash deposits	0.4	0.6
Securities lending	0.0	0.1
	37.2	**51.7**

NOTE 11: Taxes on Income

The Fund is a registered public service scheme under section (1) of schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

	2017/18	2018/19
	£m	£m
Withholding tax – equities	(1.4)	(1.5)
	(1.4)	**(1.5)**

NOTE 12: Investments

	Market value 31 March 2018	Market value 31 March 2019
	£m	£m
Long term Investment Assets		
LGPS Central –AFIM	0.5	0.0
LGPS Central shares	1.4	1.4
Investment assets		
Fixed interest securities	359.8	361.5
Equities	752.5	715.7
Pooled investment vehicles	1,292.0	1,291.0
Pooled property investments	128.5	171.8
Pooled Infrastructure investments	96.1	159.4
Pooled Debt Assets	0.0	12.4
Derivatives - futures	54.7	32.1
Derivatives - forward FX	1.8	0.1
Cash deposits	27.1	32.9
Investment income due	6.5	7.3
Amounts receivable for sales	0.7	1.8
Total investment assets	**2,721.6**	**2,787.4**
Investment liabilities		
Derivatives - futures	(30.2)	(20.8)

	Market value 31 March 2018	Market value 31 March 2019
	£m	£m
Derivatives - forward FX	(0.2)	(2.8)
Amounts payable for purchases	(1.8)	(5.4)
Total investment liabilities	**(32.2)**	**(29.0)**
Net investment assets	**2,689.4**	**2,758.4**

NOTE 12A: Reconciliation of Movements in Investments and Derivatives

	Market value 31 March 2018	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 March 2019
	£m	£m	£m	£m	£m
Long-term Investment Assets					
LGPS Central – AFIM	0.5	0.0	(0.5)	0.0	0.0
LGPS Central – Shares	1.4	0.0	0.0	0.0	1.4
	1.9	**0.0**	**(0.5)**	**0.0**	**1.4**
Investment Assets					
Fixed interest securities	359.8	90.9	(88.3)	(0.9)	361.5
Equities	752.5	301.8	(304.5)	(34.1)	715.7
Pooled investment vehicles	1,292.0	1.7	(131.3)	128.6	1,291.0
Pooled Property investments	128.5	64.2	(22.8)	1.9	171.8
Pooled Infrastructure Investments	96.1	77.9	(16.0)	1.4	159.4
Pooled Debt investments	0.0	15.0	(2.9)	0.3	12.4
	2,630.8	**551.5**	**(566.3)**	**97.2**	**2,713.2**
Derivative contracts:					
Futures	24.5	1.4	(1.3)	(13.3)	11.3
Forward currency contracts	1.6	13.7	(7.3)	(10.7)	(2.7)
	2,656.9	**566.6**	**(574.9)**	**73.2**	**2,721.8**
Other investment balances:					
Cash deposits	27.1			4.3	32.9

	Market value 31 March 2018	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 March 2019
	£m	£m	£m	£m	£m
Investment income due	6.5				7.3
Amount receivable for sales of investments	0.7				1.8
Amounts payable for purchases					
of investments	(1.8)				(5.4)
Net investment assets	**2,689.4**			**77.5**	**2,758.4**

Prior year comparators:

	Market value 31 March 2017	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 March 2018
	£m	£m	£m	£m	£m
Long-term Investment Assets					
LGPS Central – AFIM	0.1	0.4	0.0	0.0	0.5
LGPS Central – Shares	0.0	1.4	0.0	0.0	1.4
	0.1	**1.8**	**0.0**	**0.0**	**1.9**
Investment Assets					
Fixed interest securities	130.7	324.8	(84.2)	(11.5)	359.8
Equities	676.2	277.7	(258.0)	56.6	752.5
Pooled investment vehicles	1,437.6	115.0	(290.3)	29.7	1,292.0
Pooled Property investments	101.5	51.6	(27.2)	2.6	128.5
Pooled Infrastructure Investments	98.6	7.8	(16.5)	6.2	96.1
	2,444.7	**778.7**	**(676.2)**	**83.6**	**2,630.8**
Derivative contracts:					
Futures	(0.1)	49.3	(39.1)	14.4	24.5
Forward currency contracts	1.0	10.4	(16.5)	6.7	1.6
	2,445.6	**838.4**	**(731.8)**	**104.7**	**2,656.9**
Other investment balances:					
Cash deposits	22.4			0.6	27.1
Investment income due	5.3				6.5

	Market value 31 March 2017	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 March 2018
	£m	£m	£m	£m	£m
Amount receivable for sales of investments	2.2				0.7
Amounts payable for purchases					
of investments	(4.8)				(1.8)
Net investment assets	**2,470.7**			**105.3**	**2,689.4**

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

Transaction costs are not included in the cost of purchases and sale proceeds, as they have been included in Investment Management Expenses as per CIPFA guidance. Transaction costs include costs charged directly to the scheme such as fees, commissions, and other fees. Transaction costs incurred during the 2018 / 2019 year amounted to £0.8 million, (2017 / 2018 £0.8 million). These transaction costs represent 0.03% or 3bps of the Market Value of the Fund's assets as at 31 March 2019 (3bps at 31 March 2018).

Indirect costs are incurred through the bid-offer spread on investments within pooled investments vehicles. The amount of indirect costs is not provided separately to the Fund.

