

Worcestershire County Council

Agenda

Audit and Governance Committee

Friday, 27 June 2014, 10.00 am
County Hall, Worcester

DISCLOSING INTERESTS

There are now 2 types of interests:
'Disclosable pecuniary interests' and **'other disclosable interests'**

WHAT IS A 'DISCLOSABLE PECUNIARY INTEREST' (DPI)?

- Any **employment**, office, trade or vocation carried on for profit or gain
- **Sponsorship** by a 3rd party of your member or election expenses
- Any **contract** for goods, services or works between the Council and you, a firm where you are a partner/director, or company in which you hold shares
- Interests in **land** in Worcestershire (including licence to occupy for a month or longer)
- **Shares** etc (with either a total nominal value above £25,000 or 1% of the total issued share capital) in companies with a place of business or land in Worcestershire.

NB Your DPIs include the interests of your **spouse/partner** as well as you

WHAT MUST I DO WITH A DPI?

- **Register** it within 28 days **and**
- **Declare** it where you have a DPI in a matter at a particular meeting
 - you must **not participate** and you **must withdraw**.

NB It is a criminal offence to participate in matters in which you have a DPI

WHAT ABOUT 'OTHER DISCLOSABLE INTERESTS'?

- No need to register them but
- You must **declare** them at a particular meeting where:
 - You/your family/person or body with whom you are associated have a **pecuniary interest** in or **close connection** with the matter under discussion.

WHAT ABOUT MEMBERSHIP OF ANOTHER AUTHORITY OR PUBLIC BODY?

You will not normally even need to declare this as an interest. The only exception is where the conflict of interest is so significant it is seen as likely to prejudice your judgement of the public interest.

DO I HAVE TO WITHDRAW IF I HAVE A DISCLOSABLE INTEREST WHICH ISN'T A DPI?

Not normally. You must withdraw only if it:

- affects your **pecuniary interests** **OR** relates to a **planning or regulatory** matter
- **AND** it is seen as likely to **prejudice your judgement** of the public interest.

DON'T FORGET

- If you have a disclosable interest at a meeting you must **disclose both its existence and nature** – 'as noted/recorded' is insufficient
- **Declarations must relate to specific business** on the agenda
 - General scattergun declarations are not needed and achieve little
- Breaches of most of the **DPI provisions** are now **criminal offences** which may be referred to the police which can on conviction by a court lead to fines up to £5,000 and disqualification up to 5 years
- Formal **dispensation** in respect of interests can be sought in appropriate cases.

Audit and Governance Committee

Friday, 27 June 2014, 10.00 am, County Hall, Worcester

Membership: Mr W P Gretton (Chairman), Mrs S Askin, Mr S J M Clee,
Mr N Desmond, Mr L C R Mallett, Mr R J Sutton and Mr P A Tuthill

Agenda

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All the above reports and supporting information can be accessed via the Council's website at <http://www.worcestershire.gov.uk/cms/democratic-services/minutes-and-agenda.aspx>

Date of Issue: Wednesday, 18 June 2014

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Audit and Governance Committee

27 June 2014

5. ANNUAL STATUTORY FINANCIAL STATEMENTS FOR THE YEAR ENDING 31 MARCH 2014

Recommendations

1. **The Director of Resources recommends that the Final Accounts Pack including the Statement of Accounts for the financial year ending 31 March 2014 be approved (Appendix 2).**

Introduction

2. This report sets out the timetable for publication of the Final Accounts pack that includes the audited Statement of Accounts. In addition some key messages on the issues relevant to their compilation in 2013/14 are referenced together with the Audit Findings reports for the Pension Fund and County Council Accounts that have been provided by the County Council's External Auditor, Grant Thornton UK LLP.

2013/14 Closedown Process – Key Dates

3. The Director of Resources would like to express his thanks to Grant Thornton staff for supporting the delivery of an audited set of accounts by this committee date.
4. The preparation of the Statement of Accounts for the 2013/14 financial year and their approval by the Audit and Governance Committee is the first stage in the process of accountability for the County Council's finances during 2013/14.
5. The External Auditor anticipates providing an unqualified opinion on the County Council's Statement of Accounts subject to a small number of final checks on the draft information submitted for Audit. The External Auditor's reports are contained in Appendix 3 and Appendix 4 (To follow).
6. The Statement of Accounts presented to the Audit and Governance Committee represent work completed to 19 June 2014. There remains a small amount of work needed to finesse the Statement of Accounts and it is not anticipated that this will have a material effect on the Statement of Accounts. A verbal update will be provided to the Audit and Governance Committee to confirm any items of work that remain outstanding.
7. Based on the adoption of the Statement of Accounts by the Audit and Governance Committee at its meeting on 27 June 2014, the Director of Resources will sign the Statement of Accounts as presenting a True and Fair view of the financial accounting position of the County Council unless any material changes are required by the External Auditor based on the work that remains. In this instance

Statement of Accounts for the Year Ending 31 March 2013

Matters of Substance

consideration will be given to reconvening the Audit and Governance Committee – however this is unlikely to be required.

8. The remaining steps are summarised below:

- 27 June 2014 Audit and Governance Committee
- 27 June 2014 Statements published on Council Website
- 20 June 2014 to 17 July 2014 Public Inspection of the accounts (20 working days)
- 18 July 2014 External Auditor's appointed day to receive any objections to the accounts from members of the public
- Late July 2014 External Auditors sign opinion on the financial statements
- September 2014 Auditor formally closes the audit for the year.
- 30 September 2014 Publication of financial statements (including the audit opinion)

9. The Statement of Accounts for the year ending 31 March 2014 have been completed and independently audited to meet the statutory deadline for the 2013/14 accounts to be formally approved by 30 June 2014. The County Council goes a step further than what is required statutorily (approval by 30 September 2014) and ensures these are finalised, audited and approved by 30 June 2014.

10. To help make sense of a set of accounts that is required to be set out in a rigid statutory format a summary report outlining the key financial and accounting issues included in the Statement of Accounts is provided for the Audit and Governance Committee in Appendix 1. A broader narrative for the wider reader is included in the Director of Resources Explanatory Foreword to the Statement of Accounts. In addition, an analysis is provided of the key financial and accounting information in a brief overview report attached as Appendix 1.

11. The Statement of Accounts that provide a comprehensive picture of the County Council's financial circumstances is attached as Appendix 2.

12. The independent external auditor has indicated that they will issue an unqualified audit opinion subject to the Audit and Governance Committee approving the statements and there being no matters arising from the public inspection period. Their audit findings reports are attached at Appendices 3 and 4 (To follow).

13. The two key headlines are:

- An underspend against the County Council's cash limited revenue budget of £0.1 million and
- An decrease of £10.2 million in County Council

Disclosures/Changes

useable reserves.

14. There are no further matters of substance that need to be brought to members of the Audit and Governance Committee's attention

15. There have been no significant changes to the disclosure requirements set out in the CIPFA Code of Practice on Local Authority Accounting 2013.

Supporting Information

- Appendix 1: 2013/14 Statement of Accounts - Summary financial and accounting information
- Appendix 2: Statement of Accounts
- Appendix 3: Audit Findings Report – Worcestershire County Council - Audit 2013/14 – To follow
- Appendix 4: Audit Findings Report – Worcestershire County Council - Local Government Pension Fund - Audit 2013/14 – To follow
- Appendix 5: Draft Letter of Representation – To follow

Contact Points

County Council Contact Points

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Specific Contact Points for this report

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Sean Pearce, Head of Corporate Financial Strategy, 01905 766268, Email spearce@worcestershire.gov.uk

Background Papers

In the opinion of the proper officer (in this case the Director of Resources Services) the following are the background papers relating to the subject matter of this report:

Statement of Accounts 2012/13

Budget 2013/14

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2013/14 Statement of Accounts: Summary financial and accounting information

1. Purpose of Report

- 1.1. This brief report has been drafted to ensure that the attention of members of the Audit and Governance Committee are drawn to the key pieces of financial and accounting information contained in the 2013/14 Worcestershire County Council Statement of Accounts. This paper sets out in two parts:
- Summary information for the County Council Statement of Accounts; and
 - Summary information for the Worcestershire County Council Pension Fund that is administered by the County Council.
- 1.2. This should be read alongside the Explanatory Foreword to the 2013/14 Statement of Accounts that provides more of a narrative on financial performance in 2013/14.

2. Summary information for the County Council Statement of Accounts

Overall Highlights

- 2.1. This section provides a brief summary of the key highlights of the 2013/14 County Council Statement of Accounts:
- In overall terms, revenue spending was within delegated cash limits of £341 million; The Council's General Balances are at £13.0 million, a reduction of £2.1 million from 2012/13 (they were planned to be reduced by £2.2 million when the budget was set); and
 - Capital investment of £59.9 million has been made.

An underspend against cash limited budgets of £0.1 million

- 2.2. The Statement of Accounts show an accounting deficit of £86.0 million within which the County Council delivered an under spend of £0.1 million against its cash limited net budget of £341 million. Accounting regulations require some items of expenditure and income to be reclassified and charged to the Comprehensive Income and Expenditure Statement that do not impact on the amount to be met from local taxation in the year. The technical accounting adjustments include the movement on the pensions reserve and capital accounting adjustments and have a compensating adjustment through unusable reserves. The following table shows how the accounting deficit reconciles to the movement on the General Fund Balance for 2013/14.

Table 1: General Fund Balance reconciliation

	£ million	£ million
General Fund Balance as at 31 March 2013		15.1
Deficit on provision of services		(86.0)
Adjustments between accounting basis and funding basis		
Capital adjustments	64.8	
Pensions adjustments	14.0	
Other adjustments	(3.2)	75.6
Transfer from earmarked reserves		8.3
General Fund balance at 31 March 2014		13.0

- 2.3. The Pensions adjustments relate to employer's pension contributions and direct payments to pensioners payable in the year less those items relating to retirement benefits accounted for in the Comprehensive Income and Expenditure Account.

- 2.4. The Capital adjustments include the effect of the transfer of school assets to academies as well as the usual adjustments for Capital Grants, depreciation and the costs of financing the capital programme.

Earmarked Reserves

- 2.5. Earmarked reserves form part of the usable reserves available to the County Council. Specific earmarked reserves excluding Revenue Grants carried forward to pay for specific future commitments reduced by £5.2 million to £93.5 million.
- 2.6. Specifically the following movements occurred in the 2013/14 financial year.
- Schools balances have reduced by £1.0 million to £18.5 million. These reserves are maintained at the discretion of school governing bodies.
 - Directorate reserves have reduced by £2.6 million to £9.9 million. This represents between year flexibility to carry forward funding for specific initiatives.
 - Insurance reserves have increased by £0.2 million to £6.1 million and remain sufficient to meet insurance excesses and uninsured losses.
 - PFI grant reserves have reduced by £0.8 million to £21.1 million and are held to support future expenditure on PFI schemes.
 - Future capital investment reserve has reduced by £3.1 million to £7.1 million and is retained to preserve funding for existing projects in future years.
- 2.7. Revenue grants unapplied reserves have reduced by £6.1 million from £26 million to £19.9 million and represent grants being carried forward in support of future spending plans.

Non Current Assets

- 2.8. The depreciated value of property, plant and equipment (PPE) reduced by 4.3% to £931.9 million. New capital investment on PPE totalled £59.9 million. This is expanded upon in the table below together with the source of funds.

Table 2: Capital expenditure summary

	£ million
Schools	22.8
Transport Infrastructure	30.2
Other	6.9
Total	59.9
Financed by:	
Applied contributions from revenue budgets	6.7
Prudential Borrowing	11.0
Capital Receipts	1.6
Capital Grant and Contributions from 3 rd parties	40.6
Total	59.9

- 2.9. The County Council derecognised £58.4 million of assets due to school buildings being transferred to newly established academy schools in 2013/14.

External Borrowing

- 2.10. The Council's external borrowing has reduced by £4.7 million to £243.3 million. The average rate of interest payable on long term borrowing was 4.35% for the year (4.4% 2012/13). The following table sets out the ratio of the County Council's long term borrowing against its local Tax revenue (Council Tax and share of National Taxation) to indicate a proxy for gearing in a local government sense.

Table 3: Ratio of External Borrowing to tax revenue

	2013/14	2012/13	2011/12	2010/11
External Borrowing (£ million)	243.3	248.0	253.3	245.8
Income from Taxation (£ million)	339.0	331.3	333.7	312.0
Ratio	0.7	0.8	0.8	0.8

- 2.11. This trend is consistent with the County Council's Treasury Management Strategy where the recent capital programme has been financed through internal borrowing. Looking forward this ability for the County Council to use internal balances will diminish as the County Council will start to access the external market to raise external borrowing to replace these balances as they are needed for other areas of County Council business.
- 2.12. The following table sets out the maturity profile of the County Council's External Borrowing portfolio as at 31 March 2014 compared to the equivalent position as at 31 March 2013.

Table 4: Maturity Profile of external debt as at 31 March 2014

	£ million	% of portfolio	£ million	% of portfolio
	As at 31 March 2014		As at 31 March 2013	
Within 1 year	38.0	15.6	28.0	11.3
1 – 2 years	26.4	10.9	35.4	14.3
2 – 5 years	20.0	8.2	15.6	6.3
5 -10 years	29.7	12.2	34.7	14.0
10 years and over	129.3	53.1	134.3	54.1
Total	243.3	-	248.0	-

Other Long Term Assets

- 2.13. The Council's other long term assets comprise:

- Long term investments

The Council has 944,061 preference shares in Malvern Hills Science Park, a joint venture company established with Malvern Hills District Council, Hereford & Worcester Chamber of Commerce & Enterprise, giving a total investment of £0.944 million (2012/13 £0.944 million).

- Long term debtors

Long term debtors have reduced by £1.0 million to £3.9 million.

Liquidity

- 2.14. The liquidity of the County Council is measured by the relationship of current assets to current liabilities. The County Council's current assets of £128.2 million are less than its current liabilities of £144.4 million, a ratio of 0.9:1, an increase on last year's ratio of 1:1.
- 2.15. The reduction in current assets includes:
- a £0.9 million reduction in Assets Held for Sale;
 - an £18.9 million reduction in Short Term Investments;
 - a £2.6 million reduction in Short Term Debtors; and
 - a £13.8 million increase in Cash and cash equivalents.
- 2.16. The increase in current liabilities in the main relates to a £5.0 million increase in short term creditors. The table below sets out the liquidity ratio over the recent past.

Table 5: The County Council's Liquidity Ratio

£ millions	2013/14	2012/13	2011/12	2010/11
Current Assets	128.2	136.4	124.2	103.8
Current Liabilities	144.4	137.0	131.3	137.5
Liquidity Ratio	0.89	1.0	0.95	0.76

Debtors

- 2.17. Short Term debtors have reduced by £2.6million to £43 million. The debtors figure is net of a bad debt provision of £4.7 million, a calculated amount which equates to the value of all debts over 3 years old and a proportion of debts less than 3 years old (£1.2 million) and £3.5 million relating to the Council's proportion of the billing authorities council tax bad debt provision.
- 2.18. Trade debtors as a percentage of total debtors have increased from 51% to 58% (£25.1 million). Other debtors relate mainly to other Local Authorities or Government Departments.

Investments

- 2.19. The Council deposits surplus cash with the UK Debt Management Office and other local authorities, typically for periods of less than one year. These investments have reduced by £18.9 million to £60 million over the year.
- 2.20. The average rate earned on investments was 0.33% for the year (0.27% 2012/13).

Creditors

- 2.21. Creditors have increased by £4.3 million to £105.8 million. Trade creditors as a percentage of total creditors reduced from 63% to 58% (£61.8 million).

Provisions

- 2.22. Provisions of £2.0 million (£2.5 million in 2012/13) have been included in the accounts to allow for staff redundancy costs resulting from restructuring of £1.3 million, Municipal Mutual Insurance liability of £0.3 million and various smaller provisions totalling £0.4 million.

3. Summary information for the Worcestershire County Council Pension Fund that is administered by the County Council

3.1. This section provides a brief summary of the key highlights of the 2013/14 County Council Statement of Accounts:

- **Movement in Net Assets**

The Pension Fund's Net Assets increased by 4.4% (£76.3 million) to £1.8 billion. This included the addition of £42.2 millions of investment income (£34.2 million in 2011/12) along with an increase in the market value of investments of £35.3 million.

- **Movement in Net Surplus**

The Pensions Fund's movement from a net increase of £220.8 million (2012/13) to a net increase in the net assets available for benefits during the year of £26.3 million is due in the main to the performance of funds invested on the equities market. This is consistent with the overall trend in the market.

- **Actuarial Valuation**

The last actuarial valuation of the Fund at 31 March 2013 indicated assets covered 69% of liabilities (69% at 31/03/2010). Changes in Employers' Contribution Rates from 1 April 2014 and normal fund management are both expected to ensure that assets will match 100% of liabilities over 21 years. The next actuarial valuation uses data at 31st March 2016 with any changes in contribution rates effective from 1st April 2017.

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Worcestershire County Council

Financial Accounts 2013/14

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Responsibilities of the County Council

The County 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 Director of Resources;
- 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 Director Resources

The Director of Resources 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 Director of Resources has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent; and
- complied with the local authority Code.

The Director of Resources 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.

Issue Date

The date that these financial statements are authorised for issue is 27 June 2014. All known material events that have occurred up to and including this date which relate to 2013/14 or before have been reflected in the accounts.

In accordance with Regulation 8(2) of the Accounts and Audit Regulations 2011 I certify that the Statement of Accounts 2013/14 provides a true and fair view of the financial position of the Council at 31 March 2014 and its income and expenditure for the year 2013/14.

Patrick Birch
Director of Resources
27 June 2014

Approval of Accounts

In accordance with Regulation 8(3)b of the Accounts and Audit Regulations 2011 I certify that the Audit & Governance Committee approved the Statement of Accounts 2013/14 on 27 June 2014.

Councillor Philip Gretton
Chairman of the Audit & Governance Committee
27 June 2014

Personal Assurance Statement of the Director of Resources

To be included at close of audit

Patrick Birch
Director of Resources

Foreword by the Director of Resources

Introduction

I am pleased to introduce our Financial Accounts pack for 2013/14. The pack includes the Statement of Accounts as well as other information we are required to publish under the Code of Practice for Local Authority Accounting.

The County Council's Corporate Plan "Worcestershire Future Fit", covers the period 2013-17. Our vision is a prosperous Worcestershire. Working towards this vision will require fundamental changes to the Council's identity and how we work. We need to focus on delivering services to people who cannot provide for themselves whilst enabling others to help themselves by removing the barriers that they face. The areas of focus are:

- ✓ Open for Business
- ✓ Children and Families
- ✓ The Environment
- ✓ Health and Wellbeing

The County Council is subject to the pressures resulting from the challenging economic climate. The Medium Term Financial Plan reflects the Corporate Plan priorities and the financial pressures. The delivery of a small underspend against the budget of £341 million set for 2013/14 includes the delivery of savings of £19.5 million, with an additional £74.2 million to be delivered for the period 2014/15 to 2017/18. The County Council's General Balances are maintained at £13 million to cover unforeseen costs.

Worcestershire Future Fit – the Corporate Plan 2013-2017 can be accessed at [Worcestershire County Council Corporate Plan 2013-2017](#)

Role and content of the Explanatory Foreword

This Explanatory Foreword is set out in two parts. The first will provide some key information that summarises our financial performance in 2013/14 together with some key service achievements. The second part will provide some key information on how the Financial Accounts Pack is set out to help you navigate through what is at times a quite technical pack of information that is required to meet strict statutory reporting requirements laid out by International Financial Reporting Standards (IFRS). Readers should note that the financial results reported against the Directorate Cash Limited Budgets which the County Council uses internally to monitor its financial performance is not directly comparable to the surplus disclosed in the Statement of Accounts mainly due to the number of accounting adjustments required, which do not impact on our budget requirement to be met by local taxpayers. The key differences relate to the way in which we account for items such as depreciation, impairment, reserves, provisions and carry forwards. Each of these items is explained further in our accounting policies or the glossary to the Final Accounts Pack.

Responsibilities of Section 151 Officer

The Section 151 officer for the County Council is the Director of Resources and has a number of statutory duties relating to the proper administration of the County Council's financial affairs. This includes the duty to present for audit a Statement of Accounts that gives a true and fair view of the operations of the County Council.

Public Inspection

It is important that members of the public have the opportunity to provide comment and question the Statement of Accounts. As part of this process the Statement of Accounts for 2013/14 was available for inspection from 20 June 2014 to 17 July 2014. The formal audit of our accounts began on 19 May 2014 [*outcome to be included*]

Capital and Revenue expenditure

The County Council spends taxpayer resources in two ways, through revenue and capital spending.

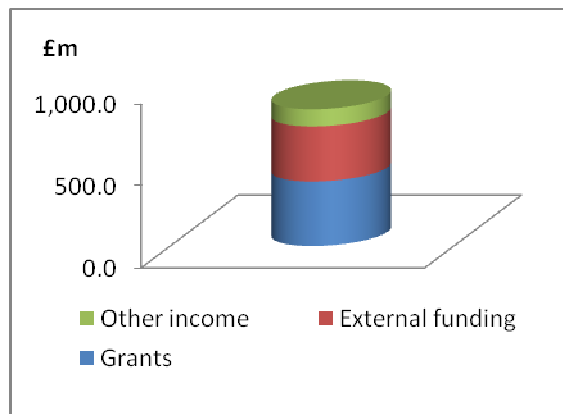
Broadly, our Comprehensive Income and Expenditure Account relates to income received in the year and spending for items used in the year. Our Capital Account relates to items we have bought and which will be used for more than one year. An amount is charged from the Capital Account to the Comprehensive Income and Expenditure Account each year to reflect the cost equivalent to the economic use of that capital asset in each year.

