

Audit and Governance Committee
Friday, 3 December 2021, 10.00 am, County Hall, Worcester

Agenda

Item No	Subject	Page No
5	Statutory Accounts 2020/21 Progress update	33 - 300

This page is intentionally left blank

AUDIT AND GOVERNANCE COMMITTEE

3 DECEMBER 2021

STATUTORY ACCOUNTS UPDATE

Recommendation

1. **The Chief Financial Officer recommends that:**
 - a) **The Updated Audit Findings Report at Appendix 1 be noted;**
 - b) **The Final Accounts Pack at Appendix 2, including the Statement of Accounts for the financial year ended 31 March 2021 be approved;**
 - c) **He be authorised to sign the Letters of Representation on behalf of the County Council; and**
 - d) **The Annual Governance Statement 2020/21 at Appendix 3 be approved.**

Introduction

2. Following the delegations agreed at the last committee meeting on 24 September 2021, it has unfortunately not been possible to complete the Accounts sign off as anticipated. Late technical queries nationally relating to local government weaknesses particularly around accounting for capital meant further audit testing was required. Nationally this meant only 9% of all audits were signed off by 30 September 2021 deadline. The latest information from the National Audit Office (NAO) at late November identifies that 77% of audits remain unsigned.

3. As such an updated Audit Findings Report (AFR) from the external auditor and the Council's accounts are re-presented to this Committee for sign off at its meeting on 3 December 2021. There are principally a few changes to the accounts presented at the September Committee to the Notes and one Statement – The Group Movement in Reserves (MIRS). The reasons are set out in the following sections and Grant Thornton's report to Committee on the same agenda.

4. Nationally the deadline for the Value for Money (VFM) opinion has been deferred from the end of the 2021 calendar year and is now 28 February 2022. There remains, as planned, some audit fieldwork around the completion of the VFM conclusion and the Whole of Government Accounts statistical return before the Audit Certificate can be issued. An update will be provided by external audit at Committee but this is now expected to be concluded by February 2022 with an update to this Committee in March.

2020/21 Statutory Accounts adjustments

5. Since the last committee meeting on 24 September 2021, the audit process has continued with further queries arising from Grant Thornton's ethical and technical reviews performed in addition to the fieldwork completed by the external audit local team over the summer months. The Council's Finance Team has worked with the external audit team to resolve all such queries and update relevant disclosures in the 2020/21 Statement of Accounts.

6. The very late audit testing requirements brought in the final week before the deadline were in response to findings at other councils (Slough and Croydon) relating to weaknesses in capital financing and reporting. It was therefore important that the quality of all local authority accounts was tested to ensure that the confidence of members and local residents could be maintained and provide an opportunity for amendments to be made. We are pleased to say that overall Grant Thornton's findings recognise that Worcestershire County Council's arrangements are strong.

7. There are two main issues that have arisen from this late review that the Committee need to be aware of and both are reflected in Grant Thornton's AFR (Appendix 1), they are:

- (a)** The treatment of the financing of the energy from waste site has been amended, but note comments below about the exceptional nature of this; and
- (b)** The accounting treatment of two sites when calculating the Minimum Revenue Provision (MRP).

Both of these are discussed in the following paragraphs and the amendments are set out in both the following sections and Grant Thornton's AFR on this agenda.

8. With regard to the energy from waste site, members may be aware that the contracts with Mercia Waste to run this site and the Envirosort facility were due to be funded originally through a Private Finance Initiative (PFI) scheme. However, due to the financial position in 2009 a separate deal was struck with both Government and the Provider to manage the funding risk whereby the Council would borrow the funds, but that the Council would still receive credits as if it were a PFI scheme. Whilst technically this remains a PFI scheme, uniquely the Council borrowed the money to provide financing instead of that being sourced by the provider from an external financial institution.

9. This is an important distinction as the Council has already borrowed the funds and the project is complete, with Mercia Waste making repayments on this loan. However, the Prudential and Accounting Codes require that the underlying liability in respect of PFI assets is excluded from the Capital Financing Requirement (CFR) (Note 14.9). The CFR is a note to the Accounts that discloses the Council's underlying need to borrow for capital purposes, i.e. its borrowing requirement. The CFR is the amount of capital expenditure that has not yet been financed by capital receipts, capital grants or contributions from revenue. It is important that users of the accounts assess this to appraise the Council's likely future capital expenditure and how this will be funded. In the case of other local authorities, public reports have identified that the level of CFR and treatment of MRP was incorrect and led to significant weaknesses and inadequate level of funds. As such the accuracy of the CFR is important.

10. Grant Thornton's technical team identified that Worcestershire County Council have not included the PFI liability for the Mercia Waste sites within its CFR. In previous years, the CFR was reduced by the value of the PFI Liability to show the waste contract was already financed to reflect the arrangement in paragraph 9. It is recognised that the Council's arrangement is unique, and following the additional technical audit review the Council has agreed to amend this disclosure, showing separately the CFR and the Council's underlying need to borrow. There have been a number of consequential disclosure amendments which have been made as a result of this. There are no changes to the Council's balance sheet as a result of this change.

11. The second issue relates to the MRP, that is the minimum amount which a Council must charge to its revenue budget each year, to set aside a provision for repaying external borrowing (loans). This is an annual revenue expense in a Council's budget. Putting this simply, if the Council is not prudent in its calculation of MRP it will underprovide for future repayment which could, as it has in some other local authorities, lead to concerns over financial standing.

12. Grant Thornton have therefore carried out significant additional further testing of WCC's approach to calculating its MRP. In just two instances they have found that the calculations may be understated. These are both concerning PFI assets where the Council has assessed the asset life as 90 years. This was done on the basis that under PFI, at the end of the PFI (40 years) the assets are due to return to the Council in the state they were on day one. As such it was assumed a reasonable further life of 50 years could be expected. Whilst we feel that is reasonable it has not been confirmed by a qualified surveyor as the buildings of course are not yet at the handover stage (c17 years away). As such we will review our policy for 2021/22, however the adjustments themselves for this shorter period of MRP calculation are not material and as such we have not amended the accounts for this fact.

13. The revisions to disclosures are set out in more detail below; **these adjustments do not have an impact on the main statements (Income & Expenditure, Balance Sheet, Cashflow and Movement in Reserves Statement) nor do they affect the reported net expenditure or the Council's earmarked reserves and General Fund balances for the year ended 31 March 2021 and thus there is no impact for the Council Taxpayer.**

14. The adjustments to the Accounts and changes to Grant Thornton's AFR are reported elsewhere on the same agenda as this report is presented and have been highlighted in yellow to draw attention for Councillor's ease of reading.

Disclosure adjustments to the 2020/21 Statement of Accounts

15. The 2020/21 Statement of Accounts, presented to committee at the meeting held on 24 September 2021, has been updated for the following disclosure items, as agreed with our external auditors:

- **Capital Financing Requirement (CFR) and Minimum Revenue Provision (MRP)** (Notes 11, 12, 13, 14.5 and 14.9): disclosure of the CFR has been revised to include the Council's PFI liability balance and the related MRP charge and capital loan repayments in respect of PFI assets. As a result of these adjustments, the closing Capital Financing Requirement at 31 March 2020 has been restated from £600.0 million to £767.6 million. Supporting notes have been revised to ensure internal consistency of disclosure of these items in the accounts.

This adjustment combines the Council's underlying need to borrow and its PFI liability within one disclosure. There is no increase in liability as a result of these revisions.

- **Details of payments due to be made under Private Finance Initiatives (PFI) contracts (Note 15.5)** in 2020/21 have been revised to reflect the amounts due represented by the repayment of the liability, service charge and interest over the term of such contracts.

This disclosure now presents the Council's liability between principal and interest elements of the contract.

- **Fair Value of Assets and Liabilities (Note 16.2)**: the fair value of the Council's PFI liabilities has been restated to reflect the discounted present values of future cashflows for the lease and interest repayments, in accordance with IFRS13.

This disclosure presents the value at the Balance Sheet date of the total future cash outflows in respect of this liability.

- **Cashflow Statement: Investing Activities (Note 23.2)**: Disclosures to note the 'Purchase of short-term & long-term investments' and 'Proceeds from short-term & long-term investments' have been restated to exclude amounts represented by cash equivalents as per the Council's accounting policy.

Treasury management investments held for less than three months are considered as cash in accounting terms and therefore are excluded from this disclosure note.

- **Group Movement in Reserves Statement (MIRS)**: The Group MIRS 2019/20 and 2020/21 have been adjusted to disclose reserve movements in accordance with the CIPFA Code.

16. The updated 2020/21 Statement of Accounts is included at Appendix 2 to this report.

Annual Governance Statement (AGS) 2020/21

17. The AGS has been reviewed but has remained unchanged from what was presented to the September 2021 committee meeting.

18. It is included at Appendix 3 and recommended for final approval today, independently from but commensurate with approval of the 2020/21 Statement of Accounts.

Progress on 2021/22 Statutory Accounts Preparation

19. The Council's Finance Team has well established processes around the production of the accounts and we are expecting to complete our plan to prepare accounts in time for them to be audited and ready for committee approval in advance of the statutory deadline of 30 September 2022.

20. It is planned that draft accounts for the year ending 31 March 2022 will be presented to the meeting of this committee in July 2022 for approval.

21. We will continue to work with Grant Thornton around these assumptions and will agree a plan that will be flexible to cater for changing circumstances.

IFRS16: Leases

22. Due to the impact of COVID-19, the effective date for the implementation of IFRS 16: Leases has been deferred to 1 April 2022.

23. Under the new standard, which replaces IAS 17, leases will no longer be classified as finance or operating leases and all leases will be recognised on balance sheet with the exception of short-term leases (leases of 12 months or less) and low value assets (where the right-of-use asset is less than £10,000).

24. Our approach and proposed IFRS 16 disclosures will be subject to review by Grant Thornton as part of planned audit work in 2021/22. We continue activity to monitor and record the Council's lease arrangements to ensure complete and accurate disclosure in future reporting periods which is compliant with the requirements of the new standard.

2021/22 Accounts planning

25. In response to the recommendations included in the Action Plan presented by Grant Thornton in the Audit Findings Report for the year ended 31 March 2021, we have identified areas for improvement in our working papers and, alongside our regular planning processes, will continue to strengthen supporting information in respect of our key accounting estimates and judgements.

26. We have already planned our approach to asset valuations for 2021/22 and have reappointed Wilks Head & Eve to undertake valuations in line with our rolling programme. A work instruction has been issued and planning discussions will take place with the external valuers over forthcoming months.

Legal, Financial and HR Implications

27. There are no significant implications other than those mentioned directly in this report.

Supporting Information

- Appendix 1: 2020/21 External Audit Findings Report
- Appendix 2: 2020/21 Statement of Accounts
- Appendix 3: 2020/21 Annual Governance Statement

Contact Points

Specific Contact Points for this report

Michael Hudson, Chief Finance Officer, 01905 845560, mhudson@worcestershire.gov.uk

Rachael Hart, Financial Reporting Manager, 01905 843165, rhart@worcestershire.gov.uk

Background Papers

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

This page is intentionally left blank

The Audit Findings for Worcestershire County Council

Year ended 31 March 2021

Worcestershire County Council

21 September 2021

Updated 30 November 2021



Contents



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

Senior Audit Manager

T 0121 232 5312

E helen.m.lillington@uk.gt.com

Meriel Clementson

Assistant Manager

T 0121 232 5436

E meriel.h.clementson

Section	Page
1. Headlines	3
2. Financial statements	5
3. Value for money arrangements	19
4. Independence and ethics	21
Appendices	
A. Action plan	24
B. Follow up of prior year recommendations	25
C. Audit adjustments	26
D. Fees	30
E. Audit Opinion	31
F. Management Letter of Representation	36
G. Audit letter in respect of delayed VFM work	39

This Audit Findings 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. Its contents have been discussed with management.

Name : Peter Barber
For Grant Thornton UK LLP
Date : 30 November 2021

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. 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.

Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: 30 Finsbury Square, London, EC2A 1AG. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

1. 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 group and Council's financial statements for the year ended 31 March 2021 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 group and Council's financial statements give a true and fair view of the financial position of the group and Council and the group and Council's 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 remote audit in July and as at 30 November 2021 our audit is substantively complete. Our findings are summarised on pages 5 to 20.

We have identified no material errors or adjustments to the outturn position but have identified material disclosure errors in the group MiRS and the Capital Financing Requirement note to the financial statements that has now been corrected. Following this correction there are no matters arising to date that would require modification of our audit opinion.

We have recommended a small number of other adjustments to improve the presentation of the financial statements. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

The draft financial statements were presented for audit in accordance with the agreed timetable and were supported by working papers of a similar quality to last year. The use of a new valuation expert this year has meant that communication has improved and access to explanations and working papers has been better than in prior years. We received prompt responses to our transactional based queries, with our more challenging judgemental queries taking longer. Additional time was required towards the end of the audit to resolve a number of technical audit queries. The changes to the accounts as a result of this work are set out in the detailed finding. This additional work and delays in audit sign off reflects the continuous raising of the bar and us as auditors providing greater challenge to the Council especially in the areas subject to greatest estimation and uncertainty.

Subject to the resolution of a small number queries and the completion of our closing procedures we anticipate issuing an unqualified audit opinion following the Audit and Governance Committee meeting on 3 December 2021, as detailed in Appendix D.

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.

Our anticipated audit report opinion will be unmodified.

1. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in the Appendix G to this report. We expect to issue our Auditor's Annual Report by 28th February 2022. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified a risk in respect of financial sustainability. Our work on this risk is underway and an update is set out in the value for money arrangements section of this report.

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 expect to certify the completion of the audit upon the completion of our work on the Council's VFM arrangements, (which will be reported in our Annual Auditor's report in February 2022), the pension fund annual report and the WGA return.

Significant Matters

The raising of the bar and the application of increased challenge and scepticism within this years audit has resulted in a number of material changes to the draft accounts of a technical nature, of which the Capital Financing Requirement is the most significant. The changes resulting from this work are detailed in Appendix C.

The additional time spent by the audit team in gaining assurance over the accuracy of these technical disclosures has resulted in a proposed further increase in audit fees for 2020/21 as set out in Appendix D.

2. Financial Statements

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.

Page 45

Audit approach

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

- An evaluation of the group's internal controls environment, including its IT systems and controls;
- An evaluation of the component of the group based on a measure of materiality considering each as a percentage of the group's gross revenue expenditure to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that an audit of Worcestershire Children First was required, which was completed by Grant Thornton UK LLP; 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 the audit plan we previously communicated with you.

Conclusion

Our audit is substantively complete, although a small number of queries and the completion of our closing procedures remain in progress.

These closing procedures include:

- Final receipt of updated financial statements and our subsequent review of the accuracy of the changes
- receipt of management representation letter (see appendix F); and
- review of the final set of financial statements.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff. The audit of the Council has again been completed remotely, with good use made of video calling and screen sharing. We have also successfully introduced a new software package to share files and manage requests for information, which has helped track queries and improve the efficiency on the audit. We will seek to develop this further in future years.

2. 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.

We have revised the materiality used for the draft financial statements due to the gross expenditure changing significantly from that at the planning stage, resulting in a review of the appropriateness of the materiality figure.

We detail in the table below our determination of materiality for Worcestershire County Council

	Group Amount	Council Amount	Qualitative factors considered
Materiality for the financial statements (figures in brackets are the values at planning)	£14.5m £13.2m	£14.4m (£13.1m)	Materiality has been based on 1.5% of the Authority and Group's gross expenditure.
Performance materiality	£10.8m (£9.9m)	£10.8m (£9.9m)	Our performance materiality has been set at 75% of our overall materiality.
Trivial matters	£725k (£650k)	£725k (£650k)	This is set at 5% of financial statement materiality and reflects a level below which stakeholders are unlikely to be concerned by uncertainties.
Materiality for senior officer remuneration	£15.225k (£15k)	£15.225k (£15k)	The senior officer remuneration disclosure in the statement of accounts has been identified as an area requiring lower materiality due to its sensitive nature.



2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan

Commentary

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.

We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.

Risk relates to both the Group and the Council

We have:

- evaluated the design effectiveness of management controls over journals;
- analysed the journals listing and determined the criteria for selecting high risk unusual journals;
- tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration;
- gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness with regard to corroborative evidence; and
- evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Our testing of estimates, judgements and journals has not identified any evidence of management override of controls.

As part of our risk assessment, we consider the number of people that are authorised to post journals. The initial listing provided by management totalled 104 authorised individuals. An analysis of the full journal population identified that 446 individuals had actually posted journals in year. Upon investigation, the difference was identified to largely be as a result of users in schools, who while authorised to post journals, were not included on the original list provided by management. We recommend that management review the number of authorised users who can post journals, to ensure that remains appropriate.



2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

The revenue cycle includes fraudulent transactions (rebutted)

Risk relates to both the Group and the Council

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.

Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can 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 mean that all forms of fraud are seen as unacceptable.

Therefore we do not consider this to be a significant risk for Worcestershire County Council

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.

Our audit work has not identified any issues in respect of improper revenue recognition.

The expenditure cycle includes fraudulent transactions (rebutted)

Risk relates to both the Group and the Council

Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom (PN10) states:

"As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure may be greater than the risk of material misstatements due to fraud related to revenue recognition". Public sector auditors therefore need to consider whether they have any significant concerns about fraudulent financial reporting of expenditure which would need to be treated as a significant risk for the audit.

We have rebutted this presumed risk for Worcestershire County Council because:

- expenditure is well controlled and the Fund has a strong control environment; and
- the Fund has clear and transparent reporting of its financial plans and financial position to those charged with governance.

We therefore do not consider this to be a significant risk for Worcestershire County Council.

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.

Our audit work has not identified any issues in respect of improper expenditure recognition.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Valuation of land and buildings

Risk relates to the Council only.

The Council revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£1071 million) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Council's financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used.

We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.

We have:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;
- evaluated the competence, capabilities and objectivity of the valuation expert;
- written to the valuer to confirm the basis on which the valuation was carried out;
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the Council's valuer's report and the assumptions that underpin the valuation;
- tested revaluations made during the year to see if they had been input correctly into the Council's asset register; and
- evaluated the assumptions made by the valuer for those assets revalued at 31 March 2021. For the assets not formally revalued in year we have assessed how management has satisfied themselves that these assets are not materially different to the current value at the year end.

Our audit work to date has not identified any material issues in respect of valuation of land and buildings. As set out on page 5 there remain a **small** number of substantive audit queries that require resolution in this area before we are able to conclude our work. Appendix C includes both adjusted and proposed unadjusted errors in relation to land and buildings.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Valuation of the pension fund net liability

Risk relates to the Council only

The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£1322m) in the Council's balance sheet and the sensitivity of the estimate to changes in key assumptions.

The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation.

The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable.

The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. In particular the discount and inflation rates, where our consulting actuary has indicated that a 0.1% change in these two assumptions would have approximately 2% effect on the liability. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the Authority's pension fund net liability as a significant risk.

We have:

- updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluated the design of the associated controls;
- evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;
- assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation;
- assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability;
- tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; and
- undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report.
- **Received** assurances from the auditor (also Grant Thornton) of Worcestershire Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. **The auditor raised no exceptions as part of their report on the work to support the IAS 19 valuations.**

Our audit work has not identified any issues in respect of valuation of the pension fund liability. We have specifically commented on the reasonableness of the assumptions used on page 13.

2. Financial Statements – Key findings arising from the group audit

Component	Component auditor	Findings	Group audit impact
Worcestershire Children First	Grant Thornton UK LLP	A full scope audit has been performed by an audit team led by Bill Devitt from Grant Thornton. An unqualified audit opinion was given on the 27 th July 2021 by Grant Thornton UK LLP. No significant issues were identified.	We have reviewed the work performed by the component auditor and have concluded that this provides sufficient assurance for the group audit.

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate

Summary of management's approach

Audit Comments

Assessment

Land and Building valuations – £476m

Other land and buildings comprises 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 Wilk's Head and Eve to complete the valuation of properties as at 31 03 21 on a five yearly cyclical basis. 47% of total land and building assets were revalued during 2020/21.

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 2021. Management's assessment of asset valuation over this period has identified no material change to the value of these assets.

The total year end valuation of land and buildings was £476m, a net decrease of £34m from 2019/20 (£510m).

We have assessed Wilks Head and Eve 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 considered the estimate against indices provided by the auditor's expert and investigated differences. This has not provided any evidence that the estimate made by management is unreasonable.

The working papers have continued to improve, however the greater emphasis placed on estimates as a result of ISA 540 means that further work is needed in this area by management to fully challenge the valuer and understand the basis of the estimates made.

The accounts include some disclosure on the level of estimation uncertainty relating to PPE, however the current disclosures do not comply with the Code or the expectation of the FRC thematic review in this area. The disclosures should provide a greater level of detail on the nature of the assumptions used in making the estimates, and the sensitivity of that assumption with the associated impact on the carrying value within the accounts. Disclosures should provide readers with sufficient detail that they can share in management's understanding of the uncertainties underlying those estimates. In addition, the disclosure provided on material valuation uncertainty is currently unclear, as while it correctly highlights that asset valuations are not reported as being subject to 'material valuation uncertainty' the supporting paragraph then goes on to say valuations cannot be accurately predicted.

Light purple

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment																				
Net pension liability – £444m	<p>The Council's net pension liability at 31 March 2021 is £444m (PY £481m) comprising the Worcestershire Pension Fund Local Government defined benefit pension scheme obligations.</p> <p>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 2019. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns.</p> <p>Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.</p>	<ul style="list-style-type: none"> 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 2020/21 roll forward calculation carried out by the actuary and have no issues to note. We have used PwC as auditors expert to assess actuary and assumptions made by actuary, the assumptions used by the actuary are in the range anticipated by our auditors expert. <table border="1"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>PwC range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.1%</td> <td>2.1% to 2.2%</td> <td>●</td> </tr> <tr> <td>Pension increase rate</td> <td>2.7%</td> <td>2.7%</td> <td>●</td> </tr> <tr> <td>Salary growth</td> <td>4.2%</td> <td>2.5% to 4.2%</td> <td>●</td> </tr> <tr> <td>Duration of liabilities</td> <td>17 years</td> <td>15 to 22 years</td> <td>●</td> </tr> </tbody> </table> <ul style="list-style-type: none"> We have reviewed the reasonableness Council's share of LPS pension assets and have no issues to raise. The accounts include some disclosure on the level of estimation uncertainty relating to the pension fund net liability, however the current disclosures do not comply with the Code or the expectation of the FRC thematic review in this area. The disclosures should provide a greater level of detail on the nature of the assumptions used in making the estimates, and the sensitivity of that assumption with the associated impact on the carrying value within the accounts. Disclosures should provide readers with sufficient detail that they can share in management's understanding of the uncertainties underlying those estimates. 	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.1%	2.1% to 2.2%	●	Pension increase rate	2.7%	2.7%	●	Salary growth	4.2%	2.5% to 4.2%	●	Duration of liabilities	17 years	15 to 22 years	●	Light purple
Assumption	Actuary Value	PwC range	Assessment																				
Discount rate	2.1%	2.1% to 2.2%	●																				
Pension increase rate	2.7%	2.7%	●																				
Salary growth	4.2%	2.5% to 4.2%	●																				
Duration of liabilities	17 years	15 to 22 years	●																				

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Financial Instruments	<p>The Council values its financial instruments at fair value, as informed by the advice of external and independent Treasury Management advisors and Investment Fund Managers.</p> <p>Fair values are estimated by calculating the present value of cash flows that take place over the remaining term of the instruments, as provided by management experts.</p>	<p>Our work in relation to financial instruments has resulted in a number of changes that are detailed in Appendix C. Although large in value these are of a technical nature and do not affect the primary statements.</p>	Light Purple
Minimum Revenue Provision - £13.6m	<p>The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance.</p> <p>The year end MRP charge was £13.6m, a net increase of £1.5m from 2019/20.</p>	<p>This has been an area of discussion with management, and our findings are reported on page 16.</p> <p><u>Management Response</u></p> <p>The Council maintains an MRP policy that provides for a prudent provision for the repayment of debt. This includes an adjustment to reflect MRP spread over the useful life of PFI assets which is deemed by the council to be in excess of 50 years on the basis that the assets are due to return to the Council in their original state. It is prudent from time to time to review the basis of this estimate and the Council plans to do so for the 2021/22 statement of accounts.</p>	Blue

Assessment

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

2. Financial Statements – 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 and management response
<p>Capital Financing Requirement(CFR)</p> <p>As a result of high profile issues raised at other local authorities in relation to CFR, this was a particular area of focus in this year's audit.</p> <p>Our initial review of the CFR disclosure within the notes to the financial statements suggested that this had been incorrectly calculated.</p> <p>The CFR is a technically complex area and significant additional work was required on the part of the Council and subsequently us as your auditors in confirming the accuracy of the updated disclosures in the financial statements.</p>	<p>CFR measures the Council's underlying need to borrow as a result of capital investment, and it is effectively a summary of the effect of the financing and affordability decisions taken by an authority to fund capital expenditure.</p> <p>The monitoring of the CFR plays a key role in the prudential framework, and is regularly reported to members as part of the Council's treasury management activities.</p> <p>Following the audit team's challenge, officers undertook various pieces of work to demonstrate how the year end CFR disclosure had been calculated. This identified the following two errors:</p> <ul style="list-style-type: none"> the Council's PFI liabilities totalling £163.0 m at 31 March 2021 had been incorrectly excluded from the CFR calculation the loan repayments from Mercia Waste totalling £11.5m at 31 March 2021 in respect of the Energy from Waste facility had been incorrectly treated as a treasury loan receipt when in fact it met the criteria for a capital receipt. <p>In addition, while a Minimum Revenue Provision (MRP) had been made in respect of PFI assets, and appropriately charged through the accounts, this had not been included in the original CFR calculation.</p> <p>A revised CFR calculation is now included in the amended accounts, along with the changes required to reflect the loan repayment as a capital receipt.</p>	<p>Management have produced an accounting paper restating the CFR disclosure for both 2020/21 and the previous year.</p> <p>A key validation check on the reasonableness of the CFR involving the aggregation of certain disclosures in the Council's balance sheet was reperformed by the Council.</p> <p>This final check based on the new CFR disclosures indicated an immaterial difference of £2m for the financial year ended March 2021. The audit team are comfortable that the revisions are now in line with the regulations and that no further action is required for the 2020/21 audit in respect of this difference.</p> <p>Management have considered the impact that this error had on the CFR prior year comparative figures. This has led to a material Prior Period Adjustment (PPA) within the financial statements. The audit team are comfortable with the PPA disclosure.</p> <p>The impact of the PFI liability inclusion is a £163.0m increase in your CFR at 31 March 2021.</p> <p>The total cumulative impact of the Mercia Waste loan treatment as a capital receipt is £11.5m since the commencement of this arrangement. An adjustment of £4.5m has been made to the opening balance of the CFR to take account of the payments deemed as capital receipts to 1 April 2019. Capital receipts of £3.5m have then been recognised in both 2019/20 and 2020/21.</p> <p>Management response</p> <p>The accounts have been amended to show the capital financing requirement and the Council's underlying need to borrow separately within the disclosure note to the accounts. The revised disclosure of loan repayments as capital receipts in the CFR note presents these amounts as reductions to long term borrowing to reflect the substance of the underlying transaction which is unchanged. As this is disclosure only, there is no impact to the Council's Reserves, Balance Sheet or financial resilience.</p>

2. Financial Statements – 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 and management response
<p>Minimum Revenue Provision (MRP)</p> <p>Following a number of high profile cases in other local authorities, the level of MRP chargeable to revenue in 2020/21 was compared to the level of debt to assess the reasonableness of the provision.</p> <p>Our analysis of the ratio of MRP to external debt suggested that MRP was towards the lower end of the provision expected and warranted further investigation.</p>	<p>The broad aim of the MRP is to ensure councils set aside appropriate levels of revenue over time to cover their CFR and ensure sufficient funds are available to meet the costs of future debt repayments. The statutory guidance specifies four options for making prudent provision.</p> <p>The audit team considered the methods used by the Council to calculate prudent provision. Separate provisions were made for PFI and non PFI assets.</p>	<p>In 2020/21 the Council have made a combined revenue charge of £13.6m in respect of MRP, this comprises of £10.4m for non PFI assets and £3.2m for PFI assets. These charges have been accounted for correctly.</p> <p>The audit team have considered whether the method of calculation of these provisions is reasonable and in accordance with the statutory guidance. For non PFI assets we have concluded that provisions are reasonable and consistent with the guidance.</p> <p>For PFI assets we have identified that there are two schemes where the Council have used asset lives in excess of 50 years. It is the understanding of the audit team that asset lives beyond 50 years are only permitted to be used when there is clear evidence by a suitably qualified individual that a longer asset life is appropriate. Officers have been unable to provide this evidence. The impact of this has been quantified, and over the four year period when longer asset lives have been used the potential cumulative undercharge of MRP on these assets totals £2.1m.</p> <p>While this is not material to the accounts and no changes to the MRP is proposed in 2020/21, the continued use of these higher asset lives could result in the Council not setting aside prudent level of funds to support future debt repayment. In addition, it runs the risk of the reserves and balances providing a false sense of security when it comes to future spending and investment decisions.</p> <p>The impact of MRP annual payments on the financial sustainability will be considered further and reported on as part of our Auditors Annual Report.</p> <p>Management response</p> <p>Management will review the calculation of the MRP charge in respect of PFI assets in 21/22.</p>

2. Financial Statements - Internal Control

Assessment and Recommendations

To support the opinion on the financial statements we have completed an audit of the IT general controls as they affect the financial statements. A separate report has been provided to management, which included a detailed consideration of the issue raised and a recommendation. Management have accepted all of the recommendations in the report and provided a management response. Ten control weaknesses were noted in general IT controls, these can be summarised as follows;

- User access for terminated employees/ leavers not disabled in a timely manner
- Lack of documentation over Altair change of access rights
- Lack of documentation over testing performed for Altair upgrades
- Lack of review of information security event/audit logs
- Insufficient periodic review of user access
- Lack of documented IT operations policies
- Lack of documentation/evidence on E5 batch job completion process
- Non-compliance with the password policy
- Lack of process to proactively review IT service provider assurance reports
- No employee acknowledgement of the WCC IT Policies

The report included 6 recommendations where there were considered to be ineffective control's which could create a risk of inconsequential misstatements within the financial statements, and 4 recommendations where we identified an opportunity to improve control.

2. Financial Statements - 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
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.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
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.
Written representations	A letter of representation has been requested from the Council, including specific representations in respect of the Group, which is appended.
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.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. We have reported our findings in this area as part of appendix C.
Audit evidence and explanations/ significant difficulties	<p>All information and explanations requested from management was provided.</p> <p>Working papers are of a similar quality to the prior year. 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 size 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, however we recognise that this is a function of the financial system that will be difficult to change.</p> <p>Responses to queries of a transactional nature were generally responded to promptly, however more significant queries of a financial reporting nature that were provided at the start of the audit were not responded to until the end of the audit. This has identified some material omissions, which has placed unnecessary pressure on the deadline.</p>

2. Financial Statements - other communication requirements



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).

Issue	Commentary
Going concern	<p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.</p> <p>Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul style="list-style-type: none"> the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. <p>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:</p> <ul style="list-style-type: none"> the nature of the Council and the environment in which it operates the Council's financial reporting framework the Council's system of internal control for identifying events or conditions relevant to going concern management's going concern assessment. <p>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul style="list-style-type: none"> a material uncertainty related to going concern has not been identified management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	<p>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.</p> <p>No inconsistencies have been identified to date. We plan to issue an unmodified opinion in this respect – refer to appendix E.</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es. <p>We have nothing to report on these matters.</p>
Specified procedures for Whole of Government Accounts	<p>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.</p> <p>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.</p> <p>Note that work is not yet completed and H M Treasury have indicated that the required data collection tool will not be available until December. Once the timetable is released we will work with officers to ensure the required procedures are completed.</p>
Certification of the closure of the audit	<p>We intend to delay the certification of closure of the 2020/21 audit of Worcestershire County Council in the audit report, as detailed in Appendix E, due to incomplete VFM work and the need to complete the procedures in respect WGA.</p>



3. Value for Money arrangements

Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria.
- Auditors undertaking sufficient analysis on the Council's VFM arrangements to arrive at far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.



Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)



Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:



Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.



Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.



Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

3. VFM - our procedures and conclusions

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in the Appendix G to this report. We expect to issue our Auditor's Annual Report by the end of February. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified the risk set out in the table below. Our work on this risk is underway and an update is set out below.

Risk of significant weakness

Work performed to date

The Council set a balanced budget for 2021/22. To reach a balanced budget position a gap of £26.8m needed to be closed. This was achieved through a combination of additional government grant, additional income from council tax, identifying efficiencies and a use of earmarked reserves. The medium term financial outlook is more uncertain, with budget gaps of £32m identified for the 2022/23 financial year and further gaps of £43m in 2023/24. Due to the inherent uncertainty we have concluded that there is a significant risk of weakness in arrangements for delivering financial sustainability.

We will review the plans the Council has in place to close the gaps, paying particular attention to the robustness of any savings plans.

Work performed to date

- We have held a number of meetings with key officers of the Council, including the Chief Executive and s151 officer.
- We have reviewed budget reports presented to members of both the Cabinet and the Council.
- We have reviewed the going concern assessment provided by management in relation to the 2021/212 financial statements.

Further work is scheduled on understanding in detail how savings plans have been identified, and assessed for robustness.

4. Independence and ethics

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons. relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

- Kathryn Kenderdine acted as a member of the audit team of Worcestershire County Council during the 2019/20 financial statement audit. From the 12th April 2021, Kathryn took up a post in the Internal Audit function of Worcestershire County Council. We have considered the ethical implications of this change of employment and gained assurances from the Chief Finance Officer that Kathryn will not be responsible for any part of the preparation of the financial statements for the 2020/21 financial year. We have ensured that appropriate safeguards have been in place from when Kathryn first applied for the role, through to her leaving her employment with Grant Thornton. These safeguards have included, restricting Kathryn's access to any files or documents relating to Worcestershire County Council, and ensuring she is not present at any meetings where audit issues are discussed. As a further safeguard, any review of Internal Audit work during the course of our audit will not be undertaken by any junior member of the audit team that has previously worked to Kathryn.

Under Ethical Standards audit managers are required to complete no more than 10 years with any one client to reduce the risk of familiarity. An additional safeguard is in place for any audit's under the PSAA contract, and this requires further approval from PSAA for any managers having an association with a client for more than 7 years. The audit of the 2020/21 financial statements will be the 8th year of association for the manager of the County Council. PSAA have granted Helen Lillington as audit manager an extension for the 2020/21 financial statement audit, and this has been confirmed by our own internal Ethics Function. An additional review process has been put in place for these audit's this year, using our Quality Support Team. This will act as a further safeguard to independence.

We are satisfied that the matters above and proposed safeguards provide sufficient protection to enable us to remain independent to the audit of Worcestershire County Council for 2020/21. The Audit and Governance Committee, as Those Charged with Governance, confirmed their acceptance of these safeguards at their meeting in March 2021.

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 May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Transparency report 2020 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk)

4. Independence and ethics

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 group. 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.

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of Teachers Pension Return	4,500	Self-Interest (because this is a recurring fee)	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 £4,500 in comparison to the total fee for the audit, and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	To mitigate against the self review threat, the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
Non-audit related			
CFO Insights Subscription	12,500	Self-Interest (because this is a recurring fee)	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 £12,500 in comparison to the total fee for the audit, and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. The work is undertaken by a team independent to the audit team. This is the final year of a three year contract, which expired 30/05/21.
Contract Assurance	38,750	Self-Interest, self-review, management.	This work was first agreed in April 2019 and was performed by a team totally separate to the engagement team. The fee for the work is not significant compared to the total audit fee income and the work is neither recurring or on a contingent fee basis. The work was concluded in October 2020.

These services are consistent with the group'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.

Appendices

A. Action plan – Audit of Financial Statements

We have identified 4 recommendations for the group 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 2021/22 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
Medium	Ten recommendations have been identified in relation to the IT control audit. A separate IT report has been shared with management providing the detail.	<p>Management should continue to implement the recommendations as set out in the detailed IT report.</p> <p>Management response</p> <p>Officers will consider and implement the recommendations identified in the IT control audit in 2021/22.</p>
Medium	As part of raising the bar, there is a much greater focus on the clarity of financial reporting, particularly in key areas that involve estimation and judgement.	<p>Management need to undertake a detailed review against the Code and determine if the level of disclosure remains appropriate. Particular areas of focus should be PPE, Pensions and financial instruments.</p> <p>Management response</p> <p>Officers will perform a full review of disclosures as part of preparation work for the 2021/22 accounts.</p>
Low	Disclosures relating to both critical judgements and estimation uncertainty lack the level of detail envisaged by IAS 540 and as described in the most recent FRC thematic review.	<p>Given the additional focus on accounting estimates, management should consider working more closely with fund managers and other experts to ensure more detailed disclosures can be provided in relation to both estimation uncertainty and critical judgements.</p> <p>Management response</p> <p>Officers will perform a full review of disclosures, and engage with experts as necessary, as part of preparation work for the 2021/22 accounts.</p>
Low	The initial authorised journal posters listing provided by management totalled 104 authorised individuals. An analysis of the full journal population identified that 446 individuals had actually posted journals in year.	<p>We recommend that management review the number of authorised users who can post journals to ensure that it remain appropriate.</p> <p>Management response</p> <p>Officers will review the individuals authorised to post journals to ensure it is appropriate.</p>

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

B. Follow up of prior year recommendations

We identified the following issues in the audit of Worcestershire County Council's 2019/20 financial statements, which resulted in 3 recommendations being reported in our 2019/20 Audit Findings report. We are pleased to report that management have implemented all of our recommendations, however given their nature there remains further work to do as part of a continuous improvement journey.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<p>Financial statements – working papers</p> <p>The Council continues to be on a journey to improve working papers to support the financial statements. There have been improvements in some aspects, but there remains the need to focus attention on providing information right first time and with suitable supporting information.</p> <p>Officers should continue their focus on improving working papers. As in prior years PPE working papers remain those where greatest improvement is needed. Officers should give consideration to whether the current fixed asset register provides information in the most fit for purpose way to produce the disclosures in the financial statements and provide them with suitable management information.</p>	<p>Working papers are of a similar quality to the prior year, and the fixed asset register remains unchanged. The use of a new valuation expert this year has meant that communication has improved and access to explanations and working papers has been better than in prior years.</p> <p>Responses to queries of a transactional nature were generally responded to promptly, however more significant queries of a financial reporting nature that were provided at the start of the audit were not responded to until the end of the audit.</p> <p>As part of raising the bar, there is a much greater focus on the clarity of financial reporting, particularly in key areas that involve estimation and judgement. Management need to undertake a detailed review against the Code and determine if the level of disclosure remains appropriate. Particular areas of focus should be PPE, Pensions and financial instruments.</p>
✓	<p>Financial statements – working papers</p> <p>While the shift to a remote audit has been largely successful, the sheer volume of queries that have gone through email has made the process difficult and time consuming to manage. During the interim audit we explored with officers the ability to use an audit management tool called 'Inflow' which is a package that both the audit team and officers have access to to manage the query process and exchange of working papers. This is widely used throughout our firm on both commercial and PSA audits and is an efficient way of managing the audit process, particularly while auditing remotely. Officers explained that there were barriers to using this from an IT perspective and as a result we have used sharepoint and emails instead.</p> <p>Explore more fully the barriers to implementing Inflow for the 2020/21 year of audit.</p>	<p>We have utilised the use of Inflow this year to manage the audit queries, and also to undertake an element of sample selection.</p> <p>Both officers and members of the audit team have found this easier to manage than email correspondence, and this has enabled queries to be tracked more easily.</p> <p>We will continue to develop the use of this tool in future years.</p>
✓	<p>VFM – Financial Sustainability</p> <p>Continue to review and closely monitor the deliver of the savings plans for 2020/21 and robustly challenge the deliverability of the budget in for future years.</p>	<p>We are yet to fully complete our work on VFM for the current financial year, however, there is no evidence to date that savings have not been challenged or monitored during the year.</p>

Assessment

✓ Action completed

X Not yet addressed

C. 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

We have not identified any adjusted misstatements that impact on the key statements and the reported net expenditure for the year ending 31 March 2021.

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	Auditor recommendations	Adjusted?
Note 24.1 – Remuneration over £50,000	The classification from £130,000 to £134,999 for 2020/21 should be nil instead of the one that is currently presented.	✓
Note 14.1 - Property, Plant and Equipment Movements	The balances for PFI have been incorrectly disclosed across the individual lines in the note. The year end balance of £193.8m remains unchanged.	✓
Note 14.9 Capital Financing Requirement	The capital finance requirement has been amended from £626.1m to £787m. This includes the adjustments as outlined on page 15.	✓
Note 15.4 – Value of assets and liabilities under PFI contracts	The link between note 15.4 and note 14.1 in respect of PFI assets is not clear because of the way movements in depreciation are reflected. We would expect the revaluation movements reported at note 15.4 to reflect the change in the carrying amount and to include the required adjustments to cumulative depreciation.	X
Note 16 – Financial Instruments	The audit team have made a number of recommendations in respect of the financial instruments disclosures. <ul style="list-style-type: none"> Cash balances of £24.3m should be included within the financial instrument disclosure note Greater transparency is needed to demonstrate the link between the balance sheet and the financial instrument disclosure. The accounting policy in relation financial instruments does not comply with the requirements of the Code. Officers have suggested some amendments to improve the disclosure. Not all creditors are financial instruments. Officers have incorrectly removed £10m of creditors from the financial instrument disclosure. As this is not material, it has been agreed that this will not be amended. The disclosures at note 16.2 omit an explanation of where and why the carrying value may be considered to be a reasonably proxy for fair value. This will be amended for in future years. 	✓
Note 16.3 – Financial instruments – Nature and extent of risks arising from financial instruments	The note doesn't currently include the level of detail required to comply with the Code. Information has been omitted in relation to the authority's credit risk management process and how expected credit losses have been measured.	X

C. 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.

Misclassification and disclosure changes (continued)

Disclosure omission	Auditor recommendations	Adjusted?
MiRS and Note 11 – Adjustments between accounting basis and funding basis under regulation	The transfers to/from earmarked reserves is not part of the adjustments between accounting basis and funding basis and should be separately reported on the MiRS and should not be included in the adjustments reported at note 11.	✓
Accounting policies – Various notes	<p>The following omissions were noted in relation to accounting policies;</p> <ul style="list-style-type: none"> The accounting treatment for the upfront payment of pension contributions, The accounting treatment for the pension liability in relation to WCF Note 25.2 does not include details on the measurement of assets nor an explanation for how the change in pension liability and assets are analysed. Accounting treatment for revenue recognition, and Accounting treatment for PFI. 	✓ (with the exception of note 25.2, which will be considered in future years)
Balance Sheet – Investment property	The Council purchased a property in year valued at £11.9m, this does not meet the definition of an investment property as per the Code, and should be reclassified as land and building.	✓
Group MiRS	<p>Initial consolidation checks identified that the group MiRS was not presented in line with the Code.</p> <p>The same error occurred in the prior year, and a PPA note has been added and appropriate adjustments also made to the prior year.</p> <p>The group CIES and group balance sheet as presented were not in balance.</p>	✓
Group debtors	The notes to the group accounts does not include an appropriate sub classification of the debtors balance, as this is materially different from the single entity accounts.	✓
Note 15 .5 Details of payments due to be made under PFI contracts.	<p>The note has been amended so that the repayment of liability is in line with what is reported on the balance sheet. This changes the repayment of liability as disclosed in the note from £83.1m to £163m.</p> <p>The service charge column is incorrectly stated, the draft accounts include a total of £138.2m, this should be £142.1m, broken down in bands of 5 years.</p>	✓

C. 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.

Misclassification and disclosure changes (continued)

Disclosure omission	Auditor recommendations	Adjusted?
Note 25.2 Defined benefit pension scheme	Amendments are required to the note to ensure that this is in line with Note 11 (Adjustments between accounting basis and funding basis under regulation). The same error occurred in the prior year, and a PPA note has been added and appropriate adjustments also made to the prior year note.	✓
Note 23.2 Investing activities.	The purchase and proceeds in respect of short term and long term investments included an element that met the definition of cash and cash equivalents, and these have not been removed.	✓
Note 26 – Termination benefits and exit packages	The £100,001 to £150,000 banding was incorrectly stated and should show 1 exit package totalling £0.1m. The £150,001 to £200,000 banding was incorrectly stated and should show 5 exit packages totalling £0.8m	✓
Note 2- Group Note	Disclosure referred to impact of pensions on the group. However, the defined benefit liability is already accounted for within the single entity accounts, hence disclosure removed.	✓
Note 16.2 – Fair value of assets and liabilities	The Fair Value of Financial Liabilities and PFI liabilities have been increased from £705.6m and £135.0m respectively to £764.4m and £211.7m to reflect changes in the calculations. This note also has also had the disclosure of £43m of cash equivalents held at FVTPL removed as these amounts were not applicable for disclosure.	✓
Code disclosure omissions for future inclusion		
Code Requirements	Auditor recommendations	Adjusted?
IFRS 15 – revenue from contracts with service recipients	The full disclosure requirements for IFRS 15 as set out in section 2.7.4 of the code have not been fully met although some narrative has been added. The Council has agreed to consider this next year.	X
Financial Instruments – Note 16.2	No reporting of the fair value hierarchy within which the fair value measures are categorised (level 1, 2 or 3) the explanation of the valuation technique does not describe the inputs used. For instruments at level 3 there are additional disclosure requirements. This disclosure applies to Financial Instruments that are carried on the balance sheet at FV and those for which FV is required to be disclosed.	X

C. Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2020/21 audit which have not been made within the final set of financial statements. The Audit and Governance Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement	Statement of Financial Position	Impact on total net expenditure	Reason for not adjusting
An error was identified in the calculations made by the external valuer, where an incorrect land value had been used in the calculations. The error related to land at County Hall where the land value was overstated by £2.2m. The audit team have evaluated this error across the total land population, and this indicates a potential misstatement of £4.2m		£4.2m		Not material
The assets under construction balance of £87.8m includes £3.1m where the schemes are operationally complete. These balances should have been transferred to operational categories.		£3.1m		Not material
Overall impact		£7.3m		Not material



C. Audit Adjustments



Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2019/20 financial statements

Detail	Comprehensive Income and Expenditure Statement	Statement of Financial Position	Impact on total net expenditure	Reason for not adjusting
The accounts include a negative earmarked reserve in relation to overspends of Dedicated Schools Grant (DSG) of £6.3m. We remain of the view that where overspends arise against DSG and are to be carried forward as a call against the schools' budget in future years, these should form part of the un-earmarked general fund. This is because the expenditure is required to be recognised in the year in which it is incurred and forms part of the 'Surplus / Deficit on Provision of Services' within the Comprehensive Income and Expenditure Statement and is therefore accounted for as a charge to General Fund. The Schools & Early Years Finance Regulations 2020 regulations do not allow for expenditure to be reversed out of the General Fund (i.e. they do not provide for a 'statutory override' creating an unusable reserve) in 2019/20.		£6.1m (classification)		Not material. Following a change in legislation balances have now been accounted for differently and therefore this point does not carry over into the 2020/21 year end.
The assets under construction balance of £48.6m, includes £2.5m where the schemes are operationally complete. These balances should have been transferred to operational categories.		£2.5m (classification)		Not material. The same error has occurred in the current financial year and this is recorded in the table above
Overall impact		£8.6m (classification)		

D. Fees

We confirm below our final fees charged for the audit and provision of non-audit services.

Audit fees	Proposed fee	Final fee
Council Audit	£119,343	TBC*
Total audit fees (excluding VAT)	£119,343	TBC*

* We have yet to complete our VFM work so are not able to confirm our final audit fee for the 2020/21 audit. However, given the significant additional work undertaken in respect of the Capital Financing Requirement disclosures and supplementary technical changes we are proposing a further uplift of £7,000 to the estimated fee for the audit set out above and detailed in the Audit Plan dated 24 May 2021.

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services - Certification of Teachers Pension Return	4,500	TBC
Other – CFO Insights Subscription	12,500	12,500
Other – Contract Assurance	38,750	38,750
Total non-audit fees (excluding VAT)	£55,750	£TBC

Details of variations in final fees from the proposed fee per the audit plan

The fees reconcile to the financial statements. Where they do not, we have provided a reconciliation

- £112,592 are the fees as per the financial statements.
- The figures disclosed in the financial statements is £74k as the original scale fee for the year, plus the £22k adjustment to the scale fee agreed with PSAA for the 2019/20 financial statement audit. Totalling £96k for the audit fee.
- In addition to the audit fee of £96k above a further £5k has been added for the teachers pension return and £12k in relation to CFO insights. Bringing the overall total to £113k as per the financial statements.
- The fee for contract assurance has been excluded, as due to its timing, this was recorded in a prior year.

E. Audit opinion

Our audit opinion is included below.

We anticipate we will provide the group 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 on financial statements

We have audited the financial statements of Worcestershire County Council (the 'Authority') and its subsidiary (the 'group') for the year ended 31 March 2021, which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Group Comprehensive Income and Expenditure Statement, the Group Movement in Reserves Statement, the Group Balance Sheet and the Group Cash Flow 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 2020/21.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2021 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21; 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, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. 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 group and 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 are responsible for concluding on the appropriateness of the Chief Financial Officer's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority or group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority or the group to cease to continue as a going concern.

In our evaluation of the Chief Financial Officer's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21 that the Authority and group's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the group and the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the group and Authority and the group and Authority's disclosures over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's or the group's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

E. Audit opinion

In auditing the financial statements, we have concluded that the Chief Financial Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the Chief Financial Officer with respect to going concern are described in the 'Responsibilities of the Authority, the Chief Financial Officer and Those Charged with Governance for the financial statements' section of this report.

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, 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 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 the 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 in April 2020 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 'delivering good governance in Local Government Framework 2016 Edition' 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 controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

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 in the Statement of Responsibilities (set out on page 22), 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 Annual Financial Report and 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 2020/21, 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 and the group'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 and the group will no longer be provided.

E. Audit opinion

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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and Authority and determined that the most significant, which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, Local Government Act 2003 and the Local Government Act 1972.

- We enquired of senior officers and the Audit and Governance committee, concerning the group and Authority's policies and procedures relating to:
 - the identification, evaluation and compliance with laws and regulations;
 - the detection and response to the risks of fraud; and
 - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of senior officers, internal audit and the Audit and Governance committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Authority and group's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to:
 - Journals processed by senior finance officers, as we would not expect them to be involved in the normal day to day operations of the general ledger
 - Journals with a blank descriptions, as this could indicated that there is not a legitimate reason for posting a journal.
- Our audit procedures involved:
 - evaluation of the design effectiveness of controls that the Chief Financial Officer has in place to prevent and detect fraud;
 - journal entry testing, with a focus on any journals posted by senior finance officers and those with a blank description;
 - challenging assumptions and judgements made by management in its significant accounting estimates in respect of land and buildings and defined benefit pensions liability valuations;
 - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.

E. Audit opinion

- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to land and buildings and defined benefit pensions liability valuations, and did not identify an areas of non-compliance.
- Assessment of the appropriateness of the collective competence and capabilities of the group and Authority's engagement team included consideration of the engagement team's and component auditor's.
 - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
 - knowledge of the local government sector
 - understanding of the legal and regulatory requirements specific to the Authority and group including:
 - the provisions of the applicable legislation
 - guidance issued by CIPFA, LASAAC and SOLACE
 - the applicable statutory provisions.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
 - the Authority and group's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.

- The Authority and group's control environment, including the policies and procedures implemented by the Authority and group to ensure compliance with the requirements of the financial reporting framework.

- For components at which audit procedures were performed, we requested component auditors to report to us instances of non-compliance with laws and regulations that gave rise to a risk of material misstatement of the group financial statements. No such matters were identified by the component auditors.

[Report on other legal and regulatory requirements – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources](#)

[Matter on which we are required to report by exception – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources](#)

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

Our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources is not yet complete. The outcome of our work will be reported in our commentary on the Authority's arrangements in our Auditor's Annual Report. If we identify any significant weaknesses in these arrangements, these will be reported by exception in a further auditor's report. We are satisfied that this work does not have a material effect on our opinion on the financial statements for the year ended 31 March 2021.

[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](#)

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.

E. Audit opinion

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 undertake our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in April 2021. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

- Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

We document our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor's Annual Report. In undertaking our work, we consider whether there is evidence to suggest that there are significant weaknesses in arrangements.

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 for Worcestershire County Council for the year ended 31 March 2021 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed our work on the;

- Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources and issued our Auditor's Annual Report;
- Whole of Government Accounts, and
- The Pension Fund annual 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, Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

Birmingham

Date: xx September 2021

F. Management Letter of Representation

[LETTER TO BE WRITTEN ON CLIENT HEADED PAPER]

Grant Thornton UK LLP

[Date] – {TO BE DATED SAME DATE AS DATE OF AUDIT OPINION}

Dear Sirs

Worcestershire County Council Financial Statements for the year ended 31 March 2021

This representation letter is provided in connection with the audit of the financial statements of Worcestershire County Council and its subsidiary undertaking, Worcestershire Children First for the year ended 31 March 2021 for the purpose of expressing an opinion as to whether the group and 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 2020/21 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 group and 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 2020/21 ("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 group and 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 group and Council 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. Such accounting estimates include PPE valuations, the valuation of the pension fund liability and the measurement of financial instruments. 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. We understand our responsibilities includes identifying and considering alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. During the year we evaluated our estimation process for PPE valuations and appointed a new valuer to assist us in making the estimates in relation to our assets. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.
- vi. 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.
- vii. Except as disclosed in the group and Council financial statements:
 - vi. there are no unrecorded liabilities, actual or contingent
 - vii. none of the assets of the [group and]Council has been assigned, pledged or mortgaged
 - viii. 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.

F. Management Letter of Representation

- x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The group and 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 immaterial to the results of the Council and its financial position at the year-end OR list reasons]. 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.
- xiv. The prior period adjustments disclosed in Note [X] to the financial statements are accurate and complete. There are no other prior period errors to bring to your attention
- xv. We have updated our going concern assessment and cashflow forecasts in light of the Covid-19 pandemic. We continue to believe that the group and Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that :
- the nature of the group and Council means that, notwithstanding any intention to liquidate the group and Council or cease its operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements
 - the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and
 - the group and Council's system of internal control has not identified any events or conditions relevant to going concern.

We believe that no further disclosures relating to the group and Council's ability to continue as a going concern need to be made in the financial statements.

Information Provided

- xiv. We have provided you with:
- access to all information of which we are aware that is relevant to the preparation of the group and Council's financial statements such as records, documentation and other matters;
 - additional information that you have requested from us for the purpose of your audit; and
 - access to persons within the Council via remote arrangements, in compliance with the nationally specified social distancing requirements established by the government in response to the Covid-19 pandemic, 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 group and Council, and involves:
- management;
 - employees who have significant roles in internal control; or
 - 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.

F. Management Letter of Representation

- 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 group and 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 group and Council's financial and operating performance over the period covered by the financial statements.

Approval

The approval of this letter of representation was minuted by the Council's Audit and Governance Committee at its meeting on 24 September 2021.

Yours faithfully

Name.....

Position.....

Date.....

Signed on behalf of the Council

G. Audit letter in respect of delayed VFM work

Note that this letter does not form part of our formal communications under ISA 260 (Communication with Those Charged with Governance) but is included here for ease of reference.

Nathan Desmond,
Audit and Governance Committee Chair
County Hall
Spetchley Road
Worcester
WR5 2NP

Dear Nathan

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies we are required to issue our Auditor's Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay.

As a result of the ongoing pandemic, and the impact it has had on both preparers and auditors of accounts to complete their work as quickly as would normally be expected, the National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation.

As a result, we have therefore not yet issued our Auditor's Annual Report, including our commentary on arrangements to secure value for money. We now expect to publish our report no later than 28 February 2022.

For the purposes of compliance with the 2020 Code, this letter constitutes the required audit letter explaining the reasons for delay.

Yours faithfully

Peter Barber

Director and Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor



This page is intentionally left blank



2020 /

2021

**Annual Financial Report
and Statement of
Accounts**

Worcestershire County Council

Contents

Leader's Introduction

Chief Executive's Introduction

Chief Financial Officer's Narrative Report

Finance and Performance Review

Annual Governance Statement

Introduction to the Statutory Accounts

Comprehensive Income and Expenditure Statement

Movement in Reserves Statement

Balance Sheet

Cash Flow Statement

Notes to the Financial Statements

Independent Auditor's Report

Group Accounts and Supporting Notes

Glossary of Terms

Worcestershire County Council Annual Financial Report

Leader's Introduction

The 2020/21 financial year was an exceptional year, and we could not have achieved everything we have without the support and help from our partners and staff. Across the county we came together as One Worcestershire to respond to the challenges of the national pandemic and I would like to thank all of our partners and our communities for their enormous effort.

As a County Council we have spent £88 million on that response and recovery, that has seen us:

- oversee the establishment and staffing of 7 test centres, providing 27,000 community Lateral Flow Tests in year, and ensured over 600,000 tests in schools and over 1,000 for local businesses
- provide £14.8 million to our care providers to help them protect residents and staff
- deliver nearly 3,500 food parcels through our Here2Help Services, with over 5,200 requests for help answered

COVID-19: Five steps to look after yourself and others



Get all the latest updates at:
www.worcestershire.gov.uk/here2help

HERE 2 HELP WORCESTERSHIRE

worcestershire
county council

- issue over two million Personal Protective Equipment items to staff and partners
- provide £3 million to businesses to enable them to start to recover
- provide £250,000 to fund laptops to schools and poorer families
- provide over 2,600 offers of support to those clinically extremely vulnerable in our communities



- enable social workers to move to seven day working to aid hospital discharge
- support our local bus operators to maintain services to the public and schools
- set aside £0.8 million to help those residents in financial hardship pay their council tax
- work with our districts to protect rough sleepers, providing £0.7 million to provide additional accommodation
- sustain improvement in library services with a 90% increase in digital issues/lending.

The pandemic is of course on-going, and whilst we are currently seeing fantastic rates of vaccination in the County and falling cases, we will continue to manage and respond to the pandemic for a while yet. We are also turning our attention to the short-term recovery and longer-term legacy impact that may follow and there is no doubt this will continue to be a significant challenge for us during 2021/22 and beyond.

Alongside dealing with Covid-19, our councillors and staff worked tirelessly to deliver a full complement of services and improve our County. We maintained strong financial control ending the year returning a £0.783 million underspend, that is within 0.2% of our budget. Some notable successes included:

- Securing £12 million Getting Building Fund to boost our local economy.
- The opening of the improved Kidderminster station in June 2020, and the purchase of land at Shrub Hill to develop the area and rail network.
- Significant progress on the Worcester Southern Link Road, A38 around Bromsgrove, Pershore Northern Link Road as well as several Town Centre improvements including Stourport and Kidderminster.
- 97% of premises now have access to 24 Mbps+ Superfast Broadband following our improvement programme, that has proved invaluable during Covid-19, and we have secured £2.5 million of Rural Gigabit vouchers to improve this further.
- Carried out over 200 kilometres of highway schemes and 70 kilometres of footway schemes
- Working with our District Council partners on their Future High Streets Fund and Town Fund plans

- Despite significant increased demand 97% of Children’s social work assessments were completed within time meaning Worcestershire has maintained its position as the top performing local authority in the region, with the highest number of court cases being complete in timescales.
- Worcestershire Children First were also ranked the best employer in the region by the Local Government Association when measured against social work standards.

The Council has also committed to reducing its own operational greenhouse gases, and actions saw a 40% reduction in 2020/21. Our improvement in street lighting meant our energy usage fell by 7.6%. The Council’s Diamond Leaf project, to plant 150,000 trees in partnership with the Woodland Trust was accepted as one of the Queen’s Platinum anniversary celebrations.



All this success is an amazing achievement and I would like to thank all councillors, staff and partners for that achievement and their tireless work over the last 12 months.

Looking forward to 2021/22, under our newly returned Administration we will be continuing our Covid-19 response & recovery and later in the year formulating a new Corporate Plan for 2022-2027 supported by a revised medium-term financial plan which will continue to put at the heart the need to focus on a strong local economic recovery, support vulnerable adults and children and help our residents and service users to return to a normal way of life.

Simon Geraghty
Leader of Worcestershire
County Council



Chief Executive's Introduction

My third year as Chief Executive brought an unprecedented year in all our lives. We have seen our staff change how and where they work from, with teams working long hours to ensure we have been able to effectively respond to the pandemic. I would therefore like to start by thanking all staff who have worked tirelessly throughout 2020/21 under difficult circumstances, making a real difference to people's lives. Our Public Health team led by our Director of Public Health, Kath Cobain have been at the forefront of our efforts to protect the health of the Worcestershire population.



Dr Kathryn Cobain,
Director of Public Health

The Leader's Foreword covers many of the outputs for our residents and businesses, behind that our teams have ensured that ongoing services could be delivered working mainly from home. We saw a significant investment in IT through improvements in our broadband, servers and software including a full rollout of Windows10, Office 365 and a new social work case management system, that enabled us to do this with very little disruption to our performance. Our IT team have done an amazing job in getting us to this position and we are seeing that they are being recognised nationally for their excellent work.

We saw the majority of our buildings closed during lockdown with income lost in services such as libraries and museums. Thankfully

the Government did provide additional funding that has enabled us to deliver our budget. However, we also saw savings arising from our new ways of working, in particular a £0.8 million reduction, or c250,000 miles, in our travel and carbon footprint.

Going forward our main tasks are to focus on Covid-19 recovery and work smarter. We have already started to deliver recovery plans with significant effort going in to supporting the economy, health and partners through grants and support. In reality this is likely to continue for some time and it is vital therefore that we address the ways we work and we maintain an agile and healthy workforce. As such we are investing in smarter ways of working that will enable our staff to work from where it is best to deliver our business and meet the needs of our residents. That could mean greater use of video conferencing and our website, both have been tremendously effective during Covid-19, in particular Here2Help.



Whilst it may have felt that 2020/21 was all about Covid-19 there was also a lot going on and I am equally proud of the staff for the

excellent delivery of services whilst managing dealing with the pandemic.

Our Economy & Infrastructure teams have continued to work through flooding and heatwaves to ensure the highways network remains one of the best maintained in the Country. This year has seen more work completed expanding both our key routes such as the Southern Link Road but also cycling and walk ways such as Sabrina Bridge.

Our Adult's services successfully rolled out its Community Reablement Service and Home First across the whole County, ensuring people are able to be supported to live longer and well in their own homes. Something again that supported how well we have responded to Covid-19.

We also invested over £5.5 million in preventative programmes in 2020/21 through additional business rates. Schemes such as Housing First, Dementia Centres and Ticket to Ride have started to be piloted across the County with our partners to assess how they could reduce future pressure on children and adult's social care. The relationships and processes developed through this programme of change were also invaluable in reacting quickly when the pandemic started.

Worcestershire Children First successfully completed their first full financial year with a £0.6 million surplus. Having managed a significant increase in demand for support and protection the service has continued to meet all its contractual performance targets, as well as insourcing school improvement and SEND support services.



The One Worcestershire brand has been used across the County, providing a coherent brand for key messages and communications. This will form a strong bedrock going forward and support our local economy as we seek to attract jobs and tourism.



During 2020/21 we also made a number of changes to the way we run our back offices to prepare for the insourcing of a number of functions including Property and Facilities Management, and financial transactions. Having greater control of these services in the coming years will help us deliver changes and savings.