NOTE 12B: Analysis of Investments (excl. Derivative Contracts, Cash and Other Balances)

		31 March 2018	31 March 2019
		£m	£m
Long term Investment Assets			
LGPS Central – AFIM		0.5	0.0
LGPS Central – shares		1.4	1.4
		1.9	**1.4**
Fixed interest securities			
UK Gilts		228.3	220.1
UK corporate quoted		10.9	7.3
Overseas public sector quoted		0.0	0.0
Overseas corporate quoted		120.6	134.1
		359.8	**361.5**
Equities			
UK quoted		13.1	13.2
Overseas quoted		739.4	702.5
		752.5	**715.7**
Pooled Investment Vehicles			
Other UK managed funds	▪ UK equities	398.0	375.0
	▪ Overseas equities	485.2	483.5
	▪ Global equities	387.1	417.8
Other overseas managed funds	▪ Overseas equities	21.7	14.7
		1,292.0	**1,291.0**

	31 March 2018	31 March 2019
	£m	£m
Pooled Funds - Additional Analysis		
Pooled property investments - UK	45.1	86.8
Pooled property investments - overseas	83.4	85.0
	128.5	**171.8**
Pooled Infrastructure investments	96.1	159.4
	96.1	**159.4**
Pooled Debt investments	0.0	12.4
	0.0	**12.4**
Derivatives - futures	54.7	32.1
Derivatives - forward FX	1.8	0.1
Cash deposits	27.1	32.9
Investment income due	6.5	7.3
Amounts receivable for sales	0.7	1.8
Total investment assets	**2,721.6**	**2,787.4**
Investment liabilities		
Derivatives - futures	(30.2)	(20.8)
Derivatives - forward FX	(0.2)	(2.8)
Amounts payable for purchases	(1.8)	(5.4)
Total investment liabilities	**(32.2)**	**(29.0)**
Net investment assets	**2,689.4**	**2,758.4**

NOTE 12C: Pension Fund Investments ANALYSED BY FUND MANAGER

The proportion of the market value of investment assets held by external fund managers at the year-end was:

External Fund Manager	2017/18		2018/19	
	£m	%	£m	%
JP Morgan Asset Management (Bonds)	139.8	5	144.6	5
JP Morgan Asset Management (Emerging Markets)	173.5	6	165.4	6
Nomura Asset Management UK Ltd	420.5	16	382.8	14
Schroder Investment Management	187.3	7	189.9	7
Legal and General Asset Management	1,270.3	47	1276.2	46
Green Investment Bank	49.2	2	48.3	2
Hermes (Fund I and II)	44.1	2	48.6	2
Invesco (Euro and a UK Property Fund)	70.2	3	108.2	4
VENN	26.3	1	26.7	1
Walton Street	17.3	1	17.0	1
AEW	18.8	1	19.9	1
Stonepeak	2.8	0	10.6	0
First State	0.0	0	51.9	2
EQT	0.0	0	12.4	0
River and Mercantile	255.8	9	241.8	9
WCC Managed Account	5.1	0	5.4	0
	2,681.0	**100**	**2,749.7**	**100**

The above excludes £1.4m (2017/18 £1.9m) Invested in LGPS Central and £7.3m (2017/18 £6.5m) of Investment Income due.

The following investments represent more than 5% of the net assets of the scheme:

	31 March 18	Total Fund	31 March 2019	Total Fund
Security	**£m**	**%**	**£m**	**%**
LGIM – UK Equity Index Pooled Fund	398.0	15.0	375.0	13.7
LGIM – North America Index Pooled Fund	293.1	11.0	307.5	11.2
River and Mercantile UK Gilts	228.3	8.6	220.1	8.0
LGIM – Europe (ex-UK) Index Pooled Fund	192.1	7.2	176.0	6.4
LGIM - FTSE Developed Equity Pooled Fund	155.3	5.8	159.6	5.8

NOTE 12D Stock Lending

The Fund operates the practice of lending stock to a third party for a financial consideration. Securities released to a third party under the stock lending agreement with the Fund's custodian, BNY Mellon, are included in the net assets statement to reflect the Fund's continuing economic interest of a proprietorial nature in those securities.

The total amount of stock lent at the year-end was £25.9 million (2018 £35.9 million). Counterparty risk is managed through holding collateral at the Fund's custodian bank. The total collateral, which consisted of acceptable corporate and sovereign debt as well as equities was £28.1 million (2018 £38.3 million) representing 108.3% of stock lent.

Income received from stock lending activities was £0.1 million for the year ending 31 March 2019 (2018 £0.1million). This is included within the 'Investment Income' figure detailed on the Fund Account.

Stock lending commissions are remitted to the Fund via the custodian. During the period the stock is on loan, the voting rights of the loaned stocks are passed to the borrower. There are no liabilities associated with the loaned assets.

NOTE 13: Analysis of derivatives

The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The fund does not hold derivatives for speculative purposes.

The value of futures contracts is determined using exchange prices at the reporting date. Amounts due from or owed to the broker are the amounts outstanding in respect of the initial margin and variation margin. The future value of forward currency contracts is based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract.

Objectives and Policies for Holding Derivatives

Most of the holding in derivatives is to hedge exposures to reduce risk in the Fund. Derivatives may be used to gain exposure to an asset more efficiently than holding the underlying asset. The use of derivatives is managed in line with the investment management agreement between the Fund and its investment managers.

In 2018/19 the Fund entered into a contract with River and Mercantile, to hedge the recent gains in Equities. This involved entering into exchange-traded options on 3 major indices and purchasing a collateral pool of Gilts.

a) Futures

The Fund's investment managers hold cash balances in order to ensure efficient and timely trading when opportunities arise. The Fund's management did not want this cash to be 'out of the market' and so enabled a number of investment managers to buy and sell futures contracts which had an underlying economic value broadly equivalent to the cash held. The economic exposure represents the notional value of the stock purchased under futures contracts and is therefore subject to market movements. The portfolio cannot be geared to and must have the liquidity needed to cover open positions. Derivative receipts and payments represent the realised gains and losses on futures contracts.

b) Forward Foreign Currency

In order to maintain appropriate diversification and to take advantage of overseas investment returns, the Fund's bond mandate targets outperformance against a global benchmark index. To reduce volatility associated with the fluctuating currency rates, the fund has enabled the bond mandate investment manager to purchase and sell forward foreign currencies as a hedge.