Overview of the County Council's performance in 2013/14

Revenue expenditure – What we have received and spent

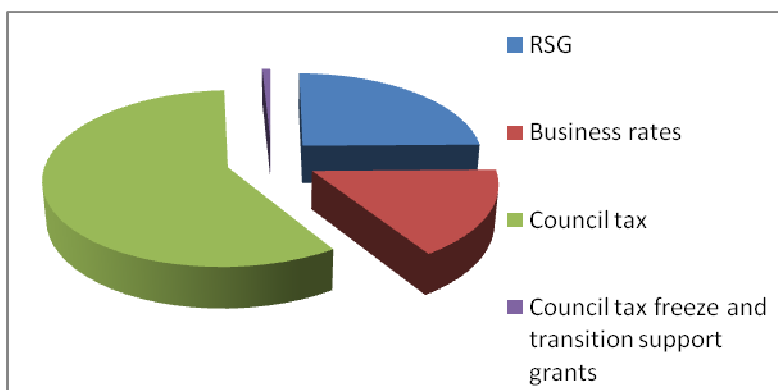
This section provides a high level summary of the sources of income the County Council has used in 2013/14 and sets out the ways in which this has been spent.

How we received our money



The County Council's total income in 2013/14 was £837.6 million. We received £393.9 million in relation to Dedicated Schools Grant and Specific Grants that was either spent or set aside for the specific purpose of the grant. We also received £338.7 million to support our Directorates net revenue budgets. More detail is provided in the Statement of Accounts following and the Resources Report presented to Cabinet in June 2014 that is available on [Agenda for Cabinet 9 June 2014](#)

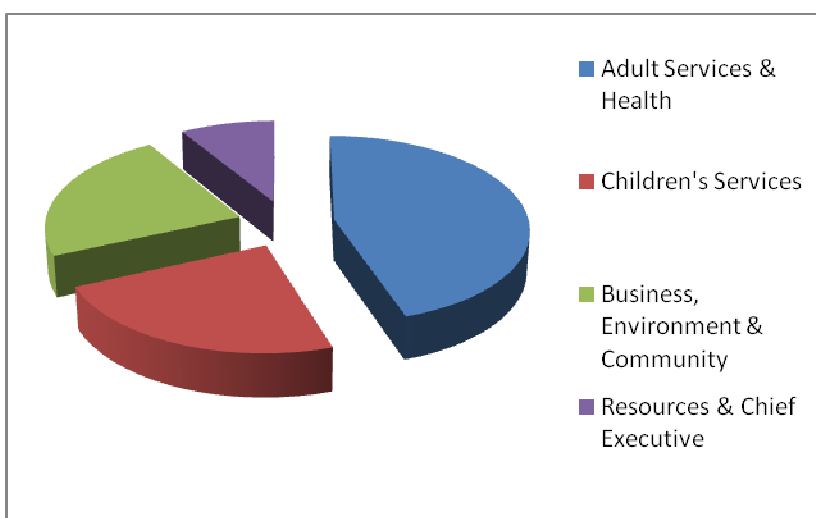
The main sources of revenue funding received in 2013/14 to support our Directorate Net Revenue Expenditure are shown in the chart on the right. The majority of this expenditure was supported by Council Tax (58%), Revenue Support Grant (25%), Business Rates (16%), with the remaining 1% comprising Council Tax Freeze Grant and Council Tax Transition Support Grant.



Service Directorate Net Revenue Spending

The net revenue funding of £336.4 million has been used to finance the various services provided by the County Council in 2013/14 as illustrated in the chart on the right. The County Council has established provisions for expenditure that will be incurred in 2013/14 including a provision for redundancies of £1.4 million, an increase of £0.2 million since 2012/13.

Directorates spent £1.4 million more than their cash limited budget. This was financed by a draw down from directorate reserves and the General Fund and an increase in the Business Rates income achieved. Expenditure on DSG and Specific Grants either matched income received or has been



carried forward to future financial years.

Service successes and achievements

Whilst the Statement of Accounts is focused on the financial health of the County Council, prudent and robust financial management has supported the County Council to achieve the following key priorities in 2013/14.

Ensuring Worcestershire is Open for Business:

- We have helped generate more than £140 million worth of new business contacts for the local economy
- We have created a loan fund which has helped 350 businesses access £1.5 million of financial help
- Currently 80% of what we spend on supplies and services goes into the local economy
- We have helped create 6,000 apprenticeship places in Worcestershire
- We have supported flood recovery for affected businesses across the County.

Supporting Children and Families and keeping children safe:

- We invested in 30 new social worker posts ensuring each social worker can spend more time working directly with families
- 84% of Worcestershire schools are now good or outstanding and the County is in the top third nationally for GCSE results

Protecting the Environment:

- Since 2007 we have invested £12.7 million in almost 700 projects to help prevent flooding across Worcestershire
- We recycled 110,000 tonnes of waste saving more than £7 million in Landfill tax
- We repaired around 27,000 potholes

Promoting Health and Well-being:

- We provided 16,000 people with equipment which helped them to continue to live in their own home
- We have helped over 1,500 people volunteer to help others in their local community

Further information about the County Council's performance can be found in the Balanced Scorecard [General Council Information - Worcestershire County Council](#)

Savings and efficiencies

The County Council has delivered £19.5 million of savings and efficiencies through the BOLD programme in 2013/14. The focus has now shifted to delivery of the 2014/15 to 2016/17 savings target of £70 million. Further details can be found at [Better Outcomes, Lean Delivery - Worcestershire County Council](#)

Budget vs. actual expenditure

The following table sets out the County Council's Financial Performance by Directorate in 2013/14 against the cash limited budgets set by the Full Council in February 2013.

£ millions (rounded)	Budget	Actual Net Expenditure	Variation	Transfer to/ (from) reserves	Variation after reserve movements
	£m	£m	£m	£m	£m
Directorate Net Expenditure					
Adult Services and Health	151.3	153.9	(2.6)	(2.5)	0.1
Children's Services	76.7	79.8	(3.1)	(1.0)	2.0
Business, Environmental and Community Services	76.6	78.7	(2.1)	(1.7)	0.4
Resources Directorate and Chief Executive Unit	36.4	30.0	6.4	4.7	(1.6)
Directorate Outturn	341.0	342.4	(1.4)	(0.5)	0.9
Council Tax Freeze Grant 2013/14	(2.2)	(2.2)	0		0
Council Tax – Transition Support Grant	(0.6)	(0.6)	0		0
Transfer from Earmarked Reserves	(1.1)	(1.1)	0		0

Transfer from General Balances	(2.2)	(2.1)	(0.1)		0
Outturn	334.9	336.4	(1.5)	(0.5)	0.9

The Public Health Service transferred into the County Council in 2013/14.

The key points regarding financial performance in 2013/14 are:

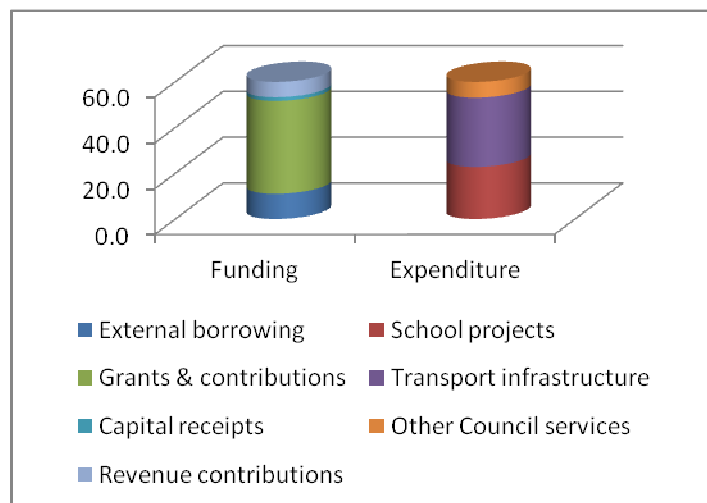
- In overall terms revenue spending by Directorates was within the delegated cash limits coming in on budget whilst making identified savings. There have been significant areas of cost pressure which have been managed during the year including £3.5 million Children's Social Care Placements;
- The 2013/14 FutureFit savings target of £19.5 million has been delivered. Of this amount, £1.3 million was achieved using one-off alternative funding and these project savings which all have detailed plans to support them will be carried forward to 2014/15 for delivery;
- Consistent with the Medium Term Financial Plan (MTFP) approved by Council in February 2014, the level of general balances can be maintained at £13 million.

You can get more information on our overall 2013/14 figures in the Resources report to Cabinet [Agenda for Cabinet 9 June 2014](#)

Capital Expenditure

The County Council spent £59.9 million on Capital Expenditure in 2013/14. Further detail on the sources of finance and the areas of expenditure are provided in the chart. The County Council's achievements during the year include the following:

- £22.8 million spent on schools
- £30.2 million spent on the transport infrastructure
- £6.9 million spent on other Council Services



Significant Disposals

During 2013/14 10 schools converted to Academy status. The assets relating to these schools, a total of £58.4 million have been removed from the Balance Sheet and the corresponding loss on disposal charged to Children's and Education Services on the Comprehensive Income and Expenditure Statement.

Treasury Management

The key highlights of the County Council's Treasury Management activities in 2013/14 are:

- Base Rate has remained stable at 0.5% during 2013/14;
- Investments prudently made to UK Debt Management Office, other local authorities and Money Market Funds are in line with the existing County Council Treasury Management Policy;
- £5 million of existing loans have been repaid during the year;
- No new loans have been taken out during the year; and
- Total debt outstanding is within plan and stands at £240 million at 31 March 2014, at an average rate of 4.35% (4.35% for 2012/13).

Dedicated Schools Grant

Spending on schools is paid for through a Dedicated Schools Grant (DSG) from Central Government. We received £244.3 million in DSG during 2013/14. We regularly report how we use this money to the Department for Education. In 2013/14 we spent £250.5 million (see note 12). After allowing for all spending from reserves including capital investment, overall school reserves have decreased by £1.0 million to £18.5 million at the end of the year.

The Future Financial Outlook

The current MTFP is provided in the following table:

£m	2014/15	2015/16	2016/17	2017/18
Total funding available	343.7	329.5	328.2	329.7
Less service costs based on 2013/14	366.3	353.1	353.1	354.7
Sub-total	(22.6)	(23.6)	(24.9)	(25.0)
Less planned savings	24.9	24.3	24.9	25.0
Less use of reserves	(2.3)	(0.7)	0.0	0.0

The County Council's perspective on the financial challenges and opportunities that lie ahead is set out in the Medium Term Financial Plan (MTFP). The MTFP approved by Full Council in February reflects the impact of the Central Government reform of Local Government funding. More certainty will be provided following the 2015 General Election.

There are also a number of service pressures on expenditure over the medium term which arise from demographic pressures in Adult and Children's Social Care, due to an ageing population in the County and the trend of more children entering Worcestershire's care system.

The MTFP is formally reviewed annually to reflect the latest view on available resources and is supported by internal reviews every three months in each financial year. The current MTFP is available in the 2014/15 Budget Book [Financial Services - Worcestershire County Council](#).

Content and Format of the Statement of Accounts

Primary Financial Statements

These comprise the four key pieces of information in the Statement of Accounts.

Comprehensive Income and Expenditure Statement	Balance Sheet
<p>An accounting deficit of £86.0 million for 2013/14 has been reported; the outturn position is £0.1 million surplus, comprising £0.9 million deficit on directorate expenditure offset by £1.0 million surplus on business rates income. The Council withdrew £0.1m less than planned from general balances.</p> <p>This Statement shows the accounting cost in the year of providing services rather than the amount to be funded from taxation. The main factors in the difference of the accounting deficit to outturn position are capital depreciation and impairment charges, pension charges.</p>	<p>An increase of £55.2 million in County Council net assets as at 31 March 2014</p> <p>The balance sheet shows the value as at the Balance Sheet date of the asset and liabilities recognised by the County Council. At 31 March 2014 the County Council's net worth was £339.1 million.</p>
Cash Flow Statement	Movement in Reserves Statement
<p>A net cash outflow of £19.7 million in 2013/14 in cash or cash equivalents</p> <p>This statement summarises the cash that has been paid to us and which we have paid to other organisations.</p>	<p>A decrease of £10.2 million in County Council useable reserves</p> <p>This statement shows the movement in year on the different reserves held by the Council, analysed into usable reserves (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves.</p>

Notes to the Primary Financial Statements

The notes include more detail to support the information contained in the Primary Financial Statements as well as information on critical judgements and assumptions applied in the production of the accounts.

Accounting Policies

This specifies the accounting practices we have used to prepare the accounts. We provide other notes to explain the information we have given. Wherever possible we have prepared the accounts and statements in line with the Code of Practice on Local Authority Accounting in the United Kingdom, which is based on International Financial Reporting Standards (IFRS) and the Service Accounting Code of Practice (SerCOP). If we have not been able to do this fully, we say so in the accompanying notes. The Code of Practice is updated each year and any changes for the 2013/14 financial year have been reflected in the accounts.

Other Information in the Financial Accounts pack

Statement of Responsibilities

This statement provides information on the responsibilities set out in Statute for the Director of Resources and the Chair of the Audit Committee. This statement accompanies the Statement of Accounts.

Annual Governance Statement

This sets out the County Council's arrangements that have been put in place to ensure there is an effective system of internal control to manage service delivery and delivery services in an efficient, effective and economic way. This statement accompanies the Statement of Accounts.

External Audit Opinion

This sets out the outcome of the independent audit of Worcestershire County Council's Statement of Accounts. Our external auditors contact details are:

Grant Thornton UK LLP

Colmore Plaza
20 Colmore Circus
Birmingham
West Midlands
B4 6AT

An unqualified audit indicates an audit where the External Auditor is satisfied that the Statement of Accounts presents a true and fair view of the financial position of the County Council.

Pension Fund

Worcestershire County Council administers the Worcestershire County Council Local Government Pension Fund on behalf of 15,308 pensioners and 20,739 employees in 147 organisations. The key messages from the 2013/14 Pension Fund Accounts are:

- the value of the Fund's net assets increased by £76.3 million to £1,797.1 million;
- recurring income from contributions increased by 3.5%, whilst net investment earnings increased by 23.4%.
- ongoing expenditure increased by 5.2%.
- contributions from staff and employers plus interest and dividends received exceeded benefit entitlements paid by £47 million. It is expected that an operating surplus will exist for many years to come.

This set of summary information provides detail on the annual results of the Worcestershire County Council administered Local Government Pension Fund for Worcestershire, covering both County Council employees and those of District Councils and other admitted bodies. It provides an overview of the changes in net assets available for pension benefits, detailing the money received and spent within the Pension Fund during 2013/14.

The Net Assets Statement summarise the assets available for benefits at 31 March 2014. The notes summarise the additional information for the Pension Fund Account and Net Assets Statement. The full set of information relating to the Pension Fund is contained in the Annual Report that is available on www.worcestershire.gov.uk.

Availability of the Statement of Accounts in other formats

Copies of the Statement of Accounts and Annual Governance Statement, and a large print version, can be made available on request through the Resources Directorate at Worcestershire County Council, PO Box 374, County Hall, Spetchley Road, Worcester, WR5 2XF. Alternatively you can call us on 01905 766991.

Alternatively, the accounts can be viewed on the County Council's website by visiting www.worcestershire.gov.uk.

Feedback and questions

We have to produce the Statement of Accounts in line with a range of regulations and reporting standards, but it is important that most people can understand them. I have tried to explain what I believe are the main issues in a way that I hope is understandable. Although I have kept to the relevant regulations and reporting standards, I am always looking for ways to improve the content and format of the Statement of Accounts. To help me do this, I would appreciate your comments on how we could improve the accounts and other information in future. Please send any comments or questions arising from the accounts to:

Debbie Lee
Personal Assistant to the Head of Corporate Financial Strategy
PO Box 374
County Hall
Spetchley Road
Worcester
WR5 2XF.

Alternatively you can email on financialqueries@worcestershire.gov.uk

Patrick Birch
CPFA
Director of Resources

Worcestershire County Council

Statement of Accounts

2013/14

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the County Council, analysed into usable reserves (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Deficit on the Provision of Services line shows the true economic cost of providing the County Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for council tax setting purposes. The Net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

	General fund balance £m	Earmarked specific reserves £m	Capital receipts reserve £m	Capital grants unapplied account £m	Total usable reserves £m	Total unusable reserves £m	Total reserves £m
Balance at 31 March 2013	15.1	124.7	4.9	39.0	183.7	104.0	287.7
(Deficit) on provision of services	(86.0)	0.0	0.0	0.0	(86.0)	0.0	(86.0)
Other comprehensive income & expenditure	0.0	0.0	0.0	0.0	0.0	141.2	141.2
Total comprehensive income & expenditure	(86.0)	0.0	0.0	0.0	(86.0)	141.2	55.2
Adjustments between accounting basis & funding basis under regulations	75.6	(3.0)	2.0	1.2	75.8	(75.8)	0.0
Net increase/ (decrease) before transfers to earmarked reserves	(10.4)	(3.0)	2.0	1.2	(10.2)	65.4	55.2
Transfers to/(from) earmarked reserves	8.3	(8.3)	0.0	0.0	0.0	0.0	0.0
Increase/ (decrease) in year	(2.1)	(11.3)	2.0	1.2	(10.2)	65.4	55.2
Balance at 31 March 2014	13.0	113.4	6.9	40.2	173.5	169.4	342.9

Other Comprehensive Income & Expenditure

2012/13 Total unusable reserves £m		2013/14 Total unusable reserves £m
13.9	Surplus on revaluation of non-current assets	28.4
(55.1)	Actuarial gains/(losses) on pensions assets and liabilities	112.8
(41.2)		141.2

Adjustments between accounting basis & funding basis under regulations are given in note 1.

Details of the movement on usable reserves in note 2, earmarked reserves are given in note 3 and unusable reserves in note 4.

Comprehensive Income and Expenditure Statement

This Statement shows the accounting cost in the year of providing services in accordance with the Code of Practice for Local Authority Accounting, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

2012/13 Expenditure Restated £m	2012/13 Income Restated £m	2012/13 Net Restated £m		2013/14 Expenditure £m	2013/14 Income £m	2013/14 Net £m
			Note			
Service Expenditure Analysis						
194.6	(56.9)	137.7	6,7	192.0	(45.3)	146.7
453.8	(363.6)	90.2	7,12	427.6	(331.2)	96.4
66.8	(15.9)	50.9		71.0	(16.5)	54.5
40.1	(15.7)	24.4		41.4	(15.5)	25.9
13.3	(3.9)	9.4		16.5	(6.0)	10.5
15.9	(10.2)	5.7		18.5	(8.7)	9.8
13.2	(0.4)	12.8		12.4	(2.9)	9.5
6.7	(2.3)	4.4		9.5	(3.9)	5.6
5.4	(2.7)	2.7		4.9	(2.1)	2.8
0.9	(0.3)	0.6		0.7	(0.4)	0.3
0.0	0.0	0.0		20.2	(22.3)	(2.1)
(5.1)	0.0	(5.1)	36	(3.0)	0.0	(3.0)
805.6	(471.9)	333.7		811.7	(454.8)	356.9
70.6	(0.8)	69.8	15	75.8	(0.4)	75.4
59.2	(25.8)	33.4	16	58.9	(25.5)	33.4
0.2	(372.7)	(372.5)	17	0.2	(379.9)	(379.7)
935.6	(871.2)	64.4		946.6	(860.6)	86.0
(Surplus) / deficit on the provision of services						
Other comprehensive income and expenditure:						
		(19.7)	4.4			(34.8)
		5.8	4.4			6.4
		55.1	36.1			(112.8)
		41.2				(141.2)
Total other comprehensive income and expenditure						

105.6 Total comprehensive income and expenditure (surplus)/deficit	(55.2)
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Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the asset and liabilities recognised by the County Council. The net assets of the County Council (assets less liabilities) are matched by the reserves held by the County Council. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. 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 that may only be used to fund capital expenditure or repay debt). The second category of reserves are those that the County Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the revaluation reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line "Adjustments between accounting basis and funding basis under regulations".

31 March 2013		Note	31 March 2014
£m			£m
974.5	Property, plant and equipment	18	931.9
1.7	Heritage assets	19	1.7
0.0	Investment property	20	0.1
0.2	Intangible assets	21	0.2
599.4	Long-term investments (including net pensions asset)	14.7, 36.2	649.2
4.9	Long-term debtors		3.9
1,580.7	Long term assets		1,587.0
11.6	Assets held for sale	22	10.7
78.9	Short-term investments	27	60.0
0.3	Inventories	29	0.7
45.6	Short-term debtors	30	43.0
0.0	Cash and cash equivalents	31	13.8
136.4	Current assets		128.2
(5.9)	Cash and cash equivalents	31	0.0
(28.0)	Short-term borrowing	27	(37.9)
(101.5)	Short-term creditors	32	(105.8)
(1.6)	Short-term provisions	33	(0.7)
(137.0)	Current liabilities		(144.4)
0.0	Long Term Creditors	6.3	(0.7)
(0.9)	Long-term provisions	33	(1.3)
(220.0)	Long-term borrowing	27	(205.4)
(1,071.5)	Other long-term liabilities	26.4, 35, 36.3	(1,020.5)
(1,292.4)	Long-term liabilities		(1,227.9)
287.7	Net assets		342.9
	Financed by:		
183.7	Usable reserves	2	173.5
104.0	Unusable reserves	4	169.4
287.7	Total reserves		342.9

Notes referenced will give supporting information to the amount on the main statement. They may not include the full amount.

