

Audit and Governance Committee
Wednesday, 30 November 2022, 2.00 pm, County Hall,
Worcester

Agenda

Item No	Subject	Page No
7	Annual Statutory Financial Statements for the year ended 31 March 2022	131 - 354

This page is intentionally left blank

AUDIT AND GOVERNANCE COMMITTEE

30 NOVEMBER 2022

UPDATE ON ANNUAL STATUTORY FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022

Recommendation

- 1. The Chief Finance Officer recommends that:**
 - a) The latest draft of the Final Accounts Pack, including the Statement of Accounts for the financial year ended 31 March 2022, be noted;**
 - b) The listed amendments from the Draft Accounts Pack published in July 2022 be noted;**
 - c) The Chairman, in consultation with the Vice-Chairman of the Committee be authorised to approve the Final Accounts Pack, including the Statement of Accounts for the financial year ended 31 March 2022, at a later date subject to receipt of the Audit Opinion;**
 - d) If c) above cannot be followed through and instead a special meeting of the Committee be convened to sign off the Statement of Accounts; and**
 - e) The Chief Financial Officer be authorised to sign the Letters of Representation on behalf of the County Council.**

Background

- 2. The Council and Pension Fund are required to prepare annual Statement of Accounts and to arrange for them to be audited and reported in accordance with the Accounts and Audit Regulations 2015, and the 2021/22 Code of Practice on Local Authority Accounting in the United Kingdom, issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Statement of Accounts presents the overall financial position of the Council and the Pension Fund, reflecting the Council's outturn position and the Pension Fund net asset position.**
- 3. The external audit is being carried out by the Council's External Auditor, Grant Thornton UK LLP, who have provided Audit Findings Reports to Committee elsewhere on this agenda.**

Amendments made to unaudited draft accounts

4. The external audit has resulted in a number of changes to the version of the statutory financial statements that was approved by this Committee in July 2022. These comprise:

- Removal of information from the Technical Annex for Financial Instruments and Pension Schemes, and incorporation of this information into the notes (Notes 16 and 34) to the main statements
- The formatting of the Dedicated Schools Grant Note 6.3 has been altered following feedback from the DfE. No changes to figures.
- More detail added on disclosure to Credit Risk practices Note 16.5
- Related Parties note – updated to include specific reference to Tickenhell Trust Note 26.10
- Updated figures and wording on Note 28 – External Audit Fees
- Changes to titles of notes on Page 42 to ensure they exactly match the titles of the notes themselves
- Correction of classification of Grants received in advance. This impacts the Balance Sheet, the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Cash flow Statement, as well as Notes 3, 5, 12, 12.1, 16.2, 20, 23.1, and 32. It also impacts on Group Statements.
- Table added to PPA note to show the main statements before and after the PPA adjustment (detailed impact on all notes is not needed) – Note 32.
- Amendment to note 15.4 – payments due under PFI contracts
- Adjustment to Note 28 prior year adjustment to include further detail in order to meet Code requirements.
- Some other small changes to presentation or wording throughout

5. The audit is ongoing, however it is not expected that there are any further material changes from the statements presented today to the final audited accounts.

6. Draft Accounts were presented to the Committee in July 2022. Due to the expected December date of the Statutory override for infrastructure assets valuation, and the resulting changes to the CIPFA code, it is anticipated that the final sign off and publication of Audited Accounts will not take place until early January 2023 – beyond the statutory deadline of 30 November. This will apply to all upper tier authorities.

Area	Council Plan	Statutory Deadline
Publication of Draft Accounts	4 July 2022	31 July 2022
Public Inspection Period	4 July to 12 August 2022	Commence on or before 1 August 2021
Publication of Audited Accounts	23 September 2022	30 November 2022

7. As a result this report is seeking authorisation for the Chair (in consultation with Vice-Chair) to approve the Final Accounts Pack, to ensure that publication of the

Audited Accounts is at the earliest possible opportunity.

Contact Points

Specific Contact Points for this report

Michael Hudson, Chief Financial Officer

Tel: 01905 845560

Email: mhudson@worcestershire.gov.uk

Chris Bird, Chief Accountant

Tel 01905 846994

Email: cbird1@worcestershire.gov.uk

Supporting Information

- Appendix 1: Annual Financial Report and Statement of Accounts
- Appendix 2: Draft Letter of Representation

Background Papers

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

This page is intentionally left blank

2021/2022

Page 135

Draft Annual Financial Report and Statement of Accounts

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 2021/22

Leader's Introduction

2021/22 saw the county continue to work together as One Worcestershire to support the recovery of residents and businesses from the COVID19 pandemic and I would like to thank all of our staff, partners and communities for their enormous effort in our collective response to this global challenge.

In addition to supporting the county's recovery from the pandemic, Councillors and Staff have worked hard to deliver improvements against our corporate priorities. We have maintained strong financial control throughout the year to return a £1.336 million underspend, that is within 0.4% of our budget. Some notable successes included:

- The removal of the Statutory Direction for Children's Services as a result of improvements in delivery and outcomes through Worcestershire Children First.
- Significant progress in highways and congestion cutting programmes, with £22 million spent on schemes, including Worcester Southern Link Road, the new A38 roundabout at Upton-upon-Severn and Hoobrook roundabout in Kidderminster.
- Continued enhancements in digital connectivity through the Superfast Worcestershire Programme; with a further £2 million spent ensuring over 98% of residential and business premises are able to connect to a superfast broadband service allowing people to work, access education and services from home and connecting business sites across the county.
- Keeping Worcestershire's roads moving and safe for motorists over the winter months with the Council's fleet of gritters spreading 5,341 tonnes of salt to cover 69,972 miles and

ensuring that vaccination sites could be accessed safely throughout the winter period.

- Responding to a 15% increase in Adult Social Care contact demand in the year, using new ways to reach service users and reducing response times to ensure individuals are safe and have access to the right advice, information and support needed.
- Investments to support the resilience and capability of our IT and Digital Service, completing the implementation of IT systems aligned with the Council's Collaboration Strategy to enable effective collaboration both inside the Council and with external partners.
- Spending £10 million on improvements to existing cycle and walking networks to connect residents and encourage the use of alternative modes of transport for journeys.
- We spent £1 million on significant reduction in carbon emissions through improvements such as making Council buildings more energy efficient through better insulation and lighting, switching street lighting to more efficient LED lamps and investment in renewable energy, including solar panels and renewable heating systems in some Council buildings, as well as planting more Worcestershire Woodlands.

Looking forward to 2022/23 and beyond, we will continue to face financial pressures and therefore it is important we are continuing to strengthen our financial resilience and controls; as well as a strong focus on our refreshed Corporate Plan for 2022-27 sets out the vision and priorities for the organisation and wider county over the next five years.

Simon Geraghty

Leader of Worcestershire County Council

Chief Executive's Introduction

In my fourth year as Chief Executive, Councillors and Staff have worked tirelessly to deliver services to support the County's recovery from the pandemic and I would therefore like to start by thanking all those who have contributed to the improvements made in 2021/22 which have seen us strengthen the local economy, support vulnerable adults and children and help residents and service users return to a normal way of life.

The Leader's Foreword covers many of the Council's outputs for our residents and businesses which have been delivered by teams through smarter ways of working; supported by investment and developments in IT systems and structures to enable effective collaboration through hybrid working models.

I am extremely proud of staff for the continued excellent delivery of services in 2021/22 whilst supporting recovery from the pandemic across the County.

Our Adult Social Care teams have worked collaboratively with colleagues in the NHS and partners during 2021/22 to support recovery plans and ensure that patients can be safely discharged back into communities with appropriate onward care. Grants of over £31 million have been used to support providers of care in the community: to recruit and retain care workers, for infection prevention and control and to support the Covid-19 vaccination programme.

Commissioning teams have worked hard to respond to increases in demand for care of the County's vulnerable adults, establishing joint working arrangements and relationships with community service leads to develop the support to residents that can be offered by the voluntary sector and the use of technology in the home as part of

our maintaining independence, well-being and connection programme of work.

Worcestershire Children First returned a surplus of £0.1 million in its second full year of trading. In November 2021, the Department for Education confirmed removal of the Statutory Direction with their involvement progressing to a period of 'support and supervision' in line with all authorities who exit formal intervention. This is extremely positive news for children and families across the

County and reflects the Council's commitment to safeguarding and improving outcomes for all children in Worcestershire.

During 2021/22 a number of the Council's back-office functions including Property and Facilities Management and Accounts Payable and Accounts Receivable were successfully insourced. This will facilitate the delivery of further efficiencies and savings in future years.

We are continuing to invest in our staff through improvements in our Workforce Strategy and investment in the development and well-being of staff.

Going forward, the Council's priorities are to deliver improvements across the four key areas of the Corporate Plan with a balanced budget, supported by a strong financial base.

Paul Robinson
Chief Executive

Chief Financial Officer's Narrative Report

Worcestershire is a County with a proud heritage. Home to nearly 600,000 people; with a mix of urban and rural communities and a thriving economy.

In a year of continued challenge, the Council has played a vital role in supporting the residents and businesses of Worcestershire in their recovery from the social and economic impact of the pandemic, whilst successfully delivering the Council's services. The Council has continued to make arrangements to secure economy, efficiency and effectiveness in the use of resources; supporting informed decision making and managing key operational and financial risks to deliver corporate objectives and safeguard public money.

Through robust financial monitoring and prompt management action to allocate resources, the County Council achieved a small underspend of £1.3 million against its net £355.5 million budget (0.4%). The following table shows the final outturn position for each Service area; comparing actual net expenditure with approved budget. This outturn position is reconciled to the figures shown in the Comprehensive Income & Expenditure Statement in Note 2: Expenditure and Funding Analysis and discussed in the following pages.

Service area	Budget £m	Outturn £m	Variance £m
People – Adults	133.691	133.702	0.011
People – Communities	20.131	19.409	(0.722)
People – Public Health	(2.389)	(2.375)	0.014
Children's Services/WCF	106.791	106.791	0.000
Economy & Infrastructure	55.349	55.104	(0.245)
Commercial & Change	7.465	6.672	(0.793)
Chief Executive/HR	1.098	0.850	(0.248)
Sub Total: Services	322.136	320.153	(1.983)
Corporate Savings Target	(1.500)	0.000	1.500
Finance /Corporate Items	34.895	34.042	(0.853)
Total	355.531	354.195	(1.336)

School Balances overall increased by £2.0 million during the year to a net surplus of £5.9 million. This net position comprises 23 schools in deficit (£9.9 million) and 93 schools in surplus (£15.8 million). School's funding 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 £11.3 million (£6.5 million deficit at 31 March 2021); this increase is largely due to unfunded SEND and High Needs demand arising from statute changes in 2014. This will continue to be carried forward and offset against future DSG income.

COVID-19 Funding and Expenditure

The Council had £70.4 million of Covid-19 related grant income available for use in 2021/22; this comprised £46.9 million received in 2021/22 and £23.5 million brought forward from 2020/21. The majority of these grants were awarded for specific purposes and those relating to Adult Social Care allocated directly to care providers. Unspent grants of £17.9 million will be carried forward to support vulnerable individuals as well as households and businesses in most need in 2022/23 as the recovery continues.

Financial Resilience and Sustainability

The Worcestershire Pension Fund has continually looked to develop and improve its approach to Responsible Investment and conducted an Environment, Social and Governance (ESG) audit last year which included mapping the Fund's entire portfolio to the United Nations' sustainable development goals (SDGs). The Fund took an initial focus on transitioning out of our passive mandates with the greatest carbon footprint. This has resulted in the Fund's overall listed market portfolio now being 28% more carbon efficient than the benchmark. To build on this the Fund is looking to transition a further £200 million (6% of its portfolio) from its passive mandates into active sustainable equity funds by May 2022 and continues to have this area as a key focus for action.

Looking forward, there continues to be uncertainty regarding the levels of funding from central government from 2023/24 onwards. In addition to the long-awaited implementation of the fair funding review and a reset of the business rates baseline, the current national financial pressures in respect of pay and price inflation are

likely to have a significant impact on the Council's medium-term financial plan.

To support financial resilience, the Council has adopted a prudent approach to the management of reserve balances and continues to increase reserves available to ease the impact of pressures in future years. We will review our medium-term financial plan during 2022/23, 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. This strive is reflected in the Annual Governance Statement.

Finance staff continue to work closely with key stakeholders 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 2021/22 Statement of Accounts are contained in the Finance and Performance Review section that follows.

Michael Hudson LLB(Hons), LLM, CPFA

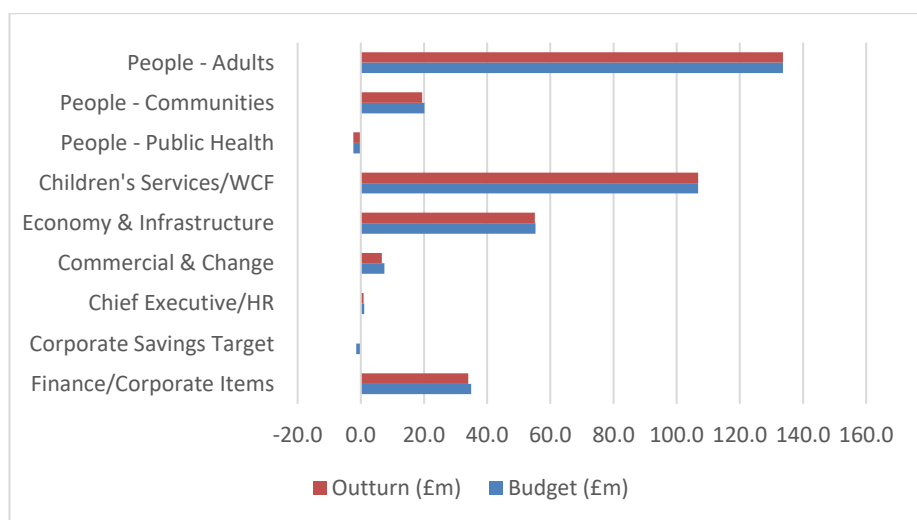
Chief Financial Officer

Finance and Performance Review

2021/22 Financial performance

The County Council's net budget for 2021/22, excluding Covid-19 grants, was £355.5 million.

In line with budget monitoring throughout the year, the County Council underspent its £355.5 million budget by £1.3 million (0.4%) in 2021/22, with pressures in People and Children's Services, arising mainly due to Covid-19, being largely offset by the use of grant funding received during the year. The graph below gives details of the outturn position by directorate, before technical adjustments.



The key financial and performance information for each directorate is detailed in the following paragraphs.

People Services - Adults

As reported and forecast during 2021/22 the Adult Social Care service delivered a broadly break-even position against its £133.7 net million budget. Demand has continued to increase over the year and the outturn position has been achieved through the one-off use of Covid-19 grants including infection control and the general Covid-19 grant as well as an increase in fees and charges and income generated in partnership with the CCG.

People Services – Communities

The Communities budget returned a £0.7 million underspend largely as a result of the application of one-off grant income to fund activities linked to Covid-19 recovery, as well as additional income in the last quarter relating to Registrations and utilisation of additional Public Health Grant to support activities relating to Children's Services and our Here to Help Offer.

Children's Services

The Council's Children's Services budget achieved a break-even position for 2021/22. This budget mainly comprises the contract payment to the Council's wholly owned subsidiary Worcestershire Children First (WCF).

Children's social care placements demand and costs continued to increase in 2021/22, resulting in an overspend of £1.8 million largely attributable to increases in both the number of placements and their costs during the year; the impact of some latent demand from Covid-19. This overspend was offset by one-off underspends across the Company to mitigate these pressures.

The continuing increasing cost and demand of high needs provision, alongside changed in the 2014 Children and Families Act, has placed significant pressure on the Dedicated School's Grant (DSG) funding as well as the Council. The overall DSG deficit at 31 March 2022 is £11.3 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 £0.3 million on its £55.4 million budget after one-off Covid-19 adjustments. The outturn though does include overspends in Transport Planning, Development Control, as well as Contracts and Structures due to the need to undertake essential work in areas where the Council has experienced issues with recruitment. Additional costs were again incurred in 2021/22 to respond to winter pressures including storm damage and drainage issues. This additional expenditure has been offset by additional income generation within the areas of Passenger Transport and Network Management.

Commercial and Change

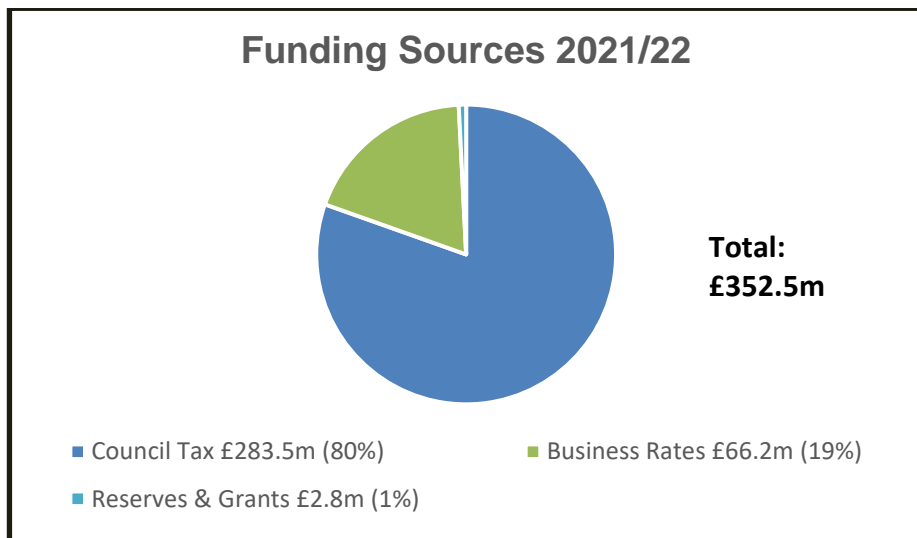
The directorate has delivered an underspend of £0.8 million (11% of its budget) as a result of underspends on Property Services including utilities savings and reduced expenditure on planned and reactive maintenance.

Finance, HR & Chief Executive

Finance and Corporate budgets achieved a total underspend of £5.5 million mainly as a result of positive variances in debt interest costs and financing transactions which has enabled the Council to increase contributions to Earmarked Reserves to strengthen future financial sustainability.

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 £1,343.83, which included £129.15 relating to the ring-fenced Adult Social Care precept.

Services also received funding from specific grants, contributions and fees and charges. Key grants continue to be the Improved Better Care Fund, Public Health Ring-fenced Grant and Dedicated Schools Grant.

Impact on the Council's Assets and Liabilities

The value of our property plant and equipment has increased by a net £62.2 million in 2021/22. This is made up of a net £87.8 million

expenditure and increase in valuations offset by £25.6 million of disposals, including five schools which have converted to academy status during 2021/22 (transferred at nil consideration).

We secured £1.5 million of capital receipts which have helped us manage our borrowing requirement and fund transformation. At the same time, we are reporting a further £5.4 million of assets held for sale.

The County Council's pensions liabilities have increased by £31.3 million which is mainly due to increases in the current service costs and interest on the pension liabilities.

We continue to improve our income management and debt collection processes as part of our Finance Improvement Programme, working with 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 2022, we have increased our impairment allowance by £0.8 million: comprising trade debtors by £0.4 million with a further £0.4 million increase in respect of Adult Social Care debt. The County Council has reviewed the recoverability of debtor balances at 31 March 2022 and has applied a professional judgement to reflect any additional risk to collection.

Performance in respect of our time to pay creditors continues to be high (99% of all creditors paid within 30 days). The reported decrease of our trade creditors at 31 March 2022 by £30.2 million is mainly related to the timing of payments at the year end.

Our earmarked and other usable reserves have increased over the year by £36.6 million to £238.3 million. This reflects the strong financial controls, corporate savings and the improved performance of business rate income despite the continued economic impact of the pandemic in 2021/22.

Financial risks and our reserves

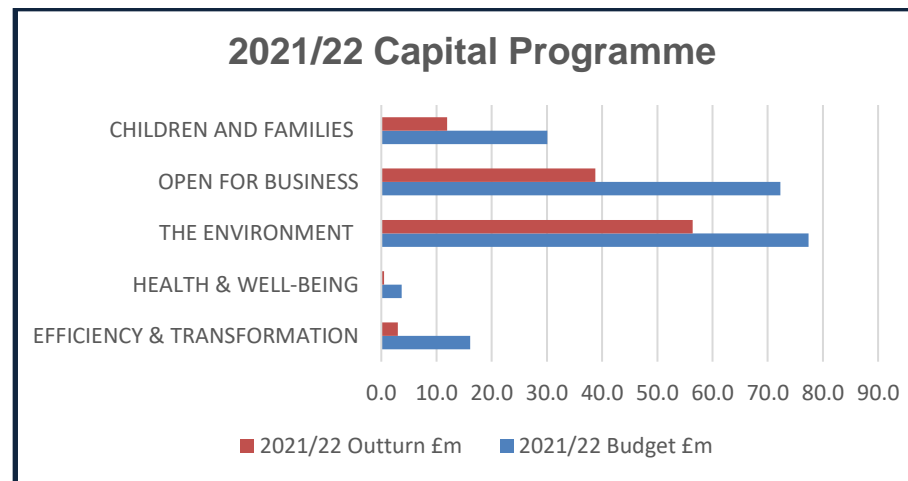
Up until a few years ago the Council faced a risk due to underlying cost pressures, use of specific grants and planned use of reserves reducing our earmarked reserves. Our strong financial management is now starting to see that trend reversing. Our General Fund Reserve balance at 31 March 2022 increased by £1.3 million to £14.3 million. Looking forward, the total reserves available are £157.7 million, as noted in the table below:

	Balance at 31 March 2021	Transfers out	Transfers in	Balance at 31 March 2022
	£m	£m	£m	£m
Corporate Priority Reserves	47.9	(13.5)	20.8	55.2
Grant Reserves	17.3	(2.9)	31.5	45.9
Corporate Funding/Insurance	31.7	(2.5)	14.2	43.4
Schools Reserves	4.0	(4.0)	5.4	5.4
PFI Reserves	13.8	(12.0)	6.0	7.8
Total	114.7	(34.9)	77.9	157.7

Capital Programme

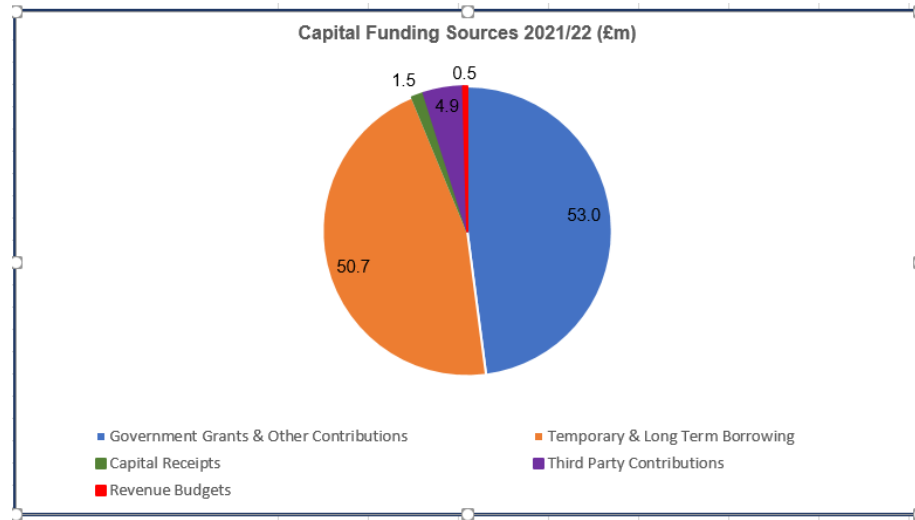
The capital programme for 2021/22 to 2023/24 and beyond totals £345.6 million, with £73.4 million in 2022/23. Expenditure is most significant in the Economy & Infrastructure Directorate which

includes infrastructure support for Open for Business and highway footpath and street-lighting priorities.