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

Futures

Outstanding exchange traded futures contracts are as follows:

ASSETS		Economic Exposure	Market Value 31 March 2018	Economic Exposure	Market Value 31 March 2019
Type of Future	**Expiration**	**£m**	**£m**	**£m**	**£m**
UK gilt exchange traded	Under one year	0	0.0	1.9	0.0
UK FTSE exchange traded option	Under one year	0	25.9	0.0	23.5
EUROSTOXX exchange traded option	Under one year	0	14.3	0.0	4.5
US S+P exchange traded option	Under one year	0	14.3	0.0	3.8
Overseas exchanged traded	under one year	24.9	0.2	27.6	0.3
Total assets			**54.7**		**32.1**

LIABILITIES		Economic Exposure Value	Market Value 31 March 2018	Economic Exposure Value	Market Value 31 March 2019
Type of Future	**Expiration**	**£m**	**£m**	**£m**	**£m**
UK gilt exchange traded	Under one year	(1.4)	0.0	0.0	0.0
UK FTSE exchange traded option	Under one year	0.0	(10.0)	0.0	(12.8)
EUROSTOXX exchange traded option	Under one year	0.0	(11.3)	0.0	(2.7)
US S+P 500 exchange traded option	Under one year	0.0	(8.7)	0.0	(5.1)
Overseas exchanged traded	Under one year	(19.6)	(0.2)	(21.4)	(0.2)
Total liabilities			**(30.2)**		**(20.8)**

Net futures			**24.5**		**11.3**

Open Forward Currency Contracts as at 31 March 2019

Settlement	Currency Bought	Local Currency Value	Currency Sold	Local Currency Value	Asset Value	Liability Value
		£m		£m	£m	£m
One to six months	GBP	1.1	EUR	1.2	0.0	
One to six months	GBP	0.7	USD	0.9	0.0	
One to six months	USD	5.2	GBP	3.9	0.1	
One to six months	GBP	0.3	CAD	0.6		0.0
One to six months	GBP	60.2	EUR	70.1		(0.2)
One to six months	GBP	207.5	USD	274.0		(2.6)
					0.1	**(2.8)**
Net forward currency contracts at 31 March 2019						**(2.7)**
Prior year comparative:						
Open forward currency contracts at 31 March 2018					**1.8**	**(0.2)**
Net forward currency contracts at 31 March 2018						**1.6**

Analysis of Cash

Cash comprises demand deposits and cash equivalents; these include amounts held by the Fund's external managers. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

	2017/18	2018/19
Cash	**£m**	**£m**
Cash deposits	19.4	18.2
Cash instruments	7.7	14.7
	27.1	**32.9**

NOTE 14: Fair Value

NOTE 14A: Basis of Valuation

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market-Quoted Investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Fixed Interest Securities	Level 1	Fixed interest securities are valued at net market value based on current yields	Not required	Not required
Pooled Equity Funds	Level 2	Closing bid price where bid and offer prices are published; or the single price, as applicable	Net Asset Value (NAV)-based pricing set on a forward pricing basis and in the case of accumulation funds, reinvested income net of applicable withholding tax.	Not required
Forward foreign exchange derivatives	Level 2	Market forward exchange rates at the year-end	Exchange rate risk	Not required
Derivatives -Futures	Level 2	Option pricing model	Annualised volatility of counterparty credit risk	Not required
Property, Infrastructure and Debt Funds	Level 3	Unit or security price as advised by Investment Manager or responsible entity.	Funds share of net assets in limited partnership, using Financial Statements published by the manager as at the final day of the accounting period.	Valuations could be affected by material events occurring between the date of the financial statements provided and the fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts

Please see paragraphs under the Net assets Statement for more detail of our basis for measurement for the above Financial Instruments.

NOTE 14B: Fair Value Hierarchy

Level 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed interest securities and quoted index linked securities.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

Financial instruments at level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3

Financial instruments at level 3 are those where at least one input could have a significant effect on the instrument's valuation is not based on observable market data.

Such instruments would include unquoted equity investments, pooled property investments and pooled infrastructure investments which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The following table provides an analysis of the financial assets and liabilities of the pension fund into levels 1 to 3, based on the level at which the fair value is observable:

Values at 31 March 2019	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 2	Total
	£m	£m	£m	£m
Fair Value Financial assets				
Financial assets at fair value through profit and loss	1,086.3	1,323.2	343.6	2,753.1
Total fair value financial assets	**1,086.3**	**1,323.2**	**343.6**	**2,753.1**
Fair Value Financial Liabilities				
Financial liabilities at fair value through profit and loss		(29.0)		(29.0)
Total fair value financial liabilities	**0.0**	**(29.0)**	**0.0**	**(29.0)**
Net fair value financial assets	**1,086.3**	**1,294.2**	**343.6**	**2,724.1**

Values at 31 March 2018	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 2	Total
	£m	£m	£m	£m
Fair Value Financial assets				
Financial assets at fair value through profit and loss	1,119.5	1,348.5	224.6	2,692.6
Financial Assets at Amortised Cost	54.5	0.0	0.0	54.5
Total fair value financial assets	**1,174.0**	**1,348.5**	**224.6**	**2,747.1**
		(29.0)		**(29.0)**
Fair Value Financial Liabilities				
Financial liabilities at fair value through profit and loss	0.0	(32.2)	0.0	(32.2)
Total fair value financial liabilities	**0.0**	**(32.2)**	**0.0**	**(32.2)**
Net fair value financial assets	**1,174.0**	**1,316.3**	**224.6**	**2,714.9**

NOTE 14C: Sensitivity of assets valued at Level 3

Sensitivity Analysis	Valuation Range	Value as at 31st March 2019	Valuation Increase	Valuation Decrease
	+/- %	£m	£m	£m
Pooled Investments - Property Funds	6.1%	171.8	182.3	161.3
Pooled Investments - Infrastructure Funds	6.1%	159.4	169.1	149.7
Pooled Investments - Debt Funds	6.1%	12.4	13.2	11.6
Total		**343.6**	**364.6**	**322.6**

Reconciliation of Fair Value Measurements within Level 3

Investment Movement	Pooled Investments – Property Funds	Pooled Investments – Infrastructure Funds	Pooled Investments - Debt Funds	Total
	£m	£m		£m
Market Value 1st April 2018	128.5	96.1	0.0	**224.6**
Transfers into Level 3	0.0	0.0	0.0	**0.0**
Transfers out of Level 3	0.0	0.0	0.0	**0.0**
Purchases and derivative Pymts	64.2	77.9	15.0	**157.1**
Sales and derivative receipts	(22.8)	(16.0)	(2.9)	**(41.7)**
Unrealised gains/(losses)	1.7	(1.4)	(0.2)	**0.1**
Realised gains/(losses)	0.2	2.8	0.5	**3.5**
Market value 31st March 2019	**171.8**	**159.4**	**12.4**	**343.6**

Unrealised and realised gains and losses are recognised in the profit and losses on disposal and changes in the market value of investments line of the fund account.

