

# Agenda

## Audit and Governance Committee

**Thursday, 30 July 2020, 10.00 am**  
**Online only**

**Notes:**

Due to the current Covid-19 pandemic Worcestershire County Council will be holding this meeting in accordance with the relevant legislative arrangements for remote meetings of a local authority. For more information please refer to: Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority and Police and Crime Panel Meetings) (England and Wales) Regulations 2020.

Please note that this is a public meeting, conducting remotely by videoconferencing between invited participants and live streamed for general access via a link on the Council's website to the Council's Youtube [channel](#).

The Agenda papers and background papers can be accessed electronically on the Council's website. Members of the public and press are permitted to report on the proceedings.

This document can be made available in other formats (large print, audio tape, computer disk and Braille) on request from Democratic Services on telephone number 01905 728713 or by emailing [democraticServices@worcestershire.gov.uk](mailto:democraticServices@worcestershire.gov.uk)

## 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 3<sup>rd</sup> 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**

### **Thursday, 30 July 2020, 10.00 am, Online Only**

**Membership:** Mr N Desmond (Chairman), Mr R W Banks, Dr A J Hopkins, Mr L C R Mallett, Mr P Middlebrough, Mr C Rogers, Mrs E B Tucker and Mrs R Vale

### **Agenda**

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1	<b>Apologies and Named Substitutes</b>	
2	<b>Declarations of Interest</b>	
3	<b>Public Participation</b> <i>Members of the public wishing to take part should notify the Democratic Governance and Scrutiny Manager (Interim Monitoring Officer) in writing or by e-mail indicating the nature and content of their proposed participation no later than 9.00am on the working day before the meeting (in this case 29 July 2020). Further details are available on the Council's website. Enquiries can be made through the telephone number/e-mail address below.</i>	
4	<b>Confirmation of Minutes</b> To confirm the Minutes of the meeting held on 13 March 2020. (previously circulated)	
5	<b>2019/20 Internal Audit Final Report</b>	1 - 24
6	<b>Statutory Accounts and Pension Fund 2019/20 - External Audit Progress Report</b>	25 - 52
7	<b>Draft Annual Governance Statement 2019/20</b>	53 - 70
8	<b>Draft Annual Statutory Financial Statements for the year ended 31 March 2020</b>	71 - 290
9	<b>Internal Audit Progress Report and Anti-Fraud and Corruption Strategy</b>	291 - 318
10	<b>Risk Management Update</b>	319 - 320
11	<b>Income and Debt Management update</b>	321 - 322

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All the above reports and supporting information can be accessed via the Council's website

Date of Issue: Wednesday, 22 July 2020

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## **AUDIT AND GOVERNANCE COMMITTEE**

### **30 JULY 2020**

## **2019/20 INTERNAL AUDIT FINAL REPORT**

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### **Recommendations**

- 1. The Chief Internal Auditor recommends that the Internal Audit 2019/20 Final Report and assurance level be noted.**

### **Background**

2. This document provides a summary of Internal Audit work during 2019/20 and, as required by the Accounts and Audit Regulations 2015, gives an overall opinion of **Moderate Assurance** of the Council's control environment.
3. The full annual assurance report is attached as Appendix 1.
4. Detail of 2019/20 audits is attached as Appendix 2.

### **Contact Points**

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### **Supporting Information**

Appendix 1: 2019/20 Annual assurance report

Appendix 2: 2019/20 detailed audits

### **Background Papers**

In the opinion of the proper officer (in this case the Chief Internal Auditor) the following are the background papers relating to the subject matter of this report:

Previous update reports to the Audit and Governance Committee

<https://worcestershire.moderngov.co.uk/ieListMeetings.aspx?CId=135&Year=0>

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**Executive summary - Moderate opinion**

The role of the Council’s Internal Audit service is to enhance and protect organisational value by providing independent assurance, advice and insight into the Council’s risk management, governance and internal control processes. This document provides a summary of Internal Audit work during 2019/20 and, as required by the Accounts and Audit Regulations 2015, gives an overall opinion of the Council’s control environment.

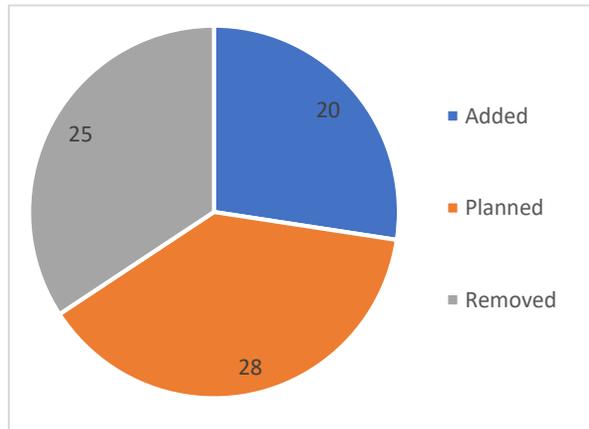
The work of the Internal Audit service has identified that, whilst the Council’s underlying controls are adequate, there are some intrinsic issues which need to be addressed. Key themes from the audit work are:

- Management inconsistency – failure to follow process is not appropriately managed
- Organisational redesign – this is used as the most common reason managers have delayed actioning audit recommendations
- Policies and procedures – good policies are not accessible or consistently applied, and weak procedures and policies need to be changed and improved. Training and support are not consistent.

**Internal audit work 2019/20**

2019/20 was a year of transition for the Internal Audit service with a return of the service to County Council management, the introduction of a new audit system (Pentana) and the appointment of the Chief Internal Auditor and Risk and Assurance Manager. The audit plan has seen several changes over the year as a result of changes to operational activities and a change of focus in the audit coverage of the team.

The Covid19 situation has not significantly impacted the outputs of 2019/20, although they have delayed the completion of a few audits which were underway at the end of the year. The work undertaken has enabled me to give a **Moderate opinion** regarding the internal controls of the Council.



There were a total of 73 audits and grant certifications on the plan for 2019/20. Changes made in year are shown in the following graph. 25 audits have been removed from the plan for the following reasons:

- Operational activity not being undertaken
- Deferred to 2020/21
- Replaced by another audit activity

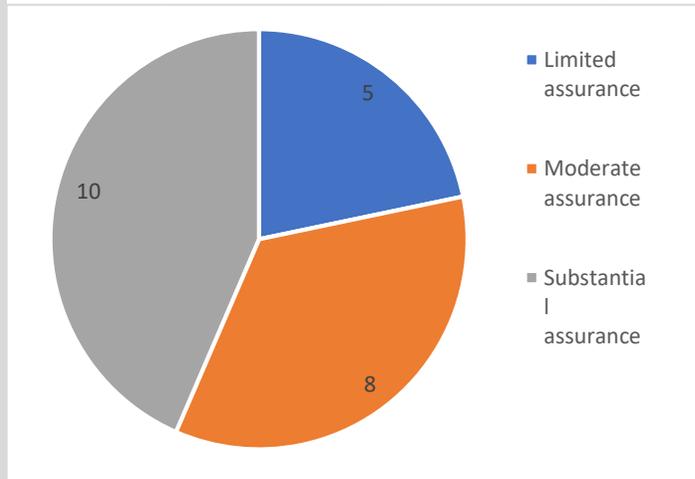
Audits have been added to the plan for the following reasons:

- Operational request
- Revised audit approach (e.g. healthy organisation review)
- Special investigation
- Fraud follow up

48 audits and grant certifications were completed in 2019/20 23 audits have been completed and assessed, 22 audits are currently in draft state and 8 grant claims have been certified as accurate. We use 4 assurance levels for compliance and assurance audits:

Full assurance	The system of internal control meets the Council’s objectives. All the expected system controls tested are in place and are operating effectively. Future audits will be undertaken in line with standard planning
Substantial assurance	There is a generally sound system of internal control in place designed to meet the Council’s objectives. Weaknesses in the design of controls or inconsistent application of controls in a small number or low risk areas put the achievement of a limited number of system objectives at risk. The resulting risk is not significant. Future audits will be undertaken in line with standard planning.
Moderate assurance	The system of control is generally sound however some of the expected controls are not in place and / or are not operating effectively, increasing the risk that the system does not meet the Council’s objectives. The resulting risk may be significant. An improvement review audit will be undertaken within 3 years.
Limited assurance	Weaknesses in the design and / or inconsistent application of controls puts the achievement of the Council’s objectives at risk in many of the areas reviewed. The resulting risk is significant. An improvement review audit will be undertaken within 12 – 18 months.

The 23 completed audits have given the following assurance levels:



The limited assurance audits are as follows:

- Long-term placements (agency and consultants) – policies and frameworks are not routinely complied with and there is minimal supporting documentation
- Business continuity – plans are not in place for all critical services and plans which are in place are not regularly updated or tested
- Governor support and training thematic review – limited training is available, available training is not widely accessed and the roles of the various partners are not clear
- Adult Community Learning budget management – poor financial management and course cost recovery

- School x fraud follow up – a fraud investigation highlighted weaknesses in the school governance arrangements

When considering the impact of the number of audits at each assurance level, it is important to be mindful of the relative organisational impact. A limited assurance assessment for an individual establishment is likely to be less significant than an equivalent assessment for a whole Council policy or process.

Findings and actions from all audits are reviewed and monitored to ensure that key messages are made available the Council. These could be areas of good practice or control weaknesses. These key messages are reported to the Strategic Leadership Team on a quarterly basis.

We are continuing to work on finalising as many audits and will give a verbal update to the Committee in due course.

**Other sources of assurance**

Some Council services are provided by partner agencies and we rely on assurance from these organisations’ audit services. These are:

- Place Partnership. We have been notified that 4 out of 5 planned audits have been completed and have been given reasonable assurance ratings (level 2 out of 4).
- Liberata. Assurance details to be provided.

**Audit actions update**

Work has continued all year to work with managed to complete audit actions within a reasonable timescale. As part of our ongoing improvements to the audit process we are providing clearer guidance to operational managers about the priority which should be given to resolving actions identified.

Fundamental	Action is imperative to ensure that the organisation is not exposed to further risk. If the action is not adequately addressed there may be a major impact on the achievement of the Council’s objectives. Actions should be implemented within 3 months.
Significant	Action is necessary to avoid exposing the Council to significant risks and / or having an impact of the achievement of the Council’s objectives. Actions should be implemented within 3 – 6 months.
Merits attention	Action is desirable and will result in enhanced control or better value for money. Minimal adverse impact on the achievement of the Council’s objectives if not adequately addressed.

Actions are tracked and we make regular contact with operational managers to follow up progress.

	Completed	6-12 months left	0-3 months left	0-3 months late	3-6 months late	6-12 months late	> 1 year late	No Date Given	Total Number of Actions
<b>Substantial Assurance</b>									
Approval of development	2			2				1	5
Winter Service	2								2
Fininstall First School	1								1
Destruction of confidential waste	1								1
Worcestershire Children First Cut Over Testing	1			1					2
HR strategy / policy development and compliance	6			2	2				10
Appointees & Deputies	2				3				5
Overbury First School	2			3					5
<b>Moderate Assurance</b>									
Payroll	3			1	1	1			6
Inventory	7								7
Legacy systems	1	2							3
Offmore Primary	1				4			1	6
Wolverley CE Secondary School	8		3			5			16
<b>Limited Assurance</b>									
Accounts Receivable.	4								4
Northleigh primary	19								19
Long Term Placements (Agency & Consultancy)	10								10
Governor support and training - thematic review	7								7
Adult & Community Learning - Budget Management Review	3				4				7

	80	2	3	9	14	6	1	1	116
<b>Anti-fraud and corruption</b>	<p>Anti-fraud work is undertaken for various reasons, including calls to the anti-fraud hotline from employees or members of the public, requests from operational staff and follow up investigations from audit work. 4 investigations have been undertaken and in 1 the allegations were upheld. This resulted in a member of staff being disciplined and resigning and the monies defrauded being recovered.</p> <p>We are developing an updated Anti-Fraud and Corruption Strategy which will be introduced across the Council in 2020/21 and a training programme rolled out. This will be supported by a revised Anti-Money Laundering Policy.</p>								
<b>Advisory services</b>	<p>Another key activity of the audit team is advising operational teams as requested. We have undertaken 4 advisory pieces of work this year, supporting the following areas:</p> <ul style="list-style-type: none"> <li>• Adult Services peer review</li> <li>• Liquid Logic data migration</li> <li>• Station Road development</li> <li>• Cut off arrangements for financial transfer from the Council to Worcestershire Children First</li> </ul>								
<b>Grant certifications</b>	<p>Our grant certification work supports the Council in ensuring that money claimed from government agencies is correctly accounted for and we work closely with operational teams to deliver this. 7 grant claims have been certified in 2019/20.</p>								
<b>PSIAS assurance</b>	<p>All work undertaken by the team complies with PSIAS requirements. We are working to improve our engagement with the standards by implementing Engagement Standards, training and developing the team and improving our audit approach to ensure coverage provides maximum assurance. We have a PSIAS improvement plan in place and will look to be assessed against the Standards in a formal External Quality Assessment during 2021/22.</p>								

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Audits providing assurance in 2019/20				
Audit description	Risk(s) being focussed on	High level audit work details and added value / assurance	Status	Comments
Worcestershire Children First – cut over testing	Financial and management information transferred may not be complete and / or accurate	Advisory work pre-transfer Transfer testing to ensure correct balances Post go live lessons learned exercise (2020/21)	Complete	Substantial assurance
Appointees and Deputies	The systems within the Appointee and Deputies function are operating efficiently and effectively and that processes set out by the Court of Protection and the Department of Work and Pensions are followed.	Policies and procedures Compliance with DWP Appointee responsibilities, Court of Protection regulations and OPG Deputy Standards Management of client's finances Monitoring of client accounts Security of cash/property held on behalf of client's Management information	Complete	Substantial assurance
Confidential waste destruction	Confidential or sensitive information is made available inappropriately. GDPR are contravened.	Review of arrangements for destruction of confidential waste and assurance around compliance with the regulations	Complete	Substantial assurance
Corporate project management	Inconsistent application of agreed methodology and regulatory framework. Project governance arrangements are not clearly defined and consistently applied. Staff do not have the appropriate skills or training	Assurance that corporate guidance is complied with across Directorates and that projects are properly managed with appropriate governance and oversight.	Complete	Substantial assurance
HR strategy/policy development and compliance Key focus on sickness and performance management	Inconsistency of practice across directorates, e.g. managing attendance, conduct and performance, recruitment	Compliance with HR policies	Complete	Substantial assurance