The more significant schemes include congestion cutting as well as highways maintenance and resurfacing works across the whole County area. There were specific improvements around the A38 near Bromsgrove, the new A38 roundabout at Upton-upon-Severn, Pershore northern access roads, phase 4 of Worcester Southern Link Road, Hoobrook roundabout in Kidderminster, Kepax footbridge in Worcester and Malvern Hills Technology Park.

Funding for capital schemes comes mainly from Government grants, usually for specific developments, and borrowing, as shown in the following pie chart:



Impact on Treasury Management and cash flow

Our short-term borrowing has increased by £6.9 million whilst our long-term borrowing has decreased by £46.6 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 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:

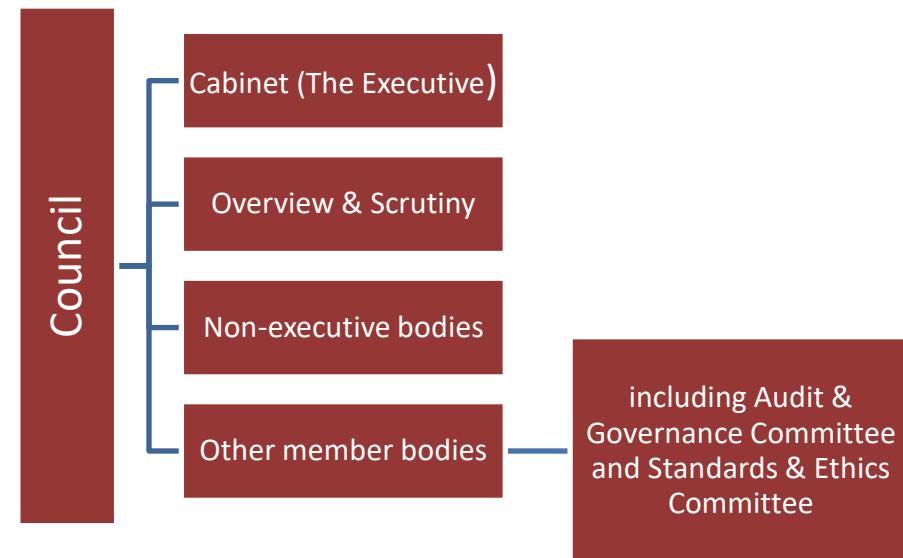
- Safeguarding vulnerable young people, particularly those in or leaving care to ensure they are safe and can make the most of the opportunities they have
- Protecting vulnerable older people, particularly those with physical, learning and mental health difficulties
- Maintenance of the highways.

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

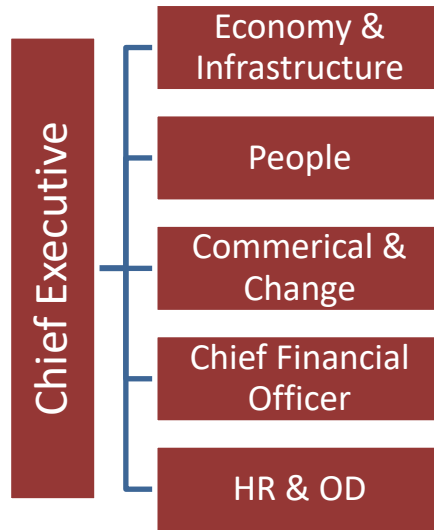
and these Cabinet members have specific areas of responsibility. There are currently nine members of Cabinet. Cabinet makes its decisions in line with overall policies, priorities and budget. All of its decisions are made in accordance with governance arrangements and details of Cabinet meetings are 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 three directorates and the Chief Financial Officer.



The County Council's refreshed Corporate Plan 2022-27 will continue with the four priorities to build on progress made in recent years to drive improvements for the County to 2027.

Looking ahead

The 2022/23 budget was approved at Council on 17 February 2022 with the detailed proposals presented to Cabinet on 3 February 2022.

This budget and Medium-Term Financial Plan was approved taking account of the Council's approach to supporting recovery from the Covid-19 pandemic. Future funding levels are uncertain as the Council awaits confirmation from central government of funding for 2023/24 onwards. Further delays to the long-awaited fair funding review and a reset of the business rates baseline as well as the current (2022/23) national financial pressures in respect of pay and price inflation are likely to have a significant impact on the Council's medium-term financial plan.

The Council has refreshed its Corporate Plan in 2022; considering an estimate of national and local economic recovery, alongside confirmation of the extent of any increased cost pressures or reductions in income.

All of this means that maintaining sound and resilient Earmarked Reserves and General Fund Balance is crucial.

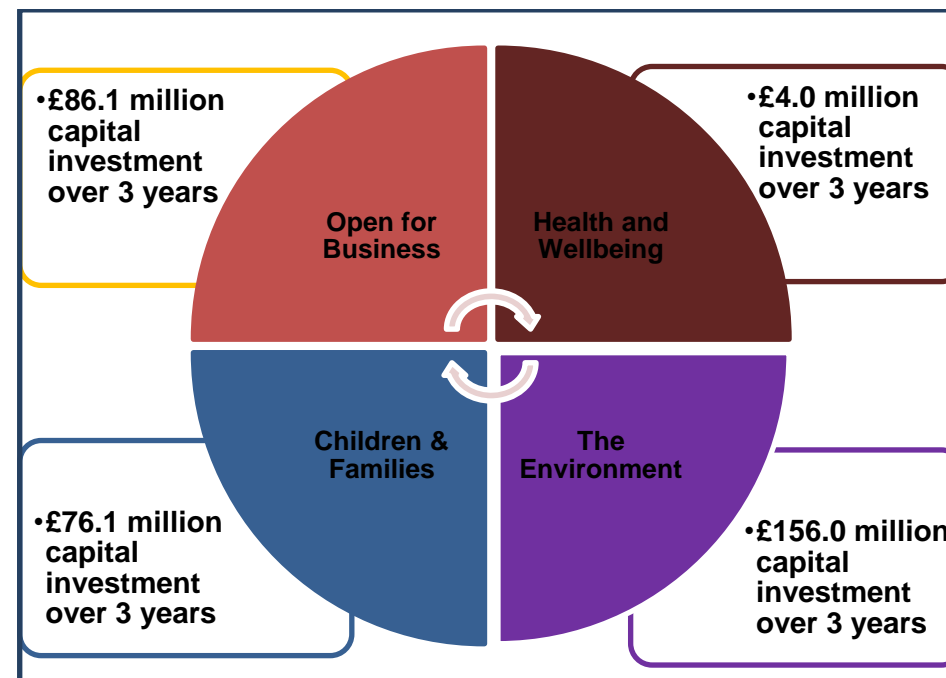
The paragraphs below set out details of the current budget for 2022/23.

Expenditure

The net revenue budget requirement for 2022/23 is £373.2 million. That is a net £17.7 million more than 2021/22. However to achieve a balanced budget a programme of efficiency, reform and income proposals totalling £8.0 million was approved by Council in February

2022.

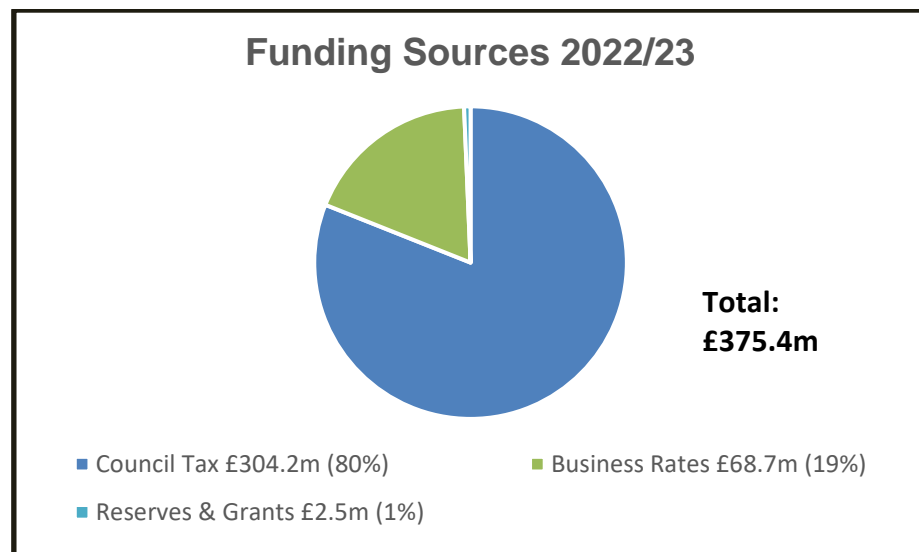
The Medium-Term Financial Plan confirms the commitment to continue to resource the Council's Corporate Plan priorities. It includes a capital programme of £345.6 million to deliver regeneration, infrastructure and other changes during 2022-24.



We are supporting this with a commitment to invest £23.4 million to ensure that the County Council is operating efficiently, new ways of work in a post pandemic environment, 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 2022/23.



In 2021/22, the County Council and six District Councils plus Hereford and Worcester Fire and Rescue Service formed a pool under the Business Rates Retention Scheme which resulted in a benefit to Worcestershire residents of around £3.0 million.

Medium Term Financial Plan 2022/23-2025/26

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 during 2022/23 in light of likely levels of Central

Government funding, local taxation income and inflation.

Worcestershire Children First

The County Council's wholly owned subsidiary Worcestershire Children First (WCF) which was launched on 1st October 2019 has returned a surplus of £0.1 million in its second full year of trading, 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 119 to 129 in the 2021/22 Statement of Accounts.

COVID-19

The Government has continued to issue grants to local government to support recovery activity into 2022/23 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 impact of the pandemic and recurrent expenditure has been considered in the Council's revised Medium Term Financial Plan for 2023/24 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 XX/XX 2022. All known material events that have occurred up to and including this date which relate to 2021/22 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 2021/22 provides a true and fair view of the financial position of the County Council at 31 March 2022 and its income and expenditure for the year 2021/22.

**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 2021/22 on XX/XX 2022.

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



**Worcestershire County Council
Annual Governance Statement
2021/22**

Introduction

The Annual Governance Statement is a review of our activities to ensure that the County Council is carrying out its functions effectively. This statement explains how the County Council has discharged its governance responsibilities during 2021/22 and the key governance mechanisms in place.

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.

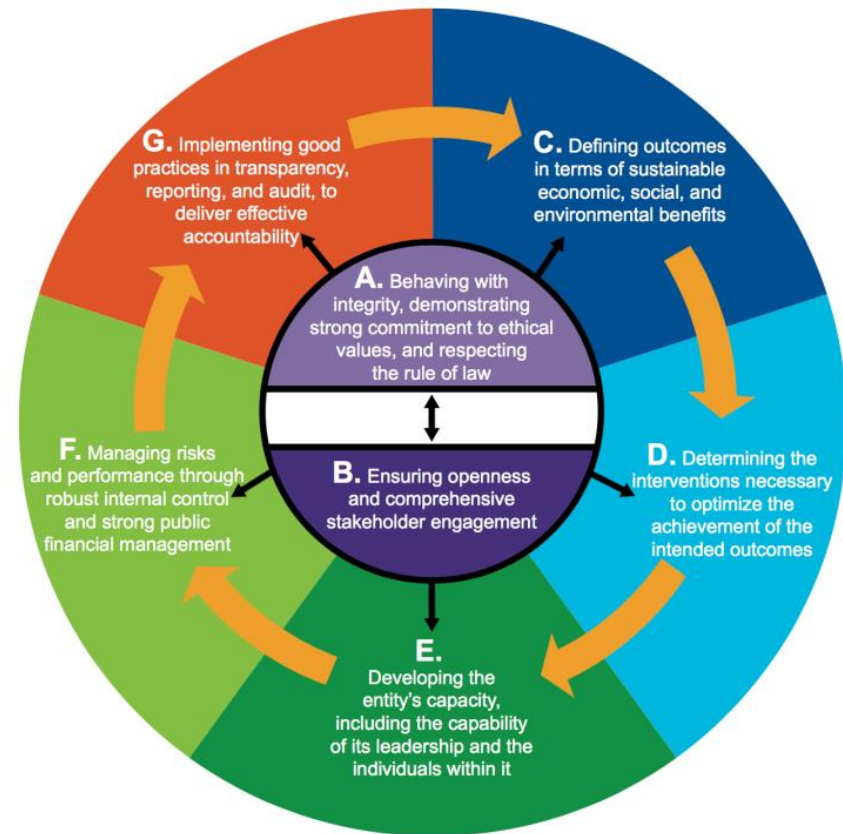
The purpose of the Governance Framework

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.

This Annual Governance Statement is published in accordance with the CIPFA/SoLACE Delivering Good Governance in Local Government Framework 2016. The Council aims to achieve good standards of governance by adhering to the seven core principles below:



Overview of Governance Framework

The governance framework outlined above has been in place throughout 2021/22 and maintained to the date of the approval of the Statement of Accounts. Key governance arrangements during 2021/22 comprised the following (full detail is provided in the County Council's Constitution).

The Council has a Leader and Cabinet executive model, with the following key responsibilities:

The Cabinet	The Leader and the Cabinet are responsible for all County Council's functions except those required by law or the Constitution to be those of full Council. Executive functions can be discharged, as delegated by the County Council's Constitution to the relevant committee, individual cabinet member or officer.
Audit & Governance Committee	The 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.
Overview & Scrutiny Committees	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 members by reference to the Council's Code of Conduct.

Functions, powers and duties are delegated to officers by the Council, Leader and Cabinet, with the following key responsibilities:

Strategic Leadership Team	The County Council's Strategic Leadership Team is collectively 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.
Chief Officer Group	The Chief Officer Group has collective 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.
Head of Paid Service (the Chief Executive)	The Chief Executive is responsible for overseeing policy development and planning, corporate performance, and community leadership, alongside the effective leadership, management and performance of the Strategic Leadership Team.
Assistant Director for Legal and Governance (the Monitoring Officer)	The Monitoring Officer is responsible for maintaining the Constitution and ensuring that functions act in accordance with the Constitution and relevant legal requirements. These arrangements include overseeing the ethical conduct of the Council and the production of associated codes, conventions and protocols.
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.
Chief Internal Auditor and Head of Risk Management	<p>The Chief Internal Auditor and Head of Risk Management is responsible for ensuring effective management of the Council's risks, including evaluating controls and mitigations as part of a risk-based internal audit approach.</p> <p>The Risk and Assurance Manager, supported by the Corporate Risk Management Group, maintains the Corporate Risk Register, 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>
External Audit	External Audit report on the Statement of Accounts and review the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources.

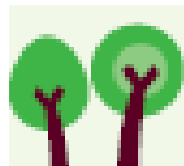
Review of Effectiveness

The review of effectiveness is informed by the work of Chief Officers and senior managers with responsibility for the design and maintenance of an effective governance environment. It is also informed by the work of Internal Audit and the annual opinion provided by the Chief Internal Auditor. The results of the annual review of the effectiveness of the Council's governance arrangements during 2021/22 are set out in the table below and demonstrate how the Council has complied with the seven principles of the CIPFA/Solace Framework. Areas for improvement are included as part of the assessment and a detailed action plan will be developed to ensure that work is undertaken to deliver these improvements. Progress against the plan will be reported to the Audit and Governance Committee on a quarterly basis.

Principle	Assessment of the effectiveness of governance arrangements during 2021/22
<p>Core Principle A: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law</p>	<p>Key aspects of the Council's governance arrangements during 2021/22:</p> <p>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.</p> <p>These include:</p> <ul style="list-style-type: none"> • 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. • A review of the Constitution has started. • Formal recognition of the Trade Unions in our processes and change.

	<p>Areas where it is recognised that governance arrangements could be further strengthened include:</p> <ul style="list-style-type: none"> • There is a need to regularly review the Council's Constitution and related policies and procedures to ensure that Officer and Member responsibilities are clearly documented and promote a culture of accountability and strong ethical values. As a result of Covid-19 prioritisation a review is needed, this will include improvements to strengthen the monitoring of compliance with legislative and governance requirements should be included in this review with clearly communicated consequences where behaviours do not demonstrate integrity. • Alongside this a need for training of Officers and Members to increase constitutional awareness and individual responsibility for compliance will ensure that these values become embedded in behaviour. • Processes to support the delivery of the Council's ethical values should be strengthened in areas such as Declarations and Registers of Interest, using a model of training and declaration, to promote consistency and transparency. • A review of Members' roles and delegations on boards and companies.
<p>Core Principle B: Ensuring openness and comprehensive stakeholder engagement</p>	<p>Key aspects of the Council's governance arrangements during 2021/22:</p> <p>The Chief Executive, Chief Officer Group and Strategic Leadership Team value and are committed to ensuring every employee is engaged and feedback is sought, listened to and acted upon. There are strong relationships with the Council's recognised Trade Unions and the Council remains committed to building and maintaining strong employee relations. Monthly Staff Briefings are held by the Chief Executive and Senior Leaders.</p> <p>Engagement includes:</p> <ul style="list-style-type: none"> • In response to increased remote working, the Council has strengthened engagement with staff through regular communication from the Chief Executive and at directorate level. The use of Slido enables staff to engage directly with the Chief Executive. • Improvements in technology facilitate hybrid working practices and support the pastoral needs of staff. • Annual Staff Survey. Responses have informed the development of the Workforce Strategy 2021-2024. Wellbeing and career development insight and feedback is shared at mid-year and end of year review points.

	<ul style="list-style-type: none"> • In 2021/22, the Worcestershire Viewpoint Survey 2021 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. <p>Areas where it is recognised that governance arrangements could be further strengthened include:</p> <ul style="list-style-type: none"> • Improved co-ordination of the Council's external inspection and regulatory report framework, to inform assurance and improve information sharing and collaboration across stakeholders. • There is a need for increased clarity, via the review of the Council's Constitution, of elected Member responsibilities relating to engagement and communication with Officers, residents and businesses.
<p>Core Principle C: Defining outcomes in terms of sustainable economic, social, and environmental benefits</p>	<p>Key aspects of the Council's governance arrangements during 2021/22 include:</p> <p>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 refreshed Corporate Plan 2022-27 continues with the Council's priorities building on the progress made in recent years to drive improvements for the County to 2027.</p> <div style="display: flex; justify-content: space-between; align-items: flex-start;"> <div style="width: 20%;">   </div> <div style="width: 75%;"> <p>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.</p> <p>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 GCSEs and support young people moving successfully into employment. These services are delivered in conjunction with our wholly owned company, Worcestershire Children First.</p> </div> </div>



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 care and support needs as independent as possible by providing choice in how to live their lives.

The Council's Sustainability Policy promotes the principles of sustainable development through: green economy, action to tackle climate change, protecting and enhancing the natural environment and fairness and improving wellbeing. To demonstrate its sustainability policy commitment the Council has committed to:

- Promoting sustainability at a strategic level;
- Lead by example in addressing the Council's operational impacts on the community and environment; and
- Promoting sustainable development throughout the county.

The Council reports on progress through the annual Corporate Environmental Report.

Areas where it is recognised that governance arrangements could be further strengthened include:

- The need for a mechanism to enable transparent and timely performance reporting (to replace the Balanced Scorecard) linked to the priorities and objectives outlined in the Corporate Plan 2022-27.
- A focus on Environmental, Social and Governance arrangements, including specific internal audit assignments and as part of wider deliverables with a focus on measurable outcomes.

<p>Core Principle D: Determining the interventions necessary to optimise the achievement of the intended outcomes</p>	<p>Key aspects of the Council's governance arrangements during 2021/22 include:</p> <p>The County Council's planning process works to support and optimise delivery and identify and mitigate any risks.</p> <ul style="list-style-type: none"> • 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 are managed by the Chief Internal Auditor and Head of Risk Management, supported by the Risk and Assurance Manager and Corporate Risk Management Group. The process has been embedded during 2021/22 with a closer link to the audit programme and an increased focus on identifying emerging risks. • The Council has robust processes in place to support financial planning and sustainability. The budget is informed by the Medium-Term Financial Plan with key risks and assumptions clearly identified and reported to members, supported by a strategy and financial planning process. Budget proposals are subject to review and scrutiny by relevant stakeholders, including elected Members as well as through meetings with Trade Union Representatives and the Schools Forum. In 2020/21, the external audit report identified no weaknesses in the Council's arrangements to ensure financial sustainability and no improvement recommendations were made. • Progress against the Corporate Plan is monitored and reported to councillors on a regular basis. <p>Areas where it is recognised that that governance arrangements could be further strengthened include:</p> <ul style="list-style-type: none"> • Increased strategic engagement with the risk management process, including nominating a strategic lead at SLT level to co-ordinate the identification of risks and mitigating actions, to ensure that strategic decisions are informed by effective consideration of relevant risks. • In addition to improvements in performance monitoring arrangements, there is a need for a robust system of accountability for performance against corporate, financial and management targets.
<p>Core Principle E: Developing the entity's capacity, including the</p>	<p>Key aspects of the Council's governance arrangements during 2021/22 include:</p>

<p>capability of its leadership and the individuals within it</p>	<ul style="list-style-type: none"> • 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: <ul style="list-style-type: none"> ○ 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 • Our Workforce Strategy 2021 - 2024 is designed to build a workforce with personal and collective organisational resilience. The strategy is to be used by each Service area to develop their annual workforce plans, supported by their HR Operations Partners • Mandatory learning is in place for all staff and monitored by directorate leadership teams. The Council has launched a new learning management system for 2022/23, which supports the Workforce Strategy by enhancing the learning experience of staff and enabling greater transparency for employees and managers. • Our Annual Performance Review Cycle forms a key part of our organisational workforce planning. Employees and line managers meet regularly to plan and monitor progress against personal and organisational objectives and support employee wellbeing. Indicative ratings are recorded at mid-year review point, with formal ratings recorded at end of year performance reviews. 100% of eligible employees had an end of year performance review 2021/22. • CIPFA published the Financial Management (FM) Code in October 2019. The Code sets out 17 Financial Management Standards against which local authorities are required to perform a self-assessment. The results of the 2021/22 self-assessment will be presented to Audit & Governance Committee in July 2022 and actions to address areas identified for improvement will be implemented during 2022/23. <p>Areas where it is recognised that that governance arrangements could be further strengthened include:</p> <ul style="list-style-type: none"> • The capacity and capability of Members and Officers should be further developed through enhanced arrangements for tailored training relevant to individual roles and responsibilities, with core competencies including finance, HR and decision making at the fore of that. • There is a need to promote management accountability and communicate consequences for non-compliance in all Council policies.
---	--

	<ul style="list-style-type: none"> • The development of audit arrangements to review the effectiveness of the performance cycle and highlight areas for improvement.
<p>Core Principle F: Managing risks and performance through robust internal control and strong public financial management</p>	<p>Key aspects of the Council's governance arrangements during 2021/22 include:</p> <ul style="list-style-type: none"> • Risk management involves 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 supported by the Corporate Risk Management Group. • The County Council's Anti-Fraud and Corruption Strategy embeds effective standards in countering fraud, corruption and theft. The 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. <p>Areas where it is recognised that that governance arrangements could be further strengthened include:</p> <ul style="list-style-type: none"> • A review of the Constitution and enhanced training across Officers and Members to ensure responsibilities are clear as noted above at Core Principal A. This should include the Council's contract procedure rules. • Monitoring arrangements to identify and take action to address issues of non-compliance with corporate procedures. • Clearer links between the governance framework and decision making ability to ensure activity is aligned to policies and procedures and supported by robust internal controls.