Cash Flow Statement

The Cash Flow statement shows the changes in cash and cash equivalents of the County Council during the reporting period. The statement shows how the County Council generates and uses cash and cash equivalents by classifying cash flows as: operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the County Council are funded by way of taxation and grant income or from the recipients of services provided by the County Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the County Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

2012/13		2013/14
Restated		
£m	Note	£m
(64.4)	Net surplus/ (deficit) on the provision of services	(86.0)
132.3	Adjust net (surplus)/deficit for non-cash movements	37 153.1
(46.0)	Adjust for items included in the net (surplus)/deficit on the provision of services that are investing and financing activities	37 (44.6)
21.9	Net cash flows from operating activities	22.5
(13.6)	Net cash flows from investing activities	38 4.4
(7.6)	Net cash flows from financing activities	39 (7.2)
0.7	Net (increase)/decrease in cash or cash equivalents	19.7
(6.6)	Cash and cash equivalents at the beginning of the reporting period	31 (5.9)
(5.9)	Cash and cash equivalents at the end of the reporting period	31 13.8

Prior Period Restatements

In the production of the Final Accounts for 2013/14 the 2011 there are two changes in accordance with the Code of Practice for Local Authority Accounting 2013/14 that require the comparative 2012/13 accounts to be restated. These relate to the adoption of the 2011 amendments to IAS19 Employee benefits and the Fair Value disclosure of the Service Concession Liabilities (PFI).

IAS 19 Employee Benefits

The Comprehensive Income and Expenditure Statement:	£m
Net cost of services	
Increases in pensions contributions against Service expenditure	0.5
Other operating expenditure	
Administration expense	0.3
Financing, investments income and expenditure	
Reduction in Pensions interest cost	0.5
Net reduction of income	6.9
Removal of expected return on Pension Scheme assets £32.4m	
Replace assets with interest income on Pension Scheme assets £25.5m	
Increase on deficit on provision of services	7.2
Reduction on actuarial losses on pension assets and liabilities	7.2

There is no impact on the Balance Sheet.

The Cashflow Statement reflects the movement in the net deficit and adjustment to the deficit on the provision of services for non-cash movements.

The following notes to the accounts have been amended to reflect the changes:

Note 4.1	Pension reserve
Note 5.1	Reconciliation of Directorate Income & Expenditure to cost of services in the CI&E Account
Note 5.2	Reconciliation to the subjective analysis
Note 16	Financing and investment income and expenditure
Note 27.3	Fair value of assets and liabilities
Note 36.1	Transactions relating to post-employment benefits
Note 36.2	Assets and liabilities in relation to post-employment benefits
Note 37	Cashflow statement – operating activities

Service Concession Liabilities – PFI

The 2013/14 requirement to show the service concession liabilities for the PFI at fair value (previously stated at the carrying amount value) is restated in 2012/13 for comparative purposes., **Note 27.3**

1. 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.

2013/14	Usable Reserves			Capital Grants Unapplied	Movement in Unusable Reserves
	General Fund Balance	Earmarked Specific Reserves	Capital Receipts Reserve		
	£m	£m	£m	£m	£m
Adjustments primarily involving the Capital Adjustment Account:					
Reversal of items debited or credited to the CI&E Statement:					
Charges for depreciation and impairment of non-current assets	52.4				(52.4)
Amortisation of intangible assets	0.3				(0.3)
Capital grants and contributions applied	(40.5)				40.5
Revenue expenditure funded from capital under statute	0.5	(3.0)		0.7	1.8
Insertion of items not debited or credited to the CI&E Statement:					
Statutory provision for the financing of capital investment	(18.0)				18.0
Capital expenditure charged against the General Fund	(4.5)				4.5
Adjustments primarily involving the Capital Grants Unapplied Account:					
Capital grants & contributions unapplied credited to the CI&E Statement	(0.4)			41.0	(0.1)
Application of grants to capital financing transferred to Capital Adjustment Account				(40.5)	
Adjustments primarily involving the Capital Receipts Reserve:					
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the CI&E Statement	75.0		3.7		(78.7)
Use of Capital Receipts Reserve to finance new capital expenditure			(1.7)		1.7
Adjustments primarily involving the Pensions Reserve:					
Reversal of items relating to retirement benefits debited or credited to the CI&E Statement	38.4				(38.4)
Employer's pension contributions and direct payments to pensioners payable in the year	(24.4)				24.4
Adjustments primarily involving the Collection Fund Adjustment Account:					
Amount by which council tax income credited to the CI&E Statement is different from council tax income calculated for the year in accordance with statutory requirements	(1.5)				1.5
Amount by which Business Rates income credited to the CI&E Statement is different from Business rates income calculated for the year in accordance with statutory requirements	1.2				(1.2)
Adjustment primarily involving the Accumulated Absences Account					
Amount by which officer remuneration charged to the CI&E Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(2.9)				2.9

Total Adjustments	75.6	(3.0)	2.0	1.2	(75.8)
2012/13 Comparative Figures (Restated)	Usable Reserves				
	General Fund Balance	Earmarked Specific Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£m	£m	£m	£m	£m
Adjustments primarily involving the Capital Adjustment Account:					
Reversal of items debited or credited to the CI&E Statement:					
Charges for depreciation and impairment of non-current assets	52.1				(52.1)
Amortisation of intangible assets	0.3				(0.3)
Capital grants and contributions applied	(34.5)				34.5
Revenue expenditure funded from capital under statute	2.7	(1.6)			(1.1)
Insertion of items not debited or credited to the CI&E Statement:					
Statutory provision for the financing of capital investment	(17.7)				17.7
Capital expenditure charged against the General Fund	(4.8)				4.8
Adjustments primarily involving the Capital Grants Unapplied Account:					
Capital grants & contributions unapplied credited to the CI&E Statement	(6.8)			41.3	
Application of grants to capital financing transferred to Capital Adjustment Account				(34.5)	
Adjustments primarily involving the Capital Receipts Reserve:					
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the CI&E Statement	69.5		4.6		(74.1)
Use of Capital Receipts Reserve to finance new capital expenditure			(2.5)		2.5
Adjustments primarily involving the Pensions Reserve:					
Reversal of items relating to retirement benefits debited or credited to the CI&E Statement	31.2				(31.2)
Employer's pension contributions and direct payments to pensioners payable in the year	(24.6)				24.6
Adjustments primarily involving the Collection Fund Adjustment Account:					
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	(0.3)				0.3
Adjustment primarily involving the Accumulated Absences Account					
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	(0.8)				0.8
Total Adjustments	66.3	(1.6)	2.1	6.8	(73.6)

2. Usable Reserves

	Opening Balance 01/04/13	Contributions		Closing Balance 31/03/14
	£m	To £m	From £m	£m
General fund	15.1	0.0	(2.1)	13.0
Earmarked specific reserves (detail in note 3)	124.7	40.7	(52.0)	113.4
Capital grants unapplied	39.0	41.7	(40.5)	40.2
Capital receipts reserve	4.9	3.7	(1.7)	6.9
Total Usable Reserves	183.7	86.1	(96.3)	173.5

3. 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 2013/14

	Balance at 1 April 2012 £m	Transfers out 2012/13 £m	Transfers in 2012/13 £m	Balance at 31 March 2013 £m	Transfers out 2013/14 £m	Transfers in 2013/14 £m	Balance at 31 March 2014 £m
Earmarked reserves:							
Balances held by schools under a scheme of delegation	19.0	(19.0)	19.5	19.5	(19.5)	18.5	18.5
DSG c/fwd balance	5.1	(1.5)	2.2	5.8	(0.2)	1.9	7.5
Future capital investment	11.8	(2.2)	0.6	10.2	(3.1)	0.0	7.1
Insurance	6.3	(1.8)	1.4	5.9	(1.3)	1.5	6.1
Retained Waste Disposal PFI grant	16.3	0.0	1.3	17.6	(0.7)	0.0	16.9
Education Virtual Workspace PFI grant	1.9	0.0	0.0	1.9	(0.2)	0.0	1.7
Bromsgrove Schools Reorganisation PFI grant	2.3	0.0	0.1	2.4	0.0	0.1	2.5
Health and Pooled Budgets	4.4	(1.0)	0.6	4.0	(0.7)	0.0	3.3
Growing Places	5.5	0.0	0.0	5.5	(1.3)	0.0	4.2
Directorate revenue reserves	9.5	(3.1)	6.1	12.5	(5.7)	3.1	9.9
BOLD Change Management	1.8	(0.2)	0.0	1.6	(0.9)	2.1	2.8
Councillors' Divisional Fund	1.2	(0.6)	0.6	1.2	(0.6)	0.6	1.2
Revenue grants unapplied	29.2	(13.2)	10.0	26.0	(12.2)	6.1	19.9
Other reserves	10.2	(2.3)	2.7	10.6	(5.6)	6.8	11.8
Total	124.5	(44.9)	45.1	124.7	(52.0)	40.7	113.4

4. Unusable Reserves

	Opening Balance 01/04/13 Restated £m	Contributions To £m	Contributions From £m	Closing Balance 31/03/14 £m
Pensions reserve	(385.9)	(45.0)	143.8	(287.1)
Accumulated absences adjustment account	(9.3)	(6.4)	9.3	(6.4)
Financial instruments adjustment account	(1.1)	0.0	0.0	(1.1)
Capital adjustment account	398.0	49.0	(97.5)	349.5
Revaluation reserve	101.0	35.0	(23.1)	112.9
Collection fund adjustment account - Council Tax	1.3	1.5	0.0	2.8
Collection fund adjustment accounts – Business Rates	0.0	0.0	(1.2)	(1.2)
Total Unusable Reserves	104.0	34.1	(31.3)	169.4

4.1 Pensions Reserve

2012/13 £m		2013/14 £m
(324.3)	Balance at 1 April	(386.0)
(9.7)	Actuarial gains & losses arising on changes in demographic assumptions	(6.4)
(96.8)	Actuarial gains & losses arising on changes in financial assumptions	89.7
51.4	Return on Plan assets (excluding the amount included in net interest expense)	25.3
0.0	Experience gains & losses	4.4
(31.2)	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income & Expenditure Statement	(38.4)
24.6	Employer's pensions contributions & direct payments to pensioners payable in the year	24.5
0.0	Increase in Teachers Pension Liability	(0.2)
(386.0)	Balance at 31 March	(287.1)

2012/13 restated in accordance with 2013/14 Code of Practice. There is no change to the balance at 31 March 2013.

4.2 Accumulated Absences Adjustment Account

2012/13 £m		2013/14 £m
(10.1)	Balance at 1 April	(9.3)
10.1	Reversal of opening balance	9.3
(9.3)	Accumulated absence accrual	(6.4)
(9.3)	Balance at 31 March	(6.4)

4.3 Capital Adjustment Account

2012/13 £m		2013/14 £m
446.3	Balance at 1 April	398.0
0.9	2011/12 restatements	0.0
447.2		
	Capital Financing:	
2.5	Capital Receipts	1.7
34.6	Capital Grants and Contributions	40.6
1.4	Revenue Contributions to Capital Expenditure	2.5
5.1	Capital Reserve	4.2
43.6		49.0
(18.2)	Impairment charged to Comprehensive Income and Expenditure Statement	(16.9)
(32.6)	Depreciation charged to Comprehensive Income and Expenditure Statement	(34.1)
2.1	PFI Adjustments	2.0
(2.8)	REFCUS Adjustments	(0.5)
15.6	Minimum Revenue Provision Adjustment	15.7
(56.9)	Disposal of non-current assets	(63.7)
398.0	Closing Balance at 31 March	349.5

4.4 Revaluation Reserve

2012/13 £m		2013/14 £m
106.9	Opening Balance at 1 April	101.0
(0.9)	2011/12 restatements	0.0
106.0		101.0
19.7	Revaluations during the year	35.0
(1.6)	Depreciation of revaluations	(1.7)
(5.8)	Impairment of Revaluations	(6.4)
(17.3)	Disposal of Revaluations	(15.0)
101.0	Closing Balance at 31 March	112.9

4.5 Collection Fund Adjustment Account

2012/13 £m		2013/14 £m
1.0	Balance at 1 April	1.3
0.3	Movement in year	1.5
1.3	Balance at 31 March	2.8

5. Operational Financial Reporting - Amounts Reported for Resource Allocation Decisions

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Service Accounting Code of Practice. Decisions about resource allocation are taken by the County Council's Cabinet on the basis of budget reports analysed across directorates. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- no charges are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged to services in the Comprehensive Income and Expenditure Statement)
- the cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current services cost benefits accrued in the year, and
- expenditure on some support services is budgeted for centrally and not charged to directorates.

Directorate Income and Expenditure 2013/14

	Adult Services & Health	Children's Services	Business, Environment & Community	Resources	Total
	£m	£m	£m	£m	£m
Fees, charges & other services income	41.7	281.4	36.9	44.6	404.6
Government grants	28.9	280.2	10.3	1.5	320.9
Total Income	70.6	561.6	47.2	46.1	725.5
Employee expenses	37.3	235.2	24.4	23.4	320.3
Other service expenses	174.5	167.4	91.1	50.7	483.7
Support service recharges	10.2	237.8	8.7	6.7	263.4
Total Expenditure	222.0	640.4	124.2	80.8	1,067.4
Net Cost of Service	151.4	78.8	77.0	34.7	341.9

Directorate Income and Expenditure 2012/13 comparative figures restated

	Adult Services & Health	Children's Services	Business, Environment & Community	Resources	Total
	£m	£m	£m	£m	£m
Fees, charges & other services income	52.4	303.4	34.8	48.8	440.3
Government grants	8.2	302.2	9.6	1.0	321.0
Total Income	60.6	606.5	44.4	49.8	761.3
Employee expenses	37.5	254.5	24.4	24.9	341.3
Other service expenses	158.7	173.0	87.8	56.2	475.7
Support service recharges	9.3	252.3	6.6	7.1	275.3
Total Expenditure	205.5	679.8	118.8	88.2	1,092.3
Net Expenditure	144.9	73.3	74.4	38.4	331.0

5.1 Reconciliation of Directorate Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement

2012/13 £m		2013/14
331.0	Net expenditure in the Directorate analysis	341.9
(38.0)	Amounts in the Comprehensive Income & Expenditure Statement not reported to management in the analysis	(23.3)
40.7	Amounts included in the analysis not included in the Comprehensive Income & Expenditure Statement	38.3
333.7	Cost of services in the Comprehensive Income & Expenditure Statement	356.9

5.2 Reconciliation to Subjective Analysis

	Directorate analysis	Amounts not included Income & Expenditure	Amounts not reported to management for decision making	Allocation of recharges	Cost of Services	Corporate amounts	Total
2013/14	£m	£m	£m	£m	£m	£m	£m
Fees, charges & other service income	404.6	(0.3)	0.1	(270.5)	133.9	0.0	133.9
Interest & investment income	0.0	0.0	0.0	0.0	0.0	0.4	0.4
Expected return on Pension Assets	0.0	0.0	0.0	0.0	0.0	25.1	25.1
Profit on disposal of assets	0.0	0.0	0.0	0.0	0.0	0.4	0.4
Taxation and non-specific grants	320.9	0.0	0.0	0.0	320.9	379.9	700.8
Total Income	725.5	(0.3)	0.1	(270.5)	454.8	405.8	860.6
Employee expenses	320.3	0.00	(1.8)	0.0	318.5	0.0	318.5
Other service expenses	483.7	(23.4)	(13.0)	(7.1)	440.2	0.0	440.2
Support Services recharges	263.4	0.0	0.0	(263.4)	0.0	0.0	0.0
Depreciation, amortisation and impairment	0.0	53.2	0.00	0.0	53.2	0.0	53.2
Interest payments	0.0	0.0	0.0	0.0	0.0	18.4	18.4
Pension interest & administration cost	0.0	0.0	0.0	0.0	0.0	40.9	40.9
Taxation and non-specific grants	0.0	0.00	(0.2)	0.0	(0.2)	0.2	0.0
Loss on disposal of non-current assets	0.0	0.0	0.0	0.0	0.0	75.4	75.4
Total Expenditure	1,067.4	29.8	(15.0)	(270.5)	811.7	134.9	946.6
Deficit on the Provision of Services	341.9	30.1	(15.1)	0.0	356.9	(270.9)	86.0

	Directorate analysis	Amounts not included in Income & Expenditure	Amounts not reported to management for decision making	Allocation of recharges	Cost of Services	Corporate amounts	Total
2012/13 comparative figures (restated)	£m	£m	£m	£m	£m	£m	£m
Fees, charges & other service income	440.3	0.0	(0.3)	(289.1)	150.9	0.0	150.9
Interest & investment income	0.0	0.0	0.0	0.0	0.0	0.2	0.2
Interest Income on Pension Assets	0.0	0.0	0.0	0.0	0.0	25.6	25.6
Profit on disposal of assets	0.0	0.0	0.0	0.0	0.0	0.8	0.8
Taxation and non-specific grants	321.0	0.0	0.0	0.0	321.0	372.7	693.7
Total Income	761.3	0.0	(0.3)	(289.1)	471.9	399.3	871.2
Employee expenses	341.3	(8.7)	0.0	0.0	332.6	0.0	332.6
Other service expenses	475.7	(5.9)	(38.1)	(13.8)	417.9	0.0	417.9
Support Services recharges	275.3	0.0	0.0	(275.3)	0.0	0.0	0.0
Depreciation, amortisation and impairment	0.0	55.3	0.0	0.0	55.3	0.00	55.3
Interest payments	0.0	0.0	0.0	0.0	0.0	18.7	18.7
Pension interest & administration cost	0.0	0.0	0.0	0.0	0.0	40.8	40.8
Taxation and non-specific grants	0.0	0.0	(0.2)	0.0	(0.2)	0.2	0.0
Loss on disposal of non-current assets	0.0	0.0	0.0	0.0	0.0	70.3	70.3
Total Expenditure	1,092.3	40.7	(38.3)	(289.1)	805.6	130.0	935.6
Deficit on the Provision of Services	331.0	40.7	(38.0)	0.0	333.7	(269.3)	64.4

The 2012/13 comparative figures have been restated to reflect the change in the employee benefits adopted in the latest Code of Practice

6. Agency Income and Expenditure

6.1 Registered Nursing Care Contributions

The County Council makes payments on behalf of the Worcestershire Primary Care Trust in respect of Registered Nursing Care Contributions. In 2013/14 the payments made were £8.0 million (2012/13 £7.6m) and income received of £7.8 million (2012/13 £7.8m). The cost to the Council of administering this scheme is £52,506.

6.2 Council Tax Income

2012/13		2013/14
£m		£m
Income and Expenditure Statement		
(0.3)	Council tax precept – billing authorities surplus/deficit	(1.5)
Balance Sheet		
6.5	Debtors	6.5
(5.2)	Creditors	(3.7)
1.3	Collection fund adjustment account	2.8

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.

2012/13		2013/14
£m		£m
Income and Expenditure Statement		
0.0	Non domestic rates – billing authorities surplus/deficit	1.2
Balance Sheet		
0.0	Debtors	0.2
0.0	Creditors	(0.7)
0.0	Provision for appeals	(0.7)
0.0	Collection fund adjustment account	(1.2)

7. Pooled budgets

Under Section 75 of the National Health Service Act 2006, the County Council has entered into 16 joint working arrangements with the Clinical Commissioning Groups (CCGs), covering Redditch & Bromsgrove, Wyre Forest and South Worcestershire for the following services.

The County Council is the Host Authority for the pooled budgets and is responsible for their financial administration. Some pooled budget transactions are not processed through the Council's general ledger.

2012/13

2013/14

Partnership income	Partnership expenditure	Net partnership expenditure	WCC contribution		Partnership income	Partnership expenditure	Net partnership expenditure	WCC contribution
£m	£m	£m	£m		£m	£m	£m	£m
(55.6)	54.8	(0.8)	49.8	Learning disability service	(55.6)	55.6	0.0	50.3
0.0	0.0	0.0	0.0	Supported housing	(9.9)	9.1	(0.8)	9.9
(59.2)	59.2	0.0	9.5	Mental health service	(59.2)	60.6	1.4	9.3
(7.9)	7.3	(0.6)	0.3	Substance misuse service	(5.4)	4.6	(0.8)	5.4
(5.9)	5.7	(0.2)	4.6	Children with disabilities	(5.7)	5.3	(0.4)	5.3
0.0	0.0	0.0	0.0	Public Health	(3.5)	2.8	(0.7)	3.5
(2.4)	2.4	0.0	1.8	Carers	(2.2)	2.2	0.0	2.2
(1.2)	1.2	0.0	0.1	Healthy lifestyles	(2.1)	2.0	(0.1)	2.1
(2.0)	2.1	0.1	0.0	Integrated community equipment service	(2.2)	2.3	0.1	1.3
(0.9)	0.9	0.0	0.8	Joint commissioning units – team posts	(1.3)	1.3	0.0	1.0
(5.2)	5.1	0.0	0.8	Children & adolescent mental health	(5.2)	5.1	(0.1)	0.8
(11.1)	11.1	0.0	6.1	Early intervention	(0.3)	0.3	0.0	0.3
(1.7)	1.7	0.0	0.2	Speech, language & communication needs	(2.2)	2.2	0.0	0.2
(0.8)	0.7	(0.1)	0.3	Older people service	(1.4)	1.3	(0.1)	0.2
0.0	1.7	1.7	0.0	Wheelchairs	(1.5)	1.5	0.0	0.0
0.0	0.0	0.0	0.0	Counselling services	(0.1)	0.1	0.0	0.0
(9.1)	7.8	(1.3)	9.1	Health monies in support of social care	0.0	0.0	0.0	0.0
(162.9)	161.7	(1.2)	83.4		(157.8)	156.3	(1.5)	91.8

8. Members' Allowances and Expenses

2012/13		2013/14
Restated		
£m		£m
0.6	Basic allowances	0.5
0.3	Special responsibility	0.3
0.9	Total	0.8

9. Officers' Remuneration

9.1 Officers' Remuneration

2012/13 Total	Total Remuneration to Employees	Number of Employees 2013/14		Total
		Teachers	Non Teachers	
101	£50,000 to £54,999	67	35	102
70	£55,000 to £59,999	42	29	71
36	£60,000 to £64,999	34	13	47
16	£65,000 to £69,999	10	4	14
18	£70,000 to £74,999	6	2	8
5	£75,000 to £79,999	7	5	12
8	£80,000 to £84,999	1	6	7
6	£85,000 to £89,999	0	7	7
2	£90,000 to £94,999	1	1	2
2	£95,000 to £99,999	0	3	3
2	£100,000 to £104,999	0	0	0
1	£105,000 to £109,999	1	0	1
3	£110,000 to £114,999	0	3	3
2	£120,000 to £124,999	0	2	2
0	£145,000 to £149,999	0	1	1
1	£175,000 to £179,999	0	0	0
0	£180,000 to £184,999	0	1	1

Remuneration for these purposes includes all amounts paid to or receivable by an employee, and includes sums by way of expenses, allowances and the money value of any other benefits received other than in cash.