Looking forward we have a strong financial base going into 2021/22 with a balanced budget and we will now start to refresh our corporate plan to deal with what the future brings.

Paul Robinson

Chief Executive



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.

In a year of significant and unprecedented challenges for the residents and businesses of Worcestershire, the Council has played a vital role in managing the health and economic effects of both the Covid-19 pandemic and resulting national lockdowns; providing additional services and financial support to help the community and those in need.

As a result of these additional challenges in 2020/21, the County Council achieved a small underspend of £0.8 million against its £346.2 million budget.

Through robust financial monitoring and prompt management action to allocate resources, we have ensured that additional costs and loss of income arising from the impact of the Covid-19 pandemic have not had an adverse impact on the outturn position at 31 March 2021. The outturn position by directorate is given as follows:

Service area	Budget £m	Outturn £m	Variance £m
People – Adults	130.863	130.261	(0.602)
People – Communities	19.008	18.444	(0.564)
People – Public Health	1.762	1.833	0.071
Children's Services/WCF	101.540	101.427	(0.113)
Economy & Infrastructure	55.924	55.913	(0.011)
Commercial & Change	6.954	6.309	(0.645)
Chief Executive/HR	1.005	0.475	(0.530)
Sub Total: Services	317.056	314.662	(2.394)
Non-Assigned	(1.692)	(1.762)	(0.070)
Finance /Corporate Items	30.887	32.568	1.681
Total	346.251	345.468	(0.783)

School Balances overall increased by £2.5 million during the year to a net surplus of £3.9 million. This net position comprises 32 schools in deficit (£10.2 million) and 91 schools in surplus (£14.1 million). School's funding therefore remains an area of concern and the Council and Worcestershire Children First are working to support schools in achieving their financial plans as well as lobbying Central Government. The non-schools Dedicated Schools Grant (DSG) will carry forward a deficit of £6.5 million (£6.2 million deficit at 31 March 2020); largely due to unfunded SEND and High Needs demand arising from changes in 2014. This will be carried forward and offset against future DSG income.

COVID-19 Pandemic

The Council received additional funding of £87.7 million from Central Government to support the residents and businesses of Worcestershire during 2020/21 with £74.0 million of these funds spent to provide vital and urgent aid across the county. Committed funds of £13.7 million have been carried forward to 2021/22 to cover ongoing response and recovery operations.

To support vulnerable individuals in Worcestershire through the pandemic, the Council established the Here2Help Community Action Scheme which delivered a range of support to more than 3,500 individuals: supplying emergency food parcels, medication collection and assistance with essential shopping. Here2Help will continue to develop its offering in 2021/22 working with the voluntary sector, partner organisations and residents and communities.

The Council's commitment to its role in fighting the virus saw the establishment of 7 testing sites and 5 dedicated vaccination centres across the county; performing 499,297 rapid lateral flow tests and administering 323,204 first doses of the vaccine in the period to the end of March 2021. We provided support to Worcestershire's schools during the pandemic; distributing laptops and electronic devices, providing free school meals and we ensured the safety of our staff and communities through the delivery of over 2 million items of personal protective equipment (PPE).

To assist local businesses in their response, we launched the Here2Help Business Programme to provide grant funding and business advice to support local businesses to recover, adapt, develop and ensure future resilience as lockdown measures continue to ease.

To relieve the financial pressure faced by individuals and businesses, the Council suspended its debt collection activity for 3 months during the initial lockdown period. This, alongside economic

downturns, resulted in an increase in our overall debt position. In response, we have therefore increased our bad debt provision by £2.8 million and will continue to review this in 2021/22.

An improvement in performance will be reported in 2021/22 once planned activity resumes. As part of our Finance Improvement Programme, the centralisation of income management and debt collection procedures will ensure that progress continues in 2021/22.

We have taken appropriate measures to ensure that valuations of our assets and investments are robust, noting that they remain subject to a degree of uncertainty as the economy recovers and stabilises following the pandemic. This equally will apply to our Pension fund investments.

Looking forward, there continues to be uncertainty regarding the scale and extent of the pandemic and its impact upon the demand for our services, particularly in social care, our income and funding levels and additional cost pressures as we continue to respond and recover.

The Council has adopted a prudent approach to the management of reserve balances. We will review our medium-term financial plan, taking account of the need to support the most vulnerable individuals in society, by identifying savings and reductions in spend and increasing income to improve outcomes for the residents and businesses of Worcestershire. To meet the challenges facing the county, it is imperative that we continue to put effective financial governance and competence at the core of decision making to deliver a strong, resilient and sustainable financial position.

Finance staff continue to work closely with our service partner Liberata and our external auditors Grant Thornton to ensure an efficient close-down process and produce the statutory accounts

within statutory deadlines, and I express my thanks for their hard work.

Further in-depth highlights of the 2020/21 Statement of Accounts are contained in the Finance and Performance Review section below.



Michael Hudson LLB (Hons), LLM, CPFA

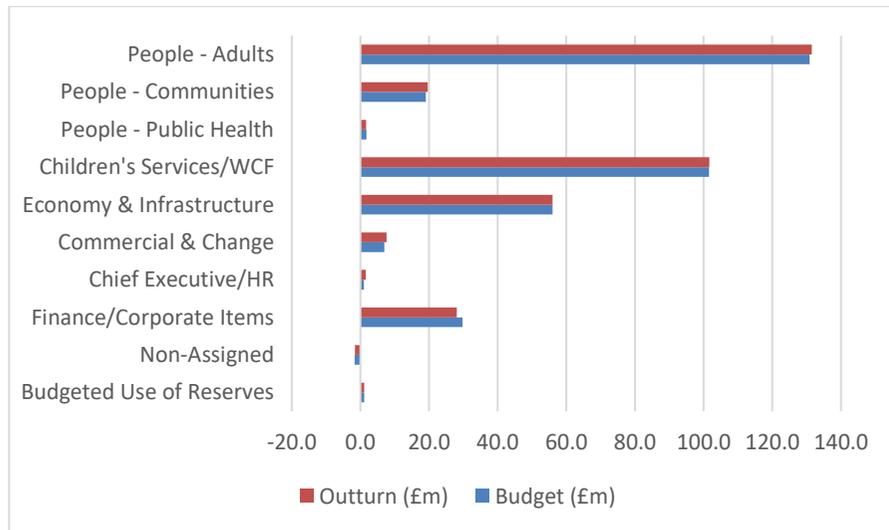
Chief Financial Officer

Finance and Performance Review

2020/21 Financial performance

The County Council net budget for 2020/21, excluding Covid-19 grants, was £346.251 million.

In line with budget monitoring throughout the year, the County Council underspent its £346.3 million budget by £0.8 million (0.2%) in 2020/21, with pressures in People and Children's Services largely offset by optimising the use of Covid-19 grant funding received during the year. The graph below gives details of the outturn position by directorate, before technical adjustments.



Significant management action has been undertaken in year to maintain services whilst responding to the national pandemic, which included managing cost pressures and variations in demand. The key financial and performance information for each directorate is drawn out in the following paragraphs.

People Services - Adults

As reported and forecast during 2020/21 the Adult Social Care service delivered a small underspend of £0.6 million against its £130.9 million budget. This underspend has been achieved through the efficient use of Covid-19 grants including infection control, sales fees and charges and the general Covid-19 grant, claims from the CCG hospital discharge grant and a reduction in client numbers in the year as a result of Covid-19.

People Services – Communities

The Communities budget returned a £0.6 million underspend largely as a result of reduced spend in library services, arising from lockdowns, and the application of grant income to fund staff redeployed to activities linked to Covid-19 recovery.

Children's Services

The Council's Children's Services budget achieved a small underspend of £0.1 million for 2020/21.

Children's social care placements demand and costs continued to increase in 2020/21, resulting in an overspend of £3.2 million largely attributable to increases in both the number of placements and their costs during the year. This was offset by one-off underspends in safeguarding services and staffing.

The increasing cost of high needs provision has placed significant pressure on the Dedicated School's Grant (DSG) funding as well as the Council. The overall DSG deficit at 31 March 2021 is £6.5 million and this will be carried forward against future DSG income. The Council continues to work with schools to optimise pressures within funding, whilst lobbying Central Government for the issue to be addressed nationally.

Economy and Infrastructure

The directorate has delivered a small underspend of £0.01 million on its £55.9 million budget after Covid-19 adjustments. The most significant variances from budget include overspends in Planning and Regulation and Operations and Highways budgets, offset by underspends in Transport due to reduced patronage and additional income from streetworks and permits.

Commercial and Change

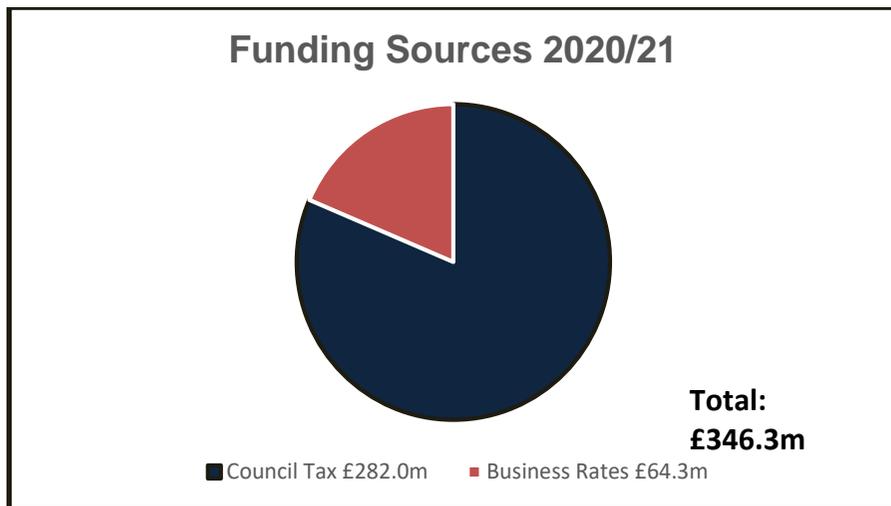
The directorate has delivered an underspend of £0.6 million (9% of its budget) as a result of reduced contract expenditure and underspend on additional works for administrative buildings.

Finance, HR & Chief Executive

Finance and Corporate budgets achieved a total underspend of £9 million mainly as a result of reduced borrowing costs following the deferral of borrowing due to Covid-19 and the prudent management of cash balances, withholding expenditure from the Council's contingency budget, and reduced employer's pension costs. This has enabled the Council to increase contributions to Earmarked Reserves including Education & High Needs and Waste PFI Contract obligations.

Funding sources

The Council's core revenue expenditure was funded by a combination of locally raised funds and resources allocated from central government.



The Council Tax Band D equivalent was set at £1,311.05, which includes £116.04 relating to the ring-fenced Adult Social Care precept.

Services also receive 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

The value of our property plant and equipment has increased by a net £18.0 million in 2020/21. This is made up of a gross £34.9 million increase in valuations offset by £16.9 million of disposals, including 5 schools which have converted to academy status during

2020/21 resulting in a £8.6 million reduction to the Council's assets at nil consideration.

We secured £3.3 million of capital receipts which have helped us manage our borrowing requirement and fund transformation. At the same time, we are reporting a further £5.7 million of assets held for sale.

The County Council's pensions liabilities have increased by £219.2 million. Of this, £217.6 million relates to an actuarial loss from changes in financial assumptions surrounding discount rates and CPI inflation in line with actuarial assumptions.

The suspension of debt collection activity for 3 months during the initial lockdown period, and the economic downturn arising from the pandemic, resulted in an increase in our overall debt position. Progress is underway, as part of our Finance Improvement Programme, to improve our income management and debt collection processes and we continue to work with our strategic partners, with support from colleagues in legal services, to facilitate the efficient resolution of queries in respect of debts that are over 30 days old. We report collection rates and progress on a quarterly basis to the Audit and Governance Committee. In response to changes in the aged profile of debtor balances at 31 March 2021, we have increased our impairment allowance by £2.8 million: comprising trade debtors by £1.6 million with a further £1.2 million increase in respect of Adult Social Care debt. The County Council has considered the impact of the Covid-19 pandemic upon the recoverability of debtor balances at 31 March 2021 and has applied a professional judgement to reflect the additional risk.

Whilst performance in respect of our time to pay creditors continues to be high (98% of all creditors paid within 30 days), we continue to review creditor payment terms to secure savings where we can negotiate reduced costs. Overall, the increase of our trade creditors

at 31 March 2021 by £17.9 million is mainly related to the timing of payments at the year end, in particular Covid-19 payments.

Our earmarked and other usable reserves have increased over the year by £57.3 million to £201.7 million. This reflects the strong financial controls, corporate savings and strong performance of business rate income despite the pandemic.

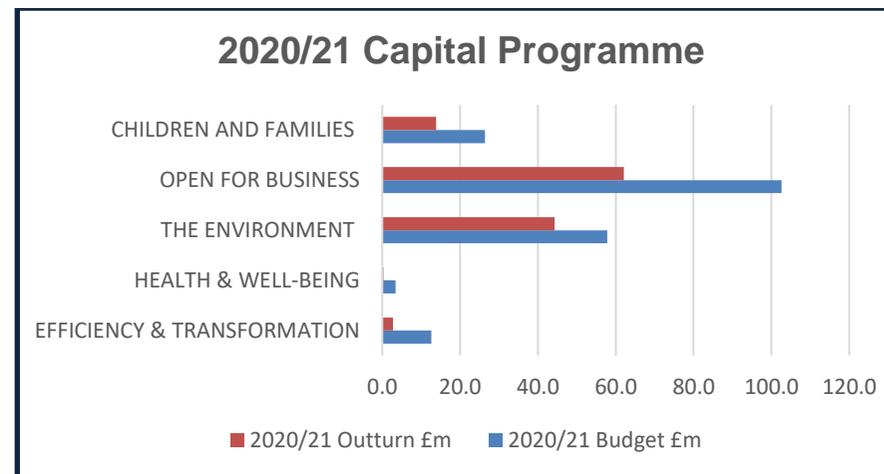
Financial risks and our reserves

Over recent years, our underlying cost pressures, use of specific grants and planned use of reserves has reduced our earmarked reserves, although that trend is reversing. Our General Fund Reserve balance at 31 March 2021 increased by £0.8 million to £13.0 million. Looking forward, therefore, the total resources available are £114.7 million, as noted in the table below:

	Balance at 31 March 2020	Transfers out	Transfers in	Balance at 31 March 2021
	£m	£m	£m	£m
Corporate Priority Reserves	28.1	-4.0	23.8	47.9
Grant Reserves	10.9	-0.2	6.6	17.3
Corporate Funding/Insurance	32.6	-27.1	26.2	31.7
Schools Reserves	1.4	-1.4	4.0	4.0
Dedicated School Grant	-6.2	0.0	6.2	0.0
PFI Reserves	9.5	-0.5	4.8	13.8
Total	76.3	-33.2	71.6	114.7

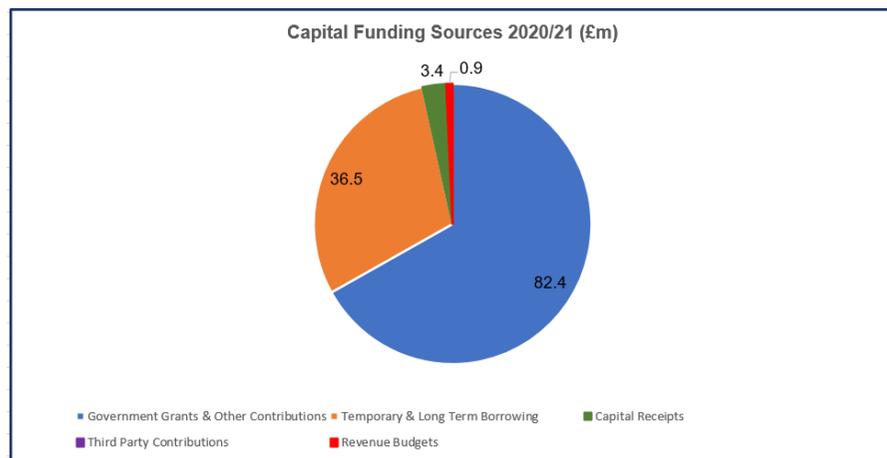
Capital Programme

The capital programme for 2020/21 to 2022/23 and beyond totals £287.9 million, with £77.1 million in 2021/22. Expenditure is most significant in the Economy & Infrastructure Directorate which includes infrastructure support for Open for Business and highway footpath and street-lighting priorities.



The more significant schemes include walking and cycling initiatives and road resurfacing works across the whole County area. There were specific improvements around the A38 Bromsgrove, Pershore northern access, Worcester Shrub Hill and Kidderminster station improvements, and Holyoakes Field First School Redditch relocation.

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 increased by £31.9 million and our long-term borrowing has increased by £21.7 million. This reflects our strategy of reprofiling our borrowing and is in line with our Treasury Management Strategy. All of our Treasury Management activities are reported separately and regularly 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, moving 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:

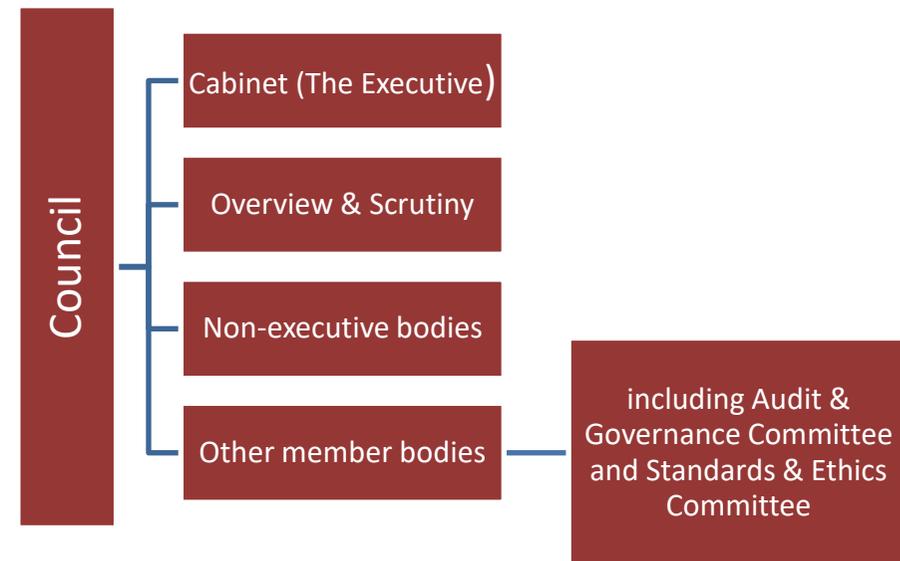
- Safeguarding vulnerable young people, particularly those in or leaving care to ensure they are safe and can make the most of the opportunities they have
- Protecting vulnerable older people, particularly those with physical, learning and mental health difficulties
- Maintenance of the highways.

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.

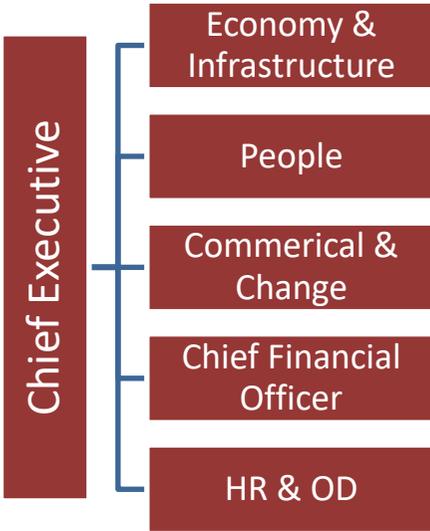
Full Council meetings are held regularly throughout the year. Council is responsible for agreeing the main policies and priorities for all services, including the County Council's budget. Cabinet is responsible for most day to day Council decisions. The Leader of the Council, Simon Geraghty, appoints councillors to the Cabinet and these Cabinet members have specific areas of responsibility. There are currently nine 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 on the County Council website in the County Democracy and Councillor Information section. 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 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 3 directorates and the Chief Financial Officer.



Looking ahead

The 2021/22 budget was approved at Council on 18 February 2021 with the detailed proposals presented to Cabinet on 4 February 2021.

This budget and Medium Term Financial Plan was approved during the Covid-19 pandemic which has meant that there is an increased amount of financial uncertainty whilst we await notification of future funding levels from Central Government. The impact on the Council Tax and Business Rates funding baselines are difficult to predict although it is welcome that Government will fund a proportion of income losses to reduce the impact on Councils.

Following the May 2021 local elections the Council will be refreshing its Corporate Plan in 2022; considering national and local economic recovery, alongside confirmation of the extent of any increased cost pressures or reductions in income.

The Council's Earmarked Reserves and General Fund Balance remain healthy and plans for 2021/22 are robust.

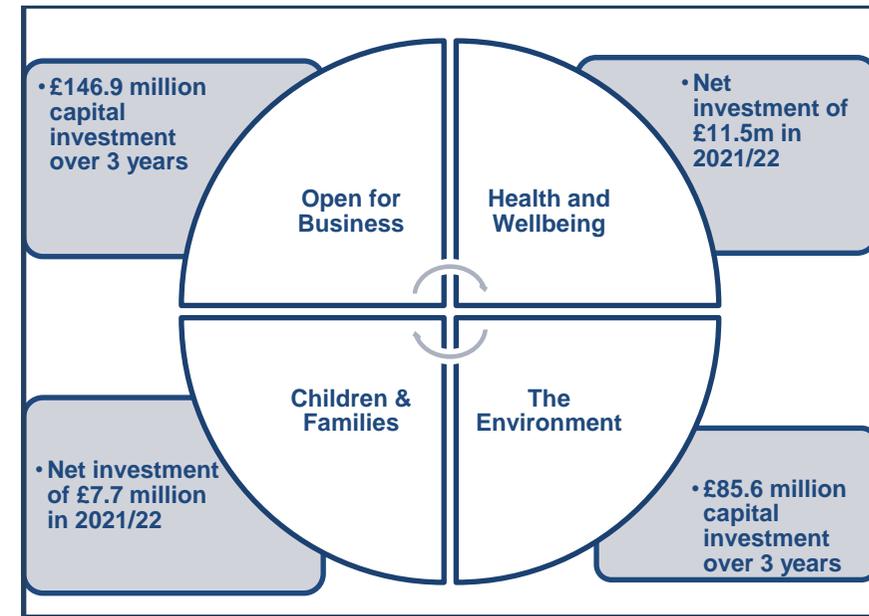
The paragraphs below sets out details of the current budget for 2021/22.

Expenditure

The net revenue budget requirement for 2021/22 is £355.531 million. That is a net £10.4 million more than 2020/21, however to achieve a balanced budget a programme of efficiency, reform and income proposals totalling £7.1 million and a £3.0 million withdrawal from Earmarked Reserves was approved by Council in February 2021.

The Medium Term Financial Plan confirms the commitment to continue to resource the Council's Corporate Plan priorities. It includes a capital programme of £391.6 million to deliver regeneration,

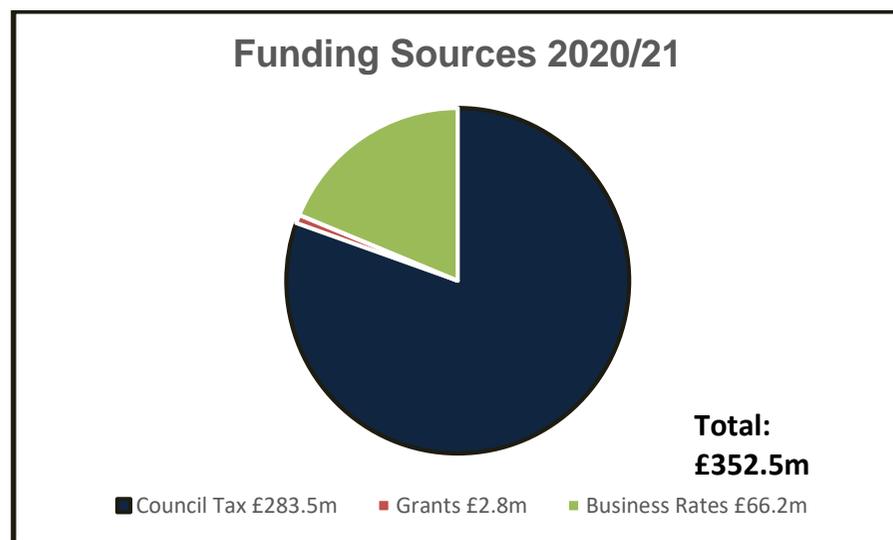
infrastructure and other changes during 2021-23.



We are supporting this with a commitment to invest £23.2 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 main sources of the County Council's income are collected locally, with local taxation through Council Tax and the Adult Social Care Precept accounting for 80% of core funding income in 2021/22.



The County Council, its six District Council partners and Hereford and Worcester Fire and Rescue Service participated in a Business Rates Retention Pilot Scheme in 2020/21 resulting in a total gain of £1.7 million. In 2021/22, the County Council and six District Councils plus Hereford and Worcester Fire and Rescue Service will form a pool under the allowed 50% Business Rates Retention Scheme which is likely to benefit Worcestershire residents by around £3.0 million.

Medium Term Financial Plan 2021-24

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 assumptions will need to be updated in light of Covid-19 and likely levels of Central

Government funding and local taxation income.

Worcestershire Children First

The County Council's wholly owned subsidiary Worcestershire Children First (WCF) which was launched on 1st October 2019 has successfully completed its first full year of trading and has returned a surplus of £0.6 million whilst achieving its savings and performance targets.

The County Council has accounted for the activity of Worcestershire Children First through group accounts and these can be found at pages 133 to 143 in the 2020/21 Statement of Accounts.

EU Exit - 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 UK left the European Union on 31 January 2020 and new rules in respect of trade, travel and business for the UK and EU took effect from 1 January 2021. There has been minimal impact on the County Council's accounts for 2020/21. We will continue to review the potential impact with our key partners, including our financial advisors, fixed asset valuers and the Pension Fund to actively manage any risks arising in the transition period and beyond.

COVID-19

The Government has continued to issue grants to local government to support recovery activity into 2021/22 and the Council will continue to work with partners, suppliers and Health colleagues to ensure initial financial support is allocated to where it is most needed.

The recurrent nature of the impact of the pandemic is still being understood and will be included in the Council's revised Medium Term Financial Plan for 2022/23 and later.

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 21 June 2021. All known material events that have occurred up to and including this date which relate to 2020/21 or before are reflected in the accounts.

In accordance with Regulation 9(1) of the Accounts and Audit Regulations 2015 I certify that the Statement of Accounts 2020/21 provides a true and fair view of the financial position of the County Council at 31 March 2021 and its income and expenditure for the year 2020/21.

**Michael Hudson, Chief
Financial Officer**

In accordance with Regulation 9(2) b of the Accounts and Audit Regulations 2015 I certify that the Audit & Governance Committee approved the Statement of Accounts 2020/21 on XX/XX 2021.

**Nathan Desmond, Chairman
of the Audit & Governance
Committee**

Worcestershire County Council Annual Governance Statement 2020/21

Introduction

The Annual Governance Statement is a review of our activities to ensure that the County Council is carrying out its functions effectively. The review includes an update of governance issues previously identified, current issues and an evaluation of the future position of the County Council.

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; and
- 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. This comprises systems and processes for the direction and control of the County Council and the 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 is committed to improving governance through a process of continual evaluation and review, delivered through the seven principles of good governance as identified in the Delivering Good Governance in Local Government Framework 2016 and supported by processes which strengthen corporate governance such as the Corporate Risk Management Group.

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.



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 2020/21.

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 to comply with laws and regulations.

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 Whistleblowing Policy which enables employees and others who have serious concerns about any aspect of the Council's work to come forward and voice those concerns;
- A commitment to equality of opportunity for all citizens, in line with the Public Sector Duty as set out in the Equality Act 2010; and
- 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, Chief Officer Group 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.

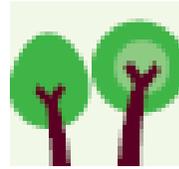
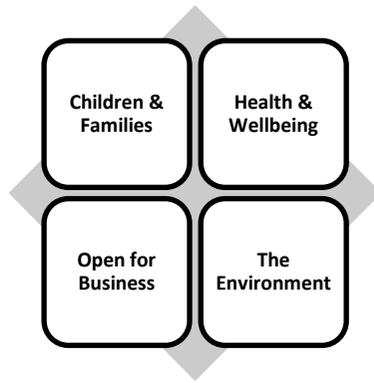
In 2020/21, the 2020 Worcestershire County Council Viewpoint Survey enabled Councillors and Officers to engage with members of the local community to receive feedback and monitor public perception in relation to local priorities, satisfaction with Council services and level of engagement.

Feedback from events and surveys help 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 Controller under the General Data Protection Regulation (GDPR) which governs how we manage and process the information we collect and retain. We have a nominated Data Protection Officer and procedures in place that explain how we use and share information, as well as 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 2017-22, identifies four key priorities that help us shape the future vision for Worcestershire and focus the delivery of our services.



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.

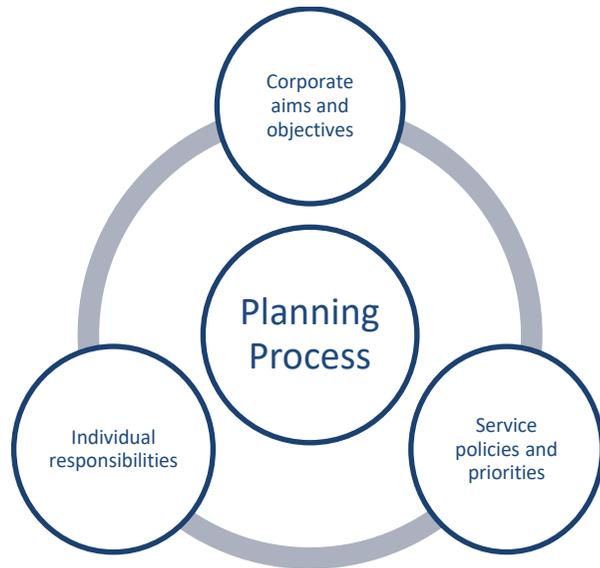
Open for Business – we have a significant programme of improvements in workforce skills, employment, infrastructure and productivity. We are aiming to become a financially self-sufficient Council and to achieve this aim we are promoting and supporting businesses in the County and those looking to relocate 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. These services are delivered in conjunction with our wholly owned company, Worcestershire Children First.



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 and 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 by the Risk and Assurance Manager, supported by the Corporate Risk Management Group. The process has been at a high level during 2020/21 as the focus was on the Covid-19 emergency response process with non-Covid-19 risks managed at service level. The Risk and Assurance Manager has retained close contact with the Corporate Risk Management Group during this time and reporting has continued to the Audit and Governance Committee and Covid-19 Silver Command.

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. 98% of staff received mid-year reviews during 2020/21.

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. A specific risk framework was put in place to manage the risks identified as a result of the Covid-19 crisis, with the County Council's Corporate Emergency Response Framework activated as part of our response.

The County Council's Anti-Fraud and Corruption Strategy embeds effective standards in countering fraud, corruption and theft. 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. The County Council supports and submits data for the National Fraud Initiative (NFI) and assesses all matches for review and, where appropriate, mitigation.

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.

The Forward Plan provides information about the matters on which the County Council will make decisions. 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.

Our Monitoring Officer has a specific duty to ensure the County Council, its officers and elected councillors maintain the highest standards in all they do. A new Monitoring Officer was appointed in June 2020 to continue to ensure the highest standards of conduct are upheld.

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.