<p>Core Principle G: Implementing good practices in transparency, reporting and audit to deliver effective accountability</p>	<p>Key aspects of the Council's governance arrangements during 2021/22 include:</p> <ul style="list-style-type: none"> • 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. • 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. • 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. <p>Areas where it is recognised that that governance arrangements could be further strengthened include:</p> <ul style="list-style-type: none"> • To ensure that there is an effective and transparent scrutiny process, a strengthening of arrangements for briefing sessions between Members and Officers. • Improved arrangements for cross-party briefings and working groups to ensure Members have sight of key issues to enable informed decision making. • Greater focus on the Council's performance measures and cohesive public reporting through improved performance monitoring and holding to account against corporate targets.
--	---

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 2020/21, Grant Thornton gave an unqualified audit opinion on the financial statements with no significant weaknesses identified in our Value for Money (VFM) arrangements.

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.

A flexible audit 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 2020/21	Update on Progress/Action taken to address the issue in 2021/22
<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 continue to be monitored and managed through the WCF Governance Structures 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. Our sustained improvement in Children’s Social Care has been validated through the year from an Ofsted visit in July 2021 focussing on the Family Front Door and the DfE confirming in November 2021 the removal of statutory direction placed on the council, we now enter a period of “support and supervision” in line with all authorities who exit formal intervention.</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 an adult with care and support needs A safeguarding risk because of serious harm / death from failure to safeguard an adult with care and support needs, whether the local authority is meeting those needs or not. 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. As part of the CQC assurance self-assessment (pending CQC inspection of local authority adult social care services as of April 2023) the effectiveness of both the Safeguarding Team and Safeguarding Adults Board will be reviewed, and outcomes of safeguarding process and practice will be assessed against the statutory safeguarding framework and how effectively we have embedded the ‘Making Safeguarding Personal’ approach.</p>
<p>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.</p>	<p>The impact of increased expenditure and lost income has been monitored as part of routine financial monitoring activity and reported to Central Government in line with deadlines throughout the year</p>

2021/22 New Governance Considerations	Identified Actions
<p>Ensuring a financial sustainable medium-term budget including monitoring the ongoing financial impact of COVID-19 on budgeted income and expenditure.</p>	<p>The continuing impact of COVID-19 has been a key consideration in the Council's financial planning activity and the 2022/23 budget setting process. Where COVID-19 grant funding has been used in the year to support services in their response to and recovery from COVID-19, work to identify recurrent expenditure and identify alternative funding streams is in progress.</p>
<p>Non-compliance with Corporate Policies and Procedures across all disciplines.</p>	<p>A review of the Council's Constitution and supporting policies and procedures will be performed to ensure that responsibility and accountability is defined and the consequences for non-compliance across Officers and Members are clearly communicated and that action is taken where instances of non-compliance are identified.</p>

Issues identified for 2022/23

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 2022/23:

- Financial Management & Resilience: ensuring that financial monitoring is supported by a robust and realistic budget and effective and timely in-year monitoring of performance against budget and delivery of agreed savings plans.
- An assurance gap analysis of decision making, including boards and roles of directors to help drive a constitutional refresh to support and strengthen effective business decision making. This will include schemes of delegation and contract procedure rules.
- Strengthen the Council's performance framework, including service plans linked to performance and medium-term financial plans.
- Strengthen the process around capital decision making, including business cases.
- Further enhance the working between Officers and Members, including Officer Register of Interests.
- Focus on core competency training and development for all employees, in particular HR, finance, decision making and performance management.

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, as well as the Audit & Governance Committee.

Paul Robinson

Chief Executive

Date:

Simon Geraghty

Leader of the County Council

Date:

Worcestershire County Council Statement of Accounts 2021/22

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 2021/22 (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 next year in the 2022/23 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

Expenditure	Restated*		2020/21 Net		2021/22 Expenditure	2021/22 Income	2021/22 Net	Note
	2020/21	2020/21						
	£m	£m	£m		£m	£m	£m	
Service Expenditure Analysis								2,3,4,5,6,1
308.2	(187.7)	120.5	People		345.9	(205.4)	140.5	7
390.1	(274.1)	116.0	Children's Services		383.1	(263.4)	119.7	6,3,7
100.9	(29.0)	71.9	Economy & Infrastructure		114.7	(30.3)	84.4	
39.0	(9.8)	29.2	Commercial & Change		36.3	(8.7)	27.6	
55.9	(20.4)	35.5	Finance, HR & Chief Executive		36.2	(6.4)	29.8	
894.1	(521.0)	373.1	Net Cost of Services		916.2	(514.2)	402.0	
3.9	(1.4)	2.5	Other operating expenditure		2.0	(0.4)	1.6	8
86.3	(30.3)	56.0	Financing, investment income & expenditure		86.5	(30.2)	56.3	9
0.3	(467.3)	(467.0)	Taxation & non-specific grant income and expenditure		0.3	(431.5)	(431.2)	6,2,10
984.6	(1,020.0)	(35.4)	(Surplus) / deficit on the provision of services		1,005.0	(976.3)	28.7	
Other comprehensive income and expenditure:								
		(23.0)	(Surplus) on revaluation of property, plant & equipment				(47.6)	14.3
		22.3	Downward revaluations on non-current assets charged to Revaluation Reserve				4.9	14.3
		1.7	Remeasurement of the net defined benefit liability/(asset)				(52.8)	
		1.0	Total other comprehensive income and expenditure				(95.5)	
		(34.4)	Total comprehensive income and expenditure (surplus) / deficit				(66.8)	

*See Note 32 for Prior Period Adjustment

Movement in Reserves Statement 2021/22

	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 2021 restated*	13.0	137.9	150.9	2.7	71.3	224.9	(96.8)	128.1
Movement in reserves during 2021/22:								
Total Comprehensive Income and Expenditure	(28.7)	0.0	(28.7)	0.0	0.0	(28.7)	95.5	66.8
Adjustments between accounting basis & funding basis under regulations (Note 11)	44.9	4.9	49.8	0.0	(7.7)	42.1	(42.1)	0.0
Transfer to/(from) earmarked reserves	(14.9)	14.9	0.0	0.0	0.0	0.0	0.0	0.0
Increase / (decrease) in 2021/22	1.3	19.8	21.1	0.0	(7.7)	13.4	53.4	66.8
Balance at 31 March 2022 carried forward	14.3	157.7	172.0	2.7	63.6	238.3	(43.4)	194.9
Note Reference		12.1				12	13	

*See Note 32 for Prior Period Adjustment

Movement in Reserves Statement 2020/21 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
Restated*	£m	£m	£m	£m	£m	£m	£m	£m
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	35.4	0.0	35.4	0.0	0.0	35.4	(1.0)	34.4
Adjustments between accounting basis & funding basis under regulations (Note 11)	20.3	0.5	20.8	2.7	15.4	38.9	(38.9)	0.0
Transfer to/(from) earmarked reserves	(54.9)	54.9	0.0	0.0	0.0	0.0	0.0	0.0
Increase / (decrease) in 2020/21	0.8	55.4	56.2	2.7	15.4	74.3	(39.9)	34.4
Balance at 31 March 2021 carried forward	13.0	137.9	150.9	2.7	71.3	224.9	(96.8)	128.1
Note Reference		12.1				12	13	

*See Note 32 for Prior Period Adjustment

Balance Sheet

Restated*		31 March	
31 March		2022	
2021		2022	Note
£m		£m	
1,083.9	Property, plant and equipment	1,146.1	14,15
1.7	Heritage assets	1.7	
4.0	Intangible assets	4.5	
3.0	Long-term investments	3.0	16,17
108.6	Long-term debtors	104.2	18
1,201.2	Long term assets	1,259.5	
5.7	Non-Operational Assets	5.4	14.8
35.2	Short-term investments	7.9	29
1.4	Inventories	1.4	
103.8	Short-term debtors	85.9	18
67.3	Cash and cash equivalents	42.8	19
213.4	Current assets	143.4	
(71.3)	Short-term borrowing	(78.2)	
(115.9)	Short-term creditors	(91.1)	20
(6.1)	Short-term grants receipts in advance	(8.2)	
(193.3)	Current liabilities	(177.5)	

*See Note 32 for Prior Period Adjustment

31 March		31 March	
2021		2022	
£m		£m	Note
(2.6)	Long-term provisions	(1.4)	
(456.5)	Long-term borrowing	(409.9)	16
(609.3)	Other long-term liabilities	(593.0)	21
(24.8)	Grants receipts in advance	(26.2)	22
(1,093.2)	Long-term liabilities	(1,030.5)	
128.1	Net assets	194.9	
Financed by:			
224.9	Usable reserves	238.3	12
(96.8)	Unusable reserves	(43.4)	13
128.1	Total reserves	194.9	

Cash Flow Statement

Restated*	2021/22	
2020/21		
£m	£m	Note
35.4 Net surplus/(deficit) on the provision of services	(28.7)	
47.2 Adjust net (surplus)/deficit for non-cash movements	107.4	
(103.8) Adjust for items included in the net (surplus)/deficit on the provision of services that are investing and financing activities	(56.4)	
(21.2) Net cash flows from operating activities	22.3	23.1
(24.5) Net cash flows from investing activities	(1.9)	23.2
41.4 Net cash flows from financing activities	(44.9)	23.3
(4.3) Net increase/(decrease) in cash or cash equivalents	(24.5)	
Cash and cash equivalents		19
71.6 Balance at 1 April	67.3	
67.3 Balance at 31 March	42.8	
(4.3) Movement in cash and cash equivalents increase / (decrease)	(24.5)	

*See Note 32 for Prior Period Adjustment

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 Note to the expenditure & funding analysis	21 Other long-term liabilities
4 Segmental reporting	22 Grants and contributions 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 Termination benefits & exit packages
8 Other operating expenditure	26 Related parties
9 Financing & investment income & expenditure	27 Leases
10 Taxation & non-specific grants	28 External audit costs
11 Adjustments between accounting basis & funding basis under regulation	29 Short term investments
12 Usable reserves	30 Events after the reporting period
13 Unusable reserves	31 Accounting Standards issued but not yet adopted
14 Property, plant & equipment	32 Prior period adjustments
15 Private finance initiatives (PFI)	33 Assumptions made about the future and other major sources of estimation uncertainty
16 Financial instruments	34 Pension Schemes
17 Long term investments	
18 Debtors	

1. General accounting policies

The Statement of Accounts summarises the County Council's transactions for the 2021/22 financial year and its position at the year-end of 31 March 2022. 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 2021/22 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 177 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 2022/23.

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.

	2021/22				
	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	(13.9)	136.8	3.7	140.5
Children's Services	106.8	(5.7)	101.1	18.6	119.7
Economy & Infrastructure	55.0	(9.8)	45.2	39.2	84.4
Commercial & Change	6.7	7.2	13.9	13.7	27.6
Finance, HR & Chief Executive	35.0	(3.0)	32.0	(2.2)	29.8
Net Cost of Services	354.2	(25.2)	329.0	73.0	402.0
Other Income and Expenditure	(355.5)	5.4	(350.1)	(23.2)	(373.3)
Net (Surplus)/deficit	(1.3)	(19.8)	(21.1)	49.8	28.7
Opening General Fund Balance			150.9		
Less Deficit on General Fund Balance in Year			21.1		
General Fund Balance			172.0		

	Restated*				
	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	(31.4)	119.3	1.2	120.5
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	(6.9)	24.3	11.2	35.5
Net Cost of Services	345.5	(63.3)	282.2	90.9	373.1
Other Income and Expenditure	(346.3)	7.9	(338.4)	(70.1)	(408.5)
Net (surplus)/deficit	(0.8)	(55.4)	(56.2)	20.8	(35.4)
Opening 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	56.2	0.0	0.0
General Fund Balance			150.9		

*See Note 32 for Prior Period Adjustment

In respect of the net revenue outturn, the County Council's 2021/22 General Fund budget and actual spend figures are in the table below:

	Original budget	Actual	Variance
	£m	£m	£m
Total General Fund (a)	355.5	354.2	1.3
Funded by:			
Council tax	(285.2)	(285.2)	0.0
Revenue grants	(2.8)	(2.8)	0.0
Business rates retention scheme	(66.2)	(66.2)	0.0
Collection fund surplus	1.7	1.7	0.0
Contribution from earmarked reserves	(3.0)	(3.0)	0.0
Total funding (b)	(355.5)	(355.5)	0.0
Movement on General Fund (a) + (b)	0.0	(1.3)	(1.3)

More details about the County Council's revenue spending on services are given in the Comprehensive Income and Expenditure Statement and subsequent notes.

3. Note to the expenditure and funding analysis

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

2021/22 Adjustments from management reporting and General Fund to arrive at the Comprehensive Income & Expenditure Statement amounts	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
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
People	0.2	1.3	(8.8)	(8.6)	2.0	(13.9)	1.0	2.7	0.0	3.7
Children's Services	1.0	1.7	(6.4)	1.3	(3.3)	(5.7)	10.3	3.5	4.8	18.6
Economy & Infrastructure	0.0	0.5	(12.3)	(3.8)	5.8	(9.8)	38.1	1.1	0.0	39.2
Commercial & Change	(0.7)	0.5	(0.3)	7.3	0.4	7.2	12.7	1.0	0.0	13.7
Finance, HR & Chief Executive	5.9	(13.6)	(13.5)	3.8	14.4	(3.0)	(17.0)	10.3	4.5	(2.2)
Net Cost of Services	6.4	(9.6)	(41.3)	0.0	19.3	(25.2)	45.1	18.6	9.3	73.0
Other Income and Expenditure from the Expenditure and Funding Analysis	0.0	9.6	(4.2)	0.0	0.0	5.4	(23.2)	0.0	0.0	(23.2)
Difference between General Fund surplus or deficit and CI&ES Surplus or Deficit on the Provision of Services	6.4	0.0	(45.5)	0.0	19.3	(19.8)	21.9	18.6	9.3	49.8

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.

Restated* 2020/21 Adjustments from management reporting and General Fund to arrive at the Comprehensive Income & Expenditure Statement amounts	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
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
People	2.1	2.7	(8.1)	(8.4)	(19.7)	(31.4)	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	9.0	(6.9)	(13.7)	13.1	11.8	11.2
Net Cost of Services	9.3	(10.1)	(33.7)	0.0	(28.8)	(63.3)	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	(70.1)	0.0	0.0	(70.1)
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	(28.8)	(55.4)	(4.3)	13.1	12.0	20.8

*See Note 32 for Prior Period Adjustment

4.Segmental reporting

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

2021/22	People	Children's Services	Economy & Infrastructure	Commercial & Change	Finance, HR & Chief Executive	Total
	£m	£m	£m	£m	£m	£m
Income for Fees and Charges	(86.8)	(10.9)	(27.2)	(7.3)	(6.0)	(138.2)
Depreciation and Impairment	1.3	3.6	32.7	11.9	0.0	49.5
Premises Costs	12.7	14.1	(10.3)	5.5	1.1	23.1
Transport Costs	4.1	0.7	2.2	0.0	0.1	7.1
Third Party Payments	258.8	55.6	72.6	(0.7)	1.1	387.4

Page 183

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

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.

Restated* 2020/21	Expenditure and Income analysed by nature	2021/22
----------------------	---	---------

£m

£m

Expenditure

230.4	Employee benefits expenses	237.4
598.7	Other service expenses	630.2
66.7	Depreciation amortisation and impairment	49.5
27.5	Loss on disposal of non-current assets	26.8
61.0	Interest payments	60.8
0.3	Precepts and levies	0.3
984.6	Total Expenditure	1,005.0

Income

(122.7)	Fees and charges and other service income	(138.2)
(330.6)	Income from council tax and business rates	(346.9)
(380.9)	Grants and contributions credited to services	(396.2)
(136.7)	Grants and contributions credited to taxation and non-specific grant income	(84.6)
(30.3)	Interest and Investment Income	(30.2)
(18.8)	Other	19.8
(1,020.0)	Total Income	(976.3)
(35.4)	Net Deficit/(Surplus) on Provision of Services	28.7

*See Note 32 for Prior Period Adjustment

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

2020/21	2021/22
£m	£m
People Services	
17.7 Improved Better Care Fund	18.5
14.3 Better Care Fund (contribution)	16.2
6.2 Disabled Facilities Grant	6.2
2.8 Independent Living Fund	2.8
9.9 Adult Social Care Support Grant	12.1
0.2 Care Act	0.2
0.1 Other Adult Services	0.1
30.1 Public Health	30.4
0.5 Other Public Health	2.0
6.2 Libraries & Community	5.3
4.7 Bromsgrove Schools PFI Grant	4.7
4.7 Covid-19 Adult Social Care Infection Control Fund	3.5
13.8 Covid-19 Hospital Discharge (CCG) Contribution	6.0

2020/21	2021/22
2.6 Covid-19 Test and Trace Service Support Grant	0.2
0.8 Covid-19 Contain Outbreak Management Fund	15.9
0.9 Covid-19 Testing Grants	0.7
1.2 Covid-19 Winter Grant Scheme	2.4
0.0 Covid-19 Workforce Support Grant	4.6
0.0 Covid-19 Housing Support Grant	3.9
0.1 Covid-19 Holiday Activities & Food Programme	1.5
116.8 Total People Services	137.2
Children's Services	
217.9 Dedicated Schools Grant	218.8
8.5 Pupil Premium	8.0
10.7 Other Education & Skills	4.1
3.8 Universal Free School Meals	3.4
1.2 Post 16 Learning Skills Council	1.4
5.0 Other Children's Social Care	5.2
1.4 Unaccompanied Asylum-Seeking Children	2.1
1.3 Youth Grants	1.3
0.4 Transport	0.5
2.3 Covid-19 Grants for Schools	1.7
252.5 Total Children's Services	246.5
Economy & Infrastructure	
1.8 Waste Disposal PFI Grant	1.8

2020/21	2021/22
0.5 Transport	1.1
0.3 Environment / Winter Damage	0.1
2.6 Other	2.1
0.0 Community Renewal Fund	1.7
0.7 Covid-19 Bus Support Services Grant	0.3
5.9 Total Economy & Infrastructure	7.1
Commercial & Change	
0.2 Other	0.6
0.2 Total Commercial & Change	0.6
Finance, HR & Chief Executive	
2.6 New Homes Bonus	1.5
0.4 Other	0.8
0.9 Covid-19 Clinically Extremely Vulnerable Grant	0.5
1.0 Covid-19 Home to School Transport Grant	0.4
0.0 Covid-19 Omicron	0.6
0.0 Covid-19 Practical Support for those self-isolating	1.0
0.6 Covid-19 Emergency Assistance Grant	0.0
5.5 Total Finance, HR & Chief Executive	4.8
380.9 Total Credited to Services	396.2

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

2020/21	2021/22
£m	£m
Credited to taxation and non-specific grant income:	
12.6 Business Rate Reliefs – S31 Grant	8.6
0.0 Covid-19 Local Council Tax Support Grant	4.6
0.4 Covid-19 75% Local Tax Income Guarantee – Business Rates	0.0
1.3 Covid-19 75% Local Tax Income Guarantee – Council Tax	0.4
23.7 Covid-19 LA Support Grant	20.8
0.9 Covid-19 Sales, Fees and Charges Support Grant	0.0
38.9 Total non ring-fenced Government grants	34.4

Page 189

2020/21	2021/22
£m	£m
Capital grants	
24.4 Structural maintenance	18.7
29.1 Transport	2.4
3.4 Basic Needs	4.9
4.9 LA Schools Condition Allocation	4.7
16.4 Worcestershire Local Growth Fund	6.0
0.8 European Regional Development Fund	1.8
1.7 Greater Birmingham & Solihull Local Growth Fund	0.0
1.3 Broadband Project	0.1
0.6 Active Travel Fund	0.0

2020/21	2021/22
1.8 Other Capital Grants	4.2
84.4 Total Capital Grants	42.8
13.4 Other contributions	7.4
97.8 Total Capital Grants and Contributions	50.2
136.7 Total credited to taxation and non-specific grant income	84.6

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 £11.3 million and will be carried forward against future DSG income. Within the central expenditure, High Needs expenditure overspent by £6.3 million in 2021/22.

	Central Expenditure	Individual Schools Budget	Total
	£m	£m	£m
Final DSG for 2021/22 before academy and high needs recoupment	3.4	472.0	475.4
Academy and high needs recoupment 2021/22	0.0	(255.6)	(255.6)
Final budgeted distribution for 2021/22	3.4	216.4	219.8
Actual Central Expenditure	(3.2)	0.0	(3.2)
Actual ISB deployed to Schools	0.0	(221.4)	(221.4)
In year carry forward to 2022/23	0.2	(5.0)	(4.8)
DSG unusable reserve at the end of 2020/21			(6.5)
Total DSG unusable reserve at the end of 2021/22			(11.3)

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 and NHS Herefordshire and Worcestershire 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 Group, 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 Group, 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 Group and the County Council for 2021/22. Included in the County Council contribution is £34.7 million Better Care Fund.

Page 192

	Partnership income	Partnership expenditure	Net partnership expenditure	CCG managed	WCC contribution		Partnership income	Partnership expenditure	Net partnership expenditure	CCG managed	WCC contribution
	£m	£m	£m	£m	£m		£m	£m	£m	£m	£m
	2020/21						2021/22				
	(110.7)	110.0	(0.7)	55.6	54.4	Consolidated Adult Social Care Services	(121.2)	121.2	0.0	56.4	64.8
	(11.5)	11.5	0	9.2	2.3	Consolidated Children's and Education Services	(22.1)	22.1	0.0	10.1	12.0
	(122.2)	121.5	(0.7)	64.8	56.7		(143.3)	143.3	(0.0)	66.5	76.8

The County Council had outstanding balances with the Clinical Commissioning Group at 31 March 2022 of £1.2 million debtors (2020/21 £1.1 million) and £0.2 million creditors (2020/21 £0.5 million).

8. Other operating expenditure

2020/21	2021/22
£m	£m
0.3 Admin Expenses Pension	0.4
2.2 Loss on disposal of non-current assets	1.2
2.5	1.6

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

9. Financing and investment income and expenditure

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

Page 193

Restated*	2021/22
2020/21	
£m	£m
29.6 Interest payable and similar charges	28.7
9.7 Net interest of the net defined pension liability	9.3
25.3 Loss on transfer of schools to other bodies (e.g. academies)	25.6
(8.6) Interest receivable and similar income	(7.3)
56.0	56.3

*See Note 32 for Prior Period Adjustment

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 194

2020/21 Taxation and non-specific grants	2021/22
£m	£m
(276.3) Council tax income	(287.2)
(54.3) Non-domestic rates	(59.7)
(38.9) Non-ring-fenced government grants	(34.4)
(97.8) Capital grants and contributions	(50.2)
0.3 Environment Agency	0.3
(467.0)	(431.2)

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.