NOTE 15: Financial Instruments

In line with the adoption of IFRS 9 in the 2018/19 financial year, there were some presentational changes resulting from the removal of the "Loans and Receivables" classification. This concerned items such as Cash, Current Assets (Debtors and Income receivable) and Non-current assets. All such items gave rise to solely payments of principal and interest and the Pension Fund's business model is solely concerned with collecting the payments. Therefore the Assets concerned will be classified at Amortised Cost. The below table reconciles the presentation between IFRS 9 and IAS 39. Assets and Asset classes not shown below are unaffected and shall be disclosed as in previous years:

IAS 39 2017/18 SOA			IFRS 9 Starting position in 2018/19 SOA
Loans and Receivables	Financial instruments at amortised cost		Financial instruments at amortised cost
2017/18	2017/18		2017/18
£m	£m		£m
		Financial assets	
	1.9	Other share capital	1.9
39.2		Cash	39.2
13.5		Current Assets	13.5
1.8		Non-Current Assets	1.8
54.5	**1.9**		**56.4**
		Financial liabilities	
	(15.8)	Current Liabilities	(15.8)
0.0	**(15.8)**		**(15.8)**
54.5	**(13.9)**		**40.6**

NOTE 15A: Classification of Financial Instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities by category and net assets statement heading. The Loans and Receivables category was removed when IFRS 9 was adopted and the presentational changes are discussed above.

Fair value through profit and loss 2017/18 £m	Financial Instruments at Amortised Cost 2017/18 £m		Fair value through profit and loss 2018/19 £m	Financial Instruments at Amortised Cost 2018/19 £m
		Financial assets		
	1.9	Other share capital		1.4
359.8		Fixed interest securities	361.5	
752.5		Equities	715.7	
1,292.0		Pooled investment vehicles	1,291.0	
128.5		Pooled property investments	171.8	
96.1		Pooled Infrastructure investments	159.4	
		Pooled Debt investments	12.4	
54.7		Derivatives - Futures	32.1	
1.8		Derivatives - Forward FX	0.1	
	39.2	Cash		58.7
7.2		Other investment Balances	9.1	
	13.5	Current assets		13.4
	1.8	Non-current assets		1.5
2,692.6	**56.4**		**2,753.1**	**75.0**

Fair value through profit and loss 2017/18 £m	Financial Instruments at Amortised Cost 2017/18 £m		Fair value through profit and loss 2018/19 £m	Financial Instruments at Amortised Cost 2018/19 £m
		Financial liabilities		
(30.2)		Derivatives - Futures	(20.8)	
(0.2)		Derivatives - Forward FX	(2.8)	
(1.8)		Other investment balances	(5.4)	
	(15.8)	Current liabilities		(3.8)
(32.2)	**(15.8)**		**(29.0)**	**(3.8)**
2,660.4	**40.6**		**2,724.1**	**71.2**

NOTE 15B: Net Gains and Losses on Financial Instruments

31 March 2018		31 March 2019
£m		£m
	Financial assets	
83.6	Fair value through profit and loss	97.2
0.6	Financial Assets at Amortised Cost	4.3
	Financial liabilities	
21.1	Fair value through profit and loss	(24.0)
105.3	**Total**	**77.5**

Fair value through profit and loss is the combination of realised and unrealised profit and loss.

The Fund has not entered into any financial guarantees that are required to be accounted for as financial instruments.

NOTE 16: Nature and Extent of Risks arising from Financial Instruments

In the course of every day operating, the Fund is subject to a number of risk factors arising from the holding of financial instruments. The main risks arising from the holding of the Fund's financial instruments are market risk, credit risk and liquidity risk.

As detailed in the Investment Strategy Statement, the Fund holds equity and bond instruments in order to meet its investment objectives. The Fund's investment objectives and risk management policies are as follows;

i) The investment objective for the Fund is to:-

   a. ensure that sufficient assets are available to meet liabilities as they fall due;

   b. Maximise the return at an acceptable level of risk.

ii) Risk management is mostly concerned with:

   c. avoiding the possibility of loss, or

   d. limiting a deficiency in the underlying Fund, or

   e. Avoiding a contribution rate increase in the future.

Market Risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix. The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk. There are three main types of market risk that the Fund is exposed to as at 31 March 2019:

- Equity Risk
- Interest Rate Risk
- Foreign Exchange Risk

Equity risk refers to the risk arising from the volatility in stock prices; this can be systematic risk, the risk due to general market factors and affects the entire industry, or unsystematic risk, which refers to the risk specific to a company that arises due to the company specific characteristics. Interest rate risk is the risk that the value of a security will fall as a result of increase in interest rates. Foreign exchange risk arises because of fluctuations in the currency exchange rates.

The Fund reduces its unsystematic equity risk by diversifying investments across global markets, investing in over 1,000 companies worldwide through active segregated mandates and passive pooled funds. Investment restrictions are built into contracts held with each investment manager to ensure risk concentration is minimal and gearing of the Fund's equity and fixed income assets cannot take place. An Equity Protection Strategy has also been implemented to protect against significant market falls in its passive equity portfolio.

Interest rate risk has been reduced through the holding of fewer bonds as a percentage of the Fund's total assets.

Foreign Exchange risk exists in relation to the Fund's overseas equity investments. The Fund runs un-hedged equity portfolios and therefore is subject to currency fluctuations. It is the Administering Authority's view that in the long-run currency volatility trends to an average of nil against Sterling and therefore any hedging of currency would just be an additional cost to the Fund.