9.2 Senior Employees Remuneration

2013/14

Post Title	£ Salary	National £ Insurance	Expense £ allowances	Compensation for loss of £ employment	Pension £ Contributions	Total £ Remuneration
Chief Executive - Mrs T Haines	180,320	22,654	957	0	37,034	240,965
Director of Adult Services & Health	122,866	14,746	743	0	17,401	155,756
Director of Adult & Community Services (left 18/05/2013)	14,607	1,644	0	70,000	3,256	89,507
Director of Children's Services	123,476	14,810	472	0	25,083	163,841
Director of Business, Environment & Community Services	113,931	13,492	990	0	23,397	151,810
Director of Resources	113,931	13,492	305	0	23,397	151,125
Assistant Chief Executive	92,975	10,600	1,258	0	19,420	124,253
	762,106	91,438	4,725	70,000	148,988	1,007,257

2012/13

Post Title	Salary £	National Insurance Contributions £	Expense allowances £	Compensation for loss of employment	Pension Contributions £	Total Remuneration £
Chief Executive - Mrs T Haines	176,678	22,171	1,095	0	36,194	236,138
Director of Adult and Community Services	122,866	14,750	648	0	24,486	162,750
Director of Children's Services	120,637	14,438	913	0	24,041	160,029
Director of Business, Environmental & Community Services	82,127	9,613	322	0	18,016	110,078
Director of Resources	108,248	13,089	417	0	22,091	143,845
Director of Planning Economy and Performance (left 01/16/2012)	62,111	2,041	0	50,000	3,519	117,671
Assistant Chief Executive wef 01/05/2012	48,253	5,183	298	0	10,965	64,699
	720,920	81,285	3,693	50,000	139,312	995,210

10. Termination Benefits and Exit Packages

The County Council terminated the contracts of 297 employees in 2013/14, incurring liabilities of £4.5 million (2012/13 £4.1m). Included in this are provisions of £0.2 million.

The numbers of exit packages with total cost per band and total cost of compulsory and other redundancies are set out in the table below:

2012/13					2013/14				
Number of compulsory redundancies	Number of other departure agreed	Total number of exit packages	Total cost of exit packages £m	Exit package cost band (inc special payments)	Number of compulsory redundancies	Number of other departure agreed	Total number of exit packages	Total cost of exit packages £m	
222	87	310	1.7	£0 - £20,000	101	137	238	1.8	
26	11	37	1.0	£20,001 - £40,000	15	23	38	1.1	
7	4	10	0.5	£40,001 - £60,000	2	7	9	0.5	
1	1	2	0.1	£60,001 - £80,000	2	2	4	0.2	
1	1	2	0.2	£80,001 - £100,000	2	4	6	0.5	
0	1	1	0.1	£100,001 - £150,000	1	1	2	0.2	
0	1	1	0.2	£150,001 - £200,000	0	0	0	0.0	
257	106	363	3.8	Total Termination	123	174	297	4.3	

11. External Audit Costs

2012/13	2013/14
£m	£m
0.2 Fees payable with regard to external audit services	0.1

The External Audit cost includes income of £14,000 being the Councils share of the final settlement relating to the closure of the Audit Commission.

12. Dedicated Schools Grant

	Central Expenditure	Individual Schools Budget	Total
	£m	£m	£m
Final DSG for 2013/14	0.0	0.0	351.1
Academy Recoupment 2013/14	0.0	0.0	(106.4)
Total DSG after recoupment	0.0	0.0	244.7
Brought forward from 2012/13	0.0	0.0	5.8
Agreed budgeted distribution in 2013/14	38.3	212.2	250.5
In year adjustments	(1.1)	1.1	0.0
Final budgeted distribution	37.2	213.3	250.5
Actual expenditure	(30.0)	(212.9)	(242.9)
Carry forward to 2014/15	7.2	0.4	7.6

13. Grant Income

2012/13 Restated		2013/14
£m	Credited to taxation and non-specific grant income:	£m
2.0	Revenue Support Grant	83.4
5.5	Council Tax Freeze Grant	2.2
0.0	Council Tax Transition	0.6
0.0	Small Business Rate support	0.5
7.5	Total non-ring fenced Government grants	86.7
	Capital Grants	
0.0	Community Capacity	1.3
0.0	Transport	13.8
0.0	Structural Maintenance	16.0
0.0	Children's Services	9.8
7.5	Total credited to taxation and non-specific grant income	127.6
	Credited to Services:	
	Adult Services & Health	
9.8	Learning Disability and Health	0.0
7.4	Public Health	25.9
0.7	Other	1.5
17.9		27.4
	Children's Services	
256.4	Dedicated Schools Grant	244.3
0.0	Education Service Grant	7.3
6.5	Pupil Premium	9.2
10.3	Post 16 Learning Skills Council	7.6
4.6	Bromsgrove Schools PFI Grant	4.7
18.8	Early Intervention Grant	0.0
1.6	Other	5.5
298.2		278.6
	Business, Environment & Community	
0.8	Transport	1.0
4.4	Libraries & Community	5.1
4.1	Waste Disposal Private Finance Initiative	4.1
0.5	Environment / Winter Damage	2.0
0.0	Other	1.1
9.9		13.3
	Other	
0.8	New Homes	1.8
1.6	Other	1.5
2.3		3.3
328.3	Total Credited to Services	322.6

14. Related Parties

14.1 Central Government

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.

Grants received from government departments are set out in the subjective analysis in Note 5 on reporting for resource allocation decisions and in note 13 breakdown of grant income.

14.2 Members

Members of the County Council have direct control over the County Council's financial and operating policies. The total of members' allowances paid in 2013/14 is shown in Note 8. Members of the County Council are involved with other local organisations that have provided services for, or received services from the County Council. There are no related party disclosures to be made for elected members.

14.3 Officers

Officers of the County Council are involved with other local organisations that have provided services for, or received services from the County Council. There are no related party disclosures to be made for officers.

14.4 Other Public Bodies

The County Council has Section 75 Pooled budget arrangements with Health (details given in Note 7) and shared services arrangements with Worcestershire district councils. The County Council acts as lead body for a number of smaller partnerships, including the Local Enterprise Partnership (LEP). The LEP, with an annual value of transactions of £1.9 million, which is a partnership of local councils, local businesses, trade organisations and the voluntary sector working together with the aim of developing the best business environment for the County.

14.5 Worcestershire County Council Pension Fund

At the year end, the Pension Fund had a balance of £2.7 million of surplus cash deposited with the County Council. The County Council paid the Fund a total for interest of £26,000 on these deposits and charged the Fund £0.9 million for expenses incurred in administering the Fund.

14.6 West Mercia Energy Joint Committee

The County Council is represented by its elected members on the West Mercia Energy Joint Committee. West Mercia Energy 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 County Council spent £7.5 million with WME in 2013/14 and this is reflected in the Comprehensive Income and Expenditure Statement.

14.7 Malvern Hills Science Park

Malvern Hills Science Park is a joint venture company established by the County Council with its partners Malvern Hills District Council and the Hereford and Worcester Chamber of Commerce and Enterprise. The asset is held as an available for sale financial asset (included in note 27) and the investment recorded on the Balance Sheet under Long-term investments.

The County Council has a total of 944,061 (944,061 on 31.03.2013) shares which represent 40% (40% on 31.03.2013) of the total issued share capital of the company.

The County Council holds 9 voting shares out of a total issue of 100, giving a local authority interest of less than 20% and therefore under Part V of the 1989 Act this is neither a local authority 'controlled' company, nor a local authority 'influenced' company. The preference shares referred to above carry no voting rights.

14.8 Worcestershire Business Rates Pool

The County Council is the lead authority for the Worcestershire Business Rates Pool whose members are the County Council, Malvern Hills District Council, Worcester City Council, Wychavon District Council and Wyre Forest District Council. The Pool's aims are to drive forward economic growth and mitigate the effects of the volatility in local business rates with the additional local benefits devolved through the business rates retention scheme. The value of transactions in 2013/14 is £39.7 million of which £39.3 million is included in the Council's non-domestic rates income in Note 17 Taxation and non-specific grants.

15. Other Operating Expenditure

2012/13	2013/14
£m	£m
0.3 Admin Expenses Pension	0.4
69.5 (Gain)/Loss on disposal of non-current assets	75.0
69.8	75.4

The majority of the loss on disposal is due to the transfer of assets to the newly formed Academy schools.

16. Financing and Investment Income and Expenditure

2012/13	2013/14
£m	£m
18.7 Interest payable and similar charges	18.4
14.9 Pensions interest cost and expected return on pensions	15.4
(0.2) Interest receivable and similar income	(0.4)
33.4	33.4

The 2012/13 comparative figures have been restated to reflect the change in the employee benefits adopted in the latest Code of Practice

17. Taxation and Non Specific Grants

2012/13	2013/14
£m	£m
(220.7) Council tax income	(197.5)
(103.1) Non domestic rates	(54.8)
(7.5) Non-ring fenced government grants	(86.7)
(41.4) Capital grants and contributions	(40.9)
0.2 Environment Agency	0.2
(372.5)	(379.7)

18. Property, Plant and Equipment

18.1 Movements in 2013/14

Restated	Land and Buildings £m	Vehicles, plant, furniture & equipment £m	Infrastructure assets £m	Community Assets £m	Assets under Construction £m	Total Property, Plant & Equipment £m	PFI Assets included in PPE £m
Cost or valuation							
At 1 April 2013	970.8	50.4	337.9	0.3	33.3	1,392.7	89.7
Expenditure in year	0.0	0.0	0.0	0.0	59.1	59.1	0.0
Additions	31.5	2.3	19.4	0.0	(53.2)	0.0	0.5
Revaluation increases / (decreases) recognised in Revaluation Reserve	32.6	1.8	0.0	0.0	0.0	34.4	11.0
Derecognition – disposals	(77.8)	0.0	0.0	0.0	0.0	(77.8)	(18.6)
Assets reclassified to Held for Sale	(3.2)	0.0	0.0	0.0	0.0	(3.2)	0.0
Assets reclassified to other categories	(0.1)	0.0	0.0	0.0	0.0	(0.1)	0.0
At 31 March 2014	953.8	54.5	357.3	0.3	39.2	1,405.1	82.6
	Land and Buildings £m	Vehicles, plant, furniture & equipment £m	Infrastructure assets £m	Community Assets £m	Assets under Construction £m	Total Property, Plant & Equipment £m	PFI Assets included in PPE £m
Accumulated depreciation and impairment							
At 1 April 2013	(249.5)	(40.2)	(128.5)	0.0	0.0	(418.2)	(3.8)
Depreciation charge:							
Depreciation written out to the Revaluation Reserve	(1.7)	0.0	0.0	0.0	0.0	(1.7)	0.0
Depreciation written out to the Surplus / Deficit on the Provision of Services	(10.7)	(4.6)	(18.5)	0.0	0.0	(33.8)	(1.0)
Derecognition – disposals	3.7	0.0	0.0	0.0	0.0	3.7	0.6
Impairment losses / (reversals) recognised in the Revaluation Reserve	(6.3)	0.0	0.0	0.0	0.0	(6.3)	0.0
Impairment losses / (reversals) recognised in the Surplus / Deficit on the Provision of Services	(16.9)	0.0	0.0	0.0	0.0	(16.9)	0.0
At 31 March 2014	(281.4)	(44.8)	(147.0)	0.0	0.0	(473.2)	(4.2)
Net book value							
At 31 March 2014	668.6	9.7	210.3	0.3	39.2	928.1	78.3

At 31 March 2013	721.2	10.2	209.4	0.3	33.3	974.5	85.9
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18.2 Comparative Movements in 2012/13

	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 2012 (restated)	994.9	46.3	316.9	0.3	37.4	1,395.8	66.5
Expenditure in year	0.0	0.0	0.0	0.0	55.1	55.1	0.0
Additions	34.1	4.1	21.0	0.0	(59.2)	0.0	28.8
Revaluation increases / (decreases) recognised in Revaluation Reserve	18.7	0.0	0.0	0.0	0.0	18.7	(5.6)
Derecognition - disposals	(74.8)	0.0	0.0	0.0	0.0	(74.8)	0.0
Assets reclassified (to) / from Held for Sale	(2.1)	0.0	0.0	0.0	0.0	(2.1)	0.0
At 31 March 2013	970.8	50.4	337.9	0.3	33.3	1,392.7	89.7

	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 2012	(219.7)	(36.2)	(110.9)	0.0	0.0	(366.8)	(2.7)
Depreciation written out to the Revaluation Reserve	(1.6)	0.0	0.0	0.0	0.0	(1.6)	0.0
Depreciation written out to the Surplus / Deficit on the Provision of Services	(10.7)	(4.0)	(17.6)	0.0	0.0	(32.3)	(1.1)
Derecognition – disposals	4.5	0.0	0.0	0.0	0.0	4.5	0.0
Impairment losses / (reversals) recognised in the Revaluation Reserve	(5.8)	0.0	0.0	0.0	0.0	(5.8)	0.0
Impairment losses / (reversals) recognised in the Surplus / Deficit on the Provision of Services	(16.2)	0.0	0.0	0.0	0.0	(16.2)	0.0
At 31 March 2013	(249.5)	(40.2)	(128.5)	0.0	0.0	(418.2)	(3.8)
Net book value							
At 31 March 2013	721.3	10.2	209.4	0.3	33.3	974.5	85.9

At 31 March 2012	775.2	10.1	206.0	0.3	37.4	1,029.1	87.0
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18.3 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
Carried at historical cost	166.9	7.9	210.3	0.3	39.2	424.6	0.3
Valued at fair value as at:							
31 March 2014	210.2	1.8	0.0	0.0	0.0	212.0	0.0
31 March 2013	100.7	0.0	0.0	0.0	0.0	100.7	0.0
31 March 2012	65.3	0.0	0.0	0.0	0.0	65.3	28.1
31 March 2011	68.8	0.0	0.0	0.0	0.0	68.8	0.0
31 March 2010	44.0	0.0	0.0	0.0	0.0	44.0	0.0
31 March 2009	10.4	0.0	0.0	0.0	0.0	10.4	56.3
31 March 2008	6.1	0.0	0.0	0.0	0.0	6.1	0.0
Total cost or valuation	672.4	9.7	210.3	0.3	39.2	931.9	84.7

18.4 Contractual Commitments for Property, Plant and Equipment

As at 31 March 2014 the County Council has a capital programme comprising capital projects amounting to £293.5 million (2012/13 £145.7 m).

Major schemes where contracts have been let:

	£m
Haberley Learning Campus	11.6
Structural carriageway / bridgeworks	3.1
New School at Stourport Burlish Park Primary	5.1
Bewdley High School Science Block	2.5
Worcester Transport Strategy	4.2
Local Broadband	11.6
Sub-total	38.1
Committed scheme greater than £2m - Parkside Redevelopment	5.5
Committed schemes less than £2m	12.4
Total Commitment	56.0

18.5 School Assets

There are 197 local authority maintained and 43 academy schools and 1 Free school in the County. The school category determines whether or not the school value is held on the County Council's Balance Sheet. The County Council may have residual values for some retained assets.

	Number of schools	Value held on Balance Sheet at 31 March 2014 £m	Status
Community	87	314.7	On Balance Sheet
PFI	5	47.6	On Balance Sheet
Voluntary controlled	64	4.4	Off Balance Sheet
Voluntary aided	40	0.7	Off Balance Sheet
Foundation	1	0.8	Off Balance Sheet
Academy	43	24.6	Off Balance Sheet
	240	392.8	

19. Heritage Assets

	Museum Collection £m	Record Office £m	Other £m	Total Assets £m
Balance at 1 April 2013	0.8	0.6	0.3	1.7
Variations in year	0.0	0.0	0.0	0.0
Balance at 31 March 2014	0.8	0.6	0.3	1.7

20. Investment Property

2012/13 Total £m		2013/14 Total £m
3.4	Balance at start of the year:	0.0
(3.4)	Transfers to/from Property, Plant & Equipment	0.1
0.0	Net carrying amount at the start of the year	0.1

21. Intangible Assets

2012/13 Total £m		2013/14 Total £m
	Balance at start of the year:	
2.2	Gross carrying amounts	2.3
(1.8)	Accumulated amortisation	(2.1)
0.4	Net carrying amount at the start of the year	0.2
0.1	Additions	0.3
(0.3)	Amortisation for the period	(0.3)
0.2	Net carrying amount at end of year	0.2
	Comprising:	
2.3	Gross carrying amount	2.6
(2.1)	Accumulated amortisation	(2.4)
0.2		0.2

22. Assets Held for Sale

Non-current Restated 2012/13 £m		Non-current 2013/14 £m
10.8	Balance outstanding at start of year	11.6
2.2	Property, plant & equipment newly classified as held for sale	3.2
3.4	Other assets / liabilities in disposal groups	0.0
1.0	Revaluation gains	0.6
(2.0)	Impairment losses	(0.1)
(0.1)	Property, plant & equipment declassified as held for sale	0.0
(3.7)	Assets sold	(4.6)
11.6	Balance outstanding at year end	10.7

23. Impairment 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.

2012/13 £m		2013/14 £m
22.0	Impairment losses - other land and buildings	23.3
2.0	Impairment losses - non-operational	0.1
69.5	Disposal losses – other land & buildings	75.0
93.5		98.4

24. Capital Expenditure and Capital Financing

2012/13 £m		2013/14 £m
403.9	Opening capital financing requirement	403.2
	Capital investment:	
55.4	Property, plant and equipment	59.2
0.1	Intangible assets	0.3
0.2	Heritage assets	0.0
2.8	Revenue expenditure funded from capital under statute	0.5
	Sources of finance:	
(2.5)	Capital receipts	(1.7)
(34.6)	Government grants & other contributions	(40.6)
	Sums set aside from revenue:	
(6.5)	Direct revenue contributions	(6.7)
(15.6)	MRP/loans fund principal (excluding PFI)	(15.7)
403.2	Closing Capital Financing Requirement	398.5
	Explanation of movements in year	
(0.7)	Increase / (decrease) in underlying need to borrow (supported by government financial assistance)	(4.7)
(0.7)	Increase / (decrease) in Capital Financing Requirement	(4.7)

25. Leases

25.1 County Council as Lessee – operating leases

Operating lease payments of £1.3 million were made in 2013/14 (2012/13 £1.4m). The County Council's outstanding obligations under lease agreements as at 31 March 2014 totalled £15.0 million (31 March 2012 £15.3m).

	£m
Leases expiring in less than 1 year	1.1
Leases expiring between 1 and 5 years	4.1
Leases expiring in 5 years+	9.8

The County Council leases photocopiers in a number of its establishments, on individual lease arrangements, with an estimated total asset value at 31 March 2011 of £1.1 million. None of the photocopiers is individually of material value and there has been no adjustment to the County Council's balance sheet.

25.2 County Council as Lessor – operating leases

Operating receipts of £1.4 million were received in 2013/14 (2012/13 £1.3m). Outstanding obligations under lease agreements to the County Council as at 31 March 2014 totalled £3.6 million (31 March 2013 £1.9m).

	£m
Leases expiring in less than 1 year	1.2
Leases expiring between 1 and 5 years	1.9
Leases expiring in 5 years+	0.5

25.3 County Council as Lessor – finance leases

The County Council has 43 community schools which have converted to academy status. The non-current assets relating to these schools are leased to the academies for 125 years. The County Council does not receive any income in relation to these leases.

26. Private Finance Initiatives

26.1 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 Authorities 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.

Subsequent to the Balance Sheet date, a variation to the contract was signed in May 2014 to design, build, finance and operate an Energy from Waste Plant. Construction completion is planned for 2017 with a funding requirement of £195 million and an uplift to the Unitary Charge for both Councils agreed at £2.7 million.

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 Services.

26.2 Bromsgrove Schools PFI

In December 2005 the County Council entered into a 30 year contract with 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 2013/14 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.

26.3 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 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.

The University leases 2 railway arches on the site from Network Rail and 70% of the lease is charged to the County Council. The lease term is 35 years and started in January 2010, with a 5 yearly RPI uplift review. The Arches lease has been assessed as a finance lease, however as the asset value of £0.2 million is not material; the lease has been accounted for as an operating lease, with the annual payments being charged to Cultural and Related Services in the Comprehensive Income and Expenditure Statement.

26.4 Value of Assets and Liabilities under PFI Contracts

PPE - land & buildings	Waste disposal £m	Bromsgrove schools £m	The Hive £m	Total £m	PPE - vehicle, plant & equipment
					Waste disposal £m
Balance at 31 March 2013	6.9	55.8	23.0	85.7	0.2
Additions	0.0	0.0	0.5	0.5	0.0
Revaluations	0.4	10.6	0.0	11.0	0.0
Disposals	0.0	(18.0)	0.0	(18.0)	0.0
Depreciation	(0.3)	(0.4)	(0.2)	(0.9)	(0.1)
Balance at 31 March 2014	7.0	48.0	23.3	78.3	0.1

Finance lease liability	Waste disposal £m	Bromsgrove schools £m	The Hive £m	Total £m
Balance at 31 March 2013	(10.1)	(56.8)	(20.2)	(87.1)
Additions	(0.2)	0.0	0.0	(0.2)
Payments	1.2	0.7	0.3	2.2
Balance at 31 March 2014	(9.1)	(56.1)	(19.9)	(85.1)

26.5 Details of Payments due to be made under PFI Contracts

	Repayment of liability £m	Service Charge £m	Interest £m	Total £m
Payments due within one year	2.2	30.4	7.7	40.5
Payments due within 2 to 5 years	11.1	121.9	29.1	162.1
Payments due within 6 to 10 years	16.6	125.6	31.2	174.4
Payments due within 11 to 15 years	14.3	22.5	24.6	61.4

Payments due within 16 to 20 years	21.8	22.8	16.8	61.4
Payments due within 21 to 25 years	23.2	16.9	5.2	45.3

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

26.6 Non-Operational PFI Schemes

In March 2004 the County Council in partnership with Wolverhampton City Council entered into an 8 year contract with Nord Anglia Education PLC for the provision of a Virtual Workspace (an internet-based education portal). The contract was terminated in 2008/09. The DfE have indicated that the remaining grant can be retained and utilised in the provision of equivalent schemes; the retained grant totalled £1.7 million at 31 March 2014 and is held as an earmarked reserve.