2021/22	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	50.2	0.0	0.0	0.0	(50.2)
Amortisation of intangible assets	1.5	0.0	0.0	0.0	(1.5)
Capital grants and contributions applied	(50.2)	0.0	0.0	0.0	50.2
Revenue expenditure funded from capital under statute	13.0	0.0	0.0	0.0	(13.0)
Net loss on disposal of non-current assets	28.4	0.0	0.0	0.0	(28.4)
Statutory provision for the financing of capital investment	(16.9)	0.0	0.0	0.0	16.9
Capital expenditure charged against the General Fund	(0.6)	0.1	0.0	0.0	0.5
Revaluation to Capital Adjustment Account	(2.1)	0.0	0.0	0.0	2.1
Capital Grants and Contributions unapplied credited to the CI&ES	0.0	0.0	0.0	50.2	(50.2)
Application of grants to capital financing transferred to Capital Adjustment Account	0.0	0.0	0.0	(57.9)	57.9
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the CI&E Statement	(1.5)	0.0	6.2	0.0	(4.7)
Use of Capital Receipts Reserve to finance new capital expenditure	0.0	0.0	(6.2)	0.0	6.2
Reversal of items relating to retirement benefits debited or credited to the CI&E Statement	46.6	0.0	0.0	0.0	(46.6)

	General Fund (Non-earmarked balances)	General Fund (Earmarked reserves)	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
Employer's pension contributions and direct payments to pensioners payable in the year	(28.0)	0.0	0.0	0.0	28.0
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	(3.6)	0.0	0.0	0.0	3.6
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	11.0	0.0	0.0	0.0	(11.0)
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	(2.9)	0.0	0.0	0.0	2.9
Transfer of in-year Schools balance deficit to Unusable Reserve	0.0	4.8	0.0	0.0	(4.8)
Total Adjustments	44.9	4.9	0.0	(7.7)	(42.1)

Restated*
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	33.5	0.0	0.0	0.0	(33.5)
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 to the CI&ES	0.0	0.0	0.0	97.8	(97.8)
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

Restated* 2020/21	Usable 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	1.6	0.0	0.0	0.0	(1.6)
Transfer to in year Schools balance deficit to unusable reserve	0.0	0.3	0.0	0.0	(0.3)
Total Adjustments	20.3	0.5	2.7	15.4	(38.9)

*See Note 32 for Prior Period Adjustment

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 01/04/21 Restated*	Contributions To	From	Closing Balance 31/03/22
	£m	£m	£m	£m
General fund	13.0	1.3	0.0	14.3
Earmarked specific reserves	137.9	77.8	(58.0)	157.7
Capital grants unapplied	71.3	50.2	(57.9)	63.6
Capital receipts reserve	2.7	6.2	(6.2)	2.7
Total Usable Reserves	224.9	135.5	(122.1)	238.3

*See Note 32 for Prior Period Adjustment

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 2021 Restated*	Transfers out	Transfers in	Balance at 31 March 2022	Purpose of the reserve
	£m	£m	£m	£m	
Open for Business					
Revolving Investment Fund	9.7	(3.6)	1.5	7.6	Investment in the local economy which delivers income to support future investment
Open for Business	3.5	(1.5)	3.2	5.2	Supporting measures to grow our local economy
Local Authority Business Growth Initiative	0.6	(0.1)	0.0	0.5	Residual Local Authority Business Growth Initiative funding
Sub regional mineral plan	0.6	(0.2)	0.0	0.4	Funds held to support the delivery of the sub regional mineral plan
Growing Places reserve	2.1	(0.6)	0.4	1.9	Supporting growth in the local economy
Broadband Programme	0.0	(0.2)	4.1	3.9	Reserves to support digital connectivity
Other	1.2	(0.2)	1.5	2.5	Lower value reserves covering, for example, apprenticeships
Children & Families					
Safeguarding	1.9	0.0	0.0	1.9	Risk reserve maintained to support unexpected safeguarding costs that could arise through the contract with Worcestershire Children First.

	Balance at 31 March 2021	Transfers out	Transfers in	Balance at 31 March 2022	Purpose of the reserve
SEND Transport Risk Reserve	0.9	(0.5)	0.0	0.4	Risk reserve to support SEND student travel provision
Education and High Needs	2.4	0.0	0.0	2.4	Reserve maintained to cover general education and high needs block expenditure
Children's Revenue Grants	5.8	(0.7)	3.4	8.5	Grants held by the service for draw down as required
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	1.4	1.8	Grants held by the service for draw down as required
Waste Transformation Reserve	1.0	0.0	0.0	1.0	Reserve set aside to support waste contract and transformation services
Infrastructure Project Support	2.0	0.0	0.0	2.0	Supporting new infrastructure projects
Other	0.0	0.0	0.2	0.2	Lower value reserves

	Balance at 31 March 2021	Transfers out	Transfers in	Balance at 31 March 2022	Purpose of the reserve
Health and Wellbeing					
Public Health	6.4	0.0	3.3	9.7	Balances from the Ring-fenced Public Health Grant held to support the service against future changes in funding
Revenue grants unapplied	4.7	(2.2)	5.8	8.3	Grants held by the service for draw down as required
Unused grants carried forward	23.2	(23.2)	17.6	17.6	Grants held by the service for draw down as required
Efficient Council					
Transformation / Change Reserve	3.9	(0.8)	0.2	3.3	Financing invest to save schemes to change the shape and design of the County Council
Digital Reserve	3.0	(0.2)	0.5	3.3	Supporting the development of digitally enabled operations as part of the organisational review
Elections	0.4	(0.3)	0.0	0.1	Annual amounts set aside to provide County Council elections, which happen every 4 years
Property Management	0.6	(0.1)	0.5	1.0	Funding for property-related expenditure
Insurance	9.3	(1.2)	1.0	9.1	Covering claims below the County Council's insurance policy excess

	Balance at 31 March 2021	Transfers out	Transfers in	Balance at 31 March 2022	Purpose of the reserve
Business Rates Pool	14.1	(1.0)	13.1	26.2	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	0.1	0.5	Amounts set aside to cover significant inquest costs
Councillors Divisional Fund	1.7	(0.5)	0.0	1.2	Funds to support Councillors' local discretionary spend
Fleet Surplus Reserve	0.1	0.0	0.0	0.1	Fleet support
Future Capital Investment	7.9	0.0	0.1	8.0	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	2.0	0.0	0.0	2.0	Monies set aside to enable new ways of working
Financial Risk Reserve	8.2	(4.9)	8.5	11.8	Amount set aside to support financial risk
Other reserves (not available for core spend)					
Schools balances held under delegation	4.0	(4.0)	5.4	5.4	Balances held for individual maintained schools

	Balance at 31 March 2021	Transfers out	Transfers in	Balance at 31 March 2022	Purpose of the reserve
Schools ICT PFI Reserve	0.2	(0.1)	0.0	0.1	PFI grant funding supporting the ongoing delivery of the programme
Bromsgrove High School PFI Advance	1.7	(0.3)	0.0	1.4	PFI grant funding supporting the ongoing delivery of the programme
Waste Contract PFI Grant	11.9	(11.6)	6.0	6.3	To fund pressures relating to the increase on household waste disposal costs as the number of households in the County increases
Total	137.9	(58.0)	77.8	157.7	

*See Note 32 for Prior Period Adjustment

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 01/04/21 Restated*	Contributions		Closing Balance 31/03/22	Purpose of the reserve
		To	From		
	£m	£m	£m	£m	
Pensions reserve	(498.4)	(50.9)	85.0	(464.3)	Movement in remeasurement of the net defined liability
Accumulated absences adjustment account	(8.5)	8.5	(5.7)	(5.7)	Balances relating to the accumulated holiday due but not taken in year
Financial instruments adjustment account	(1.1)	0.0	0.1	(1.0)	Valuation gains and losses on financial instruments carried at fair value
Capital adjustment account	213.8	64.6	(61.4)	217.0	An accounting mechanism used to reconcile the different rates at which assets are depreciated
Revaluation reserve	203.4	47.6	(22.3)	228.7	Unrealised gains and losses arising from revaluations of long-term assets
Collection fund adjustment accounts	0.5	3.7	(11.0)	(6.8)	Surplus or deficit arising from agency arrangements
DSG Adjustment Account	(6.5)	0.0	(4.8)	(11.3)	Accumulated DSG deficit
Total Unusable Reserves	(96.8)	73.5	(20.1)	(43.4)	

*See Note 32 for Prior Period Adjustment

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 – Depreciated historical cost
- Community assets – Depreciated historical cost
- Assets under construction – Historical cost

Page 206
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.

Infrastructure Assets

At the date of the publication of the draft accounts, Note 14.1 has been prepared to reflect the temporary solution for an amendment to the Code proposed by CIPFA LASAAC. The gross historical cost and accumulated depreciation for Infrastructure Assets has not been separately reported; instead, the net book value and movement in the year has been disclosed with total Property, Plant & Equipment balances reconciled to the Balance Sheet total. Further explanation of the Council's accounting policy in respect of Highways Network Infrastructure Assets is noted below.

14.1 Movements

2021/22

	Land and Buildings	Vehicles, plant, furniture & equipment	Community Assets	Surplus Assets	Assets under Construction	Total Property, Plant & Equipment [^]	PFI Assets included in PPE
	£m	£m	£m	£m	£m	£m	£m
Cost or valuation							
At 1 April 2021	496.8	173.8	0.3	3.9	87.8	762.6	193.8
Additions	2.5	1.2	0.0	0.2	42.8	46.7	
Revaluation increases / (decreases) recognised in Revaluation Reserve	27.1	6.0	0.0	(0.7)	0.0	32.4	10.2
Revaluation increases / (decreases) recognised in the Surplus on the Provision of Services	(0.4)	3.1	0.0	0.8	0.0	3.5	3.0
Derecognition - disposals	(26.3)	(0.5)	0.0	(0.2)	0.0	(27.0)	(6.9)
Derecognition - other	(1.2)	0.0	0.0	0.0	0.0	(1.2)	0.0
Assets reclassified (to)/from Held for Sale	0.0	0.0	0.0	(1.3)	0.0	(1.3)	0.0
Assets reclassified to other categories	(1.3)	0.0	0.0	1.3	0.0	0.0	0.0
Other movements in cost or valuation	3.6	0.2	0.0	0.0	(22.7)	(18.9)	0.1
At 31 March 2022	500.8	183.8	0.3	4.0	107.9	796.8	200.2

[^]Total Property, Plant & Equipment excluding Infrastructure Assets

2021/22

	Land and Buildings	Vehicles, plant, furniture & equipment	Community Assets	Surplus Assets	Assets under Construction	Total Property, Plant & Equipment [^]	PFI Assets included in PPE
	£m	£m	£m	£m	£m	£m	£m
Accumulated depreciation and impairment							
At 1 April 2021	(25.9)	(71.2)	0.0	(0.3)	0.0	(97.4)	(12.9)
Depreciation written out to the Revaluation Reserve	(3.4)	0.0	0.0	0.0	0.0	(3.4)	(0.2)
Depreciation charge	(4.3)	(10.1)	0.0	0.0	0.0	(14.4)	(5.4)
Derecognition - disposals	0.6	0.6	0.0	0.3	0.0	1.5	0.1
Derecognition - other	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Assets reclassified to other categories	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other movements in depreciation and impairment	4.4	4.5	0.0	0.0	0.0	8.9	5.2
At 31 March 2022	(28.6)	(76.2)	0.0	0.0	0.0	(104.8)	(13.3)
Net book value							
At 31 March 2022	472.2	107.6	0.3	4.0	107.9	692.0	186.9
At 31 March 2021	470.9	102.6	0.3	3.6	87.8	665.2	180.9

[^]Total Property, Plant & Equipment excluding Infrastructure Assets

Infrastructure Assets	£m
Opening Net book value at 1 April 2021	418.7
Additions	48.9
Other movements in cost or valuation	18.9
Depreciation charge	(32.4)
Closing Net book value at 31 March 2022	454.1

Reconciliation to Balance Sheet	£m
Net book value of PPE excluding Infrastructure Assets	692.0
Net book value of Infrastructure Asset	454.1
Total Net book value of PPE at 31 March 2022	1,146.1

Highways Network Infrastructure Assets

Highways network infrastructure assets include carriageways, footways and cycle tracks, structures (e.g. bridges), street lighting, street furniture (e.g. illuminated traffic signals, bollards), traffic management systems and land which together form a single integrated network.

Recognition

Expenditure on the acquisition or replacement of components of the network is capitalised on an accrual basis, provided that it is probable that the future economic benefits associated with the item will flow to the Authority and the cost of the item can be measured reliably.

Measurement

Highways network infrastructure assets are generally measured at depreciated historical cost. However, this is a modified form of historical cost – opening balances for highways infrastructure assets were originally recorded in balance sheets at amounts of capital undischarged for sums borrowed as at 1 April 1994 which was deemed at that time to be historical cost. Where impairment losses are identified, they are accounted for by the carrying amount of the asset being written down to the recoverable amount.

Depreciation

Depreciation is provided for on the parts of the highways network infrastructure assets that are subject to deterioration or depletion and by the systematic allocation of their depreciable amounts over their useful lives. Annual depreciation is the depreciation amount allocated each year. Useful lives of the various parts of the highways network are assessed using industry standards where applicable.

Disposals and derecognition

When a component of the Network is disposed of or decommissioned, the carrying amount of the component in the Balance Sheet is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement, also as part of the gain or loss (i.e. netted off against the carrying value of the asset at the time of disposal).

The written-off amounts of disposals are not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are transferred to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Where a part of the network is replaced, an adaptation provided in a separate update to the Code assumes that, from the introduction of the IFRS based Code, when parts of an asset are replaced or restored, the carrying amount of the derecognised part will be zero because parts of infrastructure assets are rarely replaced before the part has been fully consumed.

Restated*
2020/21

	Land and Buildings	Vehicles, plant, furniture & equipment	Community Assets	Surplus Assets	Assets under Construction	Total Property, Plant & Equipment^	PFI Assets included in PPE
	£m	£m	£m	£m	£m	£m	£m
Cost or valuation							
At 1 April 2021	536.5	189.3	0.3	4.6	48.6	779.3	228.7
Additions	11.8	3.6	0.0	0.0	48.7	64.1	0.0
Revaluation increases / (decreases) recognised in Revaluation Reserve	(8.0)	(17.6)	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	(16.9)	(11.6)
Derecognition - disposals	(30.2)	0.0	0.0	0.0	0.0	(30.2)	0.0
Derecognition - other	(0.2)	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	(1.8)	0.0	(1.8)	0.0
Assets reclassified to other categories	(1.2)	0.0	0.0	1.2	0.0	0.0	0.0
Other movements in cost or valuation	3.2	0.3	0.0	(0.1)	(9.5)	(6.1)	0.0
At 31 March 2021	496.8	173.8	0.3	3.9	87.8	762.6	193.8

*See Note 32 for Prior Period Adjustment

^Total Property, Plant & Equipment excluding Infrastructure Assets

Restated*
2020/21

	Land and Buildings	Vehicles, plant, furniture & equipment	Community Assets	Surplus Assets	Assets under Construction	Total Property, Plant & Equipment^	PFI Assets included in PPE
	£m	£m	£m	£m	£m	£m	£m
Accumulated depreciation and impairment							
At 1 April 2020	(26.2)	(79.6)	0.0	(0.3)	0.0	(106.1)	(27.9)
Depreciation written out to the Revaluation Reserve	(3.6)	0.0	0.0	0.0	0.0	(3.6)	0.0
Depreciation charge	(4.2)	(10.3)	0.0	0.0	0.0	(14.5)	(5.6)
Derecognition - disposals	0.5	0.0	0.0	0.0	0.0	0.5	0.0
Derecognition - other	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Assets reclassified to other categories	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	26.3	20.6
At 31 March 2021	(25.9)	(71.2)	0.0	(0.3)	0.0	(97.4)	(12.9)
Net book value							
At 31 March 2021	470.9	102.6	0.3	3.6	87.8	665.2	180.9
At 31 March 2020	510.3	109.7	0.3	4.3	48.6	673.2	200.8

*See Note 32 for Prior Period Adjustment

^Total Property, Plant & Equipment excluding Infrastructure Assets

Infrastructure Assets	£m
Opening Net book value at 1 April 2020	397.5
Additions	45.4
Other movements in cost or valuation	6.1
Depreciation charge	(30.3)
Closing Net book value at 31 March 2021	418.7

Reconciliation to Balance Sheet	£m
Net book value of PPE excluding Infrastructure Assets	665.2
Net book value of Infrastructure Asset	418.7
Total Net book value of PPE at 31 March 2021	1,083.9

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 2021 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 as at 31 March 2022 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 214 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 2022	244.7	100.0	0.0	0.0	0.4	0.0	345.1	169.4
31 March 2021	75.9	0.0	0.0	0.0	0.5	0.0	76.4	11.1
31 March 2020	57.8	0.1	0.0	0.0	1.3	0.0	59.2	3.3
31 March 2019	18.4	0.0	0.0	0.0	1.6	0.0	20.0	3.0
31 March 2018	74.9	0.0	0.0	0.0	0.1	0.0	75.0	0.1
Held at cost	0.5	7.4	454.1	0.3	0.1	108.0	570.4	0.0
Total cost or valuation	472.2	107.5	454.1	0.3	4.0	108.0	1,146.1	186.9

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.

Page 216

Restated*	
2020/21	2021/22
£m	£m
218.5 Opening Balance at 1 April	203.4
23.0 Revaluations upwards during the year	47.6
(3.6) Depreciation of revaluations	(3.4)
(22.3) Revaluations downwards during the year	(4.9)
(12.2) Disposal of revaluations	(14.0)
203.4 Closing Balance at 31 March	228.7

*See Note 32 for Prior Period Adjustment

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.

Restated*	
2020/21	2021/22
£m	£m
38.1 Downward revaluations - other land and buildings	8.2
0.8 Downward revaluations – vehicles, plant, furniture & equipment	0.0
0.0 Downward revaluations - non-operational	0.0
27.5 Disposal losses – other land & buildings	26.9
66.4	35.1

*See Note 32 for Prior Period Adjustment

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.

Restated*	2021/22
2020/21	
£m	£m
211.7 Balance at 1 April	213.8
Capital Financing:	
6.9 Capital receipts	6.2
82.4 Capital grants and contributions	57.9
0.9 Revenue contributions to capital expenditure	0.5
0.0 Capital reserve	0.0
90.2	64.6
(16.9) Downward revaluations charged to Comprehensive Income and Expenditure Statement	2.1
(46.2) Depreciation charged to Comprehensive Income and Expenditure Statement	(48.3)
10.4 Minimum revenue provision adjustment	12.3
3.2 Minimum revenue provision PFI adjustment	4.6
(13.7) REFCUS adjustment	(13.0)
(21.3) Disposal of non-current assets	(14.4)
(3.6) Other adjustments	(4.7)
213.8 Closing Balance at 31 March	217.0

*See Note 32 for Prior Period Adjustment

14.6 Contractual commitments for property, plant and equipment

As at 31 March 2022 the County Council has a capital programme comprising capital projects amounting to £146.1 million (2020/21 £85.1 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	5.6
A38 Upton Crossroads	4.3
Pershore Northern Access Improvements	3.4
Sub-total	13.3
Committed schemes less than £2 million	26.6
Major schemes where contracts have been let:	39.9

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 2022, details are given in the Events after the Balance Sheet date note at the end of the accounts.

	Number of schools at 31 March 2022	Value held on Balance Sheet at 31 March 2022	Status
		£m	
Community	50	237.3	On Balance Sheet
PFI	7	57.6	On Balance Sheet
Voluntary controlled	39	1.2	Off Balance Sheet
Voluntary aided	22	0.2	Off Balance Sheet
Academy	120	1.6	Off Balance Sheet
Foundation	1	0.0	Off Balance Sheet
Free School	4	0.0	Off Balance Sheet
	243	297.9	

Page 220

14.8 Non-operational assets

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

2020/21		2021/22
£m		£m
5.7	Assets Held for Sale	5.4

14.9 Capital expenditure and capital financing

2020/21	2021/22
£m	£m
767.6 Opening capital financing requirement	787.0
Capital investment:	
109.5 Property, plant and equipment	97.6
13.7 Revenue expenditure funded from capital under statute	13.0
123.2 Total Capital Investment	110.6
Sources of finance:	
(6.9) Capital receipts	(6.2)
(82.4) Government grants & other contributions	(57.9)
Sums set aside from revenue:	
(0.9) Direct revenue contributions	(0.5)
(10.4) MRP/loans fund principal (excluding PFI)	(12.3)
(3.2) MRP/loans fund principal (PFI)	(4.6)
787.0 Closing Capital Financing Requirement	816.1
(163.0) Long-term liabilities (PFI liabilities)	(155.0)
624.0 Underlying need to borrow	661.1

Explanation of movements in year	
19.4 Increase in underlying need to borrow	29.1
19.4 Increase / (decrease) in Capital Financing Requirement	29.1

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

- The average life of all assets at 31 March 2008 for pre-2008 debts, and
- The average asset class life for post-2008 debts, using schools, highways and other assets as our key categories.
- For PFI assets, the MRP charge is based on the useful economic life relevant to each asset.

The total MRP charge in 2021/22 is £16.9m represented by £12.3m charged in respect of non-PFI assets and £4.6m in respect of PFI assets. For PFI assets, the MRP charge of £9.9m has been adjusted by £5.3m 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.

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 Invesis UK Ltd (previously known as BAM PPP UK Limited and prior to that 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			Total	PPE -	Total
	Waste disposal	Bromsgrove schools	The Hive		vehicle, plant & equipment	
					Waste disposal	
	£m	£m	£m	£m	£m	£m
Balance at 31 March 2021	5.6	61.7	22.5	89.8	91.0	180.8
Additions						
Revaluations	0.0	3.1	1.0	4.1	9.1	13.2
Disposals	0.0	(6.9)	0.0	(6.9)	0.0	(6.9)
Other Movements	0.0	(0.8)	0.9	0.1	0.0	0.1
Depreciation	(0.2)	(0.1)	0.0	(0.3)	0.0	(0.3)
Balance at 31 March 2022	5.4	57.0	24.4	86.8	100.1	186.9

Page 225

Finance lease liability

	Waste disposal	Bromsgrove schools	The Hive	Total
	£m	£m	£m	£m
Balance at 31 March 2021	(97.3)	(48.8)	(16.9)	(163.0)
Additions	0.0	0.0	0.0	0.0
Payments	6.0	1.4	0.5	7.9
Balance at 31 March 2022	(91.3)	(47.4)	(16.4)	(155.1)

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	9.6	31.8	10.9	52.3
Payments due within 2 to 5 years	94.0	26.5	25.8	146.3
Payments due within 6 to 10 years	18.4	29.7	20.4	68.5
Payments due within 11 to 15 years	28.0	29.3	10.3	67.6
Payments due within 16 to 20 years	5.0	4.3	0.4	9.7
Total	155.0	121.6	67.8	344.4

Page 226 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 for one party and a financial liability to another party. Non-exchange transactions such as those relating to taxes and government grants do not give rise to financial instruments. The term includes financial assets such as bank deposits, investments and loans and accounts receivable and financial liabilities including borrowings and amounts payable. 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 requirements of IFRS 9.

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.

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.