Assessment of effectiveness of governance arrangements

The governance framework described above has been in place throughout 2020/21 and maintained to the date of the approval of the Statement of Accounts. Key governance arrangements during 2020/21 comprised the following:

Audit & Governance Committee	The Audit & Governance Committee oversees the audit and corporate governance arrangements of the County Council including annual audit plans and reports of internal and external auditors, the County Council's system of internal control, risk management and prevention and detection of fraud and corruption.
Chief Officer Group	The Chief Officer Group has responsibility for overseeing the implementation of cross organisational strategy and the development and implementation of operational plans, policies, procedures and budgets prior to Senior Leadership Team and Committee approval. The Group promotes robust, fit for purpose governance across the County Council.
Strategic Leadership Team	The County Council's Strategic Leadership Team is responsible for ensuring that effective governance arrangements are in place and are subject to regular review. The Team provide leadership, determine policy and uphold expected standards of behaviour.
Overview & Scrutiny Performance Board	The Board's main responsibilities include commissioning work for scrutiny panels and establishing scrutiny task groups to ensure that significant issues are subject to appropriate review and scrutiny.
Standard & Ethics Committee	The Committee ensures that high standards of conduct are maintained by County Councillors and co-opted member by reference to the Council's Code of Conduct.
Monitoring Officer	The Monitoring Officer is responsible for maintaining the register of Councillors' interests and deals with complaints of Member breaches of the County Council's Code of Conduct. The Monitoring Officer has a statutory duty to report breaches of the County Council's legal obligations and findings of maladministration.

Chief Finance Officer	The Chief Financial Officer is responsible for the oversight and delivery of financial management arrangements; achieved through a robust financial control framework, financial regulations, standing orders, a scheme of delegation and an independent and objective Internal Audit function.
Risk Management	<p>The Corporate Risk Management Group is responsible for maintaining the Corporate Risk Register and monitoring identified risks, controls and mitigating actions. Directorate Leadership Teams monitor and review Directorate Risk Registers and allocate resources to ensure risks management arrangements are effective.</p> <p>Specific risk management procedures are in place in response to the Covid-19 emergency response, led by the Risk and Assurance Manager and reporting to Silver Command on a regular basis.</p>

Audit and Audit Assurances

The Council's Statement of Accounts are audited by Grant Thornton UK LLP. In accordance with statutory requirements, the annual audit includes an examination and certification of the financial statements to confirm they are 'true and fair' and an assessment of the County Council's arrangements to secure economy, efficiency and effectiveness in its use of resources. In 2019/20, Grant Thornton gave an unqualified audit opinion on the financial statements.

Internal audit services are provided by the County Council's in-house team. The team's role is to enhance and protect the County Council's value by providing risk-based and objective assurance, advice and insight. It is responsible for reviewing the adequacy of internal controls across all areas of the County Council and its services are managed and delivered in accordance with the Public Sector Internal Audit Standards (PSIAS).

The work of the Internal Audit team is supported by external providers for specialist reviews such as technical audits of IT systems. Further assurance is provided by reviews undertaken by external agencies including OFSTED, the Care Quality Commission, the Office of the Information Commissioner and other Local Authority Inspectorates.

The Audit & Governance Committee approve the Internal Audit Charter and Audit Plan which outline the role of Internal Audit, its responsibilities and independence and the planned programme of audit work.

The work of Internal Audit has been impacted by the Council's response to the Covid-19 pandemic and also significant staff changes. A flexible plan has enabled work to be focused on key

risks and the Chief Internal Auditor has maintained close links with the leadership of the Council to ensure that adequate assurance and organisational coverage is delivered. Based on the results of assurance and advisory work undertaken during the year, the Chief Internal Auditor's annual opinion is that the control environment provides **moderate assurance** that the significant risks facing the County Council are addressed.

Significant Governance Considerations

Recurrent Considerations / Brought Forward from 2019/20	Update on Progress
<p>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.</p>	<p>Safeguarding issues have been monitored and managed through the WCF Performance Board and through partnership working with the Worcestershire Safeguarding Children Partnership (WSCP) and other local strategic partners. Quality Assurance measures are in place safeguarding and activity has been monitored by the WSCP Safeguarding Practice Review Board and Get Safe Partnership Board.</p>
<p>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.</p>	<p>Regular budget monitoring and forecasting remain a focus of our financial management processes. Management accounts, which report actual income and expenditure against budgeted and forecast performance, have been prepared on a monthly basis and the achievement of savings targets and use of Council reserves has been monitored throughout the year as part of ongoing activity to consider financial sustainability and inform our assessment of going concern.</p>
<p>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.</p>	<p>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 Area Teams and 3 Conversations processes. Staff are assessed against WSAB safeguarding competency framework.</p>

2020/21 New Governance Considerations	Identified Actions
COVID-19	<p>The Council's focus in 2020/21 was on its response to the Covid-19 pandemic; implementing revised governance arrangements and working with strategic partners to deliver an emergency response to safeguard the residents of Worcestershire.</p> <p>Activation of the Corporate Emergency Response Framework and the Worcestershire Covid-19 Economic Response, Recovery and Resilience Group (WERRG) enabled wider engagement and alignment of objectives across local partner organisations. The impact of increased expenditure and lost income directly attributable to the Council's response to Covid-19 was monitored as part of routine financial monitoring activity and reported to Central Government in line with deadlines throughout the year.</p>

Issues identified for 2021/22

A number of the issues and corresponding action plans noted above will continue to be the key focus for the County Council's leadership in 2021/22:

- Safeguarding vulnerable children and adults;
- Ensuring a financially sustainable medium-term budget, including monitoring the ongoing financial impact of Covid-19 on budgeted income and expenditure; and
- Consideration of the response to and recovery from the impact of Covid-19 on residents and the local economy, including any legacy impact on care provision.

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: XXXX

Simon Geraghty

Leader of the County Council

Date: XXXX

Introduction to the Statutory Accounts

The Statutory Accounts presents Worcestershire County Council's (the County Council) financial position in line with statutory reporting requirements. The accounts are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (the Code) and the Accounts and Audit Regulations 2015 (as amended). 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 2020/21 accounts are evaluated and detailed in the notes.

Group Accounts

Group accounts are presented, in addition to the Council's single entity statements, to provide a full picture of the Council's economic activities and position. The Group Accounts comprise:

- Group Comprehensive Income and Expenditure Statement;
- Group Movement in Reserves Statement;
- Group Balance Sheet;
- Group Cash Flow Statement; and
- Notes to the Group Accounts.

Comprehensive Income and Expenditure Statement

	2019/20	2019/20	2019/20		2020/21	2020/21	2020/21	
	Expenditure	Income	Net		Expenditure	Income	Net	Note
	£m	£m	£m		£m	£m	£m	
	Service Expenditure Analysis							2,3,4,5,6,1
	296.3	(145.3)	151.0	People	321.2	(187.7)	133.5	7
	345.6	(236.7)	108.9	Children's Services	390.1	(274.1)	116.0	6,3,7
	92.0	(26.5)	65.5	Economy & Infrastructure	100.9	(29.0)	71.9	
	32.9	(1.1)	31.8	Commercial & Change	39.0	(9.8)	29.2	
	28.5	(4.5)	24.0	Finance, HR & Chief Executive	55.9	(10.2)	45.7	
	795.3	(414.1)	381.2	Net Cost of Services	907.1	(510.8)	396.3	
	10.5	(4.5)	6.0	Other operating expenditure	3.9	(1.4)	2.5	8
	77.9	(30.0)	47.9	Financing, investment income & expenditure	69.6	(30.3)	39.3	9
	0.2	(419.2)	(419.0)	Taxation & non-specific grant income and expenditure	0.3	(467.3)	(467.0)	6,2,10
	883.9	(867.8)	16.1	(Surplus) / deficit on the provision of services	980.9	(1,009.8)	(28.9)	
				Other comprehensive income and expenditure:				
			(26.2)	(Surplus) on revaluation of property, plant & equipment			(23.0)	14.3
			20.6	Downward revaluations on non-current assets charged to Revaluation Reserve			22.3	14.3
			(35.9)	Actuarial (gains) / losses on pension assets & liabilities			1.7	25,2,2
			(41.5)	Total other comprehensive income and expenditure			1.0	
			(25.4)	Total comprehensive income and expenditure (surplus) / deficit			(27.9)	

Movement in Reserves Statement 2020/21

	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 2020	12.2	76.3	88.5	0.0	55.9	144.4	(50.7)	93.7
Reporting change to Schools Budget Deficit at 1 April 2020	0.0	6.2	6.2	0.0	0.0	6.2	(6.2)	0.0
Restated balance at 31 March 2020	12.2	82.5	94.7	0.0	55.9	150.6	(56.9)	93.7
Movement in reserves during 2020/21:								
Total Comprehensive Income and Expenditure	28.9	0.0	28.9	0.0	0.0	28.9	(1.0)	27.9
Adjustments between accounting basis & funding basis under regulations (Note 11)	3.6	0.5	4.1	2.7	15.3	22.1	(22.1)	0.0
Transfer to/from earmarked reserves	(31.7)	31.7	0.0	0.0	0.0	0.0	0.0	0.0
Increase / (decrease) in 2020/21	0.8	32.2	33.0	2.7	15.3	51.0	(23.1)	27.9
Balance at 31 March 2021 carried forward	13.0	114.7	127.7	2.7	71.2	201.6	(80.0)	121.6
Note Reference		12.1				12	13	

Movement in Reserves Statement 2019/20 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 2019	12.2	81.5	93.7	0.1	41.1	134.9	(66.6)	68.3
Movement in reserves during 2019/20:								
Total Comprehensive Income and Expenditure	(16.1)	0.0	(16.1)	0.0	0.0	(16.1)	41.5	25.4
Adjustments between accounting basis & funding basis under regulations (Note 11)	11.4	(0.5)	10.9	(0.1)	14.8	25.6	(25.6)	0.0
Transfer to/from earmarked reserves	4.7	(4.7)	0.0	0.0	0.0	0.0	0.0	0.0
Increase / (decrease) in 2019/20	0.0	(5.2)	(5.2)	(0.1)	14.8	9.5	15.9	25.4
Balance at 31 March 2020 carried forward	12.2	76.3	88.5	0.0	55.9	144.4	(50.7)	93.7
Note Reference		12.1				12	13	

Balance Sheet

31 March 2020		31 March 2021	
£m		£m	Note
1,070.7	Property, plant and equipment	1,100.6	14,15
1.7	Heritage assets	1.7	
5.4	Intangible assets	4.0	
3.0	Long-term investments	3.0	16,17
115.9	Long-term debtors	108.6	18
1,196.7	Long term assets	1,217.9	
7.6	Non-Operational Assets	5.7	15.8
5.0	Short-term investments	35.2	32
1.2	Inventories	1.4	
93.9	Short-term debtors	103.8	18
71.6	Cash and cash equivalents	67.3	19
179.3	Current assets	213.4	
(39.4)	Short-term borrowing	(71.3)	16
(115.1)	Short-term creditors	(145.2)	20
(154.5)	Current liabilities	(216.5)	

31 March 2020		31 March 2021	
£m		£m	Note
(7.6)	Long-term provisions	(2.6)	
(435.9)	Long-term borrowing	(456.5)	16
(654.9)	Other long-term liabilities	(609.3)	21
(29.4)	Grants receipts in advance	(24.8)	22
(1,127.8)	Long-term liabilities	(1,093.2)	
93.7	Net assets	121.6	
Financed by:			
144.4	Usable reserves	201.7	12
(50.7)	Unusable reserves	(80.1)	13
93.7	Total reserves	121.6	

Cash Flow Statement

2019/20	2020/21	
£m	£m	Note
(16.1) Net surplus/(deficit) on the provision of services	28.9	
126.0 Adjust net (surplus)/deficit for non-cash movements	53.7	
(87.5) Adjust for items included in the net (surplus)/deficit on the provision of services that are investing and financing activities	(103.8)	
22.4 Net cash flows from operating activities	(21.2)	23.1
8.3 Net cash flows from investing activities	(24.5)	23.2
2.8 Net cash flows from financing activities	41.4	23.3
33.5 Net increase/(decrease) in cash or cash equivalents	(4.3)	
Cash and cash equivalents		19
38.1 Balance at 1 April	71.6	
71.6 Balance at 31 March	67.3	
33.5 Movement in cash and cash equivalents increase / (decrease)	(4.3)	

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	19 Cash & cash equivalents
2 Expenditure & funding analysis	20 Creditors
3 Adjustments between funding & accounting basis	21 Other long-term liabilities
4 Segmental reporting	22 Grants receipts in advance
5 Expenditure & income analysed by nature	23 Cash activities
6 Grants & contribution income	24 Officers remuneration
7 Section 75 framework partnership agreements	25 Pension schemes
8 Other operating expenditure	26 Termination benefits & exit packages
9 Financing & investment income & expenditure	27 Related parties
10 Taxation & non-specific grants	28 Leases
11 Adjustments between accounting basis & funding basis under regulation	29 External audit costs
12 Usable reserves	30 Events after the reporting period
13 Unusable reserves	31 Accounting Standards issued not yet adopted
14 Property, plant & equipment	32 Short term investments
15 Private finance initiatives	
16 Financial instruments	
17 Long term investments	
18 Debtors	

1. General accounting policies

The Statement of Accounts summarises the County Council's transactions for the 2020/21 financial year and its position at the year-end of 31 March 2021. The County Council is required by the Accounts and Audit Regulations 2015 (as amended) to prepare an annual Statement of Accounts in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 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. There is no material uncertainty in respect of this assessment of going concern.

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.

The County Council has determined, 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.

Page 127 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 2021/22.

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.

	2020/21				
	Net expenditure for internal reporting	Adjustments to arrive at Net Expenditure chargeable to the General Fund Balance	Net Expenditure chargeable to General Fund Balances	Adjustments between the Funding & Accounting Basis	Net Expenditure in the CI&ES
	£m	£m	£m	£m	£m
People	150.7	(18.4)	132.3	1.2	133.5
Children's Services	101.4	(16.1)	85.3	30.7	116.0
Economy & Infrastructure	55.9	(19.4)	36.5	35.4	71.9
Commercial & Change	6.3	10.5	16.8	12.4	29.2
Finance, HR & Chief Executive	31.2	3.3	34.5	11.2	45.7
Net Cost of Services	345.5	(40.1)	305.4	90.9	396.3
Other Income and Expenditure	(346.3)	7.9	(338.4)	(86.8)	(425.2)
Net Surplus	(0.8)	(32.2)	(33.0)	4.1	(28.9)
Opening General Fund Balance	0.0	0.0	88.5	0.0	0.0
DSG Deficit Adjustment	0.0	0.0	6.2	0.0	0.0
Adjusted General Fund Balance	0.0	0.0	94.7	0.0	0.0
Less Deficit on General Fund Balance in Year	0.0	0.0	33.0	0.0	0.0
General Fund Balance			127.7		

	2019/20 Restated				
	Net expenditure for internal reporting	Adjustments to arrive at Net Expenditure chargeable to the General Fund Balance	Net Expenditure chargeable to General Fund Balances	Adjustments between the Funding & Accounting Basis	Net Expenditure in the CI&ES
	£m	£m	£m	£m	£m
People	150.1	(2.4)	147.7	3.3	151.0
Children's Services	96.0	(3.4)	92.6	16.3	108.9
Economy & Infrastructure	54.8	(20.3)	34.5	31.0	65.5
Commercial & Change	5.9	15.2	21.1	10.7	31.8
Finance, HR & Chief Executive	23.9	(5.6)	18.3	5.7	24.0
Net Cost of Services	330.7	(16.5)	314.2	67.0	381.2
Other Income and Expenditure	(330.5)	21.5	(309.0)	(56.1)	(365.1)
Net Deficit	0.2	5.0	5.2	10.9	16.1
Opening General Fund Balance	0.0	0.0	93.7	0.0	0.0
Less Deficit on General Fund Balance in Year	0.0	0.0	(5.2)	0.0	0.0
General Fund Balance			88.5		

	General Fund	Earmarked Reserves	Total
	£m	£m	£m
Opening General Fund Balance	12.2	76.3	88.5
Adjustment for DSG Deficit Reserve	0.0	6.2	6.2
Adjusted Opening General Fund Balance	12.2	82.5	94.7
Surplus / (deficit) on general fund balance in year	0.8	32.2	33.0
Closing General Fund Balance	13.0	114.7	127.7

In respect of the net revenue outturn, the County Council's 20/21 General Fund budget and actual spend figures are in the table below:

	Original budget	Actual	Variance
	£m	£m	£m
Total General Fund (a)	345.1	345.1	0.0
Funded by:			
Council tax	(279.1)	(279.1)	0.0
Business rates retention scheme	(64.3)	(64.3)	0.0
Collection fund surplus	(2.8)	(2.8)	0.0
Contribution from earmarked reserves	1.1	1.9	0.8
Total funding (b)	(345.1)	(344.3)	0.8
Movement on General Fund (a) + (b)	0.0	0.8	0.8

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 3 (Expenditure and funding analysis) and details the movement from the General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts.

2020/21	Capital adjustments not included in internal reporting	Pension adjustments not included in internal reporting	Other adjustments not included in internal reporting	Recharges and internal training included in internal reporting, removed for financial statements	Reserve movements included in internal reporting, removed for financial statements	Total adjustments to arrive at net expenditure chargeable to the General Fund Balance	Adjustments for Capital Purposes	Net Change for the Pensions Adjustments	Other Differences	Total Adjustments
Adjustments from management reporting and General Fund to arrive at the Comprehensive Income & Expenditure Statement amounts	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
People	2.1	2.7	(8.1)	(8.4)	(6.7)	(18.4)	1.2	0.0	0.0	1.2
Children's Services	(3.5)	0.5	0.7	1.2	(15.0)	(16.1)	30.5	0.0	0.2	30.7
Economy & Infrastructure	0.0	0.5	(12.6)	(3.8)	(3.5)	(19.4)	35.4	0.0	0.0	35.4
Commercial & Change	2.3	0.4	0.2	7.2	0.4	10.5	12.4	0.0	0.0	12.4
Finance, HR & Chief Executive	8.4	(14.2)	(13.9)	3.8	19.2	3.3	(13.7)	13.1	11.8	11.2
Net Cost of Services	9.3	(10.1)	(33.7)	0.0	(5.6)	(40.1)	65.8	13.1	12.0	90.9
Other Income and Expenditure from the Expenditure and Funding Analysis	0.0	10.0	(2.1)	0.0	0.0	7.9	(86.8)	0.0	0.0	(86.8)
Difference between General Fund surplus or deficit and CI&ES Surplus or Deficit on the Provision of Services	9.3	(0.1)	(35.8)	0.0	(5.6)	(32.2)	(21.0)	13.1	12.0	4.1

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 adjustments not included in internal reporting include the financial accounting adjustments for employee leave accrual and PFI adjustments and the reallocation of transactions above and below the net cost of services.

2019/20	Capital adjustments not included in internal reporting	Pension adjustments not included in internal reporting	Other adjustments not included in internal reporting	Recharges and internal training included in internal reporting, removed for financial statements	Reserve movements included in internal reporting, removed for financial statements	Total adjustments to arrive at net expenditure chargeable to the General Fund Balance	Adjustments for Capital Purposes	Net Change for the Pensions Adjustments	Other Differences	Total Adjustments
Adjustments from management reporting and General Fund to arrive at the Comprehensive Income & Expenditure Statement amounts	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
People	3.0	8.0	(6.8)	(5.2)	(1.5)	(2.5)	1.5	1.8	0.0	3.3
Children's Services	(3.8)	(3.5)	0.6	(7.8)	11.0	(3.5)	16.1	0.2	0.0	16.3
Economy & Infrastructure	0.3	0.5	(7.5)	(3.0)	(10.5)	(20.2)	30.7	0.3	0.0	31.0
Commercial & Change	1.7	0.3	0.0	16.0	(2.8)	15.2	10.5	0.2	0.0	10.7
Finance, HR & Chief Executive	1.3	(16.9)	(5.8)	0.0	15.9	(5.5)	(12.0)	24.3	(6.6)	5.7
Net Cost of Services	2.5	(11.6)	(19.5)	0.0	12.1	(16.5)	46.8	26.8	(6.6)	67.0
Other Income and Expenditure from the Expenditure and Funding Analysis	0.0	11.6	10.0	0.0	0.0	21.5	(56.1)	0.0	0.0	(56.1)
Difference between General Fund surplus or deficit and CI&ES Surplus or Deficit on the Provision of Services	2.5	0.0	(9.5)	0.0	12.1	5.0	(9.3)	26.8	(6.6)	10.9

4.Segmental reporting

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

2020/21	People	Children's Services	Economy & Infrastructure	Commercial & Change	Finance, HR & Chief Executive	Total
	£m	£m	£m	£m	£m	£m
Income for Fees and Charges	(58.9)	(8.9)	(20.6)	(6.8)	(16.4)	(111.6)
Depreciation and Impairment	3.5	18.2	30.6	14.4	0.0	66.7
Premises Costs	12.4	14.0	(12.3)	4.2	0.8	19.1
Transport Costs	2.9	0.5	1.8	0.0	0.8	6.0
Third Party Payments	242.3	54.5	67.6	3.5	9.1	377.0

Page 133

2019/20	People	Children's Services	Economy & Infrastructure	Commercial & Change	Finance, HR & Chief Executive	Total
	£m	£m	£m	£m	£m	£m
Income for Fees and Charges	(61.1)	(15.0)	(21.8)	(5.0)	(8.3)	(111.2)
Depreciation and Impairment	3.5	6.1	27.0	11.7	0.0	48.3
Premises Costs	12.5	14.3	(11.5)	4.7	0.4	20.4
Transport Costs	3.4	7.7	2.4	0.0	0.3	13.8
Third Party Payments	210.0	75.4	67.9	4.6	0.4	358.3

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 contracts with service recipients, whether for services or the provision of goods, is recognised at the point that the service is provided or is charged for. It is not considered that this would be materially different from recognising revenue from contracts with service recipients when, or as, the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.

Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet, subject to a de minimis of £5,000.

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.

2019/20 Expenditure and Income analysed by nature	2020/21
£m	£m
Expenditure	
256.2 Employee benefits expenses	230.4
495.7 Other service expenses	611.7
48.3 Depreciation amortisation and impairment	66.7
21.8 Loss on disposal of non-current assets	10.8
61.7 Interest payments	61.0
0.2 Precepts and levies	0.3
883.9 Total Expenditure	980.9
Income	
(118.9) Fees and charges and other service income	(122.7)
(321.6) Income from council tax and business rates	(330.6)
(329.9) Grants and contributions credited to services	(380.9)
(97.5) Grants and contributions credited to taxation and non-specific grant income	(136.7)
(30.1) Interest and Investment Income	(30.3)
30.2 Other	(8.6)
(867.8) Total Income	(1,009.8)
16.1 Net Deficit/(Surplus) on Provision of Services	(28.9)

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

2019/20	2020/21
£m	£m
People Services	
16.1 Improved Better Care Fund	17.7
12.3 Better Care Fund (contribution)	14.3
5.4 Disabled Facilities Grant	6.2
2.8 Independent Living Fund	2.8
2.4 Winter Pressures Grant	0.0
4.1 Adult Social Care Support Grant	9.9
0.2 Care Act	0.2
0.1 Other Adult Services	0.1
28.4 Public Health	30.1
0.7 Other Public Health	0.5
5.8 Libraries & Community	6.2
4.7 Bromsgrove Schools PFI Grant	4.7
0.0 Covid-19 Adult Social Care Infection Control Fund	4.7

2019/20	2020/21
0.0 Covid-19 Hospital Discharge (CCG) Contribution	13.8
0.0 Covid-19 Test and Trace Service Support Grant	2.6
0.0 Covid-19 Contain Outbreak Management Fund	0.8
0.0 Covid-19 Testing Grants	0.9
0.0 Covid-19 Winter Grant Scheme	1.2
0.0 Covid-19 Holiday Activities & Food Programme	0.1
83.0 Total People Services	116.8
Children's Services	
210.0 Dedicated Schools Grant	217.9
8.7 Pupil Premium	8.5
8.4 Other Education & Skills	10.7
4.2 Universal Free School Meals	3.8
1.6 Post 16 Learning Skills Council	1.2
2.1 Other Children's Social Care	5.0
1.2 Unaccompanied Asylum-Seeking Children	1.4
1.2 Youth Grants	1.3
0.4 Transport	0.4
0.0 Covid-19 Grants for Schools	2.3
237.8 Total Children's Services	252.5
Economy & Infrastructure	
1.8 Waste Disposal PFI Grant	1.8
0.5 Transport	0.5

2019/20	2020/21
1.1 Environment / Winter Damage	0.3
1.7 Other	2.6
0.0 Covid-19 Bus Support Services Grant	0.7
5.1 Total Economy & Infrastructure	5.9
Commercial & Change	
0.8 Other	0.2
0.8 Total Commercial & Change	0.2
Finance, HR & Chief Executive	
2.6 New Homes Bonus	2.6
0.6 Other	0.4
0.0 Covid-19 Clinically Extremely Vulnerable Grant	0.9
0.0 Covid-19 Home to School Transport Grant	1.0
0.0 Covid-19 Emergency Assistance Grant	0.6
3.2 Total Finance, HR & Chief Executive	5.5
329.9 Total Credited to Services	380.9

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

2019/20	2020/21
£m	£m
Credited to taxation and non-specific grant income:	
19.4 Business Rate Reliefs – S31 Grant	12.6
0.2 Levy Account Surplus Grant	0.0
0.0 Covid-19 75% Local Tax Income Guarantee – Business Rates	0.4
0.0 Covid-19 75% Local Tax Income Guarantee – Council Tax	1.3
0.0 Covid-19 LA Support Grant	23.7
0.0 Covid-19 Sales, Fees and Charges Support Grant	0.9
19.6 Total non ring-fenced Government grants	38.9

Page 139

2019/20	2020/21
£m	£m
Capital grants	
15.4 Structural maintenance	24.4
28.8 Transport	29.1
14.4 Basic Needs	3.4
3.8 LA Schools Condition Allocation	4.9
3.6 Worcestershire Local Growth Fund	16.4
1.5 European Regional Development Fund	0.8
2.2 Greater Birmingham & Solihull Local Growth Fund	1.7
0.8 Broadband Project	1.3
0.0 Active Travel Fund	0.6

2019/20	2020/21
1.3 Other Capital Grants	1.8
71.8 Total Capital Grants	84.4
6.1 Other contributions	13.4
77.9 Total Capital Grants and Contributions	97.8
97.5 Total credited to taxation and non-specific grant income	136.7

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.

The overall DSG deficit is £6.5 million and will be carried forward against future DSG income. Within the central expenditure, High Needs expenditure overspent by £4.0 million in 2020/21; an outcome which is similar for a significant number of local authorities.

	Central Expenditure	Individual Schools Budget	Total
	£m	£m	£m
Final DSG for 2020/21	99.7	342.0	441.7
Academy Recoupment 2020/21	(8.3)	(215.4)	(223.7)
Total DSG after recoupment	91.4	126.6	218.0
Brought forward from 2019/20	(6.1)	(0.1)	(6.2)
Agreed budgeted distribution in 2020/21	85.3	126.5	211.8
In year adjustments	0.0	0.0	0.0
Final budgeted distribution	85.3	126.5	211.8
Actual expenditure	(93.8)	(124.5)	(218.3)
Carry forward to 2021/22	(8.5)	2.0	(6.5)

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 2020/21. Included in the County Council contribution is £32.8 million Better Care Fund.

Page 142

Partnership income	Partnership expenditure	Net partnership expenditure	CCG managed	WCC contribution	2019/20					2020/21				
					£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
(164.2)	166.9	2.7	111.9	55.0	Consolidated Adult Social Care Services					(110.7)	110.0	(0.7)	55.6	54.4
(19.2)	19.3	0.1	17.2	2.1	Consolidated Children's and Education Services					(11.5)	11.5	0	9.2	2.3
(183.4)	186.2	2.8	129.1	57.1						(122.2)	121.5	(0.7)	64.8	56.7

The County Council had outstanding balances with the Clinical Commissioning Groups at 31 March 2021 of £1.1 million debtors (2019/20 £0.8 million) and £0.5 million creditors (2019/20 £0.7 million).

8. Other operating expenditure

2019/20	2020/21
£m	£m
0.4 Admin Expenses Pension	0.3
5.6 Loss on disposal of non-current assets	2.2
6.0	2.5

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

Page 143

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.

2019/20	2020/21
£m	£m
29.3 Interest payable and similar charges	29.6
11.1 Pensions interest cost & expected return on pensions	9.7
16.3 Loss on transfer of schools to other bodies (e.g. academies)	8.6
(8.8) Interest receivable and similar income	(8.6)
47.9	39.3

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.

Page 144

2019/20 Taxation and non-specific grants	2020/21
£m	£m
(265.6) Council tax income	(276.3)
(56.1) Non-domestic rates	(54.3)
(19.6) Non-ring-fenced government grants	(38.9)
(77.9) Capital grants and contributions	(97.8)
0.2 Environment Agency	0.3
(419.0)	(467.0)

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.

2020/21	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	48.4	0.0	0.0	0.0	(48.4)
Amortisation of intangible assets	1.4	0.0	0.0	0.0	(1.4)
Capital grants and contributions applied	(97.8)	0.0	0.0	0.0	97.8
Revenue expenditure funded from capital under statute	13.7	0.0	0.0	0.0	(13.7)
Net loss on disposal of non-current assets	16.9	0.0	0.0	0.0	(16.9)
Statutory provision for the financing of capital investment	(13.7)	0.0	0.0	0.0	13.7
Capital expenditure charged against the General Fund	(1.1)	0.2	0.0	0.0	0.9
Revaluation to Capital Adjustment Account	16.8	0.0	0.0	0.0	(16.8)
Capital Grants and Contributions unapplied credited to the CI&ES	0.0	0.0	0.0	97.7	(97.7)
Application of grants to capital financing transferred to Capital Adjustment Account	0.0	0.0	0.0	(82.4)	82.4
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the CI&E Statement	(6.1)	0.0	9.6	0.0	3.5
Use of Capital Receipts Reserve to finance new capital expenditure	0.0	0.0	(6.9)	0.0	6.9
Reversal of items relating to retirement benefits debited or credited to the CI&E Statement	40.6	0.0	0.0	0.0	(40.6)
Employer's pension contributions and direct payments to pensioners payable in the year	(27.5)	0.0	0.0	0.0	27.5

2020/21

	Usable Reserves				
	General Fund (Non-earmarked balances)	General Fund (Earmarked reserves)	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
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	5.6	0.0	0.0	0.0	(5.6)
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	4.9	0.0	0.0	0.0	(4.9)
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	1.5	0.0	0.0	0.0	(1.5)
Transfer of in-year Schools balance deficit to Unusable Reserve	0.0	0.3	0.0	0.0	(0.3)
Total Adjustments	3.6	0.5	2.7	15.3	(22.1)

Page 146

2019/20 Restated	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	43.2	0.0	0.0	0.0	(43.2)
Amortisation of intangible assets	1.0	0.0	0.0	0.0	(1.0)
Capital grants and contributions applied	(78.0)	0.0	0.0	0.0	78.0
Revenue expenditure funded from capital under statute	11.8	0.0	0.0	0.0	(11.8)
Net loss on disposal of non-current assets	31.4	0.0	0.0	0.0	(31.4)
Statutory provision for the financing of capital investment	(12.0)	0.0	0.0	0.0	12.0
Capital expenditure charged against the General Fund	(0.6)	(0.5)	0.0	0.0	1.1
Revaluation to Capital Adjustment Account	4.0	0.0	0.0	0.0	(4.0)
Capital Grants and Contributions unapplied to the CI&ES	0.0	0.0	0.0	78.0	(78.0)
Application of grants to capital financing transferred to Capital Adjustment Account	0.0	0.0	0.0	(63.2)	63.2
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the CI&E Statement	(9.5)	0.0	13.0	0.0	(3.5)
Use of Capital Receipts Reserve to finance new capital expenditure	0.0	0.0	(13.1)	0.0	13.1
Reversal of items relating to retirement benefits debited or credited to the CI&E Statement	56.7	0.0	0.0	0.0	(56.7)
Employer's pension contributions and direct payments to pensioners payable in the year	(29.9)	0.0	0.0	0.0	29.9

2019/20
Restated

Usable Reserves

	General Fund (Non-earmarked balances)	General Fund (Earmarked reserves)	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
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	0.6	0.0	0.0	0.0	(0.6)
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	(9.3)	0.0	0.0	0.0	9.3
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	2.0	0.0	0.0	0.0	(2.0)
Total Adjustments	11.4	(0.5)	(0.1)	14.8	(25.6)

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 01/04/20	Contributions To	From	Closing Balance 31/03/21
	£m	£m	£m	£m
General fund	12.2	0.8	0.0	13.0
Earmarked specific reserves	76.3	71.6	(33.2)	114.7
Capital grants unapplied	55.9	97.8	(82.4)	71.3
Capital receipts reserve	0.0	9.6	(6.9)	2.7
Total Usable Reserves	144.4	179.8	(122.5)	201.7

Page 149

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 2020	Transfers out	Transfers in	Balance at 31 March 2021	Purpose of the reserve
	£m	£m	£m	£m	
Open for Business					
Revolving Investment Fund	8.2	(0.2)	1.7	9.7	Investment in the local economy which delivers income to support future investment
Open for Business	0.6	(0.2)	3.1	3.5	Supporting measures to grow our local economy
Local Authority Business Growth Initiative	0.6	0.0	0.0	0.6	Residual Local Authority Business Growth Initiative funding
Sub regional mineral plan	0.6	(0.2)	0.2	0.6	Funds held to support the delivery of the sub regional mineral plan
Growing Places reserve	2.9	(0.9)	0.1	2.1	Supporting growth in the local economy
Other	0.8	(1.0)	1.4	1.2	Lower value reserves covering, for example, apprenticeships
Children & Families					
Safeguarding	1.1	0.0	0.8	1.9	Risk reserve maintained to support unexpected safeguarding costs that could arise through the contract with Worcestershire Children First.