27. Financial Instruments

27.1 Categories of Financial Instruments

The following categories of financial instrument are carried in the Balance Sheet:

Long-term 31 March 2013 £m	Current 31 March 2013 £m		Long-term 31 March 2014 £m	Current 31 March 2014 £m
Investments				
0.0	78.9	Loans & receivables	0.0	60.0
0.9	0.0	Available for sale financial assets	0.9	0.0
0.9	78.9	Total Investments	0.9	60.0
Cash Equivalents				
0.0	0.0	Cash equivalents at amortised cost	0.0	7.0
0.0	0.0	Available for sale Investments	0.0	11.6
0.0	0.0	Total cash	0.0	18.6
Debtors				
4.9	23.2	Loans & receivables	3.8	25.0
4.9	23.2	Total Debtors	3.8	25.0
Borrowings				
220.0	28.0	Financial liabilities at amortised cost	205.4	37.9
220.0	28.0	Total Borrowings	205.4	37.9
Other long term liabilities				
87.1		PFI and finance lease liabilities	85.1	
87.1		Total Other long term liabilities	85.1	
Creditors				
0.0	64.4	Financial liabilities at amortised cost	0.7	61.8
0.0	64.4	Total Creditors	0.7	61.8

27.2 Income, Expense, Gains and Losses

2012/13			2013/14			
Financial liabilities at amortised cost £m	Financial assets, loans & receivables £m	Total £m		Financial liabilities at amortised cost £m	Financial assets, loans & receivables £m	Total £m
(18.7)	(0.1)	(18.8)	Interest expense	(18.4)	(0.1)	(18.5)
(18.7)	(0.1)	(18.8)	Total expense in Surplus or Deficit on the Provision of Services	(18.4)	(0.1)	(18.5)
0.0	0.3	0.3	Interest income	0.0	0.5	0.5
0.0	0.3	0.3	Total income in Surplus or Deficit on the Provision of Services	0.0	0.5	0.5
(18.7)	0.2	(18.5)	Net gain / (loss) for the year	(18.4)	0.4	(18.0)

27.3 Fair Value of Assets and Liabilities

31 March 2013		31 March 2014	
Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
Financial liabilities			
312.4	360.1	305.2	347.1
87.1	136.7	85.1	136.7
0.0	0.0	0.7	0.7
Financial assets			
102.8	102.8	86.0	86.0
4.9	4.9	3.8	3.8
0.0	0.0	18.6	18.6

28. 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 Council;
- Liquidity risk - the possibility that the 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 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 2013/14 was approved by Council on 7 February 2014 and is available in the relevant Cabinet papers on the County Council's website via the following link:

<http://public.worcestershire.gov.uk/web/home/DS/Documents/Appendix/Cabinet/Agendas%20and%20Reports%202013/Thursday.%207%20February%202013/Agenda.%207%20February%202013%20item%204%20appx10.pdf>

28.1 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 2013/14 the County Council defined a body with high credit quality as Short Term of F1+ and Long Term AA (Fitch or equivalent rating). All three ratings agencies were used with the lowest of the three opinions being used. However, because of the continued risk of turbulence on the financial markets during the year, the County Council deposited its surplus funds with the UK Government via the Debt Management Office and with other local authorities only. There was a limit of £5 million with each local authority.

The County Council's maximum exposure to credit risk in relation to its investments in other Local Authorities of £74.8 million cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum is negligible. 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 2014 that this was likely to occur.

Although the County Council does not generally allow credit for customers, £4.4 million of the £12.8 million balance is past its due date for payment and can be analysed as follows:

	£m
One to three months	2.0
Three to six months	0.6
Six months to one year	0.7
More than one year	1.1
Total	4.4

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.

28.2 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 (£78.6 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 2013		31 March 2014
£m		£m
28.0	Maturing within one year	38.0
35.4	Maturing in 1-2 years	26.4
15.6	Maturing in 2-5 years	20.0
34.7	Maturing in 5-10 years	29.7
134.3	Maturing in more than 10 years	129.3
248.0	Total	243.4

28.3 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 Council during the financial year ending 31 March 2014.

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 report can be accessed via <http://public.worcestershire.gov.uk/web/home/DS/Documents/Appendix/Cabinet/Agendas%20and%20Reports%20012/Thursday,%209%20February%202012/Cabinet%209%20Feb%20-%20item%204%20Appx%2010.pdf>

The treasury management team 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.

28.4 Price Risk

The County Council does not invest in equity shares and is therefore not exposed to losses arising from the movement in the price of shares.

The County Council holds Preference Shares to the value of £0.9 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, there is no movement in price and no exposure to loss. See note 14.7 Related Parties for further information.

28.5 Foreign Exposure Risk

The County Council has no financial assets or liabilities denominated in foreign currencies. It therefore has no exposure to loss arising from movements in exchange rate.

29. Inventories

2012/13				2013/14			
Environmental Services Stock	Computer Equipment	Other Stocks	Total	Environmental Services Stock	Computer Equipment	Other Stocks	Total
£m	£m	£m	£m	£m	£m	£m	£m
0.4	0.2	0.1	0.7	0.1	0.0	0.2	0.3
Balance at start of year				Balance at start of year			
0.9	0.9	0.2	2.0	1.1	0.0	0.1	1.2
(1.2)	(1.1)	(0.1)	(2.4)	(0.7)	(0.0)	(0.1)	(0.8)
Balance at year-end				Balance at year-end			
0.1	0.0	0.2	0.3	0.5	0.0	0.2	0.7

30. Debtors

An analysis of current debtors is shown below:

31 March 2013		31 March 2014
£m		£m
9.1	Central government bodies	8.2
8.7	Other local authorities	6.8
2.9	NHS bodies	5.6
0.1	Public corporations and trading funds	0.1
24.8	Other entities and individuals	22.3
45.6	Total	43.0

31. Cash and Cash Equivalents

The cash total includes £1.5 million in local imprest accounts and schools that operate their own bank accounts for revenue expenditure and income. This is reduced by £2.4 million in operating bank accounts and £3.9 million to take account of BACS transactions that are outstanding at 31 March 2014.

	Opening Balance 01/04/2013	Closing Balance 31/03/2014	Movement During The Year
	£m	£m	£m
Bank current accounts	(5.9)	(4.8)	1.1
Short Term investments held as cash	0.0	18.6	18.6
Total Cash and cash equivalents	(5.9)	(13.8)	19.7

The movement from cash overdrawn to Cash in hand relates to short term investments held as cash in line with the Treasury management policy.

32. Creditors

31 March 2013 £m		31 March 2014 £m
9.2	Central Government Bodies	10.7
4.5	Other local authorities	12.1
7.5	NHS bodies	4.0
0.4	Public corporations & trading funds	0.4
79.9	Other entities and individuals	78.6
101.5	Total	105.8

33. Provisions

	Opening Balance 01/04/13 £m	Contributions		Closing Balance 31/03/14 £m
		To £m	From £m	
Long term provisions:				
Restructuring Provision	0.3	0.6	(0.2)	0.7
Other	0.6	0.1	(0.1)	0.6
Short term provisions:				
Restructuring Provision	0.9	0.5	(0.7)	0.7
Other	0.7	0.0	(0.7)	0.0
Total	2.5	1.2	(1.7)	2.0

The restructuring provision reflects anticipated redundancy costs incurred as a result of changes to the way the County Council works.

34. Contingent Liabilities

34.1 S117 Mental Health Clients

The Local Government Ombudsman on 24 July 2003 published a special report on 'Advice and Guidance on the funding of aftercare under section 117 of the Mental Health Act 1983'.

The report identified that it would be necessary for all Social Services Authorities to identify any service users who have been incorrectly charged for these aftercare services, with a view to arranging reimbursement.

The County Council's working group is continuing to identify affected service users and quantify the amount of liability in light of the Ombudsman's report. Procedures are in place to make reimbursements where appropriate.

The County Council has reflected the value of identified liabilities of £0.1 million as a provision.

35 Pensions Schemes accounted for as Defined Contribution Schemes

It is not possible for the County Council to identify its share of the underlying liabilities attributable to its own employees within the Defined contribution schemes, 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.

35.1 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 2013/14 the County Council paid £14.8 million (2012/13 £16.3m) to the Department for Education and Skills in respect of teachers' pension costs, which represents 14.1% (2012/13 14.1%) 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 2013/14 these amounted to £0.4 million (2012/13 £0.4 m), representing 0.4% (2012/13 0.3%) of pensionable pay. The County Council's Actuary has calculated a long-term liability of £4 million in respect of these payments that will decline over time, and this is included in the balance sheet under liabilities relating to defined benefit pension schemes.

35.2 NHS Pension Scheme

The NHS pension scheme is a defined benefit scheme administered by the NHS Superannuation Scheme. On 1 April 2013 staff transferred to the Council under the new arrangements for Public Health Services including some staff within the NHS pension scheme.

In 2013/14 the County Council paid £0.1 million to the NHS Superannuation scheme, which represents 14.0% of NHS pensionable pay. There are no 2012/13 comparatives.

36. Defined Benefit Pension Schemes

As part of the terms and conditions of employment of its employees, 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 fund and the 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 are calculated at a level intended to balance pension's liabilities with investment assets.

36.1 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 2012/13 Restated £m	Local Government Pension Scheme 2013/14 £m
Comprehensive Income & Expenditure Statement	
Cost of services:	
(21.0) Current service cost	(25.6)
(0.1) Past service costs	(0.1)
5.1 Settlements and curtailments	3.1
Other Operating Expenses	
(0.3) Administration expenses	(0.4)
Financing & investment income & expenditure	
(40.5) Interest cost	(40.5)
25.6 Interest income on pension assets	25.1
(31.2) Total post-employment benefit charged to the surplus or deficit on the Provision of Services	(38.4)
Other post-employment benefit charged to the Comprehensive Income & Expenditure Statement	
51.4 Return on Plan assets (excluding the amount included in net interest expense)	25.3
(9.7) Actuarial gains & losses arising on changes in demographic assumptions	(6.4)
(96.8) Actuarial gains & losses arising on changes in financial assumptions	89.7
0.0 Experience gains & losses	4.4
(86.3) Total post-employment benefit charged to the Comprehensive Income & Expenditure Statement	74.6
Movement in Reserves Statement	
(6.6) Reversal of net charges made to the surplus or deficit for the Provision of Services for post-employment benefits in accordance with the Code	(14.0)
Actual amount charged against the General Fund Balance for pensions in the year:	
24.6 Employer's contributions payable to the scheme	24.4
(29.2) Retirement benefits payable to pensioners	(30.6)

The cumulative amount of actuarial gains and losses recognised in the Other Comprehensive Income & Expenditure Account in the actuarial losses on pensions assets and liabilities line at 31 March 2014 was a gain of £113.0million (at 31 March 2013 a loss of £55.1 million).

36.2 Scheme History

	2009/10	2010/11	2011/12	2012/13 Restated	2013/14
	£m	£m	£m	£m	£m
Present value of liabilities	(817.8)	(783.0)	(840.4)	(980.6)	(931.4)
Fair value of assets	493.5	527.6	520.0	598.5	648.3

Surplus / (deficit) in the scheme	(324.3)	(255.4)	(320.4)	(382.1)	(283.1)
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The liabilities show the underlying commitments that the County Council has in the long run to pay post-employment (retirement) benefits. The net liability of £283.1 million has a substantial impact on the net worth of the County Council as recorded in the Balance Sheet where the liabilities of £931.4 million are included in Other long-term liabilities of £1,020.5 million and the Council's share of the pensions assets of £648.3 million is included in Long-term Investments of £649.2 million. Statutory arrangements for funding the deficit mean that the financial position of the County Council remains healthy:

- 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.

36.3 Liabilities and Assets in relation to Post-Employment Benefits

Reconciliation of present value of the scheme liabilities (defined benefit obligation):

Funded liabilities: LGPS 2012/13 Restated £m		Funded liabilities: LGPS 2013/14 £m
(840.4)	Opening balance at 1 April	(980.6)
(21.0)	Current service cost	(25.6)
(40.5)	Interest cost	(40.5)
(7.3)	Contributions by scheme participants	(6.8)
(9.7)	Actuarial gains & losses arising on changes in demographic assumptions	(6.4)
(96.8)	Actuarial gains & losses arising on changes in financial assumptions	89.7
0.0	Experience gains & losses	4.4
29.2	Benefits paid	30.6
(0.1)	Past service costs	(0.1)
(0.8)	Curtailments	(1.1)
6.8	Settlements	5.0
(980.6)	Closing balance at 31 March	(931.4)

Reconciliation of fair value of the scheme assets:

Local Government Pension Scheme 2012/13 Restated £m		Local Government Pension Scheme 2013/14 £m
520.0	Opening balance at 1 April	598.5
25.6	Interest Income	25.1
51.4	Return on plan assets, excluding the amount included in the net interest expense Actuarial gains / (losses)	25.3
(0.3)	Administration expenses	(0.4)
24.6	Employer contributions	24.4
7.3	Contributions by scheme participants	6.8
(29.2)	Benefits paid	(30.6)
(0.9)	Settlements	(0.8)
598.5	Closing balance 31 March	648.3

The past service costs, curtailment and settlement costs are shown as an exceptional item in the Net Cost of Services on the Comprehensive Income and Expenditure Statement. In 2013/14 these have resulted mainly from the transfer of staff to the Academy schools.

The actual return on scheme assets in the year was £30.0 million gain (2012/13 £76.6 million gain).

36.4 LG pension assets scheme

2012/13		Quoted	2013/14
£m		(Y/N)	£m
Equities:			
148.4	UK Quoted	Y	167.9
231.6	Overseas quoted	Y	233.4
67.0	PIV - UK Managed Funds	N	75.8
82.0	PIV - UK Managed Funds - (overseas equities)	N	110.9
9.6	PIV - Overseas Managed Funds	N	3.9
Bonds:			
4.8	UK Corporate	Y	4.5
32.9	Overseas Corporate	Y	36.3
Cash:			
9.6	Cash Instruments	Y	5.2
2.4	Cash Accounts	Y	3.9
10.2	Net Current Assets	N	6.5
598.5	Total		648.3

36.5 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 1 April 2010.

The principal assumptions used by the actuary are:

2012/13		2013/14
Mortality assumptions		
Longevity at 65 for current pensioners (years):		
22.5	Men	23.3
25.0	Women	25.7
Longevity at 65 for future pensioners (years):		
24.3	Men	25.5
27.0	Women	28.0
Financial assumptions		
2.4%	Rate of CPI inflation	2.4%
3.9%	Rate of increase in salaries	3.9%
2.4%	Rate of increase in pensions	2.4%
4.2%	Rate for discounting scheme liabilities	4.5%

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.

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

	Increase in rate of	Increase (decrease) in Assumption £m
Discount Rate	0.1%	(16.6)
Inflation	0.1%	16.9
Pay	0.1%	3.8
Life Expectancy	1 year	17.9

The Council anticipates payments of £19.3m expected contributions to the scheme in 2014/15.

The weighted average duration of the defined benefit obligation for scheme members is 18 years 2013/14 (2012/13 15 years).

37. Cash Flow Statement – Operating Activities

2012/13 Restated £m		2013/14 £m
0.1	Interest received	0.3
(18.4)	Interest paid	(18.6)
2012/13 £m		2013/14 £m
	The surplus/deficit on the provision of services has been adjusted for the following non cash movements	
34.3	Depreciation	35.8
18.2	Impairment and downward valuations	16.9
5.9	Increase/(decrease) in Creditors	5.0
(8.2)	(Increase) in Debtors	3.6
0.4	Decrease in Inventories	(0.4)
(0.6)	Movement in pension liability	14.0
74.1	Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	78.7
1.0	Other non –cash items	(0.5)
125.1		153.1
	The surplus/deficit on the provision of services has been adjusted for the following items that are investing or financing activities	
(4.6)	Proceeds from the sale property plant and equipment, investment property and intangible assets	(3.7)
(41.4)	Any other items for which the cash effects are investing or financing cash flows	(40.9)
(46.0)		(44.6)

38. Cash Flow Statement – Investing Activities

2012/13 £m		2013/14 £m
(55.5)	Purchase of property, plant & equipment, investment property and intangible assets	(59.1)
(2,036.2)	Purchase of short-term & long-term investments	(1,521.5)
4.6	Proceeds from the sale of property, plant & equipment, investment property and intangible assets	3.7
2,032.1	Proceeds from short-term & long-term investments	1,540.4
41.4	Other receipts from investing activities	40.9
(13.6)	Net cash flows from investing activities	4.4

39. Cash Flow Statement – Financing Activities

2012/13 £m		2013/14 £m
0.0	Cash receipts of short-term & long-term borrowing	0.4
(2.1)	Cash payments for the reduction of the outstanding liabilities relating to finance leases & on-balance sheet PFI contracts	(2.3)
(5.2)	Repayments of short- and long-term borrowing	(5.0)
(0.3)	Appropriations to/(from) collection fund account	(0.3)
(7.6)	Net cash flows from financing activities	(7.2)

40. Accounting Policies

General Principles

The Statement of Accounts for 2013/14 summarises the County Council's transactions for the 2013/14 financial year and its position at 31 March 2014. The Accounts have been prepared in accordance with the Accounts and Audit (England) Regulations 2011, the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the Code) and the Service Reporting Code of Practice 2013/14 issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) in accordance with International Financial Reporting Standards (IFRS).

The core financial statements are as follows:

- Movement in Reserves Statement
- Comprehensive Income and Expenditure Statement
- Balance Sheet
- Cash Flow Statement
- Notes to the Financial Statements

Accruals of Expenditure and Income

Revenue and capital transactions are accounted for on an accruals basis. This means that all revenue income is recorded when the debt has been established rather than when money has been received. Similarly, expenditure is recorded when it is owed rather than when the payment is made.

Money owed to Worcestershire County Council at 31 March is included as Debtors. Money owed by the County Council at 31 March is included as Creditors. Accruals are not made for amounts of less than £500.

Agency Income and Expenditure

The Worcestershire district councils are billing authorities and act as agents, collecting council tax on behalf of the major preceptors and themselves. Council tax transactions and balances are allocated between the billing authorities and major preceptors. The Comprehensive Income & Expenditure Statement reflects the County Council's proportion of the billing authorities' net surplus or deficit. The Balance Sheet has increased debtors and creditors to reflect the attributable share of council tax debtors, overpayments and council tax creditors and a

debtor for the billing authority in respect of cash collected from council tax payers but not paid across, or a creditor for cash paid in advance of receipt from council tax payers. The Collection Fund Adjustment Account absorbs the net effect of the billing authorities acting as agents for the Council in the collection of council tax income.

The Business Rates Retention system was introduced 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 Comprehensive Income & Expenditure Statement reflects the County Council's proportion of the billing authorities' net surplus or deficit. The Balance Sheet has increased debtors and creditors to reflect the attributable share of Business Rates debtors, overpayments and creditors and a provision in respect of potential repayments relating to outstanding appeals. The Non-domestic rate Adjustment Account absorbs the net effect of the billing authorities acting as agents for the Council in the collection of Business rates.

Carbon Reduction Commitment Energy Efficiency Scheme

The County Council is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme, currently in its introductory phase which will last until 31 March 2014. The County Council is required to purchase and surrender allowances retrospectively on the basis of emissions. As carbon dioxide is emitted a liability and expense are recognised. The liability is measured at the best estimate of expenditure required to meet the obligation, normally current market price and will be discharged by surrendering allowances. The cost to the Council is recognised and reported in the costs of the County Council's services and apportioned to services on the basis of energy consumption.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash at bank, on demand deposits and short-term investments which are readily convertible to cash.

Contingent liabilities

A contingent liability arises when an event has taken place that gives the County Council a possible obligation which will only be confirmed by the occurrence of uncertain future events not wholly within the control of the County Council. Contingent liabilities are not recognised in the financial statements but disclosed as a note to the accounts. If it becomes probable that an outflow of future economic benefits or service potential will be required then a provision is recognised in the year in which the probability occurs.

Employee Benefits

Benefits Payable during Employment

The accounts reflect an accrual for accumulating short-term absences, that is annual leave and flex time carry forward at 31 March. The charge is made to service accounts in the Comprehensive Income and Expenditure Statement and a short term creditor created on the Balance Sheet.

The impact of this on the Comprehensive Income and Expenditure Statement is reversed out of the service expenditure to the Accumulated Absences Adjustment Account in the Unusable Reserves on the Balance Sheet.

Termination Benefits

Termination benefits are payable as a result of either:

- The County Council's decision to terminate an employee's employment before the normal retirement date, or
- An employee's decision to accept voluntary redundancy.

Termination benefits are recognised immediately as an expense to the service in the Comprehensive Income and Expenditure Statement. The termination benefits detailed in the accounts will include those where the employee has not been formally notified but the County Council is demonstrably committed to a detailed plan for termination.