The Fund contracts Portfolio Evaluation Ltd to measure the Fund's investment returns, absolute and relative risk for each portfolio and also for the Fund as a whole independently. The Fund receives quarterly reports from Portfolio Evaluation Ltd listing returns and risk. The Fund's Independent Investment Adviser also provides a yearly report to the Pension Investment Advisory Panel, providing details of the Fund's risk and comparisons to other LGPS Funds.

Equity Risk Analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's Independent Investment Adviser and Portfolio Evaluation Ltd, the Fund has determined that the following movements in market price risk are reasonably possible for the 2018/19 reporting period:

Asset Type	Potential Market Movements (+/-)
Fixed interest securities	3.3%
UK equities	9.2%
Overseas equities	12.1%
UK pooled investment vehicle	9.2%
Overseas pooled investment vehicle	10.5%
Global pooled investment vehicle	10.5%
Pooled property investments	6.1%
Pooled Infrastructure investments	6.1%
Pooled Debt Investments	6.1%

The potential price changes disclosed above are broadly consistent with a one standard deviation movement in the value of the assets. The analysis assumes that all other variables, in particular foreign exchange rates and interest rates, remain the same.

If the market price of the Fund's investments increases/decreases in line with the potential market movements above, the change in the net assets available to pay benefits will be as follows (the actual prior year movement in all asset classes is shown in note 12):

Asset Type	Value as at 31 March 2019	Percentage change	Value on increase	Value on decrease
	£m	%	£m	£m
Cash and cash equivalents	32.9	0.0%	32.9	32.9
Investment portfolio assets:				
UK fixed interest securities	227.4	3.3%	234.9	219.9
Overseas fixed interest securities	134.1	3.3%	138.5	129.7
UK equities	13.2	9.2%	14.4	12.0
Overseas equities	702.5	12.1%	787.5	617.5
UK pooled investment vehicle	375.0	9.2%	409.5	340.5
Overseas pooled investment vehicle	498.2	10.5%	550.5	445.9
Global pooled investment vehicle	417.8	10.5%	461.7	373.9
Pooled property investments	171.8	6.1%	182.3	161.3
Pooled Infrastructure investments	159.4	6.1%	169.1	149.7
Pooled Debt Investments	12.4	6.1%	13.2	11.6
Net derivative assets	8.6	0.0%	8.6	8.6
Investment income due	7.3	0.0%	7.3	7.3
Amounts receivable for sales	1.8	0.0%	1.8	1.8
Amount payable for purchases	(5.4)	0.0%	-5.4	-5.4
Total	**2,757.0**		**3,006.8**	**2,507.2**

Prior-year comparators

Asset Type	Value as at 31 March 2019	Percentage change	Value on increase	Value on decrease
	£m	%	£m	£m
Cash and cash equivalents	27.1	0.0%	27.1	27.1
Investment portfolio assets:				
UK fixed interest securities	10.9	3.4%	11.3	10.5
Overseas fixed interest securities	120.6	3.4%	124.7	116.5
UK equities	13.1	8.2%	14.2	12.0
Overseas equities	739.4	12.5%	832.1	646.7
UK pooled investment vehicle	398.0	8.2%	430.5	365.5
Overseas pooled investment vehicle	506.9	12.4%	569.8	444.0
Global pooled investment vehicle	387.1	12.4%	435.1	339.1
Pooled property investments	128.5	7.4%	138.0	119.0
Pooled Infrastructure investments	96.1	7.4%	103.2	89.0
Net derivative assets	26.1	0.0%	26.1	26.1
Investment income due	6.5	0.0%	6.5	6.5
Amounts receivable for sales	0.7	0.0%	0.7	0.7
Amount payable for purchases	(1.8)	0.0%	(1.8)	(1.8)
Total	**2,459.2**		**2,717.5**	**2,200.9**

Interest Rate Risk Analysis

The Fund's direct exposure to interest rate movements is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

Asset Type	Value as at 31 March 2018	Value as at 31 March 2019
	£m	£m
Cash and cash equivalents	27.1	32.9
Cash balances	12.1	25.8
Fixed interest securities	359.8	361.5
Total	**399.0**	**420.2**

Interest Rate Risk Sensitivity Analysis

The Fund recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. The Council's treasury management adviser, Link Asset Services, has advised that medium to long-term average rates are expected to move less than 100 basis points from one year to the next and experience suggests that such movements are likely.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits as at 31 March 2019 of a +/- 100 Basis Points (BPS) change in interest rates:

Asset Type	Carrying amount as at 31 March 2019	Change in year in the net assets available to pay benefits	
		+100 BPS	-100 BPS
	£m	£m	
Cash and cash equivalents	32.9	33.2	32.6
Cash balances	25.8	26.1	25.5
Fixed interest securities	361.5	365.1	357.9
Total change in assets available	**420.2**	**424.4**	416.0

Asset Type	Carrying amount as at 31 March 2018	Change in year in the net assets available to pay benefits	
		+100 BPS	-100 BPS
	£m	£m	
Cash and cash equivalents	27.1	27.3	26.8
Cash balances	12.1	12.2	12.0
Fixed interest securities	359.8	363.4	356.2
Total change in assets available	**399.0**	**402.9**	395.0

A 1% increase in interest rates will not affect the interest received on fixed income but will reduce their fair value and vice versa. Changes in interest rates do not impact the value of cash deposits / cash and cash equivalent balances but they will have a small effect on the interest income received on those balances. Charges to both the fair value of assets and the income received from investments impact on the net assets available to pay benefits.

Currency Risk

The following table summarises the Fund's currency exposure:

Currency exposure - asset type	Asset value as at 31 March 2018	Asset value as at 31 March 2019
	£m	£m
Overseas quoted securities	739.4	702.5
Overseas pooled investment vehicle	506.9	483.0
Global pooled investment vehicle	387.1	433.0
Overseas pooled property investments	83.4	85.0
Total overseas assets	**1,716.8**	**1,703.5**

Overseas bonds are 100% hedged to GBP at 31 March 2019.