Audits providing assurance in 2019/20				
Audit description	Risk(s) being focussed on	High level audit work details and added value / assurance	Status	Comments
Councillors Divisional Funds	Council money to help local initiatives and support 'good works' which play an important role in promoting the economic, social and environmental well-being of communities within Worcestershire. Locally determined initiatives within their Divisions. Lawful for the Council, rational and are properly recorded.	There are appropriate policies in place, setting out the parameters within which Divisional Funds can be used which are designed to protect individual Councillors and the reputation of the Council. Bids for the use of Divisional Funds are properly assessed and authorised and there is a sound, documented rationale as to how funds used will benefit local communities. There is appropriate supporting documentation and an audit trail in place in respect of expenditure transactions which evidences that funds have been used for their intended purpose. There are sound processes in place to facilitate the monitoring of individual councillors' allocations.	Complete	Substantial assurance
Implementation of Liquid Logic, replacing Framework-i.	Errors and/or omissions in data exported. Links with other systems do not operate effectively. System users are not sufficiently trained in the use of the system. Insufficient testing before system goes live. No case management system available impacting business as usual. Cost of backfilling arrangements resulting in	With the project team, the first line of defence should be working, therefore the audit will aim to provide assurance that there are robust plans in place covering the implementation of the new social care case management system including the arrangements for reporting to management and procedures for ensuring lessons learned from previous system	Complete	Substantial assurance

Audits providing assurance in 2019/20				
Audit description	Risk(s) being focussed on	High level audit work details and added value / assurance	Status	Comments
	budget overspend. Reputational damage is project is not implemented successfully.	implementations are considered. For the IT aspect this will be in partnership with WIASS on the IT audit		
Winter Service	Worcestershire County Council is responsible for providing a winter service on adopted public highways within the County except for motorways and trunk roads. The purpose of the winter service is to reduce the effects of snow and ice on the roads by treating the highway with salt. The service is essential for public safety and to the national and local economy in maintaining ice free roads.	The arrangements for the Council to ensure the highway is not endangered by snow or ice in accordance with its statutory responsibilities Budget management, including the controls around additional staff payments The arrangements in place to ensure value for money is obtained from the award of contracts to suppliers Plant, equipment and materials are used as efficiently as possible The controls in place to manage the processes associated with the payment of suppliers	Complete	Substantial assurance
Legacy Systems	Risk that personal/sensitive data is accidentally disclosed because staff or commissioned providers do not process information securely resulting in a breach of the Data Protection Act and enforcement action by the Information Commissioner Officer.	Strategy in place. Understanding of current position. Advisory and stress check. Check and challenge including 'Health Check'. Compliance with Corporate policy. Compliance to statutory requirements.	Complete	Moderate assurance

Audits providing assurance in 2019/20				
Audit description	Risk(s) being focussed on	High level audit work details and added value / assurance	Status	Comments
Inventory	Inefficient and ineffective use of organisation assets leading to wasted resource.	Strategy in place. Understanding of behaviours, cultures and subcultures presenting. Monitoring and reallocation to maximise resource usage. Advisory and stress check. Sample test leavers. Trace allocated equipment whereabouts. Compliance with corporate policy. Evaluation of potential loss.	Complete	Moderate assurance
Procurement cards: care leavers	Inappropriate/fraudulent purchases are made. Purchases are not reviewed and/or approved. Control/use of budgets is impaired. Procurement processes are by-passed and value for money is not obtained.	To review the operation of controls, ensuring the risk of fraud, errors or misuse of cards is managed effectively.	Complete	Moderate assurance
Information Governance	Legislative/regulatory breaches that could result in increased risk of penalties for non-compliance or reputational damage	Review of the governance of GDPR and whether compliance with its requirements has been achieved.	Complete	Moderate assurance
Long term placements – consultants and agency staff	The appointment of consultants is not properly managed and	Review of the authority's use of consultants including management oversight of the appointment of consultants.	Complete	Limited assurance

Audits providing assurance in 2019/20				
Audit description	Risk(s) being focussed on	High level audit work details and added value / assurance	Status	Comments
	controlled. The procurement code is not adhered to.	Focus on long term placements – clarity of purpose, ongoing management, exit plan for end of placement		
Governor support and training: Thematic review	Governing Bodies have insufficient finance training. Budgets are not managed effectively. Insufficient challenge over financial decisions. A lack of accountability for budget related decisions.	A sample of schools to be visited to review arrangements designed to support governing bodies in providing effective financial management. Common issues and recommendations to be communicated to all schools.	Complete	Limited assurance
Adult and Community Learning budget management review	The Adult Community Learning Service reported a significant overspend at the end of the 2018/19 financial year. The audit was carried out following a request from the Adult Learning Service for a review of the services finances.	The aim of the audit was to give assurance that appropriate controls and processes are in place to identify and prevent any future overspent. The review focused on the processes and costs relating to Community Learning Tutors.	Complete	Limited assurance
Business Continuity	There is a risk that the Council will not be able to respond effectively to an incident affecting its premises because a robust business continuity plan involving Place Partnership has not been agreed, with the result	Corporate policy in place. Directorate assurance piece of work. Compliance and lessons learnt/applied. Advisory and stress check.	Complete	Limited assurance

Audits providing assurance in 2019/20				
Audit description	Risk(s) being focussed on	High level audit work details and added value / assurance	Status	Comments
	<p>that there is a significant interruption to services</p> <p>There is a risk that critical services are seriously affected by a major incident or other issue because of a failure in business continuity arrangements, which could result in the interruption of these services.</p> <p>There is a risk that as a result of not checking the business continuity plans of commissioned services that these plans will not be adequate and that there will be failure of the service</p>			
<p>Individual school audits planned, inspection and investigations</p> <p>Limited assurance follow-up audits</p>	<p>Delegated budgets are not managed effectively.</p> <p>Inappropriate/ fraudulent use of resources. Value for money is not obtained from the award of contracts. Income due is not collected in full. School private fund accounts not subject to appropriate controls and</p>	<p>A sample of schools to be visited as individual reviews of the effectiveness of the governance and financial management arrangements. The reviews will provide assurance to both Governing Bodies and the Council including compliance with the Schools' Financial Value Statement (SFVS).</p>	Complete	<p>Finstall First – Substantial assurance</p> <p>Overbury First School – Substantial assurance</p> <p>Blakedown Primary – Moderate assurance</p> <p>Offmore Primary – Moderate assurance</p> <p>Wolverley High School – Moderate assurance</p>

Audits providing assurance in 2019/20				
Audit description	Risk(s) being focussed on	High level audit work details and added value / assurance	Status	Comments
	independent audit review. School assets are not recorded, managed & monitored effectively.			North Bromsgrove High School – Moderate assurance School X – Limited assurance

Audits in progress or deferred to be completed in 2020/21				
Audit description	Risk(s) being focussed on	High level audit work details and added value / assurance	Status	Comments
System Administration	There is a risk that, as a result of the high number of external users with non-expiring Active Directory passwords, that a password is compromised and malicious access to the Council's systems is achieved, resulting in data loss and / or system damage. This is currently necessary as, users who only access the Council's services remotely, currently have no mechanism of changing their password when it expires resulting in loss of access, the risk of which is deemed much greater than the risk posed by this threat.	Strategy in place. Deployment and adherence to corporate policy? Advisory and stress check.  IT deploying a logical approach and how applied? Sample test systems. Sample test user profiling, access and management for appropriateness.	In progress	Open at year-end. Defer completion to 2020/21
Early Help and Commissioning	Ineffective governance arrangements.	Assurance on governance of improvement plans and effectiveness of key performance measures/performance management regime.	In progress	Monitor current service improvements following management changes Completion in 2020/21
Pension financial controls	Poor value for money and / or fraudulent activity.  Qualification of the Statement of Accounts.	To carry out testing of the financial controls and processes surrounding pension records and liabilities.	In progress	High level review for WCC pensions administration as minimal change to process Completion in 2020/21
Payroll & HR function	Fraudulent/inaccurate payments are made. Payments are not made in a timely manner. Inaccurate or unauthorised processing of changes to standing data. Failure to process transactions promptly. Over or	The scope of the audit will include the procedures in place for starters, leavers and variations to the payroll, payroll validation, warning and error reporting, recording of transactions in the main financial system and the payment of	Deferred	2018/19 audit report issued during 2019/20, following operational delays - moderate assurance. Full audit deferred to 2020/21

Audits in progress or deferred to be completed in 2020/21				
Audit description	Risk(s) being focussed on	High level audit work details and added value / assurance	Status	Comments
	under payments. Ineffective reconciliation processes. Payments of deductions to third parties are not processed correctly and promptly.  Qualification of the Statement of Accounts	deductions to third parties. Controls operated by Liberata will not be covered.		
Section 75 Agreements	Previously identified control weaknesses.	Internal Audit are required to follow up reviews conducted in 2018/19 where a "limited assurance" has been given to ensure management actions implemented and improvements made.	Deferred	Service review underway. Advisory work post agreement changes in 2020/21
Direct Payments	Previously identified control weaknesses, which have been acknowledged by management, have not been addressed.	Follow up of previous limited opinion report. The audit will review the processes within Adults Services to assess compliance with policies and procedures and the arrangements for the monitoring and review of Direct Payment activity.	Deferred	To 2020/21 Work in the directorate to improve the process to be given time to be implemented.
Place Partnership contract management arrangements	Ongoing maintenance of the aging property estate	Review of contract management arrangements	Deferred	To 2020/21 Advisory to support exit arrangements
Passenger Transport Review	Poor management information leads to flawed decision making	Advisory work around the consultation	Deferred	To 2020/21 Operational review of financial management and decision making

Audits in progress or deferred to be completed in 2020/21				
Audit description	Risk(s) being focussed on	High level audit work details and added value / assurance	Status	Comments
Travel and Subsistence: Officers & Councillors	Inappropriate/fraudulent claims are made. Journeys are made which are not justified and agreed in advance. Claims are not approved/reviewed by management. Incorrect mileage and/or subsistence rates are paid.	A review of a sample number of travel and subsistence claims to confirm compliance with the policy to include the accuracy of information, reasonableness of mileage claimed and supporting receipts.	Deferred	Terms of reference agreed. Full audit delayed to 2020/21 whilst changes to scheme considered (total reward proposals)
Pensions Investment	Ineffective governance arrangements. Partner Funds cannot place reliance on the Company's systems and controls. An approved annual budget is not in place or has been exceeded therefore requiring partners to add additional contributions. Investments do not adhere to responsible investment principles.	The audit will aim to provide assurance on the management of the risks associated with the investments of the Worcestershire Pension Fund and the transfer of funds to LGPS Central Ltd.	Deferred	To 2020/21 Pooled funds are assured through the LGPS Central audit group
ACS Establishments	Amounts due are not collected, recorded and banked intact. Lack of separation of duties within the income collection process. Petty cash imprest account is not properly controlled and managed. Misuse or misappropriation of service user monies.	Provide assurance on the arrangements in place within Adult Social Care establishments covering the handling of cash including both County Council funds and monies held on behalf of service users.	Deferred	To 2020/21 Low risk area.

Audits removed				
Audit description	Risk(s) being focussed on	High level audit work details and added value / assurance	Status	Comments
Accounts payable	Erroneous and/or inappropriate payments.  Qualification of the Statement of Accounts	Review of key financial system to provide assurance on effectiveness of controls and management of risks remaining with the Council. The work will assess responses to previous audit coverage and any changes to the control environment. This will provide assurance to management in the production of the accounts and fiduciary duty around payment.	Removed	Key finance systems to be evaluated as part of financial management control framework. This will enable higher level assurance.
Accounts receivable	Unauthorised, inappropriate or untimely amendments are made to customer master file. Amounts due are not collected or are reduced inappropriately.  Qualification of the Statement of Accounts	Review of key financial system to provide assurance on effectiveness of controls and management of risks remaining with the Council. The work will assess responses to previous audit coverage and any changes to the control environment. This will provide assurance to management in the production of the accounts and fiduciary duty around income	Removed	Key finance systems to be evaluated as part of financial management control framework. This will enable higher level assurance.
Bank reconciliation	Inaccurate bank reconciliations preventing prompt recognition of fraudulent or erroneous entries.  Qualification of the Statement of Accounts	The audit will provide assurance on the adequacy of the overall arrangements in place regarding the bank reconciliation process for accounts operated by the Council.	Removed	Key finance systems to be evaluated as part of financial management control framework. This will enable higher level assurance.

