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Agenda

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2017 / 2018

worcestershire county council

Annual Financial Report and Statement of Accounts

Worcestershire County Council and Worcestershire Pension Fund

Unaudited

Table of Contents







Worcestershire County Council Annual Financial Report

Leader's Introduction

Last year we launched an ambitious plan, Shaping Worcestershire's Future, to ensure the area continues to thrive and the organisation continues to reform to deliver value for your money and focus on those things that you say are most important to you.

Shaping Worcestershire's Future identifies four key priorities:

As a result of our Corporate Plan 2017/18 enabled us to:

- Support some of the most vulnerable people in society. Delivering care to over 10,200 adults and 1,908 children, spending over £220 million (69% of our net budget)

- Improve the condition of our roads and pavements. We spent £13.4 million on maintaining our highways, filling over 27,000 potholes and resurfacing over 150 miles of road

- Investing in our infrastructure to grow the economy and tackle congestion. The capital programme included schemes such as Bromsgrove Station and the Southern Road Link as well as £3.5 million investing in key employment sites such as Malvern Hills Science Park and Worcester Six business park

We have now set a balanced budget for 2018/19, with further investment to meet these pressures, but I recognise that we will continue to need to make difficult choices, drive reform and lobby Government to ensure the new future funding formula better reflects our key drivers of cost.

I would like to put on record my thanks to our staff, councillors and our wider partners who worked so hard to secure this outcome. The Statement of Accounts show that we have a sound financial base on which to build and I am delighted to present these to you.

Simon Geraghty
Leader of Worcestershire County Council
May 2018

Chief Executive's Introduction

I am delighted that the County Council achieved a balanced budget over 2017/18, with a small surplus of £188,000. This is a challenging time in local government with continuing reductions government funding, whilst at the same time facing greater demands on our services.

Despite that the County Council has again seen a successful year delivering not only its budget but improvements in performance. Highlights of the year include:

- Our spending on superfast broadband topped £7.5 million, meaning that now over 94% of the county is covered.
- 76% of working age adults in employment and a reduction in 16-24 year olds claiming job seekers allowance
- We are diverting more waste from landfill, with nearly 90% recovered, recycled or composted
- Improvements in the condition of principal and non-principal roads
- 3% of residents aged 65 or over receive a social care service, reflecting our aim to help older people to maintain their independence and live high quality lives
- 91% of people say that their social care services make them feel safe and secure
- 90% of our schools are judged as good or outstanding in their most recent Ofsted inspection.

We have continued to manage and take action to mitigate risks via our Corporate Risk Management Policy Statement and Strategy, with key areas of activity focusing on:

- Improvement in our Children's Services;
- Embedding our HR and Finance systems; and
- Managing the large increases in demand for special education needs and disabilities (SEND) services.

We have worked effectively with our partners to deliver improvements in areas such as health. This saw Delayed Transfers in Care fall by 1,146 days when comparing March 2017 with March 2018.

We are not resting on our laurels though; we have already set and started to deliver over £30 million of savings in the 2018/19 budget. We know that going forward into the next decade we face more funding pressures and a period of significant financial uncertainty and we are still awaiting reforms to government funding. That is why we need to ensure that we have a strong hold over our money, and I am pleased that the Statement of Accounts reflects both a robust base and a drive to openness so that we can engage our residents and business around how we can move forward together.

Paul Robinson
Chief Executive
May 2018

Chief Financial Officer's Narrative Report

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

Looking back on 2017/18 the County Council has had another successful year financially. The revised budget of £318.5 million included plans to deliver savings of £21.3 million. The outturn shows that we have delivered an underspend of £0.188 million, with the position by directorate given below:

Service area	Budget £m	Outturn £m	Variance £m
Adult Services	130.436	132.348	1.912
Children, Families & Communities	82.482	90.804	8.322
Economy & Infrastructure	66.738	62.742	(3.996)
Commercial & Change	43.924	37.556	(6.368)
Public Health	0.083	0.025	(0.058)
Planned use of reserves (Feb 2017)	(5.185)	(5.185)	0
Total	**318.478**	**318.290**	**(0.188)**

This has been achieved in a challenging environment of increasing demand and costs.

Key financial targets have improved, including:

- Debts were collected within an average of 35 days, compared with 41 in 2016/17
- 98% of our debt was collected within 90 days, compared to 94% in 2016/17
- 98% of our creditors were paid within 30 days of invoice date, compared to our target of 95% and our 2016/17 performance of 94%

Finance staff worked closely with Liberata and Grant Thornton to improve performance and the close down process and produce the set of accounts more quickly, and I express my thanks for their hard work.

As the financial pressures facing councils' increases, we will continue to put financial strength and competence at the heart of all decision making to deliver an innovative, strong, resilient and sustainable financial performance.

I recognise this set of accounts contains complicated technical information, so the remainder of this narrative highlights some of the key outcomes contained in the 2017/18 Statement of Accounts.

Michael Hudson LLB (Hons), LLM, CPFA
Chief Financial Officer
May 2018

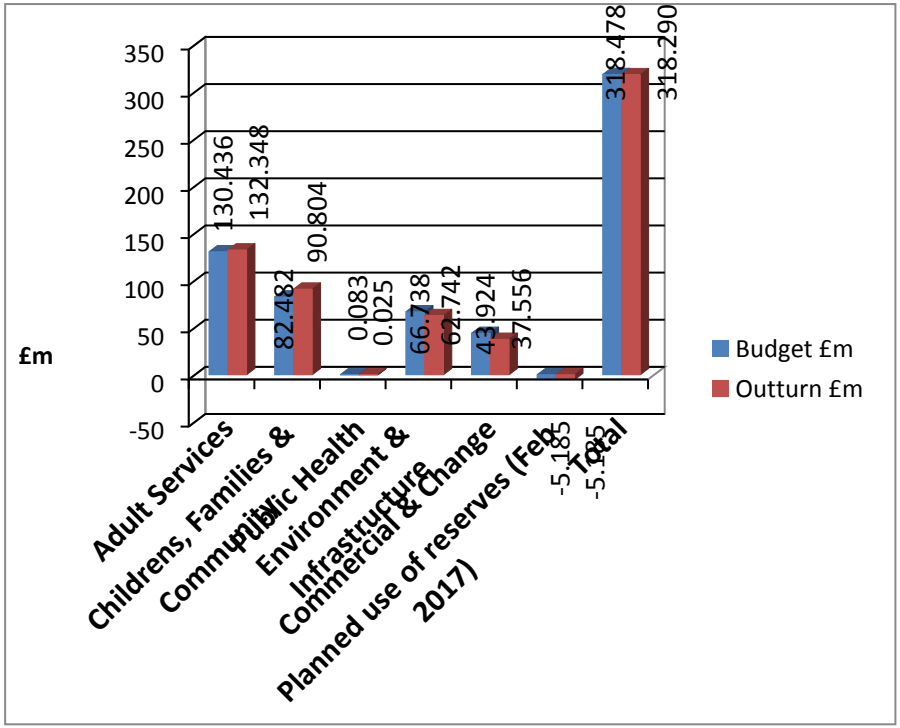
Finance and Performance Review

Overall Financial Outturn

The County Council net budget for 2017/18 was £318.5 million. Against this the Accounts reports a small underspend of £0.188 million. This has been achieved after a challenging year where we again saw more reductions in Central Government funding but an increase in demand for and cost of local services.

During the year we took regular monitoring reports to senior management and Cabinet. These reports identified the need to take action in year to deliver a balanced budget, and as a result of those actions spending has been managed prudently to enable that position to be achieved.

There are some areas of service delivery though that continue to face financial pressures, and other service area underspends along with a planned use of resources has enabled the overall position to be just underspent as a whole Council:



The following pages set out how this financial outturn links to performance and demand. In addition, in setting the 2018/19 Budget Council took account of these forecasts and its Business Plan to reprioritise funding to some of the areas facing the largest pressures, including allocating £10.5 million to the Children Social Care budget to address the overspend in that area in 2017/18.

Impact on the Council's Assets and Liabilities

The County Council's Balance Sheet shows a generally stable position; the largest change is due to a decrease in the County Council's pension liabilities. The Pension Fund is balanced and we will keep this under review. More detail about key movements is given below. The key elements of the balance sheet are as follows:

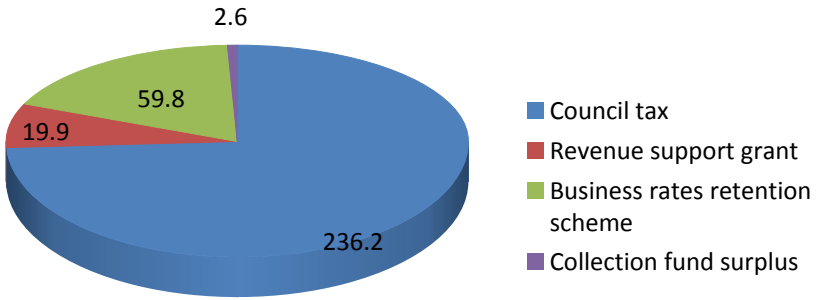
	31 March 2018 £m	31 March 2017 £m
Long Term Assets	1,141.8	1,064.9
Current Assets	100.3	99.8
Current :Liabilities	(157.2)	(149.1)
Net Pension Liability	(363.0)	(449.3)
Other long Term liabilities	(571.1)	(518.6)
Net Assets	**150.8**	**47.7**
Financed by		
Usable Reserves	136.3	147.4
Unusable Reserves	14.5	(99.7)
Total Reserves	**150.8**	**47.7**

The County Council's net pension liability reduction is in part due to an upfront payment of £70.2 million to cover three years of employer contributions (2017/18 to 2019/20). This enables the Pension Fund to invest the future contributions and pass on an average saving of 6.24% to the County Council. This was funded by borrowing. The impact of this transaction is given in notes 28 Defined Benefit Pension Schemes and 20 Financial Instruments Borrowing

20 County Council maintained schools converted to academy status in 2017/18 which resulted in a reduction to the County Council's long term assets of £26.7 million.

Sources of finance

The County Council received £318.5 million of core funding in 2017/18, the sources of which are given in the chart below (£m).



Income from Council Tax will gradually fund a greater proportion of the County Council's budget in the future and is influenced by growth in numbers of domestic properties, local decision making in the level of increase and Central Government decisions with regard to the level of increase allowed without the need for a referendum. A total increase of 2.94% was applied in 2017/18 which reflects:

- 0.94% to provide financial support for the delivery of outcomes in line with the Corporate Plan, resident and business communities' priorities
- 2% Adult Social Care Precept, for Adult Social Care services in order to contribute to existing cost pressures.

In addition to our core funding we also receive a range of specific revenue grants from Central Government spending departments. In 2017/18 these included:

- Adult Social Care Support Grant £2.4 million. This grant supports Adult Social Care services and was used to support the delivery of planned service reforms.
- Dedicated Schools Grant (DSG) £209.8 million. This funding is used to provide educational services via our schools and settings. There was an overall increase due to additional pupil numbers and Early Years funding.
- Public Health Ring-fenced Grant £29.9 million. This grant is reducing year on year in line with Public Health England target funding.

Financial risks

- The deficit on the pension liability, which relates to the current actuarial valuation, has reduced significantly. Whilst this is encouraging there is a need to manage and maintain this position. The Pension Committee is thus taking actions with its advisors to manage this and received regular updates on its assets and liabilities. The next full actuarial valuation is 31 March 2019.
- The County Council seeks to manage its financial risk through prudent controls, with business case assessments, always assessing the value of its assets and investments.

General Fund and Usable Reserves

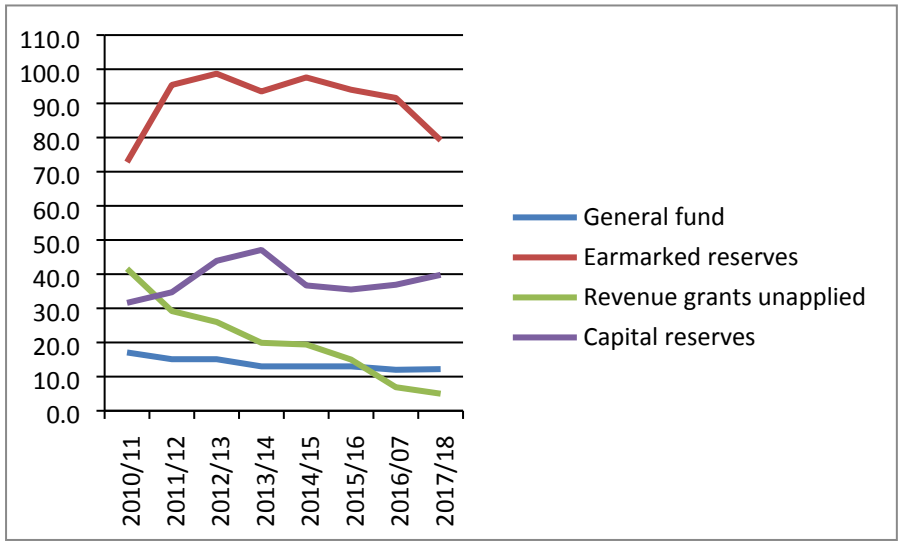
Usable reserves represent money available to support delivery of our service objectives whilst unusable reserves usually represent accounting activities rather than cash. The County Council maintains usable reserves in order to plan for both known and unknown future expenditure requirements, and the Chief Financial Officer is responsible for ensuring that the level held is adequate.

Usable reserves are categorised as:

- General balances – a contingency sum available to pay for unforeseen or exceptional activities
- Earmarked reserves – retained under delegated authority by Chief Officers and head teachers to support specific activities

- Revenue grants unapplied – unspent grant income.

Our usable reserves position at 31 March 2018 was £136.3 million, which reflects the need to utilise reserves to support service activity to a greater extent than has previously been required. The graph below shows the movement in the General Fund and usable reserves position since 2010/11 (£m).



Overall the outturn has meant that the County Council's General Fund reserve is £12.2 million. Over the last five years this has remained constant, with only £1 million drawn down to support the replacement of Eastham Bridge in 2016/17.

Capital Programme

The County Council's 2017/18 programme saw £116 million committed to deliver a wide range of capital works, including:

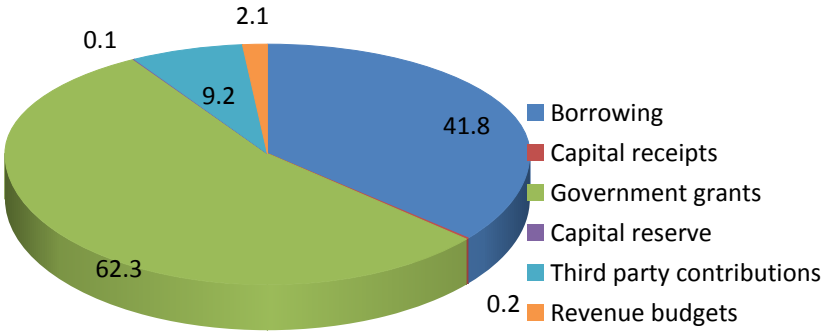
- £2 million Town Centre Improvements across priority schemes in Malvern, Kidderminster, Droitwich and Redditch
- £6 million Capital Investment Fund to support investment into Footpaths and Pavements
- Over £7.5 million of capital spend has been on improvements in superfast broadband with now 94% of the County able to receive this.

In addition, the County Council, working with the Local Enterprise Partnership (LEP), has secured £4.8 million to be one of the country's first pilot areas for the next generation of mobile technology, 5G.

The Revolving Investment Fund continues to be used to generate income through investment in assets around Worcestershire, including rail stations, business parks and the Energy from Waste facility. This income is then recycled into further economic development to enable both future investment and to support the delivery of key priorities.

Note 19.5 Non-operational assets identifies that we expect £6.1 million of receipts for the assets held for sale. These sales will continue the County Council's intention to build more care and support provision, such as supported living for people with profound and multiple learning disabilities at Ledwych Road (the old Kingsfields Day Centre, Droitwich).

Capital schemes are funded from the following sources (£m):



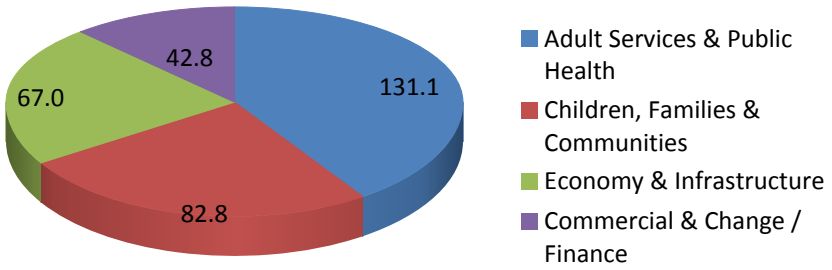
Impact on Treasury Management and cash flow

The County Council has an internal Treasury Management team that manages its cash within the strategy approved by Full Council. The Treasury Strategy was adhered to in 2017/18; the average long term borrowing rate was 3.1% and the return on short term investments was 0.3%.

At the end of 2017/18 the County Council has £443.8 million of outstanding borrowing. That is £80.6 million more than 31 March 2017, mainly as a result of a decision to gain revenue savings arising from the prepayment of pension contributions. The County Council will continue to review its Treasury Management strategy and manage risk to ensure that it maintains a prudent approach to managing its long term debt.

Delivering the Corporate Plan

Each directorate has an allocated budget to support delivery of its service outcomes. The 2017/18 original allocations were (£m):



The service budgets reflect ongoing budget requirements, inflationary increases and growth allocated to support our core priorities.

Open for Business

We have worked with partners to secure significant investment in a number of infrastructure schemes, including Worcester A4440 Southern Link Road, Kidderminster Hoobrook Link Road, Worcestershire Parkway Regional Interchange railway station, Bromsgrove Railway Station relocation, Worcester Six development and Malvern Hills Science Park.

Children & Families

The Children's Social Care budget has been strengthened to support recommendations from the Local Safeguarding Children's Board, and to support the Children's Services Social Work Improvement Plan, specifically to strengthen social work recruitment and retention as part of our workforce strategy, provide additional support for children in care and care leavers and increase social work and management capacity. Investment has also been identified for the Special Education Needs and Disability transport service, due to additional demand and the impact of national age range increases.

The Environment

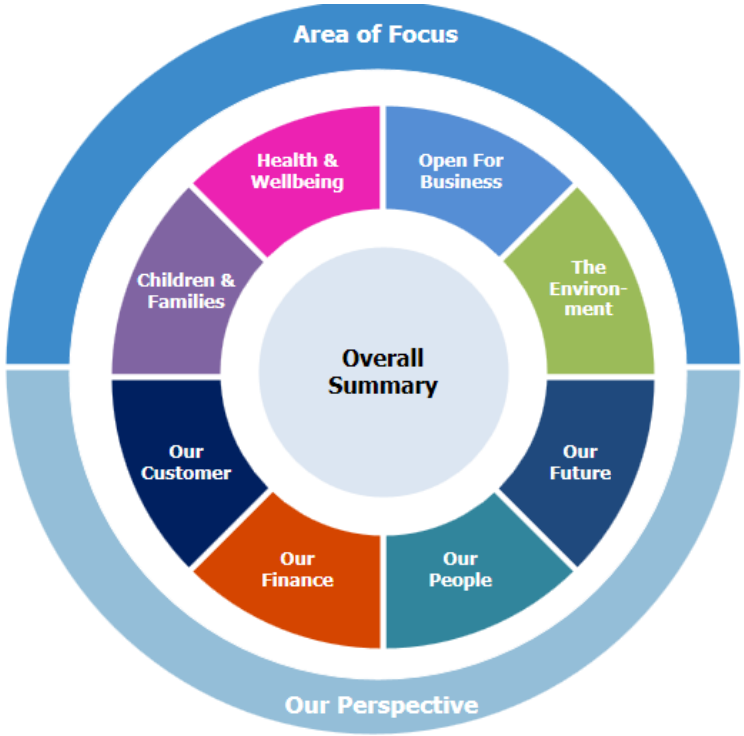
There has been investment in the Road Maintenance budget to support our aim of upper quartile performance. One off investment has also been made to support improving pavements, reduce congestion and to continue supporting Town Centre improvements.

Health & Wellbeing

The Adult Social Care budget has been managed proactively in response to demographic growth and the increasing complexity of supporting vulnerable older people and adults with disabilities.

Performance

Performance is monitored regularly and progress published in reports known as Balanced Scorecards. The Balanced Scorecard is made up of a hierarchy of scorecards corresponding to the internal organisational structure, with a corporate level report and one for each directorate. The scorecard is themed in line with our Corporate Plan areas of focus and also reflects an organisational perspective.

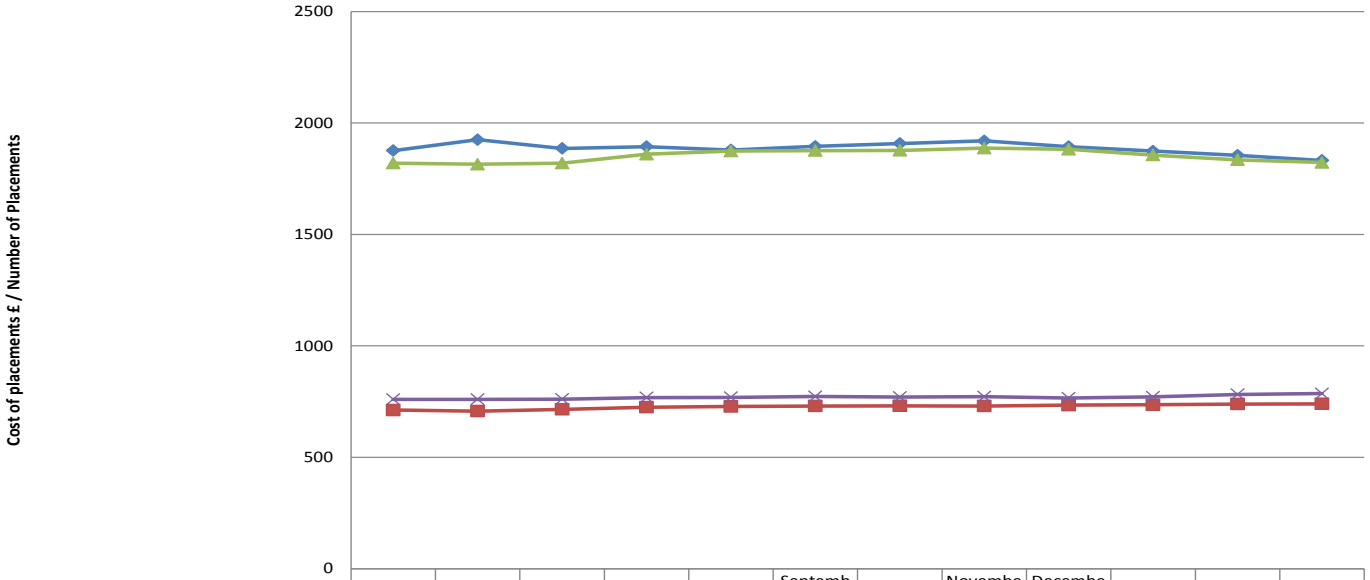


Adult Services

2017/18 saw a net budget of £130.5 million (40% of the County Council's overall net spend). During the financial year the service supported over 10,200 adults.

The outturn identifies that the service was slightly overspent at year end. This position was reported during 2017/18 and relates to an increase in cost of care, especially in high need services such as Learning Disabilities.

A focus on the transformational preventative measures has though meant we have managed demand effectively to keep close to budget. Residential and nursing care placements have remained broadly the same as 2017/18, although the cost of that care has slightly risen.



	April	May	June	July	August	September	October	November	December	January	February	March
2016/17 Total cared for	1876	1925	1886	1894	1879	1895	1908	1920	1894	1874	1855	1832
2016/17 Average cost per placement	712	707	715	725	728	730	731	730	734	736	739	740
2017/18 Total cared for	1820	1815	1820	1860	1874	1876	1877	1887	1882	1856	1835	1823
2017/18 Average cost per placement	760	760	761	768	769	773	770	772	766	771	782	786

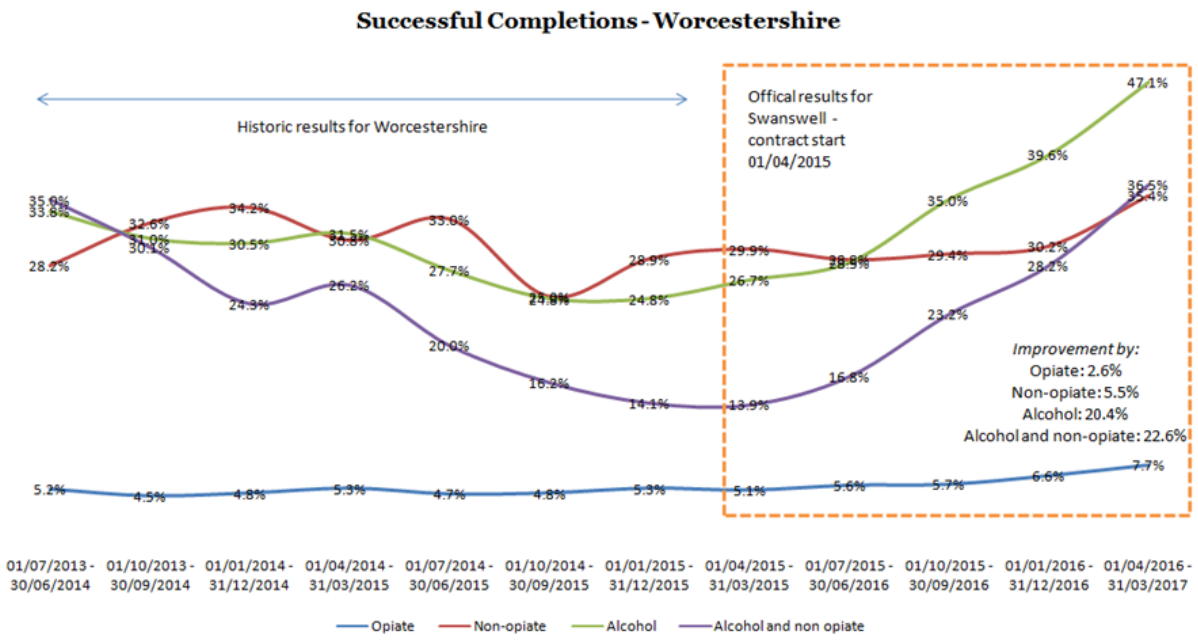
Public Health

Several key public health services were delivered within reduced budgets in 2017/18 and we have monitored these contracts closely to ensure that residents have continued to receive safe services which deliver the County Council's public health duties.

By working closely with providers on service redesign we can report that performance in these areas has been maintained or improved, despite a reduction in spend, and we continue to have above average outcomes in many areas.

For example, the main contract value for integrated substance misuse services for 2017/18 was £3.8 million (excluding Payment by Results payments of £0.1 million). We work collaboratively across the system and £0.1 million was also contributed by the Office of the Police and Crime Commissioner. This service delivered strong improvements in successful completions in 2016/17 for opiate, non-opiate and alcohol indicators (table below). In 2017/18 the service has delivered further improvements and we can now report it is in the top quartile of performance in England for successful opiate completions.