Currency Risk – Sensitivity Analysis

Following analysis of historical data in consultation with the fund's performance measurement provider, the Fund considers the likely volatility associated with foreign exchange rate movements to be 11.0% (as measured by one standard deviation).

This analysis assumes that all other variables, in particular interest rates, remain constant.

An 11.0% strengthening/weakening of the pound against various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency exposure - asset type	Asset value as at 31 March 2019	Change to net assets available to pay benefits	
		+11.0%	-11.0%
	£m	£m	
Overseas quoted securities	702.5	779.9	625.1
Overseas pooled investment vehicle	498.2	553.1	443.3
Global pooled investment vehicle	417.8	463.8	371.8
Overseas pooled property investments	85.0	94.4	75.6
Total change in assets available	**1,703.5**	**1,891.2**	**1,515.8**

Currency exposure - asset type	Asset value as at 31 March 2018	Change to net assets available to pay benefits	
		+8.1%	-8.1%
	£m	£m	
Overseas quoted securities	739.4	799.3	679.5
Overseas pooled investment vehicle	506.9	548.0	465.8
Global pooled investment vehicle	387.1	418.5	355.7
Overseas pooled property investments	83.4	90.2	76.6
Total change in assets available	**1,716.8**	**1,856.0**	**1,577.6**

Credit Risk

Credit risk is an investor's risk of loss arising from a borrower who does not make payments as promised. In essence the Fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivatives position, where the risk equates to the net market value of a positive derivative position. However the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner. Investment restrictions are listed in the contract held with the manager, which limit the amount of credit risk the manager is allowed to take and also states an average credit rating with regards to bonds held that should be maintained.

The bond manager provides a quarterly investment report to the Fund, which details the credit risk held in the portfolio. The Fund's Independent Investment Adviser also provides a yearly report to the Pension Investment Advisory Panel, providing details of the Fund's bond portfolio absolute and relative risk.

Deposits are not made with banks and financial institutions unless they are rated independently and have a strong credit rating. In addition, the Council invests an agreed percentage of its funds in the money markets to provide diversification. Money market funds chosen all have an 'AAA' rating from a leading rating agency.

The fund's cash holding at 31 March 2019 was £58.4 million (31 March 2018: £39.2million). This was held with the following institutions:

Summary	Rating	Balances as at 31 March 2018	Balances as at 31 March 2019
		£m	£m
Money market funds			
BNY Mellon Sterling Liquidity Fund	AAA	2.7	0.0
BNY Mellon US Dollar Liquidity Fund	AAA	3.2	6.4
JPM liq-ster Liquidity-x	AAA	0.8	0.0
JPM GBP Liquidity LVNAV	AAA	0.0	6.7
JPM liq-USD Liquidity-XDI	AAA	1.1	1.7
Bank deposit accounts			
The Bank of New York Mellon	A-1+	19.3	17.8

Summary	Rating	Balances as at 31 March 2018	Balances as at 31 March 2019
		£m	£m
Bank current accounts			
Barclays Bank PLC	A-1	12.1	25.8
Total		**39.2**	**58.4**

The above Assets are held at Amortised Cost and are either liquid or very short dated securities in high-quality counterparties. Therefore the expected loss is assessed as a trivial sum and no allowance has been set aside for this.

Liquidity Risk

Market liquidity risk is the risk that a given security or asset cannot be traded quickly enough in the market to prevent a loss (or make the required profit) or to meet the financial obligations of the Fund as they fall due. The Fund's investment managers purchase quoted and tradable securities. Equities held are listed on major world stock markets and managers employed are highly experienced in equity trading. The liquidity risk relating to the bond holdings is monitored and managed by the bond manager on an on-going basis. The Council also takes steps to ensure that the pension fund has adequate cash resources to meet commitments.

NOTE 17: Current Assets

	2017/18	2018/19
	£m	£m
Contributions due from employer in respect of:		
Employer	5.5	8.8
Members	2.1	1.7
Magistrates Courts Bulk Transfer Payment Due	0.4	0.6
Augmentation	0.9	0.1
Cash balances	12.1	25.8
Other Debtors	4.6	2.2
	25.6	**39.2**

The above Assets are carried at Amortised cost, other than cash balances and other debtors (see below), the funds are due from Government institutions and therefore no allowance for expected losses has been set aside.

NOTE 18: NON CURRENT ASSETS

	2017/18	2018/19
	£m	£m
Magistrates Courts Bulk Transfer Payment Due	0.8	0.0
*LGPS Central Capital Advance treated as loan	0.7	0.7
**Reimbursement of lifetime tax allowances	0.0	0.2
Augmentation	0.3	0.6
	1.8	**1.5**

**This was part of the regulatory capital required to set up the company LGPS Central Limited.*

***This includes debtor in relation to the lifetime tax allowance limit as the fund pays all the tax upfront on behalf of the pensioner and is reimbursed from additional pension deductions over time*

NOTE 19: Current Liabilities

	2017/18	2018/19
	£m	£m
Investment management expenses	(7.0)	(3.6)
Payroll and external vendors	(5.1)	(0.2)
Other expenses	(3.7)	(0.0)
	(15.8)	**(3.8)**

NOTE 20: Related Party Transactions

Worcestershire County Council

The Fund is administered by Worcestershire County Council. Consequently there is a strong relationship between the Council and the Fund.

The Council incurred costs of £1.0 million in 2018/2019 (2017/2018: £0.8 million) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The Council is also the single largest employer of members of the Fund and contributed £9.4 million to the Fund in 2018/2019 (2017/2018: £77.6 million of which £46.9 million related to the payment of contributions for years 2 and 3 up to the next valuation).

LGPS Central Limited has been established to manage investment assets on behalf of nine LGPS funds across the Midlands. It is jointly owned in equal shares by the eight Administering Authorities participating.