Audits removed				
Audit description	Risk(s) being focussed on	High level audit work details and added value / assurance	Status	Comments
General ledger	Inadequate reconciliation of control and suspense accounts. Chart of Accounts is not properly controlled and managed. Inaccurate or inappropriate use of journal entries. Lack of appropriate reporting arrangements  Qualification of the Statement of Accounts	Review of general ledger processes and procedures to ensure they are operating efficiently and effectively.	Removed	Key finance systems to be evaluated as part of financial management control framework. This will enable higher level assurance.
Financial Assessments	Income is not maximised. Assessments are not conducted correctly. Minimum Income Guarantee (MIG) is not applied appropriately. Charges are not properly applied with appropriate evidence to support the outcome. Not all assets/income are included in assessments.	To review financial assessments process, ensuring assessments are conducted consistently and all information is considered and verified.	Removed	Assurance review in 2017/18.
Care Quality Commission	Safeguarding risks and reputational damage arising from inadequate rating	Assurance review focusing on preparations for CQC review including pre-checks and data quality	Removed	Current CQC inspections rated as Good. Work with service to agree support process
Banking activities	The contract process could be challenged, or weaken controls	Advisory work around the bank tender	Removed	Banking tender no longer being undertaken

Audits removed				
Audit description	Risk(s) being focussed on	High level audit work details and added value / assurance	Status	Comments
Business Rates Pool	Ineffective governance arrangements. The respective roles and responsibilities of each part are not clear or discharged effectively.	Review of governance arrangements in place and operating around the award from the pool and monitoring of the balance.	Removed	Arrangements assessed externally. Pool ended in 2019/20
Placements in residential care (Out of County)	Procurement processes are ineffective and value for money is not obtained from placements. Service users' needs are not met. Placements continue after they are no longer required.	A review of the arrangements in place in respect of out of county residential care placements. The audit will concentrate on procurement of placements and ongoing reviews which ensure placements continue to be appropriate.	Removed	
Staff recruitment/retention	Risk that processes conflict with recruitment/retention objectives	Advisory input to project for staff recruitment/retention processes	Removed	Recruitment and retention levels have shown significant improvement
Transformational Change Plan	The Council's redesign programme is insufficiently resourced or led, resulting in non-delivery of savings or qualitative change.	Advisory work to assist the directorate production of the Transformational Change Plan	Removed	Organisational redesign impact on current plans
Waste Contract	Lack of appropriate contract payment mechanisms. Regular contract performance monitoring does not take place.	Assurance on the overall arrangements for managing waste especially the contract with Mercia.	Removed	Operational contract management review underway

Audits removed				
Audit description	Risk(s) being focussed on	High level audit work details and added value / assurance	Status	Comments
Transformation & savings plans	Savings plans are unrealistic. Ineffective monitoring/reporting of progress against savings targets. Savings plans are not delivered. Statutory services are not delivered.	Governance of the savings programme. Process for identifying and costing existing savings proposals. Monitoring of delivery of savings plans.	Removed	Organisational redesign impact on current plans
Corporate procurement	Poor approaches and operational practice give rise to increased costs, or lost saving opportunity.	Advisory work around strengthening corporate approach to procurement and capital.  Assessment of existing contract management arrangements to identify lessons to be learnt to feed into retendering exercise. Existence, adequacy and monitoring of performance indicators. Payments are only made in accordance with contractual provisions. Appropriate action is taken to address poor performance.	Removed	Organisational redesign impact on current plans
Disaster Recovery & Business Continuity	Robust business continuity plans are not in place. Key information/data is lost. Business continuity procedures have not been tested and do not work.	Assurance on recovery time objectives for key systems and services. For the IT aspect this will be in partnership with WIASS on the IT audit	Removed	Covered as part of wider business continuity audit – links WCC audit and WIASS audit. Disaster recovery follow up of 2018 audit to be undertaken in 2020/21 as part of IT control framework

Audits removed				
Audit description	Risk(s) being focussed on	High level audit work details and added value / assurance	Status	Comments
Collaborative Planning (budget monitoring tool)	Inaccurate budget data is produced leading to poor budget monitoring and increased risk of overspend affecting the Council's financial standing.	Assurance to management on the progress of improvements in budget management using Collaborative Planning, preparation of budgets and forecasts, training and support to managers, interface between Collaborative planning, E5 and other systems.	Removed	Level of roll out and use to be considered before scoping can be carried out
Disaster Recovery & Business Continuity	Robust business continuity plans are not in place. Key information/data is lost. Business continuity procedures have not been tested and do not work.	Assurance on recovery time objectives for key systems and services. For the IT aspect this will be in partnership with WIASS on the IT audit	Removed	Covered as part of wider business continuity audit – links WCC audit and WIASS audit.  Disaster recovery follow up of 2018 audit to be undertaken in 2020/21 as part of IT control framework
Agency staffing	Contravention of HMRC IR35 requirements. Agency staff used where it is inappropriate to do so. Agency arrangements do not provide value for money.	Review of the authority's use of agency staff including management oversight of the use of agency staff across the authority, the arrangements for procuring agency staff, use of the Matrix contract and compliance with HMRC IR35 requirement.	Removed	Considered as part of uses of consultants' audit (Limited assurance) Focus on long term placements – clarity of purpose, ongoing management, exit plan for end of placement
Risk Management	The Authority does not comply with risk management standards and best practice. Risks are not appropriately managed.	Adequacy of risk management policy and procedures including role and responsibilities and training and support available to managers. The identification,	Removed	Organisational redesign and process revision. Possibly advisory in 2020/21

Audits removed				
Audit description	Risk(s) being focussed on	High level audit work details and added value / assurance	Status	Comments
		assessment and monitoring of risk, its reduction and controls. The governance and oversight of risk management and the linkage to operational issues and the relevant Annual Governance Statement.		
School Procurement: Thematic review	The award of contracts is not approved in accordance with the School's requirements. Value for money is not obtained from the award of contracts. Schools are unable to defend a challenge over a procurement process. EU and other statutory requirements are not adhered to leading to financial penalties being imposed against the Council/school. Goods and/or services delivered do not meet the School's requirements. Extensions and/or variations are agreed inappropriately.	Sample of schools to be visited to review effectiveness of procurement arrangements. Common issues and recommendations to be communicated to all schools.	Removed	Following discussion with the Schools Finance Manager we will be auditing school staff contract arrangements, including additional payments and hours increases as these are one of the key drivers of school overspends.
Worcestershire LEP - Assurance Framework	Inadequate governance and controls result in funding clawback and reputational damage	The WLEP is actively engaged in responding to the changes in "Strengthening Local Enterprise Partnerships" issued in July 2018 and will need to continue to adapt the framework as decisions on the application of the revised policy are agreed. Assurance work on the resulting changes in structure and governance	Removed	

**AUDIT AND GOVERNANCE COMMITTEE**  
**30 JULY 2020****STATUTORY ACCOUNTS AND PENSION FUND 2019/20 –**  
**EXTERNAL AUDIT PROGRESS REPORT**

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**Recommendation**

1. **The Chief Financial Officer recommends that the committee consider the contents of the External Auditor's Progress Report (Appendix 1) with regard progress made towards the Worcestershire County Council Statutory Accounts 2019/20 and Worcestershire County Council Pension Fund Accounts 2019/20.**

**Background**

2. In response to an unprecedented situation relating to the COVID-19 pandemic and the need to reduce the immediate resources pressure on councils and auditors to meet statutory audit deadlines, the Accounts and Audit Regulations 2015 have been amended to allow the publication of the statement of accounts and public inspection of the accounts to be delayed.
3. Therefore, instead of being in a position to potentially sign off the audit the Council has received a Progress Report prepared by the Council's external auditor, Grant Thornton, on progress made and any issues arising from the external audit of the Council's and Pension Fund's financial statements.
4. Both audits are substantially complete which is an excellent achievement considering the impact on working arrangements across the Council's and Grant Thornton's teams.
5. There has been an increased focus on asset valuations and management's assessment of the key assumptions used by the Councils property valuers and actuary, together with an increased volume of transactions testing following a reduction by Grant Thornton in their assessment of the Council's materiality value.
6. It is anticipated that the remaining work including consideration of Value for Money and taking into account the financial impact of COVID-19 on the accounts will be reviewed over the next few months with updates brought to the Audit and Governance Committee at its 2 October 2020 meeting.

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## **Supporting Information**

- Appendix: Grant Thornton Update Letter

## **Background Papers**

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

# Audit Progress Report and Sector Update

Worcester County Council and Pension Fund  
Year ending 31 March 2020

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30 July 2020



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# Introduction

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This paper provides the Audit and Governance Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

Members of the Audit and Governance Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications [www.grantthornton.co.uk](http://www.grantthornton.co.uk).

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

# Progress at July 2020

## Financial Statements Audit

We undertook our initial planning for the 2019/20 audit in December 2019, and interim audit in January to March 2020. We began our work on your draft financial statements in June.

In March we issued a detailed audit plans for both the County Council and Pension Fund, setting out our proposed approach to the audit of the Council's 2019/20 financial statements.

### Covid-19

In addition to the audit risks communicated to those charged with governance in our Audit Plan on 13 March 2020, the Covid-19 pandemic led us to update our planning risk assessment and reconsider our audit and value for money (VfM) approach to reflect the unprecedented global response. In April we issued an addendum to our audit plans, setting out a new significant financial statement risk in relation to Covid-19. These are included at Appendix A to this report.

Also, following the impact of Covid-19, The Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 was brought in to formalise a new timetable for accounts preparation and publication of audited accounts. The new date for publication for final, audited 2019/20 accounts is 30 November 2020, a change from 31 July for local authorities.

## Current progress – County Council financial statement audit

Following the impact of Covid 19 we discussed with officers the timelines associated with the financial statements and the when the audit would be able to take place. Officers were keen to stick as much as possible to the original timescale, however, with the need to shift to home working and a remote audit, it was acknowledged that completing all of the work necessary to produce a full Audit Findings Report in time for this July meeting was likely to be too ambitious.

We worked with officers and agreed that draft accounts would be available on the 5<sup>th</sup> June, which coincided with the start of the audit visit. This is three weeks, behind what was originally planned, but still represents the significant effort that the finance team put in to remain as close as possible to the original timetable. The draft accounts produced are one of the first sets we have received for audit.

Our audit work to date is progressing well, and we are working with officers to ensure that all detailed testing will be completed by the end of July. Given the financial reporting impacts of Covid 19, there are two key areas where we need to more closely consider the response of the Council.

These are in relation to the treatment of the valuation of Property, Plant and Equipment (PPE) at year end and the requirement to demonstrate the appropriateness of the going concern assumption in relation to the Council. Both of these areas are a subject of national debate, and therefore these issues are not unique to Worcestershire.

Key issues arising from the audit to date are briefly highlighted below;

- We have identified a number of errors in note 15 (PPE). While the adjustments are material, they are classification and presentational issues which do not affect the bottom line
- An amendment of £4.8m has been made to the CIES, which cascades through various notes in the financial statements, most significantly notes 5 and 6. The impact does not effect the deficit on the provision of services.
- The accounts include a negative earmarked reserve in relation to overspends of Dedicated Schools Grant (DSG) of £6.3m. We remain of the view that where overspends arise against DSG and are to be carried forward as a call against the schools' budget in future years, these should form part of the un-earmarked general fund. This is because the expenditure is required to be recognised in the year in which it is incurred and forms part of the 'Surplus / Deficit on Provision of Services' within the Comprehensive Income and Expenditure Statement and is therefore accounted for as a charge to General Fund. The Schools & Early Years Finance Regulations 2020 regulations do not allow for expenditure to be reversed out of the General Fund (i.e. they do not provide for a 'statutory override' creating an unusable reserve) in 2019/20.

## Current progress – Pension Fund financial statement audit

As for the County Council audit we have agreed to delay reporting on the Pension Fund financial statements until October. Early discussions with officers resulted in us agreeing a slightly delayed timetable for the receipt of the draft accounts.

We received accounts on the 28th May in line with the revised timescale, which is just over a week later than originally planned. Considering the challenges presented by the circumstances, this is an achievement. The audit visit started at the beginning of June, broadly in line with the original timescale agreed.

Our audit work to date is progressing well, and as for the County we are aiming to have all detailed testing completed by the end of July. In common with the County audit, the impact of Covid 19 means we need to further consider the treatment of investment valuations at year end, and how material uncertainties provided by some fund managers need to be disclosed within the financial statements. From the work completed to date, any changes to the accounts are largely presentational.

# Progress at July 2020

## Value for Money

The scope of our work is set out in the guidance issued by the National Audit Office. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".

The guidance confirmed the overall criterion as: "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".

The three sub criteria for assessment to be able to give a conclusion overall are:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

Details of our initial risk assessment to determine our approach were included in our Audit Plan.

We will report our work in the Audit Findings Report and aim to give our Value For Money Conclusion by the end of October.

The NAO consultation on a new Code of Audit Practice (the "Code") has finished, and the new Code has completed its approval process in Parliament. It therefore came into force on 1 April 2020 for audit years 2020/21 and onwards. The new Code supersedes the Code of Audit Practice 2015, which was published by the National Audit Office (NAO) in April 2015.

The most significant change under the new Code is the introduction of an Auditor's Annual Report, containing a commentary on arrangements to secure value for money and any associated recommendations. The NAO public consultation is now underway and runs until 2 September 2020. It can be accessed through the NAO website:

<https://www.nao.org.uk/code-audit-practice/agn-03-vfm-consultation/>

## Other areas

### Certification of claims and returns

We certify the Council's annual Teachers' Pensions return in accordance with procedures agreed with Teachers' Pensions. The certification work for the 2019/20 claim is due to be completed in advance of the 30 November deadline.

### Events

We provide a range of workshops, along with network events for members and publications to support the Council. Your officers attended our Financial Reporting Workshop in February, which helped to ensure that members of your Finance Team were up to date with the latest financial reporting requirements for local authority accounts.

Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

## Audit Fees

During 2017, PSAA awarded contracts for audit for a five year period beginning on 1 April 2018. 2019/20 is the second year of that contract. Since that time, there have been a number of developments within the accounting and audit profession. Across all sectors and firms, the Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing.

Our work in the Local Government sector in 2018/19 has highlighted areas where financial reporting, in particular, property, plant and equipment and pensions, needs to improve. There is also an increase in the complexity of Local Government financial transactions and financial reporting. This combined with the FRC requirement that all Local Government audits are at or above the "few improvements needed" (2A) rating means that additional audit work is required.

We have reviewed the impact of these changes on both the cost and timing of audits. We have discussed this with your s151 Officer including any proposed variations to the Scale Fee set by PSAA Limited, and have communicated fully with the Audit and Governance Committee.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting.

# COVID-19 Update

## Impact on working arrangements:

- following the government's announcement on Monday 16 March 2020, we closed our Grant Thornton offices for the foreseeable future and your audit team are now working from home
- we will be working remotely during your accounts audit. Although there are some audit tasks which are best undertaken in person, we will be able to complete the majority of the audit remotely. This is however likely to make the audit process longer. We continue to work closely with your finance team to make this different way of working as efficient as possible.

there may need to be further changes to planned audit timings due to potential illness within the audit team or the finance team and due to the further developments of COVID-19.

## Impact on accounts and audit opinions:

There are a number of key issues which your finance team will have had to consider as part of the year end closedown and accounts production:

- impact on reserves and financial health and whether the Council needs to provide additional disclosures that draw attention to a Material Uncertainty around Going Concern (this could also impact on the VfM conclusion) or asset valuations.
- valuation of Property, Plant & Equipment and assumptions made by valuers, particularly in respect of carrying value to current value assessment.
- impact on collectability of debt and assumptions made in bad debt provisions.
- impact on post-balance sheet events. The consequences of the virus post 31 March 2020 will generally be non-adjusting post balance sheet events but some form of disclosure may be needed.
- disclosure of impact in annual report.
- disclosure of critical judgements and material estimation uncertainties.
- impact on the content of the Annual Governance Statement, particularly with regards to risks, controls and mitigation.
- considerations in respect of service continuity and disaster planning arrangements (this could impact on the VfM conclusion).
- impact on reporting to those charged with governance and signing arrangements.

## Changes to reporting requirements:

- the Secretary of State announced that for the 2019/20 accounting period he would be extending the period for publication of principal authority accounts to 30 August 2020.
- for principal authorities, this means that the whole chain of publication requirements will be amended. The audited financial statements are now to be published by 30 November 2020.
- IFRS 16 implementation has been delayed by 1 year to 1 April 2021. IAS 8 disclosures in respect of new accounting standards which have been issued but are not yet effective are still required for IFRS 16 (Leases) even though implementation is deferred to 2021/22.