	Balance at 31 March 2020	Transfers out	Transfers in	Balance at 31 March 2021	Purpose of the reserve
SEND Transport Risk Reserve	0.0	0.0	0.9	0.9	Risk reserve to support SEND student travel provision
Education and High Needs	0.0	0.0	2.4	2.4	Reserve maintained to cover general education and high needs block expenditure
The Environment					
Regeneration and Infrastructure	0.5	0.0	0.0	0.5	Supporting measures to grow our local economy
Revenue grants unapplied	0.4	0.0	0.0	0.4	Grants held by the service for draw down as required
Waste Transformation Reserve	0.0	0.0	1.0	1.0	Reserve set aside to support waste contract and transformation services
Infrastructure Project Support	0.0	0.0	2.0	2.0	Supporting new infrastructure projects
Health and Wellbeing					
Public Health	6.4	0.0	0.0	6.4	Balances from the Ring-fenced Public Health Grant held to support the service against future changes in funding
Revenue grants unapplied	0.3	0.0	4.4	4.7	Grants held by the service for draw down as required

	Balance at 31 March 2020	Transfers out	Transfers in	Balance at 31 March 2021	Purpose of the reserve
Efficient Council					
Transformation / Change Reserve	4.3	(0.9)	0.5	3.9	Financing invest to save schemes to change the shape and design of the County Council
Digital Reserve	3.0	0.0	0.0	3.0	Supporting the development of digitally enabled operations as part of the organisational review
Elections	0.3	0.0	0.1	0.4	Annual amounts set aside to provide County Council elections, which happen every 4 years
Property Management	0.6	0.0	0.0	0.6	Funding for property-related expenditure
Insurance	9.2	(1.1)	1.2	9.3	Covering claims below the County Council's insurance policy excess
Business Rates Pool	16.8	(26.1)	23.4	14.1	To enable smoothing of the impact of changes to the Business Rates retention across the Pool and changes in national funding levels, including rate appeal losses and any fall in rates collected
Coroners Major Inquests	0.4	0.0	0.0	0.4	Amounts set aside to cover significant inquest costs
Councillors Divisional Fund	1.2	(0.6)	1.1	1.7	Funds to support Councillors' local discretionary spend

	Balance at 31 March 2020	Transfers out	Transfers in	Balance at 31 March 2021	Purpose of the reserve
Fleet Surplus Reserve	0.1	0.0	0.0	0.1	Fleet support
Future Capital Investment	1.5	0.0	6.4	7.9	Monies set aside to fund future planned capital expenditure
Financial Services Reserve	1.6	0.0	0.0	1.6	Funding to support the employers' pension contributions
Smarter Ways of Working	0.0	0.0	2.0	2.0	Monies set aside to enable new ways of working
Financial Risk Reserve	6.5	0.0	1.7	8.2	Amount set aside to support financial risk
Other reserves (not available for core spend)					
Schools balances held under delegation	1.4	(1.4)	4.0	4.0	Balances held for individual maintained schools
Schools ICT PFI Reserve	0.2	0.0	0.0	0.2	PFI grant funding supporting the ongoing delivery of the programme
Bromsgrove High School PFI Advance	1.6	0.0	0.1	1.7	PFI grant funding supporting the ongoing delivery of the programme
DSG c/fwd Balance Reserve	(6.2)	0.0	6.2	0.0	Dedicated Schools Grant unallocated or unspent balances
Waste Contract PFI Grant	7.7	(0.5)	4.7	11.9	To fund pressures relating to the increase on household waste disposal costs as the number of households in the County increases
Total	76.3	(33.2)	71.6	114.7	

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 01/04/20 £m	Contributions		Closing Balance 31/03/21 £m	Purpose of the reserve
		To £m	From £m		
Pensions reserve	(483.6)	(310.3)	295.5	(498.4)	Movement in remeasurement of the net defined liability
Accumulated absences adjustment account	(7.2)	7.2	(8.4)	(8.4)	Balances relating to the accumulated holiday due but not taken in year
Financial instruments adjustment account	(1.1)	0.0	0.0	(1.1)	Valuation gains and losses on financial instruments carried at fair value
Capital adjustment account	211.7	90.1	(77.6)	224.2	An accounting mechanism used to reconcile the different rates at which assets are depreciated
Revaluation reserve	218.5	23.0	(31.9)	209.6	Unrealised gains and losses arising from revaluations of long-term assets
Collection fund adjustment accounts	11.0	0.0	(10.5)	0.5	Surplus or deficit arising from agency arrangements
DSG Adjustment Account	(6.2)	0.0	(0.3)	(6.5)	Accumulated DSG deficit
Total Unusable Reserves	(56.9)	(190.0)	166.8	(80.1)	

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.

Page 155
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

2020/21	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 2020	536.5	189.3	677.8	0.3	4.6	48.6	1457.1	220.5
Restatements	0.0	0.0	0.0	0.0	0.0	0.0	0.0	8.2
Additions	11.8	3.6	45.4	0.0	0.0	48.7	109.5	0.0
Revaluation increases / (decreases) recognised in Revaluation Reserve	(8.0)	(17.6)	0.0	0.0	0.0	0.0	(25.6)	(23.3)
Revaluation increases / (decreases) recognised in the Surplus on the Provision of Services	(15.1)	(1.8)	0.0	0.0	0.0	0.0	(16.9)	(11.6)
De-recognition/ Disposals	(13.2)	0.0	0.0	0.0	0.0	0.0	(13.2)	0.0
De-recognition - Other	(0.2)	0.0	0.0	0.0	0.0	0.0	(0.2)	0.0
Assets reclassified (to)/from Held for Sale	0.0	0.0	0.0	0.0	(1.8)	0.0	(1.8)	0.0
Assets reclassified to other categories	(1.2)	0.0	0.0	0.0	1.2	0.0	0.0	0.0
Other movements in cost or valuation	3.2	0.3	6.1	0.0	(0.1)	(9.5)	0.0	0.0
At 31 March 2021	513.8	173.8	729.3	0.3	3.9	87.8	1508.9	193.8

2020/21	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 2020	(26.2)	(79.6)	(280.3)	0.0	(0.3)	0.0	(386.4)	(27.9)
Depreciation written out to the Revaluation Reserve	(3.6)	0.0	0.0	0.0	0.0	0.0	(3.6)	0.0
Depreciation charge	(4.2)	(10.3)	(30.3)	0.0	0.0	0.0	(44.8)	(5.6)
De-recognition – disposals	0.2	0.0	0.0	0.0	0.0	0.0	0.2	0.0
De-recognition - other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Assets reclassified to Held for Sale	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other movements in depreciation and impairment	7.6	18.7	0.0	0.0	0.0	0.0	26.3	20.6
At 31 March 2021	(26.2)	(71.2)	(310.6)	0.0	(0.3)	0.0	(408.3)	(12.9)
Net book value								
At 31 March 2021	487.6	102.6	418.7	0.3	3.6	87.8	1,100.6	180.9
At 31 March 2020	510.3	109.7	397.5	0.3	4.3	48.6	1,070.7	192.6

2019/20	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 2019	567.4	182.5	586.0	0.3	9.0	65.1	1,410.3	222.4
Additions	2.6	5.8	46.9	0.0	0.0	35.0	90.3	0.1
Revaluation increases / (decreases) recognised in Revaluation Reserve	(4.3)	0.0	0.0	0.0	0.0	0.0	(4.3)	(4.1)
Revaluation increases / (decreases) recognised in the Surplus on the Provision of Services	(5.9)	0.0	0.0	0.0	(1.0)	0.0	(6.9)	0.0
De-recognition – Disposals	(18.1)	0.0	0.0	0.0	(2.2)	0.0	(20.3)	(0.9)
De-recognition – Other	(10.6)	0.0	0.0	0.0	0.0	0.0	(10.6)	0.0
Assets reclassified to Held for Sale	(0.2)	0.0	0.0	0.0	(1.2)	0.0	(1.4)	0.0
Assets reclassified to other categories	(0.1)	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Other movements in cost or valuation	5.7	0.9	44.9	0.0	0.0	(51.5)	0.0	0.0
At 31 March 2020	536.5	189.3	677.8	0.3	4.6	48.6	1,457.1	220.5

2019/20	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 2019	(31.0)	(71.4)	(253.9)	0.0	(1.5)	0.0	(357.8)	(23.7)
Depreciation written out to the Revaluation Reserve	(3.7)	0.0	0.0	0.0	0.0	0.0	(3.7)	0.0
Depreciation charge	(4.8)	(8.2)	(26.4)	0.0	0.0	0.0	(39.4)	(5.5)
De-recognition – disposals	0.7	0.0	0.0	0.0	0.0	0.0	0.7	0.0
Derecognition - other	0.9	0.0	0.0	0.0	0.0	0.0	0.9	0.0
Assets reclassified held for sale	0.0	0.0	0.0	0.0	0.1	0.0	0.1	0.0
Other movements in depreciation and impairment	11.7	0.0	0.0	0.0	1.1	0.0	12.8	1.3
At 31 March 2020	(26.2)	(79.6)	(280.3)	0.0	(0.3)	0.0	(386.4)	(27.9)
Net book value								
At 31 March 2020	510.3	109.7	397.5	0.3	4.3	48.6	1,070.7	192.6
At 31 March 2019	536.4	111.1	332.1	0.3	7.5	65.1	1,052.5	198.6

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 2020 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 completed by:

Mark Aldis (Hons) MRICS RICS Registered Valuer IRRV
Wilks Head & Eve LLP
3rd Floor 55 New Oxford Street
London
WC1A 1BS

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.

Page 160
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 2021	235.9	90.9	0.0	0.0	0.1	0.0	326.9	167.4
31 March 2020	142.1	0.1	0.0	0.0	1.6	0.0	143.8	10.2
31 March 2019	19.5	0.0	0.0	0.0	1.6	0.0	21.1	3.3
31 March 2018	88.9	0.0	0.0	0.0	0.0	0.0	88.9	0.0
31 March 2017	1.1	0.0	0.0	0.0	0.0	0.0	1.1	0.0
Held at cost	0.1	11.6	418.7	0.3	0.3	87.8	518.8	0.0
Total cost or valuation	487.6	102.6	418.7	0.3	3.6	87.8	1,100.6	180.9

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.

2019/20	2020/21
£m	£m
225.0 Opening Balance at 1 April	218.5
26.2 Revaluations upwards during the year	23.0
(3.7) Depreciation of revaluations	(3.6)
(20.6) Revaluations downwards during the year	(22.3)
(8.4) Disposal of revaluations	(6.0)
218.5 Closing Balance at 31 March	209.6

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.

2019/20	2020/21
£m	£m
29.5 Downward revaluations - other land and buildings	38.1
0.0 Downward revaluations – vehicles, plant, furniture & equipment	0.8
0.5 Downward revaluations - non-operational	0.0
21.9 Disposal losses – other land & buildings	10.8
51.9	49.7

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.

2019/20	2020/21
Restated	
£m	£m
205.0 Balance at 1 April	211.7
Capital Financing:	
13.2 Capital receipts	6.9
63.2 Capital grants and contributions	82.4
0.6 Revenue contributions to capital expenditure	0.9
0.6 Capital reserve	0.0
77.6	90.2
(4.0) Downward revaluations charged to Comprehensive Income and Expenditure Statement	(16.9)
(40.6) Depreciation charged to Comprehensive Income and Expenditure Statement	(46.2)
8.8 Minimum revenue provision adjustment	10.4
3.2 Minimum revenue provision PFI adjustment	3.2
(11.8) REFCUS adjustment	(13.7)
(23.0) Disposal of non-current assets	(10.8)
(3.5) Other adjustments	(3.6)
211.7 Closing Balance at 31 March	224.3

14.6 Contractual commitments for property, plant and equipment

As at 31 March 2021 the County Council has a capital programme comprising capital projects amounting to £85.1 million (2019/20 £178.3 million). The following contracts have been entered into for the construction or enhancement of PPE.

Major schemes where contracts have been let:	£m
Worcestershire A4440 Southern Link Road Dualling	17.1
Bishop Perowne College Expansion	2.5
A38 Bromsgrove	2.5
Christopher Whitehead Language College Expansion	2.4
Holyoakes Field First School Relocation	2.1
Sub-total	26.6
Committed schemes less than £2 million	26.0
Major schemes where contracts have been let:	52.6

Page 165

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 2021, details are given in the Events after the Balance Sheet date note at the end of the accounts.

Page 166

	Number of schools at 31 March 2021	Value held on Balance Sheet at 31 March 2021	Status
		£m	
Community	53	233.6	On Balance Sheet
PFI	7	55.7	On Balance Sheet
Voluntary controlled	40	1.4	Off Balance Sheet
Voluntary aided	22	0.2	Off Balance Sheet
Academy	116	0.2	Off Balance Sheet
Foundation	1	0.9	Off Balance Sheet
Free School	4	0.0	Off Balance Sheet
	243	292.0	

14.8 Non-operational assets

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

2019/20		2020/21
£m		£m

7.6	Assets Held for Sale	5.7
-----	----------------------	-----

14.9 Capital expenditure and capital financing

2019/20	2020/21
Restated	
£m	£m
752.7	767.6
Opening capital financing requirement	
Capital investment:	
92.8	109.5
Property, plant and equipment	
11.8	13.7
Revenue expenditure funded from capital under statute	
104.6	123.2
Total Capital Investment	
Sources of finance:	
(13.2)	(6.9)
Capital receipts	
(63.2)	(82.4)
Government grants & other contributions	
Sums set aside from revenue:	
(1.2)	(0.9)
Direct revenue contributions	
(8.9)	(10.4)
MRP/loans fund principal (excluding PFI)	
(3.2)	(3.2)
MRP/loans fund principal (PFI)	
767.6	787.0
Closing Capital Financing Requirement	
(171.4)	(163.0)
Long-term liabilities (PFI liabilities)	
596.2	624.0
Underlying need to borrow	

Explanation of movements in year

14.9	Increase in underlying need to borrow	19.4
14.9	Increase / (decrease) in Capital Financing Requirement	19.4

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:

- Page 168
- 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.
 - For PFI assets, the MRP charge is based on the useful economic life relevant to each asset.

The total MRP charge in 2020/21 is £13.6m represented by £10.4m charged in respect of non-PFI assets and £3.2m in respect of PFI assets. For PFI assets, the MRP charge of £8.4m has been adjusted by £5.2m to reflect the Council's accounting policy to match the MRP charge to the useful life of each asset rather than the term of the PFI arrangement.

Prior period adjustment

Prior period adjustments may arise from a change in accounting policies or to correct a material error. Changes in estimates are accounted for prospectively, whereas changes in accounting policies are applied retrospectively. Material errors in prior period figures are corrected retrospectively by amended opening balances and comparative amounts for the prior period.

In the table above, the opening Capital Financing Requirement at 1 April 2019 has been restated to (1) remove an adjustment in respect of the Council's PFI liability balance of £178.8 million, previously included to represent the Council's underlying need to borrow and (2) remove the cumulative balance of capital loan repayments at 1 April 2019 of £4.5 million. The previously reported opening balance of £578.4 million has been increased by £174.3 million to reflect these two adjustments. The table also includes additional entries to disclose capital loan repayments of £3.5 million in 2019/20 and the MRP charge in respect of PFI assets of £3.2 million (£7.4 million charge less a £4.2 million policy adjustment in 2019/20). As a result of these adjustments, the closing Capital Financing Requirement at 31 March 2020 has been restated from £600.0 million to £767.6 million.

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 and 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.	<p>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.</p> <p>A 5% reduction in the Land and Buildings value of £501.8 million would result in a £25.1 million charge to the Comprehensive Income and Expenditure account if no amounts were available to cover the loss in the Revaluation Reserve.</p> <p>An increase in estimated asset values would result in an increase to the Revaluation Reserve and/or reversals of previous negative movements to the Comprehensive Income and Expenditure account and/or gains recognised in the Comprehensive Income and Expenditure account, as appropriate.</p>

**Property
plant &
equipment
assets –
valuation**

The outbreak of Covid-19 has impacted upon global financial markets and thus less weight can be attached to previous market evidence used to inform opinions on asset values.

At the current time it is not possible to accurately predict the severity or longevity of the impact of Covid-19; asset values have been based on market evidence prior to Covid-19 on the assumption that values will be restored in the future.

There have been no limitations in the valuation of assets performed by the Council's external valuer in the year as a result of Covid-19 restrictions.

In line with RICS Guidance issued in response to the potential market impact of the Covid-19 virus, the valuations provided are not reported as being subject to 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global.

Property plant and equipment is valued at **£1,100.6** million at 31 March 2021.

15. Private finance initiatives (PFI)

Private Finance Initiative (PFI) contracts are agreements to receive services where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the County Council is deemed to control the services that are provided under its PFI schemes and as ownership of the property, plant and equipment will pass to the County Council at the end of the contracts at no additional charge, the County Council carries the property, plant and equipment used under the contracts on its Balance Sheet. The original recognition of these property, plant and equipment at their fair value is balanced by the recognition of a liability for amounts due to the PFI provider. Property, plant and equipment recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the County Council.

The amounts payable to the PFI contractors each year are analysed into five elements:

- a) Fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement.
- b) Finance cost – a percentage interest charge on the outstanding Balance Sheet liability, debited to interest payable and similar charges in the Comprehensive Income and Expenditure Statement under Financing, investment income & expenditure.
- c) Contingent rent – differences in the amount to be paid for the property arising during the contract, debited or credited to interest payable and similar charges in the Comprehensive Income and Expenditure Statement.
- d) Payment towards liability – applied to write down the Balance Sheet liability, current and long term, towards the PFI operator.
- e) Lifecycle replacement costs – the annual payment implicit in the contract is funded and treated as a prepayment on the Balance Sheet and recognised as property, plant and equipment when the contractor incurs the expenditure.

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. The significant PFI contracts are as follows:

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 2020	5.8	62.7	27.8	96.3	96.2	192.5
Additions	0.0	0.0	0.0	0.0	0.0	0.0
Revaluations	0.0	(2.0)	(5.3)	(7.3)	(19.4)	(26.7)
Depreciation	(0.2)	1.0	0.0	0.8	14.2	15.0
Balance at 31 March 2021	5.6	61.7	22.5	89.8	91.0	180.8
Finance lease liability						
	Waste disposal	Bromsgrove schools	The Hive	Total		
	£m	£m	£m	£m		
Balance at 31 March 2020	(103.8)	(50.1)	(17.5)	(171.4)		
Additions	0.0	0.0	0.0	0.0		
Payments	6.5	1.3	0.6	8.4		
Balance at 31 March 2021	(97.3)	(48.8)	(16.9)	(163.0)		

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	8.4	29.1	11.5	49.0
Payments due within 2 to 5 years	100.3	48.3	32.0	180.6
Payments due within 6 to 10 years	16.9	27.8	21.9	66.6
Payments due within 11 to 15 years	26.0	27.9	12.7	66.6
Payments due within 16 to 20 years	11.4	9.1	1.4	21.9
Total	163.0	142.2	79.5	384.7

Page 174 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 2020	Current 31 March 2020	Long-term 31 March 2021	Current 31 March 2021
£m	£m	£m	£m
Investments			
	5.0		35.0
	Financial assets at amortised cost		
3.0	0.0	3.0	0.2
	Fair value through profit & loss		
3.0	5.0	3.0	35.2
Cash Equivalents			
	(8.6)		24.3
	Cash		
	10.0		5.0
	Cash equivalents at amortised cost		
	70.2		38.0
	Fair value through profit & loss		
	71.6		67.3
Debtors			
115.9	37.9	108.6	59.6
	Financial assets at amortised cost		
Borrowings			
(435.9)	(39.4)	(456.5)	(71.3)
	Financial liabilities at amortised cost		
Other long-term liabilities			
(171.4)		(163.0)	
	PFI and finance lease liabilities		
Creditors			
	(57.2)		(45.6)
	Financial liabilities at amortised cost		

Financial Assets:	Current						Non-Current				Total
	Cash and Cash equivalents		Investments		Debtors		Investments		Debtors		
	31/03/21	31/03/20	31/03/21	31/03/20	31/03/21	31/03/20	31/03/21	31/03/20	31/03/21	31/03/20	31/03/21
Fair Value through Profit or Loss	38.0	70.2	0.2	0.0	0.0	0.0	3.0	3.0	0.0	0.0	41.2
Amortised Cost - other	29.3	1.4	35.0	5.0	59.6	38.0	0.0	0.0	108.6	115.9	232.5
Total Financial Assets	67.3	71.6	35.2	5.0	59.6	38.0	3.0	3.0	108.6	115.9	273.7
Non-Trade Debtors	0.0	0.0	0.0	0.0	44.2	55.9	0.0	0.0	0.0	0.0	44.2
Total	67.3	71.6	35.2	5.0	103.8	93.9	3.0	3.0	108.6	115.9	317.9

Financial Liabilities:	Current				Non-Current				Total
	Borrowings		Creditors		Borrowings		Creditors		
	31/03/21	31/03/20	31/03/21	31/03/20	31/03/21	31/03/20	31/03/21	31/03/20	31/03/21
Amortised Cost	71.3	39.5	45.6	57.2	619.5	607.3	0.0	0.0	736.4
Total Financial Liabilities	71.3	39.5	45.6	57.2	619.5	607.3	0.0	0.0	736.4
Non-Trade Creditors	0.0	0.0	99.6	57.9	0.0	0.0	0.0	0.0	99.6
Total	71.3	39.5	145.2	115.1	619.5	607.3	0.0	0.0	836.0

16.1 Income, expense, gains and losses

2019/20				2020/21				
Financial liabilities at amortised cost	Financial assets at amortised cost	Financial assets at fair value through profit & loss	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	£m
(29.2)	0.6	0.0	(28.6)	Interest expense	(29.5)	0.7	0.0	(28.8)
0.0	8.0	0.2	8.2	Interest income	0.0	7.7	0.1	7.8
0.0	0.0	0.0		Fee expense	0.1	0.0	0.0	0.1
(29.2)	8.6	0.2	(20.4)	Net gain / (loss) for the year	(29.4)	8.4	0.1	(20.9)

16.2 Fair value of assets and liabilities

31 March 2020 Restated			31 March 2021	
Carrying amount	Fair value		Carrying amount	Fair value
£m	£m		£m	£m
Financial liabilities				
532.5	790.9	Financial liabilities	573.5	764.4
171.4	229.9	PFI liabilities	163.0	211.7
Financial assets				
46.0	46.0	Loans & receivables	97.8	97.8
115.9	115.9	Long Term Debtors	108.6	108.6
70.2	70.2	Short term investments held as cash	38.0	38.0

Page 179

Fair value is the price that would be received to sell an asset, or paid to transfer a liability, between market participants in an orderly transaction at the measurement date under current market conditions. Financial liabilities and financial assets classified as loans and receivables are carried in the Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of remaining cash flows at 31 March 2021 using fair value techniques appropriate to the characteristics of each instrument, using the following methods and assumptions, in accordance with the requirements of IFRS13 Fair Value Measurement.

- Loans taken out by the Council have been valued by discounting contractual cash flows over the life of the instrument at the appropriate market rate for local authority loans
- No early repayment or impairment is recognized for any financial instrument
- The carrying value of long-term instruments, represented by long-term debtors, is deemed to be a reasonable proxy for fair value as this debtor will be repaid by 31 March 2024 and therefore the discounting of future cashflows over this three year period is not a material difference.

- The fair value of short-term instruments, including trade payables and receivables, is deemed to be not materially different to the carrying amount.

Prior period adjustment

Prior period adjustments may arise from a change in accounting policies or to correct a material error. Changes in estimates are accounted for prospectively, whereas changes in accounting policies are applied retrospectively. Material errors in prior period figures are corrected retrospectively by amended opening balances and comparative amounts for the prior period.

In the table above, the fair value of PFI liabilities at 31 March 2020 has been restated to reflect the discounted present value of future cashflows for the lease and interest repayments due in accordance with IFRS 13.

The value of investments held at fair value is analysed below. The valuation is classified into three levels according to the quality and reliability of information used to determine fair values:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3 – unobservable inputs for the asset or liability

Page 180

31 March 2020		31 March 2021	
Level 3		Level 3	
£m		£m	
3.0 Malvern Hills Science Park		3.0	
3.0 Total		3.0	

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

31 March 2020		31 March 2021	
£m		£m	

39.5 Maturing within one year	71.3
32.2 Maturing in 1-2 years	67.0
34.2 Maturing in 2-5 years	28.0
53.3 Maturing in 5-10 years	54.5
316.2 Maturing in more than 10 years	307.0
475.4 Total	527.8

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. The credit risk in respect of Trade Debtors is considered at Note 18. For our other Financial Assets Held at Amortised Cost, we have considered the credit risk, including any additional impact arising as a result of the COVID-19 pandemic:
 - Cash and Cash Equivalents - No material risk on the basis that these are liquid assets.
 - Short-term investments – No material risk. The Short-term investments balance at 31 March 2021 comprises a single deposit at another local authority with a short-term maturity date; the expected credit loss was assessed by our Independent Treasury Advisors as a trivial sum.
 - Capital Advances treated as a Loan – No material risk. In respect of the loan arrangement to Mercia Waste, we assess the 12 month potential credit loss; as this has been quantified as not material, we see no reason to revise our assessment in light of the Covid-19 impact given that:
 - The nature of the Counterparty's activity (waste management), which has continued to operate during the pandemic and will continue to operate as the economy reopens; and
 - The nature of the underlying asset (clean power generation), notwithstanding short-term energy price fluctuations, we do not anticipate any risk of obsolescence, loss of amenity or other factors that would suggest an impairment in the value of the asset.
- 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. Additional risks to the Council's liquidity as a result of the Covid-19 pandemic are monitored as part of routine financial monitoring and planning activity; 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. There are no additional market risks arising from Covid-19; to date, there has been no impact upon the interest rates of our existing or anticipated borrowing.

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 2020/21 was approved by Council on 13 February 2020.

17. Long term investments

31 March 2020	31 March 2021
£m	£m
3.0 Malvern Hills Science Park	3.0
3.0 Total	3.0

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 shares (957,103 in 2019/20) and 6,190 P2 shares (6,190 2019/20). 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 2020/21, is £3.0 million (2019/20 £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 2020	31 March 2021
£m	£m
Long term debtors:	
4.3 Trade receivables	0.6
111.6 Other receivables	108.0
115.9	108.6
Short term debtors:	
40.1 Trade receivables	49.8
4.8 Prepayments	26.2
49.0 Other receivables	27.8
93.9	103.8
209.8 Total debtors	212.4

Page 184

The County Council does not generally allow credit for trade receivables debtors, however £14.1 million of balances are past due date for payment and can be analysed as follows. The current bad debt provision for trade debtors in the Balance Sheet is £3.0 million, an increase of £1.6 million.

	£m
One to three months	2.7
Three to six months	1.5
Six months to one year	2.7
More than one year	7.2
Total	14.1

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 01/04/2020	Movement During the Year	Closing Balance 31/03/2021
	£m	£m	£m
Bank current accounts	(8.6)	32.9	24.3
Short Term investments held as cash	80.2	(37.2)	43.0
Total cash and cash equivalents	71.6	(4.3)	67.3

Page 185

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 2020	31 March 2021
£m	£m
Short-term creditors	
(62.2) Trade payables	(80.1)
(52.9) Other payables	(65.1)
(115.1) Total creditors	(145.2)

21. Other long-term liabilities

2019/20	2020/21
£m	£m
(171.4) PFI liabilities	(163.0)
(481.1) Re-measurement of the net defined benefit	(443.9)
(2.4) Teachers' Pension scheme Added year	(2.4)
(654.9) Other Long-term Liabilities	(609.3)

22. Grants receipts in advance

31 March 2020	31 March 2021
27.8 Section 106 Town and Country Planning Act 1990	23.2
1.6 Section 278 Highways Act 1980	1.6
29.4	24.8

23. Cash activities

23.1 Operating activities

2019/20	2020/21
£m	£m
1.0 Interest received	0.8
(29.7) Interest paid	(29.4)

2019/20	2020/21
£m	£m
The surplus/deficit on the provision of services has been adjusted for the following non-cash movements	
43.2 Depreciation	48.4
4.0 Downward revaluations	16.8
1.1 Amortisation	1.4
0.2 (Increase) / decrease in impairment for bad debts	1.2
33.4 (Decrease) / Increase in creditors	30.7
(33.0) (Increase) / decrease in debtors	(9.8)
51.4 Movement in pension liability	(39.0)
(Increase)/ decrease in Inventories	(0.1)
29.2 Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	16.9
(3.5) Other non –cash items	(12.8)
126.0	53.7

The surplus/deficit on the provision of services has been adjusted for the following items that are investing or financing activities

(9.5) Proceeds from the sale of property plant and equipment, investment property and intangible assets	(6.1)
(78.0) Any other items for which the cash effects investing of financing cash flows	(97.7)
(87.5)	(103.8)

23.2 Investing activities

2019/20	2020/21
Restated	
£m	£m
(92.6) Purchase of property, plant & equipment and intangible assets	(109.5)
(352.7) Purchase of short-term & long-term investments	(775.6)
7.2 Other payments for investing activities	6.9
9.5 Proceeds from the sale of property, plant & equipment and intangible assets	6.1
354.7 Proceeds from short-term & long-term investments	745.6
82.2 Other receipts from investing activities	102.0
8.3 Net cash flows from investing activities	(24.5)

Prior period adjustment

Prior period adjustments may arise from a change in accounting policies or to correct a material error. Changes in estimates are accounted for prospectively, whereas changes in accounting policies are applied retrospectively. Material errors in prior period figures are corrected retrospectively by amended opening balances and comparative amounts for the prior period.

In the table above, 'Purchase of short-term & long-term investments' and 'Proceeds from short-term & long-term investments' have been restated to exclude amounts represented by cash equivalents as per the Council's accounting policy at Note 19.