Where termination benefits involve the enhancement of pensions, the General Fund Balance is charged with the amount payable by the Council to the pension fund or pensioner in the year. In the Movement in Reserves Statement appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them debits for the cash paid to the pension fund and pensioners and any amounts due but not paid at the year-end.

Post-Employment Benefits

Worcestershire County Council participates in three different pension schemes that meet the needs of employees in particular services. The schemes provide members with defined benefits related to pay and service. The schemes are as follows:

a) The Teachers' Pension Scheme

This is an unfunded scheme administered by the Department for Education (DfE). The pension cost charged to the accounts is the employer's contribution rate that has been set by the DfE on the basis of a notional fund. The scheme is accounted for as a Defined Contribution Scheme – no liability for future payments is recognised on the Balance Sheet and the Children's and Education Service revenue account is charged with the employer's contributions payable to teachers' pension in the year.

b) The NHS Pension Scheme

This is an unfunded scheme administered by the NHS Superannuation scheme. The scheme is accounted for as a Defined Contribution Scheme – no liability for future payments is recognised on the Balance Sheet and the Public Health Service revenue account is charged with the employer's contributions payable to NHS pensions in the year.

c) The Local Government Pension Scheme

Subject to certain qualifying criteria, other employees are eligible to join the Local Government Pension Scheme. The pension costs charged to council tax are equal to the employer's contributions paid to the funded pension scheme for these employees. Further costs arise in respect of certain pensions paid to retired employees on an unfunded basis. The scheme is accounted for as a Defined Benefit Scheme – the liabilities of the scheme attributable to the County Council are included in the Balance Sheet on an actuarial basis and the assets of the fund attributable to the County Council are included in the Balance Sheet at their fair value.

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment and funding benefits in accordance with statutory provisions. The balance on the Pensions Reserve shows a substantial shortfall in the benefits earned by past and current employees and the resources available to meet them. The statutory arrangements will ensure that funding is available by the time the benefits come to be paid.

The County Council accounts for post-employment benefits in the Comprehensive Income & Expenditure Statement as the benefits earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. Statutory arrangements, however, require benefits earned to be financed as the County Council makes employer's contributions to the Pension Fund or pays any pension for which it is directly responsible. The 2011 amendments to the IAS19 Employee Benefits were adopted with effect from 1st April 2013; this re-measures the Pensions investment interest and the Return on the assets of the Pensions Plan in the Comprehensive Income and Expenditure Statement. There is no impact to the balance sheet long term investments, long term liabilities and pension reserve.

Impact on the County Council's Cash Flows:

The investment objectives of the Pension Fund are as follows:

- (a) to ensure that sufficient assets are available to meet liabilities as they fall due;
- (b) to maximise the return at an acceptable level of risk.

The County Council has agreed a strategy with the Pension Fund's Actuary to achieve a funding level of 100% over the next 21 years. Funding levels are monitored on an annual basis. The last valuation took place on 31 March 2013, with rates effective from 1 April 2014. The next triennial valuation is due to be completed on 31 March 2016.

The scheme will need to take account of the national change to the scheme under. The Pension Fund has changed from a final salary scheme to an average salary scheme with effect from 01.04.2014 in line with the Public Pensions Services Act 2013.

Events after the Balance Sheet date

Events after the Balance sheet date are those events that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue.

Exceptional Items and Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Exceptional items are material items of income or expense and are disclosed separately on the face of the Comprehensive Income and Expenditure Statement to aid understanding of the County Council's financial performance.

Prior period adjustments are made where there are material adjustments applicable to prior years arising from changes in accounting policies.

Changes in accounting policies are only made when required by proper accounting practices or where the change provides more reliable or relevant information about the County Council's financial position or performance. Changes are applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as applicable.

Financial Instruments

Financial instruments are contracts that give rise to a financial asset or financial liability and these are represented by loans and receivables, long-term debtors and creditors, and are carried in the Balance Sheet at amortised cost. For loans from the Public Works Loan Board (PWLB) and Money Market Lender Option Borrower Option (LOBO) loans with no planned change of interest this equates to the amount of the originating transaction less any repayments plus accrued interest. LOBO loans with stepped interest are shown at the real cost to the County Council rather than the cash flows under the contract. The Financial Instruments Adjustment Account reflects the results of smoothing the effect of the application of the effective interest rate charged to the accounts on the LOBO loans held by the County Council.

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 using current market information in the following ways:

- For PWLB loans the premature repayment rates at 31 March 2014 and the debt redemption procedure from the PWLB have been applied.
- For LOBO loans the fair value is calculated as the indicative total cost of breaking the contract. This consists of the principal and accrued interest, plus the premium, which is calculated by valuing the embedded options, using market rates in force as at 31st March.
- The fair value of other temporary borrowing and deposit loans repayable at 7 days is taken as amortised cost since there is no trade in these assets.
- The fair value of PFI Liabilities are calculated by calculating the present value of all future cash flows using composite high-quality corporate bond yields as indicative discount rates, as at the 31st March .
- The fair value of loans receivable have been assessed using benchmark rates at 31 March relating to deposits of comparable security and liquidity.
- The fair value of all Cash Equivalents (available for sale and amortised cost) has been assessed at their carrying amount, since they can be readily converted into cash with no contractual capital loss.
- The fair value of Debtors and Creditors is taken to be the invoiced or billed amount.

The fair value calculations have been provided by the PWLB for their loans and the County Council's Treasury Management advisors (Arlingclose) for for LOBO loans, PFI Liabilities and loans and receivables.

Government Grants and Other Contributions

Grants and contributions relating to capital and revenue expenditure are accounted for on an accruals bases, and recognised in the Comprehensive Income & Expenditure Statement as income, except where the grant or contribution has condition(s) that have not been satisfied. General grants and contributions (e.g. the Revenue Support Grant) are included in the Comprehensive Income & Expenditure Statement as Non-ring-fenced government grants. Specific grants and contributions are included as income for the relevant service area.

Where a grant or contribution has conditions outstanding at the Balance Sheet date the grant is held either as a receipt in advance, if not fulfilling the conditions would result in the return of the grant, or as an earmarked reserve. Capital grants credited to the Comprehensive Income & Expenditure Statement as capital grants and contributions are reversed out of the General Fund Balance in the Movement in Reserves Statement. Unapplied grant is posted to the Capital Grants Unapplied Reserve; applied grant to the Capital Adjustment Account.

Heritage Assets

All the County Council's heritage assets are held due to their cultural, environmental or historical associations making their preservation for future generations important. The majority of these assets are held at the County Museum and museums in the City of Worcester. The County Council also holds a small number of other assets, including furniture, art works and ceramics.

Where the County Council has information on the cost or value of heritage assets, these assets are recognised on the balance sheet otherwise a disclosure is made and the notes to the financial statements will explain the significance and nature of those assets not reported on the balance sheet.

Heritage Assets are recognised and measured at insurance values. It is not cost effective to undertake individual valuations of the assets; asset records and valuations will be updated as appropriate. Any variations will not have a material impact on the accounts.

Intangible Assets

Intangible assets refer to software licences purchased by the County Council. The assets are capitalised at cost. All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the County Council. To date, none of the capitalised software has been internally developed. The useful life assigned to major software is 3 years.

The carrying amount of intangible assets is amortised on a straight line basis and is absorbed as an overhead across all service headings in the Net Expenditure of Services.

Inventories and Long-Term Contracts

Inventories are materials or supplies that will be consumed in producing goods or providing services or will be sold or distributed as part of the Council's ordinary business. Where the amounts are material and irregular in incidence, the value of unconsumed stores is included in the Balance Sheet at the lower of cost and net realisable value.

Long term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year. Work in Progress at the end of the year is stated at the lower of cost or net realisable value. Inventories are valued on either a cost or an average price basis.

Investment Property

Investment property assets are those held to earn rental income or for capital appreciation. They are not used for the delivery of services.

Investment properties are measured initially at cost and subsequently at fair value. Properties are not depreciated but reviewed annually. Gains and losses on revaluation and disposal are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. Gains and losses are reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and the Capital Receipts Reserve.

Rentals received are credited to the Financing and Investment line and result in a gain for the General Fund Balance.

Jointly Controlled Operations

Jointly controlled operations are activities undertaken by the County Council in conjunction with other authorities that involve the use of the assets and resources of the councils rather than the establishment of a separate entity. The County Council recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure it incurs and the share of income it earns from the activity of the operation.

Landfill Allowances Schemes

The Waste and Emissions Trading Act 2003 provides the legal framework for the Landfill Allowances Trading Scheme (LATS), which it has applied to waste disposal authorities (WDAs) in England since 2005/06. The scheme allocates tradable landfill allowances to each WDA.

LATS are "cap and trade" schemes and a WDA may use its allowances to meet its liability for its actual biodegradable municipal waste landfill usage or sell them to another WDA. Allowances are recognised as current assets in the Balance Sheet at the lower of cost and net realisable value.

Leases

Leases are classified as finance leases where the term 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 these elements are considered separately for classification.

Operating Leases – the Council as lessee

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

Operating Leases – the Council as lessor

Where the County Council grants an operating lease over a property of an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the service line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight line basis over the life of the lease.

Finance Leases – the Council as lessor

Where the County Council grants a finance lease over a property or an item of plant or equipment, the asset is written out of the Balance Sheet as a disposal. At the start of the lease, the carrying amount of the asset in the Balance Sheet is written off to Other Operating Expenditure in the Comprehensive Income and Expenditure Statement as part of the gain or loss on the disposal. The County Council currently only has finance leases relating to the transfer of academy schools and as such there are no lease rentals receivables. The written-off value of disposals is not a charge against council tax, as the cost of the non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Non-current assets held for sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction and the asset is being actively marketed, it is reclassified as an asset held for sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Overheads

In accordance with the Service Accounting Code of Practice 2013/14 all central administration expenses are apportioned fully to services on the relevant basis.

For the purposes of reporting the Service Expenditure Analysis in the Comprehensive Income and Expenditure Statement the costs of the Corporate and Democratic Core (costs relating to the Council's status) and Non Distributed Costs (the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale) are not charged to services.

Private Finance Initiative schemes

PFI contracts are agreements to receive services, where responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. Where the County Council is deemed to control the services in accordance with IFRIC 12 that are provided under its PFI schemes and 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 property, plant and equipment used under the contracts on the Balance Sheet.

The annual unitary payment is separated into the following component parts, using appropriate estimation techniques where necessary:

- a) Payment for the fair value of services received, and
- b) Payment for the PFI asset, including finance costs.

The original recognition of the property, plant and equipment is balanced by the recognition of a liability for the amounts due to the scheme operator to pay for the assets. Property, plant and equipment recognised on the Balance Sheet are valued and depreciated in the same way as other assets owned by the County Council.

Services received under the contract are recorded under the relevant expenditure headings as operating expenses.

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 (PPE).

Recognition

Expenditure on the acquisition, creation or enhancement of PPE is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the County 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 as an expense 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, if applicable.

The County Council does not capitalise borrowing costs incurred whilst assets are under construction. Revaluation of all the County Council's property, plant and equipment is undertaken using a five-year rolling programme. Additionally, all assets are reviewed for impairment loss on an annual basis. Impairment loss is written to the Revaluation Reserve against the accumulated revaluation gain for the asset, or to the service that uses the asset in the Income & Expenditure Account where there is no accumulated gain.

Surpluses on revaluations are credited to the Revaluation Reserve Account when they are identified. Valuations are carried out internally by the Council's valuer in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

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:

- 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 reversed subsequently, 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

All property, plant and equipment with a finite useful life (determined at the time of purchase or revaluation) are reduced in value (depreciated) according to the following:

- a) assets which are bought from a third party are depreciated for a full year in the year of purchase. All other assets created as a result of capital expenditure during the year are depreciated for a full year where appropriate.
- b) depreciation is calculated using the straight-line method meaning that an asset's value falls equally each year throughout its life.
- c) Land and Buildings (10-99 years). Each building has an individual asset life over which depreciation is provided. Land is not depreciated.
- d) Vehicles, Plant and Machinery (3-10 years). Depreciation is provided over the useful life of the assets.
- e) Infrastructure. Infrastructure assets are depreciated from their historic cost over 20 years.

- f) Community Assets. The County Council's community assets are comprised totally of land (e.g. parks, picnic places) and as such are not depreciated.
- g) Surplus Assets, held for disposal (10-99 years). These assets are depreciated over their useful life where appropriate.
- h) Assets Under Construction. Assets under construction, being capital works in progress where the uncompleted asset does not have a material benefit to the County Council, are not depreciated.

Where an item of Property, Plant and Equipment assets has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

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 their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Capital Financing and Asset Restatement Accounts

There are two capital accounts relating to capital financing which have been included in the Balance Sheet. These accounts do not represent cash funding available to fund revenue expenditure.

- a) Revaluation Reserve Account, which replaced the Fixed Asset Restatement Account with effect from 1 April 2007 and shows revaluation gains recognised since that date.

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired
- used in the provision of services, or
- disposed of.

The Reserve contains only revaluation gains accumulated since 1 April 2007 when the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

- b) Capital Adjustment Account, which represents the difference between the costs of property, plant and equipment consumed and the capital financing set aside to pay for them.

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council or amounts received as grants and contributions and used as finance for the costs of acquisition, construction and enhancement and contains the accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Council. The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007.

Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the County Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the County Council that has yet to be financed.

Minimum Revenue Provision (MRP)

MRP is calculated in accordance with the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 according to the following:

- Debt is supported by Revenue Support Grant for all capital expenditure incurred before 1 April 2008 and capital expenditure on or after 1 April 2008 that forms part of the Council's Supported Capital Expenditure for Revenue Support Grant purposes;
- Capital expenditure incurred on or after 1 April 2008 will be financed by new borrowing under the Prudential system and MRP is calculated by amortising expenditure over an estimated useful life for relevant assets.

Provisions

Provisions are made where an event has taken place that gives the County Council a legal or constructive obligation that requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the County Council becomes aware of the obligation, and measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation. When payments are made they are charged to the provision carried in the Balance Sheet.

Reserves

In addition to its general revenue balances, the County Council has maintained specific 'earmarked' reserves for future expenditure and to protect against unexpected events. Reserves are created from the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service line against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage accounting processes, e.g. for non-current assets or retirement and employee benefits, and do not represent usable resources for the County Council.

Related Parties

Related parties are bodies or individuals that have the potential to control or influence the County Council or to be controlled or influenced by the County Council.

Revenue Expenditure Funded from Capital under Statute (REFCUS)

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. Where the County Council has determined to meet the cost of this expenditure from existing capital resources or from borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses the amounts charged so that there is no impact on the level of council tax.

Value Added Tax (VAT)

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.

41. Critical Judgements in applying Accounting Policies

In applying the accounting policies set out in note 40, the County Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made are:

- There are 197 local authority maintained and 43 academy schools in the County. The accounting treatment of these schools' non-current assets is as follows:
 - Community schools – land and buildings shown in full on the balance sheet;
 - Voluntary controlled schools - land and buildings comprising the main body of the school are not shown on the balance sheet. Assets provided by the Council as part of its responsibility for running the school are shown on the balance sheet.
 - Voluntary aided schools – land and buildings are not shown on the balance sheet;
 - Foundation schools – land and buildings are not shown on the balance sheet;
 - Academy schools (previously community schools) – non –current assets are leased to the school on a 125 year lease, therefore land and buildings are not shown on the balance sheet;
 - Academy schools (previously foundation, voluntary aided or voluntary controlled schools) – land and buildings are not shown on the balance sheet.
- Local authority schools which are due to convert to academy status post balance sheet are treated as non-adjusting post balance sheet events. Details are given in note 43.

- The County Council has three PFI contracts providing waste services, 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 Council's balance sheet with a corresponding finance liability.
- The County Council has classified £10.7 million of PPE as Assets Held for Sale in accordance with accounting practice. These assets are judged to be actively marketed and as such are not depreciated.
- The County Council owns shares valued at £0.9 million in Malvern Hills Science Park. These shares represent 40% of the 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.
- 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.

42. Assumptions made about the Future and other Major Sources of Estimation Uncertainty

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 2014 for which there is a significant risk of material adjustment in the forthcoming year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Provisions – employee restructuring	The County Council has made a provision of £1.4 million to reflect the possible need to make redundancies as a result of service restructuring. The provision is based on an estimate of the number of staff identified in detailed business cases less current re-deployment levels at an average salary.	At an average exit package of £14,492, an increase of 5 members of staff being made redundant would result in an additional £75k in the provision.
Retirement benefits	<p>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;</p> <ul style="list-style-type: none"> • 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. 	<p>The effects on the pensions liability of changes in individual assumptions can be measured and the impact on the balance sheet deficit position are:</p> <ul style="list-style-type: none"> • +0.1% p.a. discount rate as at 31.03.14 £16.6 million reduction • +0.1% p.a. salary inflation £17 million increase • 1 year added to members' life expectancy £17.9 million increase • +0.1% p.a. pa growth £3.8m
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.

43. Events after the Balance Sheet date

The Statement of Accounts was authorised for issue by the Director of Resources on 27 June 2014. Events taking place after this date are not reflected in the financial statements or notes. The financial statements and notes have not been adjusted for the following events which took place after 31 March 2014 as they provide information that is relevant to an understanding of the County Council's position but do not relate to conditions at that date:

3 of the County Council's schools have an indicative date for transfer in the period. These are a community school, a Voluntary controlled and a Foundation school. The assets for the community school will be leased to the Academy on a 125-year finance lease, thereby transferring off the County Council's balance sheet.

Balance sheet adjustment

	£m
Academy school – community status	3.8m

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WORCESTERSHIRE
COUNTY COUNCIL**

[To be inserted]

Worcestershire County Council Pension Fund

Statement of Accounts 2013/14

About the Accounts

This Statement of Accounts presents the overall financial position of the Pension Fund for the year ended 31 March 2014. The Accounts are produced in the format stipulated by the Chartered Institute of Public Finance and Accountancy (CIPFA) in accordance with best accounting practice.

- 1. Explanatory Foreword and a Review of the Year 2013/14**
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 2013/14.
- 3. Net Assets Statement**
Statement showing the Pension Fund's financial position at 31 March 2014.
- 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 2013/14

Foreword by the Director of Resources

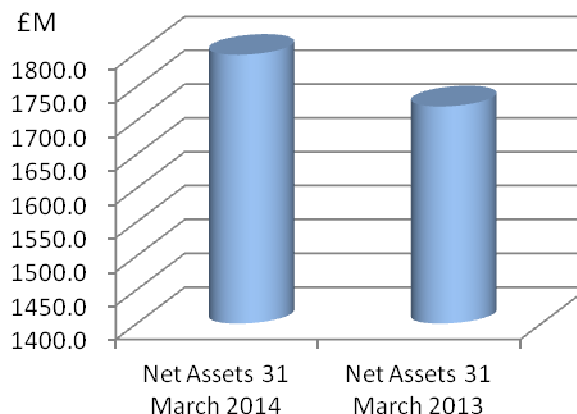
Welcome to the Worcestershire County Council Pension Fund 2013/14 Statement of Accounts. Worcestershire County Council administers the Local Government Pension Scheme (LGPS), which provides for the occupational pensions of employees, other than teachers, police officers, and fire fighters of the local 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.

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, and
✓	pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses.

Key headlines

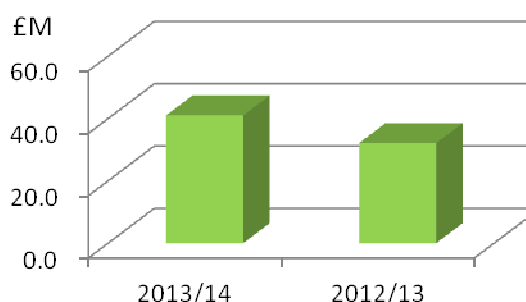
- the Fund's net assets increased by £76.3 million from £1,720.8 million at 31 March 2013 to £1,797.1 million at 31 March 2014:
- Recurring income from contributions increased by 2.3% and net investment earnings increased by 2.3%. Ongoing expenditure increased by 5.2%,
- Contributions from staff and employers plus investment income exceeded benefit entitlement in 2013/14 by £47 million. It is expected that a surplus will exist for many years to come.

Fund's Net Asset Value



- During the year the surplus on the Pension totalled £41.0 million for 2013/14, an increase of £8.9 million from the surplus of £32.1 million for 2012/13.

Surplus on the pension fund account



- Change analysis of the fund's membership

	31 March 2013	31 March 2014	Change	Change %
Contributors to the fund	19,763	20,739	976	+4.9
Pensions paid	14,730	15,308	578	+3.9
Deferred members*	15,411	16,829	1,418	+9.2
	49,904	52,876		

- * The increase in deferred members is due to employers reducing staff headcount and the ex-employees choosing to retain their accrued benefits in the scheme as opposed to transferring out.

Governance

The Public Service Pensions Bill was introduced in the House of Commons on 13 September 2012, which set out governance requirements for the new Local Government Pension Scheme (LGPS) to be introduced in 2014/15. Draft LGPS regulations on the new governance requirements are now expected to be confirmed during 2014 and the intention is for Worcestershire County Council to implement new governance changes in order to comply with this Bill.

During this interim period, a Shadow Governance Policy Statement for the Pension Fund was produced and is published on the Council's website. The Policy Statement aims to closely align the Fund's governance arrangements with the prescribed best practice guidance, whilst the Council awaits the publication of the revised LGPS governance regulations. The Shadow Governance Policy Statement was approved by Council, as signed by the Leader of the Council and Director of Resources, and the interim governance arrangements for the Pension Fund were implemented on the 30th September 2013.

The new shadow governance arrangements include the establishment of a Shadow Pension Committee and the transition of the former Investment Monitoring Group into the new Shadow Pension Investment Advisory Committee. The first Shadow Committee meetings were held in November and December 2013. A Shadow Pension Administration Advisory Forum was also implemented to provide the Shadow Pension Committee with advice concerning the administration of the Fund and to bring stakeholders perspective to all aspects of the Pension Fund business. The first Forum meeting is expected to take place in the Autumn of 2014.