# Audit Deliverables

2019/20 Deliverables	Planned Date	Status
<p><b>Fee Letter</b></p> <p>Confirming audit fee for 2019/20.</p>	April 2019	Complete
<p><b>Audit Plan</b></p> <p>We are required to issue a detailed audit plan to the Audit and Governance Committee setting out our proposed approach in order to give an opinion on the Council's 2019-20 financial statements and a Conclusion on the Council's Value for Money arrangements.</p>	March 2020	Complete
<p><b>Audit Findings Report</b></p> <p>The Audit Findings Report will be reported to the October Audit and Governance Committee.</p>	October 2020	Not yet due
<p><b>Auditors Report</b></p> <p>This is the opinion on your financial statement, annual governance statement and value for money conclusion.</p>	October 2020	Not yet due
<p><b>Annual Audit Letter</b></p> <p>This letter communicates the key issues arising from our work.</p>	December 2020	Not yet due

# External Audit Plan update

Worcestershire County Council  
Year ending 31 March 2020

28 April 2020

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# Introduction & headlines

## Purpose

This document provides an update to the planned scope and timing of the statutory audit of Worcestershire County Council ('the Authority') as reported in our Audit Plan dated 13 March 2020, for those charged with governance.

## The current environment

In addition to the audit risks communicated to those charged with governance in our Audit Plan in March, recent events have led us to update our planning risk assessment and reconsider our audit and value for money (VfM) approach to reflect the unprecedented global response to the Covid-19 pandemic. The significance of the situation cannot be underestimated and the implications for individuals, organisations and communities remains highly uncertain. For our public sector audited bodies, we appreciate the significant responsibility and burden your staff have to ensure vital public services are provided. As far we can, our aim is to work with you in these unprecedented times, ensuring up to date communication and flexibility where possible in our audit procedures.

## Impact on our audit and VfM work

Management and those charged with governance are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020. We continue to be responsible for forming and expressing an opinion on the Authority's financial statements and VfM arrangements and will liaise with management to agree appropriate timescales for the delivery of the audit.

In order to fulfil our responsibilities under International Auditing Standards (ISA's (UK)) we have revisited our planning risk assessment. We may also need to consider implementing changes to the procedures we had planned and reported in our Audit Plan to reflect current restrictions to working practices, such as the application of technology to allow remote working. Additionally, it has been confirmed since our Audit Plan was issued that the implementation of IFRS 16 has been delayed for the public sector until 2020/21.

## Changes to our audit approach

To date we have:

- Identified a new significant financial statement risk, as described overleaf
- Reviewed the materiality levels we determined for the audit . We did not identify any changes to our materiality assessment as a result of the risk identified due to Covid-19
- **Changes to our VfM approach**

We have updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We have not identified any new VfM risks in relation to Covid-19.

## Conclusion

We will ensure any further changes in our audit and VfM approach and procedures are communicated with management and reported in our Audit Findings Report. We wish to thank management for their timely collaboration in this difficult time.

# Significant risk identified – COVID-19 pandemic

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

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<p><b>Covid-19</b></p>	<p>The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to;</p> <ul style="list-style-type: none"> <li>• Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation</li> <li>• Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates</li> <li>• Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and</li> <li>• Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.</li> </ul> <p>We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• Work with management to understand the implications the response to the Covid-19 pandemic has on the organisation's ability to prepare the financial statements and update financial forecasts and assess the implications on our audit approach</li> <li>• Liaise with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arise</li> <li>• Evaluate the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic.</li> <li>• Evaluate whether sufficient audit evidence using alternative approaches can be obtained for the purposes of our audit whilst working remotely</li> <li>• Evaluate whether sufficient audit evidence can be obtained to corroborate significant management estimates such as asset valuations and recovery of receivable balances</li> <li>• Evaluate management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment</li> <li>• Discuss with management any potential implications for our audit report if we have been unable to obtain sufficient audit evidence.</li> </ul>



# External Audit Plan update

Worcestershire Pension Fund  
Year ending 31 March 2020

28 April 2020

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# Introduction & headlines

## Purpose

This document provides an update to the planned scope and timing of the statutory audit of Worcester Pension Fund ('the Fund') as reported in our Audit Plan dated 13 March 2020, for those charged with governance.

## The current environment

In addition to the audit risks communicated to those charged with governance in our Audit Plan, recent events have led us to update our planning risk assessment and reconsider our audit approach to reflect the unprecedented global response to the Covid-19 pandemic. The significance of the situation cannot be underestimated and the implications for individuals, organisations and communities remains highly uncertain. For our public sector audited bodies, we appreciate the significant responsibility and burden your staff have to ensure vital public services are provided. The Fund will also be specifically facing a number of tough challenges around funding, investment, governance and communications to members. As far we can, our aim is to work with you in these unprecedented times, ensuring up to date communication and flexibility where possible in our audit procedures.

## Impact on our audit

Management and those charged with governance are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020. We continue to be responsible for forming and expressing an opinion on the Fund's financial statements.

In order to fulfil our responsibilities under International Auditing Standards (ISA's (UK)) we have revisited our planning risk assessment. We may also need to consider implementing changes to the procedures we had planned and reported in our Audit Plan to reflect current restrictions to working practices, such as the application of technology to allow remote working.

## Changes to our audit approach

To date we have:

- Identified a new significant financial statement risk, as described overleaf
- Reviewed the materiality levels we determined for the audit . We did not identify any changes to our materiality assessment as a result of the risk identified due to Covid-19

## Conclusion

We will ensure any further changes in our audit approach and procedures are communicated with management and reported in our Audit Findings Report. We wish to thank management for their timely collaboration in this difficult time.

# Significant risk identified – COVID-19 pandemic

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

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<p><b>Covid-19</b></p>	<p>The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to;</p> <ul style="list-style-type: none"> <li>• Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation</li> <li>• Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation, and the reliability of evidence we can obtain to corroborate management estimates</li> <li>• For instruments classified as fair value through profit and loss there may be a need to review the Level 1-3 classification of the instruments if trading may have reduced to such an extent that quoted prices are not readily and regularly available and therefore do not represent actual and regularly occurring market transactions.</li> <li>• Whilst the nature of the Fund and its funding position (i.e. not in a winding up position or no cessation event) means the going concern basis of preparation remains appropriate management may need to consider whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and</li> <li>• Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.</li> </ul> <p>We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• Work with management to understand the implications the response to the Covid-19 pandemic has on the organisation's ability to prepare the financial statements and update financial forecasts and assess the implications on our audit approach</li> <li>• Liaise with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arise</li> <li>• Evaluate the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic. Including management's assessment of the impact of Covid 19 upon forecast cashflows</li> <li>• Evaluate whether sufficient audit evidence using alternative approaches can be obtained for the purposes of our audit whilst working remotely</li> <li>• Evaluate whether sufficient audit evidence can be obtained to corroborate management's fair value hierarchy disclosure</li> <li>• Evaluate whether sufficient audit evidence can be obtained to corroborate significant management estimates such as Level 3 asset valuations,</li> <li>• Discuss with management any potential implications for our audit report if we have been unable to obtain sufficient audit evidence</li> </ul>

# COVID-19 and local government - Context

Public services have been at the forefront of the emergency response to the Coronavirus (COVID-19) including local government. Very few local government services have not been impacted by the COVID-19, and councils have also had to create new service lines as part of the emergency response, such as their work in identifying and supporting shielded and other vulnerable citizens, and to redeploy people to new roles and assets to new functions (for example closed leisure centres repurposed as temporary mortuaries and food banks).

Prior to COVID-19 local government has had to adapt to significant reductions in funding during the period of austerity. For example, spending on local services fell by 21% in real terms between 2009-10 and 2017-18. However, underlying this reduction are much larger reductions to some services expenditure. In broad terms, councils managed during austerity by significantly reducing spending on more discretionary services in order to protect statutory services to the most vulnerable people, particularly social care services. In addition, councils have had to place greater reliance on fees and charges income, and to be innovative in the generation of new income source, including a more commercial approach, a trend which is changing as authorities seek to balance social outcomes with financial sustainability.

COVID-19 has had a further significant impact on local government finances, which is the result of three main factors:

- increase in expenditure in managing the emergency response, such as purchase of PPE, provision of food and medical supplies to shielded citizens, and increased costs in relation to adult social care;
- lost income due to closed services, such as leisure centres, and the reduction in other sources of income from other sources, such as car parking, business rates and council tax; and
- the non-delivery of savings plans.

Whilst central government has made significant additional funding contributions to local government in recognition of the financial consequences of COVID-19, the total funding gap for councils in England is currently estimated to be £6billion by the LGA, with the sector still in the process of determining the longer term financial impact.

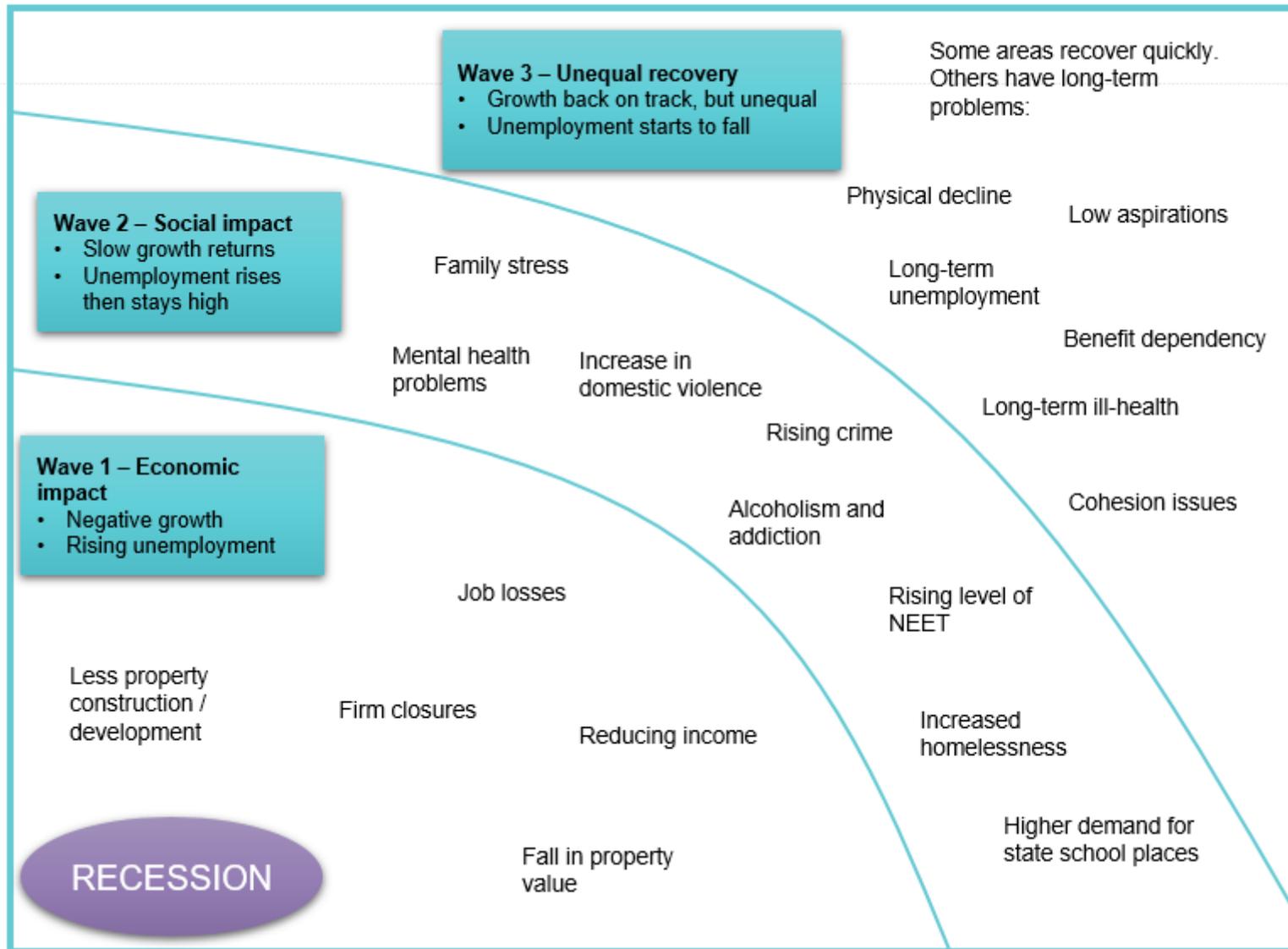
The tranches of government funding provided so far have generally focussed on alleviating the financial pressures created by COVID-19 related spend, and so have had limited benefit for lost income such as that relating to leisure services.

This stark financial context has significant implications for the sector as councils start to move from the emergency response stage to the recovery planning stage of COVID-19. The key risks we will need to consider:

- how they stand up closed services such as leisure centres, the impact of COVID-19 on future demand, and the operational challenges of service delivery with on-going social distancing rules;
- how service delivery may need to change as a result of learning from COVID-19 and how long-lasting cultural and behavioural changes will impact on their operating models;
- the impact on local markets such as social care and transport, and the financial consequences of market and supply chain failure;
- how the economic impact of COVID-19 will impact on service need and on the demand for income generating services; and
- whether certain services will need to reduce or cease to manage the funding gap
- exploration of opportunities for more radical change that may have arisen from COVID-19, such as building on the large-scale transfer of care that has taken place and the opportunities regarding reablement, and broader integration with health.

Understanding the various scenarios, their financial implications, and the resources available to deliver them will be critical over the short to medium term.