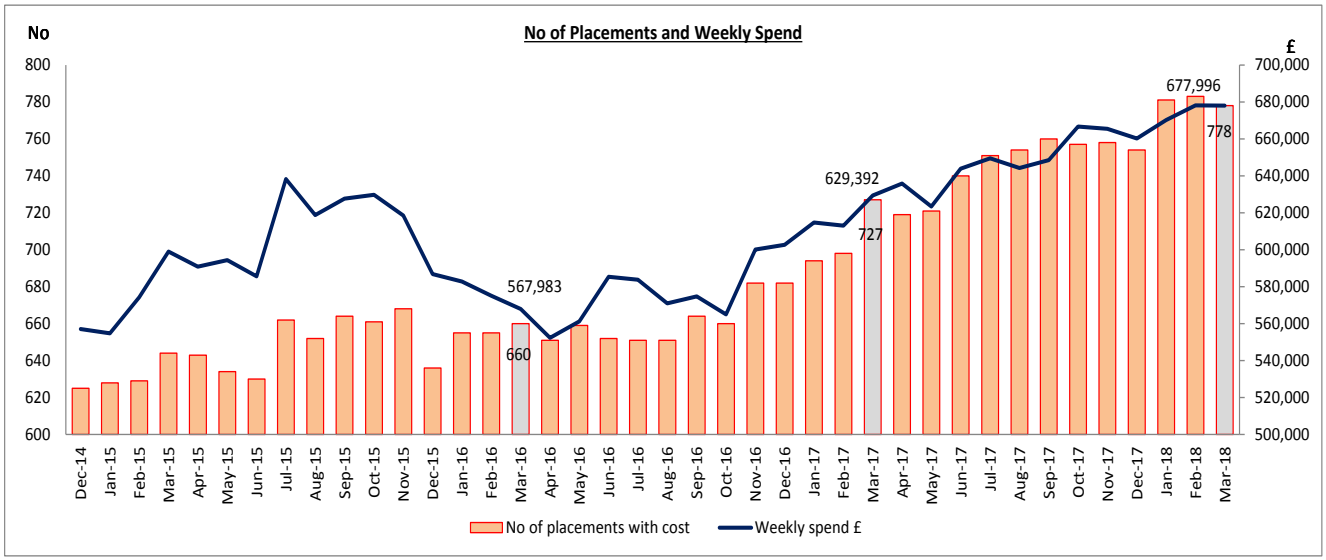
We spent £4.0 million on sexual health services in 2017/18. Over 7,500 attendances were made to sexual health clinics by Worcestershire residents during Q1-Q3 2017/18 and 99% of people contacting a sexual health provider for a genitourinary medicine service were offered an STI screen appointment or walk-in within 48 hours. 24% of new attendances were diagnosed with an STI and treated and 3,463 women (36%) accessing emergency contraception were offered long acting reversible contraceptives. In June we launched a new online sexual health infection testing service. This provided 2,231 testing kits to Worcestershire residents, of which 70.3% were returned, and 90.9% of results were reported back within 48 hours.



Children, Families and Communities

In Children's social care, following the Ofsted inspection, we have experienced additional social care demand for placements which has resulted in spend above budget by £7.6 million.

As the following graph shows the County Council has experienced a sharp rise in both the number of social care placements and the cost per week of those placements giving rise to the increased costs. The cost is largely due to the high cost of residential care in and out of County.



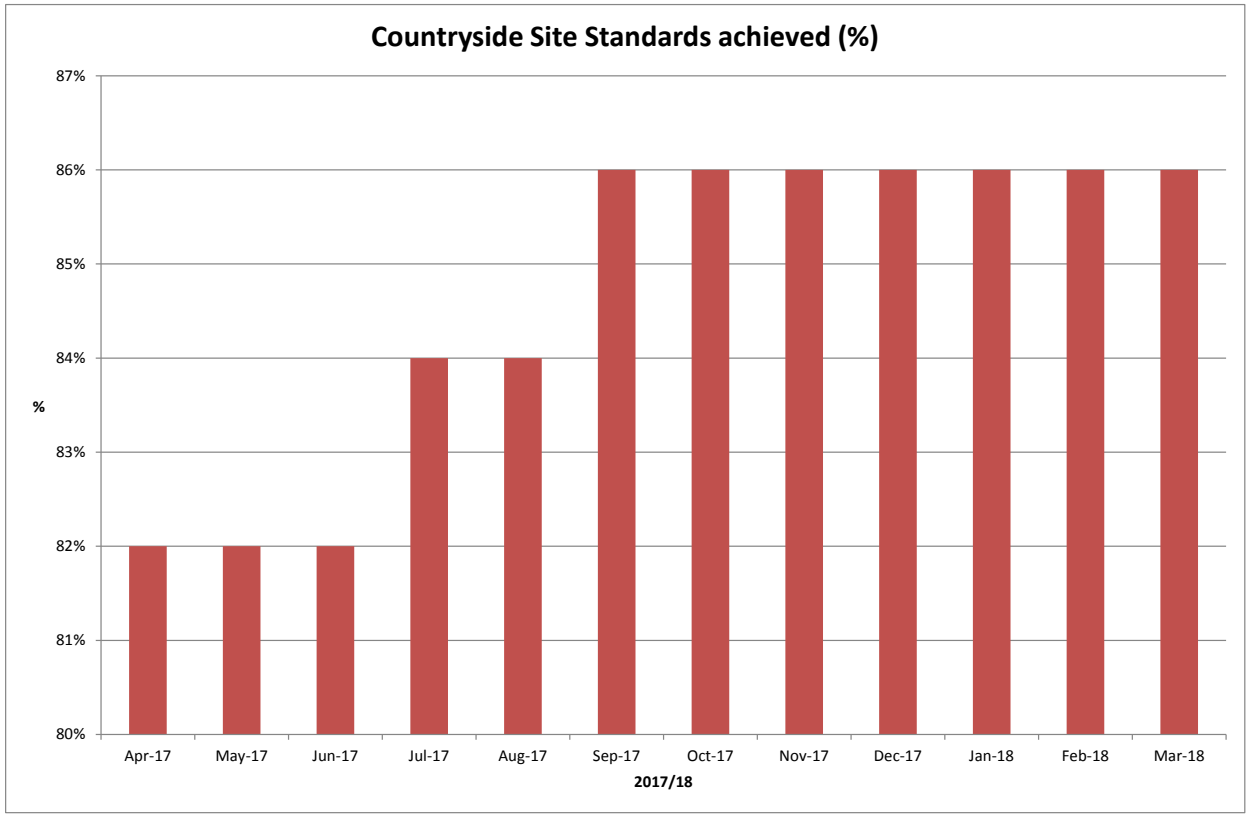
At the same time the County Council has needed to increase its workforce to manage the additional demand and case load per social care worker. Whilst good progress is being made with this goal, in 2017/18 there was an overspend of £0.6 million on agency staff.

These areas of pressure have been reported throughout 2017/18 and the budget setting for 2018/19 has invested an additional £10.5 million into these areas.

Social work recruitment, encouraging more people to become foster carers and maintaining children in the wider family environment where it is safe to do so continue to be priorities for the County Council. The County Council continues to work with the Children's Commissioner, our improvement partner and the Department for Education to improve Children's Services.

Demand increases have also been seen for children with Special Educational Needs and Disabilities (SEND). The financial impact of this is being seen not only in the cost of their placements which is funded through the DSG but also relating to transportation costs.

The locally agreed standards for countryside (including health and safety issues, cleanliness, presence of litter, signs and notices, trails and suitability of play areas) have again increased.



Economy and Infrastructure

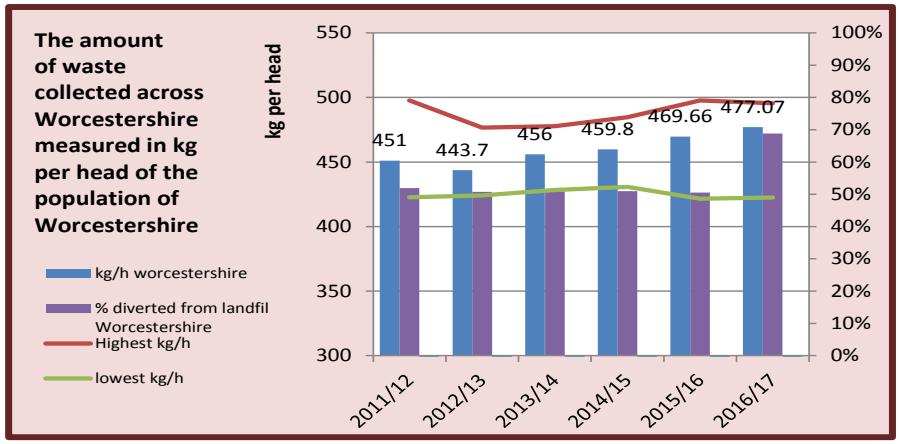
Services supporting local communities, environment, waste disposal and highways also faced pressures in 2017/18 but broadly broke even, and after capitalisation and applying government grants returned a surplus.

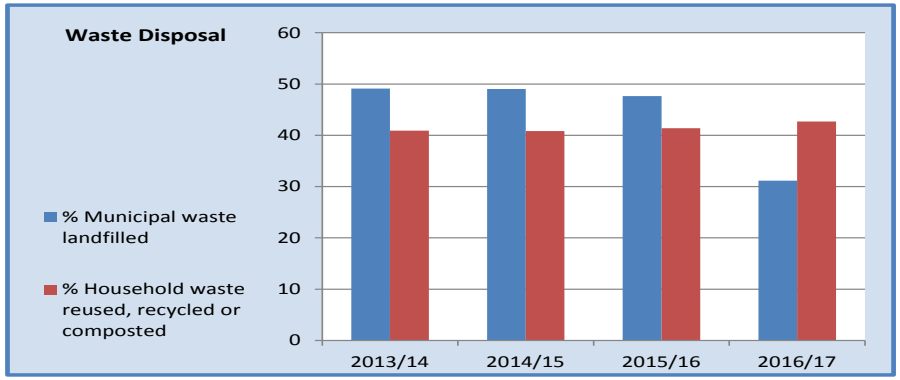
There has been a focus on ensuring potholes reported are fixed on time.

We spent £13.4 million on maintaining our highways, filling over 27,000 potholes and resurfacing over 150 miles of road

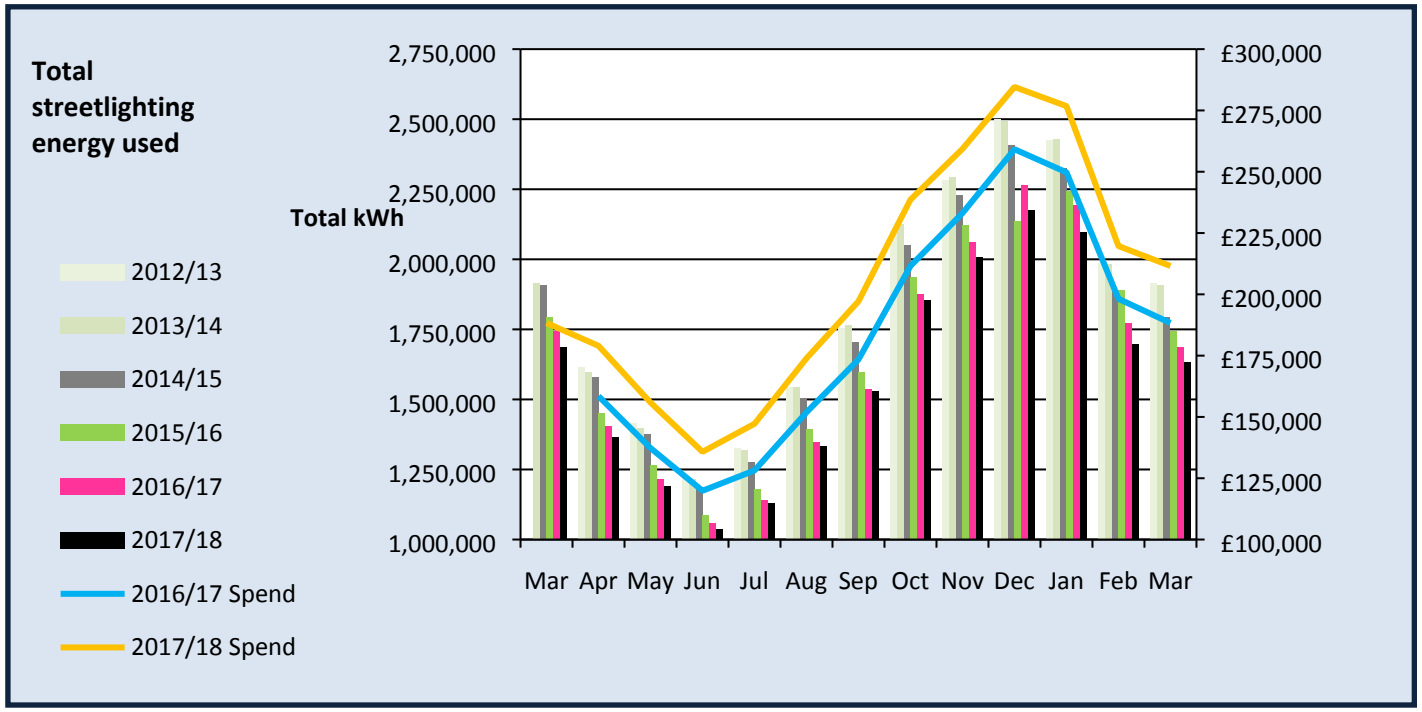
We invested over £84 million of our capital programme to improving our transport network, on schemes such as Bromsgrove Station and the Southern Link Road. As well as £3.5 million investing in employment through sites such as Malvern Hills Science Park and Worcester Six business parks

We spend £30 million per annum disposing of the County's waste. In 2017/18 waste disposal services reported a small overspend, reflecting a rise in the amount of waste collected and an increase in the tonnage of waste recycled and diverted from landfill.





Street lighting continues to be a significant cost to the County Council, with various cost saving initiatives in progress to mitigate the rising unit costs and usage, we have started to see reduced usage, although unit costs continue to increase due to the price rises.



Commercial and Change

The corporate support services, such as IT, HR, legal and finance, delivered a small underspend. This was planned to address some of the pressures forecast in year.

Looking ahead and going concern

Funding

The County Council has a Medium Term Financial Plan (MTFP) which considers funding and expenditure over a 3 year period, and updated annually as part of the budget process. The 2018/19 MTFP was approved at February Council and reflects financial challenges including changes to our funding profile.

£m	2018/19	2019/20	2020/21
Total funding available	324.2	327.1	338.1
Less service costs based on 2018/19 budget	355.8	346.7	352.1
Sub-total	**31.6**	**19.6**	**14.0**
Reform plans developed	31.6	8.1	2.2
Funding Gap	**0**	**11.5**	**11.8**

Service costs have been developed in line with continued delivery of our priorities and objectives. The following factors have also been considered:

- Demographic growth and demand pressures. A number of our budgets are demand led and projections reflect current forecasts in demographic growth, volumes of waste disposed of and the related impact of service provision.
- Adult Services future cost pressures, including:
    - Increasing numbers of people eligible for social care and growing complexity in the level of care required
    - Recruitment challenges, particularly for nursing care within care home providers
    - Cost pressures across our contracts, including the national living wage and sleep in payments
    - An increase in the number of older care recipients who have previously self-funded their care but no longer have sufficient income to do this.
- Children's Services Safeguarding Improvement and Financial Recovery Plans. Additional resource has been allocated to support the growing number of looked after children and the increased complexity of care required.
- Alternative Delivery Model for Children's Services. Following the outcome of Ofsted inspections, we are looking at alternative ways of delivering Children's Social Care through a wholly owned company, as agreed by Cabinet in March 2018. The transition to, and operation of, this new model may mean additional costs.
- Forecast rates for inflation, including pay increases for staff, reflecting the impact of National Living Wage increases and other factors.

The MTFP reflects changes to Central Government funding streams, and the known income projections:

- Council tax increases of 2.94% in 2019/20 and 1.94% in 2020/21. These increases will be finalised as part of the annual budget process
- Increases in council tax yield of around 1% per year due to forecast growth in house-building
- A reduction in Revenue Support Grant to zero in 2019/20 in line with Central Government notification

- Planning assumptions around the level of Better Care Funding which will be available to support existing services.

- The Business Rates Retention Scheme reflects the transfer of the 50% share of risk of negative changes in existing business rates from Central Government to local authorities and our ability to keep up to 50% of local growth.

Work continues to confirm future reform plans as part of our Corporate Strategic Planning process to address the cumulative underlying funding gap.

Spending plans

Our key spending plans continue to reflect the County Council's core priorities as stated in the Corporate Plan and informed by consultation with residents, businesses and partners. Key investments for 2018/19 include:

Open for Business

Significant capital investment is planned to deliver the Worcester Southern Link Road Phase 4, Pershore Northern Link and Infrastructure, Bromsgrove Town Centre Network and Worcester City Centre Network Efficiency, alongside continuing to support our economic game changer sites.

Children & Families

A further £10.5 million has been allocated to support the growing number of looked after children and the increased complexity of need within the care system. This investment is consistent with the challenges facing a number of local authorities following the County Council's Ofsted review and judgement.

Health & Wellbeing

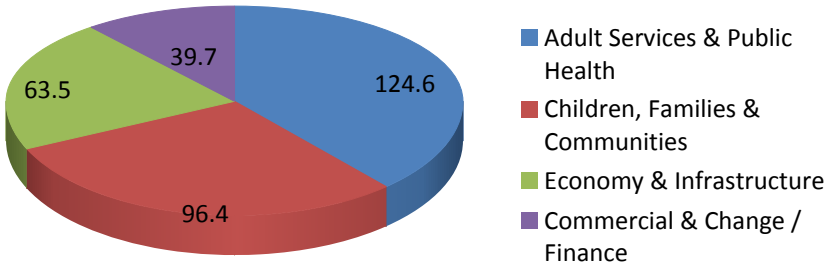
Investment of £7.8 million has been made to the Adult Social Care budget in response to the demographic growth and increasing complexity of supporting vulnerable older people and adults with disabilities, support for social care assessments in response to Deprivation of Liberty Standards and the likely impact of inflation.

The Environment

We are establishing a capital Highways Investment Fund of £37.5 million providing flexibility across a three year period to support the delivery of transport infrastructure priorities, investment in roads and pavements and improving journey times.

In setting the 2018/19 Budget we have reviewed the 2017/18 forecast outturn position and our Business Plan to reprioritise funding to some of the areas facing the largest pressures, including £10.5 million to support the growing number of looked after children and the increased complexity of need within the care system and £7.8 million invested in Adult Social Care in response to the demographic growth and increasing complexity of supporting vulnerable older people and adults with disabilities, support for social care assessments in response to Deprivation of Liberty Standards and the likely impact of inflation. This growth forms part of the final allocation alongside inflationary increases and savings plans.

Service budgets for 2018/19 are as follows (£m):



Financial Sustainability

Whilst it is important to recognise that the County Council is managed on a going concern basis, with statutory protection and local tax raising powers, there are a number of financial risks around central government funding and local demand for services. There are also opportunities through being able to keep more of the business rates locally that are generated in Worcestershire.

In February 2018 the County Council set a robust and balanced budget for 2018/19 without the need to withdraw significantly from reserves to fund recurring expenditure. This assessment was made in the knowledge that there are managed risks regarding demand and inflation, particularly around Children's Social Care and unforeseen risks such as flooding.

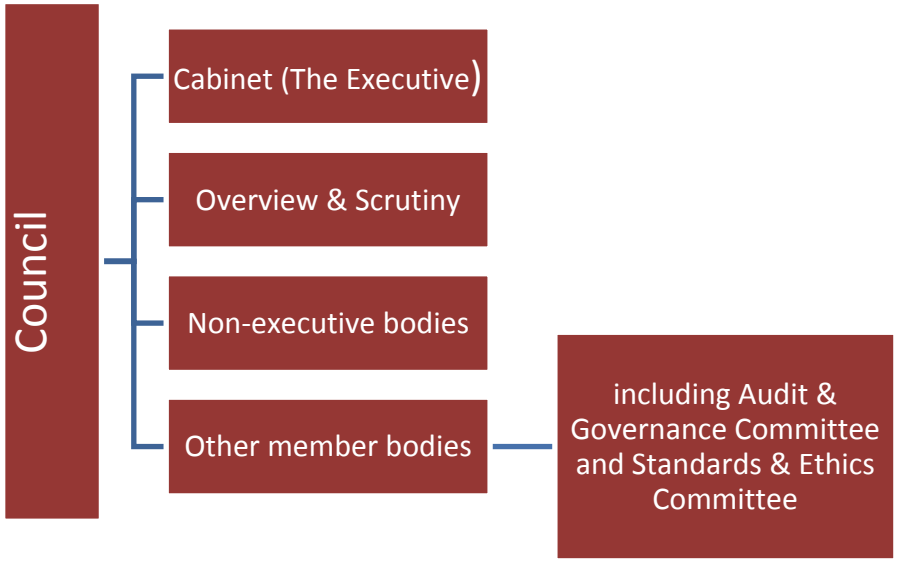
The Medium Term Financial Plan, approved by Council in February 2018, covers the period to 2020/21 and whilst it reports a financial planning gap of £65.2 million, the County Council has plans in place to deliver £41.9 million of savings. Plans to achieve the remaining £23.3 million savings will be worked on through 2018 as part of the 2019/20 budget process.

Taking all this into account the County Council's financial sustainability is robust and backed by earmarked reserves and general balances.

Governance

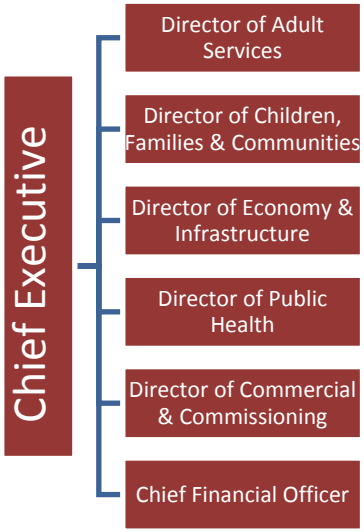
The County Council is run by 57 elected Councillors who are responsible for making sure that the services we provide meet the needs of residents and those who work in the county. They do this by setting the overall policies and strategies for the County Council and by monitoring the way in which these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

Full Council meetings are held regularly throughout the year. Council is responsible for agreeing the main policies and priorities for all services, including the County Council's budget. Cabinet is responsible for most day to day Council decisions. The Leader of the Council, Simon Geraghty, appoints councillors to the Cabinet and these Cabinet members have specific areas of responsibility. There are currently ten members of Cabinet. Cabinet makes its decisions in line with overall policies, priorities and budget. All of its decisions are made in accordance with governance arrangements and details of Cabinet meetings are available at the following: Browse meetings - Cabinet - Worcestershire County Council The work of Council is supported by a number of other committees:



Further information about the County Council's governance arrangements can be found on the County Council website www.worcestershire.gov.uk., in the Council, Democracy and Councillor Information section.

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



During 2017/18 there were several changes to the County Council's senior management following a number of officers securing other roles. As such at the start of 2018 the County Council recruited a new Chief Executive, Chief Financial Officer and Director of Commercial and Commissioning; as well as appointing a Director of Adult Services on a 12 month contract.

In line with public sector reporting requirements, the Statement of Accounts sets out the remuneration for all officers earning over £50,000, including teachers in maintained schools, in note 9.1. The remuneration for the County Council's senior management team in 2017/18 is set out in note 9.2.

Risk management and Governance

The County Council monitors and reports its risks throughout the year, as well as producing an Annual Governance Statement within the Accounts. The key risks considered and managed throughout 2017/18 were regularly reported to the Audit and Governance Committee. These included:

1. **Sustainable Improvement in Children's Services** – a Service Improvement Plan was put in place in early 2017 and has been regularly monitored and reviewed since then. Progress has been recognised in a series of Ofsted monitoring visits. There is now an agreement to establish an Alternative Delivery Model (ADM) from April 2019, and this risk will continue to be a high priority and managed risk in 2018/19.
2. **Home to School Transport** – work took place to review the reporting and monitoring of activity information to ensure that it was as robust as possible. As a result of this work the level of financial risk was reduced. This no longer remains a governance issue.
3. **Migration of Human Resources and Finance Systems** – there were a number of issues with the migration to the new HR and Finance systems. Recovery plans were put in place and the position improved significantly during the course of the year. An independent review was carried out by the Society of IT Managers (SOCITM) who made several recommendations. There remain some residual issues which are impacting on business of the County Council and which will be worked on through 2018/19.
4. **Ensuring delivery of the County Council's vision and corporate objectives, in line with the Medium Term Financial Plan** – the County Council has set a balanced budget for 2018/19. The delivery savings within this plan will continue to be a focus in 2018/19.

The Annual Governance Statement (AGS) looks out how we:

1. Behave with integrity, demonstrating strong commitment to ethical values, and representing the rule of law
2. Ensure Openness, Transparency and Comprehensive Stakeholder Engagement – delivering Accountability
3. Define Outcomes in terms of Sustainable Economic, Social and Environmental Benefits
4. Determine the Interventions necessary to optimise the achievement of intended outcomes
5. Develop capacity, including the capacity of the County Council's leadership and the individuals within it
6. Manage risks and performance through robust internal controls and strong public financial management.

The Statement identifies that overall the County Council is well governed. The County Council's Internal Auditors gave an "adequate" opinion to cover our control environment, with no significant matters raised. The AGS identifies a number of areas for improvement, including the review of the inter-relationship between key policies to improve clarity of processes around areas such as anti-fraud and corruption, whistle blowing and registering gifts and interests.

Introduction to the Statutory Accounts

The Statutory Accounts presents Worcestershire County Council's (the County Council) and Worcestershire County Council Pension Fund's (the Pension Fund) financial position in line with financial reporting requirements. The accounts are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (the Code) and the Accounts and Audit Regulations 2015. The main objective of the Code is to give a true and fair view of the financial position of the County Council and the Pension Fund, including information about financial position, performance, the results of stewardship of management and any risks and uncertainties.

The main sections of the County Council's accounts are:

Statement of Responsibilities

This details the respective responsibilities of the County Council and the Chief Financial Officer in respect of the preparation of the Statement of Accounts and confirms that the Accounts give a true and fair view of the financial position of the County Council.

The Annual Governance Statement

This summarises the systems, processes, cultures and values by which we direct and control the activities of the County Council and any weaknesses or gaps in governance with related action plans.

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.

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.

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.

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 considered to be material. The notes include the accounting policies statement which explains the accounting basis for the figures included in the accounts.

Glossary

This gives an explanation of key technical language used in the County Council and Pension Fund Accounts.

Feedback

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

Next steps and External audit

The next step is for the Statement of Accounts to be subject to external audit by Grant Thornton, our appointed auditors. Members of the public can ask questions of our auditors between 18 May 2018 and 29 June 2018 by contacting Grant Thornton care of:

John Gregory
Director
Grant Thornton UK LLP
0121 212 4000
john.gregory@uk.gt.com

The inspection notice and draft statement of accounts can be found on our webpage:

Audit of Accounts - Notice of Public Rights | Worcestershire County Council

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 18 May 2018. All known material events that have occurred up to and including this date which relate to 2017/18 or before have been reflected in the accounts.

In accordance with Regulation 9(1) of the Accounts and Audit Regulations 2016 I certify that the Statement of Accounts 2017/18 provides a true and fair view of the financial position of the County Council at 31 March 2018 and its income and expenditure for the year 2017/18.

Michael Hudson, Chief Financial Officer

In accordance with Regulation 9(2) b of the Accounts and Audit Regulations 2016 I certify that the Audit & Governance Committee approved the Statement of Accounts 2017/18 on tbc.

Nathan Desmond, Chairman of the Audit & Governance Committee

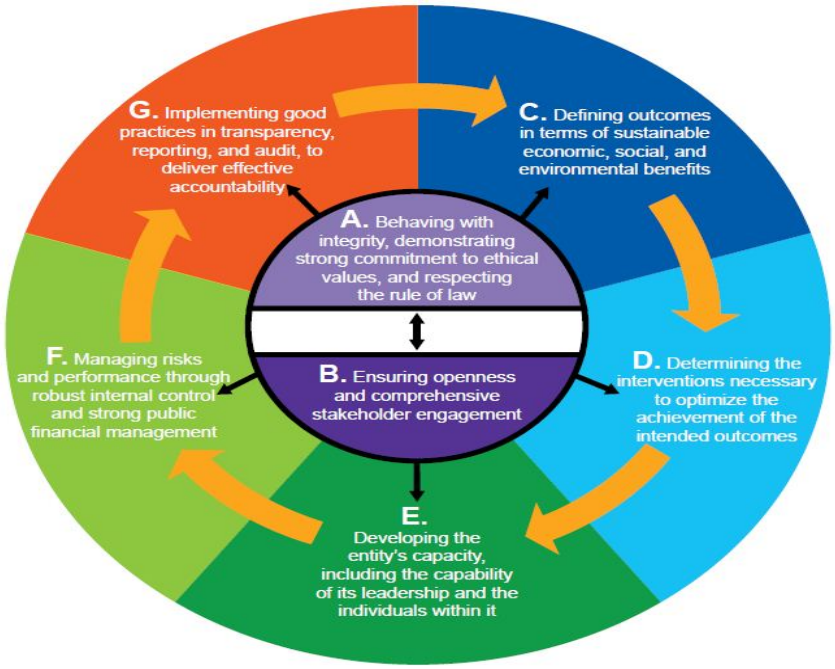
Worcestershire County Council Annual Governance Statement

1. Introduction

Worcestershire County Council provides key services to over half a million residents, and our role is to improve Worcestershire as a place and help people to find the solutions they require to the problems they face. We are responsible for ensuring that our business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively.