Management of the fund's assets

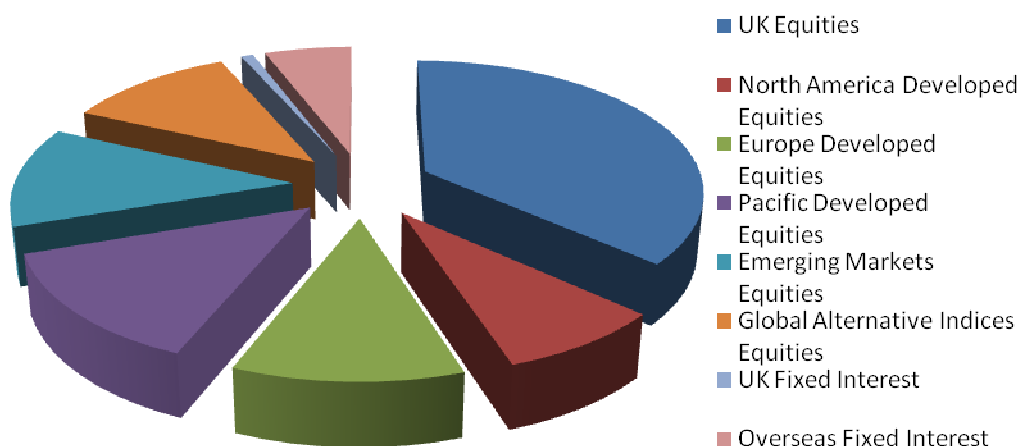
The management of the fund's assets is operated through five specialist external managers with six mandates in total. The Shadow Pension Committee is advised in relation to asset allocation decisions and the monitoring of external managers' performance by the Shadow Pension Investment Advisory Committee, 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, Government Securities and Corporate Bonds. As a result of an asset allocation review that took place in November 2013, the following key recommendations were endorsed by the Shadow Pension Committee and implemented prior to 31st March 2014:

- A change of 20% of the Passive Mandate Index to a mix of three 'alternative' indices, as detailed in the revised Statement of Investment Principles, which are published on the Council's website.
- Discontinuance of the Fund's Active Equity investment through UBS Global Asset Management UK Limited into Europe ex. UK due to Fund Manager performance over the long term.
- Restructuring of the Fund's Active Equity investment through Capital International Limited into the Americas by focusing the mandate solely on the North America only region.
- Restructuring of the Fund's Active Equity investment through Nomura Asset Management UK Limited into Japan and Asia by removing from the Mandate the investment into the Emerging Markets of Asia Ex. Japan due to Fund Manager Performance in this part of the Mandate in direct comparison with the Funds other Managers. The investments were transitioned to the Fund's other Emerging Market Active Managers.

In addition to the above changes the committee endorsed the recommendation to allocate up to 10% of the Fund to 'Alternatives' including property should opportunities arise in property or other 'Alternatives' over the Fund's inter-valuation period.

The following chart details the distribution of the fund's assets as at 31 March 2014:



Management of the fund's liabilities

The funding strategy is kept under regular review by the Shadow 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 as at 31 March 2013 to determine the contribution rates with effect from 1 April 2014 to 31 March 2017. The key outcomes of the valuation are detailed below:

- The Fund's assets of £1,721 million represented 69% of the Fund's past service liabilities of £2,488 million (the "Funding Target") at the valuation date. This compares to a similar 69% funded position as a result of the 2010 valuation.
- A common rate of contribution of 14.1% 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 £767 million would be eliminated by a contribution addition of £41m per annum increasing at 4.1% per annum (equivalent to 12% of projected Pensionable Pay at the valuation date) for 21 years.

The next actuarial valuation will be undertaken in 2016/17, with any changes to the employers' contribution rates being implemented with effect from 1 April 2017.

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.

Patrick Birch
CPFA
Director of Resources

2. Worcestershire County Council Pension Fund Account

For the year ended 31 March 2014

2012/13 £m		Notes	2013/14 £m
	Dealings with members, employers and others directly involved in the fund		
88.8	Contributions	5	92.3
5.8	Transfers in from other pension funds	6	7.4
94.6			99.7
(85.2)	Benefits	7	(88.4)
(5.8)	Payments to and on account of leavers	8	(6.5)
(1.3)	Administrative expenses	9	(1.2)
(92.3)			(96.1)
2.3	Net additions / (Withdrawals) from dealings with members		3.6
	Returns on investments		
36.7	Investment income	10	44.8
(2.5)	Taxes on income	11	(2.6)
188.7	Profit and losses on disposal of investments and changes in the market value of investments	12a	35.3
(4.4)	Investment management expenses	15	(4.8)
218.5	Net return on investments		72.7
220.8	Net increase / (decrease) in the net assets available for benefits during the year		76.3
1,500.0	Opening fund net assets available for benefits		1,720.8
1,720.8	Closing fund net assets available for benefits		1,797.1

3. Net Assets Statement for the year ended 31 March 2014

2012/13 £m		Notes	2013/14 £m
1,689.3	Investment Assets	12	1,764.2
34.6	Cash deposits		26.2
1,723.9			1,790.4
(19.3)	Investment Liabilities	12	(8.5)
17.7	Current Assets	16	16.8
4.2	Non Current Assets	17	3.4
(5.7)	Current Liabilities	18	(5.0)
1,720.8	Net Assets of the fund available to fund benefits at the period end		1,797.1

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.

4. Notes to the Pension Fund Accounts

1. Pension Fund Accounts

The Pension Fund is administered by the County Council on behalf of their own employees, those of the Herefordshire Council, the District Councils 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 Shadow Pension Committee is advised in relation to asset allocation decisions and the monitoring of external managers' performance by the Shadow Pension Investment Advisory Committee, which includes an independent financial adviser. The Shadow 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 Shadow Pension Committee.

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

A list of scheduled and admitted bodies contributing to the Fund is given in note 24 to these accounts.

The following table provides detail of fund membership:

	31 March 2013	31 March 2014
Contributors to the fund	19,763	20,739
Pensions paid	14,730	15,308
Deferred members	15,411	16,829
	49,904	52,876

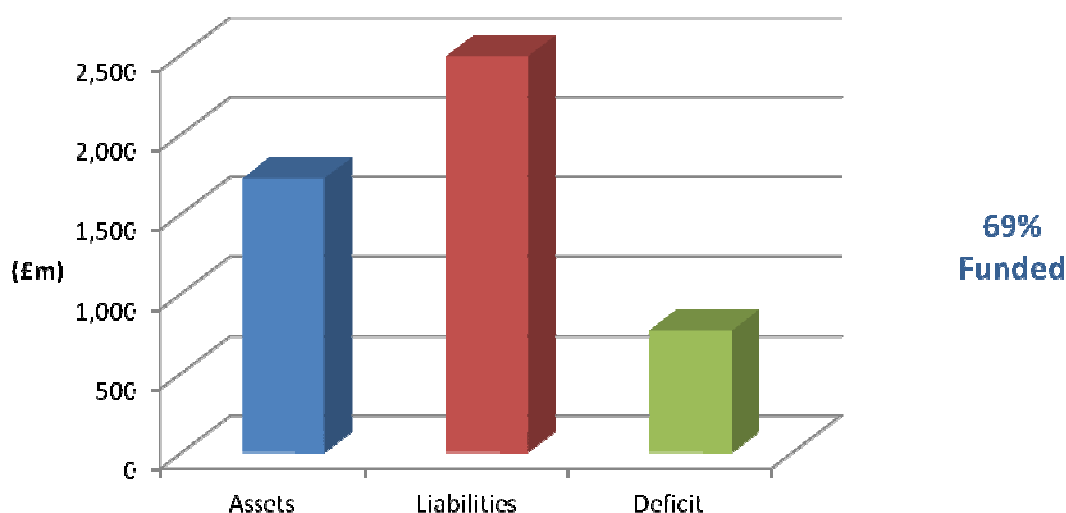
A separate detailed Annual Report and Accounts, including the Statement of Investment Principles, is available from the Director of Resources, Worcestershire County Council, County Hall, Spetchley Road, Worcester, WR5 2NP. The report is also available on the Council's website: <http://www.worcestershire.gov.uk/cms/jobs-and-careers/pensions.aspx>

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

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 2013 to determine the contribution rates with effect from 1 April 2014 to 31 March 2017.

On the basis of the assumptions adopted, the Fund's assets of £1,721 million (£1,366 million 31/03/2010) represented 69% (69% 2010) of the Fund's past service liabilities of £2,488 million (£1,979 million 31/03/2010) (the "Funding Target") at the valuation date.



The valuation also showed that a common rate of contribution of 14.1% 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.

Adopting the same method and assumptions as used for calculating the funding target, the deficit of £767 million would be eliminated by a contribution addition of £41m per annum increasing at 4.1% per annum (equivalent to 12% of projected Pensionable Pay at the valuation date) for 21 years.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated March 2014.

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

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

The valuation was carried out using the projected unit actuarial method and the main actuarial assumptions used for assessing the 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)	4.7% per annum	5.6% per annum
Rate of pay increases (long term)*	4.1% per annum	4.1% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.6% per annum	2.6% per annum

* allowance was also made for short-term public sector pay restraint over a 5 year period.

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2016. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2017.

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 4.2% 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 2013 was £2,771 million. This value is £223 million higher than the Fund's promised retirement benefits calculated under IAS19, and is only provided for financial reporting purposes.

3. Pension Fund Investments 2013/14

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 2013		31 March 2014	
	£m	%	£m	%
JP Morgan Asset Management (Bonds)	115.8	7	119.5	7
JP Morgan Asset Management (Emerging Markets)	81.1	5	103.8	6
UBS Global Asset Management (Active)	43.4	3	0.0	0
UBS Global Asset Management (Passive)	913.4	54	1,054.0	59
Capital International Ltd	126.8	7	135.5	8
Nomura Asset Management UK Ltd	329.1	19	245.0	14
Schroder Investment Management	83.0	5	109.8	6
WCC Managed Account	5.0	0	7.6	0
	1,697.6	100	1,775.2	100

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

Security	Market value	% of total	Market value	% of total
	31 March 2013	fund	31 March 2014	fund
	£m		£m	
UBS Global Asset Management Life UK Equity Tracker	173.5	10.1	158.4	8.8
UBS Global Asset Management Life North America Equity Tracker	138.9	8.1		

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, ABN AMRO Mellon Global Securities B.V., are included in the net assets statement to reflect the Fund's continuing economic interest of a proprietary nature in those securities.

The total amount of stock lent at the year-end was £21.7million (2013 £19.4million). The total collateral, which consisted of acceptable corporate and sovereign debt as well as equities was £23.5million (2013 £20.9million) representing 108% of stock lent.

Income received from stock lending activities was £0.1million for the year ending 31 March 2014 (2013 £0.2million). This is included within the 'Investment Income' figure detailed on the Pension Fund Account.

4. Events after the Balance Sheet Date

There have been no events since 31 March 2014, and up to the date when these accounts were authorised that require any adjustments to these accounts.

5. Contributions Receivable

By category:

		2012/13	2013/14
		£m	£m
Employers			
	Normal	38.9	39.2
	Deficit funding	26.2	28.8
	Augmentation	3.0	3.5
Members			
	Normal	20.3	20.4
	Additional contributions	0.4	0.4
		88.8	92.3

By authority:

		2012/13	2013/14
		£m	£m
Worcestershire County Council		31.9	31.0
Scheduled bodies		47.6	51.1
Admitted bodies		0.2	0.0
Community admission bodies		7.6	8.2
Transferee admission bodies		1.1	1.3
Designated bodies		0.4	0.7
		88.8	92.3

6. Transfers in and from other Pension Funds

	2012/13	2013/14
	£m	£m
Individual transfers	5.8	7.4
	5.8	7.4

7. Benefits Payable

By category:

	2012/13	2013/14
	£m	£m
Pensions	66.0	69.4
Commutations and lump sum		
Retirement benefits	18.0	17.5
Lump sum death benefits	1.2	1.5

	85.2	88.4
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By authority:

	2012/13	2013/14
	£m	£m
Worcestershire County Council	34.6	34.3
Scheduled bodies	43.8	46.5
Admitted bodies	1.6	1.8
Community admission bodies	3.8	4.0
Transferee admission bodies	0.9	1.4
Designated bodies	0.5	0.4
	85.2	88.4

8. Payments to and on Account of Leavers

	2012/13	2013/14
	£m	£m
Individual transfers	5.8	6.5
	5.8	6.5

9. Administrative Expenses

	2012/13	2013/14
	£m	£m
Employee expenses	0.4	0.4
Support services	0.3	0.3
Actuarial services	0.2	0.2
Other expenses*	0.4	0.3
	1.3	1.2

*Included in 'other expenses' is £212,000 (£306,000 2012/13) relating to the upgrade and development of the Pension Administration computer system.

10. Investment Income

	2012/13	2013/14
	£m	£m
Fixed interest securities	3.8	4.1
Equity dividends	34.5	40.3
Index linked securities*	(1.7)	0.0
Interest on cash deposits**	(0.1)	0.3
Securities lending	0.2	0.1
	36.7	44.8

* Investment income from Index Linked Securities was negative for 2012/13 due to accounting entries for 'Paydown' corporate actions.

**Cash Deposit investment income was negative for 2012/13 due to 'Fixed Interest Bought', which is pending interest on bonds at the date of purchase.

11. Taxes on Income

	2012/13 £m	2013/14 £m
Withholding tax - equities	(2.5)	(2.6)
	(2.5)	(2.6)

12. Investments

	Market value 31 March 2013 £m	Market value 31 March 2014 £m
Investment assets		
Fixed interest securities	108.8	116.9
Equities	1,093.2	1,091.8
Pooled investment vehicles	455.3	540.2
Derivatives - futures	0.1	0.1
Derivatives - forward FX	0.8	0.2
Cash	34.6	26.2
Other investment balances	7.0	6.6
Amounts receivable for sales	24.1	8.4
Total investment assets	1,723.9	1,790.4
Investment liabilities		
Derivatives - futures	(0.4)	(0.1)
Derivatives - forward FX	(2.8)	(0.3)
Amounts payable for purchases	(16.1)	(8.1)
Total investment liabilities	(19.3)	(8.5)
Net investment assets	1,704.6	1,781.9

12 a: Reconciliation of movements in investments and derivatives

	Market value 31 March 2013	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 March 2014
	£m	£m	£m	£m	£m
Fixed interest securities	108.8	90.4	(74.0)	(8.3)	116.9
Equities	1,093.2	551.4	(538.3)	(14.5)	1,091.8
Pooled investment vehicles	455.3	250.9	(217.2)	51.2	540.2
	1,657.3	892.7	(829.5)	28.4	1,748.9
Derivative contracts:					
Futures	(0.3)	1.7	(2.3)	0.9	0.0
Forward currency contracts	(2.0)	5.3	(10.4)	7.0	(0.1)
	1,655.0	899.7	(842.2)	36.3	1,748.8
Other investment balances:					
Cash deposits	34.6			(1.0)	26.2
Outstanding dividend entitlements and recoverable withholding tax	7.0				6.6
Amount receivable for sales of investments	24.1				8.4
Amounts payable for purchases of investments	(16.1)				(8.1)
Net investment assets	1,704.6			35.3	1,781.9

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 2012	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 March 2013
	£m	£m	£m	£m	£m
Fixed interest securities	60.8	124.3	(82.8)	6.5	108.8
Equities	935.9	377.4	(344.3)	124.2	1,093.2
Index linked securities	42.6	7.0	(51.4)	1.8	0.0
Pooled investment vehicles	399.7	51.3	(54.3)	58.6	455.3
	1,439.0	560.0	(532.8)	191.1	1,657.3
Derivative contracts:					
Futures	(0.3)	1.9	(3.1)	1.2	(0.3)
Forward currency contracts	0.7	6.6	(6.1)	(3.2)	(2.0)
	1,439.4	568.5	(542.0)	189.1	1,655.0
Other investment balances:					
Cash deposits	36.2			(0.4)	34.6
Outstanding dividend entitlements and recoverable withholding tax	6.4				7.0
Amount receivable for sales of investments	1.9				24.1
Amounts payable for purchases of investments	(1.8)				(16.1)
Net investment assets	1,482.1			188.7	1,704.6

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 included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the scheme such as fees, commissions, and other fees. Transaction costs incurred during the year amounted to £1.5 million, (2012/13 £1.3 million). In addition to the transaction costs disclosed above, 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 12 b: Analysis of Investments (excluding derivative contracts, cash and other investment balances)

	31 March 2013 £m	31 March 2014 £m
Fixed interest securities		
UK corporate quoted	13.8	14.2
Overseas public sector quoted	0.3	0.4
Overseas corporate quoted	94.7	102.3
	108.8	116.9
Equities		
UK quoted	426.4	456.4
Overseas quoted	666.8	635.4
	1,093.2	1,091.8
Pooled Investment Vehicles		
Other UK managed funds – UK equities	192.0	183.9
– Overseas equities	235.1	146.7
– Global equities	0.0	199.2
Other overseas managed funds – Overseas equities	28.2	10.4
	455.3	540.2
	1,657.3	1,748.9

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 the various investment managers.

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	Economic Exposure Value	Market Value
		£m	31 March 2013 £m	£m	31 March 2014 £m
UK gilt exchange traded	Less than one year	0.0	0.0	(4.1)	0.0
Overseas exchanged traded	Less than one year	33.0	0.1	(2.9)	0.1
Total assets			0.1		0.1

Liabilities

Type of future	Expiration	Economic Exposure Value	Market Value	Economic Exposure Value	Market Value
		£m	31 March 2013 £m	£m	31 March 2014 £m
UK gilt exchange traded	Less than one year	(5.1)	0.0	(0.8)	0.0
UK FTSE exchange traded	Less than one year	9.3	(0.2)	15.1	0.0
Overseas exchanged traded	Less than one year	(24.0)	(0.2)	8.4	(0.1)
Total liabilities			(0.4)		(0.1)
Net futures			(0.3)		0.0

Open forward currency Contracts as at 31 March 2014

Settlement	Currency Bought	Local Currency Value m	Currency Sold	Local Currency Value m	Asset Value £m	Liability Value £m	
One to six months	EUR	0.6	GBP	0.5	0.0		
One to six months	GBP	40.3	EUR	48.6	0.1		
One to six months	GBP	68.7	USD	114.4	0.1		
One to six months	USD	1.0	GBP	0.6	0.0		
One to six months	ZAR	1.1	USD	0.1	0.0		
One to six months	EUR	0.6	GBP	0.5		0.0	
One to six months	GBP	0.3	AUD	0.6		0.0	
One to six months	GBP	35.3	EUR	42.8		(0.1)	
One to six months	GBP	67.5	USD	112.8		(0.2)	
One to six months	USD	5.0	GBP	3.0		0.0	
One to six months	USD	0.5	ZAR	5.8		0.0	
					0.2	(0.3)	
Net forward currency contracts at 31 March 2014						(0.1)	
Prior year comparative:							
Open forward currency contracts at 31 March 2013						0.7	(2.7)
Net forward currency contracts at 31 March 2013							(2.0)

Analysis of Cash

	2012/13 £m	2013/14 £m
Cash		
Cash deposits	7.5	4.7
Cash instruments	27.1	21.5
	34.6	26.2

Note 13: Financial Instruments**Note 13 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 2013 £m	Loans and receivables 31 March 2013 £m	Financial liabilities at amortised cost 31 March 2013 £m	Designated as fair value through profit and loss 31 March 2014 £m	Loans and receivables 31 March 2014 £m	Financial liabilities at amortised cost 31 March 2014 £m
Financial assets					
108.8			116.9		
1,093.2			1,091.8		
455.3			540.2		
0.1			0.1		
0.8			0.2		
	39.9			28.9	
31.1			15.0		
	12.4			14.1	
	4.2			3.4	
1,689.3	56.5	0.0	1,764.2	46.4	0.0
Financial liabilities					
(0.4)			(0.1)		
(2.8)			(0.3)		
(16.1)			(8.1)		
		(5.7)			(5.0)
(19.3)	0.0	(5.7)	(8.5)	0.0	(5.0)
1,670.0	56.5	(5.7)	1,755.7	46.4	(5.0)

Note 13 b: Net gains and losses on financial instruments

31 March 2013 £m		31 March 2014 £m
	Financial assets	
192.3	Fair value through profit and loss	29.3
(0.4)	Loans and receivables	(1.0)
	Financial liabilities	
(3.2)	Fair value through profit and loss	7.0
188.7	Total	35.3

Note 13 c: Fair value of financial instruments and liabilities

Carrying Value 31 March 2013 £m	Fair Value 31 March 2013 £m		Carrying Value 31 March 2014 £m	Fair Value 31 March 2014 £m
		Financial assets		
1,689.3	1,689.3	Fair value through profit and loss	1,764.2	1,764.2
56.5	56.5	Loans and receivables	46.4	46.4
1,745.8	1,745.8	Total financial assets	1,810.6	1,810.6
		Financial Liabilities		
(19.3)	(19.3)	Fair value through profit and loss	(8.5)	(8.5)
(5.7)	(5.7)	Financial liabilities at amortised cost	(5.0)	(5.0)
(25.0)	(25.0)	Total financial liabilities	(13.5)	(13.5)

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

Note 13 d: 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, which are valued using various valuation techniques that require significant judgment 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 2014	Quoted market price	Using observable inputs	With significant unobservable inputs	£m
	Level 1 £m	Level 2 £m	Level 3 £m	
Fair Value Financial assets				
Financial assets at fair value through profit and loss	1,223.7	540.5	0.0	1,764.2
Loans and receivables	46.4	0.0	0.0	46.4
Total fair value financial assets	1,270.1	540.5	0.0	1,810.6
Fair Value Financial Liabilities				
Financial liabilities at fair value through profit and loss	0.0	(8.5)	0.0	(8.5)
Total fair value financial liabilities	0.0	(8.5)	0.0	(8.5)
Net fair value financial assets	1,270.1	532.0	0.0	1,802.1

Values at 31 March 2013	Quoted market price	Using observable inputs	With significant unobservable inputs	£m
	Level 1 £m	Level 2 £m	Level 3 £m	
Fair Value Financial assets				
Financial assets at fair value through profit and loss	1,233.0	456.2	0.1	1,689.3
Loans and receivables	56.5	0.0	0.0	56.5
Total fair value financial assets	1,289.5	456.2	0.1	1,745.8
Fair Value Financial Liabilities				
Financial liabilities at fair value through profit and loss	0.0	(19.3)	0.0	(19.3)
Total fair value financial liabilities	0.0	(19.3)	0.0	(19.3)
Net fair value financial assets	1,289.5	436.9	0.1	1,726.5

Since incorporation of the requirements of IFRS 13 into the Code has been deferred until 2014/15, the financial statements do not include the measurement and disclosure requirements of that standard.