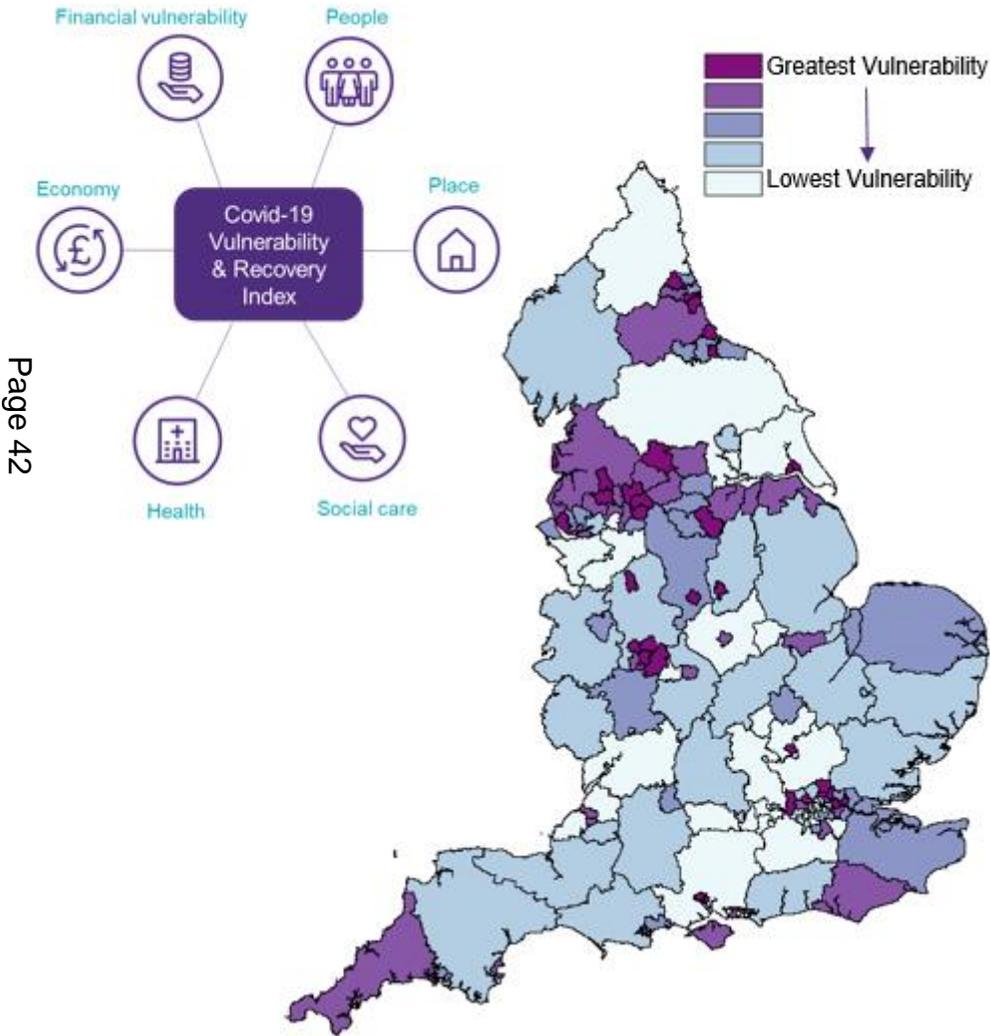
# Can we learn from previous recessions?



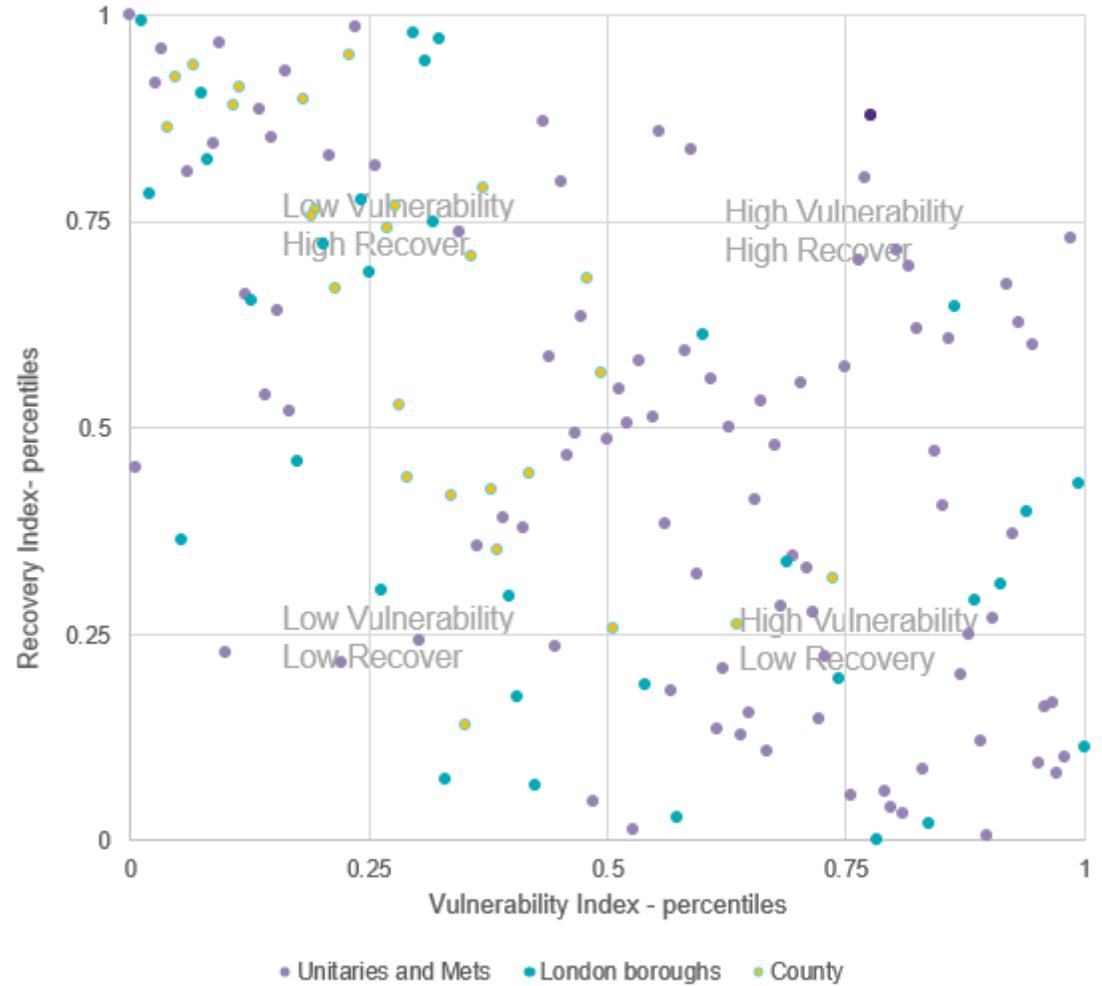
Source: Audit Commission

# Covid-19 Vulnerability Index

Overall Index (including Financial Recovery basket)



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# Scenarios and hypotheses

## Local authority areas in 12-24 months?

Theme	Reasonable worst case	Reasonable best case
<b>People &amp; community</b> 	<ul style="list-style-type: none"> <li>Multiple lockdowns and ongoing disruption</li> <li>Community dependency and expectation of sustained response</li> <li>Turbulence and activism within the VCS</li> <li>Socio-economic inequality is compounded</li> <li>Failure of leisure and cultural services</li> </ul>	<ul style="list-style-type: none"> <li>Smooth exit from lockdown to a "new normal"</li> <li>Community mobilisation is channelled into ongoing resilience</li> <li>Strengthened VCS relationships and focus</li> <li>Systemic response to inequality is accelerated</li> <li>Leisure and cultural services adapted to social distancing</li> </ul>
<b>Business &amp; economy</b> 	<ul style="list-style-type: none"> <li>16% reduction in GVA for 2020 based on OBR reference scenario</li> <li>Slow / uneven economic recovery and "long tail" on unemployment</li> <li>Central gov / BEIS focus investment on areas furthest behind</li> <li>Loss of tourist &amp; student spend causes unmitigated damage</li> <li>"V" shaped recovery results in 2-3 year recovery period</li> </ul>	<ul style="list-style-type: none"> <li>5-10% reduction in GVA</li> <li>Rapid economic recovery with employment levels close behind</li> <li>Central government "back winners" with investment</li> <li>Adaptation allows resumption of tourist and student economy</li> <li>Business base is weighted towards growth sectors</li> </ul>
<b>Health &amp; wellbeing</b> 	<ul style="list-style-type: none"> <li>Increased demand and escalating need due to fallout from lockdown</li> <li>Newly-vulnerable cohorts place strain on the system</li> <li>Unit costs increase further as markets deteriorate and providers fail</li> <li>SEND transport unable to adapt to social distancing</li> <li>Imposed disruption of care system</li> </ul>	<ul style="list-style-type: none"> <li>Positive lifestyle changes and attitudes to care reduce demand</li> <li>Needs of newly vulnerable cohorts met through new service models</li> <li>New investment in prevention and market-shaping manage costs</li> <li>New ways of working leading to stronger staff retention</li> <li>Locally-led reform of health and care system</li> </ul>
<b>Political &amp; regulatory</b> 	<ul style="list-style-type: none"> <li>Local government side-lined by a centralised national recovery effort</li> <li>Unfunded burdens (e.g. enforcement and contact-tracing)</li> <li>Councils in the firing line for mismanaging recovery</li> </ul>	<ul style="list-style-type: none"> <li>Local government empowered as leaders of place-based recovery</li> <li>Devolution and empowerment of localities</li> <li>Councils at the forefront of civic and democratic renewal</li> </ul>
<b>Environment</b> 	<ul style="list-style-type: none"> <li>Opportunity missed to capture and sustain environmental benefits</li> <li>The end of the high street / town centres</li> <li>Emissions and air quality worsened by avoidance of public transport</li> <li>Capital programmes stuck</li> </ul>	<ul style="list-style-type: none"> <li>Ability to invest in transport modal shift and green infrastructure</li> <li>Changed working patterns rejuvenate town centres</li> <li>Sustained impact on emissions due to new behaviours</li> <li>New, shovel-ready infrastructure programmes</li> </ul>
<b>Organisational</b> 	<ul style="list-style-type: none"> <li>Inadequate funding forces fiscal constraint</li> <li>Working practices return to status quo – increased operating costs</li> <li>Imposed structural change within the place</li> <li>Austerity 2</li> <li>Commercial portfolio becomes a liability</li> </ul>	<ul style="list-style-type: none"> <li>Adequate funding enables a programme of targeted investment</li> <li>Learning and adaptation to new operating environment</li> <li>Energised system-wide collaboration and reform</li> <li>Fiscal reform and civic renewal</li> <li>Commercial portfolio reshaped for economic and social gain</li> </ul>

# What strategy is needed in response?

*From response to recovery*

## Learn, adapt and prioritise

- Develop and test hypotheses around impact on place, services, operations, finances
- Design rapid interventions - implement, test and evaluate
- Learning from the response to lock in the good stuff – reflection on operations, services and the system
- Set priorities and principles – what is the Council's purpose in an uncertain context and where will it focus?

*Mitigating the worst case*

## Consolidate and build resilience

- Ensure that emergency management and response structures are resilient for the long haul
- What is the minimum operating model to deliver this?
- Predict and model demand for social care and assess care market vulnerability
- Contingency plans for structural disruption
- Re-evaluate infrastructure pipeline

*Steering towards the best case*

## Invest in renewal

- Programme of priority-based investment framed by recovery and renewal
- Focus on inequality, community resilience, targeted economic stimulus, skills and employment support and adapting public spaces
- Continued system leadership, pushing for positive reform and resilience

# Recovery planning and implementation

Set out below are examples of recovery planning activity that are being considered by councils. This activity needs to align to the Government's recovery strategy, and how this aligns to existing Government priorities such as levelling up, and future proof against covid related government policy shifts.

Recovery planning	Recovery implementation
Recovery planning strategy and framework development	Recovery plan implementation
Risk assessments, research into which parts of the local economy have been most severely hit and which groups of people will need additional support.	Reviews of long term corporate plans/strategies, place vision, service plans, in context of phased lockdown release
Planning for standing up closed services	Place-based leadership – working with other public services, private and third sector to redefine place
Integrating social distancing into the public realm, eg offering supplies of hand sanitiser and masks. Increased need for digital advertising and awareness raising	Redefining front-line services, council as match-maker, convener and incentiviser as well as service deliverer or commissioner. Removal of internal silos (eg supporting vulnerable families)
Review of supply chain vulnerability	More long-term and strategic partnerships and funding models for third sector
Supporting local businesses evolve to a new normal post-COVID-19 world, including more trading on-line	Re-evaluation of vulnerability, including eligibility criteria. Likely to put in place structures that outlast the crisis, such as provisions to help the homeless and those in gig economy jobs
Providing leadership for longer-term investment and delivery, to support economic recovery rather than just focusing on short-term actions	Review and update Local Plan
Reframe capital programme to support economic, social and environmental recovery / sustainability	Reconfiguration of municipal estate and property portfolio and commercial investments
Renewed strategic financial planning and focus on financial management	Emergency planning reviews and learning

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# Recovery planning and implementation

Recovery planning	Recovery implementation
Data recognised as core pillar of resilience, barriers to data collaboration and information governance removed/standardised	Long-term financial sustainability planning
Government monitoring regime on additional funding for councils and covid funding administered by councils	Increase in outcomes based procurement and focus on social value
Business cases for new investments or for Government	Significant investment in digital capabilities – channel shift, remote working, etc
HR capacity and welfare, building health and safety checks	

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# Sector Update

Councils continue to try to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

Public Sector

Local  
government

# In-depth insight into the impact of Covid-19 on financial reporting in the local government sector – Grant Thornton

In June Grant Thornton published a report to help officers and elected members identify points they should consider when assessing and reporting the impact of Covid-19 on their authority. Each authority will be impacted in different ways and will need to make their own assessment of the impact on their financial statements. However, the report identified some of the key challenges for the sector, along with the potential financial reporting and regulatory impact, to support preparers of local authority accounts navigate through some of these key issues. The report also included a number of useful links to other resources.

The report considered:

- Operational challenges and the related financial reporting/regulatory impact
- Government support schemes – considering the accounting implications
- Significant financial reporting issues to consider
- Other sector issues and practicalities to consider
- Impact on audit work/external scrutiny process
- Engagement with experts

We shared the report with your officers and discussed relevant issues with them in a timely manner.

The extraordinary events we are living through follow a decade of austerity, triggered by the financial crisis of 2008/09, which had already placed considerable strain on local authorities' finances. Increased demand for many local public services, directly related to the outbreak of the virus, has placed immediate pressure on authorities' cash flows and expenditure budgets. The longer-term consequences of recession and unemployment on demand for services have yet to be experienced.

At the same time, several important sources of local authority income including Council Tax, Nondomestic (business) rates, fees and charges, rents and investment returns have, to a greater or lesser extent, been subject to reduction or suspension. This perfect storm of conditions presents a real threat to the financial sustainability of the sector. Now, more than ever, strong political and executive leadership is needed to re-establish priorities, review strategies and medium-term financial plans and ensure that public funds are being used as efficiently and effectively as possible. A balance has to be struck between responding to the needs of residents and businesses in a timely manner, protecting the most vulnerable and ensuring appropriate measures and controls around financial management are in place to mitigate against future 'financial shock'. In doing so, iterative scenario planning will help officers and elected members to take informed decisions at key stages, revisiting and revising plans along the way.