Each year the County Council reviews its governance arrangements and we publish an Annual Governance Statement, in accordance with the CIPFA/SoLACE Delivering Good Governance in Local Government Framework (2016) (The Framework). This review gives assurance that:

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



2. The governance framework

The CIPFA/SoLACE governance framework comprises systems and processes for the direction and control of the County Council and its activities through which it accounts to, engages with and leads the community. It enables us to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

Figure 1 CIPFA's principles of good governance in the public sector

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of

effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the County Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised, and to manage them efficiently, effectively and economically.

The County Council has approved the requirements of the CIPFA/SoLACE Delivering Good Governance in Local Government Framework 2016, and a number of specific strategies and processes for strengthening corporate governance such as the Balanced Scorecard.

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

Set out below are the activities carried out by the County Council which contribute to our delivery of the seven principles in the CIPFA/SoLACE Framework during 2017/18.

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

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

These include:

- Code of conduct for officers and members (including gifts and hospitality, registering interests, anti-fraud and whistleblowing);
- The inclusion of ethical values in policies and procedures for all areas including procurement and partnership working
- Complaints Procedure to ensure that all complaints are investigated properly and are responded to as quickly as possible.
- A commitment to equality of opportunity for all citizens that celebrates the diversity of all residents. This is integral to everything we do including policy development, service delivery and partnership working to ensure we meet the Public Sector Duty as set out in the Equality Act 2010 and that we do not unlawfully discriminate with services we deliver.
- Our Constitution sets out the conditions to ensure that all officers, key post holders and members are able to fulfil their responsibilities in accordance with legislative requirements so that we are efficient, transparent, accountable to our residents and compliant with the law. Roles and responsibilities for individual Members, the Council, Cabinet and senior officers, along with the delegation of statutory powers and executive functions, and protocols on member / officer relations are documented.

Core Principle B: Ensuring openness and comprehensive stakeholder engagement

The Chief Executive and Strategic Leadership Team very much value and are committed to acting on staff feedback. The County Council has an annual staff survey and Staff Involvement sessions, the results of which are shared and staff are involved in issue resolution arrangements.

Throughout 2017/18 the County Council's "Have Your Say" Roadshows have enabled Worcestershire County Councillors and Officers to actively engage with members of the local community. Feedback from these sessions helps to inform the council's four corporate priorities: supporting Children and families, promoting Health and Well Being, protecting the Environment and championing Open for Business.

We are registered as a data controller under the Data Protection Act as we collect and process personal information. We have procedures in place that explain how we use and share information and

arrangements for members of the public to access information. We have also adopted the model publication scheme produced by the Information Commissioner's Office.

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

We are aiming to become a financially self-sufficient Council. To achieve this aim, we will promote and support businesses in the County, businesses looking to relocate to the county and those businesses we work closely with.

We hold four key priorities that will help us shape the future vision for Worcestershire

Open for Business

It is an exciting time to be doing business within Worcestershire with major current and future planned improvements in workforce skills, employment, infrastructure and productivity.

With a strong focus on improving outcomes for the children, young people and families of Worcestershire we have enabled 90% of our schools to achieve a good or outstanding rating by Ofsted, with 70% of young people achieving five or more good GCSE's and facilitated an increase in the number of young people moving successfully into employment. However, we will strive for continuous improvements in these areas and our providers are key in achieving this.

Children & Families

Worcestershire's environment is one of our key features and is crucial to the success of Worcestershire's tourism economy, whilst also providing an attractive place to invest for business. We have a strong commitment to improve our transport networks and this will require equal commitment from local innovative companies.

The Environment

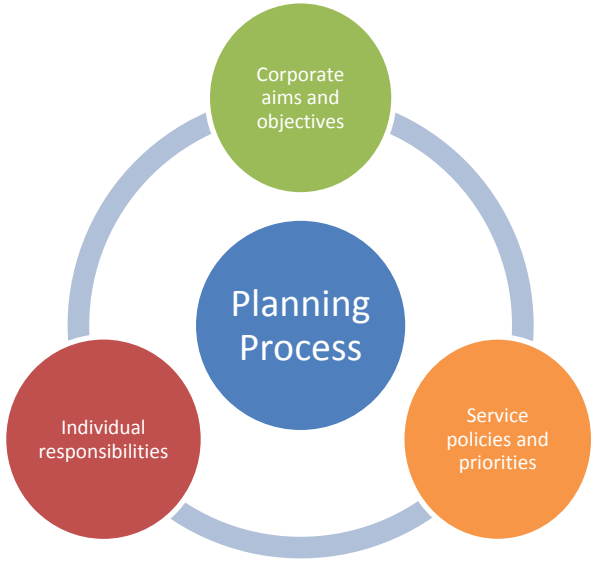
By working with local partners we can ensure that the residents of Worcestershire are healthier, live longer, have better quality of life and remain independent for as long as possible. In order to achieve this, we must ensure that we are working with good quality care providers with a strong focus on outcomes, not just outputs.

Health & Wellbeing

All Services have plans in place which correlate with the budget approved by the County Council and the key outcomes contained in the Corporate Plan. Management of these plans varies by service, but includes key performance indicators, ongoing outcome monitoring and reports to management teams and committees as appropriate

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

The County Council's planning process works to link all elements of delivery.



The Corporate Plan – Shaping Worcestershire's Future, 2017 – 2022, is a single document setting out the County Council's vision and overall strategic direction.

Against each key area of focus the Plan identifies a number of key aims and targets, which are managed through the Balanced Scorecard. Responsibility for achieving these lies with individual directorates, and relevant aims and targets are included in individual service delivery plans.

Progress against the Corporate Plan - Shaping Worcestershire's Future is monitored and reported to councillors on a regular basis.

Updates take account of achievements against the Plan and any new information that needs to be included.

Statutory plans, as prescribed by Central Government, and Service Delivery Plans, which cover areas of service not covered by statutory plans, provide strategic direction and contain aims and objectives for individual services.

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

Our vision is to drive change, develop talent and optimise potential. Our role as managers and leaders is to identify, develop, motivate and retain the talent potential within the workforce to allow it to be future fit. We believe that by reviewing the talent and potential of our workforce we will better understand and identify the potential we can develop over the coming years

Our Corporate Plan "Shaping Worcestershire's Future" builds on the following key theme identified within the 2015 Future Fit Corporate Plan:

"Investing in and growing the talent within our organisation at the same time as dealing with poor performance to ensure we continue to have a workforce that is fit for the future".

We believe that by reviewing the talent and potential of our workforce we will better understand and identify the potential we can develop over the coming years. By establishing clearer and longer term workforce requirements and priorities, talent strategies can be developed to address supply vs demand.

Staff development is a crucial component of the Talent Management Programme. Development and support opportunities have been designed to enable individual employees to become "the best they can be" and help prepare them for emerging opportunities whether as a future manager or leader, senior manager, Head of Service or Director.

As a County Council, our main goal is for people to feel that Worcestershire is a fantastic place in which to live and work and making that a reality.

So an essential part of what we do is to listen to our residents – communities, service users and businesses – and act upon what they tell us is important to them.

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

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

This philosophy and way of working has shaped our aspirational and ambitious Corporate Plan, which is based on feedback from some of the most far-reaching consultations we have ever carried out.

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

Risk management is about the identification, analysis and control of threats or events that adversely affect the achievement of the County Council's strategic and operational objectives. It is also the successful management of the controlled environment in which the decision making process is undertaken, such that positive risks are taken in order to innovate and improve service provision. The Risk Management Strategy details the methodology for evaluating corporate risk management arrangements.

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's Money Laundering Strategy was approved for 2017/18. Having considered all the principles, we are satisfied that the organisation has adopted a response that is appropriate for its fraud and corruption risks and commits to maintain its vigilance to tackle fraud and corruption risks and commits to maintain its vigilance to tackle fraud.

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

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

We endeavour to always be open and transparent. We have a forward plan which provides information about all of the decisions that the County Council has scheduled. Formal agendas, 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.

Overview and Scrutiny Panels act as a critical friend and hold Cabinet to account for its decisions. The terms of reference for all Overview and Scrutiny Panels are defined in the Constitution.

The Audit and Governance Committee has oversight of internal and external audit matters, the council's arrangements for corporate governance and risk management and any other arrangements for the maintenance of probity.

Each year we publish information on our website outlining how we spend the County Council's budget

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. The County Council's internal audit service is provided by Warwickshire County Council whose Internal Audit and Insurance Manager is designated as the Head of Internal Audit and has regular formal

meetings with the directors and Chief Financial Officer. Following last year's self-assessment against the PSIAS, an External Quality Assessment of the Internal Audit shared service was completed in February 2018 resulting in positive feedback on the quality of internal audit provided to its clients.

Political structure

The County Council has adopted a Leader and Cabinet executive governance model. The executive consists of the Leader of the County Council and other appointed councillors and is described as the Cabinet. The Cabinet is responsible for most day to day County Council decisions. Cabinet makes decisions in line with the overall policies, priorities and budget set by the County Council. Political decisions on executive functions are generally taken by the Cabinet collectively. No individual members of the Cabinet have (as yet) standing general delegated powers to make formal decisions within their portfolio on behalf of the Cabinet, but an increasing number are being given specific delegated powers by the leader or Cabinet on particular topics. Cabinet also considers and responds to reports and recommendations from the Overview and Scrutiny Performance Board.

Cabinet members have specific areas of responsibility:

- Finance;
- Environment;
- Communities;
- Children and Families;
- Education and Skills
- Economy and Infrastructure;
- Adult Social Care;
- Health and Well-being;
- Highways;
- Transformation and Commissioning

The full Council comprises all elected members and is responsible for agreeing the overall Policy Framework for all services, including the County Council budget. The Council also elects the Leader of the County Council and establishes the other (non-executive) committees and panels of the Council. The Chief Executive, Head of Legal & Democratic Services and the Chief Financial Officer can also submit reports to the full Council.

The Overview and Scrutiny Performance Board is made up of eight Councillors who are not on the Cabinet, plus two Church Representatives and two Parent Governor Representative (for Education matters). Its main role is to assist in policy development, scrutinise the work of the County Council and agree the scrutiny programme for endorsement by full Council. The Board will commission scrutiny through itself, the Scrutiny Panels or time-limited Scrutiny Task Groups.

The Audit and Governance Committee supports effective corporate governance and gives assurance to the County Council and the public on financial and performance issues, risk management and other relevant controls. The Audit and Governance Committee considers and approves the annual statement of accounts and the annual governance statement on behalf of the County Council, considers the audit plans of both internal and external auditors and comments on their reports.

Members are covered by a Code of Conduct that sets out the rules governing their behaviour. The Code covers areas of individual behaviour, disclosure of interests and withdrawal from meetings where Members have relevant interests. The Standards & Ethics Committee promotes and maintains high standards of conduct by Members, and can adjudicate on relevant complaints. Members register their Disclosable Pecuniary Interests and all Declarations of Interest are recorded.

3. Review of Effectiveness

The effectiveness of the governance framework is informed by assurances provided by Directors and the Chief Financial Officer within the County Council who have responsibility for the development and maintenance of the internal control environment, the comments made by the external auditors and other review agencies and inspectorates and also the work of the internal auditors. This process is delivered as part of the Corporate Risk Management Strategy.

Each directorate has a risk register which records major risks and assesses the potential impact of those risks. Registers are reviewed and updated during the year to reflect changes in risk. Operational controls are used on a day-to-day basis to control the delivery of services, none of which disclosed any significant weaknesses in control during the year.

Statutory duties placed upon the Monitoring Officer and the Chief Financial Officer require them to draw to Members' attention improper practices or financial imprudence. The Audit and Governance Committee receive reports on those audits that result in a limited opinion. In 2017/18 two audits, Direct Payments (Adults) and Accounts Payable, were given limited assurance and it is anticipated that three further reports (Bank Reconciliation, Financial Systems Access Control and Accounts Receivable) will also be issued as limited reports. In addition during 2017/8 the Committee received reports on three limited opinion audits, (Malvern Link & Foregate Street Station, Bromsgrove Rail and Cash Handling at Adult Social Care Establishments), relating to audits undertaken in 2016/7 but which were not finalised until 2017/8. Actions are being taken to address weaknesses identified and implementation of new financial systems has been identified as a significant governance issue in both 2016/7 and 2017/8.

The review of governance, risk and control arrangements by the internal audit section is continuous. The implementation of new financial and HR payroll systems has caused some issues with financial monitoring, particularly during the first quarter of the year, however regular budget monitoring reports have been presented during the year and have confirmed that expenditure is within the County Council's cash limits.

The County Council has contractual arrangements to govern its relationship with the majority of the organisations with which it deals. These arrangements are reviewed and managed by contract managers and directorate management teams.

4. Significant Governance Issues

Issues identified as a result of our review process are detailed below, including an update on progress for issues raised in 2016/17.

Update on progress for issues raised in 2016/17:

1) **Sustainable Improvement in Children's Services**
   A Service Improvement Plan was put in place in early 2017 and has been regularly monitored and reviewed since then. Progress has been recognised in the series of Ofsted monitoring visits that took place during the year. The plan has been reviewed and updated for 2018 with a set of focused work programs to support it. Whilst this remains a risk (see following section), there is now agreement to establish an Alternative Delivery Model (ADM) from April 2019.
   This remains a governance issue for 2018/19.

2) **Home to School Transport**
Work took place to review the reporting and monitoring of activity information to ensure that it was as robust as possible. As a result of this work the level of financial risk was reduced. This will be kept under active review to ensure that the position is maintained.
This no longer remains a governance issue as the level of risk has reduced.

3) **Migration of Human Resources and Finance Systems**
There were a number of issues with the migration to the new HR and Finance systems. Recovery plans were put in place and the position improved significantly during the course of the year. An independent review was carried out by The Society of IT Managers (SOCITIM) who made several recommendations. There remain some residual issues which are impacting on business of the County Council and which will be worked through.
This therefore remains a governance issue for 2018/19.

4) **Ensuring delivery of the County Council's vision and corporate objectives, in line with the Medium Term Financial Plan**
The County Council has achieved a balanced budget for 2017/18. As is often the case not all planned savings have been achieved. Some alternative savings have been found and use has been made of reserves. The County Council's budget planning process for 2018/19 has involved review and challenge of continuing planned savings and has set a balanced budget.
Given the scale of funding reduction facing local government this remains a governance issue going into 2018/19.

Whilst these four areas have not impacted on the County Council's overall control environment in 2017/18, further development continues to ensure the County Council is able to strengthen the effectiveness of its control environment in these areas.

2017/18 issues flowing into 2018/19 identified as a result of our review process:

The County Council seeks to continuously enhance its management arrangements to improve service delivery, efficiency and value for money, whilst achieving its objectives.

The review of effectiveness has informed identification of the following key challenges, along with the actions taken / proposed to take to detail with these issues:

1. **Sustainable improvement in Children's Services.**
As noted in the 2016/17 AGS the response to the statutory improvement notice in Children's Services remains live. An improvement plan and plans to establish an alternative delivery model are well underway with regular programme monitoring and independent checking. It is envisaged that this will thus remain a key risk for the County Council to address in 2018/19, although at this stage response is being well managed and mitigations are in place. As is being seen in most councils across the country, demand pressures within children's social care continue to be a risk for the County Council due to the rise in numbers of children looked after and the complexity of need within the looked after children population.
Children's Services will also be responding to the outcomes of the 2017/18 Special Educational Needs and Disabilities (SEND) inspection.

2. **Migration of Human Resources and Finance System.**
Implementation of the Independent review actions recommended by SOCITM are well progressed. Whilst 2017/18 saw responses to immediate issues following Go Live of the General Ledger system (E5) and HR system (iTrent), the longer term issues are being addressed. The County Council is now in a period of improvement and transformation with its partner (Liberata), and progress is being monitored regularly by the County Council's Audit and Governance Committee.

3. **Ensuring delivery of the County Council's vision and corporate objectives, in line with the Medium Term Financial Plan**.

The County Council has set a balanced budget for 2018/19 as well as an indicative longer term financial plan. However, at this time there is considerable uncertainty over the funding for local government. It is expected that over the summer of 2018 there will be further clarity and the County Council will need to respond accordingly. As such this potential risk needs continual review and councillors will be kept abreast of progress in delivering the 2018/19 budget and the funding position for future years through Cabinet monitoring reports in 2018/19. In addition, following a review by Overview and Scrutiny of a CIPFA resilience review officers will be working closely with councillors to ensure greater engagement in the budget setting process. In addition to this the County Council's maintained school's balances have again reduced and with the changes in funding formula this is an area of potential risk that requires further review.

4. **Adult Social care - Operational Pressures**
   The local health and social care economy is under considerable demand pressure. As well as financial implications this is seen in particular pressure points such as delayed transfers of care from hospitals and lack of capacity in specific sectors of the care market. The County Council is actively working with its partners in the Health and Independent Sectors.

5. **Staff capacity, recruitment and retention**: The County Council has undergone a significant change in its Senior Leadership Team over the last six months. There will inevitably be a period of settling and challenge which may lead to further changes. The risk of staff retention and workforce planning thus needs to be considered and mitigated as appropriate during the next 12 to 18 months as part of any change programme to ensure the right capacity is maintained and staff development is maximised.
   Staff capacity may be impacted by national health issues such as Human Pandemic Flu. Epidemiological modelling suggests that an outbreak is possible at any time and its impact is likely to be severe.

5. Certification

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

Paul Robinson
Chief Executive

Simon Geraghty
Leader of the County Council

Date:

Date:

Worcestershire County Council Statement of Accounts

Comprehensive Income and Expenditure Statement

2016/17 Expenditure £m	2016/17 Income £m	2016/17 Net £m		2017/18 Expenditure £m	2017/18 Income £m	2017/18 Net £m	Note
			Service Expenditure Analysis				
189.0	(52.4)	136.6	Adult Services	200.8	(66.3)	134.5	
380.6	(281.7)	98.9	Children, Families and Communities	385.0	(263.8)	121.2	
120.1	(27.1)	93.0	Economy and Infrastructure	112.6	(29.5)	83.1	
38.9	(18.6)	20.3	Commercial and Change, Finance & Chief Executive	37.1	(9.4)	27.7	
33.0	(31.2)	1.8	Public Health	29.4	(30.4)	(1.0)	
761.6	**(411.0)**	**350.6**	**Net Cost of Services**	**764.9**	**(399.4)**	**365.5**	
6.2	(1.5)	4.7	Other operating expenditure	5.5	(0.1)	5.4	13
84.5	(33.0)	51.5	Financing, investment income & expenditure	86.2	(30.9)	55.3	14
	(378.1)	(378.1)	Taxation & non-specific grant income and expenditure	0.2	(362.0)	(361.8)	15
852.3	**(823.6)**	**28.7**	**(Surplus) / deficit on the provision of services**	**877.2**	**(812.8)**	**64.4**	1
			Other comprehensive income and expenditure:				
(18.6)		(18.6)	(Surplus) on revaluation of property, plant & equipment			(122.2)	18.3
4.1		4.1	Impairment losses on non-current assets charged to Revaluation Reserve			15.2	18.3
54.3		54.3	Actuarial (gains) / losses on pension assets & liabilities			(60.5)	28.1
		39.8	**Total other comprehensive income and expenditure**			**(167.5)**	
		68.5	**Total comprehensive income and expenditure (surplus)/deficit**			**(103.1)**	

Movement in Reserves Statement 2017/18

	General Fund (Non Earmarked) Balance	General Fund (Earmarked) Reserves	General Fund Total	Capital Receipts Reserve	Capital Grants Unapplied Account	Total Usable Reserves	Unusable Reserves	Total Reserves
	£m	£m	£m	£m	£m	£m	£m	£m
Balance at 31 March 2017	**12.0**	**98.5**	**110.5**	**5.4**	**31.5**	**147.4**	**(99.7)**	**47.7**
Movement in reserves during 2017/18:								
Total Comprehensive Income and Expenditure	(64.5)		(64.5)			(64.5)	167.6	103.1
Adjustments between accounting basis & funding basis under regulations (Note 3)	64.7	(14.1)	50.6	(0.6)	3.4	53.4	(53.4)	
Increase / (decrease) in 2017/18	0.2	(14.1)	(13.9)	(0.6)	3.4	(11.1)	(114.2)	103.1
Balance at 31 March 2018 carried forward	**12.2**	**84.4**	**96.6**	**4.8**	**34.9**	**136.3**	**14.5**	**150.8**
Note Reference		17.1				17	18	

Movement in Reserves Statement 2016/17 Comparison

	General Fund (Non Earmarked) Balance	General Fund (Earmarked) Reserves	General Fund Total	Capital Receipts Reserve	Capital Grants Unapplied Account	Total Usable Reserves	Unusable Reserves	Total Reserves
	£m	£m	£m	£m	£m	£m	£m	£m
Balance at 31 March 2016	**13.0**	**109.0**	**122.0**	**5.1**	**30.4**	**157.5**	**(41.4)**	**116.1**
Movement in reserves during 2016/17								
Total Comprehensive Income and Expenditure	(28.7)		(28.7)			(28.7)	(39.8)	(68.5)
Adjustments between accounting basis & funding basis under regulations (Note 3)	27.7	(10.5)	17.2	0.3	1.1	18.6	(18.6)	
Increase / (Decrease) in 2016/17	(1.0)	(10.5)	(11.5)	0.3	1.1	(10.1)	(58.4)	(68.5)
Balance at 31 March 2017 carried forward	**12.0**	**98.5**	**110.5**	**5.4**	**31.5**	**147.4**	**(99.8)**	**47.7**

Balance Sheet

31 March 2017		31 March 2018	
£m		£m	Note
936.2	Property, plant and equipment	1,013.8	19.1
1.7	Heritage assets	1.4	
1.0	Intangible assets	0.6	
3.1	Long-term investments	3.1	22
122.9	Long-term debtors	122.9	23
1,064.9	**Long term assets**	**1,141.8**	
11.7	Non Operational Assets	17.0	19.5
21.0	Short-term investments	1.5	21.1
1.1	Inventories	1.0	
46.4	Short-term debtors	61.6	23
19.6	Cash and cash equivalents	15.4	24
99.8	**Current assets**	**100.3**	
(42.6)	Short-term borrowing	(78.3)	21.1
(106.0)	Short-term creditors	(75.1)	25
(0.5)	Short-term provisions		
(149.1)	**Current liabilities**	**(157.2)**	
(1.8)	Long Term Creditors	(0.3)	21.1
(0.6)	Long-term provisions	(2.7)	
(325.4)	Long-term borrowing	(366.9)	21.1
(640.1)	Other long-term liabilities	(548.1)	26
	Grants receipts in advance	(16.1)	26.1
(967.9)	**Long-term liabilities**	**(934.1)**	
47.7	**Net assets**	**150.8**	
	Financed by:		
147.4	Usable reserves	136.3	17
(99.7)	Unusable reserves	14.5	18
47.7	**Total reserves**	**150.8**	

Cash Flow Statement

2016/17 £m		2017/18 £m	Note
(28.7)	Net surplus/(deficit) on the provision of services	(64.5)	
87.1	Adjust net (surplus)/deficit for non-cash movements	29.1	
(64.7)	Adjust for items included in the net (surplus)/deficit on the provision of services that are investing and financing activities	(62.0)	
(6.3)	**Net cash flows from operating activities**	**(97.4)**	**29**
(21.5)	Net cash flows from investing activities	23.4	30
26.5	Net cash flows from financing activities	69.8	31
(1.3)	**Net increase/(decrease) in cash or cash equivalents**	**(4.2)**	
20.9	**Cash and cash equivalents at 1 April**	**19.6**	
19.6	**Cash and cash equivalents at 31 March**	**15.4**	

Notes to the Financial Statements

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

1. Expenditure and funding analysis

The objective of the Expenditure and Funding Analysis (EFA) is to demonstrate to council tax payers how the funding available to the County Council for the year (i.e. government grants, rents, council tax and business rates) has been applied in providing services in comparison with those resources consumed or earned by the County Council in accordance with generally accepted accounting practices. The EFA also shows how this expenditure is allocated for decision-making purposes between the County Council's services. Income and expenditure is presented more fully in the Comprehensive Income and Expenditure Statement

	2016/17			2017/18		
	Net Expenditure Chargeable to General Fund Balances	Adjustments between the Funding & Accounting Basis	Net Expenditure in the Comp Income and Expenditure Statement	Net Expenditure Chargeable to the General Fund Balances	Adjustments between the Funding & Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
	£m	£m	£m	£m	£m	£m
Adult Services	134.7	1.9	136.6	132.0	2.4	134.4
Children, Families & Communities	85.2	13.7	98.9	79.3	42.0	121.3
Economy& Infrastructure	66.5	26.5	93.0	47.6	35.4	83.0
Commercial & Change	35.2	(14.9)	20.3	28.7	(1.0)	27.7
Public Health	1.8		1.8	(1.1)	0.1	(1.0)
Net Cost of Services	**323.4**	**27.2**	**350.6**	**286.5**	**78.9**	**365.4**
Other Income and Expenditure	(311.9)	(10.0)	(321.9)	(272.6)	(28.4)	(301.0)
Net Deficit	**11.5**	**17.2**	**28.7**	**13.9**	**50.5**	**64.4**
Opening General Fund Balance	122.0			110.5		
Less Deficit on General Fund Balance in Year	(11.5)			(13.9)		
General Fund Balance	**110.5**			**96.6**		

	General Fund	Earmarked Reserves	Total
	£m	£m	£m
Opening General Fund Balance	**12.0**	**98.5**	**110.5**
Surplus / (deficit) on general fund balance in year	0.2	(14.2)	(13.9)
Closing General Fund Balance	**12.2**	**84.3**	**96.6**

In respect of the net revenue outturn, the County Council's 2017/18 General Fund budget and actual spend figures are in the table below:

	Original budget	Actual	Variance
	£m	£m	£m
Total General Fund (a)	**323.7**	**323.5**	**(0.2)**
Funded by:			
Council tax	(236.2)	(236.2)	0
Revenue support grant	(19.9)	(19.9)	0
Business rates retention scheme	(59.8)	(62.3)	(2.5)
Collection fund surplus	(2.6)	(2.6)	0
Contribution from earmarked reserves	(6.7)	(4.2)	2.5
Contribution to capital reserves	1.5	1.5	0
Total funding (b)	**(323.7)**	**(323.7)**	**0**
Movement on General Fund (a) + (b)	**0**	**(0.2)**	**(0.2)**

The overall underspend against the 2017/18 budget was £0.188 million which has been added to the General Fund. More details about the County Council's revenue spending on services are given in the Comprehensive Income and Expenditure Statement and subsequent notes.

2. Adjustments between funding and accounting basis 2017/18

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts

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

Adjustments between funding and accounting basis 2016/17

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes	Net Change for the Pensions Adjustments	Other Differences	Total Adjustments
	£m	£m	£m	£m
Adult Social Care	2.2	(0.3)		1.9
Children's, Families and Communities	15.1	(1.4)		13.7
Economy & Infrastructure :	26.7	(0.2)		26.5
Commercial & Change, Finance & Chief Executive	(14.0)	(0.7)	(0.2)	(14.9)
Net Cost of Services	**30.0**	**(2.6)**	**(0.2)**	**27.2**
Other Income and Expenditure from the Expenditure and Funding Analysis	(23.6)	13.6		(10.0)
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	**6.4**	**11.0**	**(0.2)**	**17.2**

3. Adjustments between accounting basis and funding basis under regulation

This note expands the information held in the Movement in Reserves Statement and details the adjustments that are made to the total comprehensive income and expenditure recognised by the County Council in year in accordance with proper accounting practice to the resources that are specified by the statutory provisions as being available to the County Council to meet future capital and revenue expenditure.