16.1 Income, expense, gains and losses on Financial Instruments 2021/22

The gains and losses on financial instruments recognised in the Comprehensive Income and Expenditure Statements are shown in the following table:

Financial Liabilities	Financial Assets		Total		Financial Liabilities	Financial Assets		Total
Amortised Cost	Amortised Cost	Fair value through profit and loss			Amortised Cost	Amortised Cost	Fair value through profit and loss	
£m	£m	£m	£m		£m	£m	£m	£m
(29.5)	0.7	0.0	(28.8)	Interest expense	(28.7)	0.4	0.0	(28.3)
0.0	7.7	0.1	7.8	Interest income	0.0	7.4	(0.2)	7.2
0.0	0.0	0.0	0.0	Increase/(decrease) in fair value	0.0	0.0	(0.1)	(0.1)
0.1	0.0	0.0	0.1	Fee expense	0.0	0.0	0.0	0.0
(29.4)	8.4	0.1	(20.9)	Net gain / (loss) for the year	(28.7)	7.8	(0.3)	(21.2)

Page 228

16.2 Financial assets

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 financial assets disclosed in the balance sheet are analysed across the following categories:

31 March 2021			Category	31 March 2022		
Long-term	Current	Total		Long-term	Current	Total
£m	£m	£m		£m	£m	£m
0.0	35.0	35.0	Amortised cost		8.0	8.0
3.0	0.2	3.2	Financial assets at fair value through profit & loss	3.0	(0.1)	2.9
3.0	35.2	38.2	Total Investments	3.0	7.9	10.9
0.0	24.3	24.3	Cash	0.0	4.3	4.3
0.0	5.0	5.0	Cash equivalents at amortised cost	0.0	0.0	0.0
0.0	38.0	38.0	Fair value through profit & loss	0.0	38.5	38.5
0.0	67.3	67.3	Total Cash	0.0	42.8	42.8
108.6	59.6	168.2	Debtors*	104.2	57.4	161.6
111.6	162.1	273.7	Total financial assets	107.2	108.1	215.3
<i>*The debtors figure stated is lower than the debtors shown on the Balance Sheet as it excludes the following amounts which do not meet the definition of a financial asset: payments in advance and non-exchange transactions</i>						
0.0	44.2	44.2	<i>Debtors which do not meet the definition of a financial instrument</i>	0.0	28.5	28.5
108.6	103.8	212.4	Balance Sheet Debtors Total	104.2	85.9	190.1

16.3 Financial liabilities

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.

Page 230

31 March 2021			Category	31 March 2022		
Restated*				Long-term	Current	Total
Long-term	Current	Total				
£m	£m	£m				
(456.5)	(71.3)	(527.8)	Financial liabilities at amortised cost	(409.9)	(78.2)	(488.1)
(0.0)	(45.6)	(45.6)	Creditors*	(0.0)	(43.4)	(43.4)
(163.0)	(0.0)	(163.0)	Other financial liabilities (PFI) at amortised cost	(155.1)	(0.0)	(155.1)
(619.5)	(116.9)	(736.4)	Total financial liabilities	(565.0)	(121.6)	(686.6)
*The creditors figure stated is lower than the debtors shown on the Balance Sheet as it excludes the following amounts which do not meet the definition of a financial asset: (include type of asset here)						
(0.0)	(70.3)	(70.3)	Creditors which do not meet the definition of a financial instrument	(0.0)	(47.7)	(47.7)
(0.0)	(115.9)	(115.9)	Balance Sheet Creditors Total	(0.0)	(91.1)	(91.1)

*See Note 32 for Prior Period Adjustment

16.4 Fair value of financial assets and liabilities

Financial instruments, except those classified at amortised cost, are carried in the Balance Sheet at fair value. 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 2022 using fair value techniques appropriate to the characteristics of each instrument, using the following methods and assumptions:

- 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.
- 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 two year period is not a material difference.
- The fair values of finance lease and PFI scheme liabilities have been calculated by discounting the contractual cashflows (excluding service charge elements) at the appropriate AA-rated corporate bond yield.
- The fair value of short-term instruments, including trade payables and receivables, is deemed to be not materially different to the carrying amount.

Page 231

Fair values are shown in the table below, split by their level in the fair value hierarchy.

Level 1	Fair value is derived from quoted prices in active markets for identical assets or liabilities
Level 2	Fair value is calculated from inputs other than quoted prices that are observable for the asset or liability
Level 3	Fair value is determined using unobservable inputs

Fair value of financial assets

31 March 2021				31 March 2022		
Balance Sheet value	Fair value	Fair value level		Fair value level	Balance Sheet value	Fair value
£m	£m				£m	£m
			Financial asset held at fair value through profit & loss			
0.2	0.2	1	Short-term investments	1	(0.1)	(0.1)
38.0	38.0	1	Cash and cash equivalents	1	38.5	38.5
3.0	3.0	3	Long-term investments (Malvern Hills Science Park)	3	3.0	3.0
41.2	41.2		Subtotal		41.4	41.4
			Financial asset held at amortised cost			
108.6	108.6	1	Long-term debtors [^]	1	104.2	104.2
35.0	35.0	1	Investments	1	8.0	8.0
143.6	143.6		Sub total		112.2	112.2
184.8	184.8		Total		153.6	153.6
88.9			Assets for which fair value is not disclosed*		61.7	
273.7	184.8		Total Financial Assets		215.3	153.6
			Recorded on Balance Sheet as:			
108.6			Long term loans and advances		104.2	
3.0			Long term investments		3.0	
35.2			Short-term investments		7.9	
59.6			Short-term Debtors		57.4	

67.3			Cash and cash equivalents		42.8	
273.7			Total Financial Assets		215.3	

^ The carrying value of 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 discounted cashflows over the remaining 2 year period are not materially different.

*The fair value of short term financial assets including trade receivables is assumed to approximate to the carrying amount.

Fair value of financial liabilities

31 March 2021				31 March 2022		
Balance Sheet value	Fair value	Fair value level		Fair value level	Balance Sheet value	Fair value
£m	£m				£m	£m
			Financial liabilities held at amortised cost			
418.1	560.8	2	Long term PWLB Loans	2	406.5	439.9
109.7	157.9	2	Other Long Term Loans	2	81.6	103.7
163.0	211.7	1	PFI liabilities	1	155.1	196.0
690.8	930.4		Total financial liabilities held at amortised cost		643.2	739.6
45.6			Liabilities for which fair value is not disclosed*		43.4	
736.4	930.4		Total financial liabilities		686.6	739.6
			Recorded on Balance Sheet as:			
45.6			Short term Creditors		43.4	
71.3			Short term Borrowings		78.2	
456.5			Long term Borrowings		409.9	
163.0			Other long term liabilities		155.1	
736.4			Total Financial Liabilities		686.6	

*The fair value of short term financial liabilities including trade payables is assumed to approximate to the carrying amount.

The fair value of financial liabilities held at amortised cost is higher than their Balance Sheet carrying amount as these balances comprise a number of loans where the interest rate payable is higher than the current rates available for similar loans at the Balance Sheet date. This shows a notional future loss (based on economic conditions at the end of the financial year) arising from a commitment to pay interest to lenders at above current market rates.

16.5 Nature and extent of risks arising from financial instruments

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 imposes a maximum sum and duration that the County Council can invest in an institution, depending upon the quality of credit rating. The Strategy for 2021/22 was approved by Council on 18 February 2021.

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

Credit risk

Credit risk is the possibility that other parties might fail to pay amounts due to the County Council.

Credit Risk Management Practices

The Council's credit risk management practices are set out within its Annual Treasury Management Strategy (ATMS). With particular regard to determining whether the credit risk of financial instruments has increased significantly since initial recognition.

The ATMS requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard & Poor's Credit Ratings Services. The ATMS also considers maximum amounts and time limits with a financial institution located in each category.

The credit criteria in respect of financial assets held by the Council are detailed below: -

The Council uses the creditworthiness service provided by Link Asset Services. This service uses a sophisticated modelling approach with credit ratings from all three rating agencies - Fitch, Moody's and Standard and Poor's, forming the core element. However, it does not rely solely on the current credit ratings of counterparties but also uses the following as overlays: -

- credit watches and credit outlooks from credit rating agencies
- CDS spreads to give early warning of likely changes in credit ratings
- sovereign ratings to select counterparties from only the most creditworthy countries

All credit ratings are monitored daily and changes to ratings are notified to the Council by Link Asset Treasury Solutions, creditworthiness service. If a downgrade results in the financial institution / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.

The Council's maximum exposure to credit risk in relation to its investments in financial institutions of £25.0m cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of recoverability applies to all of the Council's deposits but there was no evidence at the 31st March 2022 that this was likely to crystallise

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.

Credit risk: Treasury Investments

The table below summarises the credit risk exposures of the County Council's treasury investment portfolio by credit rating:

31 March 2021		Credit rating	31 March 2022	
Long term	Short term		Long term	Short term
£m	£m		£m	£m
3.0	38.2	AAA/AA (f/m)	3.0	38.5
0.0	40.0	AA-	0.0	7.9
3.0	78.2	Total	3.0	46.4
0.0	0.0	Credit rating not available	0.0	0.0
3.0	78.2	Total investments	3.0	46.4
0.0	(0.2)	Accrued interest excluded	0.0	0.1
3.0	78.0	Total investments	3.0	46.5

Page 236

Credit risk: Trade Receivables

The impairment allowance for trade debtors at 31 March 2022 is £3.4 million; an increase of £0.4 million.

	Trade Debtors
	£m
Balance at 1 April 2021	3.0
Impairment allowance for trade debtors	0.4
Balance at 31 March 2022	3.4

Liquidity risk

Liquidity risk is 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.

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

31 March 2021	31 March 2022
£m	£m
71.3 Maturing within one year	78.2
67.0 Maturing in 1-2 years	28.8
28.0 Maturing in 2-5 years	33.9
54.5 Maturing in 5-10 years	49.6
307.0 Maturing in more than 10 years	297.6
527.8 Total	488.1

Page 237

Market risk

Market risk is 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.

17. Long term investments

31 March 2021	31 March 2022
£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 2020/21) and 6,190 P2 shares (6,190 2020/21). 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 2021/22, is £3.0 million (2020/21 £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. There is one Cabinet member on the Board.

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 2021	31 March 2022
Restated	
£m	£m
Long term debtors:	
0.6 Trade receivables	0.9
108.0 Capital loans and advances	103.3
108.6	104.2
Short term debtors:	
49.8 Trade receivables	50.2
26.2 Prepayments	8.6
10.4 VAT	14.0
10.8 Council Tax	12.5
6.2 NNDR	0.5
0.4 Other receivables	0.1
103.8	85.9
212.4 Total debtors	190.1

The County Council does not generally allow credit for trade receivables debtors, however £16.7 million of balances are past due date for payment and can be analysed as follows. The current impairment allowance for trade debtors in the Balance Sheet is £3.4 million, an increase of £0.4 million.

	£m
One to three months	4.9
Three to six months	2.5
Six months to one year	3.0
More than one year	6.3
Total	16.7

19. Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

Page 240

	Opening Balance 01/04/2021	Movement During the Year	Closing Balance 31/03/2022
	£m	£m	£m
Bank current accounts	24.3	(20.0)	4.3
Short Term investments held as cash	43.0	(4.5)	38.5
Total cash and cash equivalents	67.3	(24.5)	42.8

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 2021	31 March
Restated*	2022
£m	£m
Short-term creditors	
(80.1) Trade payables	(49.9)
(6.3) Receipts in Advance	(8.8)
(8.4) Employee Leave Accrual	(5.6)
(14.0) Council Tax	(12.1)
(0.2) NNDR	(6.7)
(6.9) Other payables	(8.0)
(115.9) Total creditors	(91.9)

*See Note 32 for Prior Period Adjustment

21. Other long-term liabilities

2020/21	2021/22
£m	£m
(163.0) PFI liabilities	(155.1)
(443.9) Re-measurement of the net defined benefit	(435.7)
(2.4) Teachers' Pension scheme Added year	(2.2)
(609.3) Other Long-term Liabilities	(593.0)

22. Grants and contributions receipts in advance

31 March 2021	31 March 2022
23.2 Section 106 Town and Country Planning Act 1990	24.1
1.6 Section 278 Highways Act 1980	2.1
24.8	26.2

23. Cash activities

23.1 Operating activities

Restated*	2021/22
2020/21	
£m	£m
0.8 Interest received	0.3
(29.4) Interest paid	(29.4)
2020/21	2021/22
£m	£m
The surplus/deficit on the provision of services has been adjusted for the following non-cash movements	
48.4 Depreciation	50.3
16.8 Downward revaluations	(2.2)
1.4 Amortisation	1.4
1.2 (Increase) / decrease in impairment for bad debts	(1.7)
7.5 (Decrease) / Increase in creditors	(26.2)
(9.8) (Increase) / decrease in debtors	21.3
(39.0) Movement in pension liability	44.4
(0.1) (Increase)/ decrease in Inventories	0.0
33.6 Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	28.5
(12.8) Other non –cash items	(8.4)
47.2	107.4

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

(6.1) Proceeds from the sale of property plant and equipment, investment property and intangible assets	(6.2)
(97.7) Any other items for which the cash effects investing of financing cash flows	(50.2)
(103.8)	(56.4)

*See Note 32 for Prior Period Adjustment

23.2 Investing activities

2020/21	2021/22
£m	£m
(109.5) Purchase of property, plant & equipment and intangible assets	(97.5)
(775.6) Purchase of short-term & long-term investments	(41.0)
6.9 Other payments for investing activities	6.7
6.1 Proceeds from the sale of property, plant & equipment and intangible assets	6.2
745.6 Proceeds from short-term & long-term investments	68.1
102.0 Other receipts from investing activities	55.6
(24.5) Net cash flows from investing activities	(1.9)

Page 244

Other receipts from investing activities (£55.6 million) are represented by Capital Grants of £50.2 million and other Capital Receipts of £5.4 million.

23.3 Financing activities

2020/21	2021/22
£m	£m
73.1 Cash receipts of short-term & long-term borrowing	0.0
(2.0) Other receipts from financing activities	2.6
(8.4) Cash payments for the reduction of the outstanding liabilities relating to finance leases & on-Balance Sheet PFI contracts	(7.9)
(21.3) Repayments of short and long-term borrowing	(39.6)
41.4 Net cash flows from financing activities	(44.9)

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.

2020/21		Total Remuneration to Employees			2021/22		
Teachers	Non-Teachers	Total		Teachers	Non-Teachers	Total	
67	35	102	£50,000 to £54,999	62	37	99	
38	15	53	£55,000 to £59,999	40	24	64	
27	12	39	£60,000 to £64,999	30	22	52	
26	5	31	£65,000 to £69,999	26	5	31	
13	7	20	£70,000 to £74,999	18	3	21	
15	3	18	£75,000 to £79,999	10	4	14	
4	4	8	£80,000 to £84,999	6	0	6	
3	1	4	£85,000 to £89,999	3	4	7	
0	2	2	£90,000 to £94,999	2	3	5	
4	1	5	£95,000 to £99,999	2	1	3	
1	3	4	£100,000 to £104,999	2	2	4	
1	2	3	£105,000 to £109,999	0	2	2	
0	0	0	£110,000 to £114,999	1	1	2	
0	1	1	£115,000 to £119,999	0	0	0	
0	0	0	£120,000 to £124,999	0	0	0	
0	1	1	£125,000 to £129,999	0	1	1	

0	0	0	£130,000 to £134,999	0	1	1
0	1	1	£135,000 to £139,999	0	1	1
0	1	1	£140,000 to £144,999	0	0	0
0	0	0	£145,000 to £169,999	0	0	0
0	0	0	£170,000 to £174,999	0	0	0
0	0	0	£175,000 to £179,999	0	0	0
0	1	1	£180,000 to £184,999	0	0	0
0	0	0	£185,000 to £189,999	0	1	1
199	95	294		202	112	314

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 247

Post Title		Salary	National Insurance	Expense allowances	Pension Contributions	Total	Position start date	Position end date
		£	£	£	£	£		
Chief Executive, Paul Robinson	2021/22	186,719	24,547		34,998	246,264		
	2020/21	183,960	24,174		34,481	242,615		
Director of Children's Services^	2021/22	126,557	16,244	834	23,722	167,357	01/07/2021	
	2020/21	120,127	15,466		22,585	158,178		21/02/2021
Interim Director of Children's Services	2020/21	9,639	1,299		1,807	12,745	22/02/2021	30/06/2021

Director of Economy & Infrastructure	2021/22	136,525	17,593		25,590	179,708	
	2020/21	134,507	17,323	1,923	25,212	178,965	
Director of Commercial & Change	2021/22	128,390	16,497		24,205	169,092	
	2020/21	127,230	16,345		23,848	167,423	
Director of Public Health	2021/22	112,492	14,303		16,301	143,096	
	2020/21	106,108	13,452		15,398	134,958	*
Chief Financial Officer	2021/22	105,186	13,773		20,365	139,324	
	2020/21	104,561	12,739		19,169	136,469	
Assistant Director Legal & Governance	2021/22	105,908	13,395	97	19,851	139,251	
	2020/21	81,358	10,215	652	15,246	107,471	
Director of People	2021/22	139,844	18,228		25,468	183,540	31/03/2022
	2020/21	117,766	14,990		21,870	154,626	18/05/2020
Total	2021/22	1,041,621	134,580	931	190,500	1,367,632	
	2020/21	985,256	126,003	2,575	179,616	1,293,450	

^ Director of Children's Services 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. Termination benefits and exit packages

This discloses both exit packages for employees who have left the County Council in 2021/22 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.

2020/21			2021/22	
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
23	0.2	£0 - £20,000	23	0.1
9	0.3	£20,001 - £40,000	3	0.1
1	0.0	£40,001 - £60,000	1	0.1
1	0.1	£60,001 - £80,000	0	0.0
0	0.0	£80,001 - £100,000	0	0.0
1	0.1	£100,001 - £150,000	0	0.0
5	0.8	£150,001 - £200,000	0	0.0
2	0.5	£200,001 - £250,000	0	0.0
0	0.0	£250,001 - £300,000	0	0.0
1	0.3	£300,001 - £350,000	0	0.0
1	0.4	£350,001 - £400,000	0	0.0
44	2.7	Total Termination Packages	27	0.3

26. 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.

26.1 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.

26.2 Elected Members

Elected members of the County Council have direct control over the County Council's financial and operating policies. A total of £1.0 million allowances and expenses were paid to members in 2021/22 (2020/21 £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.

26.3 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.

26.4 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.

26.5 Worcestershire County Council Pension Fund

At the year-end the County Council charged the Pension Fund £1.4 million (2020/21 £1.5 million) for expenses incurred in administering the Pension Fund. Further details are given in the Defined Benefit Pension Scheme notes.

26.6 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 £4.1 million with WME in 2021/22 (2020/21 £4.8 million) and this is reflected in the Comprehensive Income and Expenditure Statement. There is a creditor of £0.6 million outstanding at 31 March 2022 and this balance is included in the single entity Balance Sheet.

26.7 Place Partnership Limited

Place Partnership Limited was a single asset management company co-owned by the County Council, Hereford & Worcester Fire Authority, Warwickshire Police and West Mercia Police and each party had equal shares and equal voting rights.

Place Partnership Limited ceased to trade on 31 March 2021 and services relating to the County Council were transferred in house. A notice of appointment of liquidator was filed with Companies House on 14 April 2022. No further costs are expected to be incurred by the partners.

26.8 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 £0.3 million outstanding at 31 March 2022 (2020/21 £0.3 million).

26.9 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 2021/22, the Council spent £128.1 million (2020/21 £118.7 million) on services from the company and received £7.7 million (2020/21 £7.6 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 £3.9 million (2020/21 £27.4 million) and a creditor of £1.5 million (2020/21 £26.7 million) outstanding at 31 March 2022 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.

26.10 Tickenhill Trust

Worcestershire County Council is sole trustee for the Tickenhill Collection, registered charity 527509. This collection of rural life artefacts are managed by the Joint Museums Committee with Worcester City Council. The Trust has no income or expenditure, and therefore is not included in the Council's Comprehensive Income and Expenditure Statement. The assets are included on the Council's balance sheet under Heritage Assets.

27 Leases

27.1 The County Council as lessee – operating leases

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

Operating lease payments of £1.1 million were made in 2021/22 (2020/21 £1.3 million). The County Council's outstanding obligations under lease agreements as at 31 March 2022 totalled £13.4 million (31 March 2021 £11.5 million).

	£m
Leases expiring in less than 1 year	0.0
Leases expiring between 1 and 5 years	0.3
Leases expiring in 5 years+	13.1
	13.4

27.2 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 £3.0 million were received in 2021/22 (2020/21 £2.2 million). The County Council's outstanding obligations under lease arrangements as at 31 March 2022 totalled £11.2 million (31 March 2021 £6.3 million).

	£m
Leases expiring in less than 1 year	0.0
Leases expiring between 1 and 5 years	3.6
Leases expiring in 5 years+	7.6
	11.2

28 External audit costs

2020/21	2021/22
£m	£m
0.1 Fees payable regarding external audit services	0.2

A fee of £162k was paid to Grant Thornton in 2021/22. This fee comprises £144k main statutory audit fees: £133k accrued audit fee for 2021/22 and £11k agreed by the Public Sector Audit Appointments body to cover additional work required in certifying the 2020/21 accounts). Non audit fees of £18k were paid to Grant Thornton comprising £5k grant certification fee and £13k licence fee to use the CFO Insights tool provided by Grant Thornton.

29 Short term investments

31 March 2021	31 March 2022
£m	£m
35.2 Short term investments	7.9
35.2 Total	7.9

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 2022; they provide information relevant to the Council's financial position but do not relate to conditions existing at that date.

Non-adjusting events

At the date of publication of the draft accounts, there are no non-adjusting events to disclose.

Academy Conversions

At the date of publication of the draft accounts, no schools have converted to academy status since 31 March 2022. Schools which convert after the reporting period will be non-adjusting events and will be reported below for information.

Page 255

Name of School	Date of Conversion	Asset value at 31 March 2022
		£m

31 Accounting standards issued but not yet adopted

The County Council is required to disclose the impact on an accounting change required by a new accounting standard that has been issued on or before 1 January but not yet adopted by the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The 2022/23 Code will introduce the following amendments:

IFRS 16: Leases

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 2024. The County Council will continue to review its lease arrangements to assess the impact of the change.

Annual Improvements to IFRS Standards 2018-2020

The annual IFRS improvement programme notes 4 changed standards

- IFRS 1 (First-time adoption) – amendment relates to foreign operations of acquired subsidiaries transitioning to IFRS
- IAS 37 (Onerous contracts) – clarifies the intention of the standard
- IFRS 16 (Leases) – amendment removes a misleading example that is not referenced in the Code material
- IAS 41 (Agriculture) – one of a small number of IFRSs that are only expected to apply to local authorities in limited circumstances.

These accounting standards are not expected to have any significant impact for the Council.

32 Prior Period Adjustments

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

32.1 Prior Period Adjustment relating to Academy disposal

The following 2020/21 Statements have been restated to correct opening balances at 1 April 2021 to account for the disposal of a school (land & building) asset following academisation which occurred during 2020/21, which had not been accounted for in the year ended 31 March 2021. Comparative balances have been corrected to account for the disposal of the asset (gross cost of £17.0m and accumulated depreciation of £0.3m) and the corresponding balance in the Revaluation Reserve of £6.2m. Academies are transferred at nil consideration and therefore comparative balances have been corrected to include an additional £16.7m loss on disposal in 2020/21. This does not impact the general fund reserve, because the loss is reflected in the Capital Adjustment Account. Notes to the Statements have also been restated where appropriate.