A total of £0.5 million was refunded to the Fund by LGPS Central during 2018/2019 reflecting the cost of setting up the enterprise to the end of March 2018. The annual running costs of £0.5m was charged to the fund in 2018.19 by LGPS Central

Key Management Personnel

The posts of Chief Financial Officer, Senior Finance Manager and HR Service Centre Manager are deemed to be key management personnel with regards to the Fund. The financial value of their relationship with the Fund (in accordance with IAS24) is set out below:

	2017/18	2018/19
	£000	£000
Short term benefits*	33	50
Long term/ post-retirement benefits**	418	389
	451	**439**

*This is the pension's element of short term remuneration for key management personnel, i.e. annual salary, benefits in kind and employer contributions

**This is the accrued pension benefits, expressed as cash equivalent transfer value.

Governance

The Pensions Committee Employer Representative, Employee Representative and Chief Financial officer are active members of the Fund.

NOTE 21: Contingent Liabilities

A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events.

Outstanding capital commitments (investments) at 31 March 2019 totalled £294.5 million (31 March 2018: £260.4 million).

These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the Pooled Property Investments, Pooled Infrastructure investments and Pooled Debt Investments part of the portfolio. The amounts 'called' by these funds are irregular in both size and timing over a period of between one and three years from the date of the original commitment.

NOTE 22: Contingent Assets

A contingent asset arises where an event has taken place that gives the Fund a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Fund.

Contingent assets are not recognised in the financial statements, but are disclosed as a note to the accounts.

The Councils below have provided guarantees to a number of organisations that have been admitted to the Fund to fund any potential pension liability. The organisations with a pension liability in excess of £195,000 (which the Fund considers to be material for these purposes) are:-

- Balfour Beatty Living Places (£0.740miIllion), **Herefordshire Council**
- Hoople Ltd joint venture company (£0.500million), **Herefordshire Council**
- Civica UK Ltd (£0.360million), **Wychavon District Council**
- Bromsgrove District Housing Trust (£0.610 million), **Bromsgrove District Council**

There are a further 27 organisations with a pension liability less than £195,000. The Fund has considered various factors in determining the potential risk of having to fund any future liability, including risk of failure of the business and membership profile, and is satisfied that they do not represent a significant potential liability.

Eleven admitted body employers in the Fund hold insurance bonds to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the Fund and payment will only be triggered in the event of employer default. No bonds were called upon in this financial year.

Note that although there have been no changes to the existing bonds and guarantees from the previous financial year; they have all been discussed with the Actuary ' Mercers'. It has been agreed that these will be reviewed as part of the next Triennial valuation which takes effect from the 1st April 2020 and the framework to review them going forward will also be agreed at that point.

NOTE 23: Additional Voluntary Contributions (AVCs)

The Fund provides an in-house AVC scheme for its members. In 2018 / 2019 some members of the Fund paid voluntary contributions and transfers to Scottish Widows and Equitable Life to buy extra pension benefits when they retire. Retirement benefits were also purchased during the year. The contributions are paid directly from scheme employers to the AVC provider. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the pension fund accounts in accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of funds) Regulations 2016 but are disclosed as a note only.

The amounts administered under AVC arrangements are as follows:

	2017/18	2018/19
	£m	£m
Contributions received	0.2	0.2
Investments purchased	0.2	0.2
Change in market value	0.3	0.2
Retirement benefits paid or transferred	0.4	0.3

The combined value of the AVC funds at 31 March 2019 was £2.8 million, (31 March 2018 £2.9 million).

In accordance with Regulation 5(2) (c) of the Pension Scheme (Management and Investment of Funds) Regulations 1998 these amounts are not included in the Fund's Accounts but are disclosed as a note only.

NOTE 24: Agency Services

The Fund pays discretionary awards to the former employees of Herefordshire County Council. The amounts paid are not included within the Fund's Accounts but are provided as a service and fully reclaimed from the employer. The sums are disclosed below.

	2017/18	2018/19
	£m	£m
Payments on behalf of Herefordshire County Council	0.1	0.1
	0.1	**0.1**

NOTE 25: Critical Judgements in Applying Accounting Policies

The Fund's liabilities are calculated every three years by the appointed Actuary. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the Actuary and are summarised in note 2. This estimate is subject to significant variances based on changes to the underlying assumptions.

There were no significant changes to the CIPFA code of practice on local authority accounting (the code), the key change in international financial reporting standards (IRFS) was the adoption of IFRS 9 accounting standard for the 2018-19 accounts. IFRS 9 requires the investment assets to be accounted for at fair value within the accounts. The adoption of IFRS 9 had no impact on the accounts for pension funds as the investment assets were already held at fair value through profit and loss as directed by the code. As a consequence there was no requirement to change the measurement or classification of these assets.

The adoption of IFRS 15 revenue from customers with contracts was also introduced from 1 April 2018. This had no impact on the pension fund accounts as the Funds revenue is primarily Investment Interest and Contributions, both of which are outside the scope of the standard.

NOTE 26: Assumptions Made About the Future and any Other Major Sources of Estimation Uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the year-end date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

The item in the notes to the accounts at 31 March 2019 for which there is a significant risk of material adjustment in the forthcoming financial year is as follows.

Item	Uncertainties	Effect is actual results differ from assumptions
Actuarial present value of promised retirement benefits (Note 2)	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance: ▪ a 0.5% increase in the discount rate assumption would result in an 8% decrease in the pension liability, which is equivalent to £229m ▪ a 0.25% increase in assumed earnings inflation would result in a 0.8% increase in the value of liabilities, which is equivalent to £23m ▪ a one-year increase in assumed life expectancy would result in a 2% increase in the value of liabilities, which is equivalent to £69m.

VALUATION OF INVESTMENTS LEVEL 3

Financial instruments at level 3 are those where at least one input could have a significant effect on the instrument's valuation is not based on observable market data.

Such instruments would include unquoted equity investments, pooled property investments and pooled infrastructure investments which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions as detailed in Note 14b.