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

2017/18		Usable Reserves			
requirements					
Amount by which National Non-Domestic Rates income credited to the CI&E Statement is different from Non-Domestic Rates income calculated for the year in accordance with statutory requirements	(0.3)				0.3
Amount by which officer remuneration charged to the CI&E Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	0.2				(0.2)
Sub Total	**51.8**	**(1.1)**	**(0.6)**	**3.4**	**(53.4)**
Transfer to/(from) earmarked reserves	13.0	(13.0)			
Total Adjustments	**64.7**	**(14.1)**	**(0.6)**	**3.4**	**(53.4)**

2016/17	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
Reversal of items debited or credited to the CI&E Statement:	50.3				(50.3)
Amortisation of intangible assets	0.4				(0.4)
Capital grants and contributions applied	(62.0)				62.0
Revenue expenditure funded from capital under statute	10.5				(10.5)
Net gain of loss on sale or derecognition of non-current assets and non-current assets held for sale					
Gain/loss on operating activities	7.0				(7.0)
Loss on investment on assets transferred to other bodies	24.5				(24.5)
Insertion of items not debited or credited to the CI&E Statement:					
Statutory provision for the financing of capital investment	(16.5)				16.5
Capital expenditure charged against the General Fund	(5.1)	(0.1)			5.2
Capital grants & contributions unapplied credited to the CI&E Statement	0.2			52.4	(1.3)
Application of grants to capital financing transferred to Capital Adjustment Account				(51.3)	
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the CI&E Statement	(2.7)		2.7		
Use of Capital Receipts Reserve to finance new capital expenditure			(2.4)		2.4
Reversal of items relating to retirement benefits debited or credited to the CI&E Statement	35.9				(35.9)
Employer's pension contributions and direct payments to pensioners payable in the year	(25.0)				25.0
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	(0.2)				0.2
Amount by which National Non-Domestic Rates income credited to the CI&E Statement is different from Non-Domestic Rates income	(1.8)				1.8

2016/17	Usable Reserves				
calculated for the year in accordance with statutory requirements					
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	1.8				(1.8)
Sub Total	**17.3**	**(0.1)**	**0.3**	**1.1**	**(18.6)**
Transfer to/(from) earmarked reserves	10.4	(10.4)			
Total Adjustments	**27.7**	**(10.5)**	**0.3**	**1.1**	**(18.6)**

4. Segmental reporting

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

2016/17	Adult Services	Children, Families & Communities	Economy & Infrastructure	Commercial & Change	Public Health	Total
	£m	£m	£m	£m	£m	£m
Income for Fees and Charges	(34.4)	(24.0)	(23.6)	(15.3)	(0.5)	(97.8)
Depreciation and Impairment	2.2	15.3	30.2	2.9		50.6
Premises Costs	0.9	25.9	(0.5)	4.2		30.5
Transport Costs	2.0	13.2	2.2	0.1		17.5
Third Party Payments	152.6	74.2	62.5	8.8	21.5	319.6

5. Expenditure and income analysed by nature

2016/17 £m		2017/18 £m
	Expenditure	
271.2	Employee benefits expenses	272.1
441.7	Other service expenses	455.2
50.6	Depreciation amortisation and impairment	38.0
28.8	Loss on disposal of non-current assets	31.8
59.7	Interest payments	59.5
0.2	Precepts and levies	0.2
852.3	**Total Expenditure**	**865.8**
	Income	
(97.8)	Fees and charges and other service income	(98.1)
(286.6)	Income from council tax and business rates	(297.6)
(314.2)	Grants and contributions credited to services	(305.3)
(90.4)	Grants and contributions credited to taxation and non-specific grant income	(64.5)
(33.0)	Interest and Investment Income	(30.9)
(1.6)	Other	4.0
(823.6)	**Total Income**	**(792.4)**
28.7	**Net Deficit on Provision of Services**	**64.4**

6. Agency income and expenditure

6.1 Registered nursing care contributions

The County Council makes payments on behalf of the Worcestershire Clinical Commissioning Groups (CCGs) in respect of Registered Nursing Care Contributions. In 2017/18 the payments made were £11.0 million (2016/17 £10.8m) and income received of £11.1 million (2016/17 £11.0m). The cost to the County Council of administering this scheme is £52,340 (2016/17 £53,031).

6.2 Council tax income

The billing authorities in the Worcestershire area collect Council Tax income on behalf of the County Council and other precepting bodies in the area. The table below gives details of the County Council's share of the debtors, creditors, provisions and any surplus or deficit arising from this agency arrangement.

2016/17		2017/18
£m		£m
	Income and Expenditure Statement	
(0.2)	Council tax precept – billing authorities surplus/(deficit)	1.4
	Balance Sheet	
9.8	Debtors	9.1
(5.8)	Creditors	(6.5)
4.0	**Collection fund adjustment account**	**2.6**

6.3 Non-domestic rates income

Following the introduction of the Business Rates Retention system in April 2013, the billing authorities in the Worcestershire area collect business rate income on behalf of the County Council and other precepting bodies in the area as well as for Central Government. The table below gives details of the County Council's share of the debtors, creditors, provisions and any surplus or deficit arising from this agency arrangement.

2016/17		2017/18
£m		£m
	Income and Expenditure Statement	
(1.8)	Non domestic rates – billing authorities surplus/(deficit)	(0.3)
	Balance Sheet	
1.8	Debtors	2.7
(0.3)	Creditors	(0.4)
(1.7)	Provision for appeals	(2.2)
(0.2)	**Collection fund adjustment account**	**(0.1)**

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. It is a joint budget arrangement between the County Council, NHS Redditch and Bromsgrove Clinical Commissioning Group, NHS South Worcestershire Clinical Commissioning Group and NHS Wyre Forest Clinical Commissioning Group. The Section 75 agreement has been classified as a Joint Operation, because there is joint control, and the activity of the arrangement is primarily to provide services to the parties within their boundaries. Within the Section 75 agreement there are budgets controlled by the Clinical Commissioning Groups, budgets controlled by the County Council, pooled budgets (jointly controlled) and aligned budgets. Aligned budgets are where each party agrees to commission services towards a joint aim, but are not pooled together.

Partnership expenditure (outturn) has been split to show what is controlled by the Clinical Commissioning Groups and the County Council for 2017/18. Included in the County Council contribution is £26.7 million Better Care Fund.

Where services are controlled by the County Council the income and expenditure is 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 controlled by the Clinical Commissioning Groups, the income and expenditure is not reflected in the County Council's accounts

Partnership income	Partnership expenditure	Net partnership expenditure	CCG Controlled	WCC contribution		Partnership income	Partnership expenditure	Net partnership expenditure	CCG Controlled	WCC contribution
		2016/17						2017/18		
£m	£m	£m	£m	£m		£m	£m	£m	£m	£m
(122.2)	124.3	2.1	73.9	50.4	Consolidated Adult Social Care Services	(138.2)	143.4	5.2	102.5	40.9
(19.4)	18.5	(0.9)	15.8	2.7	Consolidated Children's and Education Services	(18.3)	18.5	0.2	16.3	2.2
(141.6)	**142.8**	**1.2**	**89.7**	**53.1**		**(156.5)**	**161.9**	**5.4**	**118.8**	**43.1**

8. External audit costs

2016/17		2017/18
£m		£m
0.1	Fees payable with regard to external audit services	0.1

The fee of £125k paid to the External Auditors comprised £117k audit fee and £8k grant certification fee.

9. Officers' remuneration

9.1 Remuneration over £50,000 per annum

This note discloses all amounts paid to or receivable by County Council employees, including salary, expenses allowances and compensation for loss of employment, where these total in excess of £50,000.

2016/17	Total Remuneration to Employees	2017/18		
Total		Teachers	Non Teachers	Total
80	£50,000 to £54,999	68	28	96
75	£55,000 to £59,999	55	18	73
48	£60,000 to £64,999	33	12	45
27	£65,000 to £69,999	25	2	27
13	£70,000 to £74,999	9	5	14
8	£75,000 to £79,999	7	3	10
6	£80,000 to £84,999	1	5	6
3	£85,000 to £89,999	4	3	7
6	£90,000 to £94,999	1	4	5
3	£95,000 to £99,999	4	2	6
5	£100,000 to £104,999			
	£105,000 to £109,999			
	£110,000 to £114,999		1	1
	£115,000 to £119,999			
1	£120,000 to £124,999		1	1
1	£125,000 to £129,999		2	2
	£130,000 to £159,999			

1	£160,000 to £164,999			
277		**207**	**86**	**293**

9.2 Senior employees' remuneration

Senior employees, for the purposes of this note, are defined as those whose salary is in excess of £150,000 per annum, and those employed in statutory chief officer posts or report directly to the head of paid service (Chief Executive).

	2017/18						
Post Title	Salary	National Insurance	Expense allowances	Pension Contributions	Total	Position start date	Position end date
	£	£	£	£	£		
Chief Executive – Clare Marchant	38,215	4,892		5,830	48,937		29/06/2017
Interim Chief Executive – Steve Stewart	121,754	15,484			137,238	19/06/2017	01/03/2018
Chief Executive – Paul Robinson	5,768	702		793	7,263	19/03/2018	
Director of Adult Services	111,301	14,327	313	14,935	140,877		11/02/2018 (*)
Director of Children, Families and Communities	125,339	16,171	1,043	17,244	159,797		
Director of Economy & Infrastructure	125,339	15,925		17,244	158,508		
Director of Commercial & Change	18,129	2,291		2,636	23,057		04/06/2018
Director of Public Health	81,759	10,157	315	11,911	104,142		
Chief Financial Officer	54,688	6,723	944	7,585	69,939		17/10/2017
Interim Chief Financial Officer	49,526	6,272	77	6,814	62,689	16/10/2017	
	731,819	**92,943**	**2,692**	**84,995**	**912,448**		

(*) An Interim Director of Adult Services has been employed via an agency since 19/03/2018.
All dates given are for changes in the 2017/18 financial year.

	2016/17				
Post Title	Salary	National Insurance	Expense allowances	Pension Contributions	Total
	£	£	£	£	£
Chief Executive, Clare Marchant	163,404	21,430	1,996	21,159	207,989
Director of Adult Services	94,631	12,219	113	12,244	119,207
Interim Director of Adult Services	72,920	9,037	1,436	9,409	92,802
Director of Economy & Infrastructure Services	126,311	16,311	496	16,069	159,187
Director of Children's, Families and Communities	103,414	13,338	498	13,391	130,641
Director of Commercial and Change	31,601	4,081	123	3,800	39,605
Interim Director of Commercial and Change	80,034	10,205	269	10,364	100,872
Director of Public Health	102,771	13,073	623	14,792	131,258
Chief Financial Officer	98,755	12,449	1,644	12,788	125,636
	873,841	**112,143**	**7,198**	**114,016**	**1,107,197**

10. Termination benefits and exit packages

This discloses both exit packages for employees who have left the County Council in 2017/18 and also 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.

2016/17			2017/18	
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
78	0.5	£0 - £20,000	39	0.3
21	0.6	£20,001 - £40,000	13	0.4
7	0.3	£40,001 - £60,000	2	0.1
0		£60,001 - £80,000	2	0.1
7	0.9	£80,001 - £200,000	2	0.2
113	**2.3**	**Total Termination Packages**	**58**	**1.1**

11. Grant and contribution income

11.1 Comprehensive Income and Expenditure Statement - credited to services

2016/17		**2017/18**
£m		£m
	Adult Services	
13.9	Better Care Fund (contribution)	12.0
	Improved Better Care Fund	10.2
	Disabled Facilities Grant	4.6
	Adult Social Care Support Grant	2.4
3.2	Independent Living Fund	3.0
0.2	Care Act	0.2
0.1	Other	0.4
17.4		**32.8**
	Children, Families and Communities	
217.5	Dedicated Schools Grant	209.8
11.0	Pupil Premium	10.0
5.6	Universal Free School Meals	5.4
4.6	Bromsgrove Schools PFI Grant	4.7

4.9	Libraries & Community	4.3
2.9	Post 16 Learning Skills Council	2.7
4.5	Education Service Grant	1.1
6.0	Other	7.2
257.0		**245.2**
	Economy and Infrastructure	
1.8	Waste Disposal Private Finance Initiative	1.3
0.6	Transport	1.1
0.1	Environment / Winter Damage	
1.6	Other	2.9
4.1		**5.3**
	Public Health	
30.6	Public Health	29.9
0.2	Other	0.1
30.8		**30.0**
	Other Services	
3.5	New Homes	3.3
1.4	Other	0.7
4.9		**4.0**
314.2	**Total Credited to Services**	**317.3**

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

2016/17		2017/18
£m		£m
	Credited to taxation and non-specific grant income:	
36.3	Revenue Support Grant	19.9
	Transition Grant	2.5
1.5	Small Business Rate support	2.4
37.8	**Total non-ring fenced Government grants**	**24.8**

2016/17		2017/18
	Capital Grants	
24.0	Worcestershire Local Growth Fund	15.4
14.6	Structural Maintenance	14.6
3.3	Transport	9.3
10.8	Basic needs	8.0
3.9	LA Schools Condition allocation	4.7
1.0	Broadband Project	1.4
1.8	Other Capital Grants	2.3
59.4	**Total Capital Grants**	**55.7**
	Contributions:	
2.6	Other	4.5
62.0	**Total Capital Grants and Contributions**	**60.2**
(9.4)	Less Grants applied to CI&E re. revenue expenditure funded from capital under statute (REFCUS)	(17.1)
	Less transfer to unapplied Capital Grants Reserve	(3.4)
52.6		**39.7**
90.4	**Total credited to taxation and non-specific grant income**	**64.5**

11.3 Dedicated schools grant

	Central Expenditure	Individual Schools Budget	Total
	£m	£m	£m
Final DSG for 2017/18			384.1
Academy Recoupment 2017/18			(173.3)
Total DSG after recoupment			**210.8**
Brought forward from 2016/17			8.8
Agreed budgeted distribution in 2017/18	**42.4**	**177.2**	**219.6**
In year adjustments	1.0	(2.0)	(1.0)

Final budgeted distribution	**43.4**	**175.2**	**218.6**
Actual expenditure	(38.7)	(174.7)	(213.4)
Carry forward to 2017/18	**4.7**	**0.5**	**5.2**

12. Related parties

12.1 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, and sets the terms of many of the relationships that the County Council has with other organisations.

12.2 Elected Members

Elected members of the County Council have direct control over the County Council's financial and operating policies. A total of £0.9 million allowances and expenses were paid to members in 2017/18 (2016/17 £0.9 million). Elected members of the County Council may be involved with other local organisations that provide services for, or receive services from the County Council. Transactions for these organisations have been reviewed and there are no related party disclosures to be made for elected members.

12.3 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.

12.4 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.

12.5 Worcestershire County Council Pension Fund

At the year-end, the County Council charged the Pension Fund £0.8 million (2016/17 £1.0m) for expenses incurred in administering the Pension Fund. Further details are given in note Defined Benefit Pension Schemes.

12.6 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. As this is not a material interest for the County Council, there is no requirement to produce group accounts. The County Council spent £5.4 million with WME in 2017/18 (2016/17 £6.0m) and this is reflected in the Comprehensive Income and Expenditure Statement.

12.7 Place Partnership

Place Partnership Limited is a single asset management company co-owned by the County Council, Hereford & Worcester Fire Authority, Redditch Borough Council, Warwickshire Police, West Mercia Police and Worcester City Council and each party has equal shares and equal voting rights. Any profits made by Place Partnership Limited would be distributed equally to members and any loss distribution would be limited by shareholding. Place Partnership Limited has been classified as a Joint Operation for the purpose of financial reporting, because there is joint control, and the activity of the arrangement is primarily to provide services to the parties within their boundaries. In 2017/18, the operating cost for the County Council was £5.1 million (2016/17 £4.8m) and this is reflected in the Comprehensive Income and Expenditure Statement. Place Partnership Limited has not been fully consolidated into the County Council's accounts as a Joint Operation, because there is no material difference to the costs already reflected.

13. Other operating expenditure

2016/17	2017/18
£m	£m
0.4 Admin Expenses Pension	0.4
4.3 Loss on disposal of non-current assets	5.1
4.7	**5.5**

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

14. Financing and investment income and expenditure

2016/17		2017/18
£m		£m
21.2	Interest payable and similar charges	28.3
13.2	Pensions interest cost & expected return on pensions	9.4
24.5	Loss on transfer of schools to other bodies	26.6
(7.4)	Interest receivable and similar income	(9.1)
51.5		**55.2**

15. Taxation and non-specific grants

2016/17		2017/18
£m		£m
(228.2)	Council tax income	(237.3)
(58.4)	Non domestic rates	(60.2)
(40.4)	Non-ring fenced government grants	(24.8)
(51.3)	Capital grants and contributions	(39.7)
0.2	Environment Agency	0.2
(378.1)		**(382.4)**

16. Leases

16.1 The County Council as lessee – operating leases

Operating lease payments of £1.0 million were made in 2017/18 (2016/17 £1.0m). The County Council's outstanding obligations under lease agreements as at 31 March 2018 totalled £15.4 million (31 March 2017 £13.7m).

	£m
Leases expiring in less than 1 year	2.8
Leases expiring between 1 and 5 years	0.5
Leases expiring in 5 years+	12.1
	15.4

The County Council leases photocopiers in a number of its establishments, on individual lease arrangements, with an estimated total asset value at 31 March 2018 of £1.1 million. None of the photocopiers are individually of material value and there has been no adjustment to the County Council's Balance Sheet.

16.2 The County Council as lessor – operating leases

Operating lease receipts of £1.8 million were received in 2017/18 (2016/17 £1.8m). The County Council's outstanding obligations under lease arrangements as at 31 March 2018 totalled £6.2 million (£7.6m).

	£m
Leases expiring in less than 1 year	1.2
Leases expiring between 1 and 5 years	0.5
Leases expiring in 5 years+	4.5
	6.2

17. Usable Reserves

	Opening Balance 01/04/16	Contributions To	From	Closing Balance 31/03/17
	£m	£m	£m	£m
General fund	12.0	0.2		12.2
Earmarked specific reserves	98.5	34.0	(48.2)	84.3
Capital grants unapplied	31.5	60.2	(56.7)	35.0
Capital receipts reserve	5.4	1.8	(2.4)	4.8
Total Usable Reserves	**147.4**	**96.2**	**(107.3)**	**136.3**

17.1 Transfers to/from Earmarked Reserves

The amounts set aside from the General Fund in earmarked reserves to provide financing for future expenditure plans and amounts posted back from earmarked reserves to meet General Fund expenditure in 2017/18

	Balance at 31 March 2016	Transfers out 2016/17	Transfers in 2016/17	Balance at 31 March 2017	Transfers out 2017/18	Transfers in 2017/18	Balance at 31 March 2018
	£m	£m	£m	£m	£m	£m	£m
Balances held by schools under a scheme of delegation	18.1	(18.0)	13.2	13.3	(13.3)	9.4	9.4
Children's Services Other Revenue Reserves			0.1	0.1	(0.1)		
DSG c/fwd balance	9.9	(1.0)		8.9	(3.7)		5.2
Youth Offending Reserve	1.0	(1.1)	0.1		(0.2)	0.2	
Future capital investment	5.1	(0.7)		4.4	(2.9)	0.8	2.3
Insurance	7.3	(2.3)	2.0	7.0	(0.8)	1.9	8.1
Business Rate Pool	1.5	(0.3)	0.7	1.9		3.6	5.5
Retained Waste Disposal PFI grant	12.5	(2.4)		10.1	(3.4)	3.6	10.3
Bromsgrove Schools Reorganisation PFI grant	2.2	(0.5)		1.7			1.7
Health and Pooled Budgets	3.0	(2.7)		0.3	(0.3)		
Public Health Grant	3.7	(0.7)	1.8	4.8	(0.2)	1.2	5.8
Growing Places	3.2	(1.6)	2.1	3.7	(0.5)	0.1	3.3
New Homes Bonus	1.6		0.8	2.4		3.3	5.7
Economic investment pool	1.4	(0.1)	4.4	5.7	(0.3)	1.6	7.0
Directorate revenue reserves	8.7	(3.8)	5.7	10.6	(8.1)	1.0	3.5
Future Fit	4.3	(3.3)	5.6	6.6	(3.7)	1.2	4.1
Digital Strategy	1.4	(0.4)		1.0	(1.1)	0.5	0.4
Councillors' Divisional Fund	1.2	(0.6)	0.6	1.2	(0.6)	0.6	1.2
Revenue grants unapplied	15.0	(9.3)	1.4	7.1	(4.8)	2.8	5.1
Other reserves	7.9	(4.7)	4.5	7.7	(4.1)	2.2	5.8
Total	**109.0**	**(53.5)**	**43.0**	**98.5**	**(48.1)**	**34.0**	**84.4**

18. Unusable Reserves

	Opening Balance 01/04/17	Contributions To	Contributions From	Closing Balance 31/03/18
	£m	£m	£m	£m
Pensions reserve	(449.3)	(93.2)	131.5	(411.0)
Available for Sale reserve	(1.5)			(1.5)
Accumulated absences adjustment account	(6.5)	(6.8)	6.5	(6.8)
Financial instruments adjustment account	(1.1)			(1.1)
Capital adjustment account	237.2	62.0	(84.5)	214.7
Revaluation reserve	117.6	122.2	(22.3)	217.5
Collection fund adjustment accounts				
- Council Tax	4.0		(1.4)	2.6
- National Non-Domestic Rates	(0.1)	0.2		0.1
Total Unusable Reserves	**(99.7)**	**84.4**	**29.8**	**14.5**

18.1 Pensions Reserve

2016/17 £m		2017/18 £m
(384.0)	**Balance at 1 April**	**(449.3)**
	Actuarial gains or (losses) on pensions assets & liabilities:	
114.3	Changes in experience	
(271.8)	Changes in financial assumptions	48.9
17.1	Changes in demographic assumptions	
86.0	Return on Plan assets (excluding the amount included in net interest expense)	11.1
(35.9)	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	(45.2)
24.9	Employer's pensions contributions & direct payments to pensioners payable in the year	70.9
	Employer's pension contributions – prepayment adjustment	(48.0)
0.1	Decrease in Teachers Pension Liability	0.6
(449.3)	**Balance at 31 March**	**(411.0)**

18.2 Capital Adjustment Account

2016/17		2017/18
£m		£m
235.8	**Balance at 1 April**	**237.2**
	Capital Financing:	
2.4	Capital Receipts	2.4
60.7	Capital Grants and Contributions	56.7
4.1	Revenue Contributions to Capital Expenditure	1.5
1.1	Capital Reserve	1.4
68.3		**62.0**
(7.7)	Impairment charged to Comprehensive Income and Expenditure Statement	(21.7)
(38.6)	Depreciation charged to Comprehensive Income and Expenditure Statement	(36.3)
13.6	Minimum Revenue Provision Adjustment	17.2
2.9	Minimum Revenue Provision PFI Adjustment	2.4
(10.5)	REFCUS Adjustment	(18.0)
(26.9)	Disposal of non-current assets	(28.2)
0.3	Other Adjustments	0.1
237.2	**Closing Balance at 31 March**	**214.7**

18.3 Revaluation Reserve

2016/17		2017/18
£m		£m
112.4	**Opening Balance at 1 April**	**117.6**
18.6	Revaluations during the year	122.2
(4.4)	Depreciation of revaluations	(1.7)
(4.1)	Impairment of Revaluations	(15.2)
(4.6)	Disposal of Revaluations	(5.4)
(0.3)	Other adjustments	
117.6	**Closing Balance at 31 March**	**217.5**

19. Property, plant and equipment

19.1 Movements in 2017/18

	Land and Buildings	Vehicles, plant, furniture & equipment	Infrastructure assets	Community 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 2017	**664.0**	**110.3**	**497.4**	**0.3**	**26.5**	**1,298.5**	**200.8**
Additions	9.2	0.3	31.6		27.7	68.8	
Revaluation increases recognised in Revaluation Reserve	122.2					122.2	17.2
Revaluation decreases recognised in Revaluation Reserve	(13.9)	(1.3)				(15.2)	
De-recognition/ Disposals	(31.0)				(4.9)	(35.9)	
Assets reclassified to Held for Sale	(5.1)					(5.1)	
Assets reclassified to other categories	(76.1)	70.6	(0.3)			(5.8)	
At 31 March 2018	**669.3**	**179.9**	**528.7**	**0.3**	**49.3**	**1,427.5**	**218.0**

	Land and Buildings	Vehicles, plant, furniture & equipment	Infrastructure assets	Community 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 2017	**(97.3)**	**(57.6)**	**(207.5)**			**(362.4)**	**(13.4)**
Depreciation written out to the Revaluation Reserve	(1.7)					(1.7)	
Depreciation written out to the Surplus / Deficit on the Provision of Services	(7.9)	(5.4)	(22.6)			(35.9)	(6.1)
De-recognition – disposals	4.3					4.3	
Assets reclassified to other categories	7.1	(5.4)				1.7	
Impairment reversals recognised in the Surplus on the Provision of Services	(19.6)					(19.6)	
At 31 March 2018	**(115.2)**	**(68.4)**	**(230.1)**			**(415.7)**	**(19.5)**
Net book value							
At 31 March 2018	**554.2**	**111.5**	**298.6**	**0.3**	**49.3**	**1,013.8**	**198.5**
At 31 March 2017	**566.7**	**52.8**	**289.9**	**0.3**	**26.5**	**936.2**	**187.4**

Movements in 2016/17

	Land and Buildings	Vehicles, plant, furniture & equipment	Infrastructure assets	Community 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 2016	**611.5**	**57.8**	**422.3**	**0.3**	**54.3**	**1,146.2**	**87.0**
Additions	85.6	52.5	75.1		(27.8)	185.4	112.4
Revaluation increases recognised in Revaluation Reserve	17.3					17.3	1.4
Revaluation decreases recognised in Revaluation Reserve	(7.2)					(7.2)	
Revaluation decreases recognised in the deficit on the Provision of Services							
De-recognition – disposals	(34.3)					(34.3)	
Assets reclassified to other categories	(8.8)					(8.8)	
At 31 March 2017	**664.1**	**110.3**	**497.4**	**0.3**	**26.5**	**1,298.6**	**200.8**

	Land and Buildings	Vehicles, plant, furniture & equipment	Infrastructure assets	Community 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 2016	**(90.1)**	**(51.1)**	**(184.0)**			**(325.2)**	**(7.3)**
Depreciation written out to the Revaluation Reserve	(4.4)					(4.4)	
Depreciation written out to the Surplus / Deficit on the Provision of Services	(8.3)	(6.5)	(23.5)			(38.3)	(6.1)
De-recognition – disposals	4.5					4.5	
Assets reclassified to other categories	1.0					1.0	
At 31 March 2017	**(97.3)**	**(57.6)**	**(207.5)**			**(362.4)**	**(13.4)**
Net book value							
At 31 March 2017	**566.8**	**52.7**	**289.9**	**0.3**	**26.5**	**936.2**	**187.4**
At 31 March 2016	**521.4**	**6.7**	**238.3**	**0.3**	**54.3**	**821.0**	**79.7**

19.2 Revaluations

	Land and Buildings	Vehicles, plant, furniture & equipment	Infrastructure assets	Community Assets	Assets under Construction	Total Property, Plant & Equipment	PFI Assets included in PPE
	£m	£m	£m	£m	£m	£m	£m
Fair value as at:							
31 March 2018	170.2	69.6				239.8	17.2
31 March 2017	183.7					183.7	112.4
31 March 2016	83.0					83.0	1.3
31 March 2015	110.0					110.0	5.1
31 March 2014	120.2					120.2	52.0
Held at cost	2.3	110.3	528.7	0.3	49.3	690.8	30.0
Total cost or valuation	**669.3**	**179.9**	**528.7**	**0.3**	**49.3**	**1,427.5**	**218.0**

Valuations are provided by:
Christopher S Finch B.Sc. (Hons) MRICS
Manager – Valuation Services
Place Partnership Ltd
2 Kings Court
Charles Hastings Way
Worcester
WR5 1JR

19.3 Contractual commitments for property, plant and equipment

As at 31 March 2018 the County Council has a capital programme comprising capital projects amounting to £253.7 million (2016/17 £195.7m)

Major schemes where contracts have been let:	£m
Worcestershire Parkway Regional Interchange	16.4
Highway Flood Mitigation Measures	2.0
Sub-total	**18.4**
Committed schemes less than £2 million	8.8
Major schemes where contracts have been let:	**27.2**

19.4 School assets

Schools across Worcestershire fall into the categories shown in the table below and the level of control by the County Council over the use of the school assets has determined which assets are held on the County Council's Balance Sheet. The County Council may have residual values for some retained assets shown against a category primarily off Balance Sheet (for example mobile classrooms)

	Number of schools at 31 March 2018	Value held on Balance Sheet at 31 March 2018	Status
		£m	
Community	66	316.9	On Balance Sheet
PFI	7	72.2	On Balance Sheet
Voluntary controlled	50	2.5	Off Balance Sheet
Voluntary aided	23	0.2	Off Balance Sheet
Academy	92	1.3	Off Balance Sheet
Foundation	1	0.9	Off Balance Sheet
Free School	3		Off Balance Sheet
	242	**394.0**	

19.5 Non-Operational Assets

2016/17		2017/18
£m		£m
10.2	Surplus assets	10.9
1.5	Assets Held For Sale	6.1
11.7		**17.0**

19.6 Downward revaluations and disposal losses

The County Council incurs losses on asset values either through impairment of asset values as a result of losses in market value or through disposal at less than net book value.