Financial Statement line affected	Per 2020/21 Financial Statements	Prior Period Adjustment	Per 2021/22 Financial Statement comparatives
	£m	£m	£m
<i>Comprehensive Income & Expenditure Statement:</i>			
Financing Investment Income & Expenditure - Expenditure	69.6	16.7	86.3
Financing Investment Income & Expenditure - Net	39.3	16.7	56.0
Surplus/Deficit on provision of services - Expenditure	980.9	16.7	997.6
Surplus/Deficit on provision of services - Net	(28.9)	16.7	(12.2)
Total Comprehensive Income & Expenditure surplus/deficit	(27.9)	16.7	(11.2)
<i>Balance Sheet:</i>			
Property, Plant & Equipment	1,100.6	(16.7)	1,083.9
Long Term Assets	1,217.9	(16.7)	1,201.2
Net Assets	121.6	(16.7)	104.9

Unusable Reserves	(80.1)	(16.7)	(96.8)
Total Reserves	121.6	(16.7)	104.9
Movement in Reserves Statement:			
Total Comprehensive Income & Expenditure – General Fund Total/Usable Reserves Total	28.9	(16.7)	12.2
Adjustments between Accounting Basis & Funding Basis under regulations – General Fund Total	4.1	16.7	20.8
Adjustments between Accounting Basis & Funding Basis under regulations – Usable Reserves Total	22.1	16.8	38.9
Adjustments between Accounting Basis & Funding Basis under regulations – Unusable Reserves Total	(22.1)	(16.8)	(38.9)
Increase/decrease in 20/21 – Unusable Reserves	(23.1)	(16.8)	(39.9)
Increase/decrease in 20/21 – Total Reserves	27.9	(16.7)	11.2
Balance at 20/21 carried forward – Unusable Reserves	(80.0)	(16.8)	(96.8)
Balance at 20/21 carried forward – Total Reserves	121.6	(16.7)	104.9
Cashflow Statement:			
Net surplus/deficit on provision of services	28.9	(16.7)	12.2
Adjust net surplus/deficit for non-cash movements	53.7	16.7	70.4

32.2 Prior Period Adjustment relating to Short-term grants receipts in advance

The following 2020/21 Statements have been restated to correct opening balances at 1 April 2021 to amend for short-term grants receipts in advance and unused grants carried forward in earmarked reserves that were classified within short term creditors. Comparative balances have been corrected to reflect a reclassification of £29.3m short-term creditors, of which £6.1m should have been short-term grants receipts in advance and £23.2m earmarked reserves.

2020/21 Financial Statement figures in the following table have already been amended for the Prior Period Adjustment explained in note 32.1 above.

Financial Statement line affected	Per 2020/21 Financial Statements	Prior Period Adjustment	Per 2021/22 Financial Statement comparatives
	£m	£m	£m
<i>Comprehensive Income & Expenditure Statement:</i>			
People - Expenditure	321.2	(13.0)	308.2
People - Net	133.5	(13.0)	120.5
Finance, HR & Chief Executive – Income	(10.2)	(10.2)	(20.4)
Finance, HR & Chief Executive - Net	45.7	(10.2)	35.5
Net Cost of Services - Expenditure	907.1	(13.0)	894.1
Net Cost of Services – Income	(510.8)	(10.2)	(521.0)
Net Cost of Services - Net	396.3	(23.2)	373.1
Surplus/Deficit on provision of services - Expenditure	997.6	(13.0)	984.6
Surplus/Deficit on provision of services - Income	(1,009.8)	(10.2)	(1,020.0)
Surplus/Deficit on provision of services - Net	(12.2)	(23.2)	(35.4)
Total Comprehensive Income & Expenditure surplus/deficit	(11.2)	(23.2)	(34.4)
<i>Balance Sheet:</i>			
Short-term Creditors	(145.2)	29.3	(115.9)
Short-term grants receipts in advance	0.0	(6.1)	(6.1)
Current Liabilities	(216.5)	23.2	(193.3)
Net Assets	104.9	23.2	128.1
Usable Reserves	201.7	23.2	224.9
Total Reserves	104.9	23.2	128.1
<i>Movement in Reserves Statement:</i>			
Total Comprehensive Income & Expenditure – General Fund (non earmarked)	12.2	23.2	35.4

Total Comprehensive Income & Expenditure – General Fund (total)	12.2	23.2	35.4
Total Comprehensive Income & Expenditure – Total Usable Reserves	12.2	23.2	35.4
Total Comprehensive Income & Expenditure – Total Reserves	11.2	23.2	34.4
Transfers to/from earmarked reserves – General Fund (non earmarked)	(31.7)	(23.2)	(54.9)
Transfers to/from earmarked reserves – General Fund (earmarked)	31.7	23.2	54.9
Increase/decrease in 20/21 – General Fund (earmarked)	32.2	23.2	55.4
Increase/decrease in 20/21 – General Fund (total)	33.0	23.2	56.2
Increase/decrease in 20/21 – Total Usable Reserves	51.1	23.2	74.3
Increase/decrease in 20/21 – Total Reserves	11.2	23.2	34.4
Balance at 20/21 carried forward – General Fund (earmarked)	114.7	23.2	137.9
Balance at 20/21 carried forward – General Fund (total)	127.7	23.2	150.9
Balance at 20/21 carried forward – Total Usable Reserves	201.7	23.2	224.9
Balance at 20/21 carried forward – Total Reserves	104.9	23.2	128.1
Cashflow Statement:			
Net surplus/deficit on provision of services	12.2	23.2	35.4
Adjust net surplus/deficit for non-cash movements	70.4	(23.2)	47.2

33 Assumptions made about the future and other major sources of estimation uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or events that are otherwise uncertain. Estimates are made based on historical experience, current trends and other relevant factors. However, as balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Balance Sheet at 31 March 2022 for which there is significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Property plant & equipment valuations	The Council's external valuers provide valuations at 31 March based on a 5-year rolling programme of valuations. The valuations are undertaken by qualified valuers in accordance with the Royal Institute of Chartered Surveyors (RICS) professional standards using recognised measurement techniques.	<p>Valuations are compiled by an expert using recognised measurement techniques and based on professional guidance. The underlying data is considered to be reliable and the scope to use judgement and change assumptions is limited.</p> <p>The balance of assets not revalued in year are reviewed by applying local movement in prices and appropriate cost indices to ensure the value of the Council's assets are not materially misstated.</p> <p>A variation of 5% in the value of the Council's Land & Building assets (Net Book Value at 31 March 2022 of £472.2 million) would be approximately £24 million.</p> <p>A reduction in the estimated valuations would result in a reduction to the revaluation reserve and/or a loss charged to the Comprehensive Income and Expenditure Statement.</p> <p>An increase in estimated valuations would result in the reversal of any negative revaluations previously charged to the Comprehensive Income and Expenditure Statement and/or increase to the Revaluation Reserve and/or gains charged to the Comprehensive Income and Expenditure Statement.</p>
Pension Liability	The net liability to pay pensions is calculated every three years with annual updates in the intervening years. A firm of actuaries (Mercer)	The effect on the net pension liability (£435.7 million at 31 March 2022) of changes in individual assumptions can be measured. For instance:

	<p>is engaged to provide the Council with expert advice about the assumptions to be applied. Changes to these underlying assumptions can result in significant variances in the calculated liability. The assumptions and complex judgements applied include the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets.</p>	<ul style="list-style-type: none"> • An increase of 0.1% in the discount rate assumption would reduce the value of the net pension liability by approximately £26 million. • An increase of 0.1% in the inflation assumption would increase the value of the net pension liability by approximately £27 million. • An increase of 0.1% in the assumed pay assumption would increase the value of the net pension liability by approximately £2 million. • An increase of one year assumed in life expectancy would increase the value of the net pension liability by approximately £47 million. <p>Further information is included in the Defined Benefit Pension Scheme notes.</p>
<p>Fair Value Measurement</p>	<p>When the fair value of financial instruments cannot be measured based on quoted prices in active markets (i.e. Level 1 inputs) their fair value is measured using the following valuation techniques:</p> <ul style="list-style-type: none"> • For Level 2 inputs, quoted prices for similar assets or liabilities in active markets at the Balance Sheet date; • For Level 3 inputs, valuations based on most recent valuations adjusted using indexation and impairment review as appropriate. 	<p>Where the fair value of financial instruments is measured using Level 2 inputs, namely using quoted prices for similar assets or liabilities in active markets at the Balance Sheet date. All valuations are undertaken by expert valuers in accordance with methodologies and bases for estimation set out in the professional standards.</p> <p>As most estimates are based on current market information, material changes to the carrying values are not expected.</p> <p>Significant changes in any of the unobservable inputs could result in a significantly lower or higher fair value measurement for these assets.</p>

34 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.

34.1 Defined benefit pension schemes

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 2021/22 the County Council paid £15.3 million (2020/21 £16.3m) to the Department for Education and Skills in respect of teachers' pension costs, which represents 23.7% (2020/21 23.7%) of teachers' pensionable pay. In addition, the County Council is responsible for all pension payments relating to teachers' added years it has awarded, together with the related increases. In 2021/22 these amounted to £0.3 million (2020/21 £0.3m), representing 0.4% (2020/21 0.4%) of pensionable pay. The County Council's Actuary has calculated a long-term liability of £2.2 million in respect of these payments that will decline over time and this is included in the balance sheet under other long-term liabilities.

NHS Pension Scheme

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

In 2021/22 the County Council paid £0.1 million (2020/21 £0.1m) to the NHS Superannuation Scheme, which represents 14.4% (2020/21 14.4%) of NHS pensionable pay.

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.

Page 264

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.

34.2 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:

	2020/21		2021/22
	£m		£m
		Comprehensive Income & Expenditure Statement	
		Cost of services:	
	27.6	Current service cost	36.9
	0.0	Past service cost – McCloud judgement	0.0
	3.0	Settlements and curtailments	0.0
		Other Operating Expenses	
	0.3	Administration expenses	0.4
		Financing & investment income & expenditure	
	31.4	Interest on Pensions Liabilities	32.1
	(21.7)	Interest on Pensions Assets	(22.8)
	40.6	Total post-employment benefit charged to the surplus or deficit on the Provision of Services	46.6
	2020/21		2021/22
	£m		£m

Re-measurement of the net defined liability charged to the Comprehensive Income & Expenditure Statement

(186.5)	Return on Plan assets (excluding the amount included in net interest expense)	(44.2)
(29.3)	Actuarial (gain) / loss arising on changes in experience	4.2
217.6	Actuarial (gain) / loss arising on changes in financial assumptions	(0.7)
0.0	Actuarial (gain) / loss arising on changes in demographic assumptions	(11.9)
42.4	Total post-employment benefit charged to the Comprehensive Income & Expenditure Statement	(6.0)

Movement in Reserves Statement

(40.6)	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	(46.6)
--------	---	--------

Actual amount charged against the General Fund Balance for pensions in the year:

27.5	Employer's contributions payable to the scheme	28.0
------	--	------

Page 266

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:-

	2021/22
	£m
Balance on Pension Reserve (excluding Teachers Pension)	464.3
22/23 Upfront Payment	(26.4)
Balance on Pension Liability	437.9

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

2020/21		2021/22
£m		£m
186.5	Return on Plan Assets (excluding the amount included in net interest expense)	44.2
29.3	Actuarial gain / (loss) arising on changes in experience	(4.2)
(217.6)	Actuarial gain / (loss) arising from changes in financial assumptions	0.7
0.0	Actuarial gain / (loss) arising on changes in demographic assumptions	11.9
0.1	(Increase)/decrease in Teachers Pension Liability	0.2
(1.7)	Total gain / (loss)	52.8

34.4 Pension assets and liabilities recognised in the Balance Sheet

2020/21		2021/22
£m		£m
(1,541.6)	Present value of liabilities	(1,572.9)
1,097.7	Fair value of assets	1,137.2
(443.9)	Deficit in the scheme	(435.7)

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.

34.5 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:

2020/21	2021/22
£m	£m
(1,322.4) Opening balance at 1 April	(1,541.6)
(27.6) Current service cost	(36.9)
(31.4) Interest cost	(32.1)
(5.6) Contributions by scheme participants	(5.7)
Remeasurement (gains) and losses:	
29.3 Actuarial gain / (loss) arising on changes in experience	(4.2)
(217.6) Actuarial gain / (loss) arising on changes in financial assumptions	0.7
0.0 Actuarial gain / (loss) arising on changes in demographic assumptions	11.9
36.7 Benefits paid	35.1
0.0 Business combinations	0.0
0.0 Past service cost – McCloud Judgement	0.0
(3.0) Curtailments	0.0
(1,541.6) Closing balance at 31 March	(1,572.8)

Reconciliation of fair value of the scheme assets:

2020/21	2021/22
£m	£m
841.3 Opening balance at 1 April	1,097.7
21.7 Interest Income	22.8
186.5 Return on plan assets, excluding the amount included in the net interest expense	44.2
(0.3) Administration expenses	(0.4)
79.6 Employer contributions	2.3
0.0 Business combinations	0.0
5.6 Contributions by scheme participants	5.7
(36.7) Benefits paid	(35.1)
1,097.7 Closing balance 31 March	1,137.2

34.6 Pensions Reserve

2020/21	2021/22
£m	£m
(483.6) Balance at 1 April	(498.4)
186.5 Return on Plan assets (excluding the amount included in net interest expense)	44.2
29.3 Actuarial gain / (loss) arising on changes in experience	(4.2)
(217.6) Actuarial gain / (loss) arising on changes in financial assumptions	0.7
0.0 Actuarial gain / (loss) arising on changes in demographic assumptions	11.9
0.0 Business combinations	0.0
(40.6) 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	(46.6)
79.6 Employer's pensions contributions & direct payments to pensioners payable in the year	2.3
(52.1) Employer's pension contributions – prepayment adjustment	25.6
0.1 Decrease in Teachers Pension Liability	0.2
(498.4) Balance at 31 March	(464.3)

34.7 Local Government Pension Scheme assets

2020/21	Quoted	2021/22
£m	(Y/N)	£m
Equities:		
1.3 UK Quoted	Y	1.3
343.7 Overseas quoted	Y	278.4
152.5 Pooled Investment Vehicle – UK Managed Funds	N	156.7
433.3 Pooled Investment Vehicle – UK Managed Funds – (overseas equities)	N	454.6
1.3 Pooled Investment Vehicle – Overseas Managed Funds	N	9.1
Bonds:		
0.0 UK Corporate	Y	0.0
0.0 Overseas Corporate	Y	0.0
1.0 Other Bonds	Y	0.0
0.0 UK Government Fixed	Y	18.4
0.0 LGPS Central Global Pooled Funds	-	16.0
0.0 Overseas Government	Y	0.0
Property:		
21.0 European Property Fund	N	0.0
4.2 UK Property Debt	N	7.9
3.1 Overseas Property Debt	N	5.3
22.0 UK Property Fund	N	50.1
1.1 Overseas REITS	N	0.0
Alternatives:		

42.8 UK Infrastructure	N	53.6
30.4 European Infrastructure	N	35.7
22.8 US Infrastructure	N	29.8
3.8 US Stock Options	N	4.8
1.0 Overseas Stock Options	N	(2.4)
12.4 Corporate Private Debt	N	17.9
Cash:		
0.0 Cash Instruments	Y	0.0
0.0 Cash Accounts	Y	0.0
0.0 Net Current Assets	N	0.0
1,097.7 Total		1,137.2

34.8 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:

2020/21	2021/22
Mortality assumptions	
Longevity at 65 for current pensioners (years):	
22.7 Men	22.6
25.1 Women	25.0
Longevity at 65 for future pensioners (years):	
24.4 Men	24.1
27.1 Women	27.0
Financial assumptions	
2.7% Rate of CPI inflation	3.4%
4.2% Rate of increase in salaries	4.9%
2.8% Rate of increase in pensions	3.5%
2.1% Rate for discounting scheme liabilities	2.8%

Page 273

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.

34.9 Assumptions made about the future and estimate uncertainties

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. There is continuing uncertainty regarding the property and infrastructure valuations due to the time that it will take to fully realise the impact of COVID-19 upon these illiquid assets as well as the growing concerns as to inflation rises. The valuations have been updated based on the information available as at 31 March 2022 and may be subject to variations as further market information becomes available. Investments are valued each month as per the latest quarterly statements available to our custodian, which are 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 £221.9m (£160.7m in 2020/21). 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 £426.7m (£332.6m in 2020/21). There is a risk that this investment may be under or overstated in the accounts.</p>

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

	Increase in rate of	Increase/(decrease) in Assumption
		£m
Discount Rate	0.1%	(26.0)
Inflation	0.1%	26.5
Pay	0.1%	2.1
Life Expectancy	1 YEAR	47.1

34.11 Impact on the County Council's cash flows

The weighted average duration of the defined benefit obligation for scheme members is 17 years (2020/21 17 years). The County Council anticipates payments of £2.5 million expected contributions to the scheme in 2022/23.

Independent Auditor's Report to the Members of Worcestershire County Council

To be included post audit.

Worcestershire County Council Group Accounts 2021/22

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.

Page 278

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 2021/22, the company's results showed a profit for the year of £0.1 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

2020/21	Restated*			2021/22	2021/22	2021/22
	2020/21	2020/21				
Expenditure	Income	Net		Expenditure	Income	Net
£m	£m	£m		£m	£m	£m
0.0	(1.0)	(1.0)	Turnover	0.0	(1.2)	(1.2)
Service Expenditure Analysis						
308.2	(187.7)	120.5	People	345.9	(197.7)	148.2
378.3	(266.5)	111.8	Children's Services	371.5	(263.4)	108.1
100.9	(29.0)	71.9	Economy & Infrastructure	114.7	(30.3)	84.4
39.0	(9.8)	29.2	Commercial & Change	36.3	(8.7)	27.6
55.9	(20.4)	35.5	Finance, HR & Chief Executive	36.2	(6.4)	29.8
882.3	(514.4)	367.9	Net Cost of Services	904.6	(507.7)	396.9
3.5	(1.4)	2.1	Other operating expenditure	1.9	(0.4)	1.5
86.3	(30.3)	56.0	Financing, investment income & expenditure	86.5	(30.2)	56.3
0.3	(467.3)	(467.0)	Taxation & non-specific grant income and expenditure	0.3	(431.5)	(431.2)
972.4	(1,013.4)	(41.0)	(Surplus) / deficit on the provision of services	993.3	(969.8)	23.5
		(0.1)	Tax expenses of subsidiary			0.0
		(41.1)	Group (surplus)/deficit			23.5
Other comprehensive income and expenditure						
		(23.0)	(Surplus) on revaluation of property, plant & equipment			(47.6)
		22.3	Downward revaluations on non-current assets charged to Revaluation Reserve			4.9
		1.7	Remeasurement of the net defined benefit liability/(asset)			(52.8)
		1.0	Total other comprehensive income and expenditure			(95.5)
		(40.1)	Total comprehensive income and expenditure (surplus) / deficit			(72.0)

*See Note 32 for Prior Period Adjustment

Group Movement in Reserves Statement 2021/22

	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 2021 restated*	13.0	137.9	150.9	2.7	71.3	224.9	(96.8)	128.1	6.1	134.2
Movement in reserves during 2021/22:										
Total Comprehensive Income and Expenditure	91.7	0.0	91.7	0.0	0.0	91.7	95.5	187.2	(115.2)	72.0
Adjustments between group accounts and authority accounts	(120.4)	0.0	(120.4)	0.0	0.0	(120.4)	0.0	(120.4)	120.4	0.0
Net increase/ (decrease) before transfers	(28.7)	0.0	(28.7)	0.0	0.0	(28.7)	95.5	66.8	5.2	72.0
Adjustments between accounting basis and funding basis under regulations	44.9	4.9	49.8	0.0	(7.7)	42.1	(42.1)	0.0	0.0	0.0
Transfer to/(from) earmarked reserves	(14.9)	14.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Increase / (decrease) in 2021/22	1.3	19.8	21.1	0.0	(7.7)	13.4	53.4	66.8	5.2	72.0
Balance at 31 March 2022 carried forward	14.3	157.7	172.0	2.7	63.6	238.3	(43.4)	194.9	11.3	206.2

*See Note 32 for Prior Period Adjustment

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

2020/21		2021/22
£m		£m
(111.1)	Elimination of intra-group transactions	(120.4)
(111.1)	Total adjustments between Group Accounts and Authority Accounts	(120.4)

Reconciliation between Retained Earnings in Worcestershire Children First's Statements and Closing Balance on Council's share of Reserves of subsidiary

2020/21		2021/22
£m		£m
1.1	Retained Earnings at 31 March	1.1
0.0	Accumulated consolidation adjustments at the start of the year	5.0
5.0	Consolidation adjustments during the year	5.2
6.1	Council's share of reserves of subsidiary	11.3

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
Restated*	£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
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	146.5	0.0	146.5	0.0	0.0	146.5	(1.0)	145.5	(105.5)	40.0
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	35.4	0.0	35.4	0.0	0.0	35.4	(1.0)	34.4	5.6	40.0
Adjustments between accounting basis and funding basis under regulations	20.3	0.5	20.8	2.7	15.4	38.9	(38.9)	0.0	0.0	0.0
Transfer to/(from) earmarked reserves	(54.9)	54.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Increase / (decrease) in 2020/21	0.8	55.4	56.2	2.7	15.4	74.3	(39.9)	34.4	5.6	40.0
Balance at 31 March 2021 carried forward	13.0	137.9	150.9	2.7	71.3	224.9	(96.8)	128.1	6.1	134.2

*See Note 32 for Prior Period Adjustment

Group Balance Sheet

Restated* 31 March 2021		31 March 2022	Note	31 March 2021		31 March 2022
£m		£m		£m		£m
1,083.9	Property, plant and equipment	1,146.1		(2.6)	Long-term provisions	(1.4)
1.7	Heritage assets	1.7		(456.5)	Long-term borrowing	(409.9)
4.0	Intangible assets	4.5		(604.3)	Other long-term liabilities	(582.8)
3.0	Long-term investments	3.0		(24.8)	Grants receipts in advance	(26.2)
108.6	Long-term debtors	104.2		(1,088.2)	Long-term liabilities	(1,020.3)
1,201.2	Long term assets	1,259.5		134.2	Net assets	206.2
5.7	Non-Operational Assets	5.4			Financed by:	
35.2	Short-term investments	7.9		231.0	Usable reserves	249.6
1.4	Inventories	1.4		(96.8)	Unusable reserves	(43.4)
78.1	Short-term debtors	84.0	3	134.2	Total reserves	206.2
81.2	Cash and cash equivalents	56.5	4			
201.6	Current assets	155.2				
(71.3)	Short-term borrowing	(78.2)				
(103.0)	Short-term creditors	(101.8)				
(6.1)	Short-term grants receipts in advance	(8.2)				
(180.4)	Current liabilities	(188.2)				

*See Note 32 for Prior Period Adjustment

Group Cash Flow Statement

2020/21		2021/22
Restated*		
£m		£m
41.0	Net surplus/(deficit) on the provision of services	(23.5)
49.0	Adjust net (surplus)/deficit for non-cash movements	102.0
(103.8)	Adjust for items included in the net (surplus)/deficit on the provision of services that are investing and financing activities	(56.4)
(13.8)	Net cash flows from operating activities	22.1
(24.6)	Net cash flows from investing activities	(1.9)
41.4	Net cash flows from financing activities	(44.9)
3.0	Net increase/(decrease) in cash or cash equivalents	(24.7)
Cash and cash equivalents		
78.2	Balance at 1 April	81.2
81.2	Balance at 31 March	56.5
3.0	Movement in cash and cash equivalents increase / (decrease)	(24.7)

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.