23.3 Financing activities

2019/20	2020/21
£m	£m
29.9 Cash receipts of short-term & long-term borrowing	73.1
1.8 Other receipts from financing activities	(2.0)
(7.5) Cash payments for the reduction of the outstanding liabilities relating to finance leases & on-Balance Sheet PFI contracts	(8.4)
(21.4) Repayments of short- and long-term borrowing	(21.3)
2.8 Net cash flows from financing activities	41.4

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.

2019/20		Total Remuneration to Employees			2020/21		
Teachers	Non-Teachers	Total		Teachers	Non-Teachers	Total	
67	25	92	£50,000 to £54,999	67	35	102	
42	19	61	£55,000 to £59,999	38	15	53	
20	11	31	£60,000 to £64,999	27	12	39	
25	5	30	£65,000 to £69,999	26	5	31	
15	7	22	£70,000 to £74,999	13	7	20	
5	4	9	£75,000 to £79,999	15	3	18	
6	2	8	£80,000 to £84,999	4	4	8	
2	2	4	£85,000 to £89,999	3	1	4	
3	1	4	£90,000 to £94,999	0	2	2	
1	5	6	£95,000 to £99,999	4	1	5	
2	1	3	£100,000 to £104,999	1	3	4	
1	1	2	£105,000 to £109,999	1	2	3	
0	0	0	£110,000 to £114,999	0	0	0	
0	0	0	£115,000 to £119,999	0	1	1	
0	1	1	£120,000 to £124,999	0	0	0	
0	0	0	£125,000 to £129,999	0	1	1	

0	1	1	£130,000 to £134,999	0	0	0
0	0	0	£135,000 to £139,999	0	1	1
0	0	0	£140,000 to £144,999	0	1	1
0	0	0	£145,000 to £169,999	0	0	0
0	0	0	£170,000 to £174,999	0	0	0
0	1	1	£175,000 to £179,999	0	0	0
0	0	0	£180,000 to £184,999	0	1	1
189	86	275		199	95	294

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.

Page 191

Post Title		Salary	National Insurance	Expense allowances	Pension Contributions	Total	Position start date	Position end date
		£	£	£	£	£		
Chief Executive, Paul Robinson	2020/21	183,960	24,174		34,481	242,615		
Chief Executive, Paul Robinson	2019/20	179,048	23,516	339	27,424	230,327		
Director of Children's Services^	2019/20	65,338	8,421	358	10,026	84,143		
Director of Economy & Infrastructure	2020/21	134,507	17,323	1,923	25,212	178,965		
	2019/20	131,910	16,986		20,204	169,100		
Director of Commercial & Change	2020/21	127,230	16,345		23,848	167,423		

	2019/20	121,910	15,633		18,967	156,510	
Director of Public Health	2020/21	106,108	13,452		15,398	134,958	
Director of Public Health*	2019/20	64,699	8,135	39	7,032	79,905	01/08/2019
Director of Public Health	2019/20	21,051	2,508		3,098	26,657	31/07/2019
Chief Financial Officer	2020/21	104,561	12,739		19,169	136,469	
	2019/20	108,243	13,747	305	16,580	138,875	
Director of People	2020/21	117,766	14,990		21,870	154,626	18/05/2020
Interim Director of People	2019/20	49,023	6,247		7,509	62,779	
Total	2020/21	774,132	99,023	1,923	139,978	1,015,056	
	2019/20	741,222	95,193	1,041	110,840	948,296	

Page 192 * Interim Director of Public Health from 01/08/2019 to 16/02/20, Permanent from 17/02/20

^ Director of Children's Service transferred to Worcestershire Children First on 01/10/19 but retains the statutory role of Director of Children's Services for Worcestershire County Council.

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 benefit scheme), administered by the Teachers' Pensions Agency on behalf of the Department for Education; or
- The NHS Pension Scheme (a defined benefit scheme), administered by the Department of Health.

25.1 Defined benefit 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 2020/21 the County Council paid £16.3 million (2019/20 £14.3m) to the Department for Education and Skills in respect of teachers' pension costs, which represents 23.68% (2019/20 20.7%) 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 2020/21 these amounted to £0.3 million (2019/20 £0.3m), representing 0.4% (2019/20 0.4%) of pensionable pay. The County Council's Actuary has calculated a long-term liability of £2.4 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 2020/21 the County Council paid £0.1 million (2019/20 £0.1m) to the NHS Superannuation Scheme, which represents 14.4% (2019/20 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 included 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:

2019/20

2020/21

£m		£m
	Comprehensive Income & Expenditure Statement	
	Cost of services:	
32.5	Current service cost	27.6
9.2	Past service cost – McCloud judgement	0.0
3.5	Settlements and curtailments	3.0
	Other Operating Expenses	
0.4	Administration expenses	0.3
	Financing & investment income & expenditure	
32.4	Interest on Pensions Liabilities	31.4
(21.3)	Interest on Pensions Assets	(21.7)
56.7	Total post-employment benefit charged to the surplus or deficit on the Provision of Services	40.6

2019/20		2020/21
Restated		
£m		£m
	Re-measurement of the net defined liability charged to the Comprehensive Income & Expenditure Statement	
51.3	Return on Plan assets (excluding the amount included in net interest expense)	(186.5)
(17.4)	Actuarial (gain) / loss arising on changes in experience	(29.3)
(27.4)	Actuarial (gain) / loss arising on changes in financial assumptions	217.6
(42.0)	Actuarial (gain) / loss arising on changes in demographic assumptions	0.0
21.2	Total post-employment benefit charged to the Comprehensive Income & Expenditure Statement	42.4
	Movement in Reserves Statement	
(56.7)	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	(40.6)
	Actual amount charged against the General Fund Balance for pensions in the year:	
29.9	Employer's contributions payable to the scheme	27.5

Prior period adjustments

Prior period adjustments may arise from a change in accounting policies or to correct a material error. Changes in estimates are accounted for prospectively, whereas changes in accounting policies are applied retrospectively. Material errors in prior period figures are corrected retrospectively by amended opening balances and comparative amounts for the prior period.

In the table above, the Reversal of net charges made to the surplus of deficit for the Provision of Services for post-employment benefits in accordance with the Code of Practice has been adjusted from £26.8m to £56.7 in accordance with the Code of Practice.

In the table above, in the Actual amount charged against the General Fund Balance for pensions in the year, the 2019-20 Employer's contributions payable to the scheme has been adjusted from £5.3m to £29.9m to include the element of the upfront pension payment paid in April 2017 that related to 2019-20 (£24.6). The amount charged to the General Fund in total for 2019-20 was £29.9m.

The County Council made an up-front payment of Employer's contributions payable to the scheme of £77.1 million in April 2020 for the three years 2020/21 to 2022/23. The effect of the payment is a reduction in the net defined pension liability in the year of payment. As a result of the early payment, there is a difference between the value of the Pensions Reserve and the Pension liability held on the Balance Sheet as per the table below:-

	2020/21
	£m
Balance on Pension Reserve (excluding Teachers Pension)	(496.0)
21/22 Upfront Payment	25.7
22/23 Upfront Payment	26.4
Balance on Pension Liability	(443.9)

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

2019/20		2020/21
£m		£m
(51.3)	Return on Plan Assets (excluding the amount included in net interest expense)	186.5
17.4	Actuarial gain / (loss) arising on changes in experience	29.3
27.4	Actuarial gain / (loss) arising from changes in financial assumptions	(217.6)
42.0	Actuarial gain / (loss) arising on changes in demographic assumptions	0.0
0.4	(Increase)/decrease in Teachers Pension Liability	0.1
35.9	Total gain / (loss)	(1.7)

25.2.3 Pension assets and liabilities recognised in the Balance Sheet

2019/20	2020/21
£m	£m
(1,322.4) Present value of liabilities	(1,541.6)
841.3 Fair value of assets	1,097.7
(481.1) Deficit in the scheme	(443.9)

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.

Page 198

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:

2019/20	2020/21
£m	£m
(1,365.3) Opening balance at 1 April	(1,322.4)
(32.5) Current service cost	(27.6)
(32.4) Interest cost	(31.4)

(6.1) Contributions by scheme participants	(5.6)
Remeasurement (gains) and losses:	
17.4 Actuarial gain / (loss) arising on changes in experience	29.3
27.4 Actuarial gain / (loss) arising on changes in financial assumptions	(217.6)
42.0 Actuarial gain / (loss) arising on changes in demographic assumptions	0.0
39.8 Benefits paid	36.7
0.0 Business combinations	0.0
(9.2) Past service cost – McCloud Judgement	0.0
(3.5) Curtailments	(3.0)
(1,322.4) Closing balance at 31 March	(1,541.6)

Reconciliation of fair value of the scheme assets:

2019/20	2020/21
£m	£m
900.1 Opening balance at 1 April	841.3
21.3 Interest Income	21.7
(51.3) Return on plan assets, excluding the amount included in the net interest expense	186.5
(0.4) Administration expenses	(0.3)
5.3 Employer contributions	79.6
0.0 Business combinations	0.0
6.1 Contributions by scheme participants	5.6
(39.8) Benefits paid	(36.7)
841.3 Closing balance 31 March	1,097.7

25.2.5 Pensions Reserve

2019/20	2020/21
£m	£m
(492.7) Balance at 1 April	(483.6)
(51.3) Return on Plan assets (excluding the amount included in net interest expense)	186.5
17.4 Actuarial gain / (loss) arising on changes in experience	29.3
27.4 Actuarial gain / (loss) arising on changes in financial assumptions	(217.6)
42.0 Actuarial gain / (loss) arising on changes in demographic assumptions	0.0
0.0 Business combinations	0.0
(56.7) 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	(40.6)
5.3 Employer's pensions contributions & direct payments to pensioners payable in the year	79.6
24.6 Employer's pension contributions – prepayment adjustment	(52.1)
0.4 Decrease in Teachers Pension Liability	0.1
(483.6) Balance at 31 March	(498.4)

25.2.6 Local Government Pension Scheme assets

2019/20	Quoted	2020/21
£m	(Y/N)	£m
Equities:		
1.7 UK Quoted	Y	1.3
203.6 Overseas quoted	Y	343.7
106.0 Pooled Investment Vehicle – UK Managed Funds	N	152.5
281.8 Pooled Investment Vehicle – UK Managed Funds – (overseas equities)	N	433.3
0.8 Pooled Investment Vehicle – Overseas Managed Funds	N	1.3
Bonds:		
3.4 UK Corporate	Y	0.0
38.7 Overseas Corporate	Y	0.0
0.0 Other Bonds	Y	1.0
60.6 UK Government Fixed	Y	0.0
0.8 Overseas Government	Y	0.0
Property:		
19.4 European Property Fund	N	21.0
5.9 UK Property Debt	N	4.2
4.2 Overseas Property Debt	N	3.1
17.7 UK Property Fund	N	22.0
1.7 Overseas REITS	N	1.1
Alternatives:		
41.2 UK Infrastructure	N	42.8

22.7 European Infrastructure	N	30.4
15.1 US Infrastructure	N	22.8
5.9 US Stock Options	N	3.8
(5.1) Overseas Stock Options	N	1.0
10.1 Corporate Private Debt	N	12.4
Cash:		
1.7 Cash Instruments	Y	0.0
1.7 Cash Accounts	Y	0.0
1.7 Net Current Assets	N	0.0
841.3 Total		1,097.7

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 2020, with an effective date of 1 April 2021. The principal assumptions used by the actuary are:

2019/20	2020/21
Mortality assumptions	
Longevity at 65 for current pensioners (years):	
22.6 Men	22.7
25.0 Women	25.1
Longevity at 65 for future pensioners (years):	
24.2 Men	24.4
27.0 Women	27.1

Financial assumptions

2.1% Rate of CPI inflation	2.7%
3.6% Rate of increase in salaries	4.2%
2.2% Rate of increase in pensions	2.8%
2.4% Rate for discounting scheme liabilities	2.1%

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.

Page 203

25.2.8 Assumptions made about the future and estimate uncertainties

Item	Uncertainties	Effect if actual results differ from assumptions
Property and infrastructure valuations. (Level 3 investments)	The Funds directly held investment properties are valued at fair value by independent valuers in accordance with RICS valuation professional standards, whilst infrastructure investments are valued at fair value by independent experts. From 2020/21 there has been additional uncertainty regarding the property valuations due to the time that it will take to fully realise the impact of Covid-19 upon illiquid assets such as property. The valuations have	<p>The total value of indirect property investments in the financial statements is £160.7 million (£149.8 million in 2019/20). There is a risk that this investment may be under or overstated in the accounts.</p> <p>The total value of direct infrastructure investments in the financial statements is £332.6 million (£299.1 million in 2019/20). There is a risk that this investment may be under or overstated in the accounts. Additional information in respect of the valuation techniques, judgements and sensitivity of these balances is disclosed in Note 14 to the Pension Fund Accounts.</p>

been updated based on the information available as at 31 March 2021 and may be subject to variations as further market information becomes available.

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

	Increase in rate of	Increase/(decrease) in Assumption
		£m
Discount Rate	0.1%	(25.5)
Inflation	0.1%	26.0
Pay	0.1%	2.3
Life Expectancy	1 YEAR	46.6

Page 204

25.2.10 Impact on the County Council's cash flows

The weighted average duration of the defined benefit obligation for scheme members is 17 years (2019/20 17 years). The County Council anticipates payments of £2.5 million expected contributions to the scheme in 2021/22.

26. Termination benefits and exit packages

This discloses both exit packages for employees who have left the County Council in 2020/21 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.

2019/20			2020/21	
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
68	0.5	£0 - £20,000	23	0.2
21	0.6	£20,001 - £40,000	9	0.3
8	0.4	£40,001 - £60,000	1	0.0
5	0.3	£60,001 - £80,000	1	0.1
2	0.2	£80,001 - £100,000	0	0.0
3	0.3	£100,001 - £150,000	1	0.1
1	0.2	£150,001 - £200,000	5	0.8
0	0.0	£200,001 - £250,000	2	0.5
1	0.3	£250,001 - £300,000	0	0.0
0	0.0	£300,001 - £350,000	1	0.3
0	0.0	£350,001 - £400,000	1	0.4
109	2.8	Total Termination Packages	44	2.7

27. Related parties

The Council is required to disclose material transactions with bodies or individuals that have the potential to control or influence the Council, or to be controlled or influenced by the Council.

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 £1.1 million allowances and expenses were paid to members in 2020/21 (2019/20 £1.1 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 £1.5 million (2019/20 £1.5 million) 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). WME offers energy procurement and management on behalf of its four owning authorities and a number of 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. This joint venture is not consolidated into the Group Accounts because it is not considered to be material. The County Council spent £4.8 million with WME in 2020/21 (2019/20 £5.8 million) and this is reflected in the Comprehensive Income and Expenditure Statement.

27.7 Place Partnership Limited

Place Partnership Limited is a single asset management company co-owned by the County Council, Hereford & Worcester Fire Authority, Warwickshire Police and West Mercia Police 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 the purpose of 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 2020/21, the operating cost for the County Council was £5.6 million (2019/20 £5.2 million) 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, because there is no material difference to the costs already reflected. There is a creditor for £0.5 million outstanding at the year-end (2019/20 £0.2 million), and a debtor for £0.01 million (2019/20 £0.02million).

Place Partnership Limited ceased to trade on 31 March 2021 and services relating to the County Council were transferred in house.

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 company commenced trading on 1st June 2018, after a transfer of service provision 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 £0.238 million outstanding at 31 March 2021 (2019/20 £0.268 million).

27.9 Worcestershire Children First

Worcestershire Children First is a Private Limited Company by Guarantee without share capital and is 100% owned and controlled by Worcestershire County Council. The company was incorporated on 4th July 2018 and commenced trading on 1st October 2019. The company is principally engaged in the provision of social care and educational services for children and families across Worcestershire. The company has been identified as a subsidiary as it is 100% owned by the Council, and therefore the Council is deemed to have single control. Group Accounts have been prepared because the subsidiary is assessed to be material.

In 2020/21, the Council spent £118.7 million (2109/20 £55.1 million) on services from the company and received £7.6 million (2109/20 £3.5 million) in income from the provision of support services. This is reflected in the single entity Comprehensive Income and Expenditure Statement. There is a debtor of £27.4 million (2019/20 £6.2 million) and a creditor of £26.7 million (2109/20 £3.8 million) outstanding at 31 March 2021 and these balances are included in the single entity Balance Sheet.

The company's Board includes 1 Director who is employed by the Council and 2 Elected members of the Council; these individuals did not receive any remuneration from the company during the year.

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 £1.3 million were made in 2020/21 (2019/20 £1.3 million). The County Council's outstanding obligations under lease agreements as at 31 March 2021 totalled £11.5 million (31 March 2020 £12.4 million).

	£m
Leases expiring in less than 1 year	0.2
Leases expiring between 1 and 5 years	0.8
Leases expiring in 5 years+	10.5
	11.5

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 2020/21 (2019/20 £2.0 million). The County Council's outstanding obligations under lease arrangements as at 31 March 2021 totalled £6.3 million (2019/20 £7.4 million).

	£m
Leases expiring in less than 1 year	0.8
Leases expiring between 1 and 5 years	4.1
Leases expiring in 5 years+	1.4
	6.3

29. External audit costs

2019/20	2020/21
£m	£m
0.1 Fees payable regarding external audit services	0.1

The fee of £100k paid to Grant Thornton comprised £74k audit fee and £4k grant certification fee. An audit fee of £22k was agreed by the Public Sector Audit Appointments body to cover additional audit work required in certifying the 2019/20 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.

The financial statements have not been adjusted for the following events which took place after 31 March 2021; they provide information relevant to the Council's financial position but do not relate to conditions existing at that date.

Non-adjusting events

Academy Conversions

Five schools have converted to academy status after 31 March 2021. As these converted after the reporting period they are non-adjusting events and are reported below for information.

Page 211

Name of School	Date of Conversion	Asset value at 31 March 2021	£m
Cherry Orchard Primary	01/04/2021		7.1
Tudor Grange Primary Academy (formerly Perdiswell Primary)	01/04/2021		5.6
Arrow Valley First (formerly Roman Way First)	01/04/2021		4.5
The Orchard (formerly Sidemoor First & Nursery)	01/04/2021		7.3
Upper Arley C of E Primary	01/04/2021		0.0

31. Accounting standards issued but not yet adopted

At the balance sheet date, IFRS 16 Leases has been published but not yet adopted by the Code of Practice of Local Authority Accounting in the United Kingdom. IFRS 16 will require local authorities that are lessees to recognise a lease on their balance sheet as a right-of-use asset with a corresponding lease liability (there are exemptions for low-value and short-term leases). CIPFA/LASAAC have deferred implementation of IFRS 16 for local government to 1 April 2022.

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

- 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

As at the Balance Sheet date, the following new accounting standards and amendments had not yet been adopted by the Code of Practice on Local Authority Accounting in the United Kingdom. These are not expected to have any significant impact for the Council:

- Definition of a Business: Amendments to IFRS 3 Business Combinations
- Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7
- Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39 and IFRS 7, IFR 4 and IFRS 16.

Page 212

32. Short term investments

31 March 2020	31 March 2021
£m	£m
5.0 Short term investments	35.2
5.0 Total	35.2

Worcestershire County Council Group Accounts

Group Accounts and Supporting Notes

Group Accounts

Introduction

In order to provide a fuller picture of the Council's economic activities and financial position, the accounting statements of the Council and Worcestershire Children First have been consolidated.

The Group Accounts are presented in addition to the Council's 'single entity' financial statements and comprise:

- Group Comprehensive Income and Expenditure Statement;
- Group Movement in Reserves Statement;
- Group Balance Sheet; and
- Group Cash Flow Statement.

These statements are set out on the following pages, together with accompanying disclosure notes. Disclosure notes have only been included in the group accounts where they are materially different from those of the Council's single entity accounts.

Results of Subsidiary

Worcestershire Children First

The County Council's wholly owned subsidiary Worcestershire Children First (WCF) was successfully launched on 1st October 2019 and operational responsibility for the delivery of all of Children's services on behalf of Worcestershire County Council was transferred on that date.

For 2020/21, the company's results showed a profit for the year of £0.6 million and net assets of £1.1 million.

A full copy of the company's accounts can be obtained from the Directors, Worcestershire Children First, County Hall, Spetchley Road, Worcester WR5 2NP. The accounts are audited by Grant Thornton (UK) LLP.

Group Comprehensive Income and Expenditure Statement

	2019/20	2019/20	2019/20		2020/21	2020/21	2020/21
	Expenditure	Income	Net		Expenditure	Income	Net
	£m	£m	£m		£m	£m	£m
	0.0	0.0	0.0	Turnover	0.0	(1.0)	(1.0)
	Service Expenditure Analysis						
	296.3	(145.3)	151.0	People	321.2	(187.7)	133.5
	341.7	(233.4)	108.3	Children's Services	378.3	(266.5)	111.8
	92.0	(26.5)	65.5	Economy & Infrastructure	100.9	(29.0)	71.9
	32.9	(1.1)	31.8	Commercial & Change	39.0	(9.8)	29.2
	28.5	(4.5)	24.0	Finance, HR & Chief Executive	55.9	(10.2)	45.7
	791.4	(410.8)	380.6	Net Cost of Services	895.3	(504.2)	391.1
	10.5	(4.5)	6.0	Other operating expenditure	3.6	(1.4)	2.2
	77.9	(30.0)	47.9	Financing, investment income & expenditure	69.6	(30.3)	39.3
	0.2	(419.2)	(419.0)	Taxation & non-specific grant income and expenditure	0.3	(467.3)	(467.0)
	880.0	(864.5)	15.5	(Surplus) / deficit on the provision of services	968.8	(1,003.2)	(34.4)
	0.1	-	0.1	Tax expenses of subsidiary			(0.1)
	880.1	(864.5)	15.6	Group (surplus)/deficit			(34.5)
	Other comprehensive income and expenditure						
			(26.2)	(Surplus) on revaluation of property, plant & equipment			(23.0)
			20.6	Downward revaluations on non-current assets charged to Revaluation Reserve			22.3
			(35.9)	Actuarial (gains) / losses on pension assets & liabilities			1.7
			(41.5)	Total other comprehensive income and expenditure			1.0
			(25.9)	Total comprehensive income and expenditure (surplus) / deficit			(33.5)

Group Movement in Reserves Statement 2020/21

	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 Council Reserves	Council's Share of Reserves of subsidiary	Total Reserves attributable to Council
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Balance at 31 March 2020	12.2	76.3	88.5	0.0	55.9	144.4	(50.7)	93.7	0.5	94.2
Reporting change to Schools Budget Deficit at 1 April 2020	0.0	6.2	6.2	0.0	0.0	6.2	(6.2)	0.0	0.0	0.0
Restated Balance at 31 March 2020	12.2	82.5	94.7	0.0	55.9	150.6	(56.9)	93.7	0.5	94.2
Movement in reserves during 2020/21:										
Total Comprehensive Income and Expenditure	140.0	0.0	140.0	0.0	0.0	140.0	(1.0)	139.0	(105.5)	33.5
Adjustments between group accounts and authority accounts	(111.1)	0	(111.1)	0.0	0.0	(111.1)	0.0	(111.1)	111.1	0.0
Net increase/ (decrease) before transfers	28.9	0.0	28.9	0.0	0.0	28.9	(1.0)	27.9	5.6	33.5
Adjustments between accounting basis and funding basis under regulations	3.6	0.5	4.1	2.7	15.3	22.1	(22.1)	0.0	0.0	0.0
Transfer to/from earmarked reserves	(31.7)	31.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Increase / (decrease) in 2020/21	0.8	32.2	33.0	2.7	15.3	51.0	(23.1)	27.9	5.6	33.5
Balance at 31 March 2021 carried forward	13.0	114.7	127.7	2.7	71.2	201.6	(80.0)	121.6	6.1	127.7

Adjustments between Group Accounts and Authority Accounts in the Group Movement in Reserves Statement

	2020/21
	General Fund Total
	£m
Elimination of intra-group transactions	(111.1)
Total adjustments between Group Accounts and Authority Accounts	(111.1)

Group Movement in Reserves Statement 2019/20

	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 Council Reserves	Council's Share of Reserves of subsidiary	Total Reserves attributable to Council
Restated	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Balance at 31 March 2019	12.2	81.5	93.7	0.1	41.1	134.9	(66.6)	68.3	0.0	68.3
Movement in reserves during 2019/20:										
Total Comprehensive Income and Expenditure	35.5	0.0	35.5	0.0	0.0	35.5	41.5	77.0	(51.1)	25.9
Adjustments between group accounts and authority accounts	(51.6)	0.0	(51.6)	0.0	0.0	(51.6)	0.0	(51.6)	51.6	0.0
Net increase/ (decrease) before transfers	(16.1)	0.0	(16.1)	0.0	0.0	(16.1)	41.5	25.4	0.5	25.9
Adjustments between accounting basis and funding basis under regulations	16.1	(5.2)	10.9	(0.1)	14.8	25.6	(25.6)	0.0	0.0	0.0
Increase / (decrease) in 2019/20	0.0	(5.2)	(5.2)	(0.1)	14.8	9.5	15.9	25.4	0.5	25.9
Balance at 31 March 2020 carried forward	12.2	76.3	88.5	0.0	55.9	144.4	(50.7)	93.7	0.5	94.2

Adjustments between Group Accounts and Authority Accounts in the Group Movement in Reserves Statement

	2019/20
	Restated
	General Fund Total
	£m
Elimination of intra-group transactions	(51.6)
Total adjustments between Group Accounts and Authority Accounts	(51.6)

Group Balance Sheet

31 March 2020 £m		31 March 2021 £m	Note
1,070.7	Property, plant and equipment	1,100.6	
1.7	Heritage assets	1.7	
5.4	Intangible assets	4.0	
3.0	Long-term investments	3.0	
115.9	Long-term debtors	108.6	
1,196.7	Long term assets	1,217.9	
7.6	Non-Operational Assets	5.7	
5.0	Short-term investments	35.2	
1.2	Inventories	1.4	
89.9	Short-term debtors	78.1	3
78.2	Cash and cash equivalents	81.2	
181.9	Current assets	201.6	
(39.4)	Short-term borrowing	(71.3)	
(117.2)	Short-term creditors	(132.3)	
(156.6)	Current liabilities	(203.6)	

31 March 2020 £m		31 March 2021 £m
(7.6)	Long-term provisions	(2.6)
(435.9)	Long-term borrowing	(456.5)
(654.9)	Other long-term liabilities	(604.3)
(29.4)	Grants receipts in advance	(24.8)
(1,127.8)	Long-term liabilities	(1,088.2)
94.2	Net assets	127.7
Financed by:		
144.9	Usable reserves	207.8
(50.7)	Unusable reserves	(80.1)
94.2	Total reserves	127.7

Group Cash Flow Statement

	2020/21
	£m
Net surplus/(deficit) on the provision of services	34.4
Adjust net (surplus)/deficit for non-cash movements	55.6
Adjust for items included in the net (surplus)/deficit on the provision of services that are investing and financing activities	(103.8)
Net cash flows from operating activities	(13.8)
Net cash flows from investing activities	(24.6)
Net cash flows from financing activities	41.4
Net increase/(decrease) in cash or cash equivalents	3.0
Cash and cash equivalents	
Balance at 1 April	78.2
Balance at 31 March	81.2
Movement in cash and cash equivalents increase / (decrease)	3.0

Notes to the Group Accounts

1. Group boundary

Worcestershire Children First (WCF) is private limited company by guarantee and a 100% wholly owned subsidiary of Worcestershire County Council.

The company is a subsidiary of the Council for accounting purposes and its results have been consolidated into the Group Accounts on a line by line basis using the acquisition basis of consolidation.

2. Accounting policies

The financial statements of WCF have been prepared in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Differences between these standards and the Code would have no material impact on the Group Statements.

The Group Accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 issued by the Chartered Institute of Public Finance (CIPFA). In preparing the Group Accounts, the Council has:

- Aligned the accounting policies of the company with those of the Council and made consolidation adjustments as necessary;
- Consolidated the financial statements of the company with those of the Council on a line by line basis; and
- Eliminated in full: balances, transactions, income and expenditure between the Council and its subsidiary.

The group accounting policies are not significantly different from those used to prepare the Council's single entity statements with the exception of the policy noted below:

- Pensions – the Group Accounts have been prepared incorporating the requirements of IAS19: Retirement Benefits for the treatment of pension costs. IAS19 requires that pension costs are recorded in the year in which the benefit entitlements are earned by the employee rather than the year in which the pension and employer's contributions are actually paid. The Pension Reserve represents the net liability for future pension costs. The financial statements of WCF have been prepared in accordance with Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. The financial position under FRS102 is not

significantly different under IAS19. The Group Accounts reflect the defined benefit transactions and balances for the group, after removing the defined contribution expenses from the subsidiary which are already recognised in the single entity accounts.

- Debtors in the single entity financial statements are initially measured at fair value and then measured at amortised cost. Debtors in the financial statements of the subsidiary are initially measured at transaction price less attributable transaction costs and then subsequently at amortised cost.

3. Group short term debtors

31 March 2020	31 March 2021
£m	£m
Short term debtors:	
36.2 Trade receivables	46.7
4.7 Prepayments	3.8
49.0 Other receivables	27.6
89.9 Total short term debtors	78.1

4. Prior period adjustment

Prior period adjustments may arise from a change in accounting policies or to correct a material error. Changes in estimates are accounted for prospectively, whereas changes in accounting policies are applied retrospectively. Material errors in prior period figures are corrected retrospectively by amended opening balances and comparative amounts for the prior period.

The Group Movement in Reserves Statement 2019/20 has been adjusted to disclose reserve movements in accordance with the CIPFA Code. Amounts disclosed in 2019/20 have been restated as per the table below:

Page 230

	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 Council Reserves	Council's Share of Reserves of subsidiary	Total Reserves attributable to Council
Restated	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Movement in reserves during 2019/20:										
Total Comprehensive Income and Expenditure	35.5	0.0	35.5	0.0	0.0	35.5	41.5	77.0	0.5	77.5
Revised Total Comprehensive Income and Expenditure	35.5	0.0	35.5	0.0	0.0	35.5	41.5	77.0	(51.1)	25.9
Adjustments between group accounts and authority accounts	(51.6)	0.0	(51.6)	0.0	0.0	(51.6)	0.0	(51.6)	0.0	(51.6)
Revised Adjustments between group accounts and authority accounts	(51.6)	0.0	(51.6)	0.0	0.0	(51.6)	0.0	(51.6)	51.6	0.0

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	<p>A resource controlled by the County Council because of past events and from which economic benefits or service potential is expected. Assets can be:</p> <ul style="list-style-type: none">• 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
PPE (Property, Plant & Equipment)	For the purposes of the Statement of Accounts, the Council's property, plant & equipment is abbreviated to PPE.
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: <ul style="list-style-type: none"> • 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 or 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

Audited Statement of Accounts 2020/21

Table of Contents

Pension Fund Statements 2020/21

a) About the Accounts

- 1. Explanatory Foreword and a Review of the Year 2020/21.**
- 2. Fund Account.**
- 3. Net Assets Statement for the Year Ended 31st March 2021.**
- 4. Notes to the Accounts.**

b) Independent Auditors Report to the Members of Worcestershire Pension Fund (the Fund).

About the Accounts

BASIS OF PREPARATION

The Statement of Accounts summarises the Fund's transactions for the 2020 / 2021 financial year and its position at year-end as at 31 March 2021. The accounts have been prepared in accordance with the Code of Practice on Local Accounting in the United Kingdom 2020/21 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 2020/21

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 2020/21.

Net Assets Statement

Statement showing the Pension Fund's financial position at 31 March 2021.

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 since the 2017/18 accounts.

The accounts have been prepared on a going concern basis.