Independent Auditor's Report

To be inserted

Glossary of Terms

Accounting policies	The principles, rules and procedures used in the preparation of the accounts
Accruals	The recognition of income and expenditure as goods and services are provided, not when cash is received or paid
Actuary	An independent company which advises on the assets and liabilities of the pension fund with the aim of ensuring that the payment of pensions and future benefits are met.
Admitted bodies	Voluntary and charitable bodies whose staff can become members of the Local Government Pension Scheme, subject to certain terms and conditions, and other organisations to which Local Government employees have been transferred under the outsourcing of local government services
Agent	The County Council or other authority acting as an intermediary
Amortisation	The drop-in value of intangible assets as they become out of date
Asset	A resource controlled by the County Council because of past events and from which economic benefits or service potential is expected. Assets can be: • Intangible – assets of non-physical form, e.g. patents, goodwill, trademarks and copyrights • Property, plant and equipment – assets which give the Council benefits for more than one year • Community – assets held in perpetuity which may have restrictions on their disposal • Infrastructure – assets such as highways and footways Non-operational – assets not directly used for service provision • Heritage – assets held solely for historical, artistic, or environmental qualities
Assets under construction	Capital expenditure on assets where the work is incomplete
Augmentation	Additional employer contributions relating to the cost of employees who are allowed to retire before their normal retirement age
Billing authority	The local authority which collects Council Tax. In Worcestershire this is the district or borough council
Capital charge	A charge to services to reflect the cost of Property, Plant and Equipment used in the provision of services
Capital expenditure	Expenditure on acquisition or construction of assets which have a value to the authority for more than one year e.g. land and buildings
Capital financing costs	The costs of financing assets, being the interest costs of external loans and monies used to repay debt
Capital receipts	Income from the sale of capital assets
Commutation / commuting	Where a member of the pension scheme gives up part or all of their pension in return for an immediate lump sum. It is also called a cash option
Council tax precept	A property based tax which is set by the County Council and administered by district and borough councils

Creditors	Amounts owed by the County Council for work done, goods received or services provided but for which payment has not been made by the end of the accounting period
Current service cost	Officers employed during the year will have earned one or more years of pensionable service. The current service cost is the increase in the value of the pension scheme's liabilities arising from the employee service during the period
Custodian	The organisation that holds and safeguards the Pension Fund assets
Debtors	Amounts due to the County Council for work done, goods received or services provided but which remain unpaid by the end of the accounting period
Dedicated Schools Grant (DSG)	A central government grant paid to the County Council for use for expenditure on schools.
Deferred pension benefit	A pension benefit which a member of the fund has accrued but is not yet entitled to receive payment
Depreciation	The fall in value of an asset, as recorded in the financial records, due to wear and tear, age or obsolescence
Derivative	A financial instrument whose characteristics and value depend upon the characteristics and value of an underlier, typically a commodity bond, equity or currency. Examples of derivatives include futures and options
Effective Interest rate (EIR)	The rate that exactly discounts estimated future cash payments or receipts through the expected life of a financial instrument. When calculating the EIR, the County Council shall estimate cash flows considering all contractual terms of the financial instrument
Equities	Shares representing the capital of a company issued to shareholders, usually with voting rights on the way the company runs the business
Fair value	The amount for which an asset could be exchanged or a liability settled
Financial instruments	Any contract giving rise to a financial asset or liability. For the County Council this is likely to be a loan or investment
Fixed interest	A corporate bond in the form of a certificate of debt issues by a company or institution in return for a fixed rate of interest with a promise of redemption to repay the original sum
Gilt	Similar to corporate bonds by way of interest and redemption, but these are issued by Government and are a loan to the Government
Forward foreign exchange	An agreement to purchase or sell an amount of foreign currency at a future date and predetermined price
Imprest accounts	Petty cash accounts used for small items of expenditure
Index linked	Stock whose value is related directly to an index, usually the Retail Price Index and therefore provides a hedge against inflation
Joint Venture	A joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement
Joint Operation	A joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligation for the liabilities, relating to the arrangement

Liability	A present obligation of the County Council arising from past events, the settlement of which is expected to result in an outflow of resources
Minimum revenue provision (MRP)	The statutory amount set aside from the revenue budget which can be used to repay external loans
National Non-Domestic Rates (NNDR)	A tax collected locally by borough and district councils and paid to Central Government. It is then redistributed to county, unitary, borough and district councils on the basis of the resident population
Operating leases	A method of obtaining the use of an asset where the rewards and risks of ownership of the asset remain with the leasing company and the annual rental is charged directly to the revenue account
Pooled investment vehicles	A fund in which multiple investors contribute assets and hold them as a group, for example a unit trust
Precept	The amount the County Council (the precepting authority) ask district and borough councils to collect as council tax.
Private Finance Initiative (PFI)	A long-term contractual public private partnership under which the private sector takes on the risks associated with the delivery of public services in exchange for payments tied to standards of performance
Provisions	Monies set aside to meet any liabilities or losses which are likely or will be incurred, but the amounts or the dates on which they will arise are uncertain e.g. provision for bad debts
Public Works Loan Board (PWLB)	A government agency which provides long-term loans to local authorities at favourable interest rates
Reserves	Money set aside to meet the cost of specific future expenditure. These can be either: Usable – those which can be used to provide services Unusable – those which cannot be used to provide services
Revenue contributions to capital expenditure	The amount of capital expenditure to be financed directly from the annual revenue budget
Revenue Support Grant (RSG)	A general central government grant paid to the County Council in support of annual revenue expenditure
Scheduled bodies	Local authorities and similar bodies whose staff are entitled automatically to become members of the Local Authority Pension Fund
Settlement costs	Settlement costs arise when a lump-sum payment is made to a scheme member in exchange for their rights to receive certain pension benefits
Stock lending	The temporary transfer of stock (shares / securities) to a third party for a fixed or open period of time. In return the owner of the stock receives an agreed consideration secured by collateral of equal of greater value than the loaned securities
Transfer values	Sums which are either paid to or received from other pension schemes and relate to new and former members' periods of pensionable employment with employers participating in the scheme

Please contact us if you need this document in another format,
or if you have any questions.

Phone: **01905 845560**

Email: **statutoryaccounts@worcestershire.gov.uk**

Write to: **Michael Hudson, Director of Finance,**
Worcestershire County Council, County Hall, Worcester, WR5 2NP

Find out more online:
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