2016/17		2017/18
£m		£m
7.2	Downward Revaluations - other land and buildings	30.4
4.6	Downward Revaluations - non-operational	4.3
28.8	Disposal losses – other land & buildings	31.8
40.6		**66.5**

19.7 Capital expenditure and capital financing

2016/17 £m		2017/18 £m
483.8	**Opening capital financing requirement**	**533.8**
	Capital investment:	
72.9	Property, plant and equipment	68.8
47.4	Loan on PFI project	
1.2	Intangible assets	
10.5	Revenue expenditure funded from capital under statute	18.0
132.0	**Total Capital Investment**	**86.8**
	Sources of finance:	
(2.4)	Capital receipts	(2.4)
(60.7)	Government grants & other contributions	(56.7)
	Sums set aside from revenue:	
(5.2)	Direct revenue contributions	(2.9)
(13.7)	MRP/loans fund principal (excluding PFI)	(17.2)
533.8	**Closing Capital Financing Requirement**	**541.4**
	Explanation of movements in year	
50.0	Increase in underlying need to borrow (supported by government financial assistance)	7.6
50.0	**Increase / (decrease) in Capital Financing Requirement**	**7.6**

20. Private finance initiatives

20.1 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.

20.2 Bromsgrove Schools PFI

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

20.3 Worcester Library and History Centre (The Hive) PFI

In January 2010 the County Council entered into a PFI contract with Galliford Try Investments Ltd 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.

20.4 Value of assets and liabilities under PFI contracts

	PPE - land & buildings				PPE - vehicle, plant & equipment	PPE
	Waste disposal	**Bromsgrove schools**	**The Hive**	**Total**	**Waste disposal**	**Total**
	£m	£m	£m	£m	£m	£m
Balance at 31 March 2017	**71.1**	**48.4**	**24.4**	**143.9**	**43.5**	**187.4**
Revaluations	2.3	16.1		18.4	(1.2)	17.2
Transfers	(62.1)			(62.1)	62.1	
Depreciation	(2.9)	(0.4)	(0.3)	(3.6)	(2.5)	(6.1)
Balance at 31 March 2018	**8.4**	**64.1**	**24.1**	**96.6**	**101.9**	**198.5**

Finance lease liability	Waste disposal	Bromsgrove schools	The Hive	Total
	£m	£m	£m	£m
Balance at 31 March 2017	**(118.6)**	**(53.4)**	**(18.8)**	**(190.8)**
Additions	(0.5)			(0.5)
Payments	4.8	1.0	0.4	6.2
Balance at 31 March 2018	**(114.3)**	**(52.4)**	**(18.4)**	**(185.1)**

20.5 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	6.6	33.6	13.0	53.2
Payments due within 2 to 5 years	33.3	135.0	46.9	215.2
Payments due within 6 to 10 years	16.7	25.4	30.4	72.5
Payments due within 11 to 15 years	20.0	23.2	18.7	61.9
Payments due within 16 to 20 years	28.3	22.0	7.7	58.0

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

21. Financial instruments

21.1 Categories of financial instruments

Long-term 31 March 2017	Current 31 March 2017		Long-term 31 March 2018	Current 31 March 2018
£m	£m		£m	£m
		Investments		
	21.0	Loans & receivables		1.5
3.1		Available for sale financial assets	3.1	
3.1	**21.0**		**3.1**	**1.5**
		Cash Equivalents		
	9.7	Cash equivalents at amortised cost		7.2
	8.8	Available for sale Investments		22.7
	18.5			**29.9**
		Debtors		
122.8	19.2	Loans & receivables	122.9	41.6
		Borrowings		
(325.4)	(42.6)	Financial liabilities at amortised cost	(366.9)	(78.3)
		Other long term liabilities		
(190.8)		PFI and finance lease liabilities	(185.1)	
		Creditors		
(1.8)	(58.7)	Financial liabilities at amortised cost	(2.5)	(50.1)

21.2 Income, expense, gains and losses

2016/17				2017/18		
Financial liabilities at amortised cost	**Financial assets, loans & receivables**	**Total**		**Financial liabilities at amortised cost**	**Financial assets, loans & receivables**	**Total**
£m	£m	£m		£m	£m	£m
(21.2)		(21.2)	Interest expense	(28.3)		(28.3)
	7.4	7.4	Interest income		9.1	9.1
(21.2)	**7.4**	**(13.8)**	**Net gain / (loss) for the year**	**(28.3)**	**9.1**	**(19.2)**

21.3 Fair value of assets and liabilities

31 March 2017			31 March 2018	
Carrying amount	**Fair value**		**Carrying amount**	**Fair value**
£m	£m		£m	£m
		Financial liabilities		
426.6	516.1	Financial liabilities	495.4	576.5
190.8	198.0	PFI liabilities	185.1	180.3
1.8	1.8	Long Term Creditors	0.3	0.3
		Financial assets		
43.3	43.3	Loans & receivables	46.2	46.2
122.9	122.9	Long Term Debtors	122.9	122.9
18.5	18.5	Short term investments held as cash	29.9	29.9

The Value of Financial Assets classified as Available for Sale is further analysed below:

31 March 2017			31 March 2018	
Level 2	**Level 3**		**Level 2**	**Level 3**
£m	£m		£m	£m
0.1	2.9	Malvern Hills Science Park		3.0
0.1		Municipal Bonds Agency	0.1	
0.2	**2.9**	**Total Available for Sale Assets**	**0.1**	**3.0**

All other Financial Assets and Liabilities are carried at Amortised Cost, see note Long Term Investments for more information.

21.4 Nature and extent of risks arising from financial instruments

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

- Credit risk - the possibility that other parties might fail to pay amounts due to the County Council;
- Liquidity risk - the possibility that the County Council might not have funds available to meet its commitments to make payments; and
- Market risk - the possibility that financial loss might arise for the County Council as a result of changes in such measures as interest rates movements.

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. The procedures for risk management are set out through a legal framework based on the Local Government Act 2003 and associated regulations. These require the County Council to comply with the CIPFA Prudential Code, the CIPFA Code of Practice on Treasury Management in the Public Services and investment guidance issued through the Act. Risk management is carried out by a central treasury team under policies approved by the County Council in the Treasury Management Strategy. The Strategy for 2017/18 was approved by Council on 9 February 2017.

21.5 Credit risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the County Council's customers. This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria which are based on the Fitch, Moody's and Standard & Poor's Credit Ratings Services and other additional criteria such as geography. The Annual Investment Strategy also considers maximum amounts and time limits in respect of each financial institution.

During 2017/18 the County Council defined a body with high credit quality as Short Term of F1+ and Long Term AA (Fitch or equivalent rating); the County Council also placed funds with part government-owned banks and AAA-rated Money Market Funds. All three ratings agencies were used with the lowest of the three opinions being used. In practice the County Council deposited its surplus funds with the UK Central Government via the Debt Management Office (DMO), Lloyds Banking group, Svenska Handelsbanken, three selected Ultra-short duration Bond funds, four selected Money Market Funds and with other local authorities. There is a limit of £10m with each party, other than the DMO account which has no limit.

The County Council's maximum exposure to credit risk in relation to its investments in other local authorities and the DMO of £1.4 million has been assessed as a negligible sum; all other deposits of £22.7 million may be readily converted into cash and as such are subject to negligible credit risk. Recent experience has shown that it is unprecedented for such entities to be unable to meet their commitments. A theoretical risk of irrecoverability applies to all of the County Council's deposits, but there was no evidence as at 31st March 2018 that this was likely to crystallise

The County Council does not generally allow credit for customers, however £12.1 million of the £18.8 million balances are past its due date for payment and can be analysed as follows:

	£m
One to three months	3.9
Three to six months	2.2
Six months to one year	3.1
More than one year	2.9
Total	**12.1**

The County Council regularly reviews outstanding debtors and calculates the potential for default. The current bad debt provision for trade debtors in the Balance Sheet is £0.25 million.

21.6 Liquidity risk

The County Council has a comprehensive cash flow system that seeks to ensure that cash is available as needed. As the County Council has ready access to borrowings from the money markets to cover any day to day cash flow need and from the Public Works Loans Board and money markets for longer term funds, there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. All sums invested (£1.4 million) are due to be repaid in less than one year.

There is also the risk that the County Council will be bound to replenish a significant proportion of its borrowing during specified periods from the reporting date. The current strategy is to have no more than 25% of total borrowing maturing within 1 year, no more than 25% maturing more than 1 but less than 2 years, no more than 50% maturing more than 2 but less than 5 years, no more than 75% maturing more than 5 but less than 10 years and at least 25% maturing in more than 10 years; through a combination of careful planning of new loans taken out and (where it is economic to do so) making early repayments.

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

31 March 2017		31 March 2018
£m		£m
42.6	Maturing within one year	78.3
33.3	Maturing in 1-2 years	38.0
23.4	Maturing in 2-5 years	34.4
56.4	Maturing in 5-10 years	53.7
212.2	Maturing in more than 10 years	240.9
367.9	**Total**	**445.3**

21.7 Market risk - interest rates

The County Council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the County Council, depending on how variable and fixed interest rates move across differing financial instrument periods. For instance, a rise in variable and fixed interest rates would have the following effects:

Borrowings at variable rates – the interest expense charged to the Surplus or Deficit on the Provision of Services will rise;

Borrowings at fixed rates – the fair value of the borrowing will fall;

Investments at variable rates – the interest income credited to the Surplus or Deficit on the Provision of Services will rise; and

Investments at fixed rates – the fair value of the assets will fall.

Borrowings are not carried at fair value on the Balance Sheet, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance. No variable rate borrowing or investments were held by the County Council during the financial year ending 31 March 2018.

The County Council has a number of strategies for managing interest rate risk. The policy, as detailed in the Prudential Indicators for Treasury Management Report, is to aim to keep a maximum of 30% of its borrowings in variable rate loans.

The County Council has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget. Monthly budget monitoring allows any adverse changes to be accommodated and, together with input from Treasury Management advisors, will determine whether new borrowing taken out is fixed or variable.

21.8 Market risk - price risk

The County Council has invested £0.1 million in the Municipal Bonds Agency as Equity shares. Since these shares represent a negligible interest in the Company and their face value is immaterial, their fair value is assessed at cost.

The County Council holds Preference Shares to the value of £3.0 million in Malvern Hills Science Park, a joint venture with Malvern Hills District Council and Herefordshire and Worcestershire Chamber of Commerce. No active market exists for this class of share and, as a

result of a Level 3 valuation given; this value is the lesser of the discounted cash flow of future dividends based on an assessment of similar assets or cost. The following note on Long Term Investments gives further information.

22. Long term investments

31 March 2017		31 March 2018
£m		£m
3.0	Malvern Hills Science Park	3.0
0.1	Municipal Bonds Agency	0.1
3.1	**Total**	**3.1**

22.1 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. The County Council does not have a controlling interest in the company. In addition the County Council holds Preference shares of 957,103 P1 shares (957,103 in 2016/17) and 6,190 P2 shares (6,190 2016/17). 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 2017/18, is £3.0 million (2016/17 £2.9m). This is shown on the Balance Sheet as a Long Term investment, and the asset is held as an available for sale financial asset (included in note). These shares are not publicly traded therefore their value is not expected to change materially.

22.2 Municipal Bonds Agency

The County Council has purchased £0.1m of equity shares in the Municipal Bonds Agency UK. The purpose of this shareholding is to support more diverse sources of Capital Financing being made available to the Local Authority sector. There are a large number of investors and the County Council's shares represent a negligible interest in the company. None of the shares give the County Council any disproportionate voting rights or control of the company. The shares are held at fair value, due to the immateriality of the amount invested, the fair value of these shares is adjudged at cost.

23. Debtors

31 March 2017		31 March 2018
£m		£m
	Long term debtors:	
119.3	Loans treated as Capital Expenditure	118.4
1.8	Accrued Accommodation (Adult Social Care)	4.2
1.8	Other Long Term Debtors	0.3
122.9		**122.9**
	Short term debtors:	
7.8	Central government bodies	18.5
3.9	Other local authorities	29.2
4.8	NHS bodies	8.4
29.9	Other entities and individuals	5.4
46.4		**61.6**
169.2	**Total debtors**	**184.5**

24. Cash and cash equivalents

	Opening Balance 01/04/2017	Movement During The Year	Closing Balance 31/03/2018
	£m	£m	£m
Bank current accounts	1.1	(15.6)	(14.5)
Short Term investments held as cash	18.5	11.4	29.9
Total Cash and cash equivalents	**19.6**	**(4.2)**	**15.4**

25. Creditors – short term

31 March 2017		31 March 2018
£m		£m
(13.1)	Central Government Bodies	(9.9)
(15.1)	Other local authorities	(11.9)
(3.9)	NHS bodies	(1.2)
(1.6)	Public corporations & trading funds	(0.1)
(72.3)	Other entities and individuals	(52.0)
(106.0)	**Total**	**(75.1)**

26. Other long term liabilities

2016/17 £m		2017/18 £m
(190.8)	PFI liabilities	(185.1)
(445.7)	Re-measurement of the net defined benefit	(360.0)
(3.6)	Teachers' Pension scheme Added year	(3.0)
(640.1)	**Other Long term Liabilities**	**(548.1)**

26.1 Grants receipts in advance

31 March 2017		31 March 2018
	Section 106 Town and Country Planning Act 1990	15.1
	Section 278 Highways Act 1980	1.0
		16.1

£15.4 million was classified in short term creditors in the 2016/17 accounts.

27. Defined Contribution Pension Schemes

The County Council has a number of employees who are eligible to be members of the Teachers' Pension Scheme and the NHS Pension Scheme. It is not possible for the County Council to identify its share of the underlying liabilities attributable to our employees within these, and therefore for the purposes of the Statement of Accounts they are accounted for as defined contribution schemes, that is, actual costs are included in the revenue accounts, with no assets or liabilities in the Balance Sheet.

27.1 Teachers' Pension Scheme

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

In 2017/18 the County Council paid £12.4 million (2016/17 £13.8m) to the Department for Education and Skills in respect of teachers' pension costs, which represents 16.5% (2016/17 16.5%) of teachers' pensionable pay.

In addition, the County Council is responsible for all pension payments relating to Teacher's added years it has awarded, together with the related increases. In 2017/18 these amounted to £0.3 million (2016/17 £0.4m), representing 0.4% (2016/17 0.4%) of pensionable pay. The County Council's Actuary has calculated a long-term liability of £3.0 million in respect of these payments that will decline over time and this is included in the balance sheet under other long term liabilities.

27.2 NHS Pension Scheme

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

In 2017/18 the County Council paid £0.1 million (2016/17 £0.1m) to the NHS Superannuation scheme, which represents 14.4% (2016/17 14.3%) of NHS pensionable pay.

28. Defined Benefit Pension Schemes

As part of the terms and conditions of employment, the County Council offers retirement benefits through the Local Government Pension Scheme. Although these benefits will not actually be payable until employees retire, the County Council has a commitment to make the payments that need to be disclosed at the time that employees earn their future entitlement.

The County Council administers and participates in the Worcestershire County Council Pension Fund, which is a Defined Benefit scheme. This means the 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 employees pay contributions into the fund which is calculated at a level intended to balance pension's liabilities with investment assets.

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

The three principal risks to the scheme are:

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

Discretionary post-retirement benefits on early retirement are an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. There is no plan assets built up to meet these pension liabilities.

28.1 Transactions relating to post-employment benefits

The County Council recognises the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. The charge against the council tax is based on the cash payable in the year, so the real cost of post-employment / retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

Local Government Pension Scheme 2016/17		Local Government Pension Scheme 2017/18
£m		£m
	Comprehensive Income & Expenditure Statement	
	Cost of services:	
(22.8)	Current service cost	(34.9)
0.5	Settlements and curtailments	(0.6)
	Other Operating Expenses	
(0.4)	Administration expenses	(0.4)
	Financing & investment income & expenditure	
(38.5)	Interest on Pensions Liabilities	(31.2)
25.3	Interest on Pensions Assets	21.8
(35.9)	**Total post-employment benefit charged to the surplus or deficit on the Provision of Services**	**(45.3)**
	Re-measurement of the net defined liability charged to the Comprehensive Income & Expenditure Statement	
86.0	Return on Plan assets (excluding the amount included in net interest expense)	11.1
114.3	Actuarial gains & losses arising on changes in experience	
(271.8)	Actuarial gains & losses arising on changes in financial assumptions	48.9
17.1	Actuarial gains & losses arising on changes in demographic assumptions	
(90.3)	**Total post-employment benefit charged to the Comprehensive Income & Expenditure Statement**	**14.7**

	Movement in Reserves Statement	
(10.9)	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	(22.3)
	Actual amount charged against the General Fund Balance for pensions in the year:	
24.9	Employer's contributions payable to the scheme	70.9
(34.3)	Retirement benefits payable to pensioners	(29.9)

The table below shows the Pension Gains and Losses charged to the Comprehensive Income and Expenditure Statement

2016/17		2017/18
£m		£m
86.0	Return on Plan Assets (excluding the amount included in net interest expense)	11.1
114.3	Actuarial gains and losses arising from changes in experience	
(271.8)	Actuarial gains and losses arising from changes in financial assumptions	48.9
17.1	Actuarial gains and losses arising from changes in demographic assumptions	
0.1	(Increase)/decrease in Teachers Pension Liability	0.6
(54.3)	**Total gain / (loss)**	**60.6**

28.2 Pension assets and liabilities recognised in the Balance Sheet

2016/17		2017/18
£m		£m
(1,259.4)	Present value of liabilities	(1,253.6)
813.7	Fair value of assets	893.6
(445.7)	**(Deficit) in the scheme**	**(360.0)**

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 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 actually paid.

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

Reconciliation of present value of the scheme liabilities:

£m		£m
(1,089.0)	**Opening balance at 1 April**	**(1,259.4)**
(22.8)	Current service cost	(34.9)
(38.5)	Interest cost	(31.2)
(6.2)	Contributions by scheme participants	(6.3)
	Remeasurement (gains) and losses:	
114.3	Actuarial gains & losses arising on changes in experience	
(271.8)	Actuarial gains & losses arising on changes in financial assumptions	48.9
17.1	Actuarial gains & losses arising on changes in demographic assumptions	
34.3	Benefits paid	29.9
(1.1)	Curtailments	(0.6)
4.3	Settlements	
(1,259.4)	**Closing balance at 31 March**	**(1,253.6)**

Reconciliation of fair value of the scheme assets:

2016/17		2017/18
£m		£m
708.7	**Opening balance at 1 April**	**813.7**
25.3	Interest Income	21.8
86.0	Return on plan assets, excluding the amount included in the net interest expense Actuarial gains / (losses)	11.1
(0.4)	Administration expenses	(0.4)
25.0	Employer contributions	70.9
6.1	Contributions by scheme participants	6.3
(34.3)	Benefits paid	(29.8)
(2.7)	Settlements	
813.7	**Closing balance 31 March**	**893.6**

28.4 Local Government Pension Scheme assets comprised

2016/17 £m		Quoted (Y/N)	2017/18 £m
	Equities:		
4.2	UK Quoted	Y	3.6
227.3	Overseas quoted	Y	255.5
219.4	Pooled Investment Vehicle - UK Managed Funds	N	218.9
243.4	Pooled Investment Vehicle - UK Managed Funds - (overseas equities)	N	294.0
	Bonds:		
2.7	UK Corporate	Y	3.6
41.6	Overseas Corporate	Y	39.3
	Property:		
22.9	European Property Fund	N	22.3
7.5	UK Property Debt	N	7.1
4.1	Overseas Property Debt	N	4.5
	UK Property Fund	N	3.6
	Alternatives:		
22.0	UK Infrastructure	N	30.4
	Cash:		
1.9	Cash Instruments	Y	2.7
4.9	Cash Accounts	Y	5.4
11.8	Net Current Assets	N	2.7
813.7	**Total**		**893.6**

28.5 Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The Local Government Pension Scheme has been

assessed by Mercer Ltd, an independent firm of actuaries, and estimates for the County Council fund are based on the latest full valuation of the scheme as at 31 March 2016, with an effective date of 1 April 2017.
The principal assumptions used by the actuary are:

2016/17		2017/18
	Mortality assumptions	
	Longevity at 65 for current pensioners (years):	
22.6	Men	22.7
25.6	Women	25.7
	Longevity at 65 for future pensioners (years):	
24.8	Men	24.9
27.9	Women	28.0
	Financial assumptions	
2.3%	Rate of CPI inflation	2.1%
3.8%	Rate of increase in salaries	3.6%
2.3%	Rate of increase in pensions	2.2%
2.5%	Rate for discounting scheme liabilities	2.6%

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.

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

	Increase in rate of	Increase (decrease) in Assumption
		£m
Discount Rate	0.1%	(21.4)
Inflation	0.1%	21.8
Pay	0.1%	2.6
Life Expectancy	1 year	24.8

28.7 Impact on the County Council's cash flows

The weighted average duration of the defined benefit obligation for scheme members is 17 years (2016/17 17 years).
The County Council anticipates payments of £23.3 million expected contributions to the scheme in 2018/19.

29. Cash – operating activities

2016/17		2017/18
£m		£m
0.3	Interest received	1.4
(14.3)	Interest paid	(28.5)

2016/17		2017/18
£m		£m
	The surplus/deficit on the provision of services has been adjusted for the following non cash movements	
42.6	Depreciation	37.6
7.7	Impairment and downward valuations	21.7
0.4	Amortisation	0.4
8.5	(Decrease)/ Increase in Creditors	(10.1)
(6.0)	(Increase) / decrease in Debtors	(19.4)
10.9	Movement in pension liability	(25.7)
(0.5)	(Increase)/ decrease in Inventories	0.1
31.5	Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	33.6
(8.0)	Other non –cash items	(9.1)
87.1		**29.1**
	The surplus/deficit on the provision of services has been adjusted for the following items that are investing or financing activities	
(2.7)	Proceeds from the sale property plant and equipment, investment property and intangible assets	(1.8)
(62.0)	Any other items for which the cash effects investing of financing cash flows	(60.2)
(64.7)		**(62.0)**

30. Cash - investing activities

2016/17		2017/18
£m		£m
(74.4)	Purchase of property, plant & equipment, investment property and intangible assets	(66.9)
(944.4)	Purchase of short-term & long-term investments	(817.9)
(35.8)	Other payments for investing activities	3.2
2.7	Proceeds from the sale of property, plant & equipment, investment property and intangible assets	1.8
968.4	Proceeds from short-term & long-term investments	836.9
62.0	Other receipts from investing activities	66.3
(21.5)	**Net cash flows from investing activities**	**23.4**

31. Cash – financing activities

2016/17		2017/18
£m		£m
36.8	Cash receipts of short-term & long-term borrowing	102.8
	Other receipts from financing activities	(1.2)
(2.8)	Cash payments for the reduction of the outstanding liabilities relating to finance leases & on-Balance Sheet PFI contracts	(6.2)
(7.5)	Repayments of short- and long-term borrowing	(25.6)
26.5	**Net cash flows from financing activities**	**69.8**

32. Accounting Policies

32.1 General Principles

The Statement of Accounts summarises the County Council's transactions for the 2017/18 financial year and its position at the year-end of 31 March 2018. The County Council is required by the Accounts and Audit Regulations 2015 to prepare an annual Statement of Accounts in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, supported by International Financial Reporting Standards (IFRS). The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

The Accounts have been prepared on a going concern basis, under the assumption that the Council will continue in existence for the foreseeable future.

32.2 Accounting for Agency Income

Accounting for Council Tax

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.

Accounting for National Non-Domestic Rates (NNDR)

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 NNDR arrears, impairment allowances, prepayments and overpayments in its underling accounting records. NNDR transactions and balances are allocated between the County Council, the District Councils and Central Government.

32.3 Accruals of Income and Expenditure

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

Revenue from the provision of services is recognised when the authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the authority.

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.

32.4 Better Care Fund

There is a Section 75 joint agreement relating to the commissioning of health and social care services in Worcestershire, which includes The Better Care Fund. It is a joint budget arrangement between the County Council, NHS Redditch and Bromsgrove Clinical Commissioning Group, NHS South Worcestershire Clinical Commissioning Group and NHS Wyre Forest Clinical Commissioning Group. Within the Section 75 agreement there are budgets controlled by the Clinical Commissioning Groups, budgets controlled by the County Council, pooled budgets (jointly controlled) and aligned budgets.

Where services are controlled by the County Council the income and expenditure is 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 budgets. Where services are hosted by the County Council, but controlled by the Clinical Commissioning Groups, the income and expenditure is not reflected in the County Council's accounts.

32.5 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.

32.6 Employee Benefits

Benefits Payable during Employment

Short-term benefits are those due to be wholly settled within twelve months of the year-end, including wages and salaries, paid annual and sick leave for current employees. They are recognised as an expense in the year in which the service is provided to the County Council.

Termination Benefits

Termination Benefits are payable as a result of a decision by the County Council to terminate an employee's employment before the normal retirement date or of an employee's decision to accept voluntary redundancy. They are charged in the year in which they are paid or on an accruals basis at the earlier of when the County Council can no longer withdraw the offer of those benefits or recognises costs for a restructuring.

Where termination benefits involve the enhancement of retirement benefits, the amount charged is the amount payable by the County Council to the Pension Fund or pensioner in the year rather than the amount calculated according to the relevant accounting standards.

Post-Employment Benefits

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 itself under national regulations. Subject to certain qualifying criteria, other employees are eligible to join the Local Government Pension Scheme;
- The Teachers' Pension Scheme (a defined contribution scheme), administered by the Teachers Pensions Agency on behalf of the Department for Education. This is an unfunded scheme and the pension cost charged to the accounts is the employer's contribution rate that has been set by the Department for Education on the basis of a notional fund; or

- The NHS Pension Scheme (a defined contribution scheme), administered by the Department for Health. This is an unfunded scheme administered by the NHS Superannuation scheme.

The Local Government Pension Scheme

The Local Government Scheme is accounted for as a defined benefits scheme. Employees who participate in the scheme earn benefits that will not be payable until retirement. The County Council has a commitment to make these payments and the accounts have been prepared to reflect the cost of providing retirement benefits in the accounting period in which they are earned.

Related finance costs and any other changes in the values of assets and liabilities are recognised in the accounting periods in which they arise, in accordance with International Accounting Standard 19 (IAS 19) and, on the advice of the Council's actuary, Mercer Limited, Technical Accounting Standard R: Reporting Actuarial Information and Technical Accounting Standard D: Data, issued by the Institute and Faculty of Actuaries.

The liabilities of the Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method, an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of earnings for current employees.