The full report can be obtained from the Grant Thornton website:

<https://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/publication/2020/impact-of-covid19-on-financial-reporting-local-government-sector.pdf>

# Guide for Audit and Risk Committees on Financial Reporting and Management during COVID-19 – National Audit Office

In June the National Audit Office (NAO) published a guide that “aims to help audit and risk committee members discharge their responsibilities and to examine the impacts on their organisations of the COVID-19 outbreak. It is part of a programme of work undertaken by the NAO to support Parliament in its scrutiny of the UK government’s response to COVID-19.”

The NAO report notes “Audit and risk committees are integral to the scrutiny and challenge process. They advise boards and accounting officers on matters of financial accountability, assurance and governance, and can support organisations, providing expert challenge, helping organisations focus on what is important, and how best to manage risk.

Each organisation will have existing risk management processes in place, but risk appetite may have changed as a result of COVID-19, for the organisation to operate effectively and respond in a timely manner. This may result in a weakening of controls in some areas, increasing the likelihood of other risks occurring. Organisations will need to consider how long this change in risk appetite is sustainable for.”

The NAO comment “This guide aims to help audit and risk committee members discharge their responsibilities in several different areas, and to examine the impacts on their organisations of the COVID-19 outbreak, including on:

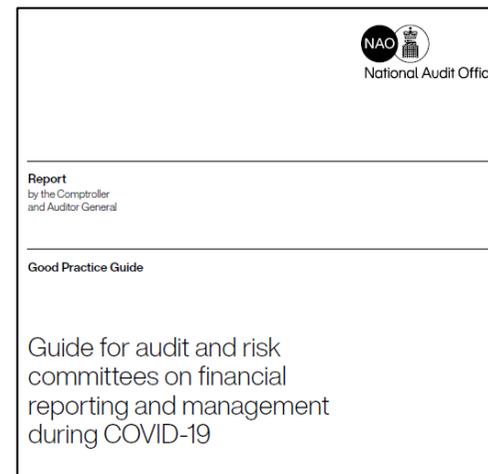
- annual reports;
- financial reporting;
- the control environment; and
- regularity of expenditure.

In each section of the guide we have set out some questions to help audit and risk committee members to understand and challenge activities. Each section can be used on its own, although we would recommend that audit and risk committee members consider the whole guide, as the questions in other sections may be interrelated. Each individual section has the questions at the end, but for ease of use all the questions are included in Appendix One.

The guide may also be used as organisations and audit and risk committees consider reporting in the 2020-21 period.”

The full report can be obtained from the NAO website:

<https://www.nao.org.uk/report/guidance-for-audit-and-risk-committees-on-financial-reporting-and-management-during-covid-19/>



# CIPFA – Financial Scrutiny Practice Guide

Produced by the Centre for Public Scrutiny (CfPS) and CIPFA, this guide provides guidance to councils and councillors in England on how they might best integrate an awareness of council finances into the way that overview and scrutiny works.

The impact of the COVID-19 pandemic on council finances, uncertainty regarding the delayed fair funding review and future operations for social care – on top of a decade of progressively more significant financial constraints – has placed local government in a hugely challenging position.

For the foreseeable future, council budgeting will be even more about the language of priorities and difficult choices than ever before.

This guide suggests ways to move budget and finance scrutiny beyond set-piece scrutiny ‘events’ in December and quarterly financial performance scorecards being reported to committee. Effective financial scrutiny is one of the few ways that councils can assure themselves that their budget is robust and sustainable, and that it intelligently takes into account the needs of residents.

Scrutiny can provide an independent perspective, drawing directly on the insights of local people, and can challenge assumptions and preconceptions. It can also provide a mechanism to ensure an understanding tough choices that councils are now making.

This paper has been published as the local government sector is seeking to manage the unique set of financial circumstances arising from the COVID-19 pandemic. This has resulted, through the Coronavirus Act 2020 and other legislation, in changes to local authorities’ formal duties around financial systems and procedures.

The approaches set out in this guide reflect CfPS and CIPFA’s thinking on scrutiny’s role on financial matters as things stand, but the preparation for the 2021/22 budget might look different. CfPS has produced a separate guide to assist scrutineers in understanding financial matters during the pandemic



The full report can be obtained from CIPFA’s website:

<https://www.cipfa.org/policy-and-guidance/reports/financial-scrutiny-practice-guide>



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**AUDIT AND GOVERNANCE COMMITTEE**  
**30 JULY 2020****DRAFT ANNUAL GOVERNANCE STATEMENT 2019/20**

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**Recommendation**

- 1. The Chief Financial Officer recommends that the draft Annual Governance Statement 2019/20 be noted.**

**Background**

2. The Council is required, as part of its ongoing review of the effectiveness of its governance arrangements, to produce an Annual Governance Statement (AGS) for 2019/20. The AGS will form part of the Annual Statement of Accounts and it is anticipated the final version will be signed by the Leader of the Council and Chief Executive and available for approval by the Committee at its meeting on 2 October 2020.

3. The AGS is primarily retrospective. It reports on the assurance framework and measures in place for the financial year 2019/20 and takes into account any significant issues of governance up to the date of publication of the Statement of Accounts. The AGS outlines the actions taken or proposed to address governance issues identified.

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

**Content**

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

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

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

- The issue has seriously prejudiced or prevented achievement of a principal objective
- The issue has resulted in a need to seek additional funding to allow it to be resolved, or has resulted in significant diversion of resources from another aspect of the business
- The issue has led to a material impact on the accounts
- The Audit and Governance Committee has advised that it should be considered significant for this purpose
- The Chief Internal Auditor has reported on it as significant, for this purpose, in the annual opinion on the internal control environment
- The issue, or its impact, has attracted significant public interest or has seriously damaged the reputation of the organisation
- The issue has resulted in formal action being taken by the Chief Financial Officer and / or the Monitoring Officer.

7. The draft AGS includes the following governance issues as areas for improvement. Items which were included in the 2018/19 AGS and remain governance issues following review in 2019/20 are:

- Serious harm or death of a child or young person - specific priorities for continual development and implementation are included in the Worcestershire Children First Business Plan and detailed within Social Care and Safeguarding Business Plan focussing on Ofsted recommendations for areas of improvement
- Activity exceeds budget allocation – regular budget monitoring and a focus on demand / activity continues to strengthen and be a focus of our reporting and monitoring. This will be enhanced as we work through the financial implications of COVID-19
- Serious harm or death of a vulnerable adult – the Council will continue to monitor and manage through the Safeguarding Adults Board support by teams where staff are trained and benchmarked against the safeguarding competency framework.

8. The following items were brought forward from the 2018/19 AGS but is no longer considered a governance issue:

- Sustainable improvement in Children's Services – Worcestershire Children First (WCF) was successfully launched on 1st October 2019, following a two-year programme of activity. The DfE have considered the Ofsted report of July 2019 and the Children's Services Commissioner's report of 22 January 2020 and the Secretary of State intends to withdraw the Children's Services Commissioner due to the good progress made in all areas, with the Direction and monitoring remaining in place. We will continue to monitor developments

in Children's Services however following significant improvements noted above, this is no longer a governance issue for 2019/20

- Staff capacity, recruitment and retention – the Council has a dedicated HR team supporting social work recruitment. We are using agency workers to cover specialist and hard to fill roles and considering enhanced payment packages to attract / retain the right staff. These initiatives have been successful, and this is no longer deemed a governance issue for 2019/20

9. The following issues have been identified as part of the 2019/20 review process:

- Serious harm or death of a child or young person – safeguarding risk because of the serious harm or death of a child or failure to safeguard children.
- Activity exceeds budget allocation – inadequate budgets and / or ineffective financial management will impact on the County Council's ability to effectively provide services and impair our ability to forward plan. The level of earmarked and general reserves could also be impacted by any unplanned draw down. The financial impact on the Council of COVID-19 will need to be understood and included within the Medium Term Financial Plan
- Serious harm or death of a vulnerable adult – a safeguarding risk because of serious harm / death from failure to safeguard a vulnerable adult
- COVID-19 Impact upon governance arrangements - The restrictions imposed by Central Government to respond to the global COVID-19 pandemic have resulted in changes to the County Council's working practices and governance arrangements.

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

11. Grant Thornton, the Council's external auditors, will consider the AGS as part of their external audit, with the aim of confirming that it is consistent with their knowledge of our organisation and the financial statements. The draft AGS is included today for Members' consideration.

## Contact Points

### County Council Contact Points

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### Specific Contact Points for this report

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### **Supporting Information**

- Appendix: Annual Governance Statement

### **Background Papers**

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

# **Worcestershire County Council Annual Governance Statement 2019/20**

## Introduction

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

Our risk management process is a key part of our governance arrangements and provides assurance that:

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

The 2019/20 Annual Governance Statement also reflects the unprecedented position the County Council finds itself in as it, along with the wider community, reacts to the challenges of working during the COVID-19 crisis.

## The governance framework

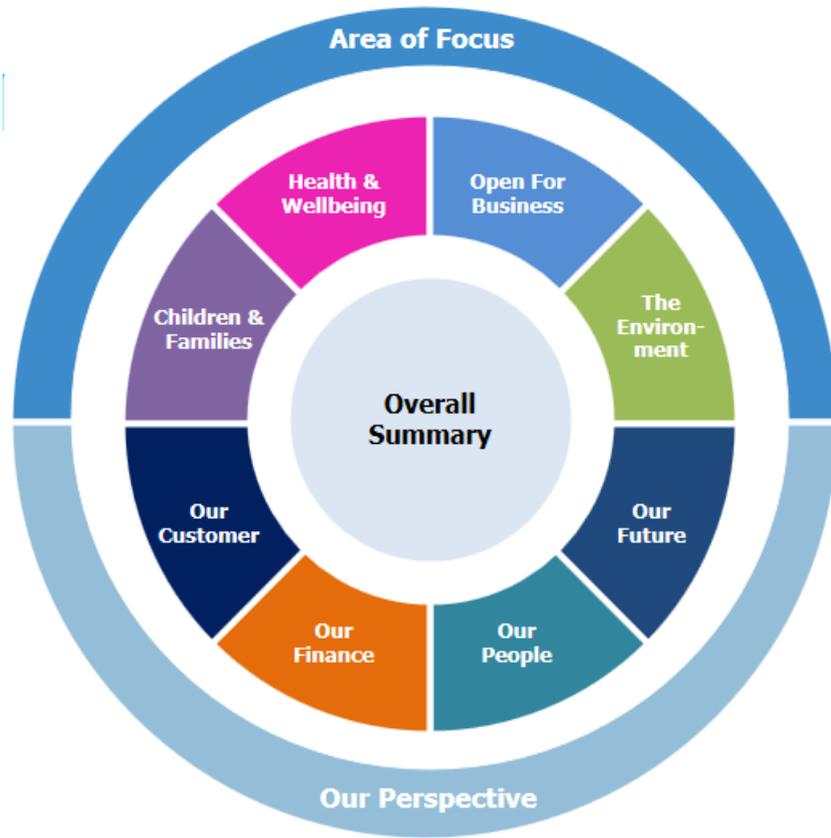
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This Annual Governance Statement is published in accordance with the CIPFA/SoLACE Delivering Good Governance in Local Government Framework (2016) (The Framework). This comprises systems and processes for the direction and control of the County Council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

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

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

The Balanced Scorecard is used to show the relationship between the intended outcomes of the Corporate Plan - Shaping Worcestershire's Future with the finance, workforce and process measures that support their delivery. The Balanced Scorecard is available to the public via the County Council's website to improve accountability to local communities. Performance is measured and reported against areas of focus internally on a quarterly basis and publicly every six months. The COVID-19 crisis has meant that the year-end Balanced Scorecard position has been delayed.



Set out below are the activities carried out by the County Council which contribute to our delivery of the seven principles in the CIPFA/SoLACE Framework during 2019/20.

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

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

These include:

- Codes of conduct for officers and members;
- The inclusion of ethical values in policies and procedures for all areas;
- A complaints procedure ensuring appropriate investigation and response
- A Whistleblowing Policy which enables employees and others who have serious concerns about any aspect of the Council's work to come forward and voice those concerns;
- A commitment to equality of opportunity for all citizens, in line with the Public Sector Duty as set out in the Equality Act 2010;
- Our Constitution, which sets out the conditions to ensure that all officers, key post holders and members can fulfil their responsibilities in accordance with legislative requirements. Roles, responsibilities and delegated authority for individual Members, the Council, Cabinet and senior officers are documented.

### **Core Principle B: Ensuring openness and comprehensive stakeholder engagement**

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

In 2019/20, the County Council's "Making a Decision" Roadshows have enabled Councillors and Officers to engage with members of the local community to receive feedback and inform our Adult Social Care Services. The results of the Worcestershire Viewpoint Survey 2019 were published in July 2019; responses to the online survey have enabled us to monitor public perception in relation to local priorities, satisfaction with Council services and level of engagement.

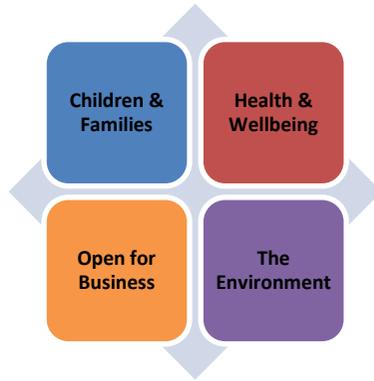
Feedback from events and surveys help to inform the council's four corporate priorities: supporting Children and families, promoting

Health and Well Being, protecting the Environment and championing Open for Business.

We are registered as a Controller under the General Data Protection Regulation (GDPR) which governs how we manage and process the information we collect and retain. We have a nominated Data Protection Officer and procedures in place that explain how we use and share information, as well as arrangements for members of the public to access information. We have also adopted the model publication scheme produced by the Information Commissioner's Office.

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

Our Corporate Plan, Shaping Worcestershire's Future 2017-22, identifies four key priorities that help us shape the future vision for Worcestershire and focus the delivery of our services.



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

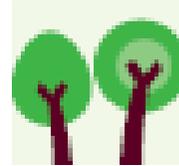


those looking to relocate here.



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

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



business and encourage investment. We also have a key focus on minimising waste which goes to landfill.