- 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 2021	31 March 2022
Restated	
£m	£m
Short term debtors:	
46.7 Trade receivables	48.3
3.8 Prepayments	8.0
10.4 VAT	14.6
10.8 Council Tax	12.5
6.2 NNDR	0.5
0.2 Other receivables	0.1
78.1 Total short term debtors	84.0

4. 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 01/04/2021	Movement During the Year	Closing Balance 31/03/2022
	£m	£m	£m
Bank current accounts	38.2	(20.2)	18.0
Short Term investments held as cash	43.0	(4.5)	38.5
Total cash and cash equivalents	81.2	(24.7)	56.5

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



Draft Statement of Accounts 2021/22

Table of Contents

Worcestershire Pension Fund (the Fund) Financial Statements 2021/22

About the Accounts

- 1. Explanatory Foreword and a Review of the Year 2021/22.**
- 2. Fund Account.**
- 3. Net Assets Statement for the Year Ended 31st March 2022.**
- 4. Notes to the Accounts.**

**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 2021 / 2022 financial year and its position at year-end as at 31 March 2022. The accounts have been prepared in accordance with the Code of Practice on Local Accounting in the United Kingdom 2021/22 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 2021/22

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

The Fund Account

Details the money received and spent within the Pension Fund during 2021/22.

Net Assets Statement

Statement showing the Fund's financial position at 31 March 2022.

Notes to the Fund Accounts

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

Statement of Accounting Policies

These are shown against the relevant note.

The accounts have been prepared on a going concern basis.

1. Explanatory Foreword and a Review of the Year 2021/22

Foreword by the Chief Financial Officer

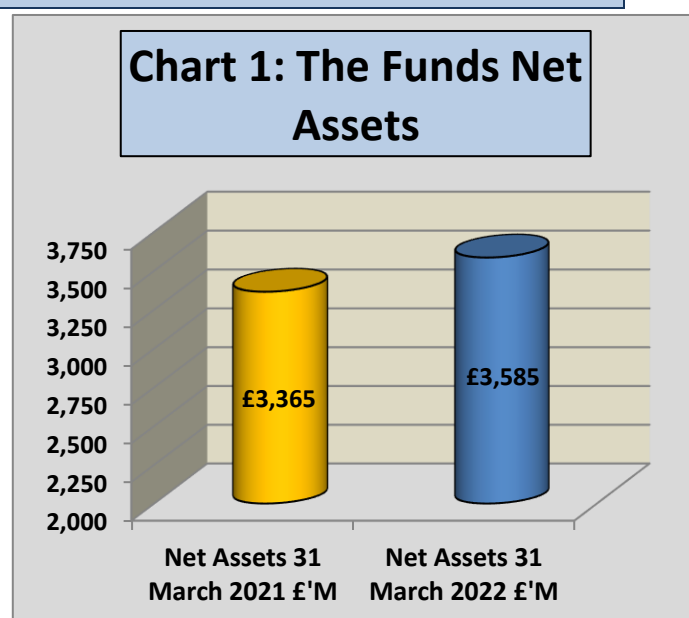
Welcome to the Fund's 2021/22 Statement of Accounts. Worcestershire County Council administers the Local Government Pension Scheme (LGPS), which provides for the occupational pensions of employees, other than teachers, police officers, and fire fighters of the local authorities within the Herefordshire and Worcestershire area. Worcestershire County Council also administer the LGPS 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.
•	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

- Chart 1 shows that the value of the Fund's net assets increased by £219.8 million from £3,364.8 million at 31 March 2021 to £3,584.6 at 31 March 2022:
- Income from contributions decreased to £90.7 million, from £201.2 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 £264.2 million compared to 2020/21 which was mainly due to the continuing recovery in the financial markets following the impact of COVID 19.



Contributions from staff and employers were less than the benefits paid as well as administration and management expenses in 2021/22 by £44.4 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.

- Chart 2 shows that during the year a deficit resulted on the Fund Account (aside from the net investments returns) totalling £7.4 million, a decrease of £109.2 million from the 2020/21 total of £116.6 million due to reasons stated above.

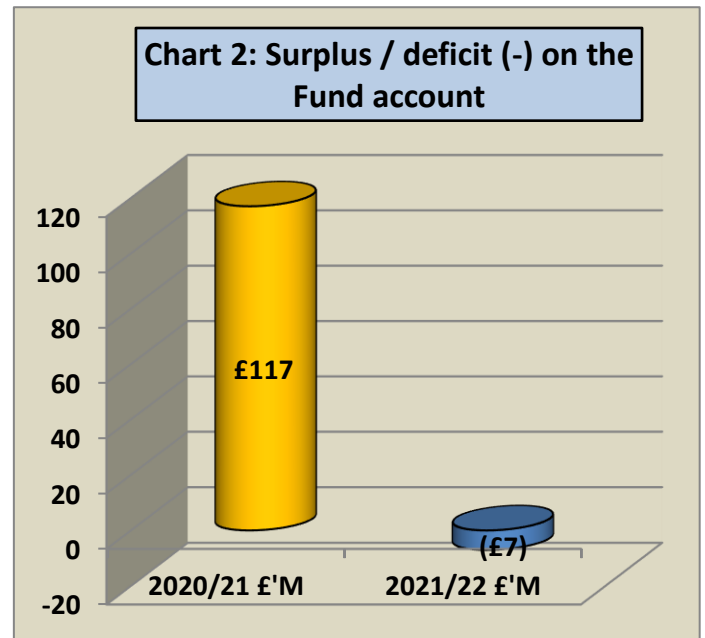


Table 2 analysis of changes within the Fund's membership profile

	31 March 2021	31 March 2022	Change	Change %
Contributors to the Fund	23,070	23,078	8	0.0
Pensions paid	19,533	20,273	740	3.8
Deferred members	22,167	23,248	1,081	4.9
	64,770	66,599	1,829	2.8

Table 2 above shows that the scheme membership has continued to grow. Active employer numbers have increased from 183 to 208 during 2001/22, due mainly to an increase in the designated employers and some employer contractual arrangements increases. 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

Throughout 2021/22 the Administration Team continued to work flexibly but maintained excellent performance monitoring achieving its average turnaround targets for all the twelve key performance indicators it measures. This is also set in a context whereby in 2021/22 the team processed its highest volumes.

Activity / Process	Target turnaround (working days)	2020 / 2021 average turnaround (working days)	2021/2022 average turnaround (working days)
Joiners notification of date of joining	40	25	19
Calculate and notify deferred benefits	30	13	8
Letter notifying actual retirement benefits	15	4	2
Letter notifying estimate of retirement benefits	15	4	3
Process and pay lump sum retirement grant	23	15	10

	2020/21	2021/22
Total Number of staff FTE	20.7	22.3
Admin Cost per member*	£31.46	£25.38

*' the higher administration costs per member in 2020/21 was mainly due to one off costs incurred on the pensions administration system to deliver increased data security and efficiency

Governance

The Council has established a Pensions Committee to exercise the Administering Authority's responsibility for the management of the 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. It complies with LGPS Regulations and is aligned to prescribe best practice guidance.

The Fund also reports quarterly to the Pensions Committee on the Fund's progress towards delivering the recommendations arising from the Scheme Advisory Board's (SAB) 'Good Governance project.

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. A strategic asset allocation review took place in December 2019 and was endorsed by the Pensions Committee in March 2020 and the following recommendations arising from the review continued to be progressed during 2021/22, and will continue over the medium term:

- a) 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) 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 2021/22 the 2019 strategic asset allocation review's recommendation of a 20% commitment to 'alternatives including property' continued to be implemented following investments into:-

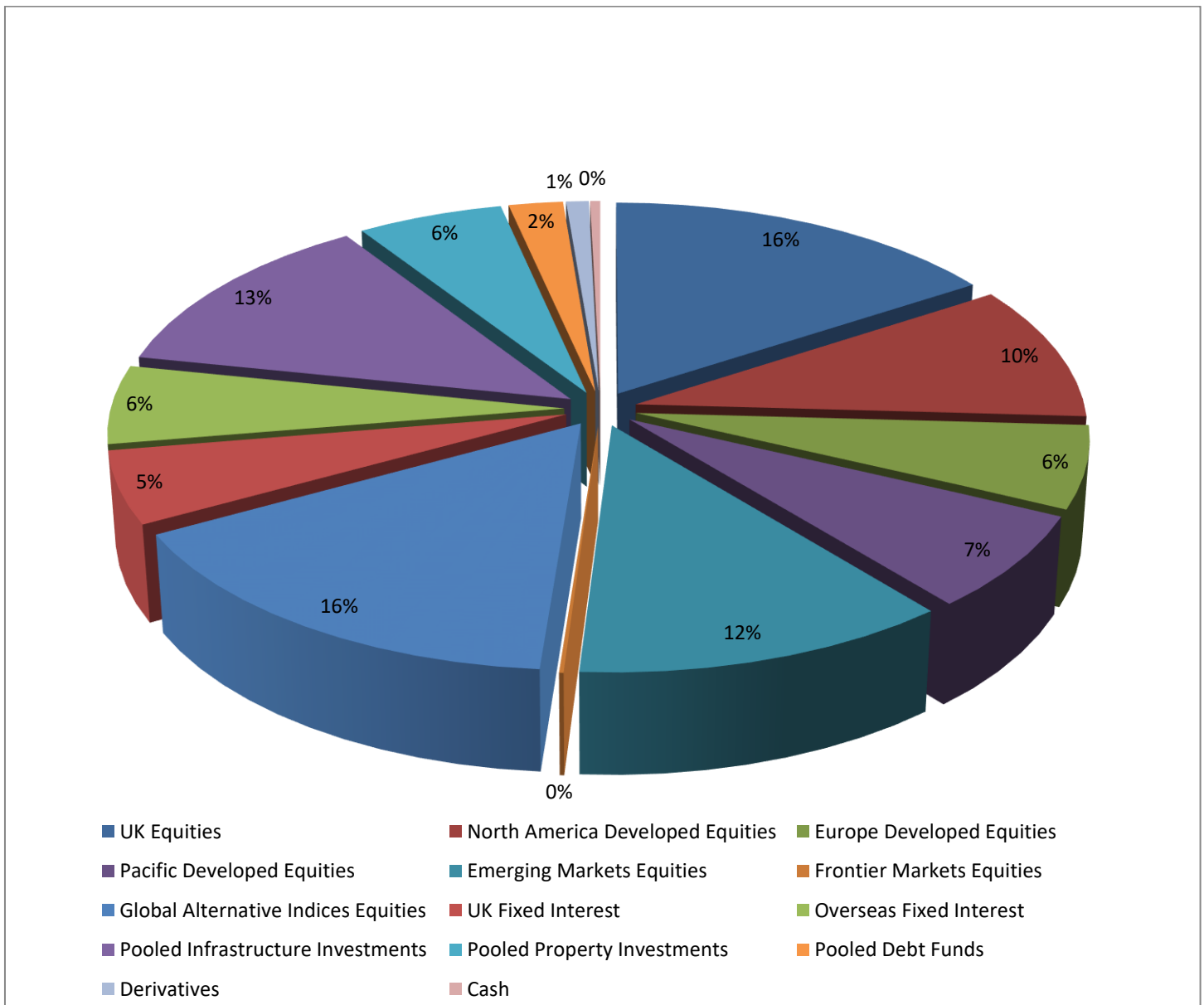
- Gresham House British Strategic Infrastructure Fund II: £75m in September 2021.
- Gresham House Forestry Growth & Sustainability Fund: £50m in November 2021.
- First Sentier (Now Igneo) European Diversified Infrastructure Fund III: £50m in November 2021.
- Stonepeak Infrastructure Fund IV: £75m in in November 2021.
- Gresham House Forestry Fund VI: £75m in March 2022.

To enhance the Fund's investment returns whilst reducing its carbon footprint, the Fund also disinvested from passive equity LGIM 'low Volatility' factor funds and invested £200m in LGPS Central Limited's (LGPSC) All World Equity Climate Multi Factor Fund.

The Fund retained River and Mercantile to deliver its equity protection strategy that was originally implemented during early March 2018 and 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 2022:

Chart 3 Distribution of the Fund's Assets



Environmental, Social & Governance (ESG) & Responsible Investment (RI)

The Fund has continually looked to develop and improve its approach to RI and conducted an ESG audit last year which included mapping the Fund's entire portfolio to the United Nations' sustainable development goals (SDGs). The Fund conducted an ESG workshop for its Pensions Committee on the 2nd February 2022 to review progress against the identified actions and was found to have made significant headway.

In January 2022 the Fund's second annual [Climate Risk Report](#) delivered a view of the climate risk of the Fund's entire equity asset portfolio, accompanied by proposed actions the Fund could take to manage and reduce that risk. The results were used in the Fund's public-facing [Climate related Financial Disclosures](#) for the second year.

The Fund was particularly pleased to see that our initial focus on transitioning out of our passive mandates with the greatest carbon footprint has resulted in the Fund's overall listed market portfolio now being 28% (23% in 2020) more carbon efficient than the benchmark. To build on this the Fund is looking to transition a further £200m (6% of its portfolio) from its passive mandates into active sustainable equity funds by May 2022.

The Fund recognises that its investments in private markets also have a significant role to play in addressing climate related issues and the Fund has committed £175m towards a forest and sustainability fund and £200m to a number of sustainable infrastructure and housing investments which will have a long term environmental and social impact. This builds on the existing assets we have in this space.

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. Funding and risk is kept under constant review.

LGPS Central Limited (LGPSC)

The Fund's 2017/18 accounts highlighted the government's requirements and reasoning (opportunities for collaboration, cost savings and efficiencies) for asset pooling NB responsibility for asset allocation stays with the Fund. The Fund is a partner fund along with Cheshire, Leicestershire, Shropshire, Staffordshire, West Midlands, Derbyshire and Nottinghamshire in a collective investment vehicle called LGPSC. The company is authorised to operate as an alternative investment fund manager (AIFM) and became formally operational from the 1 April 2018.

Each partner fund approved the regulatory capital requirements for LGPSC and its introduction on the 31 January 2018. As all FCA regulated entities are required to hold regulatory capital designed to protect the solvency of the entity, £16m of capital was introduced ("Capital Introduced") by the eight shareholders to cover the capital requirement, a prudent buffer, set-up costs and operational liquidity. Each partner 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 4 years and the Fund has 21% of its assets in LGPSC's Emerging Markets Equity Active Multi Manager Fund / Global Corporate Bonds Fund / Global All World Equity Climate Multi Factor Fund. This increases to 63% when including the Pooling undertaken by the 'Shire' Pension Funds for passive equities just before LGPSC was formed which is included in the DLUHC pooling return.

Management of the Fund's liabilities

The Funds' funding strategy is kept under regular review by the Pensions Committee and the Fund's actuary assesses at three yearly intervals the Fund's assets and its liabilities. An actuarial valuation of the Fund was carried out by Mercer's 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 31st March 2019 valuation date. This was an increase on the 75% funded position at the previous valuation at 2016.
- A common rate of contribution of 17.5% of pensionable pay per annum was required from employers covering 2020-23. 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 31 March 2022, and any changes to the employers' contribution rates will be implemented with effect from 1st 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 2021/22)

For the year ended 31 March 2022

2020/21		2021/22
£m	Notes	£m
Dealings with members, employers and others directly involved with the Fund		
201.2	Contributions	4 90.7
29.0	Transfers in from other pension funds	5 13.7
230.2		104.4
(112.6)	Benefits	6 (115.6)
(9.5)	Payments to and on account of leavers	7 (10.0)
(122.1)		(125.6)
108.1	Net additions / (withdrawals) from dealings with members	(21.2)
(2.0)	Administrative expenses	8 (1.7)
(18.2)	Management expenses	9 (21.5)
87.9	Net additions / (withdrawals) including fund management and administrative expenses	(44.4)
Returns on investments		
29.1	Investment income	10 37.2
(0.4)	Taxes on income	11 (0.2)
602.8	Profit and (losses) on disposal of investments and Changes in the market value of investments	12a & 15b 227.2
631.5	Net return / (loss) on investments	264.2
719.4	Net increase / (decrease) in the net assets available for benefits during the year	219.8
2,645.4	Opening net assets	3,364.8
3,364.8	Closing net assets	3,584.6

Management expenses have increased mainly due to disinvesting some existing passive equity funds into infrastructure and property funds which by their nature have larger management fees. The increase in market valuations is mainly due to the continuing recovery of the financial markets following the impact of COVID 19.

3. Net Assets Statement for the year ended 31 March 2022 (showing the financial position at 31 March 2021 and 2022)

2020/21		Notes	2021/22
£m			£m
1.4	Long term Investment Assets	12	1.4
2,861.5	Investment Assets -Internally Managed	12 &15	2,960.1
562.1	Investment Assets -LGPSC Managed	12 &15	736.0
13.6	Cash Deposits	12	13.0
3,438.6			3,710.5
(156.3)	Investment Liabilities	12	(167.1)
86.9	Current Assets	17	46.2
1.6	Non-Current Assets	18	1.5
(6.0)	Current Liabilities	19	(6.5)
3,364.8	Net assets of the Fund available to fund benefits at the period end		3,584.6

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 were 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** 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 and Herefordshire, 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 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 Fund's Investment Strategy Statement.

b) Membership

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 2021	31 March 2022	Diff
Number of employers	183	208	25
Employee Members of the Fund			
County Council	7,460	7,467	7
Other Employers	15,610	15,611	1
Total	23,070	23,078	8
Pensioner Members of the Fund			
County Council	5,869	6,143	274
Other Employers	13,664	14,130	466
Total	19,533	20,273	740
Deferred Members of the Fund			
County Council	8,787	9,034	247
Other Employers	13,380	14,214	834
Total	22,167	23,248	1,081
Total Number of Members in the Fund	64,770	66,599	1,829

The member numbers have increased mainly due to an increase in pensioners and deferred members.

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 2022. 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 1st April 2020, and currently, employer contribution rates range from 13.6% to 26.5% of pensionable pay. The common 2021/22 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

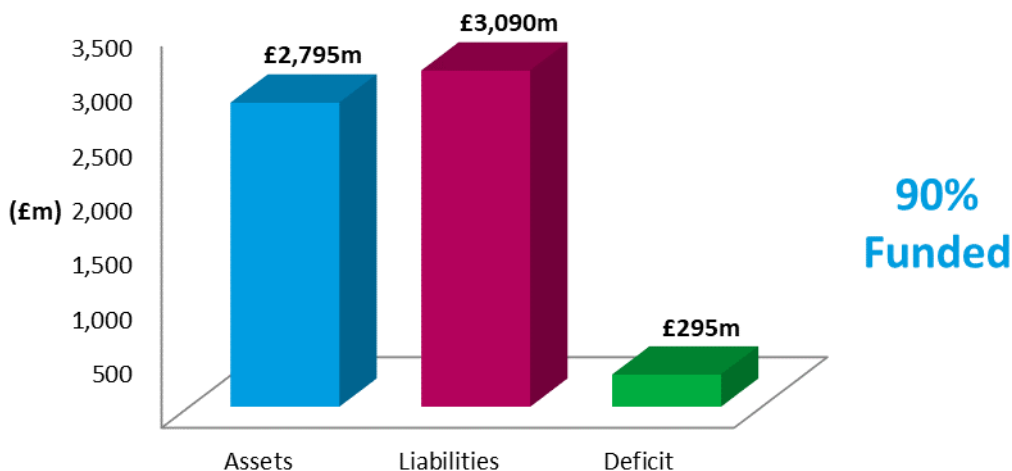
The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of International Accounting Standard (IAS) 19 and relevant actuarial standards. As permitted under the Code, the Fund has opted to disclose the actuarial 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 31st March 2020 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 / Ukraine

The valuation results and employer contributions above were assessed as at 31 March 2019. Since 2020 there has been significant volatility and uncertainty in markets around the world in relation to the COVID-19 pandemic and more recently the situation in Ukraine and associated cost of living crisis. This potentially has far-reaching consequences in terms of funding and risk, which will need to be kept under review and will be considered further as part of the 2022 valuations currently ongoing. We believe that it is important to take stock of the situation as opposed to making immediate decisions in what is an unprecedented set of events. Contributions will be reviewed and updated as part of the 2022 valuation. In addition the Administering Authority has the power to review contributions between valuations where there is a material change in employer circumstances, in line with the regulations on contribution flexibilities introduced in September 2020. The position will be kept under review by the Administering Authority who 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 2022 (the 31 March 2021 assumptions are included for comparison):

	31 March 2021	31 March 2022
Rate of return on investments (discount rate)	2.1% per annum	2.8% per annum
Rate of CPI Inflation / CARE benefit revaluation	2.7% per annum	3.4% per annum
Rate of pay increases*	4.2% per annum	4.9% per annum
Rate of increases in pensions in payment (in excess of GMP) / Deferred revaluation	2.8% per annum	3.5% 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, with the exception of mortality where we have updated the assumption to use the most recent CMI future improvement tables (CMI 2021). 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 increased, resulting in a higher discount rate being used for IAS 26 purposes at the year-end than at the beginning of the year (2.8% p.a. vs 2.1% p.a.). In isolation, this would have led to a significantly lower value placed on the liabilities, but it was offset by an increase in the expected long-term rate of CPI inflation during the year, from 2.7% p.a. to 3.4% p.a.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2021 was estimated as £4,987 million including the potential impact of the McCloud Judgment. Interest over the year increased the liabilities by £104 million, and allowing for net benefits accrued/paid over the period also increased the liabilities by £83 million (this includes any increase in liabilities arising as a result of early retirements). There was also a decrease in liabilities of £26 million due to "actuarial gains" (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 2022 pension increase award was more 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 2022 is therefore £5,148 million.

	31 March 2021	31 March 2022
	£m	£m
Present value of promised retirement benefits	4,987	5,148
Fair value of Fund assets	3,365	3,585
Net liability	1,622	1,563

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 IAS 26 liabilities calculated last year and is again included in the overall liability figure above.

Paul Middleman

Laura Evans

Mercers Ltd

Mercers Ltd

Fellow of the Institute and

Fellow of the Institute and

Faculty of Actuaries

Faculty of Actuaries

May 2022

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.

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 more recently the effects of the Russia / Ukraine conflict as well as inflation rises which 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 impact of inflation and consequent price rises on fuel and the cost of living is likely to impact on increasing budgetary pressures and it is unlikely that the level of funding that local government bodies receive in future years will keep pace with pressures being faced. This will need to be taken into account for employer's contributions to the Fund

The Fund Accounts include more detail regarding the impact of COVID-19, the Russia / Ukraine conflict and inflation 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: -

	2020/21	2021/22
By Category	£m	£m
Employers		
Normal contributions	119.2	47.6
Deficit recovery contributions	54.0	14.6
Augmentation contributions	2.5	2.6

	Additional contributions	0.0	0.0
Employees			
	Normal contributions	25.0	25.6
	Additional contributions	0.5	0.3
		201.2	90.7

	2020/21	2021/22	
By authority:	£m	£m	
Worcestershire County Council	89.2	11.2	
Scheduled bodies	99.0	68.3	
Community admission bodies	5.2	3.8	
Transferee admission bodies	6.9	6.4	
Designated bodies	0.9	1.0	
		201.2	90.7

The reduction in contributions in 2021/22 was due to a number of major employers 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: -

	2020/21	2021/22	
	£m	£m	
Individual transfers	12.5	13.7	
Bulk transfers	16.5	0.0	
		29.0	13.7

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:	2020/21	2021/22
	£m	£m
Pensions	92.8	95.5
Commutations and lump sum retirement benefits	16.8	17.4
Lump sum death benefits	3.0	2.7
	112.6	115.6

By authority:	2020/21	2021/22
	£m	£m
Worcestershire County Council	41.9	40.9
Scheduled bodies	58.2	61.2
Admitted bodies	1.6	1.7
Community admission bodies	7.0	7.1
Transferee admission bodies	3.1	4.1
Designated bodies	0.8	0.6
	112.6	115.6

NOTE 7: PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	2020/21	2021/22
	£m	£m
Individual transfers	9.5	10.0
Group transfers	0.0	0.0
	9.5	10.0

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.