The assets of the Pension Fund attributable to the County Council are included in the Balance Sheet at their fair value, which is the current bid price. The change in the net pension's liability is analysed into the following components:

a) Service Cost comprising:

- current service cost - the increase in liabilities as a result of years of service earned in the current year,
- past service cost - the increase in liabilities arising from a scheme amendment or curtailment relating to service earned in prior periods,
- gains/losses on settlement - the result of actions to relieve the County Council of liabilities for all or part of the employee benefits provided under the plan.

b) Net interest cost is the change during the period in the net defined benefit liability (asset) that arises from the passage of time.

c) Re-measurements comprising:

- actuarial gains/losses (changes in the net pensions liability that arise because events have not followed assumptions in the last actuarial valuation or because the actuary has changed his assumptions)
- return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset),
- Any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset).

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 on the basis of cash flows and not as benefits are earned by employees.

32.7 Events after the Balance Sheet Date

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.

32.8 Fair Value Measurement

Assets and liabilities are measured in accordance with IFRS 13 Fair Value Measurement and the relevant Code provisions. Fair value is the price that would be received to sell an asset or paid to transfer a liability at measurement date. The County Council either uses appropriate valuation techniques or external valuers, in accordance with fair value measurement guidance.

Operational property, plant and equipment focus on valuing their service potential and operating capacity used to deliver goods and services. Only where property, plant and equipment are classified as surplus are they required to be measured at fair value, representing a measure of financial capacity and the opportunity cost of holding such assets.

Fair value measurements follow the IFRS13 hierarchy, which categorises the inputs to valuation techniques:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets or liabilities that the County Council can access at the measurement date
- Level 2 inputs – inputs other than quoted prices included with Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 inputs – unobservable inputs for the asset or liability

32.9 Financial Instruments

Financial instruments are contracts that give rise to a financial asset or financial liability and are represented by investments, borrowings, debtors, creditors and cash equivalents. They are recognised on the Balance Sheet when the County Council becomes party to the contractual provisions of the Financial Instrument and are carried at amortised cost.

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.

Loans and receivables 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 costs.

Financial Assets

Financial assets are classified as either:

- available for sale assets - those with a quoted market price and/or no fixed or determinable payments; or
- loans and receivables - assets that have fixed or determinable payments but are not quoted in an active market.

Fair value of assets and liabilities

Financial liabilities and financial assets are carried in the Balance Sheet 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.

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

32.10 Government Grants and Third Party Contributions

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.

32.11 Joint Arrangements

Joint Arrangements are activities undertaken by the County Council in conjunction with other entities to jointly control an asset. Joint control involves the contractually agreed sharing of control, such that decisions about the activities for the arrangement are given unanimous consent from all parties. Arrangements subject to joint control are classified as either a joint venture, under which we have rights to share net assets, or a joint operation, under which we have rights to particular assets, and obligation for particular liabilities.

32.12 Leases

Lease arrangements entered into by the County Council are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified

as operating leases. Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment, including PFI contracts, are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The County Council as a 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.

The County Council as a 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.

32.13 Local Authority Schools

The balance of control for local authority maintained schools lies with the local authority and the related assets, liabilities, reserves and cash flows are recognised in the County Council's financial statements.

PFI schools are considered to be controlled by the County Council through the PFI arrangements and are recognised on the Balance Sheet. Voluntary Aided, Voluntary Controlled schools and Trust schools are owned by the Diocese, Church of England or a separate Trust and there are no formal rights to use the assets through licence arrangements passed to the school or Governing Bodies; as a result these schools are not recognised on the Balance Sheet.

32.14 Minimum Revenue Provision (MRP)

MRP is a charge to the Comprehensive Income and Expenditure Accounts for the repayment of external borrowing required to finance capital expenditure in accordance with the Local Authorities (Capital Financing and Accounting) (England) (Amendment) Regulations 2008. The broad aim of the policy is to ensure that 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.

In 2016/17 Council approval was given to align pre 2008 long-term borrowing to the post 2008 method of matching the debt repayment to the average asset lives.

32.15 Overheads and Support Services

The costs of overheads and support services are charged to those services that benefit from the supply or service in accordance with the Code. The total absorption costing principle is used where the full cost of overheads and support services is shared between users in proportion to the benefits received.

32.16 Private Finance Initiative (PFI) and similar contracts

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide services passes to the PFI contractor. As the County Council is deemed to control the services that are provided under such schemes and as the ownership of the property, plant and equipment will pass to the County Council at the end of the contracts for no additional charge, the County Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

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.

32.17 Property, Plant and Equipment

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

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis in the accounts, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future

economic benefits or service potential (i.e. repairs and maintenance) is charged to the Comprehensive Income and Expenditure Statement when it is incurred.

Measurement

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located

The cost of assets acquired other than by purchase is at fair value, unless the acquisition does not have commercial substance (e.g. via exchange) where the cost of the acquisition is the carrying amount of the asset given up by the County Council.

Properties are revalued at least every five years and in accordance with the Royal Institution of Chartered Surveyors (RICS) Valuation Professional Standards 2014 UK Edition and are valued by an external suitably qualified valuer. A category of asset is chosen each financial year and revalued in entirety. Further revaluations are also carried out where there are known to have been material changes.

Where capital expenditure projects are practically completed in the financial year, the asset to which they relate will be revalued as long as the expenditure represents greater than 15% of the asset's opening net book value or is greater than £100,000.

Where non-property assets have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Where there is no market-based evidence of fair value because of the specialist nature of the asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

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

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

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment 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.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (e.g. freehold land and certain Community Assets) and assets that are not yet available for use (e.g. assets under construction). Where an item of Property, Plant and Equipment has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. An asset is not depreciated until it is available for use.

Depreciation is calculated on the following basis:

- depreciation is charged 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.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on the historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposals and transfers

Amounts received for disposals in excess of £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).

When a school converts to an Academy the transfer of the asset is for nil consideration.

32.18 Reserves

The County Council has set aside specific amounts as reserves for future policy purposes or to cover contingencies.

Reserves are reported in two categories:

Usable Reserves

Those reserves that the County Council may use 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).

Unusable Reserves

Unusable Reserves are those reserves that the County Council is not able to use to provide services. This category of reserves includes 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 the reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

32.19 Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the County Council has determined to meet the cost of this expenditure 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 then reverses out the amounts charged so that there is no impact on the level of council tax.

32.20 Revenue Recognition

Revenue is recognised when the following conditions have been satisfied:

- the amount of revenue can be measured reliably and
- it is probable that the economic benefits or service potential associated with the transaction will flow to the County Council

There is no difference between the delivery and payment dates for non-contractual, non-exchange transactions, i.e. revenue relating to council tax and general rates, and therefore these transactions shall be measured at their full amount receivable.

Revenue from the sale of goods is recognised when the County 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 County Council.

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. Accruals are raised for expenditure and income due in year but not made or received. Accruals are not made for amounts of less than £5,000, unless the manager feels it would improve the quality of information

32.21 Value Added Tax

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.

33. Future accounting standards

33.1 IFRS 9 Financial Instruments

The County Council will need to account for financial instruments in accordance with IFRS 9 Financial Instruments, IAS32 Financial Instruments: Presentation and IFRS 7 Financial Instruments: Disclosures. Further work will be undertaken during 2018/19 to ascertain the full impact of the change.

33.2 IFRS 15 Revenue recognition

The County Council will need to account for revenue recognition in accordance with IFRS 15 Revenue from Contracts with Customers and IPSAS 23 Revenue from Non-Exchange Transactions (Taxes and Transfers). For the County Council customer is taken to refer to service recipients and only contracts where the counterparty is a service recipient are affected. Further work will be undertaken during 2018/19 to ascertain the full impact of the change.

The standards above have no impact on the 2017/18 accounts.

34. Critical judgements in applying accounting policies

In applying the accounting policies set out in note 32, the County Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made are:

34.1 Consolidation of school activities

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.

Maintained schools comprise: Community, Voluntary Aided, Voluntary Controlled and Trust schools.

Academies and Free schools are not maintained by the County Council and are not included in the consolidation

Consolidation of other accounts held by schools such as school funds and devolved capital accounts were reviewed and judged to be immaterial, and are not recognised on the County Council's Balance Sheet.

34.2 Non-current assets (land and buildings) of maintained schools

The land and buildings are recognised in accordance with the asset recognition tests as they apply to the different type of arrangements. Where the County Council owns the land and buildings, or the right to their use has been transferred from another entity, the County Council recognises the asset on the Balance Sheet. Where the land and building is owned by another entity and there is a 'mere' licence to use, rather than a transfer of rights, then the County Council does not recognise the asset on the Balance sheet.

In 2014/15 the County Council completed a review of all maintained schools on a school-by-school basis. The County Council is not aware of any subsequent events that would have affected the review and therefore are confident to rely on this information as a methodology for confirming the accounting treatment of schools' land and building assets. The review was carried out by a working group comprising finance, legal, property and Children's services professionals and considered the requirements of the Schools Standards and Framework Act 1998, technical accounting guidance and the current treatment of school assets by the County Council. The review considered key issues, including legal ownership of the assets, who has access to the resource, the substantive rights conveyed and the treatment of any future economic benefits. The review has determined the following accounting treatments:

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;
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 date are treated as non-adjusting post balance date events. Details are given in Note 9 where the transfer has taken place at the time the accounts are closed.

34.3 PFI contracts

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.

34.4 PPE assets held for sale and surplus assets

The County Council has classified £6.1 million of PPE as Assets Held for Sale and £10.9 million surplus assets held for sale in accordance with accounting practice. These assets are judged to be actively marketed and, as such, are not depreciated.

34.5 Share holdings

The County Council owns shares with a fair value of £3.0 million in Malvern Hills Science Park. There are preference shares and 9% of the voting shares issued by the Company. This holding has been judged not to give the County Council a controlling influence.

34.6 Heritage assets

Heritage assets have been recognised in the accounts at insurance or historic cost values. Any variations to individual valuations will not have a material impact on the accounts.

34.7 Group accounts

The County Council has considered all significant relationships with companies and other entities in line with accounting standards and the Code of Practice on group accounts. This review considered all relationships for material interests that have the nature of subsidiaries, associates and jointly-controlled entities, including assessment of control by a single entity, joint control and materiality. There are no material interests and, as such, no group accounts. Details are given below:

- WM Energy is considered to be a Joint Venture but will not have a material impact on the accounts.
- Place Partnership Ltd is considered to be a joint operation but will not have a material impact on the accounts.
- The Section 75 agreement (including the Better Care Fund) is considered to be a joint operation. The County Council and the Clinical Commissioning Groups have reviewed the accounting treatment of all services within the agreement. Where services are controlled by the County Council the income and expenditure is reflected within the Net Cost of Services in the Comprehensive Income and Expenditure Statement.

Refer to note 12 for arrangements the County Council has with related parties.

35. Assumptions made about the future and estimate uncertainties

The Statement of Accounts contains estimated figures based on assumptions made by the County Council. Estimates are made taking into account historical experience, current trends and other relevant factors. There is, however, a risk that actual results could be materially different from the assumptions and estimates.

The items in the County Council's Balance Sheet at 31 March 2018 for which there is a significant risk of material adjustment in the forthcoming year are as follow

Item	Uncertainties	Effect if actual results differ from assumptions
Retirement benefits	Assumptions are applied by the Actuary in order to calculate the pension expense and liability. The actual amount to be recognised in the Balance Sheet at year end is unlikely to equal the projected amount mainly due to: Actual asset returns are likely to be different from those assumed; Actuarial assumptions at the end of the year could be different from those at the start of the year; Other actuarial experience over the year could be different from that assumed.	The effects on the pensions liability of changes in individual assumptions can be measured and the impact on the Balance Sheet deficit position are: +0.1% p.a. discount rate as at 31.03.17 £21.4 million reduction +0.1% p.a. inflation £21.9 million increase 1 year added to members' life expectancy £24.8 million increase +0.1% p.a. pay growth £2.7 million increase
Non-current assets - depreciation	Non-current assets held on the Balance Sheet have an estimated useful life. This is based on a professional judgement by the Valuer.	Depreciation is applied on a straight line basis over the useful life of the asset. Variations to the useful life will alter the amount of depreciation charged to the Comprehensive Income and Expenditure Statement. The impact of this is minimised by a review of the useful life of an asset being undertaken at each valuation.
Non-current assets – valuation	Non-current assets are valued by the County Council's Valuer on a five year rolling programme, unless events indicate that a more frequent interval is required.	The Valuer uses his professional knowledge of the market and other factors to arrive at an asset value. Variations to this value would result in increased or decreased depreciation and, potentially, impairment losses being charged to the Comprehensive Income and Expenditure Statement.

36. Events after the Balance Sheet date

The draft Statement of Accounts was authorised for issue by the Chief Financial Officer on 17 May 2018. Events taking place after this date are not reflected in the financial statements or notes. There have been no events which require the financial statements and notes to be adjusted.

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

To be inserted

Pension Fund Financial Statement

About the Accounts

This Statement of Accounts presents the overall financial position of the Pension Fund for the year ended 31 March 2018. The format of the Accounts is produced in accordance with best accounting practice, as set out in the Chartered Institute of Public Finance and Accountancy (CIPFA) example accounts.

1. **Explanatory Foreword and a Review of the Year 2017/18**
   Contains a review of the year and other general information about the accounts.

2. **The Worcestershire County Council Pension Fund Account**
   Details the money received and spent within the Pension Fund during 2017/18

3. **Net Assets Statement**
   Statement showing the Pension Fund's financial position at 31 March 2018.

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

5. **Statement of Accounting Policies**
   Accounting policies and procedures adopted by the County Council Pension Fund

1. Explanatory Foreword and a Review of the Year 2017/18

Foreword by the Chief Financial Officer

Welcome to the Worcestershire County Council Pension Fund 2017/18 Statement of Accounts. Worcestershire County Council administers the Local Government Pension Scheme (LGPS), which provides for the occupational pensions of employees, other than teachers, police officers, and fire fighters of the local authorities within the Herefordshire and Worcestershire area. Worcestershire County Council also operates the scheme for members of other organisations which have made admission agreements with the fund and designated bodies who have passed resolutions with Worcestershire County Council.

Table 1 aim and Purpose of the Scheme

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

Key headlines

- The value of the Fund's net assets increased by £220.1 million from £2,480.9 million at 31 March 2017 to £2,701.0 million at 31 March 2018:

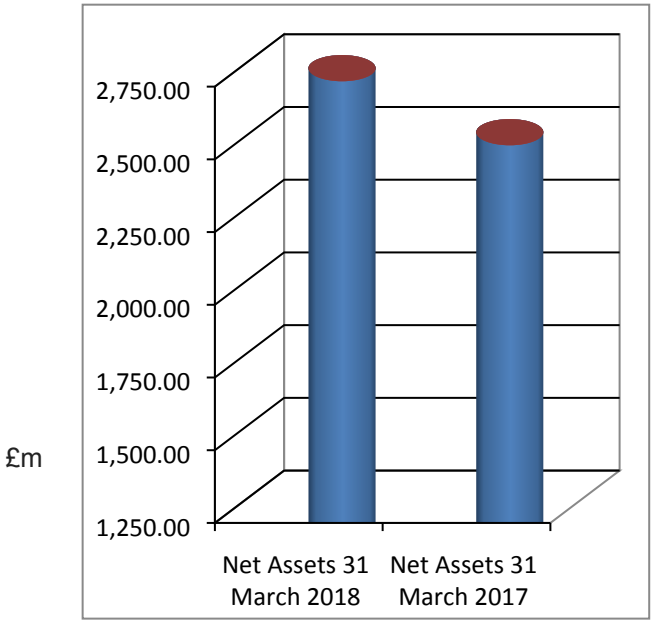
- Income from contributions increased by 70 %,(£195 million from £115 million) due mainly to some employers paying their 3 year pension contributions upfront. This equated to 66% of the total contributions received in 2017/18. Net investment earnings decreased by 73%, due to the transition of active equity investments to passively managed pooled funds and implementation of an equity protection strategy, whilst ongoing expenditure increased by 2.5%.

- The investment income associated with the passive managed pooled funds is retained within the pooled funds and reinvested increasing the value of the pooled funds' units and therefore increasing the market value of the Fund.

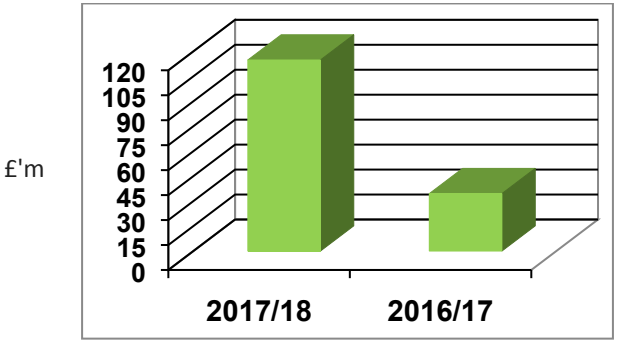
- Contributions from staff and employers exceeded benefits paid and management expenses in 2017/18 by £79.0million.

- During the year a surplus resulted on the Pension Fund account totalling for 2017/18 £114.8 million, an increase of £80.3 million from the surplus of £34.4 million for 2016/17. This was mainly due to some fund contributors paying their 3 years contributions up to the next valuation in 2019 to the value of £71.2m.

Fund's Net Asset Value £'m



Surplus on the pension fund account £'m



An analysis of changes within the fund's membership profile is displayed in Table 2 below:

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

	31 March 2017		31 March 2018	Change	Change %
Contributors to the fund	22,308		22,478	170	0.8
Pensions paid	16,918		17,507	589	3.5
Deferred members	19,970		20,351	381	1.9
	59,196		**60,336**	1,140	1.9

Governance

The Council has established a Pension Committee to exercise the Administering Authority's responsibility for the management of the Worcestershire County Council Pension Fund. The Pension Committee has overall responsibility for the management of the administration of the Fund and for the strategic management of the Fund's assets. In order to discharge its responsibility effectively The Pension Committee is supported by the Pension Administration Advisory Forum and the Pension Investment Advisory Panel.

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

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

Management of the fund's assets

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

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

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

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

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

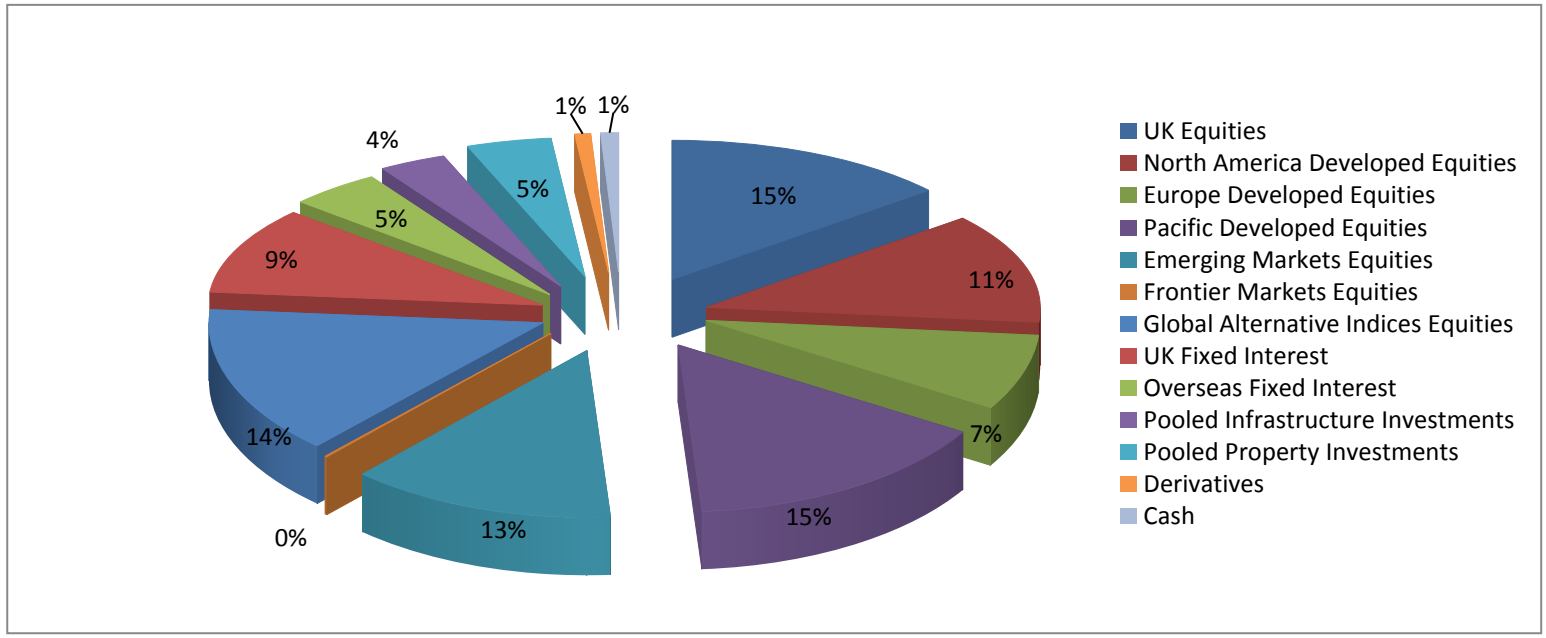
As at 31st March 2018 the 2016 strategic asset allocation review recommendation of a 15% commitment to 'Alternatives including property' continued to be implemented following investments into two pooled property funds; Invesco Real Estate UK Residential Fund, AEW UK Real Estate Fund and two pooled Infrastructure funds; Stone Peak Fund and First State European Diversification Fund (further top ups to these 2 funds were approved in December 2017). A further commitment to Hermes II a pooled infrastructure fund and a new Corporate Private Debt mandate with EQT were approved in March 2018 and are due to be implemented early 2018/19.

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

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

In December 2017 the Pensions Committee appointed River and Mercantile to implement and manage an Equity Protection Strategy using a 'static' options hedge solution. This was implemented during late February / early March 2018 and will cover a period up to the next actuarial valuation in 2019.
The following chart details the distribution of the fund's assets as at 31 March 2018:

Table 3 Distribution of the Funds Assets



On 25th November 2015, DCLG published its response to the May 2014 consultation (Opportunities for collaboration, cost savings and efficiencies). It said responsibility for asset allocation would stay with the 90 administering authorities and that savings could be delivered through the use of asset pooling and, in particular, collective investment vehicles. Worcestershire County Council Pension Fund in collaboration with eight other Local Authorities (Cheshire, Leicestershire, Shropshire, Staffordshire, the West Midlands, Derbyshire, Nottinghamshire, and the West Midlands Integrated Transport Authority) under the brand 'LGPS Central' submitted their initial proposals to the Government by 19th February 2016. On 15th July 2016 the eight Funds made a final submission that fully addressed the government's pooling criteria. The submission included a business plan to pool assets under a regulated structure and to be operational from 1st April 2018. On the 17 January 2018, LGPS Central Limited received Financial Conduct Authority (FCA) authorisation. The Company has been authorised

to operate as an Alternative Investment Fund Manager (AIFM) and became formally operational from the 1st April 2018.

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

Management of the fund's liabilities

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

- The Fund's assets of £1,952 million represented 75% of the Fund's past service liabilities of £2,606 million (the "Funding Target") at the valuation date. This is an increase on the 69% funded position as a result of the 2013 valuation.

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

- The deficit of £654 million would be eliminated by a contribution addition of £34 million per annum increasing at 3.7% per annum for 18 years.

The next actuarial valuation will be undertaken in 2019/20, with any changes to the employers' contribution rates being implemented with effect from 1 April 2020.
To meet the requirements of the Regulations, Worcestershire County Council as administering authority of the fund has set a clear long-term funding objective; to achieve and then maintain assets equal to 100% of projected accrued liabilities, assessed on an ongoing basis.

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

2. Worcestershire County Council Pension Fund Account

For the year ended 31 March 2018

2016/17 £m		Notes	2017/18 £m
	Dealings with members, employers and others directly involved in the fund		
107.8	Contributions	5	185.2
8.0	Transfers in from other pension funds	6	10.4
115.8			**195.6**
(95.5)	Benefits	7	(98.0)
(7.0)	Payments to and on account of leavers	8	(8.8)
(102.5)			**106.8**
13.3	**Net additions / (Withdrawals) from dealings with members**		**88.8**
(1.0)	Administrative expenses	9	**(0.8)**
(7.2)	Management expenses	10	**(9.0)**
5.1	**Net additions / (Withdrawals) including fund management and administrative expenses**		**79.0**
	Returns on investments		
30.4	Investment income	11	37.2
(1.0)	Taxes on income	12	(1.4)
494.1	Profit and losses on disposal of investments and changes in the market value of investments	13a & 14b	105.3
523.5	**Net return on investments**		**141.1**
528.6	**Net increase / (decrease) in the net assets available for benefits during the year**		**220.1**
1,952.3	**Opening fund net assets of the scheme**		**2,480.9**
2,480.9	**Closing fund net assets of the scheme**		**2,701.0**

3. Net Assets Statement for the year ended 31 March 2018

2016/17 £m		Notes	2017/18 £m
0.1	Long term Investment Assets	13	1.9
2,453.4	Investment Assets	13 & 14	2,692.6
22.4	Cash deposits	13	27.1
2,475.9			**2,721.6**
(5.2)	Investment Liabilities	13	(32.2)
12.0	Current Assets	16	25.6
1.4	Non-Current Assets	17	1.8
(3.2)	Current Liabilities	18	(15.8)
2,480.9	**Net Assets of the fund available to fund benefits at the period end**		**2,701.0**

The 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) are disclosed in the Actuarial Statement included in the Pension Fund Annual Report and note 2 to the accounts. Notes 13 and 14 provides details on the Fair Value of assets.

4. Notes to the Pension Fund Accounts

1. Description of Fund

a) General

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

In matters relating to the management of the Fund's assets the Pension Committee is advised in relation to asset allocation decisions and the monitoring of external managers' performance by the Pension Investment Advisory Panel, which includes an independent financial adviser and the scheme manager. The Pension 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 to be discussed quarterly at the Pension Administration Advisory Forum with any resulting recommendations considered by the Pension Committee.

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

b) Membership

A list of scheduled and admitted bodies contributing to the Fund is given in Note 25 to these accounts.

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

Organisations participating in the Worcestershire County Council Pension Fund include:

- Scheduled bodies, which are the local authorities and similar bodies whose staff are automatically entitled to be members of the fund.
- Admitted bodies, which are other organisations that participate in the fund under an admission agreement between the fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

There are 208 employer organisations within the Worcestershire County Council Pension Fund including Worcestershire County Council.

The following table provides detail of fund membership:

	31 March 2017	31 March 2018
Contributors to the fund		
County Council	8,049	8,083
Other employers	14,259	14,395
Total	**22,308**	**22,478**
Pensions paid		
County Council	4,721	4,968
Other employers	12,197	12,539
Total	**16,918**	**17,507**
Deferred members		
County Council	8,307	8,296
Other employers	11,663	12,055
Total	**19,970**	**20,351**
Total number of members in the fund	**59,196**	**60,336**

A separate detailed Annual Report and Accounts, including the Statement of Investment Principles, is available from the Chief Financial Officer, Worcestershire County Council, County Hall, Spetchley Road, Worcester, WR5 2NP. The report is also available on the Council's website: Link to follow

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active 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 2018. Employee contributions are matched by employers' contributions which are set based on triennial funding valuations. The last such valuation was at 31 March 2016. Currently, employer contribution rates range from 5.5% to 41.9% of pensionable pay. The common 2017/18 employer contribution rate for the fund is 15.3%. In order to ensure employer contribution increases, required by the fund's actuary following the 31st March 2013 actuarial valuation, remained affordable, the administering authority agreed with employers to phase in any increases in their Secondary rate over a period of up to 6 years.

d) Pension Benefits

Benefits payable from the fund are governed by the Superannuation Act 1972, the Local Government Pension Scheme Regulations 2013, the Local Government Pension Scheme (Transitional Provisions, Savings and Amendments) Regulations 2014 and the Local Government Pension Scheme (Management and Investment of Funds Regulations 2016).

Retirement Benefits

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 up-rated annually in line with the Consumer Price Index. Members in the 50/50 option build up a pension of a 98th of the pay received during that year, which is again protected against inflation.