**The Environment** - Worcestershire's environment is one of our key features and contributes to enhancing the quality of life for residents and visitors. We are committed to improving our infrastructure networks, including transport and digital technology to support

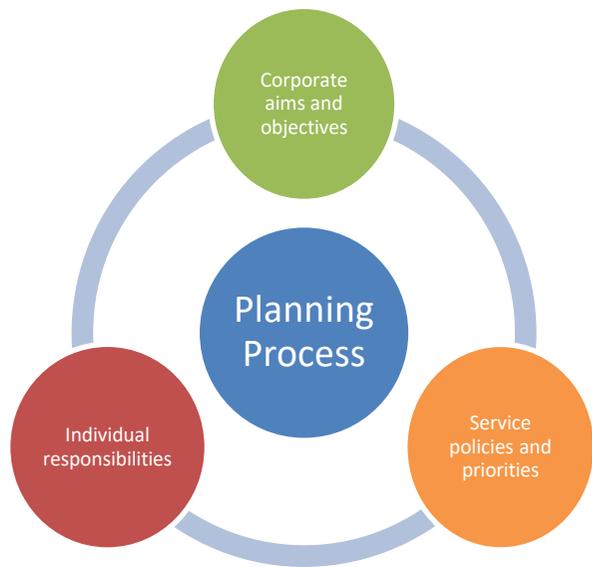


independent as possible by providing choice in how to live their lives.

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

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

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



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

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

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

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

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

- **Customer Focus** - putting the customer at the heart of everything we do
- **'Can do' Culture** – being proactive to achieve excellence

- **Freedom within Boundaries** – courage to make constructive change

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

Our annual performance review scheme forms a central part of our planning process. Discussions and review sessions take place between every member of staff and their line manager to agree and track personal objectives and actions, with formal mid-year reviews as a key part of the process. 99% of staff received mid-year reviews during 2019/20. The timing and impact of the COVID-19 lockdown and staff restrictions has meant that the end of year performance reviews for 2019/20 have been put on hold. Managers are being supported to put in place local monitoring arrangements, including managing any ongoing performance issues.

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

Risk management is about the identification, analysis and control of threats or events that adversely affect the achievement of the County Council's strategic and operational objectives. It also enables positive risks to be taken to innovate and improve service provision. The Risk Management Strategy details the methodology for evaluating corporate risk management arrangements and its delivery is enabled by the Corporate Risk Management Group. A specific risk framework has been put in place to manage the risks identified as a result of the COVID-19 crisis, with the County Council’s Corporate Emergency Response Framework activated as part of our response.

The County Council's Anti-Fraud and Corruption Strategy embeds effective standards in countering fraud, corruption and theft. The Chief Financial Officer is responsible for ensuring this Strategy is applied and that the CIPFA Code of Practice on Managing the Risk

of Fraud and Corruption is followed. The County Council supports and submits data for the National Fraud Initiative (NFI) and assesses all matches for review and, where appropriate, mitigation.

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

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

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

The Forward Plan provides information about the matters on which the County Council will make decisions. Formal agenda, reports and minutes for all committee meetings are published on our website which ensures that people know what decisions the County Council is planning to take, and the decisions taken.

Our Monitoring Officer has a specific duty to ensure the County Council, its officers and elected councillors maintain the highest standards in all they do. In February 2020, the County Council's Monitoring Officer retired following 21 years of service. An interim Monitoring Officer has been appointed to fulfil this role and ensure the highest standards of conduct are maintained with a permanent replacement starting in June 2020.

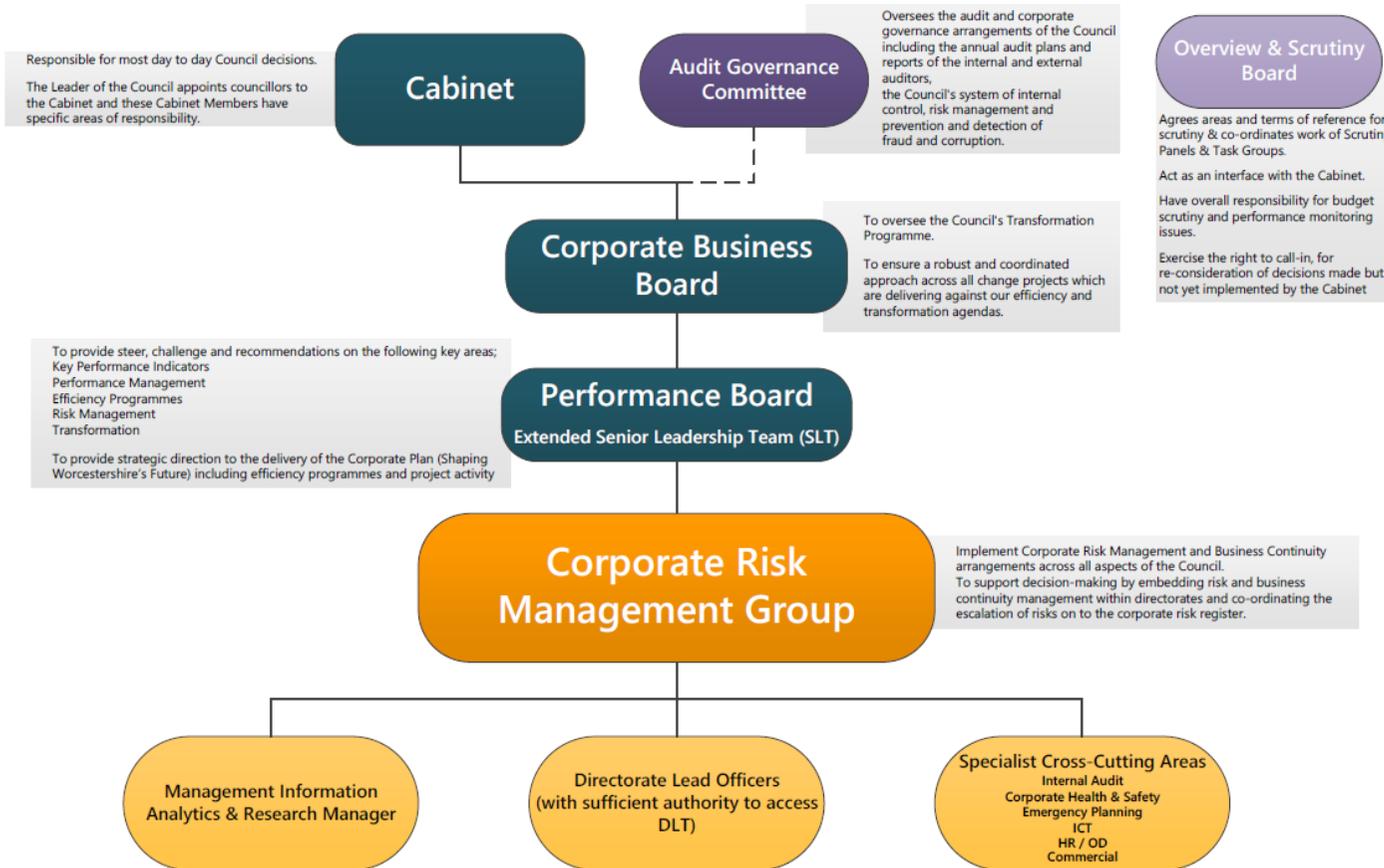
Arrangements are in place to ensure that we fully comply with the requirements of the Public Sector Internal Audit Standards (PSIAS) and CIPFA Statement on the Role of the Head of Internal Audit.

# Review of Effectiveness

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



## Corporate Risk Management Group Governance v0.1



## Audit and Audit Assurances

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The Council's Statement of Accounts are audited by Grant Thornton UK LLP. In accordance with statutory requirements, the annual audit includes an examination and certification of the financial statements to confirm they are 'true and fair' and an assessment of arrangements to secure economy, efficiency and effectiveness in the use of resources. In 2018/19, Grant Thornton gave an unqualified audit opinion on the financial statements.

From 1 April 2019, internal audit services have been provided by the Council's in-house team (previously provided by Warwickshire County Council). The team's role is to enhance and protect the County Council's value by providing risk-based and objective assurance, advice and insight. It is responsible for reviewing the adequacy of internal controls across all areas of the Council and its services are managed and delivered in accordance with the Public Sector Internal Audit Standards (PSIAS).

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

Based on the results of work undertaken during the year, the Chief Internal Auditor's annual opinion is that the control environment provides **moderate assurance** that the significant risks facing the County Council are addressed. This is the same level of assurance as previous years and is the second highest category out of four classifications of assurance.

## Significant Governance Issues

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2018/19 issues Governance issues	Update on Progress
<p><b>Sustainable improvement in Children's Services</b></p> <p>As noted in the 2017/18 AGS the response to the statutory improvement notice in Children's Services remains live. The improvement plan continues with regular programme monitoring and independent checking. The new wholly owned Council Company 'Worcestershire Children First' is in shadow form and will become live from 1 October 2019. A programme board is in place to ensure a smooth transition.</p>	<p>Worcestershire Children First (WCF) was successfully launched on 1st October 2019, following a two-year programme of activity. WCF officially took over the operational responsibility for all the delivery of Children's Services on behalf of Worcestershire County Council (WCC). More than 800 staff were smoothly TUPE transferred to the new organisation, with no negative impact on performance and morale. The Department for Education (DfE) were pleased with the progress made to the agreed timescale. DfE have been kept fully informed of progress of the company and its performance as part of the contract monitoring arrangements. The DfE have considered the Ofsted report of July 2019 and the Children's Services Commissioner's report of 22 January 2020 and the Secretary of State intends to withdraw the Children's Services Commissioner due to the good progress made in all areas, with the Direction and monitoring remaining in place.</p> <p>We will continue to monitor developments in Children's Services however following significant improvements noted above, this is no longer a governance issue for 2019/20.</p>
<p><b>Serious harm or death of a child or young person</b></p> <p>Safeguarding risk because of serious harm or death of a child or failure to safeguard children. Reputational risk as a result of poor inspection or service breakdown.</p>	<p>Children and Families have seen no change in service delivery or performance since launch of Worcestershire Children First. A Children Social Care staff survey was undertaken in December along with staffing data which shows a high level of stability and ongoing commitment from staff. Specific priorities for continual development and implementation are included in the Company Business Plan and detailed within Social Care and Safeguarding Business Plan, which is embedded throughout the service, key elements are:</p> <ul style="list-style-type: none"> <li>• Ofsted recommendations for areas of improvement</li> <li>• Service Area Business Development and Improvement Plans</li> <li>• Preparation for Inspections and Focused Visits</li> <li>• Innovation</li> <li>• Quality Assurance and Audit</li> </ul>

<p><b>Activity exceeds budget allocation</b> Inadequate budgets and / or ineffective financial management will impact on the County Council's ability to effectively provide services and impair our ability to forward plan. The level of earmarked and general reserves could also be impacted by any unplanned draw down.</p>	<p>Regular budget monitoring and a focus on demand / activity continues to strengthen and be a focus of our reporting and monitoring. Demand in WCF was in line / slightly better than forecast and Adult modelling has also improved but further work is scheduled with the use of IT software. This is subject now to review of COVID-19 'new normal' in 2020/21.</p>
<p><b>Serious harm or death of a vulnerable adult</b> A safeguarding risk because of serious harm / death from failure to safeguard a vulnerable adult. We also face reputational risk as a result of service breakdown.</p>	<p>A Safeguarding Adult Board is in place with representation from safeguarding partners. A centralised Adult Safeguarding Team located within the Safeguarding Hub ensures competency of staff, information sharing and consistency in decision making. The Adult Safeguarding Team are aligned with the Locality Teams and 3 Conversations processes. Staff are assessed against WSAB safeguarding competency framework.</p>
<p><b>Staff capacity, recruitment and retention</b> Our ability to deliver front line and key services will be impacted unless the County Council adopts a range of strategies to attract and retain a highly skilled and specialised workforce.</p>	<p>There is a dedicated HR team supporting social work recruitment. We are using agency workers to cover specialist and hard to fill roles and considering enhanced payment packages to attract / retain the right staff as part of the Organisational Redesign programme.</p> <p>The development of a workforce strategy to identify future needs and potential gaps is underway. We continue to develop and train internal resource, including maximisation of internal secondments.</p> <p>During 2019/20, the County Council's transactional recruitment team was in-sourced from Liberata and are fully integrated into the HR team.</p> <p>Following progress in our recruitment activity in the year, we have determined that this no longer a governance issue for 2019/20.</p>

<b>2019/20 Governance issues</b>	<b>Identified Actions</b>
<p><b>Serious harm or death of a child or young person</b> Safeguarding risk because of serious harm or death of a child or failure to safeguard children. Reputational risk as a result of poor inspection or service breakdown.</p>	<p>Safeguarding issues continue to be monitored and managed through the WCF Performance Board in and developed through partnership working with the Worcestershire Safeguarding Children Partnership (WSCP) and other local strategic partners. Quality Assurance measures are in place safeguarding and activity is monitored by the WSCP Safeguarding Practice Review Board and Get Safe Partnership Board.</p>

<p><b>Activity exceeds budget allocation</b> Inadequate budgets and / or ineffective financial management will impact on the County Council's ability to effectively provide services and impair our ability to forward plan. The level of earmarked and general reserves could also be impacted by any unplanned draw down.</p>	<p>In year financial monitoring and reporting to management, Council and Cabinet is by reference to performance against agreed budgets and forecast outturn position. Achievement of savings targets and the use of Council reserves are monitored as part of ongoing activity to consider financial sustainability and to inform our assessment of going concern. In addition, in setting the 2020/21 budget the Administration set a balanced budget for 2020/21 that took the learning from 2019/20 and reset or carried forward a number of saving provisions. This will continued to be reviewed in that year and after consideration of the impact of COVID19.</p>
<p><b>Serious harm or death of a vulnerable adult</b> A safeguarding risk because of serious harm / death from failure to safeguard a vulnerable adult. We also face reputational risk as a result of service breakdown.</p>	<p>A Safeguarding Adult Board is in place with representation from safeguarding partners. A centralised Adult Safeguarding Team located within the Safeguarding Hub ensures competency of staff, information sharing and consistency in decision making. The Adult Safeguarding Team are aligned with the Locality Teams and 3 Conversations processes. Staff are assessed against WSAB safeguarding competency framework.</p>
<p><b>COVID-19 Impact upon governance arrangements</b> The restrictions imposed by Central Government to respond to the global COVID-19 pandemic have resulted in changes to the County Council's working practices and governance arrangements, with particular reference to:</p> <ul style="list-style-type: none"> <li>• Council meetings and decision-making arrangements;</li> <li>• Engagement in local and national response;</li> <li>• Implementation of new policies and processes;</li> <li>• Business as usual and delivery of services;</li> <li>• Future funding and cashflow challenges; and</li> <li>• Assessment of longer-term disruption and consequences.</li> </ul>	<p>Our response to the crisis included activating the Corporate Emergency Response Framework, setting up County Councils own internal Gold, Silver and Bronze arrangements to meet the Covid-19 response requirements, which in turn are aligned to the LRF structures of Strategic (SCG) and Tactical (TCG) Coordinating Groups. The Mission of Gold being: "to preserve life, prevent the spread of infection and maintain critical County Council services".</p> <p>Officer decisions made in dealing with the Covid-19 response have been reported on the Council's website and include provision of PPE, Here2Help, development of the Adult Social Care Access Centre and purchase of care.</p> <p>A revised governance framework has been developed and approved by Cabinet and arrangements made to ensure that meetings and the formal decision-making process conforms to the relevant legislative requirements for remote meetings of a local authority.</p> <p>Our 'Here2Help' community action group was setup in April 2020 to provide information and assistance to vulnerable people in the community and signpost</p>