Note 14: 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

There are three main types of market risk that the Fund is exposed to as at 31 March 2014:

- | | |
|--|------------------------------|
| <ul style="list-style-type: none"> • equity Risk • Interest Rate Risk • Foreign Exchange Risk | <p>E</p> <p>Int</p> <p>F</p> |
|--|------------------------------|

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 (excluding investments through pooled vehicles) and using five different investment managers to manage the Fund's equity investments. Investment restrictions are built into contracts held with each investment manager to ensure risk concentration is minimal and gearing of the Fund's 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 employs WM Company 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 WM Company listing returns and risk. The Fund's Independent Financial Adviser also provides a yearly report to the Pension Investment Advisory Committee, providing details of the Fund's risk and comparisons to all other Funds in the Local Authority universe.

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, the Council has determined that the following movements in market price risk are reasonably possible for the 2013/14 reporting period:

Asset Type	Potential Market Movements (+/-)
UK fixed interest securities	7.0 %
Overseas fixed interest securities	5.7 %
UK equities	12.3 %
Overseas equities	12.4 %
UK pooled investment vehicle	12.3 %
Overseas pooled investment vehicle	12.4 %
Global pooled investment vehicle	11.2 %

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 12):

Asset Type	Value as at 31 March 2014 £ m	Percentage change %	Value on increase £m	Value on decrease £m
Cash and cash equivalents	26.2	0.0	26.2	26.2
Investment portfolio assets:				
UK fixed interest securities	14.2	7.0	15.2	13.2
Overseas fixed interest securities	102.7	5.7	108.6	96.8
UK equities	456.4	12.3	512.4	400.3
Overseas equities	635.4	12.4	714.4	556.4
UK pooled investment vehicle	183.9	12.3	206.5	161.3
Overseas pooled investment vehicle	157.1	12.4	176.6	137.6
Global pooled investment vehicle	199.2	11.2	221.5	176.9
Net derivative assets	(0.1)	0.0	(0.1)	(0.1)
Investment income due	6.6	0.0	6.6	6.6
Amounts receivable for sales	8.4	0.0	8.4	8.4
Amount payable for purchases	(8.1)	0.0	(8.1)	(8.1)
Total	1,781.9		1,988.2	1,575.5
Total (Including impact of correlation across asset classes)	1,781.9		1,977.0	1,586.8

Interest rate risk analysis

The fund's direct exposure to interest rate movements as at 31 March 2014 and 31 March 2013 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 2013	Value as at 31 March 2014
	£m	£m
Cash and cash equivalents	34.6	26.2
Cash balances	5.3	2.7
Fixed interest securities	108.8	116.9
Total	148.7	145.8

Interest rate risk sensitivity analysis

The Council 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 performance measurement provider by way of CIPFA statistics 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 2014 of a +/- 100 Basis Points (BPS) change in interest rates:

Asset Type	Carrying amount as at 31 March 2014	Change in year in the net assets available to pay benefits	
		+ 100 BPS	- 100 BPS
	£m	£m	£m
Cash and cash equivalents	26.2	0.3	(0.3)
Cash balances	2.7	0.0	0.0
Fixed interest securities	116.9	1.2	(1.2)
Total change in assets available	145.8	1.5	(1.5)

Currency Risk

The following table summarises the fund's currency exposure as at 31 March 2014 and as at the previous period end:

Currency exposure - asset type	Asset value as at 31 March 2013	Asset value as at 31 March 2014
	£m	£m
Overseas quoted securities	666.7	635.4
Overseas unquoted securities	0.1	0.0
Overseas pooled investment vehicle	263.3	157.1
Global pooled investment vehicle	0.0	199.2
Total overseas assets	930.1	991.7

Overseas bonds are 100% hedged to GBP at 31 March 2014.

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 6.3% (as measured by one standard deviation).

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

A 6.3% 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 2014 £m	Change to net assets available to pay benefits	
		+ 6.3 %	-6.3 %
		£m	£m
Overseas quoted securities	635.4	675.4	595.4
Overseas pooled investment vehicle	157.1	167.0	147.2
Global pooled investment vehicle	199.2	211.7	186.7
Total change in assets available	991.7	1,054.1	929.3

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 Committee, providing details of the Fund's bond portfolio absolute and relative risk.

Deposits are not made with banks and financial institutions unless they are rated independently and have a strong credit rating. In addition, the council invests an agreed percentage of its funds in the money markets to provide diversification. Money market funds chosen all have a 'AAA' rating from a leading rating agency.

The fund's cash holding at 31 March 2014 was £28.9million (31 March 2013: £39.9million). This was held with the following institutions:

Summary	Rating	Balances as at 31 March 2013 £m	Balances as at 31 March 2014 £m
Money market funds			
BNY Mellon Sterling Liquidity Fund	AAA	13.3	12.6
BNY Mellon US Dollar Liquid Fund	AAA	5.5	5.2
JPM liq-ster Liquidity-x	AAA	6.6	1.3
JP Morgan Liquidity Funds - US	AAA	1.6	2.3
Bank deposit accounts			
The Bank of New York Mellon	A-1+	7.6	4.8
Bank current accounts			
HSBC PLC	A-1+	5.3	0.0
Barclays Bank PLC	A-1	0.0	2.7
Total		39.9	28.9

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.

15. Investment Expenses

	2012/13 £m	2013/14 £m
Administration, management and custody fees	4.3	4.6
Other expenses	0.1	0.2
	4.4	4.8

Note 16: Current assets

	2012/13 £m	2013/14 £m
Contributions due from employer in respect of:		
Employer	5.1	6.1
Members	1.7	1.7
Magistrates Courts Bulk Transfer Payment Due	0.7	1.4
Augmentation	1.8	1.4
Cash balances	5.3	2.7
Other Debtors	3.1	3.5
	17.7	16.8

Note 17: Non-current assets

	2012/13	2013/14
	£m	£m
Magistrates Courts Bulk Transfer Payment Due	3.5	2.7
Augmentation	0.7	0.7
	4.2	3.4

Note 18: Current liabilities

	2012/13	2013/14
	£m	£m
Investment management expenses	(1.2)	(1.4)
Payroll and external vendors	(1.8)	(1.4)
Other expenses*	(2.7)	(2.2)
	(5.7)	(5.0)

*Included within 'other expenses' is £0.4m (£1.2m 2012/13) for the fund administration costs recharge to Worcestershire County Council.

Note 19: Analysis of debtors and creditors**Analysis of debtors**

	31 March	31 March
	2013	2014
	£m	£m
Central government bodies	4.6	4.3
Other local authorities	9.7	10.0
Other entities and individuals	2.3	3.2
	16.6	17.5

Analysis of creditors

	31 March	31 March
	2013	2014
	£m	£m
Central government bodies	(0.7)	(0.8)
Other local authorities	(2.5)	(1.7)
Other entities and individuals	(2.5)	(2.5)
	(5.7)	(5.0)

20. Related Party Transactions

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 £0.9million (2012/13: £1.2 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 £31.0million to the fund in 2013/14 (2012/13: £31.9 million).

Part of the pension fund cash holdings are invested in the UK Government's Debt Management Office (DMO), with other local authorities and in Money Market Funds by the treasury management operations of Worcestershire County Council. As at 31 March 2014 the fund had £2.7million (31 March 2013: £5.3 million), earning interest during the year to 31 March 2014 of £26,000 (2012/13: £23,000)

The following investment managers employed by the Fund to manage the Fund's investments in global markets are considered related parties;

Capital International Limited
 JP Morgan Asset Management
 Nomura Asset Management UK Limited
 UBS Global Asset Management UK Limited
 Schroder Investment Management

The payment of investment management fees are related party transactions with the above managers, which are detailed on an aggregate basis in note 15 to the Pension Fund accounts.

The Pension Fund employs BNY Mellon Asset Servicing as its global custodian. BNY Mellon are considered a related party and the Fund's fee payments to the Custodian are related party transactions and are disclosed in note 15 to the Pension Fund accounts.

Scheduled, Admitted and Resolution bodies of the Fund are also related parties and are listed in note 24 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.

The posts of Director of Resources, Head of Corporate Financial Strategy, Head of Financial Practice and Standards (2012/13 only), Chief Accountant 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:

	2012/13	2013/14
	£000	£000
Short term benefits*	43	81
Long term/post retirement benefits**	104	203
	147	284

*This is the pensions 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.

21. Contingent liabilities

The Fund had no material contingent liabilities as at 31 March 2014.

22. Contingent assets

Four 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.

23. Additional voluntary contributions

The amounts administered under AVC arrangements during 2013/14 are as follows:

	2012/13	2013/14
	£m	£m
Contributions received	0.2	0.2
Investments purchased	0.3	0.2
Change in market value	0.2	0.1
Retirement benefits paid or transferred	0.3	0.3

The combined value of the AVC funds at 31 March 2014 was £3.2 million, (31 March 2013 £3.3million).

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 23).

24. Participating Employers of the Fund at 31 March 2014

Scheduled Bodies

Worcestershire County Council	Mount Carmel 1st School
Ashperton Primary School	North East Worcestershire College
Academy	Nunnery Wood Academy
Astwood Bank Academy	Perry Wood Primary & Nursery
Barrs Court Academy	Pershore Academy
Baxter College Academy	Pershore Group of Colleges
Bishop Perowne Academy	Prince Henry's Academy
Blessed Edward Oldcorne G M School	Queen Elizabeth Academy
Brockhampton Academy	Redditch Borough Council
Bromsgrove District Council	Redditch RSA Academies Trust
Burghill Academy	Regency Academy
Canon Pyon Academy	Regulatory Services (Bromsgrove)
Chantry Academy	Ridgeway Academy
Christopher Whitehead Academy	Robert Owen Academy
ContinU Plus Academy	Somers Park Academy
Droitwich Academy	South Bromsgrove High School
Dyson Perrins Academy	South Worcestershire College
Flyford Flavell 1st School	South Worcestershire ICT Shared Services
Great Malvern Academy	St Johns C of E Middle
H & W Fire Authority	St Matthias Academy
Hanley Castle Academy	St Thomas Cantilupe Academy
Haybridge Academy	St Thomas More RC 1st School
Hereford Accademy	

Hereford College of Art	St. Ausustines G M School
Hereford College of Technology	St. Bedes G M School
Hereford Marches Fed of Academies	St Pauls Academy
Hereford Sixth Form College	Stourport Academy
Hereford Steiner Academy	Stretton Sugwas Academy
Herefordshire (unitary)	Suckley Academy
Holmer Primary School	Trinity Academy
Honeybourne Academy	Tudor Grange
John Kyrle High & 6th Form Academy	The Coppice Primary Academy
John Masefield High School & Sixth Academy	The Vaynor Academy
Joint Museum Shared Services	University College Worcester
Kidderminster College of Further Education	Walkwood Middle
Kingstone High School	Warndon (Oasis) Academy
Kingstone Academy Trust	Waseley Hills Academy
King Charles Academy	Webheath Academy
Lady Hawkins Academy	Whitecross Hereford
Lickhill Academy	Wigmore Academy
Llangrove Academy	Woodrush Academy
Lugwardine Academy	Woodfield Academy
Malvern Hills District Council	Worcester City Council
Malvern the Chase Academy	Worcester College of Technology
Marden Academy	Worcester Sixth Form College
Matchborough Academy	Wychavon District Council
Mordiford Academy	Wyre Forest District Council

Admitted Bodies

Valuation Tribunal

Community Bodies

Bromsgrove District Housing Trust	Hereford Futures
Brightstripe Cultural Health Community First	Herefordshire Housing Association
Community Housing Group	Hoople Ltd
Courtyard Trust	Malvern Hills OEC
Encore Enterprises Limited	Malvern Hills Conservators
Festival Housing Group	Rooftop Housing
FOCSA Services (UK) Limited	Worcester Community Housing
Hereford Community Leisure Trust (HALO)	Wychavon Leisure Community Association

Transferee Bodies

Amey PLC	Redcliffe Catering Ltd
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Bromsgrove PFI
 Cygnet Foods Ltd
 Herecad Enterprises Ltd
 Midland Heart

Ringway
 Shaw Homes Health Care
 Worcester Communtiy Trust
 Wychavon Leisure (BDC)

Designated Bodies

4 Children
 Action for Children
 Balfour Beatty (Living Places)
 Belbroughton parish council
 Bredon Parish Council
 Broadway Parish Council
 Brockhampton Group Parish Council
 Bromyard and Winslow Town Council
 CIVICA
 Droitwich Town Council
 Evesham Town Council
 Hereford City Parish Council
 Initial Facilities Services UK Ltd
 Integral UK Ltd

Kempsey Parish Council
 Lea Parish Council
 Ledbury Town Council
 Malvern Town Council
 Malvern Wells Parish Council
 Pershore Town Council
 Powick Parish Council
 Rock Parish Council
 Ross-on-Wye Town Council
 Stourport Town Council
 Upton - on Severn Parish Council
 Upton Bishop PC
 Wythall Parish Council

25. Local Government Pension Scheme (LGPS)

Pension Benefits – A Brief Summary

Benefits payable from the Fund are governed by the Superannuation Act 1972 and the Local Government Pension Scheme Regulations 2007/08 (as amended).

The Local Government Pension Scheme is a 'Final Salary Scheme' which means that the benefits are based on length of service and pay at the time of retirement.

Up to 31/03/2008 the Scheme provides for a pension based on 1/80th of pay for each year of service and a lump sum payment based on 3/80ths of pay for each year and from 01/04/2008 the scheme provides for a pension based on 1/60th of pay for each year of service with an option to commute to provide for a tax free lump sum. Provision is made for the payment of a pension to a wife, husband, child, civil partner and cohabiting partner in the event of the death of an employee both before and after retirement. In the event of the death of an employee in service a Death Gratuity is payable.

Normal retirement age is 65, but benefits can be paid at age 60.

Provision is made for the payment of immediate benefits with enhancement if retirement at any age is due to permanent ill health.

If after attaining age 55 an employee is made redundant, or retires with the agreement of the employer, immediate payment of pension benefits is allowed.

An employee leaving the service of an Authority before becoming entitled to receive pension benefits can apply for a refund of pension contributions paid if pensionable service is less than 3 months. Employees with more than 3 months service have the option of preserving accrued benefits in the fund until retirement age, or transferring benefits to another occupational scheme or personal pension.

Various discretionary options, for the employing bodies and the Fund Administrator, introduced in the 1997 regulations have been issued in policy statements.

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

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 Accounts for 2013/14 have been prepared in compliance with the International Financial Reporting Standards (IFRS) and Statement of Recommended Practice (Financial Reports of Pension Schemes) 2007 and also follow the 2013/14 Code of Practice on Local Authority Accounting issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). The codes of practice have been followed, with the exception of any departures indicated below.

The core financial statements are as follows:

- The Fund Account
- Net Assets Statement

2. Legislation

Where specific legislation regarding accounting treatment conflicts with the Council's own Accounting Policies, legislative requirements have been followed.

3. Contribution Income

Normal contributions, both from the members and from employers, are accounted for in the payroll month to which they relate at rates as specified in the rates and adjustments certificate issued by the Fund's actuary.

4. Augmentation/Actuarial Strain Costs

Augmentation contributions represent additional payments paid by employers to reimburse the pension fund for the cost of employees who are allowed to retire before their normal retirement age.

Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in the year but unpaid will be classed as a current financial asset. Amounts not due before 31 March 2015 are classed as non-current financial assets.

5. Transfers to and from other schemes

Transfer values represent the capital sums either received in respect of members transferring from other pension schemes or paid to other pension schemes in respect of members who have left the Worcestershire Fund.

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.

6. Investment Income

Income from equities 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 and index-linked securities, 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 premium, transaction costs 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.

7. Benefits Payable

Under the rules of the Scheme, members receive a lump sum retirement grant in addition to their annual pension. Lump sum retirement grants are accounted for on the date of retirement. Where a member can choose whether to take a greater retirement grant in return for a reduced pension these lump sums are accounted for on an accruals basis on the date the option is exercised.

Other benefits are accounted for on the date the member retires or on death.

Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

8. 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.

9. 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.

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.

Administrative expenses include employee costs that are charged to the fund on an accruals basis. All staff costs of the pensions administration team and the fund accountant are charged direct to the fund. Management, accommodation and other overheads are apportioned to the fund in accordance with the policies of Worcestershire County Council.

10. Financial Assets

Financial assets at fair value through profit or loss are included in the net assets statement on a fair value basis as at the reporting date. Loans and receivables financial assets are included in the net assets statement at amortised cost, measured using the effective interest rate method, at 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 or amortised cost of assets are recognised by the fund.

Quoted Equities traded through the Stock Exchange Electronic Trading Service (SETS), are valued on the basis of the latest bid price.

The value of fixed interest and index linked securities in the Scheme's investment portfolio excludes interest earned but not paid over at the scheme end. This is included separately within accrued investment income. Fixed interest securities are recorded at net market value based on their current yields.

Un-quoted holdings can include directly held investments in limited partnerships, shares in unlisted companies, trusts or bonds. The valuation standards followed in their valuations adhere to industry guidelines or the standards set by the management agreement.

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.

Transaction costs are included in the purchase cost and sales proceeds of investments.

11. Foreign Currencies

Where forward exchange contracts are in place in respect of assets and liabilities in foreign currencies, the contract rate is used. Other assets and liabilities in foreign currencies are expressed in sterling at the rates of exchange ruling at the year-end. Income from overseas investments is recorded at the spot exchange rate at the date of the transaction. Expenditure arising from a transaction in a foreign currency has been translated into £ sterling at the exchange rate in operation on the day the transaction occurred.

Surpluses and deficits arising on conversion or translation are dealt with as part of the change in market value of investments.

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.

Futures are included in the net assets statement at market value which represents the total exposure to the stock market or asset class that the futures contracts affect. 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. 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

Financial liabilities at fair value through profit or loss are included in the net assets statement on a fair value basis as at the reporting date. Other Financial Liabilities, not at fair value through profit and loss, are included in the net assets statement at amortised cost, measured using the effective interest rate method, at 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 IAS26, 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. Additional voluntary contributions

The Pension Fund scheme provides an Additional Voluntary Contributions (AVC) facility for scheme members. In 2013/14 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 members to the AVC provider. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WORCESTERSHIRE
COUNTY COUNCIL**

[To be inserted]

Annual Governance Statement

[To be inserted]

Glossary of Terms

Accounting policies

The policies and concepts used in the preparation of the accounts.

Accruals

Cost of goods and services received or provided in year but not yet paid for.

Actuary

An independent company which advises on the assets and liabilities of the 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.

Amortisation

The drop in value of intangible assets as they become out of date.

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 fixed assets used in the provision of services.

Capital expenditure

Expenditure on acquisition or construction of assets which have a value to the authority for more than one year e.g. land and buildings.

Capital financing costs

The costs of financing fixed assets, being the interest costs of external loans and monies used to repay debt.

Capital receipts

Income from the sale of capital assets such as land and buildings.

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 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.

Derivatives

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.

Equities

Shares representing the capital of a company issued to shareholders, usually with voting rights on the way the company runs the business.

Fair value

The amount for which an asset could be exchanged or a liability settled.

Financial instruments

Any contract giving rise to a financial asset or liability. For the County Council this is likely to be a loan or investment.

Fixed interest

Corporate bond – 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.

Minimum revenue provision (MRP)

The amount set aside out of the revenue budget 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

This is where the rewards and risks of ownership of the asset remain with the leasing company and the annual rental is charged directly to the revenue account.

Pooled investment vehicles

A fund in which multiple investors contribute assets and hold them as a group, for example a unit trust.

Precept

The amount the County Council (the precepting authority) ask district and borough councils to collect as council tax.

Private Finance Initiative

A long-term contractual public private partnership under which the private sector takes on the risks associated with the delivery of public services in exchange for payments tied to standards of performance.

Provisions

Monies set aside to meet any liabilities or losses which are likely or will be incurred, but the amounts or the dates on which they will arise are uncertain e.g. provision for bad debts.

Public Works Loan Board (PWLB)

A government agency which provides long-term loans to local authorities at favourable interest rates.

Reserves

Money set aside to meet the cost of specific future expenditure.

Revenue balances

This is the general reserve of the County Council.

Revenue contributions to capital expenditure

The amount of capital expenditure to be financed directly from the annual revenue budget.

Revenue Support Grant (RSG)

A general central government grant paid to the County Council in support of annual revenue expenditure.

Scheduled bodies

Local authorities and similar bodies whose staff are entitled automatically to become members of the Local Authority Pension Fund.

Settlement costs

Settlement costs arise when a lump-sum payment is made to a scheme member in exchange for their rights to receive certain pension benefits.

Stock lending

The temporary transfer of stock (shares / securities) to a third party for a fixed or open period of time. In return the owner of the stock receives an agreed consideration secured by collateral of equal or greater value than the loaned securities.

Transfer values

Sums which are either paid to or received from other pension schemes and relate to new and former members' periods of pensionable employment with employers participating in the scheme.

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