Ill health pensions can be awarded based on one of three tiers for those that satisfy the scheme's criteria for permanent incapacity. Those in the 50/50 option have full ill-heath and death cover.

Membership that was built up before 1 April 2014 continues to provide benefits as it did at the time. Membership from 1 April 2008 to 31 March 2014 provides final salary pensions based on 60ths. Membership before that also provides final salary benefits based on 80ths. Members can normally exchange some annual pension for a larger lump sum at the rate of 1:12, i.e. every £1 of annual pension given up in exchange for £12 lump sum. HMRC limits apply.

Generally a minimum of two years membership is required to draw retirement benefits.

Age of retirement

- Normal pension age is 65 or State pension age, whichever is the later, but can be paid earlier:
- Pension benefits are payable at any age if awarded due to ill health
- Members may retire with unreduced benefits from age 55 onwards if their retirement is on the grounds of redundancy or business efficiency
- Members who have left employment may request payment of benefits from age 55 onwards, but actuarial reductions may apply where benefits come into payment before normal retirement age. Employer consent is required for members who left prior to 1 April 2014.
- Members who remain in employment may also ask to retire flexibly from age 55 onwards if they reduce their hours of work or grade. Employer consent is required and actuarial reductions may apply
- Payment of benefits may be delayed beyond normal pension age but only up to age 75.

There are also various protections regarding membership that are linked to earlier normal retirement ages that applied in earlier versions of the scheme.

Death Benefits In service

A lump sum death grant is payable, normally equivalent to three years assumed pay. The Administering authority has absolute discretion over the distribution of this lump sum among the deceased's relatives, dependants, personal representatives or nominees. Pensions may also be payable to the member's spouse, civil partner, eligible cohabiting partner and eligible children.

After retirement

A death grant is payable if less than ten years pension has been paid and the pensioner is under age 75 at the date of death, the balance of ten years pension is paid as a lump sum. Pensions are also normally payable to the member's spouse, civil partner, eligible cohabiting partner and any eligible dependent children.

Cost of Living Increases

Career average pensions that are being built up and pensions in payment are increased annually to protect them from inflation. Pension increases are currently in line with the Consumer Prices Index (CPI). Where a member has a guaranteed minimum pension (which relates to membership during SERPS prior to 5 April 1997) some of the pension increase may be paid with the State Pension.

Leaving before pension age

Members leaving before becoming entitled to receive pension benefits can apply for a refund of pension contributions paid if their scheme membership is less than two years. Members with more than two years membership have the option to defer their benefits in the fund until normal retirement age or transfer their benefits to another pension scheme.

Further details regarding LGPS benefits can be found at: www.worcestershire.gov.uk/pensions or Email: pensions@worcestershire.gov.uk

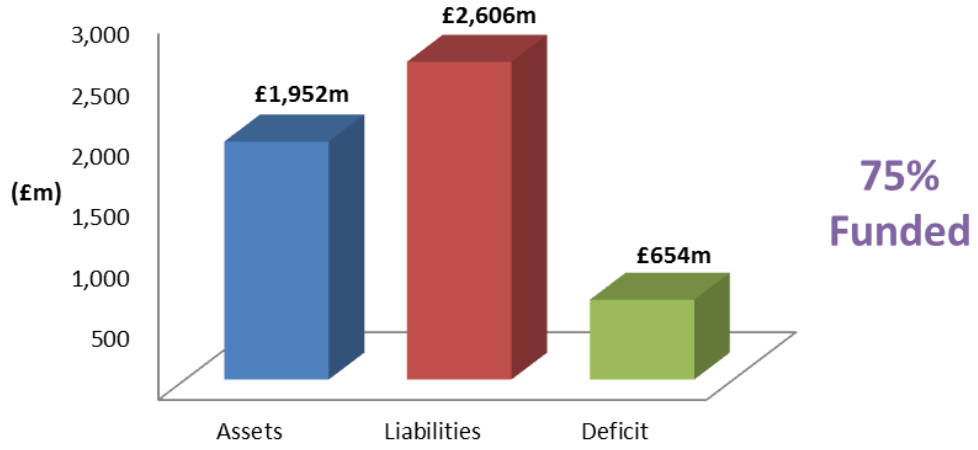
2. Actuarial Valuation and Actuarial Present Value of Promised Retirement Benefits

ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2018 - STATEMENT BY THE CONSULTING ACTUARY

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

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

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



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

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

The FSS sets out the process for determining the recovery plan in respect of each employer. At this actuarial valuation the average deficit recovery period adopted is 18 years, and the total initial recovery payment (the “Secondary rate”) for 2017/18 is approximately £34 million. This amount makes allowance for some employers to phase in any increases in their Secondary rate over a period of up to 6 years. For all other employers, their Secondary rate will increase at 3.7% per annum. Finally, some employers have opted to prepay their Secondary rate, either on an annual basis each April or by paying all 3 years’ total amount in April 2017. In each case, that contribution is discounted to reflect its earlier payment.

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

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

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

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

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

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2019. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2020.

Actuarial Present Value of Promised Retirement Benefits for the Purposes of IAS 26

IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed, and for this purpose the actuarial assumptions and methodology used should be based on IAS 19 rather than the assumptions and methodology used for funding purposes.

In order to assess the value of the benefits on this basis, we have used the same actuarial assumptions as those used for funding purposes, other than the discount rate where we have used a rate of 3.6% p.a. rather than the rate as outlined above. We have also used valuation methodology in connection with ill-health and death benefits which is consistent with IAS 19. On this basis, the value of the Fund's promised retirement benefits as at 31 March 2016 was £3,010 million.

Ian Kirk
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
April 2018

3. Pension Fund Investments 2017/18

The proportion of the market value of investment assets held by the external fund managers at the year-end was:

External Fund Manager	31 March 2017 £m	%	31 March 2018 £m	%
JP Morgan Asset Management (Bonds)	136.5	5	139.8	5
JP Morgan Asset Management (Emerging Markets)	153.0	6	173.5	6
Nomura Asset Management UK Ltd	390.4	16	420.5	16
Schroder Investment Management	163.0	7	187.3	7
Legal and General Asset Management	1,412.2	57	1,270.3	47
Green Investment Bank	49.4	2	49.2	2
Hermes	49.2	2	44.1	2
Invesco	66.7	3	70.2	3
VENN	22.9	1	26.3	1
Walton Street	13.6	1	17.3	1
AEW	0	0	18.8	1
Stonepeak	0	0	2.8	0
River and Mercantile	0	0	255.8	9
WCC Managed Account	8.4	0	5.1	0
	2,465.3	**100**	**2,681.0**	**100**

The following investments represent more than 5% of the net assets of the scheme:

Security	Market value 31 March 2017 £m	% of total fund	Market value 31 March 2018 £m	% of total fund
LGIM – UK Equity Index Pooled Fund	667.9	27.1	398.0	15.0
LGIM – North America Index Pooled Fund	289.3	11.7	293.1	11.0
River and Mercantile UK Gilts	0.0	0.0	228.3	8.6
LGIM – Europe (ex-UK) Index Pooled Fund	147.2	6.0	192.1	7.2
LGIM - FTSE Developed Equity Pooled Fund	95.0	3.9	155.3	5.8

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 £35.9 million (2017 £27.8million). 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 £38.3 million (2017 £29.5million) representing 107% of stock lent.

Income received from stock lending activities was £0.1million for the year ending 31 March 2018 (2017 £0.1million). This is included within the 'Investment Income' figure detailed on the Pension 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.

4. Events after the Balance Sheet Date

The Statement of Accounts was authorised for issue by the Chief Financial Officer on the 18th May 2018. 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. A £0.9m Capital call was made for one of the infrastructure funds in March 2018, but was paid in April; the figure for Contingent Liabilities has been adjusted for this.

5. Contributions Receivable

By category:		2016/17 £m	2017/18 £m
Employers			
	Normal contributions	46.3	52.9
	Deficit recovery contributions	36.8	36.5
	Augmentation contributions	2.7	2.0
	Additional Contributions	0.0	71.2
Employees			
	Normal contributions	21.6	22.3
	Additional contributions	0.4	0.3
		107.8	**185.2**

By authority:	2016/17 £m	2017/18 £m
Worcestershire County Council	30.8	77.9
Scheduled bodies*	62.0	91.6
Community admission bodies	5.5	6.5
Transferee admission bodies	8.7	8.2
Designated bodies	0.8	1.0
	107.8	**185.2**

* The increase in Scheduled Bodies' contributions is mainly a result of the maintained schools converting to Academies during 2017/18. Maintained schools are included within Worcestershire County Council's contributions, whilst Academies are Scheduled bodies in the Fund.

The Additional Contributions in 2017/18 were made to the Fund by Worcestershire County Council and other Employers (Bromsgrove District Council, Fortis Living, Herefordshire Housing Association, Hereford and Worcestershire Fire Authority, Redditch Borough Council, Regulatory Services, Sports partnership Hereford & Worcestershire, Trinity Academy, Worcester City Council, Worcestershire 6th Form College, Wychavon District Council and Wyre Forest District Council) , which represented 100% of the Employer Deficit recovery contributions and as well as Worcestershire County Council, other employers (Redditch Borough Council , Bromsgrove District Council, Wychavon District Council and Regulatory Services) paid 90% of the Normal Contributions due from the Council for each of the Financial years 2017/18, 2018/19 and 2019/20.

6. Transfers in and from other Pension Funds

	2016/17 £m	2017/18 £m
Individual transfers	8.0	10.4
	8.0	**10.4**

7. Benefits Payable

By category:	2016/17 £m	2017/18 £m
Pensions	77.3	80.4
Commutations and lump sum retirement benefits	16.0	15.7
Lump sum death benefits	2.2	1.9
	95.5	**98.0**

By authority:	2016/17	2017/18
	£m	£m
Worcestershire County Council	36.1	36.8
Scheduled bodies	48.4	50.5
Admitted bodies	1.6	1.9
Community admission bodies	6.2	5.5
Transferee admission bodies	2.7	2.6
Designated bodies	0.5	0.7
	95.5	**98.0**

8. Payments to and on Account of Leavers

	2016/17	2017/18
	£m	£m
Individual transfers	7.0	8.8
Group transfers	0.0	0.0
	7.0	**8.8**

At year-end there were no potential liabilities (2016/17 £0.2 million) in respect of individuals transferring out of the Pension Fund upon whom the fund is awaiting final decisions.

9. Administrative Expenses

	2016/17	2017/18
	£m	£m
Employee expenses	0.5	0.5
Support services	0.1	0.1
Actuarial services	0.2	0.2
Other expenses	0.2	0.0
	1.0	**0.8**

The audit fee for work completed by the Fund's external auditors for the year ended 31st March 2018 was £26,156 3.25% of total admin costs (£26,156 for the year ended 31st March 2017 2.60% of total admin costs).

10. Management Expenses

	2016/17 £m	2017/18 £m
Oversight and Governance	0.1	0.1
Investment Management Expenses		
Administration, management and custody fees	7.0	8.9
Other expenses	0.1	0.0
	7.2	**9.0**

10 a. Investment Management Expenses

	2016/17 £m	2017/18 £m
Management fees	5.6	7.7
Custody fees	0.3	0.3
Transaction costs	1.2	0.9
	7.1	**8.9**

The £9.0m management expenses incurred in 2017/18 represent 0.33% or 33basis points (bps) of the market value of the fund's assets as at 31st March 2018 (0.29% or 29bps 31st March 2017). The increase in management and investment expenses is mainly due to the addition of pooled property investments, pooled infrastructure investments and implementation of an Equity Protection Strategy to the fund's portfolio and the increase in the Fund's equities market value resulting in an increase in investment management fees that are based on the value of assets under management.

The cash for the pooled property investments, pooled infrastructure investment and Equity Protection solution 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 equity protection strategy was implemented to reduce the likelihood that further deficit contributions will be required at the 2019 valuation and seek to 'bank' some of the recent upside with a view to potentially reducing contributions at future valuations

* The Fund has applied CIPFA's guidance 'Accounting for Local Government Pension Scheme Management Costs', which requires external investment management fees and transaction costs to be deducted from asset values (rather than invoiced and paid directly). These are shown gross: the application of the guidance increases management expenses from £7.2 million to £9.0 million for 2017/18 (£5.1 million to £7.2 million for 2016/17). 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.

11. Investment Income

	2016/17 £m	2017/18 £m
Fixed interest securities	4.2	5.0
Equity dividends	18.4	22.0
Pooled Property investments	4.6	5.1
Pooled Infrastructure investments	2.9	4.7
Interest on cash deposits	0.2	0.4
Securities lending	0.1	0.0
	30.4	**37.2**

12. Taxes on Income

	2016/17 £m	2017/18 £m
Withholding tax – equities	(1.0)	(1.4)
	(1.0)	**(1.4)**

13. Investments

	Market value 31 March 2017 £m	Market Value 31 March 2018 £m
Long term Investment Assets		
LGPS Central –AFIM	0.1	0.5
LGPS Central shares	0.0	1.4
Investment assets		
Fixed interest securities	130.7	359.8
Equities	678.9	752.5
Pooled investment vehicles	1,434.9	1,292.0
Pooled property investments	101.5	128.5
Pooled Infrastructure investments	98.6	96.1
Derivatives - futures	0.1	54.7
Derivatives - forward FX	1.2	1.8
Cash deposits	22.4	27.1
Investment income due	5.3	6.5
Amounts receivable for sales	2.2	0.7
Total investment assets	**2,475.9**	**2,721.6**
Investment liabilities		
Derivatives - futures	(0.2)	(30.2)
Derivatives - forward FX	(0.2)	(0.2)
Amounts payable for purchases	(4.8)	(1.8)
Total investment liabilities	**(5.2)**	**(32.2)**
Net investment assets	**2,470.7**	**2,689.4**

13 a: Reconciliation of movements in investments and derivatives

-	Market value 31 March 2017 £m	Purchases during the year and derivative payments £m	Sales during the year and derivative receipts £m	Change in market value during the year £m	Market value 31 March 2018 £m
Long-term Investment Assets					
LGPS Central – AFIM	0.1	0.4	0.0	0.0	0.5
LGPS Central – Shares	0.0	1.4	0.0	0.0	1.4
	0.1	**1.8**	**0.0**	**0.0**	**1.9**
Investment Assets					
Fixed interest securities	130.7	324.8	(84.2)	(11.5)	**359.8**
Equities	676.2	277.7	(258.0)	56.6	**752.5**
Pooled investment vehicles	1,437.6	115.0	(290.3)	29.7	**1,292.0**
Pooled Property investments	101.5	51.6	(27.2)	2.6	**128.5**
Pooled Infrastructure investments	98.6	7.8	(16.5)	6.2	**96.1**
	2,444.6	**776.9**	**(676.2)**	**83.6**	**2,628.9**
Derivative contracts:					
Futures	(0.1)	49.3	(39.1)	14.4	**24.5**
Forward currency contracts	1.0	10.4	(16.5)	6.7	**1.6**
	2,445.6	**838.4**	**(731.8)**	**104.7**	**2,656.9**
Other investment balances:					
Cash deposits	22.4			0.6	27.1
Investment income due	5.3				6.5
Amount receivable for sales of investments	2.2				0.7
Amounts payable for purchases of investments	(4.8)				(1.8)
Net investment assets	**2,470.7**			**105.3**	**2,689.4**

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

	Market value 31 March 2016	Purchases during the year and derivative payments restated	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 March 2017
	£m	£m	£m	£m	£m
Long-term Investment Assets					
LGPS Central – AFIM	0.0	0.1	0.0	0.0	0.1
	0.0	**0.1**	**0.0**	**0.0**	**0.1**
Investment Assets					
Fixed interest securities	119.5	80.0	(85.5)	16.7	130.7
Equities	679.7	358.9	(534.8)	172.4	676.2
Pooled investment vehicles	947.8	362.9	(179.5)	306.4	1,437.6
Pooled Property investments	88.2	21.1	(16.1)	8.3	101.5
Pooled Infrastructure investments	72.2	27.3	(5.0)	4.1	98.6
	1,907.4	**850.2**	**(820.9)**	**507.9**	**2,444.6**
Derivative contracts:					
Futures	(0.1)	2.7	(2.9)	0.2	(0.1)
Forward currency contracts	2.6	30.7	(11.7)	(20.6)	1.0
	1,909.9	**883.7**	**(835.5)**	**487.5**	**2,445.6**
Other investment balances:					
Cash deposits	20.0			6.6	22.4
Investment income due	4.1				5.3
Amount receivable for sales of investments	3.8				2.2
Amounts payable for purchases of investments	(5.0)				(4.8)
Net investment assets	**1,932.8**			**494.1**	**2,470.7**

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

Transaction costs are not included in the cost of purchases and sale proceeds, as they have been included in Investment Management Expenses, as per CIPFA guidance. Transaction costs include costs charged directly to the scheme such as fees, commissions, and other fees. Transaction costs incurred during the 2017/18 year amounted to £0.8 million, (2016/17 £1.2 million). These transaction costs represent 0.03% or 3bps of the Market Value of the Fund's assets as at 31st March 2018 (5bps at 31st March 2017).

Indirect costs are incurred through the bid-offer spread on investments within pooled investments vehicles. The amount of indirect costs is not separately provided to the scheme.

Note 13 b: Analysis of Investments (excluding derivative contracts, cash and other investment balances)

	31 March 2017 £m	31 March 2018 £m
Long term Investment Assets		
LGPS Central – AFIM	0.1	0.5
LGPS Central - shares	0.0	1.4
	0.1	**1.9**
Fixed interest securities		
UK Gilts	0.0	228.3
UK corporate quoted	8.2	10.9
Overseas public sector quoted	0.0	0.0
Overseas corporate quoted	122.5	120.6
	130.7	**359.8**

Equities		
UK quoted	12.5	13.1
Overseas quoted	663.7	739.4
	676.2	**752.5**
Pooled Investment Vehicles		
Other UK managed funds – UK equities	667.9	398.0
– Overseas equities	436.5	485.2
– Global equities	307.8	387.1
Other overseas managed funds – Overseas equities	25.4	21.7
	1,437.6	**1,292.0**
Pooled Funds - Additional Analysis		
Pooled property investments - UK	23.0	45.1
Pooled property investments - overseas	78.5	83.4
	101.5	**128.5**
Pooled Infrastructure investments - UK	98.6	96.1
	98.6	**96.1**
Derivatives - futures	0.1	54.7
Derivatives - forward FX	1.2	1.8
Cash deposits	22.4	27.1
Investment income due	5.3	6.5
Amounts receivable for sales	2.2	0.7
Total investment assets	**2,475.9**	**2,721.6**

Investment liabilities		
Derivatives - futures	(0.2)	(30.2)
Derivatives - forward FX	(0.2)	(0.2)
Amounts payable for purchases	(4.8)	(1.8)
Total investment liabilities	**(5.2)**	**(32.2)**
Net investment assets	**2,470.7**	**2,689.4**

Analysis of derivatives

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 investment managers.
In 2017/18 the Pension Fund entered into a contract with River and Mercantile, to hedge the recent gains in Equities. This involved entering into exchange-traded options on 3 major indices and purchasing a collateral pool of Gilts.

a) Futures

The fund's investment managers hold cash balances in order to ensure efficient and timely trading when opportunities arise. The fund's management did not want this cash to be 'out of the market' and so enabled a number of investment managers to buy and sell futures contracts which had an underlying economic value broadly equivalent to the cash held. The economic exposure represents the notional value of the stock purchased under futures contracts and is therefore subject to market movements. The portfolio cannot be geared to and must have the liquidity needed to cover open positions. Derivative receipts and payments represent the realised gains and losses on futures contracts.

b) Forward foreign currency

In order to maintain appropriate diversification and to take advantage of overseas investment returns, the Fund's bond mandate targets outperformance against a global benchmark index. To reduce volatility associated with the fluctuating currency rates, the fund has enabled the bond mandate investment manager to purchase and sell forward foreign currencies as a hedge.

Futures

Outstanding exchange traded futures contracts are as follows:

Assets

Type of future	Expiration	Economic Exposure Value	Market Value 31 March 2017	Economic Exposure Value	Market Value 31 March 2018
		£m	£m	£m	£m
UK gilt exchange traded	Less than one year	0.3	0.0	0	0.0
UK FTSE exchange traded option	Greater than 1 year	0.0	0.0	0	25.9
EUROSTOXX exchange traded option	Greater than 1 year	0.0	0.0	0	14.3
US S+P exchange traded option	Greater than 1 year	0.0	0.0	0	14.3
Overseas exchanged traded	Less than one year	29.4	0.1	24.9	0.2
Total assets			**0.1**		**54.7**

Liabilities

Type of future	Expiration	Economic Exposure Value	Market Value 31 March 2017	Economic Exposure Value	Market Value 31 March 2018
		£m	£m	£m	£m
UK gilt exchange traded	Less than one year	0.0	0.0	(1.4)	0.0
UK FTSE exchange traded option	Greater than 1 year	0.0	0.0	0.0	(10.0)
EUROSTOXX exchange traded option	Greater than 1 year	0.0	0.0	0.0	(11.3)

US S+P 500 exchange traded option	Greater than 1 year	0.0	0.0	0.0	(8.7)
Overseas exchanged traded	Less than one year	(21.3)	(0.2)	(19.6)	(0.2)
Total liabilities			**(0.2)**		**(30.2)**
Net futures			**(0.1)**		**24.5**

Open forward currency Contracts as at 31 March 2018

Settlement	Currency Bought	Local Currency Value m	Currency Sold	Local Currency Value m	Asset Value £m	Liability Value £m
One to six months	EUR	39.6	GBP	34.7	0.0	
One to six months	GBP	35.1	EUR	39.7	0.3	
One to six months	GBP	96.2	USD	1.3	1.4	
One to six months	HKD	10.2	USD	1.3	0.0	
One to six months	USD	0.2	EUR	0.2	0.0	
One to six months	USD	129.6	GBP	92.3	0.1	
One to six months	USD	0.1	HKD	1.0	0.0	
One to six months	USD	0.5	ZAR	6.0	0.0	
One to six months	EUR	0.5	GBP	0.5		0.0
One to six months	GBP	35.1	EUR	40.0		0.0
One to six months	GBP	91.0	USD	128.0		(0.2)
One to six months	USD	5.3	GBP	3.9		0.0
One to six months	USD	0.2	INR	11.3		0.0
					1.8	**(0.2)**

Net forward currency contracts at 31 March 2018		**1.6**
Prior year comparative:		
Open forward currency contracts at 31 March 2017	**1.2**	**(0.2)**
Net forward currency contracts at 31 March 2017		**1.0**

Analysis of Cash

Cash	2016/17 £m	2017/18 £m
Cash deposits	13.7	19.4
Cash instruments	8.7	7.7
	22.4	**27.1**

Note 14: Financial Instruments

Note 14 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. No financial assets were reclassified during the accounting period.

Designated as fair value through profit and loss 31 March 2017	Loans and receivables 31 March 2017	Financial liabilities at amortised cost 31 March 2017		Designated as fair value through profit and loss 31 March 2018	Loans and receivables 31 March 2018	Financial liabilities at amortised cost 31 March 2018
£m	£m	£m		£m	£m	£m
			Financial assets			
		0.0	Other share capital			1.9
130.7			Fixed interest securities	359.8		
676.2			Equities	752.5		
1,437.6			Pooled investment vehicles	1,292.0		
101.5			Pooled property investments	128.5		
98.6			Pooled Infrastructure investments	96.1		
0.1			Derivatives - Futures	54.7		
1.2			Derivatives - Forward FX	1.8		
	25.2		Cash		33.7	
7.5			Other investment Balances	7.2		
	9.2		Current assets		19.0	
	1.4		Non-current assets		1.8	
2,453.4	**35.8**	**0.0**		**2,692.6**	**54.5**	**1.9**

Designated as fair value through profit and loss 31 March 2017 £m	Loans and receivables 31 March 2017 £m	Financial liabilities at amortised cost 31 March 2017 £m		Designated as fair value through profit and loss 31 March 2018 £m	Loans and receivables 31 March 2018 £m	Financial liabilities at amortised cost 31 March 2018 £m
			Financial liabilities			
(0.2)			Derivatives - Futures	(30.2)		
(0.2)			Derivatives - Forward FX	(0.2)		
(4.8)			Other investment balances	(1.8)		
		(3.2)	Current liabilities			(15.8)
(5.2)	**0.0**	**(3.2)**		**(32.2)**	**(0.0)**	**(15.8)**
2,448.2	**35.8**	**(3.2)**		**2,660.4**	**54.5**	**(13.9)**

Note 14 b: Net gains and losses on financial instruments

31 March 2017 £m		31 March 2018 £m
	Financial assets	
507.9	Fair value through profit and loss	83.6
6.6	Loans and receivables	0.6
	Financial liabilities	
(20.4)	Fair value through profit and loss	21.1
494.1	**Total**	**105.3**

Fair value through profit and loss is the combination of realised and unrealised profit and loss. The large increase, following on from previous decrease is a result of volatility in global equity markets since 2015/16 and the decrease in the value of Sterling resulting in an increase the value of the Fund's overseas investments when converted back to Sterling.

The Fund has not entered into any financial guarantees that are required to be accounted for as financial instruments.

Note 14 c: Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed interest securities and quoted index linked securities.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

Financial instruments at level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3

Financial instruments at level 3 are those where at least one input could have a significant effect on the instrument's valuation is not based on observable market data.

Such instruments would include unquoted equity investments, pooled property investments and pooled infrastructure investments which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The following table provides an analysis of the financial assets and liabilities of the pension fund into levels 1 to 3, based on the level at which the fair value is observable:

Values at 31 March 2018	Quoted market price Level 1 £m	Using observable inputs Level 2 £m	With significant unobservable inputs Level 3 £m	£m
Fair Value Financial assets				
Financial assets at fair value through profit and loss	1,119.5	1,348.5	224.6	2,692.6
Loans and receivables	54.5	0.0	.0.	54.5
Total fair value financial assets	**1,174.0**	**1,348.5**	**224.6**	**2,747.1**
Fair Value Financial Liabilities				
Financial liabilities at fair value through profit and loss	0.0	(32.2)	0.0	(32.2)
Total fair value financial liabilities	**0.0**	**(32.2)**	**0.0**	**(32.2)**
Net fair value financial assets	**1,174.0**	**1,316.3**	**224.6**	**2,714.9**

Values at 31 March 2017	Quoted market price Level 1 £m	Using observable inputs Level 2 £m	With significant unobservable inputs Level 3 £m	£m
Fair Value Financial assets				
Financial assets at fair value through profit and loss	814.4	1,438.9	200.1	2,453.4
Loans and receivables	35.8	0.0	0.0	35.8
Total fair value financial assets	**850.2**	**1,438.9**	**200.1**	**2,489.2**
Fair Value Financial Liabilities				
Financial liabilities at fair value through profit and loss	0.0	(5.2)	0.0	(5.2)
Total fair value financial liabilities	**0.0**	**(5.2)**	**0.0**	**(5.2)**
Net fair value financial assets	**850.2**	**1,433.7**	**200.1**	**2,484.0**

Level 3 Investments: Further analysis

Sensitivity Analysis	Valuation range +/- %	Value as at 31st March 2018 £m	Valuation Increase £m	Valuation Decrease £m
Pooled Investments - Property Funds	7%	128.5	137.5	119.5
Pooled Investments - Infrastructure Funds	7%	96.1	102.8	89.4
Total		**224.6**	**240.3**	**208.9**

Reconciliation of Fair Value Measurements within Level 3

Investment Movement	Pooled Investments – Property Funds £m	Pooled Investments –Infrastructure Funds £m	£m
Market Value 1st April 2017	101.5	98.6	**200.1**
Transfers into Level 3	0.0	0.0	**0.0**
Transfers out of Level 3	0.0	0.0	**0.0**
Purchases and derivative Payments	51.6	7.8	**59.4**
Sales and derivative receipts	(27.2)	(16.5)	**(43.7)**
Unrealised gains/(losses)	2.5	3.8	**6.3**
Realised gains/(losses)	0.1	2.4	**2.5**
Market value 31st March 2018	**128.5**	**96.1**	**224.6**

Unrealised and realised gains and losses are recognised in the profit and losses on disposal and changes in the market value of investments line of the fund account.