	2020/21	2021/22
	£m	£m
Employee expenses	0.6	0.6
Support services	0.5	0.5
Actuarial services	0.5	0.4
Other expenses	0.4	0.2
	2.0	1.7

The audit fee (included in support services above) for work completed by the Fund's external auditors for the year ended 31 March 2022 was £32,743 (31 March 2021: £33,743), 1.8% (31 March 2021: 1.7%) 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.

	2020/21	2021/22
	£m	£m
Oversight and Governance	0.2	0.4
LGPSC*	0.7	0.7
Investment Management Expenses		
Administration, management and custody fees	17.3	20.4
Other expenses	0.0	0.0
	18.2	21.5

*LGPSC is the governance and management costs the Fund contributes towards the Pooling company

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: -

2021/22	Management Fees	Transaction Costs	Performance Related Fees	Total
	£m	£m	£m	£m
LGPS Central (Bonds)	0.2	1.0	0.0	1.2
LGPS Central (Emerging Markets)	1.5	1.6	0.0	3.1
LGPS Central (Global Climate Fund)	0.1	0.0	0.0	0.1
Nomura Asset Management UK Ltd	0.7	0.4	0.0	1.1
Legal & General Asset Management	0.5	0.0	0.0	0.5
Green Investment Bank	0.6	0.0	0.0	0.6
Hermes	0.7	0.0	0.0	0.7
Invesco	0.8	0.0	0.0	0.8
VENN	0.3	0.0	0.0	0.3
Walton Street	0.1	0.0	0.0	0.1
AEW	0.1	0.0	0.0	0.1

2021/22	Management Fees	Transaction Costs	Performance Related Fees	Total
			£m	£m
Stonepeak	8.0	0.0	0.0	8.0
Igneo (Was First Sentier)	0.9	0.0	0.0	0.9
Bridgepoint (was EQT)	1.0	0.0	0.0	1.0
River and Mercantile	0.5	0.1	0.0	0.6
Gresham Forestry	0.3	0.0	0.0	0.3
Gresham (BSIF)	0.5	0.0	0.0	0.5
Closed Mandates & one off advisory fees	0.4	0.0	0.0	0.4
Subtotal	17.2	3.1	0.0	20.3
Custody Fees				0.1
Total Fees				20.4

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

2020/21	Management Fees	Transaction Costs	Performance Related Fees	Total
			£m	£m
Custody Fees				0.1
Total Fees				17.3

The £20.2m investment management expenses incurred in 2021/22 represent 0.57% or 57 basis points (bps) of the market value of the Fund's assets as at 31st March 2022 (0.52% or 52bps as 31 March 2021). The cash for pooled property investments, pooled infrastructure investment and equity protection strategy drawdowns was 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 £13.0 million to £20.2 million for 2021/22 (£14.4 million to £18.2 million for 2020/21). 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.

	2020/21	2021/22
	£m	£m
Fixed interest securities	3.5	(0.3)
Equity dividends	9.1	11.5
Pooled property investments	7.4	10.5
Pooled infrastructure investments	8.9	15.6
Interest on cash deposits	0.1	(0.1)
Securities lending	0.1	0.0
	29.1	37.2

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.

	2020/21	2021/22
	£m	£m
Withholding tax – equities	(0.4)	(0.2)
	(0.4)	(0.2)

NOTE 12: INVESTMENTS

	Market value 31 March 2021	Market Value 31 March 2022
	£m	£m
Long term Investment Assets		
LGPS Central shares	1.4	1.4
Investment Assets -LGPS Central Managed		
Equities	402.4	322.5
Pooled investment vehicles	0.0	207.1
Fixed Interest Securities	159.7	206.4

	Market value 31 March 2021	Market Value 31 March 2022
	£m	£m
Investment assets -WPF Managed		
Fixed interest securities	192.7	190.4
Equities	448.8	332.9
Pooled investment vehicles	1,518.7	1,508.8
Pooled property investments	160.7	221.9
Pooled infrastructure investments	332.6	426.7
Pooled debt Assets	42.2	76.3
Derivatives - futures	160.5	198.7
Derivatives - forward FX	0.0	0.0
Cash deposits	13.6	13.0
Investment income due	5.3	4.4
Amounts receivable for sales	0.0	0.0
Total investment assets	3,438.6	3,710.5
Investment liabilities		
Derivatives - futures	(156.3)	(167.1)
Derivatives - forward FX	(0.0)	(0.0)
Amounts payable for purchases	(0.0)	(0.0)
Total investment liabilities	(156.3)	(167.1)
Net investment assets	3,282.3	3,543.4

NOTE 12A: RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

	Market value 31 March 2021	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 2022
-	£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	159.7	60.0	(1.1)	(12.2)	206.4
Pooled investment vehicles	0.0	212.8	(0.1)	(5.6)	207.1
Equities	402.4	0.0	(43.1)	(36.8)	322.5
	563.5	272.8	(44.3)	(54.6)	737.4
Investment Assets -WPF Managed					
Fixed interest securities	192.7	196.7	(198.6)	(0.4)	190.4
Equities	448.8	207.2	(296.9)	(26.2)	332.9
Pooled investment vehicles	1,518.7	263.4	(489.2)	215.9	1,508.8
Pooled property investments	160.7	75.6	(18.2)	3.8	221.9
Pooled infrastructure investments	332.6	63.4	(33.9)	64.6	426.7
Pooled debt investments	42.2	36.9	(4.5)	1.7	76.3
	3,259.2	1,116.0	(1,085.6)	204.8	3,494.4
Derivative contracts:					
Futures	4.2	375.4	(370.8)	22.8	31.6
Forward currency contracts	0.0	0.0	0.0	0.0	0.0
	3,263.4	1,491.4	(1,456.4)	227.6	3,526.0
Other investment balances:					
Cash deposits	13.6			(0.4)	13.0

	Market value 31 March 2021	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 2022
	£m	£m	£m	£m	£m
-					
Investment income due	5.3				4.4
Amount receivable for sales of investments	0.0				0.0
Amounts payable for purchases of investments	0.0				0.0
Net investment assets	3,282.3			227.2	3,543.4

Prior year comparators:

	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

	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
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

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 2021/22 year amounted to £3.0 million, (2020/21: £4.7 million). These transaction costs represent 0.08% or 8bps of the market value of the Fund's assets as at 31 March 2022 (1.4bps at 31 March 2021).

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: 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	2020/21		2021/22	
	£m	%	£m	%
LGPS Central (Bonds)	159.7	5	206.4	6
LGPS Central (Emerging Markets)	402.4	12	322.5	9
LGPSC (Global All World Climate Factor Fund)	0.0	0	207.1	6
JP Morgan Asset Management (Bonds)	0.2	0	0.2	0
JP Morgan Asset Management (Emerging Markets)	1.4	0	1.5	0
Nomura Asset Management UK Ltd	455.0	14	365.8	10
Schroder Investment Management	1.3	0	1.4	0
Legal & General Asset Management	1,514.5	47	1,480.1	43
Green Investment Bank	40.2	1	44.7	1
Hermes (Fund I and II)	104.9	3	103.6	3
Invesco (Euro and a UK Property Fund)	105.1	3	107.6	3
VENN (Fund I & II)	19.4	1	25.2	1
Walton Street (Fund I & II)	9.5	0	10.2	0
AEW	18.8	1	19.9	1
Stonepeak	81.1	2	134.9	4
Igneo (was First Sentier)	100.4	3	114.7	3
Bridgepoint Fund II & III (was EQT)	42.2	1	76.3	2
River and Mercantile	200.6	6	223.4	6
WCC Managed Account	5.0	0	5.4	0
Gresham House (BSIF)	13.9	1	44.2	1
Gresham House Forestry	0.0	0	42.5	1
	3,275.6	100	3,537.6	100

The above excludes £1.4m (2020/21: £1.4m) Invested in LGPSC and £4.4m (2020/21: £5.3m) of investment income due. The following investments represent more than 5% of the net assets of the Fund:

	Market value	% of	Market value	% of
	31 March	total	31 March	total
	2021	Fund	2022	Fund
Security	£m		£m	
LGIM – UK Equity Index Pooled Fund	396.8	12.1	556.1	15.7
LGIM – North America Index Pooled Fund	410.8	12.6	355.2	10.1
LGIM - Client Specific unitised Fund -STAJ	195.2	6.0	352.6	10.0
LGPS Central Emerging Market Equity Pool	402.4	12.3	322.6	9.1
LGIM – Europe (ex-UK) Index Pooled Fund	209.8	6.4	216.1	6.1
LGPS Central All World Equity Climate Factor Fund	0.0	0.0	207.1	5.9
River and Mercantile UK Gilts	192.7	5.9	190.3	5.4
LGIM - MSCI World Mini Volatility Index	188.9	5.8	0.0	0.0

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 £0.8 million (2020/21: £2.8 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 £0.8 million (2020/21: £2.9 million) representing 105.6% of stock lent.

Income received from stock lending activities was £0.0 million for the year ending 31 March 2022 (2020/21: £0.1 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 2021	Economic Exposure	Market Value 31 March 2022
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	64.6	0.0	138.4
EUROSTOXX exchange traded option	Under one year	0.0	33.1	0.0	21.4
US S+P exchange traded option	Under one year	0.0	62.8	0.0	38.9

Overseas exchanged traded under one year

Total assets		160.5		198.7	
LIABILITIES		Economic Exposure Value	Market Value 31 March 2021	Economic Exposure Value	Market Value 31 March 2022
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	(55.8)	0.0	(98.7)
EUROSTOXX exchange traded option	Under one year	0.0	(34.0)	0.0	(29.0)
US S+P 500 exchange traded option	Under one year	0.0	(66.5)	0.0	(39.4)
Overseas exchanged traded	Under one year				
Total liabilities			(156.3)		(167.1)
Net futures			4.2		31.6

OPEN FORWARD CURRENCY CONTRACTS AS AT 31 MARCH 2022

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 31 st of March 2022						
					0.0	(0.0)
Net forward currency contracts at 31 March 2022						0.0
<u>Prior year comparative:</u>						
Open forward currency contracts at 31 March 2021					0.0	0.0
Net forward currency contracts at 31 March 2021						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.

	2020/21	2021/22
Cash	£m	£m
Cash deposits	7.0	5.3
Cash instruments	6.6	7.7
	13.6	13.0

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

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
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	Using observable inputs	With significant unobservable inputs	Total
Values at 31 March 2022	Level 1	Level 2	Level 3	
	£m	£m	£m	£m
Fair Value Financial assets				
Financial assets at fair value through profit and loss	1,056.6	1,914.6	724.9	3,696.1
Total fair value financial assets	1,056.6	1,914.6	724.9	3,696.1
Fair Value Financial Liabilities				
Financial liabilities at fair value through profit and loss	0	(167.1)	0.0	(167.1)
Total fair value financial liabilities	0	(167.1)	0.0	(167.1)
Net fair value financial assets	1,056.6	1,747.5	724.9	3,529.0

	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
Values at 31 March 2021	Level 1	Level 2	Level 3	
	£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

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 2022.

Sensitivity Analysis	Valuation range	Value as at 31 st March 2022	Valuation Increase	Valuation Decrease
	+/- %	£m	£m	£m
Pooled Investments - Property Funds	2.7	221.9	227.9	215.9
Pooled Investments - Infrastructure Funds	5.2	426.7	449.1	404.3
Pooled Investments - Debt Funds	2.7	76.3	78.4	74.2
Total		724.9	755.4	694.4

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	£m
Market Value 1 st April 2021	160.7	332.6	42.2	535.5
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	75.6	63.4	36.9	175.9
Sales and derivative receipts	(18.2)	(33.9)	(4.5)	(56.6)
Unrealised gains/(losses)	3.8	64.6	1.7	70.1
Realised gains/(losses)	0.0	0.0	0.0	0.0
Market value 31st March 2022	221.9	426.7	76.3	724.9

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	Financial Instruments at Amortised Cost		Fair value through profit and loss	Financial Instruments at Amortised Cost
2020/21	2020/21		2021/22	2021/22
£m	£m		£m	£m
Financial assets				
	1.4	Other share capital		1.4
562.1		LGPS Central Managed	736.0	
192.7		Fixed interest securities	190.4	
448.8		Equities	332.9	
1,518.7		Pooled investment vehicles	1,508.8	
160.7		Pooled property investments	221.9	
332.6		Pooled Infrastructure investments	426.7	
42.2		Pooled Debt investments	76.3	
160.5		Derivatives - Futures	198.7	
0.0		Derivatives - Forward FX	0.0	
	88.1	Cash		49.4
5.3		Other investment Balances	4.4	
	12.4	Current assets		9.8
	1.6	Non-current assets		1.5
3,423.6	103.5		3,696.1	62.1
Financial liabilities				
(156.3)		Derivatives - Futures	(167.1)	
(0.0)		Derivatives - Forward FX	0.0	
(0.0)		Other investment balances	0.0	

Fair value through profit and loss	Financial Instruments at Amortised Cost		Fair value through profit and loss	Financial Instruments at Amortised Cost
2020/21	2020/21		2021/22	2021/22
£m	£m		£m	£m
	(6.0)	Current liabilities		(6.5)
(156.3)	(6.0)		(167.1)	(6.5)
3,267.3	97.5		3,529.0	55.6

NOTE 15 B: NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

31 March 2021		31 March 2022	
£m		£m	
	Financial assets		
639.8	Fair value through profit and loss		204.8
(13.2)	Financial Assets at Amortised Cost		(0.4)
	Financial liabilities		
(23.8)	Fair value through profit and loss		22.8
602.8	Total		227.2

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 2022:

- 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 and the absolute and relative risk for each portfolio 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 2021/22 reporting period:

Asset Type	Potential Market Movements (+/-)
Fixed interest securities	6.9%
Global bonds	6.9%
UK equities	15.4%
Overseas equities	12.4%
UK pooled investment vehicles	15.4%
Overseas pooled investment vehicles	11.5%
Global pooled investment vehicles	11.5%
Emerging markets pooled equities	11.5%
Pooled property investments	2.7%
Pooled infrastructure investments	5.2%
Pooled debt investments	2.7%

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 increase	Value on decrease
	31 March 2022			
	£m	%	£m	£m
Cash and cash equivalents	13.0	0	13.0	13.0
Investment portfolio assets:				
UK fixed interest securities	190.4	6.9	203.5	177.3
Overseas fixed interest securities	0.0	6.9	0.0	0.0
Global bonds	206.3	6.9	220.5	192.1
UK equities	4.5	15.4	5.2	3.8
Overseas equities	323.5	12.4	363.6	283.4
UK pooled investment vehicles	556.1	15.4	641.7	470.5
Overseas pooled investment vehicles	576.4	11.5	642.7	510.1
Global pooled investment vehicles	559.7	11.5	624.1	495.3
Emerging market pooled equities	351.2	11.5	391.6	310.8
Pooled property investments	221.9	2.7	227.9	215.9
Pooled infrastructure investments	426.7	5.2	449.1	404.3
Pooled debt investments	76.3	2.7	78.4	74.2
Net derivative assets	31.6	0.0	31.6	31.6
Investment income due	4.4	0.0	4.4	4.4
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	3,542.0		3,897.3	3,186.7

Prior-year comparators

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

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 2021	Value as at 31 March 2022
	£m	£m
Cash and cash equivalents	13.6	13.0
Cash balances	74.5	36.4
Fixed interest securities	192.7	190.4
Total	280.8	239.8

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 to happen.

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 2022 of a +/- 100 basis points (BPS) change in interest rates:

Asset Type	Carrying amount as at 31 March 2022	Change in year in the net assets available to pay benefits	
		+100 BPS	-100 BPS
	£m	£m	£m
Cash and cash equivalents	13.0	13.1	12.9
Cash balances	36.4	36.8	36.0
Fixed interest securities	190.4	192.3	188.5
Total change in assets available	239.8	242.2	237.4

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

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 31 March 2021	Asset value as at 31 March 2022
	£m	£m
Overseas quoted securities	433.9	323.5
Overseas pooled investment vehicles	631.2	576.4
Global pooled investment vehicles	497.1	559.7
Global bonds and pooled EM equities	566.3	557.5
Overseas pooled property investments	73.1	104.5
Total overseas assets	2,201.6	2,121.6

Overseas bonds are 100% hedged to GBP as at 31 March 2022.

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 6.5% (as measured by one standard deviation).

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

An 6.5% 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 2022	Change to net assets available to pay benefits	
		+6.5%	-6.5%
	£m	£m	£m
Overseas quoted securities	323.5	344.5	302.5
Overseas pooled investment vehicles	576.4	613.9	538.9
Global pooled investment vehicles	559.7	596.1	523.3
Global bonds and pooled EM equities	557.7	594.0	521.4
Overseas pooled property investments	104.5	111.3	97.7
Total change in assets available	2,121.8	2,259.8	1,938.8

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

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 2022 was £50.6 million (31 March 2021: £88.1 million). This was held with the following institutions:

Summary	Rating	Balances as at 31	Balances as at 31
		March 2021	March 2022
		£m	£m
Cash Instruments			
BNY Mellon US Dollar Liquidity Fund	AAA	6.3	7.7
JP Morgan Swap Collateral	A+	0.3	0.0
Bank deposit accounts			
The Bank of New York Mellon	A-1+	7.0	5.3

Summary	Rating	Balances as at 31 March 2021	Balances as at 31 March 2022
		£m	£m
Bank current accounts			
Barclays Bank PLC	A-1	74.5	36.4
Total		88.1	49.4

The above assets are held at amortised cost and are either liquid or very short dated securities in high-quality counterparties. Therefore, the expected loss is assessed as a trivial sum and no allowance has been set aside for this.

Liquidity Risk

Market liquidity risk is the risk that a given security or asset cannot be traded quickly enough in the market to prevent a loss (or make the required profit) or to meet the financial obligations of the Fund as they fall due. The Fund's investment managers purchase quoted and tradable securities. Equities held are listed on major world stock markets and managers employed are highly experienced in equity trading. The liquidity risk relating to the bond holdings is monitored and managed by the bond manager on an on-going basis. The Council also takes steps to ensure that the Fund has adequate cash resources to meet commitments.

NOTE 17: CURRENT ASSETS

	2020/21	2021/22
	£m	£m
Contributions due from employer in respect of:		
Employer	6.2	6.4
Members	1.8	2.0
Cash balances	74.5	36.4
Other Debtors	4.4	1.4
	86.9	46.2

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

	2020/21	2021/22
	£m	£m
*LGPSC capital advance treated as loan	0.7	0.7
**Reimbursement of lifetime tax allowances	0.3	0.5
Contributions from employers	0.2	0.1
Augmentation	0.4	0.2
	1.6	1.5

*This was part of the regulatory capital required to set up the company LGPS Central Limited.

**This includes debtor in relation to the lifetime tax allowance limit, as the Fund pays all the tax upfront on behalf of the pensioner and is reimbursed from additional pension deductions over time.

NOTE 19: CURRENT LIABILITIES

	2020/21	2021/22
	£m	£m
Investment management expenses	(1.0)	(0.9)
Payroll and external vendors	(0.8)	(0.6)
Other expenses	(4.2)	(5.0)
	(6.0)	(6.5)

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 £1.4 million in 2021/2022 (2020/2021: £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 £11.2 million to the Fund in 2021/2022 (2020/2021: £89.2 million 90% 3 year prepayment).

LGPSC 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 LGPSC annual running costs of £0.7 million was charged to the Fund in 2021/2022 by LGPSC (£0.7 million in 2020/2021).

Key Management Personnel

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

	2020/21	2021/22
	£000	£000
Short term benefits*	61	78
Long term/ post-retirement benefits**	826	213
	887	291

*This is annual salary, benefits in kind and employer contributions.

**This is the accrued pension benefits, expressed as cash equivalent transfer value. The main reason for the reduction is that the previous Head of Pensions Administration left the Fund in February 2021 and has been replaced by an interim until the post is filled permanently,

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 2022 totalled £493.4 million (31 March 2021: £163.7 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 13 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 17 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.

Three 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 2021/2022 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:

	2020/21	2021/22
	£m	£m
Contributions received	0.2	0.2
Investments purchased	0.2	0.2
Change in market value	0.4	0.1
Retirement benefits paid or transferred	(0.2)	(0.6)

The combined value of the AVC funds as at 31 March 2022 was £2.9 million (31 March 2021: £3.1 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.

	2020/21	2021/22
	£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).

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 as at 31 March 2022 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, inflation, 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
<p>Property and infrastructure valuations. (Level 3 investments)</p>	<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. There is continuing uncertainty regarding the property and infrastructure valuations due to the time that it will take to fully realise the impact of COVID-19 upon these illiquid assets as well as the growing concerns as to inflation rises. The valuations have been updated based on the information available as at 31 March 2022 and may be subject to variations as further market information becomes available. Investments are valued each month as per the latest quarterly statements available to our custodian, which are 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 £221.9m (£160.7m in 2020/21). 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 £426.7m (£332.6m in 2020/21). 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 the members of Worcestershire
County Council on the pension fund financial statements of
Worcestershire Pension Fund**



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

Dear Sirs

Worcestershire County Council
Financial Statements for the year ended 31 March 2022

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 2022 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 2021/22 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 2021/22 ("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 the valuation of the net pensions liability, the valuation of Property Plant and Equipment. 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. 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:
 - a. there are no unrecorded liabilities, actual or contingent
 - b. none of the assets of the group and Council has been assigned, pledged or mortgaged
 - c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.
- ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.
- 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. 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. 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 32 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. 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 :
- a. the nature of the group and Council means that, notwithstanding any intention to cease the group and Council 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
 - b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and
 - c. 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

- xvi. The group and Council has complied with all aspects of ring-fenced grants that could have a material effect on the group and Council's financial statements in the event of non-compliance.

Information Provided

- xvii. We have provided you with:
- a. 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;
 - b. additional information that you have requested from us for the purpose of your audit; and
 - c. access to persons within the Council via remote arrangements, from whom you determined it necessary to obtain audit evidence.
- xviii. We have communicated to you all deficiencies in internal control of which management is aware.
- xix. All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xx. 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.
- xxi. 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:
- a. management;

- b. employees who have significant roles in internal control; or
 - c. others where the fraud could have a material effect on the financial statements.
- xxii. 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.
- xxiii. 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.
- xxiv. 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.
- xxv. 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

- xxvi. 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

- xxvii. 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 [ENTER DATE].

Yours faithfully

Name.....

Position.....

Date.....

Name.....

Position.....

Date.....

Signed on behalf of the Council

This page is intentionally left blank