1. Explanatory Foreword and a Review of the Year 2020/21

Foreword by the Chief Financial Officer

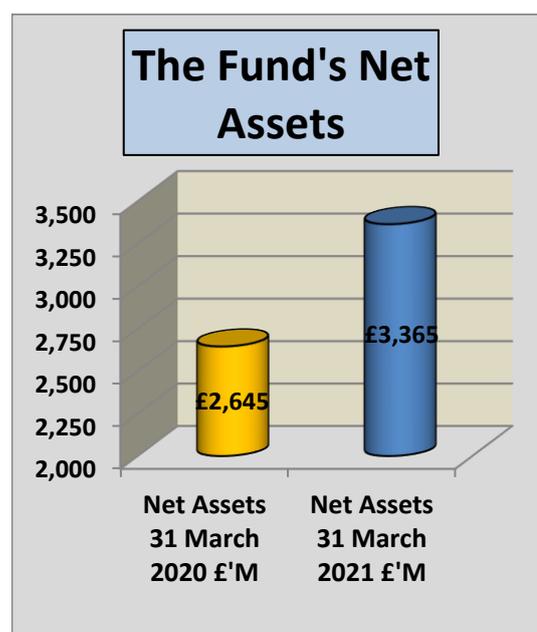
Welcome to the Worcestershire Pension Fund's 2020/21 Statement of Accounts. Worcestershire County Council administers the Local Government Pension Scheme (LGPS), which provides for the occupational pensions of employees, other than teachers, police officers, and fire fighters of the local authorities 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 Fund

The aims of the Fund are to:	
•	Enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to taxpayers and scheduled, designated, community and admitted bodies.
•	Manage employers' liabilities effectively.
•	Ensure that sufficient resources are available to meet all liabilities as they fall due.
•	Maximise the returns from investments within reasonable risk parameters.
The purpose of the Fund 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 £719.4 million from £2,645.4 million at 31 March 2020 to £3,364.8 million at 31 March 2021:
- Income from contributions increased by 230.0%, (£201.2 million from £87.5 million) due largely to a number of main employers providing 3 year contribution prepayments in one instalment in 2020/21).
- Net investment returns increased by £742.7 million compared to 2020/21 which was mainly due to the substantial recovery in the financial markets following the impact of COVID 19.



- Contributions from staff and employers were more than the benefits paid and admin and management expenses in 2020/21 by £87.9 million. This was expected due mainly to some employers paying their 3-year pension contributions upfront this financial year to reduce their overall 3 year costs.
- During the year a surplus resulted on the Fund Account (aside from the net investments returns) totalling £116.6 million, an increase of £107.4 million compared to 2019/20 due to reasons stated above.

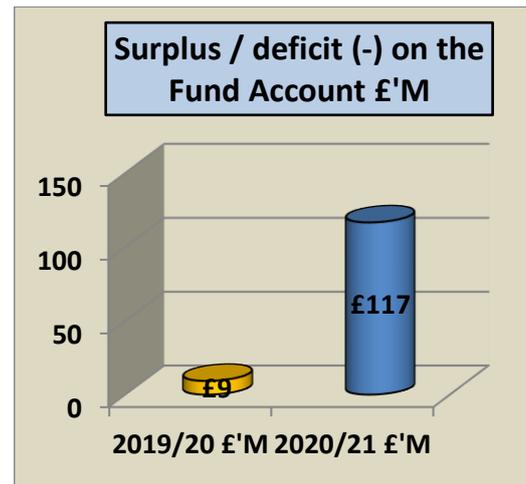


Table 2 analysis of changes within the Fund's membership profile

	31 March 2020	31 March 2021	Change	Change %
Contributors to the Fund	23,133	23,070	(63)	(0.3)
Pensions paid	18,917	19,533	616	3.3
Deferred members	21,585	22,167	582	2.7
	63,635	64,770	1,135	1.8

Scheme membership has continued to grow and is now nearly 65,000. Active employer numbers have decreased from 202 to 183 at the end of March 2021 due mainly to a reduction in the designated employers (mainly Parish and Town Councils) and some employer contractual arrangements terminating and being subsumed within the County Council or District Councils. Given the administrative challenges presented by this continued growth, the Fund regularly review its systems and processes and importantly, the way it engages with, and receives data from scheme employers.

Pensions Administration

In a year dominated by the implications of COVID, that entailed moving to almost 100% working from home supported by an as small as possible enveloping / post opening / printing presence at County Hall, the pensions administration team met its average turnaround targets for all the twelve processes it measures. When 2020/2021 is compared to 2019/2020 for its highest volume processes, the team delivered a business as usual service:

Activity / Process	Target turnaround (working days)	2019 / 2020 average turnaround (working days)	2020 / 2021 average turnaround (working days)
Joiners notification of date of joining	40	10	25
Calculate and notify deferred benefits	30	26	13
Letter notifying actual retirement benefits	15	3	4
Letter notifying estimate of retirement benefits	15	4	4
Process and pay lump sum retirement grant	23	15	15

	2019/20	2020/21
Total Number of staff FTE	19.7	20.7
Admin Cost per member*	£23.83	£31.46

“*” increase in Administration costs per member mainly due to some one off costs incurred in Pensions system set up for increased data security and efficiency

Governance

The Council has established a Pensions Committee to exercise the Administering Authority's responsibility for the management of Worcestershire Pension Fund. The Pensions 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 Pensions Committee is supported by the Pension Administration Advisory Forum and the Pension Investment Sub Committee. Note, it is the Audit and Governance Committee that is charged with governance for the purpose of the accounts.

The Council established a Pension Board in July 2015. The purpose of the Board is to assist the Administering Authority in its role as a scheme manager. 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 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.

The Fund also undertook the Scheme Advisory Board (SAB) 'Good Governance' review which was reported to the Pensions Committee in March 2020 detailing the Fund's 'Good Governance' position statement. This is formally reviewed and reported to Pensions Committee around every 6 months.

Management of the Fund's assets

The management of the Fund's assets is operated through fourteen specialist external managers with nineteen mandates in total. The Pensions Committee is advised in relation to asset allocation decisions and the monitoring of external managers' performance by the Pension Investment Sub Committee, which includes an independent investment 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 a strategic asset allocation review that took place in December 2019 and was endorsed by the Pensions Committee in March 2020, the agreed recommendations were progressed during 2020/21 and will continue over the medium term:

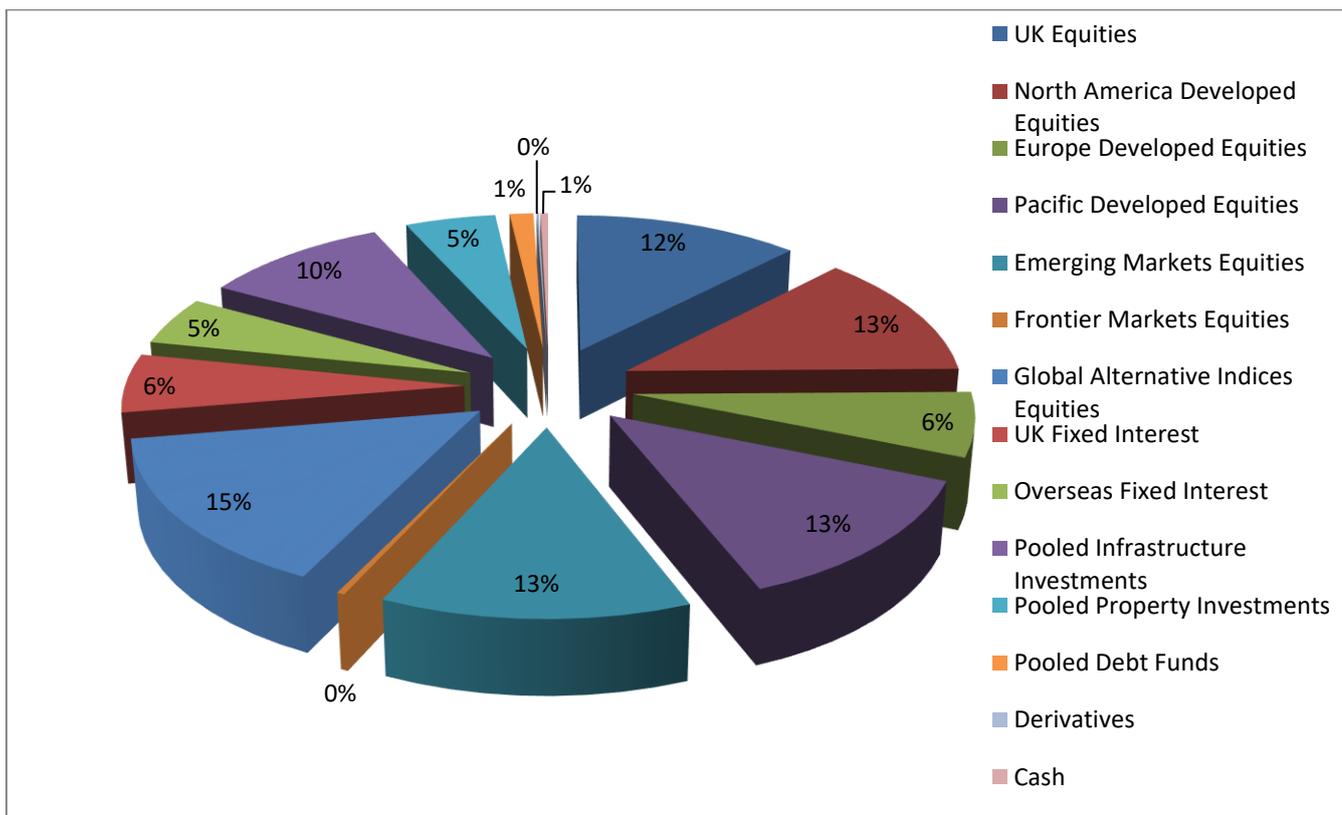
- a) An increase in the allocation to infrastructure or a mix of infrastructure and real estate by 5% from the current strategic allocation of 15% of the Fund to up to 20%.
- b) Maintain the Fund's allocation to fixed income at 10%.
- c) A decrease in the Fund's strategic asset allocation to passive equities by 5% from 55% to 50%. The active equities allocation of 20% remained the same.

During 2020/21 the 2019 strategic asset allocation review's recommendation of a 20% commitment to 'alternatives including property' continued to be implemented following investments into the British Strategic Infrastructure Fund (BSIF) and Venn Property Debt Fund II. In addition, a further commitment to the Bridgepoint Corporate Private Debt Fund was agreed by Committee in March 2021 and is due to be implemented in 2021/22.

River and Mercantile continue to manage the Equity Protection Strategy that was implemented during early March 2018, which continues to provide some asset valuation protection for the market cap passive equity portfolio.

The following chart details the distribution of the Fund's assets as at 31 March 2021:

Table 3 Distribution of the Fund's Assets



Impact of COVID 19

Ongoing discussions throughout the year have taken place with existing fund managers and our actuary to continue to consider and understand the implications of COVID 19 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. This helped cushion somewhat the initial impact on the Fund's market valuations, which has since recovered, but the Fund has seen a reduction in dividends. Excessive volatility in market risk is also managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities as well as equity protection. However, the funding and risk will need to be kept under review.

LGPS Central Limited (LGPSC)

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 LGPS funds (Cheshire, Leicestershire, Shropshire, Staffordshire, the West Midlands, Derbyshire, Nottinghamshire, and the West Midlands Integrated Transport Authority) set up a collective investment vehicle called LGPSC. 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 LGPSC 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 shareholders 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 the Fund’s share consisting of £1.3million of equity and £0.7million of debt.

LGPSC has been in operation just over 3 years and WPF transitioned 17% of its funds into LGPSC's Global Active Emerging Market Managed mandate in July 2019 and LGPSC’s Active Corporate Bond mandate in March 2020. This increases to 64% when including the Pooling undertaken by the ‘Shire’ Pension Funds for passive equities just before LGPSC was formed which is included in the MHCLG pooling return.

Management of the Fund's liabilities

The funding strategy is kept under regular review by the Pensions 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 Fund was carried out by Mercer as at 31 March 2019 to determine the contribution rates with effect from 1 April 2020 to 31 March 2023. The key outcomes of the valuation at that point in time are detailed below:

- The Fund’s assets of £2,795 million represented 90% of the Fund’s past service liabilities of £3,090 million (the “Funding Target”) at the valuation date. This is an increase on the 75% funded position at the 2016 valuation.
- A common rate of contribution of 17.5% 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. Different rates apply across fund employers based on specific factors. This ranges from 13.6% to 26.5%.
- The deficit of £295 million would be eliminated by a contribution addition of £28 million per annum increasing at 3.9% per annum for 15 years.

The next actuarial valuation will take place with an effective date of 31st March 2022, and changes to the employers' contribution rates will be implemented with effect from 1 April 2023.

To meet the requirements of the Regulations, 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 2020/21)

For the year ended 31 March 2021

2019/20		2020/21
£m	Notes	£m
Dealings with members, employers and others directly involved with the Fund		
87.5	Contributions 4	201.2
12.9	Transfers in from other pension funds 5	29.0
100.4		230.2
(111.9)	Benefits 6	(112.6)
(11.2)	Payments to and on account of leavers 7	(9.5)
(123.1)		(122.1)
(22.7)	Net additions / (withdrawals) from dealings with members	108.1
(1.5)	Administrative expenses 8	(2.0)
(14.5)	Management expenses 9	(18.2)
(38.7)	Net additions / (withdrawals) including fund management and administrative expenses	87.9
Returns on investments		
48.6	Investment income 10	29.1
(0.7)	Taxes on income 11	(0.4)
(159.1)	Profit and (losses) on disposal of investments and changes in the market value of investments 12a & 15b	602.8
(111.2)	Net return / (loss) on investments	631.5
(149.9)	Net increase / (decrease) in the net assets available for benefits during the year	719.4
2,795.3	Opening net assets	2,645.4
2,645.4	Closing net assets	3,364.8

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 and increased transaction costs due to the restructuring of the equity protection strategy. The increase in market valuations is mainly due to the significant recovery of the financial markets following the impact of COVID 19.

3. Net Assets Statement for the year ended 31 March 2021 (showing the financial position at 31 March 2020 and 2021)

2019/20		Notes	2020/21
£m			£m
1.4	Long term Investment Assets	12	1.4
2,180.1	Investment Assets -Internally Managed	12 &13	2,861.5
428.8	Investment Assets -LGPSC Managed	12 &13	562.1
25.5	Cash Deposits	12	13.6
2,635.8			3,438.6
(21.4)	Investment Liabilities	12	(156.3)
35.3	Current Assets	17	86.9
2.0	Non-Current Assets	18	1.6
(6.3)	Current Liabilities	19	(6.0)
2,645.4	Net assets of the Fund available to fund benefits at the period end		3,364.8

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 apart from those financial instruments that are held solely for the payments of principal and interest (SPPI) such as cash and debtors which are measured at amortised cost. 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 apart from those financial instruments that are held solely for the payments of principal and interest (SPPI) such as cash and debtors which are measured at amortised cost. 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 comprise of a summary of significant accounting policies against the relevant note as opposed to a prescribed list of accounting policies. 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 Sub Committee, which includes an independent investment adviser.

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 the 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 2020	31 March 2021
Number of employers	202	183
Employee Members of the Fund		
County Council	7,653	7,460
Other Employers	15,480	15,610
Total	23,133	23,070
Pensioner Members of the Fund		
County Council	5,565	5,869
Other Employers	13,352	13,664
Total	18,917	19,533
Deferred Members of the Fund		
County Council	8,602	8,787
Other Employers	12,983	13,380
Total	21,585	22,167
Total Number of Members in the Fund	63,635	64,770

Whilst member numbers have increased the employer numbers have decreased mainly due to a reduction in the designated employers (Parish and Town Councils) and some employer contractual arrangements terminating and being subsumed within the County Council or District Councils.

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 2021. Employee contributions are in addition to employer contributions which are set based on actuarial valuations. The last valuation conducted was at 31 March 2019 which took effect from the 1st April 2020 onwards and currently, employer contribution rates range from 13.6% to 26.5% of pensionable pay. The common 2020/21 employer contribution rate for the Fund is 17.5%.

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

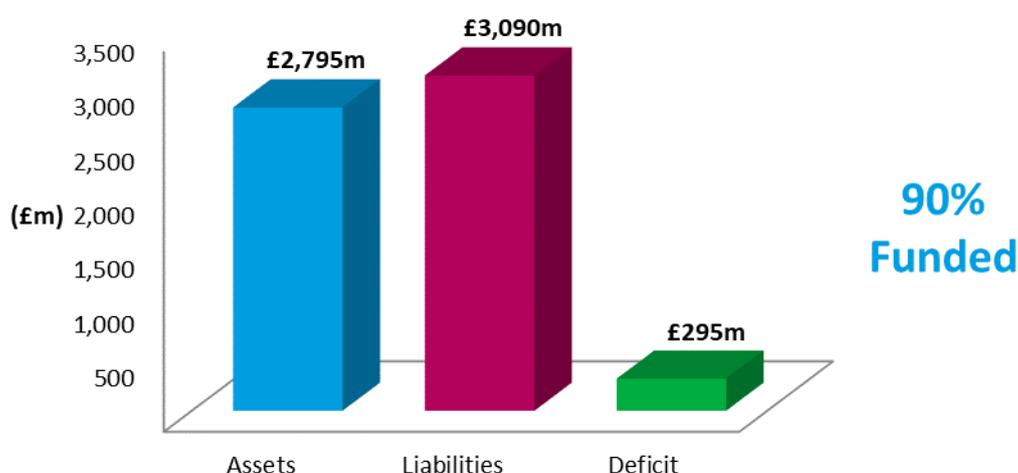
The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of the International Accounting Standard (IAS) 19 and relevant actuarial standards. As permitted under the Code, the Fund has opted to disclose the actuarial 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 Fund was carried out as at 31 March 2019 to determine the contribution rates with effect from 1 April 2020 to 31 March 2023.

On the basis of the assumptions adopted, the Fund's assets of £2,795 million represented 90% of the Fund's past service liabilities of £3,090 million (the "Solvency Funding Target") at the valuation date. The deficit at the valuation was therefore £295 million.



The valuation also showed that a Primary contribution rate of 17.5% of pensionable pay per annum was required from employers. The Primary 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. Equally, where there is a surplus it is usually appropriate to offset this against contributions for future service, in which case contribution reductions will be put in place to allow for this.

The FSS sets out the process for determining the recovery plan in respect of each employer. At this actuarial valuation the average recovery period adopted is 15 years, and the total initial recovery payment (the "Secondary rate" for 2020-2023) is an addition of approximately £29m per annum in £ terms (which allows for the contribution plans which have been set for individual employers under the provisions of the FSS). Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated 31 March 2020.

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 funding plan adopted in assessing the contributions for each individual employer is in accordance with the FSS. Any different approaches adopted, e.g. with regard to the implementation of contribution increases and deficit recovery periods, are as determined through the FSS consultation process.

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

	For past service liabilities (Solvency Funding Target)	For future service liabilities (Primary rate of contribution)
Rate of return on investments (discount rate)	4.05% per annum	4.65%** per annum
Rate of pay increases (long term)*	3.9% per annum	3.9% per annum
Rate of increases in pensions in payment (in excess of GMP)	2.4% per annum	2.4% per annum

* allowance was also made for short-term public sector pay restraint over a 4 year period.

**This is the discount rate for the “growth pot”, and applies to the majority of the Fund’s assets. Certain employers have a more cautious investment strategy, and so a lower discount rate

The assets were assessed at market value. The next triennial actuarial valuation of the Fund is due as at 31 March 2022. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2023.

The McCloud Judgment

The “McCloud judgment” refers to a legal challenge in relation to historic benefit changes for all public sector schemes being age discriminatory. The Government has accepted that remedies are required for all public sector pension schemes and a consultation was issued in July 2020 including a proposed remedy for the LGPS. The key feature of the proposed remedy was to extend the final salary underpin to a wider group of members for service up to 31 March 2022. This applies to all members who were active on or before 31 March 2012 and who either remain active or left service after 1 April 2014. In line with guidance issued by the LGPS Scheme Advisory Board, the above funding level and Primary contribution rate do not include an allowance for the estimated cost of the McCloud judgment. However, at the overall fund level we estimate that the cost of the judgment could be an increase in past service liabilities of broadly £29 million and an increase in the Primary contribution rate of 0.6% of pensionable pay per annum. Where the employer has elected to include a provision for the cost of the judgment, this is included within the secondary rate for that employer (and also within the whole Fund secondary rate shown above).

Impact of Covid 19

The valuation results and employer contributions above were assessed as at 31 March 2019. In 2020 and 2021 we have so far seen significant volatility and uncertainty in markets around the world in relation to the COVID-19 pandemic. This potentially has far-reaching consequences in terms of funding and risk, which will need to be kept under review. We believe that it is important to take stock of the situation as opposed to make immediate decisions in what is an unprecedented set of events. Our view is that employer contributions should not be revisited as a general rule but we have consulted on updates to the Funding Strategy Statement which will allow the Fund to review contributions between valuations where there is a material change in employer covenant or liabilities, in line with the new regulations on contribution flexibilities introduced in September 2020. The position will be kept under review: we will monitor the development of the situation and keep all stakeholders informed of any potential implications so that the outcome can be managed effectively.

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 2021 (the 31 March 2020 assumptions are included for comparison):

	31 March 2020	31 March 2021
Rate of return on investments (discount rate)	2.4% per annum	2.1% per annum
Rate of CPI Inflation / CARE benefit revaluation	2.1% per annum	2.7% per annum
Rate of pay increases*	3.6% per annum	4.2% per annum
Rate of increases in pensions in payment (in excess of GMP) / Deferred revaluation	2.2% per annum	2.8% per annum

* This is the long-term assumption. An allowance corresponding to that made at the latest formal actuarial valuation for short-term public sector pay restraint was also included.

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 2020.

During the year corporate bond yields decreased, resulting in a lower discount rate being used for IAS26 purposes at the year-end than at the beginning of the year (2.1% p.a. vs 2.4% p.a.). In addition, the expected long-term rate of CPI inflation increased during the year, from 2.1% p.a. to 2.7% p.a. Both of these factors 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 2020 was estimated as £4,207 million including the potential impact of the McCloud Judgment.

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£63 million (this includes any increase in liabilities arising as a result of early retirements/augmentations). There was also an increase in liabilities of £617 million due to “actuarial losses” (i.e. the effects of the changes in the actuarial assumptions used, referred to above, offset to a small extent by the fact that the 2021 pension increase award was less than assumed).

The net effect of all the above is that the estimated total value of the Fund’s promised retirement benefits as at 31 March 2021 is therefore £4,987 million. Therefore, based on the IAS26 assumptions adopted, the IAS26 balance sheet position at the 31st March 2020 and the 31st March 2021 is as follows:

	31 March 2020	31 March 2021
	£m	£m
Present value of promised retirement benefits	4,207	4,987
Fair value of Fund assets	2,635	3,365
Net liability	1,572	1,622

GMP Indexation

Public service schemes were previously required to provide full CPI pension increases on GMP benefits for members who reach State Pension age between 6 April 2016 and 5 April 2021. The UK Government has recently confirmed that it will extend this to include members reaching State Pension age from 6 April 2021 onwards. This will give rise to a further cost to the LGPS and its employers, and an estimation of this cost was included within the IAS26 liabilities calculated last year and is again included in the overall liability figure above.

Paul Middleman
Mercers Ltd
Fellow of the Institute and
Faculty of Actuaries

Laura Evans
Mercers Ltd
Fellow of the Institute and
Faculty of Actuaries

Mercer Limited

May 2021

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.

The COVID-19 global pandemic caused significant uncertainty with regard to national economic conditions, and, although a significant amount of funding was provided by the government to cope with the pandemic during 2020/21, this is likely to impact on the level of funding that local government bodies may receive in future years which will need to be taken into account for employer's contributions to the Fund.

It is anticipated that the future value of investments may continue to be exposed to increased market volatility as a result of COVID-19 and this may impact on the value of the Fund in the short to medium term; however, it is not possible to reliably estimate the financial impact of this on the position and performance of the Fund in future periods.

The Fund Accounts include more detail regarding the impact of COVID-19 in the accompanying disclosure notes concerning Funding Arrangements and Accounting Assumptions and the Chief Financial Officer's foreword.

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 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: -

	2019/20	2020/21
By Category	£m	£m
Employers		
Normal contributions	39.6	119.2
Deficit recovery contributions	19.0	54.0
Augmentation contributions	4.4	2.5
Additional contributions	0.0	0.0
Employees		
Normal contributions	24.0	25.0
Additional contributions	0.5	0.5
	87.5	201.2

	2019/20	2020/21
By authority:	£m	£m
Worcestershire County Council	10.0	89.2
Scheduled bodies	63.2	99.0
Community admission bodies	5.9	5.2
Transferee admission bodies	7.5	6.9
Designated bodies	0.9	0.9
	87.5	201.2

The increase in contributions in 2021/21 was due to a number of major employer paying three years of contributions upfront.

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. Individual transfers in and from other pension funds are as follows: -

	2019/20	2020/21
	£m	£m
Individual transfers	12.9	12.5
Bulk transfers	0.0	16.5
	12.9	29.0

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:	2019/20	2020/21
	£m	£m
Pensions	89.1	92.8
Commutations and lump sum retirement benefits	20.7	16.8
Lump sum death benefits	2.1	3.0
	111.9	112.6

By authority:	2019/20	2020/21
	£m	£m
Worcestershire County Council	41.7	41.9
Scheduled bodies	57.7	58.2
Admitted bodies	1.6	1.6
Community admission bodies	7.2	7.0
Transferee admission bodies	3.0	3.1
Designated bodies	0.7	0.8
	111.9	112.6

NOTE 7: PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	2019/20	2020/21
	£m	£m
Individual transfers	11.2	9.5
Group transfers	0.0	0.0
	11.2	9.5

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.

	2019/20	2020/21
	£m	£m
Employee expenses	0.6	0.6
Support services	0.1	0.5
Actuarial services	0.8	0.5

Other expenses	0.0	0.4
	1.5	2.0

The audit fee (included in support services above) for work completed by the Fund's external auditors for the year ended 31 March 2021 was £33,743 1.7% of total admin costs (£23,742 for the year ended 31 March 2020 1.6% of total admin costs). In addition, a non audit service fee of £8,500 included in support services above was incurred relating to IAS19 requirements.

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.

	2019/20	2020/21
	£m	£m
Oversight and Governance	0.1	0.2
LGPSC*	0.0	0.7
Investment Management Expenses		
Administration, management and custody fees*	14.4	17.3
Other expenses	0.0	0.0
	14.5	18.2

*The oversight and governance expenses relating to LGPSC were previously included as Administration under Investment Management expenses and were £0.6m in 2019/20.

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 oversight and governance. All investment management expenses are accounted for on an accruals basis. The management costs are as follows: -

2020/21	Management Fees	Transaction Costs	Performance Related Fees	Total
			£m	£m
LGPS Central (Bonds)	0.1	1.3	0.0	1.4
LGPS Central (Emerging Markets)	1.4	0.6	0.0	2.0
Nomura Asset Management UK Ltd	1.2	0.3	0.0	1.5
Legal & General Asset Management	0.5	0.0	0.0	0.5
Green Investment Bank	0.5	0.0	0.0	0.5
Hermes	0.5	0.0	0.0	0.5
Invesco	0.8	0.0	0.0	0.8
VENN	0.4	0.0	0.0	0.4
Walton Street	0.1	0.0	0.0	0.1
AEW	0.1	0.0	0.0	0.1
Stonepeak	2.7	0.0	0.0	2.7
First State	0.7	0.0	0.0	0.7
Bridgepoint (was EQT)	0.7	0.0	0.0	0.7
River and Mercantile	0.4	2.5	0.0	2.9
BSIF	2.2	0.0	0.0	2.2
Closed Mandates & one off advisory fees	0.2	0.0	0.0	0.2
Subtotal	12.5	4.7	0.0	17.2
Custody Fees				0.1
Total Fees				17.3

2019/20	Management Fees	Transaction Costs	Performance Related Fees	Total
			£m	£m
LGPS Central (Bonds)	0.0	0.0	0.0	0.0
LGPS Central (Emerging Markets)	0.7	0.1	0.0	0.8
Nomura Asset Management UK Ltd	1.1	0.3	0.0	1.4
Legal & General Asset Management	0.6	0.0	0.0	0.6
Green Investment Bank	0.6	0.0	0.0	0.6
Hermes	0.7	0.0	0.0	0.7
Invesco	0.6	0.0	0.0	0.6
VENN	0.4	0.0	0.0	0.4
Walton Street	0.3	0.0	0.0	0.3
AEW	0.1	0.0	0.0	0.1
Stonepeak	5.4	0.0	0.0	5.4
First State	0.6	0.0	0.0	0.6
Bridgepoint (was EQT)	0.5	0.0	0.0	0.5
River and Mercantile	0.4	0.0	0.0	0.4
BSIF	0.0	0.0	0.0	0.0
Closed Mandates & one off advisory fees	1.4	0.3	0.0	1.7
Subtotal	13.4	0.7	0.0	14.1
Custody Fees				0.3
Total Fees				14.4

The £17.3m investment management expenses incurred in 2020/21 represent 0.52% or 52 basis points (bps) of the market value of the Fund's assets as at 31st March 2021 (0.55% or 55bps 31 March 2020). The cash for the pooled property investments, pooled infrastructure investment and equity protection strategy 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 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 £14.4 million to £18.2 million for 2020/21 (£12.8 million to £14.5 million for 2019/20). 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.

	2019/20	2020/21
	£m	£m
Fixed interest securities	2.0	3.5
Equity dividends	25.2	9.1
Pooled property investments	10.4	7.4
Pooled infrastructure investments	9.0	8.9
Interest on cash deposits	2.0	0.1
Securities lending	0.0	0.1
	48.6	29.1

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.

	2019/20	2020/21
	£m	£m
Withholding tax – equities	(0.7)	(0.4)
	(0.7)	(0.4)

NOTE 12: INVESTMENTS

	Market value 31 March 2020	Market Value 31 March 2021
	£m	£m
Long term Investment Assets		
LGPS Central shares	1.4	1.4
Investment Assets -LGPS Central Managed		
Equities	285.2	402.4
Fixed Interest Securities	143.6	159.7
Investment assets -WPF Managed		
Fixed interest securities	211.2	192.7
Equities	307.9	448.8
Pooled investment vehicles	1,126.0	1,518.7
Pooled property investments	149.8	160.7
Pooled infrastructure investments	299.1	332.6
Pooled debt Assets	38.0	42.2
Derivatives - futures	42.8	160.5
Derivatives - forward FX	0.0	0.0
Cash deposits	25.5	13.6
Investment income due	5.3	5.3
Amounts receivable for sales	0.0	0.0
Total investment assets	2,635.8	3,438.6
Investment liabilities		
Derivatives - futures	(21.4)	(156.3)
Derivatives - forward FX	(0.0)	(0.0)
Amounts payable for purchases	(0.0)	(0.0)
Total investment liabilities	(21.4)	(156.3)
Net investment assets	2,614.4	3,282.3

NOTE 12A: RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

	Market value 31 March 2020	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 2021
	£m	£m	£m	£m	£m
-					
Long-term Investment Assets					
LGPS Central – Shares	1.4	0.0	0.0	0.0	1.4
	1.4	0.0	0.0	0.0	1.4
Investment Assets -LGPS Central Managed					
Fixed Interest Securities	285.2	0.0	(1.9)	119.1	402.4
Equities	143.6	0.0	(1.4)	17.5	159.7
	430.2	0.0	(3.3)	136.6	563.5
Investment Assets -WPF Managed					
Fixed interest securities	211.2	397.2	(412.4)	(3.3)	192.7
Equities	307.9	123.9	(108.4)	125.4	448.8
Pooled investment vehicles	1,126.0	91.5	(69.9)	371.1	1,518.7
Pooled property investments	149.8	20.7	(15.3)	5.5	160.7
Pooled infrastructure investments	299.1	45.8	(17.4)	5.1	332.6
Pooled debt investments	38.0	8.9	(4.1)	(0.6)	42.2
	2,562.2	688.0	(630.8)	639.8	3,259.2
Derivative contracts:					
Futures	21.4	367.0	(360.4)	(23.8)	4.2
Forward currency contracts	0.0	0.0	0.0	0.0	0.0
	2,583.6	1,055.0	(991.2)	616.0	3,263.4
Other investment balances:					
Cash deposits	25.5			(13.2)	13.6
Investment income due	5.3				5.3
Amount receivable for sales of investments	0.0				0.0
Amounts payable for purchases of investments	0.0				0.0
Net investment assets	2,614.4			602.8	3,282.3

Prior year comparators:

	Market value 31 March 2019	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 2020
	£m	£m	£m	£m	£m
-					
Long-term Investment Assets					
LGPS Central – Shares	1.4	0.0	0.0	0.0	1.4
	1.4	0.0	0.0	0.0	1.4
Investment Assets -LGPS Central Managed					
Fixed Interest Securities	0.0	345.9	0.0	(60.7)	285.2
Equities	0.0	158.6	0.0	(15.0)	143.6
	1.4	504.5	0.0	(75.7)	430.2
Investment Assets -WPF Managed					
Fixed interest securities	361.5	313.4	(466.1)	2.4	211.2
Equities	715.7	149.8	(541.6)	(16.0)	307.9
Pooled investment vehicles	1,291.0	3.8	(65.4)	(103.4)	1,126.0
Pooled property investments	171.8	12.6	(26.2)	(8.4)	149.8
Pooled infrastructure investments	159.4	203.0	(78.0)	14.7	299.1
Pooled debt investments	12.4	25.8	(1.6)	1.4	38.0
	2,713.2	1,212.9	(1,178.9)	(185.0)	2,562.2
Derivative contracts:					
Futures	11.3	74.7	(83.9)	19.3	21.4
Forward currency contracts	(2.7)	15.0	(14.7)	2.4	0.0
	2,721.8	1,302.6	(1,277.5)	(163.3)	2,583.6
Other investment balances:					
Cash deposits	32.9			4.2	25.5
Investment income due	7.3				5.3
Amount receivable for sales of investments	1.8				0.0
Amounts payable for purchases of investments	(5.4)				0.0
Net investment assets	2,758.4			(159.1)	2,614.4

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. The changes in purchases and sales in derivatives relate to transactions made within the equity protection strategy maintained by River and Mercantile.