Note 15: Nature and extent of Risks arising from Financial Instruments

In the course of every day operating, the Pension 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 Pension Fund Statement of Investment principles the Fund holds equity and bond instruments in order to meet the Fund's 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:
- avoiding the possibility of loss, or
- limiting a deficiency in the underlying Fund, or
- 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 2018:

- 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 1000 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.

Interest rate risk has been reduced through the holding of fewer bonds as a percentage of the Fund's total assets.

Foreign Exchange risk exists in relation to the Fund's overseas equity investments. The Fund runs un-hedged equity portfolios and therefore is subject to currency fluctuations. It is the administering authority's view that in the long-run currency volatility trends to an average of nil against Sterling and therefore any hedging of currency would just be an additional cost to the Fund.

The Fund contracts Portfolio Evaluation Ltd to independently measure the Fund's investment returns and the Fund's absolute and relative risk for each portfolio and also the Fund as a whole. The Fund receives quarterly reports from Portfolio Evaluation Ltd listing returns and risk. The Fund's Independent Financial Adviser also provides a yearly report to the Pension Investment Advisory Panel, providing details of the Fund's risk and comparisons to other LGPS Funds.

Equity risk analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the fund's independent financial adviser and Portfolio Evaluation Ltd, the Fund has determined that the following movements in market price risk are reasonably possible for the 2017/18 reporting period:

Asset Type	Potential Market Movements (+/-)
Fixed interest securities	3.4 %
UK equities	8.2 %
Overseas equities	12.5%
UK pooled investment vehicle	8.2%
Overseas pooled investment vehicle	12.4%
Global pooled investment vehicle	12.4%
Pooled property investments	7.4%
Pooled Infrastructure investments	7.4%

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 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 13):

Asset Type	Value as at 31 March 2018	Percentage change	Value on increase	Value on decrease
	£m	%	£m	£m
Cash and cash equivalents	27.1	0.0%	27.1	27.1
Investment portfolio assets:				
UK fixed interest securities	10.9	3.4%	11.3	10.5
Overseas fixed interest securities	120.6	3.4%	124.7	116.5
UK equities	13.1	8.2%	14.2	12.0
Overseas equities	739.4	12.5%	832.1	646.7
UK pooled investment vehicle	398.0	8.2%	430.5	365.5
Overseas pooled investment vehicle	506.9	12.4%	569.8	444.0
Global pooled investment vehicle	387.1	12.4%	435.1	339.1
Pooled property investments	128.5	7.4%	138.0	119.0
Pooled Infrastructure investments	96.1	7.4%	103.2	89.0
Net derivative assets	26.1	0.0%	26.1	26.1
Investment income due	6.5	0.0%	6.5	6.5
Amounts receivable for sales	0.7	0.0%	0.7	0.7
Amount payable for purchases	(1.8)	0.0%	(1.8)	(1.8)
Total	**2,459.2**		**2,717.5**	**2,200.9**

Interest rate risk analysis

The fund's direct exposure to interest rate movements as at 31 March 2018 and 31 March 2017 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 2017	Value as at 31 March 2018
	£m	£m
Cash and cash equivalents	22.4	27.1
Cash balances	2.8	6.6
Fixed interest securities	130.7	359.8
Total	**155.9**	**393.5**

Interest rate risk sensitivity analysis

The Fund recognises that interest rates can vary and can affect both income to the fund and the value of the net assets available to pay benefits. The Council's treasury management adviser, Link Asset Services, has advised that medium to long-term average rates are expected to move less than 100 basis points from one year to the next and experience suggests that such movements are likely.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits as at 31 March 2018 of a +/- 100 Basis Points (BPS) change in interest rates:

Asset Type	Carrying amount as at 31 March 2018	Change in year in the net assets available to pay benefits	
		+ 100 BPS	- 100 BPS
	£m	£m	£m
Cash and cash equivalents	27.1	27.3	26.8
Cash balances	6.6	6.7	6.5
Fixed interest securities	359.8	363.4	356.2
Total change in assets available	**393.5**	**397.4**	**389.5**

A 1% increase in interest rates will not affect the interest received on fixed income but will reduce their fair value and vice versa. Changes in interest rates do not impact the value of cash deposits / cash and cash equivalent balances but they will have a small effect on the interest income received on those balances. Charges to both the fair value of assets and the income received from investments impact on the net assets available to pay benefits.

Currency Risk

The following table summarises the fund's currency exposure as at 31 March 2018 and as at the previous period end:

Currency exposure - asset type	Asset value as at 31 March 2017	Asset value as at 31 March 2018
	£m	£m
Overseas quoted securities	663.7	739.4
Overseas pooled investment vehicle	461.9	506.9
Global pooled investment vehicle	307.8	387.1
Overseas pooled property investments	78.5	83.4
Total overseas assets	**1,511.9**	**1,716.8**

Overseas bonds are 100% hedged to GBP at 31 March 2018.

Currency Risk – Sensitivity analysis

Following analysis of historical data in consultation with the fund's performance measurement provider, the Council considers the likely volatility associated with foreign exchange rate movements to be 8.1% (as measured by one standard deviation).

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

An 8.1% 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 2018	Change to net assets available to pay benefits	
		+8.1%	-8.1 %
	£m	£m	£m
Overseas quoted securities	739.4	799.3	679.5
Overseas pooled investment vehicle	506.9	548.0	465.8
Global pooled investment vehicle	387.1	418.5	355.7
Overseas pooled property investments	83.4	90.2	76.6
Total change in assets available	**1,716.8**	**1,856.0**	**1,577.6**

Credit Risk

Credit risk is an investor's risk of loss arising from a borrower who does not make payments as promised. In essence the fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivatives position, where the risk equates to the net market value of a positive derivative position. However the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner. Investment restrictions are listed in the contract held with the manager, which limit the amount of credit risk the manager is allowed to take and also states an average credit rating with regards to bonds held that should be maintained.

The bond manager provides a quarterly investment report to the Fund, which details the credit risk held in the portfolio. The Fund's Independent Financial Adviser also provides a yearly report to the Pension Investment Advisory Panel, providing details of the Fund's bond portfolio absolute and relative risk.
Deposits are not made with banks and financial institutions unless they are rated independently and have a strong credit rating. In addition, the Council invests an agreed percentage of its funds in the money markets to provide diversification. Money market funds chosen all have an 'AAA' rating from a leading rating agency.

The fund's cash holding at 31 March 2018 was £33.7million (31 March 2017: £25.2million). This was held with the following institutions:

Summary	Rating	Balances as at 31 March 2017 £m	Balances as at 31 March 2018 £m
Money market funds			
BNY Mellon Sterling Liquidity Fund	AAA	0.2	2.7
BNY Mellon US Dollar Liquid Fund	AAA	4.5	3.2
BNY Mellon US Dollar	AAA	0.0	0.0
JPM liq-ster Liquidity-x	AAA	2.3	0.8
JPM liq-USD Liquidity-XDI	AAA	1.7	1.1
Bank deposit accounts			
The Bank of New York Mellon	A-1+	13.7	19.3
Bank current accounts			
Barclays Bank PLC	A-1	2.8	6.6
Total		**25.2**	**33.7**

Liquidity Risk

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

Note 16: Current assets

	2016/17 £m	2017/18 £m
Contributions due from employer in respect of:		
Employer	5.0	5.5
Members	1.8	2.1
Magistrates Courts Bulk Transfer Payment Due	0.7	0.4
Augmentation	1.2	0.9
Cash balances	2.8	6.6
Other Debtors	0.5	10.1
	12.0	**25.6**

Other debtors have increased due mainly to cash outstanding from fund managers that has been received early in 2018/19

Note 17: Non-current assets

	2016/17 £m	2017/18 £m
Magistrates Courts Bulk Transfer Payment Due	1.3	0.8
*LGPS Central Capital Advance treated as loan	0.0	0.7
Augmentation	0.1	0.3
	1.4	**1.8**

*This was part of the regulatory capital required to set up the company LGPS Central which is detailed in the foreword

Note 18: Current liabilities

	2016/17 £m	2017/18 £m
Investment management expenses	(1.3)	(7.0)
Payroll and external vendors	(1.5)	(5.1)
Other expenses	(0.4)	(3.7)
	(3.2)	**(15.8)**

Increase due to outstanding fund manager fees and Fund manager draw down for Walton Street and outstanding pension payments

Note 19: Analysis of debtors and creditors

Analysis of debtors

	31 March 2017 £m	31 March 2018 £m
Central government bodies	2.0	2.4
Other local authorities	5.6	6.2
Other entities and individuals	3.0	11.6
	10.6	**20.2**

Analysis of creditors

	31 March 2017 £m	31 March 2018 £m
Central government bodies	(1.3)	(0.2)
Other local authorities	(1.5)	(6.9)
Other entities and individuals	(0.4)	(8.7)
	(3.2)	**(15.8)**

Note 20. Related Party Transactions

Worcestershire County Council

The Worcestershire County Council Pension Fund is administered by Worcestershire County Council. Consequently there is a strong relationship between the Council and the Pension Fund.

The Council incurred costs of £0.8 million in 2017/18 (2016/17: £1.0 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 pension fund and contributed £77.6 million to the fund in 2017/18 (2016/17: £29.9 million). However £46.9 million related to the payment of contributions for years 2 and 3 up to the next valuation.

Scheduled, Admitted and Resolution bodies of the Fund are also related parties and are listed in note 25 to the accounts. Transactions with these bodies are disclosed on an aggregate basis in notes 5, 7, 16, 17, 18 and 19 to the accounts.

LGPS Central Ltd has been established to manage investment assets on behalf of nine Local Government Pension Scheme (LGPS) funds across the Midlands. It is jointly owned in equal shares by the eight administering authorities participating in the Pool. No services were provided by LGPS Central Ltd during 17/18 as operation only commenced in April 2018. £1.315 million has been invested in share capital and £0.685 million in a loan to LGPS Central during the year. These are the balances at year end.

£0.4 million has been spent by Worcestershire County Council Pension Fund on setting up LGPS Central during the year. These costs were borne by West Midlands Pension Fund and then recharged equally to the administering authorities. A total of £0.4 million is due to be refunded to Worcestershire County Council Pension Fund by LGPS Central during 2018/19 reflecting the cost of setting up the enterprise to the end of March 18.

Key Management Personnel

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

	2016/17	2017/18
	£000	£000
Short term benefits*	46	33
Long term/ post-retirement benefits**	364	418
	410	**451**

*This is the pension's element of short term remuneration for key management personnel, i.e. annual salary, benefits in kind and employer contributions

**This is the accrued pension benefits, expressed as cash equivalent transfer value.

Governance

The Pensions Committee Employer Representative, Employee Representative and Chief Financial Officer are active members of the Fund.

Note 21. Contingent liabilities

Outstanding capital commitments (investments) at 31 March 2018 totalled £267.6 million (31 March 2017: £31.7 million).

These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the Pooled Property Investments and Pooled Infrastructure investments part of the portfolio. The amounts 'called' by these funds are irregular in both size and timing over a period of between one and three years from the date of the original commitment.

Note 22. Contingent assets

The Councils below have provided guarantees to a number of organisations that have been admitted to Worcestershire County Council Pension Fund, to fund any potential pension liability. The organisations with a pension liability in excess of £195,000 (which the Council considers to be material for these purposes) are:-

- Balfour Beatty Living Places (£0.740milllion), **Herefordshire County Council**
- Hoople Ltd joint venture company (£0.500million) **Herefordshire County Council**
- Civica UK Ltd (£0.360million) **Wychavon District Council**
- Bromsgrove District Housing Trust (£0.610 million) **Bromsgrove District Council**

There are a further 27 organisations with a pension liability less than £195,000. The Council 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 are satisfied that they do not represent a significant potential liability for the Council.

Eleven admitted body employers in the Worcestershire County Council Pension 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 pension fund and payment will only be triggered in the event of employer default. No bonds were called upon in this financial year.

Note 23. Additional voluntary contributions

The amounts administered under AVC arrangements during 2017/18 are as follows:

	2016/17	2017/18
	£m	£m
Contributions received	0.1	0.2
Investments purchased	0.1	0.2
Change in market value	(0.1)	0.3
Retirement benefits paid or transferred	0.3	0.4

The combined value of the AVC funds at 31 March 2018 was £2.9 million, (31 March 2017 £2.2 million).

In accordance with Regulation 5(2) (c) of the Pension Scheme (Management and Investment of Funds) Regulations 1998 these amounts are not included in the Pension Fund Accounts but are disclosed as a note only.

Note 24. Agency Services

The Worcestershire County Council Pension 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.

	2016/17	2017/18
	£m	£m
Payments on behalf of Herefordshire County Council	0.1	0.1
	0.1	**0.1**

Note 25. Participating Employers of the Fund at 31 March 2018

Scheduled Bodies

Worcestershire County Council
Advance Trust/Vale of Evesham School
Alvechurch Middle
Ashperton Primary School Academy
Aspire Academy
Astwood Bank 1st School
Barrs Court Special School & College
Bengeworth First School
Birchen Coppice Primary School
Bishop Perowne Academy

Marden Primary School Academy
Matchborough First
Mordiford Academy

N E W College
Newbridge Advance Trust
Nunnery Wood Academy
Oasis Community Learning (Warndon Primary)

Our Lady of Lourdes Academy

Bredon Hill Middle
Brockhampton Academy
Bromsgrove District Council
Brookfield School
Building Control
Burghill Community Primary School
Burley Gate Primary
Canforth Academy
Canon Pyon Academy
Chantry Academy
Christopher Whitehead Academy
ContinU Plus
Crabbs Cross
Diocese of Worcs MAT
Droitwich Academy
Dyson Perrins Academy
Farifield High School
Gorse Hill Academies
Great Malvern Academy
Great Witley Primary
H & W Community Council
H & W Fire Authority
Hanley Castle Academy
Haybridge Academy
Hereford Academy
Hereford College of Art
Hereford College of Technology
Hereford Marches Fed of Academies
Hereford Sixth Form College
Hereford Steiner Academy
Herefordshire (unitary)

Perry Wood Prim & Nursery(Griffin Sch T)
Pershore Academy
Prince Henry's High School
Probation
Queen Elizabeth Academy
Reach Assisted Living
Redditch Borough Council

Redditch RSA Academies Trust
Regency High School
Regulatory Services (Broms)
Ridgeway Academy
Riversides Academy
Robert Owen Free School Academy
Somers Park Academy
South Bromsgrove High School - Academy
South Worcestershire Coll (Was Evesham & Malvern Hills College)
South Worcestershire ICT Shared Services
St John's CofE Middle
St Matthias Academy
St Michaels Primary
St Nicholas Owen Catholic Multi Academy Company
St Pauls C of E Academy
St Thomas Cantilupe Academy
Stourport Academy
Stretton Sugwas Academy
Suckley Academy
Tenbury academy
Tenbury High School
The Coppice Primary Academy
The Vaynor Academy

HIBOS
Holmer Primary School
Holy Fam MAC St Marys Broadway
Holy Fam MAC St Marys Evesham
Honeybourne Primary Academy
Ipsley CE RSA Academy
John Kyrle High & 6th Form
John Masefield High School & Sixth Academy
Joint Museum Shared Services
Kidderminster College of F E
King Charles Academy
Kingfisher Academy
Kingstone High School
Lady Hawkins Academy
Lickhill Academy
Llangrove Academy
Lugwardine Academy
Malvern Hills District Council
Malvern the Chase Academy
The Villages MAT
Trinity Academy
Tudor Grange
Tudor Grange Academy Redditch
University College Worcester
Valuation & Community Charge Tribunal
Walkwood Middle
Waseley Hills Academy
Webheath Academy
West Mercia Police & Crime Commissioner
West Mercia Police Authority
Whitecross Hereford
Woodfield Academy
Woodrush Academy
Worcester City Council
Worcester College of Technology
Worcester Sixth Form College
Worcestershire Hub
Wychavon District Council
Wyre Forest District Council

Community Bodies

Babcock Training Ltd
Brightstripe - Cultural Health CIC
Bromsgrove District Housing Trust
Encore Enterprises
Festival Housing Group (formerly Partnership Housing
FOCSA Services (UK) Limited
Hereford Community Leisure Trust
Herefordshire Housing Association
Malvern Hills Conservators
Malvern Hills Outdoor Education Centre
Sports Partnership Hfds & Worcs
VESTIA Community Trust
Worcester Community Housing
Wychavon Leisure Community Association
Wyre Forest Comm. Assoc.

Hoople LTD

Transferee Bodies

4 children
Action for Children
Action for Children (Malvern Hills)
Addaction
Alliance in Partnership
Alliance in Partnership AS
Amey PLC
Arete
Aspens
ATEGI
Aztec Watersports
Balfour Beatty (Living Places)
Bespoke Cleaning Services
Brandon Trust
Bromsgrove PFI
CAPITA (IBS Schools)
Catshill & North Marlbrook Parish Council
Civica - Ex Wychavon DC Tupe
CIVICA - WCC Hub
Clearview Cleaning Services
Cygnet Foods Ltd
Ewyas Harold Parish Council
Elite Cleaning
Field Studies Council
Fortis Living
Heart of Worcestershire College
Herecad Enterprises Ltd
Jacobs UK Ltd
Kemerton Parish Council
Kidderminster & District Youth
Liberata
Midland Heart
National Youth Advocacy Service
Place Partnership
Redcliffe Catering Ltd
Redditch & Bromsgrove NHS
Ringway
Shaw Homes Health Care
Sports & Leisure Management
The Rivers Multi Academy Trust

Timberdine nursing
Worcester Community Trust
Wychavon Leisure (Bromsgrove)

Designated Bodies

Baxter College
Belbroughton parish council
Bewdley Woen Council
Bredon Parish Council
Broadway Parish Council
Kidderminster town council
Ledbury Town Council
Leominster Town Council
Malvern Town Council
Pershore Joint Burial Committee

CIVICA - WCC Hub
Colwall Parish council
Droitwich Town Council
Evesham Town Council
Freedom Leisure
Hagley Parish Council
Hereford City Parish Council
Hewlett Packard ICT
Initial Facilities Service UK Ltd
Integral UK Ltd
Kempsey Parish Council
Pershore Town Council
Rock Parish Council
Ross-on-Wye Town Council
Stone Parish Council
Stourport Town Council
Upton-on-Severn T C

Wigmore High & Primary
Wythall Parish Council

Note 26. Critical Judgements in Applying Accounting Policies

The pension fund liability is calculated every three years by the appointed actuary. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in note 2. This estimate is subject to significant variances based on changes to the underlying assumptions.

Note 27. Assumptions made about the future and any other major sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the year-end date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

The item in the notes to the accounts at 31 March 2018 for which there is a significant risk of material adjustment in the forthcoming financial year is as follows.

Item	Uncertainties	Effect is actual results differ from assumptions
Actuarial present value of promised retirement benefits (Note 2)	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance: ● a 0.5% increase in the discount rate assumption would result in an 8% decrease in the pension liability, which is equivalent to £229m ● a 0.25% increase in assumed earnings inflation would result in a 0.8% increase in the value of liabilities, which is equivalent to £23m ● a one-year increase in assumed life expectancy would result in a 2% increase in the value of liabilities, which is equivalent to £69m.

IFRS 9 Financial Instruments

The Pension fund will need to account for financial instruments in accordance with IFRS 9 Financial Instruments, IAS32 Financial Instruments: Presentation and IFRS 7 Financial Instruments:.

IFRS 15 Revenue recognition

The pension Fund will need to account for revenue recognition in accordance with IFRS 15 Revenue from Contracts with Customers and IPSAS 23 Revenue from Non-Exchange Transactions (Taxes and Transfers). For the Pension fund customer is taken to refer to service recipients and only contracts where the counterparty is a service recipient are affected.

Whilst a high level review has been undertaken of these new standards (IFRS9 and 15) and has not identified a material issue, further work will be undertaken during 2018/19 to ascertain the full impact of the change

5. Statement of Accounting Policies

This section provides a summary of the significant accounting policies and estimation techniques used in the preparation of Worcestershire County Council's Pension Fund accounts.

1. General

The statement of Accounts summarises the fund's transaction for the 2017/18 financial year and its position at year-end as at 31 March 2018. The accounts have been prepared in accordance with the Code of Practice on Local Accounting in the United Kingdom 2017/18 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 into account of obligations to pay pensions and benefits which fall due after the end of the financial year.

2. Legislation

Where specific legislation regarding accounting treatment conflicts with the Council's own Accounting Policies, legislative requirements will be followed. There have been no instances of this in this year's accounts.

3. Contribution Income

Normal contributions, both from the members and from employers, are accounted for on an accruals basis at the percentage rate recommended by the fund actuary in the payroll period to which they relate.

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

Employers' augmentation contributions and pension strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

4. Transfers to and from other schemes

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 The Local Government Pension Scheme 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.

5. 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.

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.

7. Taxation

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.

8. 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 pension fund administrative expenses. However in the interests of greater transparency, the Council discloses its Pension Fund 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.

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 financial adviser is included in investment management charges.

All investment management expenses are accounted for on an accruals basis.

9. Administrative Expenses

All administrative expenses are accounted for on an accruals basis. All staff costs of the pension'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.

10. Financial Assets

Financial assets are included in the Net Assets Statement on a fair value basis as at the reporting date. A financial asset is recognised in the Net Assets Statement on the date the fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of asset are recognised in the Fund Account.

The values of investments as shown in the Net Assets Statement have been determined as follows:

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

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

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

- Valuations of delisted securities are based on the last sale price prior to delisting, or where subject to liquidation, the amount the council expects to receive on wind-up, less estimated realisation costs.
- Securities subject to takeover offer – the value of the consideration offered under the offer, less estimated realisation costs.
- 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.
- Investments in unquoted property and infrastructure pooled funds are valued at the net asset value or a single price advised by the fund manager.
- Investments in unquoted listed partnerships are valued based on the fund's share of the net assets in the limited partnership using the latest financial statements published by the respective fund managers in accordance with the *International Private Equity and Venture Capital Valuation Guidelines* 2012.

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

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

11. Foreign Currency transactions

Dividends, interest, 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.

12. Derivatives

The fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The fund does not hold derivatives for speculative purposes.

The value of futures contracts is determined using exchange prices at the reporting date. Amounts due from or owed to the broker are the amounts outstanding in respect of the initial margin and variation margin.

The future value of forward currency contracts is based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract.

13. Cash and cash equivalents

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.

14. Financial liabilities

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

15. 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 IAS19 and the 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).

16. Contingent Assets

A contingent asset arises where an event has taken place that gives the Pension 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 Pension Fund.

Contingent assets are not recognised in the financial statements, but are disclosed in note 22 to the accounts.

17. Additional voluntary contributions

The Worcestershire County Council Pension Fund provides an Additional Voluntary Contributions (AVC) scheme for its members. In 2017/18 some members of the pension scheme paid voluntary contributions and transfers to Scottish Widows and Equitable Life to buy extra pension benefits when they retire. Retirement benefits were also purchased during the year. The contributions are paid directly from scheme employers to the AVC provider. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with section 4(2) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (note 23).

18. Accruals of Income and Expenditure

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 Pension Fund 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 Pension Fund.

Revenue from the provision of services is recognised when the Pension Fund can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Pension Fund.

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.

19. . Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Pension Fund a possible obligation whose existence will only be confirmed by the occurrence, or otherwise, of uncertain future events not wholly within the control of the Pension Fund. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but are disclosed note 21 to the accounts

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

To be inserted

Glossary of Terms

Accounting policies	The principles, rules and procedures used in the preparation of the accounts
Accruals	The recognition of income and expenditure as goods and services are provided, not when cash is received or paid
Actuary	An independent company which advises on the assets and liabilities of the pension fund with the aim of ensuring that the payment of pensions and future benefits are met.
Admitted bodies	Voluntary and charitable bodies whose staff can become members of the Local Government Pension Scheme, subject to certain terms and conditions, and other organisations to which Local Government employees have been transferred under the outsourcing of local government services
Agent	The County Council or other authority acting as an intermediary
Amortisation	The drop in value of intangible assets as they become out of date
Asset	A resource controlled by the County Council as a result of past events and from which economic benefits or service potential is expected. Assets can be: • Intangible – assets of non-physical form, e.g. patents, goodwill, trademarks and copyrights • Property, plant and equipment – assets which give the Council benefits for more than one year • Community – assets held in perpetuity which may have restrictions on their disposal • Infrastructure – assets such as highways and footways • Non-operational – assets not directly used for service provision • Heritage – assets held solely for historical, artistic, or environmental qualities
Assets under construction	Capital expenditure on assets where the work is incomplete
Augmentation	Additional employer contributions relating to the cost of employees who are allowed to retire before their normal retirement age
Billing authority	The local authority which collects Council Tax. In Worcestershire this is the district or borough council
Capital charge	A charge to services to reflect the cost of Property, Plant and Equipment used in the provision of services
Capital expenditure	Expenditure on acquisition or construction of assets which have a value to the authority for more than one year e.g. land and buildings

Page 194

Accounting policies	The principles, rules and procedures used in the preparation of the accounts
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
Central Support Services	The provision of services by the central directorates of the County Council in respect of finance, human resources, legal, administration, information technology and property
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

Page 195

Accounting policies	The principles, rules and procedures used in the preparation of the accounts
Financial instruments	Any contract giving rise to a financial asset or liability. For the County Council this is likely to be a loan or investment
Fixed interest	A corporate bond in the form of a certificate of debt issues by a company or institution in return for a fixed rate of interest with a promise of redemption to repay the original sum
Gilt	Similar to corporate bonds by way of interest and redemption, but these are issued by Government and are a loan to the Government
Forward foreign exchange	An agreement to purchase or sell an amount of foreign currency at a future date and predetermined price
Imprest accounts	Petty cash accounts used for small items of expenditure
Index linked	Stock whose value is related directly to an index, usually the Retail Price Index and therefore provides a hedge against inflation
Joint Venture	A joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement
Joint Operation	A joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligation for the liabilities, relating to the arrangement
Liability	A present obligation of the County Council arising from past events, the settlement of which is expected to result in an outflow of resources
Minimum revenue provision (MRP)	The statutory amount set aside from the revenue budget which can be used to repay external loans
National Non-Domestic Rates (NNDR)	A tax collected locally by borough and district councils and paid to Central Government. It is then redistributed to county, unitary, borough and district councils on the basis of the resident population
Operating leases	A method of obtaining the use of an asset where the rewards and risks of ownership of the asset remain with the leasing company and the annual rental is charged directly to the revenue account
Pooled investment vehicles	A fund in which multiple investors contribute assets and hold them as a group, for example a unit trust
Precept	The amount the County Council (the precepting authority) ask district and borough councils to collect as council tax.
Private Finance	A long-term contractual public private partnership under which the private sector takes on the risks associated with

Page 196

Accounting policies	The principles, rules and procedures used in the preparation of the accounts
Initiative (PFI)	the delivery of public services in exchange for payments tied to standards of performance
Provisions	Monies set aside to meet any liabilities or losses which are likely or will be incurred, but the amounts or the dates on which they will arise are uncertain e.g. provision for bad debts
Public Works Loan Board (PWLB)	A government agency which provides long-term loans to local authorities at favourable interest rates
Reserves	Money set aside to meet the cost of specific future expenditure. These can be either: • Usable – those which can be used to provide services • Unusable – those which cannot be used to provide services
Revenue contributions to capital expenditure	The amount of capital expenditure to be financed directly from the annual revenue budget
Revenue Support Grant (RSG)	A general central government grant paid to the County Council in support of annual revenue expenditure
Scheduled bodies	Local authorities and similar bodies whose staff are entitled automatically to become members of the Local Authority Pension Fund
Settlement costs	Settlement costs arise when a lump-sum payment is made to a scheme member in exchange for their rights to receive certain pension benefits
Stock lending	The temporary transfer of stock (shares / securities) to a third party for a fixed or open period of time. In return the owner of the stock receives an agreed consideration secured by collateral of equal of greater value than the loaned securities
Transfer values	Sums which are either paid to or received from other pension schemes and relate to new and former members' periods of pensionable employment with employers participating in the scheme

Page 197

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