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 Fund such as fees, commissions, and other fees. Transaction costs incurred during the 2020/2021 year amounted to £4.7 million, (2019/2020 £0.8

million). These transaction costs represent 0.014% or 1.4bps of the market value of the Fund's assets as at 31 March 2021 (3bps at 31 March 2020).

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: 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	2019/20		2020/21	
	£m	%	£m	%
LGPS Central (Bonds)	143.6	6	159.7	5
LGPS Central (Emerging Markets)	285.2	11	402.4	12
JP Morgan Asset Management (Bonds)	0.2	0	0.2	0
JP Morgan Asset Management (Emerging Markets)	1.5	0	1.4	0
Nomura Asset Management UK Ltd	321.1	12	455.0	14
Schroder Investment Management	1.4	0	1.3	0
Legal & General Asset Management	1,118.3	43	1,514.5	47
Green Investment Bank	46.7	2	40.2	1
Hermes (Fund I and II)	97.9	4	104.9	3
Invesco (Euro and a UK Property Fund)	100.5	4	105.1	3
VENN I	21.1	1	12.8	1
VENN II			6.6	0
Walton Street	7.6	0	4.5	0
Walton Street II	3.2	0	5.0	0
AEW	17.4	1	18.8	1
Stonepeak	60.6	2	81.1	2
First State	93.9	4	100.4	3
Bridgepoint (was EQT)	38.0	1	42.2	1
River and Mercantile	245.4	9	200.6	6
WCC Managed Account	4.1	0	5.0	0
Gresham House	0.0	0	13.9	1
	2,607.7	100	3,275.6	100

The above excludes £1.4m (2019/20 £1.4m) Invested in LGPS Central and £5.3m (2019/20 £5.3m) of investment income due. The following investments represent more than 5% of the net assets of the Fund:

	Market value 31 March 2020	% of total Fund	Market value 31 March 2021	% of total Fund
Security	£m		£m	
LGIM – North America Index Pooled Fund	287.7	11.1	410.8	12.6
LGPS Central Emerging Market Equity Pool	285.2	11.0	402.4	12.3
LGIM – UK Equity Index Pooled Fund	285.9	11.0	396.8	12.1
LGIM – Europe (ex-UK) Index Pooled Fund	155.8	6.0	209.8	6.4
LGIM - Client Specific unitted Fund -STAJ	137.4	5.3	195.2	6.0
River and Mercantile UK Gilts	211.2	8.1	192.7	5.9
LGIM - MSCI World Mini Volatility Index	117.6	4.5	188.9	5.8

NOTE 12 C 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 £2.8 million (2019/20 £4.6 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 £2.9 million (2019/20 £5.0 million) representing 106.2% of stock lent.

Income received from stock lending activities was £0.1 million for the year ending 31 March 2021 (2019/20 £0.0 million). 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 13A: 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 a futures contract 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 2019/20 the Fund entered into a contract with River and Mercantile, to hedge the gains in equities. This involved entering into exchange-traded options on 3 major indices and purchasing a collateral pool of Gilts and the strategy has been maintained.

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 2020	Economic Exposure	Market Value 31 March 2021
Type of future	Expiration	£m	£m	£m	£m
UK Gilt exchange traded	Under one year				
UK FTSE exchange traded option	Under one year	0.0	15.9	0.0	64.6
EUROSTOXX exchange traded option	Under one year	0.0	15.2	0.0	33.1
US S+P exchange traded option	Under one year	0.0	11.7	0.0	62.8
Overseas exchanged traded	under one year				
Total assets			42.8		160.5

LIABILITIES		Economic Exposure Value	Market Value 31 March 2020	Economic Exposure Value	Market Value 31 March 2021
Type of future	Expiration	£m	£m	£m	£m
UK Gilt exchange traded	Under one year				
UK FTSE exchange traded option	Under one year	0.0	(9.5)	0.0	(55.8)
EUROSTOXX exchange traded option	Under one year	0.0	(6.1)	0.0	(34.0)
US S+P 500 exchange traded option	Under one year	0.0	(5.8)	0.0	(66.5)
Overseas exchanged traded	Under one year				
Total liabilities			(21.4)		(156.3)

Net futures

21.4

4.2

OPEN FORWARD CURRENCY CONTRACTS AS AT 31 MARCH 2021

Settlement	Currency Bought	Local Currency Value	Currency Sold	Local Currency Value	Asset Value	Liability Value
		£m		£m	£m	£m

There were no open contracts as at the 31st of March 2021

0.0

(0.0)

Net forward currency contracts at 31 March 2021

0.0

Prior year comparative:

Open forward currency contracts at 31 March 2020

0.0

0.0

Net forward currency contracts at 31 March 2020

0.0

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. Please see note 16 for further analysis of Cash Instruments.

	2019/20	2020/21
Cash	£m	£m
Cash deposits	18.6	7.0
Cash instruments	6.9	6.6
	25.5	13.6

NOTE 14: FAIR VALUE

NOTE 14 A: 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 14 B: 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 Fund into levels 1 to 3, based on the level at which the fair value is observable:

	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
Values at 31 March 2021	£m	£m	£m	£m
Fair Value Financial assets				
Financial assets at fair value through profit and loss	1,208.9	1,679.2	535.5	3,423.6
Total fair value financial assets	1,208.9	1,679.2	535.5	3,423.6
Fair Value Financial Liabilities				
Financial liabilities at fair value through profit and loss		(156.3)		(156.3)
Total fair value financial liabilities	0.0	(156.3)	0.0	(156.3)
Net fair value financial assets	1,208.9	1,522.9	535.5	3,267.3

Values at 31 March 2020	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
	£m	£m	£m	£m
Fair Value Financial assets				
Financial assets at fair value through profit and loss	953.2	1,168.8	486.9	2,608.9
Total fair value financial assets	953.2	1,168.8	486.9	2,608.9
Fair Value Financial Liabilities				
Financial liabilities at fair value through profit and loss		(21.4)		(21.4)
Total fair value financial liabilities	0.0	(21.4)	0.0	(21.4)
Net fair value financial assets	953.2	1,147.4	486.9	2,587.5

NOTE 14 C: SENSITIVITY OF ASSETS VALUED AT LEVEL 3

Having analysed historical data and current market trends, and consulted with independent investment advisors, the Fund has determined that the valuation methods described in Note 14a are likely to be accurate to within the following ranges. This sets out below the consequent potential impact on the closing value of investments held at 31 March 2021.

Sensitivity Analysis	Valuation range +/- %	Value as at 31 st March 2021 £m	Valuation Increase £m	Valuation Decrease £m
Pooled Investments - Property Funds	3.8%	160.7	166.8	154.6
Pooled Investments - Infrastructure Funds	3.8%	332.6	345.2	320.0
Pooled Investments - Debt Funds	3.8%	42.2	43.8	40.6
Total		535.5	555.8	515.2

The valuation for these asset classes are based on the volatility over three years of monthly investment returns. The return is based upon the market value and income and trades supplied by our underlying managers and grouped accordingly

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 1 st April 2020	149.8	299.1	38.0	486.9
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	20.7	45.8	8.9	75.4
Sales and derivative receipts	(15.3)	(17.4)	(4.1)	(36.8)
Unrealised gains/(losses)	5.4	4.8	(0.8)	9.4
Realised gains/(losses)	0.1	0.3	0.2	0.6
Market value 31st March 2021	160.7	332.6	42.2	535.5

NOTE 15: FINANCIAL INSTRUMENTS

NOTE 15 A: 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.

Fair value through profit and loss 2019/20	Financial Instruments at Amortised Cost 2019/20		Fair value through profit and loss 2020/21	Financial Instruments at Amortised Cost 2020/21
£m	£m		£m	£m
		Financial assets		
	1.4	Other share capital		1.4
428.8		LGPS Central Managed	562.1	
211.1		Fixed interest securities	192.7	
307.9		Equities	448.8	
1,126.0		Pooled investment vehicles	1,518.7	
149.8		Pooled property investments	160.7	
299.1		Pooled Infrastructure investments	332.6	
38.0		Pooled Debt investments	42.2	
42.8		Derivatives - Futures	160.5	
0.0		Derivatives - Forward FX	0.0	
	29.6	Cash		88.1
5.3		Other investment Balances	5.3	
	31.2	Current assets		12.4
	2.0	Non-current assets		1.6
2,608.9	64.2		3,423.6	103.5
		Financial liabilities		
(21.4)		Derivatives - Futures	(156.3)	
(0.0)		Derivatives - Forward FX	(0.0)	
(0.0)		Other investment balances	(0.0)	
	(6.3)	Current liabilities		(6.0)
(21.4)	(6.3)		(156.3)	(6.0)
2,587.5	57.9		3,267.3	97.5

NOTE 15 B: NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

31 March 2020		31 March 2021
£m		£m
	Financial assets	
(185.0)	Fair value through profit and loss	639.8
4.2	Financial Assets at Amortised Cost	(13.2)
	Financial liabilities	
21.7	Fair value through profit and loss	(23.8)
(159.1)	Total	602.8

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.

- 1) 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.
- 2) Risk management is mostly concerned with:
 - a. avoiding the possibility of loss, or
 - b. limiting a deficiency in the underlying Fund, or
 - c. 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 2021:

- 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 Fund'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 for the Fund 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 Sub Committee, 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 2020/21 reporting period:

Asset Type	Potential Market Movements (+/-)
Fixed interest securities	5.9%
Global bonds	5.9%
UK equities	16.2%
Overseas equities	13.4%
UK pooled investment vehicles	16.2%
Overseas pooled investment vehicles	14.9%
Global pooled investment vehicles	14.9%
Emerging markets pooled equities	14.9%
Pooled property investments	3.8%
Pooled infrastructure investments	3.8%
Pooled debt investments	3.8%

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	Percentage change	Value on	Value on
	31 March 2021		increase	decrease
	£m	%	£m	£m
Cash and cash equivalents	13.6	0.0%	13.6	13.6
Investment portfolio assets:				
UK fixed interest securities	192.7	5.9%	204.1	181.3
Overseas fixed interest securities	0.0	5.9%	0.0	0.0
Global bonds	159.7	5.9%	169.1	150.3
UK equities	4.3	16.2%	5.0	3.6
Overseas equities	433.9	13.4%	492.0	375.8
UK pooled investment vehicles	396.8	16.2%	461.1	332.5
Overseas pooled investment vehicles	631.2	14.9%	725.3	537.1
Global pooled investment vehicles	497.1	14.9%	571.2	423.0
Emerging market pooled equities	406.6	14.9%	467.2	346.0
Pooled property investments	160.7	3.8%	166.8	154.6
Pooled infrastructure investments	332.6	3.8%	345.3	319.9
Pooled debt investments	42.2	3.8%	43.8	40.6
Net derivative assets	4.2	0.0%	4.2	4.2
Investment income due	5.3	0.0%	5.3	5.3
Amounts receivable for sales	0.0	0.0%	0.0	0.0
Amount payable for purchases	0.0	0.0%	0.0	0.0
Total	3,280.9		3,674.0	2,887.8

Prior-year comparators

Asset Type	Value as at	Percentage change	Value on	Value on
	31 March 2020		increase	decrease
	£m	%	£m	£m
Cash and cash equivalents	25.5	0.0%	25.5	25.5
Investment portfolio assets:				
UK fixed interest securities	211.2	5.7%	223.2	199.2
Overseas fixed interest securities	0.0	5.7%	0.0	0.0
Global bonds	143.6	5.7%	151.8	135.4
UK equities	8.8	14.1%	10.0	7.6
Overseas equities	293.1	11.9%	328.0	258.2
UK pooled investment vehicles	285.9	14.1%	326.2	245.6
Overseas pooled investment vehicles	454.4	12.5%	511.2	397.6
Global pooled investment vehicles	389.0	12.5%	437.6	340.4
Emerging market pooled equities	287.9	12.5%	323.9	251.9
Pooled property investments	149.8	15.0%	172.2	127.4
Pooled infrastructure investments	299.1	6.5%	318.6	279.6
Pooled debt Investments	38.0	6.5%	40.5	35.5
Net derivative assets	21.4	0.0%	21.4	21.4
Investment income due	5.3	0.0%	5.3	5.3
Amounts receivable for sales	0.0	0.0%	0.0	0.0
Amount payable for purchases	0.0	0.0%	0.0	0.0
Total	2,613.0		2,895.4	2,330.6

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 2020	Value as at 31 March 2021
	£m	£m
Cash and cash equivalents	25.5	13.6
Cash balances	4.1	74.5
Fixed interest securities	211.2	192.7
Total	240.8	280.8

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 Fund's performance reporting advisor, Portfolio Evaluation Limited, 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 2021 of a +/- 100 basis points (BPS) change in interest rates:

Asset Type	Carrying amount as at 31 March 2021	Change in year in the net assets available to pay benefits	
		+100 BPS	-100 BPS
	£m	£m	£m
Cash and cash equivalents	13.6	13.7	13.5
Cash balances	74.5	75.2	73.8
Fixed interest securities	192.7	194.7	190.7
Total change in assets available	280.8	283.6	278.0

Asset Type	Carrying amount as at 31 March 2020	Change in year in the net assets available to pay benefits	
		+100 BPS	-100 BPS
	£m	£m	£m
Cash and cash equivalents	25.5	25.8	25.2
Cash balances	4.1	4.1	4.1
Fixed interest securities	211.2	213.3	209.1
Total change in assets available	240.8	243.2	238.4

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. Changes 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	Asset value as at
	31 March 2020	31 March 2021
	£m	£m
Overseas quoted securities	293.1	433.9
Overseas pooled investment vehicles	454.4	631.2
Global pooled investment vehicles	389.0	497.1
Global bonds and pooled EM equities	431.5	566.3
Overseas pooled property investments	74.6	73.1
Total overseas assets	1,642.6	2,201.6

Overseas bonds are 100% hedged to GBP at 31 March 2021.

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 7.4% (as measured by one standard deviation).

This analysis assumes that all other variables, in particular interest rates, remain constant.

An 7.4% 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 2021	Change to net assets available to pay benefits	
		+7.4%	-7.4%
	£m	£m	£m
Overseas quoted securities	433.9	466.0	401.8
Overseas pooled investment vehicles	631.2	677.9	584.5
Global pooled investment vehicles	497.1	533.9	460.3
Global bonds and pooled EM equities	566.3	608.2	524.4
Overseas pooled property investments	73.1	78.5	67.7
Total change in assets available	2,201.6	2,364.5	2,038.7

Currency exposure - asset type	Asset value as at 31 March 2020	Change to net assets available to pay benefits	
		+10.2%	-10.2%
	£m	£m	£m
Overseas quoted securities	293.1	323.0	263.2
Overseas pooled investment vehicles	454.4	500.7	408.1
Global pooled investment vehicles	389.0	428.7	349.3
Global bonds and pooled EM equities	431.5	475.5	387.5
Overseas pooled property investments	74.6	82.2	67.0
Total change in assets available	1,642.6	1,810.1	1,475.1

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 Sub Committee, 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 Fund invests in Cash Instruments, which facilitate management of assets under custody, All liquidity funds chosen have an 'AAA' rating from a leading rating agency. Swap collateral is held to support our equity protection hedge.

The Fund's cash holding at 31 March 2021 was £88.1 million (31 March 2020: £29.6 million). This was held with the following institutions:

Summary	Rating	Balances as at 31	Balances as at 31
		March 2020	March 2021
		£m	£m
Cash Instruments			
BNY Mellon US Dollar Liquidity Fund	AAA	6.9	6.3
JP Morgan Swap Collateral	A+	0.0	0.3
Bank deposit accounts			
The Bank of New York Mellon	A-1+	18.6	7.0
Bank current accounts			
Barclays Bank PLC	A-1	4.1	74.5
Total		29.6	88.1

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 Fund has adequate cash resources to meet commitments.

NOTE 17: CURRENT ASSETS

	2019/20	2020/21
	£m	£m
Contributions due from employer in respect of:		
Employer	6.9	6.2
Members	1.8	1.8
Cash balances	4.1	74.5
Other Debtors	22.5	4.4
	35.3	86.9

The above assets are carried at amortised cost, other than cash balances and other debtors (see below), as the funds are due from Government institutions and therefore no allowance for expected losses has been set aside.

NOTE 18: NON-CURRENT ASSETS

	2019/20	2020/21
	£m	£m
*LGPSC capital advance treated as loan	0.7	0.7
**Reimbursement of lifetime tax allowances	0.2	0.3
Contributions from employers	0.1	0.2
Augmentation	1.0	0.4
	2.0	1.6

*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

	2019/20	2020/21
	£m	£m
Investment management expenses	(0.8)	(1.0)
Payroll and external vendors	(1.0)	(0.8)
Other expenses	(4.5)	(4.2)
	(6.3)	(6.0)

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 £1.5 million in 2020/2021 (2019/2020: £1.5 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 £89.2 million (90% 3 year prepayment) to the Fund in 2020/2021 (2019/2020: £10.0 million).

LGPSCentral Limited has been established to manage investment assets on behalf of eight LGPS funds across the Midlands. It is jointly owned in equal shares by the eight Funds participating.

The Fund's share of LGPS Central's annual running costs of £0.7 million was charged to the Fund in 2020/21 by LGPS Central (£0.6 million in 2019/20).

Key Management Personnel

The posts of Chief Financial Officer, Senior Finance Manager and HR Service Centre Manager are deemed to be key management personnel. The financial value of their relationship with the Fund (in accordance with IAS24) is set out below:

	2019/20	2020/21
	£000	£000
Short term benefits*	49	61
Long term/ post-retirement benefits**	429	826
	478	887

*This is 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 2021 totalled £163.7 million (31 March 2020: £147.5 million).

These commitments relate to outstanding call payments due on unquoted limited partnership funds held in pooled property investments, pooled infrastructure investments and pooled debt investments. 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 more than £195,000 (which the Fund considers to be material for these purposes) are: -

- HALO Leisure (£1.273million), Herefordshire **Council**.
- Wychavon Leisure Community Association (£0.509million), **Wychavon District Council**.
- Bromsgrove District Housing Trust (£0.679 million), **Bromsgrove District Council**.
- Community Housing Group (£5.835 million), **Wyre Forest District Council**.

There are a further 14 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. There are also 10 organisations with a guarantee via pass through arrangements. As new contractors, these employers will all commence fully funded with no initial funding deficit. In line with the 'Initial pension guarantee' employers above, we are assuming that the active members would remain active on termination of the contract and be transferred back to the relevant school/academy or to the new service provider. On this basis, the amount for all these employers is reflected as nil for this year's accounts.

Four 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 the existing bonds and guarantees from the previous financial year have all been discussed with the actuary and updated where necessary.

NOTE 23: ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCS)

The Fund provides an in-house AVC scheme for its members. In 2020/2021 some members of the Fund paid voluntary contributions and transfers to Scottish Widows and Utmost 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 Fund Account 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:

	2019/20	2020/21
	£m	£m
Contributions received	0.2	0.2
Investments purchased	0.2	0.2
Change in market value	(0.2)	0.4
Retirement benefits paid or transferred	0.2	(0.2)

The combined value of the AVC funds at 31 March 2021 was £3.1 million (31 March 2020 £2.6 million).

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 Account but are provided as a service and fully reclaimed from the employer. The sums are disclosed below.

	2019/20	2020/21
	£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 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). IFRS 9 requires the investment assets to be accounted for at fair value within the accounts. The adoption of IFRS 9 in 2018 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.

The adoption of IFRS 15 revenue from customers with contracts was also introduced from 1 April 2018. This had no impact on the Fund Accounts as the Fund's 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 considering 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 2021 for which there is a significant risk of material adjustment in the forthcoming financial year is as follows.

Item	Uncertainties	Effect if 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: <ul style="list-style-type: none"> ● a 0.25% real investment return lower than assumed would result in an 4.2% increase in the pension liability, which is equivalent to £131m. ● a 0.25% increase in assumed earnings inflation would result in a 0.2% increase in the value of liabilities, which is equivalent to £7m. ● A 0.25% increase in assumed life expectancy would result in a 0.5% increase in the value of liabilities, which is equivalent to £17m.

Item	Uncertainties	Effect if actual results differ from assumptions
Property and infrastructure valuations. (Level 3 investments)	<p>The Fund's directly held investment properties are valued at fair value by independent valuers in accordance with RICS valuation professional standards, whilst infrastructure investments are valued at fair value by independent experts. From 2020/21 there has been additional uncertainty regarding the property valuations due to the time that it will take to fully realise the impact of COVID-19 upon illiquid assets such as property. The valuations have been updated based on the information available as at 31 March 2021 and may be subject to variations as further market information becomes available. The Investments are valued each month as per latest quarterly statements available to our custodian, which usually received between 45 and 60 days after quarter end, +/- any activity post statement date</p>	<p>The total value of indirect property investments in the financial statements is £160.7m (£149.8m in 2019/20). There is a risk that this investment may be under or overstated in the accounts.</p> <p>The total value of direct infrastructure investments in the financial statements is £332.6m (£299.1m in 2019/20). There is a risk that this investment may be under or overstated in the accounts.</p>

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 well as the details in the table above, further detail is provided in Notes 14a to c above.

Independent Auditor's Report

To be inserted

Introduction

The Annual Governance Statement is a review of our activities to ensure that the County Council is carrying out its functions effectively. The review includes an update of governance issues previously identified, current issues and an evaluation of the future position of the County Council.

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; and
- resources are used economically, efficiently and effectively to achieve agreed priorities which benefit local people.

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 governance framework

This Annual Governance Statement is published in accordance with the CIPFA/SoLACE Delivering Good Governance in Local Government Framework 2016. This comprises systems and processes for the direction and control of the County Council and the 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 is committed to improving governance through a process of continual evaluation and review, delivered through the seven principles of good governance as identified in the Delivering Good Governance in Local Government Framework 2016 and supported by processes which strengthen corporate governance such as the Corporate Risk Management Group.

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 2020/21.

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 to comply with laws and regulations.

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 Whistleblowing Policy which enables employees and others who have serious concerns about any aspect of the Council's work to come forward and voice those concerns;
- A commitment to equality of opportunity for all citizens, in line with the Public Sector Duty as set out in the Equality Act 2010; and
- 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, Chief Officer Group 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.

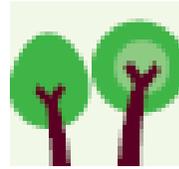
In 2020/21, the 2020 Worcestershire County Council Viewpoint Survey enabled Councillors and Officers to engage with members of the local community to receive feedback and monitor public perception in relation to local priorities, satisfaction with Council services and level of engagement.

Feedback from events and surveys help 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 Controller under the General Data Protection Regulation (GDPR) which governs how we manage and process the information we collect and retain. We have a nominated Data Protection Officer and procedures in place that explain how we use and share information, as well as 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 2017-22, identifies four key priorities that help us shape the future vision for Worcestershire and focus the delivery of our services.



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

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. These services are delivered in conjunction with our wholly owned company, Worcestershire Children First.



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 and 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 by the Risk and Assurance Manager, supported by the Corporate Risk Management Group. The process has been at a high level during 2020/21 as the focus was on the COVID-19 emergency response process with non-COVID-19 risks managed at service level. The Risk and Assurance Manager has retained close contact with the Corporate Risk Management Group during this time and reporting has continued to the Audit and Governance Committee and Covid Silver Command.

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. 98% of staff received mid-year reviews during 2020/21.

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. A specific risk framework was put in place to manage the risks identified as a result of the COVID-19 crisis, with the County

Council's Corporate Emergency Response Framework activated as part of our response.

The County Council's Anti-Fraud and Corruption Strategy embeds effective standards in countering fraud, corruption and theft. 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. The County Council supports and submits data for the National Fraud Initiative (NFI) and assesses all matches for review and, where appropriate, mitigation.

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.

The Forward Plan provides information about the matters on which the County Council will make decisions. 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.

Our Monitoring Officer has a specific duty to ensure the County Council, its officers and elected councillors maintain the highest standards in all they do. A new Monitoring Officer was appointed in

June 2020 to continue to ensure the highest standards of conduct are upheld.

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.

Assessment of effectiveness of governance arrangements

The governance framework described above has been in place throughout 2020/21 and maintained to the date of the approval of the Statement of Accounts. Key governance arrangements during 2020/21 comprised the following:

Audit & Governance Committee	The Audit & Governance Committee oversees the audit and corporate governance arrangements of the County Council including annual audit plans and reports of internal and external auditors, the County Council's system of internal control, risk management and prevention and detection of fraud and corruption.
Chief Officer Group	The Chief Officer Group has responsibility for overseeing the implementation of cross organisational strategy and the development and implementation of operational plans, policies, procedures and budgets prior to Senior Leadership Team and Committee approval. The Group promotes robust, fit for purpose governance across the County Council.
Strategic Leadership Team	The County Council's Strategic Leadership Team is responsible for ensuring that effective governance arrangements are in place and are subject to regular review. The Team provide leadership, determine policy and uphold expected standards of behaviour.
Overview & Scrutiny Performance Board	The Board's main responsibilities include commissioning work for scrutiny panels and establishing scrutiny task groups to ensure that significant issues are subject to appropriate review and scrutiny.
Standard & Ethics Committee	The Committee ensures that high standards of conduct are maintained by County Councillors and co-opted member by reference to the Council's Code of Conduct.
Monitoring Officer	The Monitoring Officer is responsible for maintaining the register of Councillors' interests and deals with complaints of Member breaches of the County Council's Code of Conduct. The Monitoring Officer has a statutory duty to report breaches of the County Council's legal obligations and findings of maladministration.

Chief Finance Officer	The Chief Financial Officer is responsible for the oversight and delivery of financial management arrangements; achieved through a robust financial control framework, financial regulations, standing orders, a scheme of delegation and an independent and objective Internal Audit function.
Risk Management	<p>The Corporate Risk Management Group is responsible for maintaining the Corporate Risk Register and monitoring identified risks, controls and mitigating actions. Directorate Leadership Teams monitor and review Directorate Risk Registers and allocate resources to ensure risks management arrangements are effective.</p> <p>Specific risk management procedures are in place in response to the COVID-19 emergency response, led by the Risk and Assurance Manager and reporting to Silver Command on a regular basis.</p>

Audit and Audit Assurances

The Council's Statement of Accounts are audited by Grant Thornton UK LLP. In accordance with statutory requirements, the annual audit includes an examination and certification of the financial statements to confirm they are 'true and fair' and an assessment of the County Council's arrangements to secure economy, efficiency and effectiveness in its use of resources. In 2019/20, Grant Thornton gave an unqualified audit opinion on the financial statements.

Internal audit services are provided by the County Council's in-house team. The team's role is to enhance and protect the County Council's value by providing risk-based and objective assurance, advice and insight. It is responsible for reviewing the adequacy of internal controls across all areas of the County Council and its services are managed and delivered in accordance with the Public Sector Internal Audit Standards (PSIAS).

The work of the Internal Audit team is supported by external providers for specialist reviews such as technical audits of IT systems. Further assurance is provided by reviews undertaken by external agencies including OFSTED, the Care Quality Commission, the Office of the Information Commissioner and other Local Authority Inspectorates.

The Audit & Governance Committee approve the Internal Audit Charter and Audit Plan which outline the role of Internal Audit, its responsibilities and independence and the planned programme of audit work.

The work of Internal Audit has been impacted by the Council's response to the COVID-19 pandemic and also significant staff changes. A flexible plan has enabled work to be focused on key

risks and the Chief Internal Auditor has maintained close links with the leadership of the Council to ensure that adequate assurance and organisational coverage is delivered. Based on the results of assurance and advisory work undertaken during the year, the Chief Internal Auditor's annual opinion is that the control environment provides **moderate assurance** that the significant risks facing the County Council are addressed.

Significant Governance Considerations

Recurrent Considerations / Brought Forward from 2019/20	Update on Progress
<p>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.</p>	<p>Safeguarding issues have been monitored and managed through the WCF Performance Board and through partnership working with the Worcestershire Safeguarding Children Partnership (WSCP) and other local strategic partners. Quality Assurance measures are in place safeguarding and activity has been monitored by the WSCP Safeguarding Practice Review Board and Get Safe Partnership Board.</p>
<p>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.</p>	<p>Regular budget monitoring and forecasting remain a focus of our financial management processes. Management accounts, which report actual income and expenditure against budgeted and forecast performance, have been prepared on a monthly basis and the achievement of savings targets and use of Council reserves has been monitored throughout the year as part of ongoing activity to consider financial sustainability and inform our assessment of going concern.</p>
<p>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.</p>	<p>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 Area Teams and 3 Conversations processes. Staff are assessed against WSAB safeguarding competency framework.</p>

2020/21 New Governance Considerations	Identified Actions
COVID-19	<p>The Council's focus in 2020/21 was on its response to the COVID-19 pandemic; implementing revised governance arrangements and working with strategic partners to deliver an emergency response to safeguard the residents of Worcestershire.</p> <p>Activation of the Corporate Emergency Response Framework and the Worcestershire COVID-19 Economic Response, Recovery and Resilience Group (WERRG) enabled wider engagement and alignment of objectives across local partner organisations. The impact of increased expenditure and lost income directly attributable to the Council's response to COVID-19 was monitored as part of routine financial monitoring activity and reported to Central Government in line with deadlines throughout the year.</p>

Issues identified for 2021/22

A number of the issues and corresponding action plans noted above will continue to be the key focus for the County Council's leadership in 2021/22:

- Ensuring a financially sustainable short and medium-term budget, including monitoring the ongoing financial impact of COVID-19 on budgeted income and expenditure; and
- Consideration of the response to and recovery from the impact of COVID-19 on residents and the local economy, including any legacy impact on care provision.

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: 3 December 2021

Simon Geraghty

Leader of the County Council

Date: 3 December 2021

This page is intentionally left blank