	<p>local residents to advice and support available throughout Worcestershire.</p> <p>The Worcestershire COVID-19 Economic Response, Recovery and Resilience Group (WERRG), of which the Council holds the role of Chairman, has been established to ensure the alignment of vision and objectives across partner organisations and the Worcestershire Economic Recovery Plan. The group membership includes representatives from District Councils, Worcestershire Local Enterprise Partnership (WLEP), DWP, Chamber of Commerce, Federation of Small Businesses and Farmers Union.</p> <p>The impact of increased expenditure and lost income directly attributable to the County Council's response to COVID-19 is considered alongside funding, cashflow requirements and use of reserves as part of our routine financial monitoring and reporting activity. Information has been submitted to Central Government to report our impact in line with required deadlines.</p>
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### Issues identified for 2020/21

A number of the issues and corresponding action plans noted above will continue to be the key focus for the County Council's leadership in 2020/21:

- Sustaining improvement in Children's Services through Worcestershire Children's First
- Safeguarding vulnerable children and adults
- Ensuring a financially sustainable short and medium-term budget
- Implementing an alternative model for delivery of property services including consideration of TUPE proceedings for Place Partnership Ltd

In addition to these issues, the County Council's response to the COVID-19 pandemic will continue to inform our assessment of governance arrangements, with particular reference to:

- Impact of COVID-19 on the County Council's governance arrangements and new working practices, including a focus on the economic recovery through a One Worcestershire framework

- Monitoring the financial impact of COVID-19 on budgeted income and expenditure
- Consideration of lessons learned from our response to COVID-19
- Further development of the County Council's performance, transformation and productivity culture

## 5. Certification

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

**Paul Robinson**  
**Chief Executive**  
**Date:**

**Simon Geraghty**  
**Leader of the County Council**  
**Date:**

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**AUDIT AND GOVERNANCE COMMITTEE**  
**30 JULY 2020****DRAFT ANNUAL STATUTORY FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2020**

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**Recommendation**

- 1. The Chief Financial Officer recommends that the draft Final Accounts Pack, including the Statement of Accounts for the financial year ended 31 March 2020, be noted.**

**Background**

2. The Council and Pension Fund are required to prepare annual Statement of Accounts and to arrange for them to be audited and reported in accordance with the Accounts and Audit Regulations 2015, and the 2019/20 Code of Practice on Local Authority Accounting in the United Kingdom, issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Statement of Accounts presents the overall financial position of the Council and the Pension Fund, reflecting the Council's outturn position and the Pension Fund net asset position.

3. This report sets out the key issues arising from work completed to date on the external audit of the Statutory Accounts and the process for their publication. The external audit is being carried out by the Council's External Auditor, Grant Thornton UK LLP, who has provided an Update Letter on progress for the County Council and Pension Fund accounts which is included as a separate Agenda Item at today's meeting, which should be read in conjunction with this report.

**Key issues arising**

4. In response to an unprecedented situation relating to the COVID-19 pandemic and the need to reduce the immediate pressure on councils and auditors to meet statutory audit deadlines, the Accounts and Audit Regulations 2015 have been amended to allow the publication of the statement of accounts and public inspection of the accounts to be delayed.

5. Notwithstanding this, the Council has continued to prepare its accounts according to its existing timetable, at the same time increasing its output by producing new Group Accounts and enhancing the supporting evidence and working papers considering the uncertainty around COVID-19.

6. The Council has worked with Grant Thornton throughout and recognised that whilst audit fieldwork could be completed with only minor disruption, it was always likely to be the case that the additional consideration of the impact of COVID-19 on the accounts and in particular asset valuations and overall financial impact was likely to take longer for the External Audit team to consider, especially as circumstances continue to change.

7. It is anticipated that we will still be able to complete all parts of the accounts process well within statutory deadlines, with unaudited accounts being presented today, and audited accounts at the next Committee meeting on 2 October 2020.

**Table 1: Accounts Process**

Area	Council Plan	Statutory Deadline
Publication of Draft Accounts	30 July 2020	31 August 2020
Public Inspection Period	7 August 2020 to 18 September 2020	Commence on or before 1 September 2020
Publication of Audited Accounts	2 October 2020	30 November 2020

8. The Council provided draft accounts to Grant Thornton on 5 June 2020. These draft accounts and the draft Annual Governance Statement were also reported to Cabinet at its meeting on 25 June 2020.

9. The financial position reported in the Council's Statutory Accounts for 2019/20 was an overspend of £0.3 million against the net budget of £330 million, with an accounting deficit taking into account pension's actuarial costs, capital costs and other financial adjustments, of £16.1 million. The County Council's General Fund reserve balance remains at £12.2 million, whilst there has been a decrease of £5.2 million on available earmarked reserves taking their balance at 31 March 2020 to £76.3 million.

**Table 2: Reserves**

	Balance at 31 March 2019	Transfers out	Transfers in	Balance at 31 March 2020
	£m	£m	£m	£m
Directorate Reserves	28.7	-14.9	15.1	28.9
Grant / Funding Reserves	13.8	-5.5	5.4	13.7
Corporate Funding / Insurance	21.6	-14.3	21.8	29.1
Schools / DSG Reserves	4.9	-12.8	3.0	-4.9
PFI Reserves	12.5	-7.8	4.8	9.5
<b>Total</b>	<b>81.5</b>	<b>-55.3</b>	<b>50.1</b>	<b>76.3</b>

10. The above table includes a net deficit for schools/Dedicated Schools Grant of -£4.9 million, this comprises a surplus of Schools Balances of £1.4 million offset by a deficit in DSG High Needs Block of £6.3 million. The Council has complied with CIPFA Bulletin No.5 and included this deficit reserve within overall earmarked

reserves which in total are in surplus.

11. The financial impact of the COVID-19 lockdown on the Council and Pension Fund's assets has given rise to further work to ensure the accounts reflect any possible over or understatement of assets. To a great extent this is a matter of professional judgement with RICS guidance having been issued to property valuers that there is a risk of material uncertainty as a result, and the Pension Fund Actuary having similar considerations. Nevertheless, there has not been a material impact on any asset category nor evidence since the valuation data that needs to be taken into account.

12. To provide additional comfort, members will recall for this year that Grant Thornton have had to employ their own property valuation experts to support an enhanced scrutiny on this part of the balance sheet in response to wider Financial Reporting Council requirements. This happened before COVID-19.

13. The value of the Pension Fund's net assets decreased by £160.3 million from £2,795.3 million at 31 March 2019 to £2,635.0 million at 31 March 2020. During the year a surplus resulted on the Pension Fund accounts totalling £9.2 million, a decrease of £7.6 million from a surplus of £16.8 million in the previous year.

14. The external audit has identified a number of presentation/classification adjustments from the work completed to date which have been agreed and completed.

15. The Value for Money assessment is still ongoing and members will be updated at the 2 October 2020 Committee meeting.

## Contact Points

### County Council Contact Points

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### Specific Contact Points for this report

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Mark Sanders, Chief Accountant

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Email: [mssanders@worcestershire.gov.uk](mailto:mssanders@worcestershire.gov.uk)

## Supporting Information

- Appendix: Annual Financial Report and Statement of Accounts

## Background Papers

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

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**2019 /  
2020**

**Annual Financial Report  
and Statement of  
Accounts  
Worcestershire County Council**

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# **Worcestershire County Council Annual Financial Report**

## Leader's Introduction

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The 2019/20 financial year has been very busy for the Council which has seen us manage our finances closely whilst at the same time progressing key changes within the Council and importantly delivering significant investment in services and infrastructure to support the most vulnerable in our society, improve the County's transport network and provide vital impetus to promote economic growth and job creation.

The County was faced with significant disruption from Storms Ciara and Dennis and rose to the challenge of keeping people safe, minimising the impact on daily lives and supporting those communities affected.

The COVID-19 pandemic started to impact on the Council during the middle of March and had only a minimal financial effect during 2019/20. The Government has been quick to distribute funding to local councils and with our health colleagues, other local authorities, and emergency service partners we are leading the recovery response for the County area. This on-going crisis, however, will continue to be a significant challenge for us during 2020/21.

During 2019/20 there have been several significant improvements as we continue to deliver our Corporate Plan Shaping Worcestershire's Future.



We have successfully set up our wholly owned Council company Worcestershire Children First taking day to day charge of around

£100 million of Council spend and the delivery of important priorities around Education and Children's Social Care.

Our improvement plan for children's social care has made excellent progress over the last year and as a result our engagement with Essex County Council as Improvement Partner has drawn to a close. A more stable workforce with permanency rates for front line social workers at 86% has been achieved and average caseloads have reduced to 20. In terms of the numbers of children in care they have stabilised at 70 per 10,000 and for the first time we are now taking fewer children into care than the West Midlands average. Our investment in skilled and highly motivated staff and management continues to pay off.

We have seen our Education performance standards improve with 84% of children in Worcestershire educated in good or outstanding schools although our aim is for this to reach 90%. Last year over 90% of parents secured an offer at their first preference school for their child. Latest GCSE results show that the percentage of students in the County gaining grades 4 or above in English and Maths has increased.

The Council redesign is taking shape with an agreed organisational structure and we have successfully recruited to our remaining top-tier posts.

Worcestershire's economy continued to perform well with our Worcestershire Local Enterprise Partnership and wider business organisations driving forward our jointly agreed objectives set out in the Strategic Economic Plan to create 25,000 jobs, grow the economy by nearly one third (an extra £2.9bn Gross Value Added) and deliver 21,500 new homes by 2025. Excellent progress was made with 31,000 new jobs added, an increase in Gross Value Added of £2bn and the building of 12,980 new homes to date –

ensuring Worcestershire remained one of the fastest growing local economies in the country. Covid-19 and the economic impact as a result of the lockdown will undoubtedly be a significant challenge for this coming year.

With regard to digital infrastructure, the Superfast Broadband programme has transformed the availability of faster broadband in the County with 96% of premises now able to access 24Mbps+. The programme has been extended as a result of additional funding, including £1million from Defra, and aims to reach 97% superfast coverage by early 2021.



We have built and opened the first new rail station in Worcestershire for 100 years which will significantly transform connectivity for rail users. Worcester Parkway has enabled key services to and from London that will take less than 2 hours and passengers will be able to get to Cardiff in 1hr 23 mins and to Nottingham in 1hr 49 mins. Our clear ambition now is to access even more services.

We have also been investing in our road infrastructure. The Worcester Southern Link Road (SLR) is a strategically important link. The planned improvements will result in critically needed additional highway capacity along the SLR leading to a significant improvement in journey times and journey time reliability.

In Bromsgrove, the changes to the A38 Barley Mow Lane junctions have been successfully delivered with progression of the designs for the M5 and M42 elements of the scheme ongoing with Highways England maintaining the plan to commence construction in 2020.

Our Energy from Waste plant, EnviRecover, continues to perform well, allowing our contractor to apply for the relevant permissions to enable them to progress up to 15% more waste through the facility each year. Energy from the plant creates electricity for 32,000 homes.

We have continued to complete a range of drainage and flood mitigation schemes to improve our resilience to the effects of flooding and the changing climate. During the last 12 months the major flood adaptation scheme at Upton-upon-Severn has been completed, increasing the road's resilience to future flooding.

Work is continuing across the County to provide attractive public spaces to support the local retail economy. This builds on the success of Cathedral Square in Worcester, Alcester Street in Redditch, Droitwich High Street, Teme Street in Tenbury and most recently The Shambles in Worcester and Worcester Street in Kidderminster. More schemes are planned for this year.

Alongside our response and recovery to COVID-19, the long-term funding of social care undoubtedly remains the key challenge and one that will require a nationally agreed solution. In the meantime, I welcome the continuation of the social care grants, the additional funding announced in the autumn for 2020/21 and the proposed continuation for one more year of the Adult Social Care precept that together will enable us to fund the rising costs of social care next year.

Looking forward to 2020/21, we will be continuing our Covid-19 response & recovery actions alongside working with Central Government around funding arrangements. Our Corporate Plan remains a key focus as it is now more important than ever to encourage a strong local economic recovery, support vulnerable adults and children and help our residents and service users to return to a normal way of life.

**Simon Geraghty**  
**Leader of**  
**Worcestershire**  
**County Council**



## Chief Executive's Introduction

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My second year as Chief Executive has seen the Council deliver structural change whilst at the same time being faced with the significant challenges through safeguarding life and property as a result of Storms Ciara and Dennis, and then as a workforce facing a complete realignment of working practices as a result of COVID-19.

I would like to thank all staff who have worked tirelessly throughout the year under difficult circumstances making a real difference to people's lives.

2019/20 has been dominated by four key strategic priorities:

- a) Strong financial management and budget stabilisation;
- b) A full organisational redesign;
- c) The creation and launch of Worcestershire Children First and the Ofsted reinspection; and
- d) The introduction of a new digital case management system in both Children's and Adult services.

### **Strong financial management and budget stabilisation**

2018/19 saw the Council face significant financial pressure mitigated by the successful implementation of a number of savings measures. Building on this strength 2019/20 financial performance has remained strong with expenditure coming in on budget to within £0.3 million (0.1%).

Behind this we have strengthened the finance team and upskilled budget holders and spend managers give them more access to self-service finance reports.

### **A full organisational redesign**

The organisational redesign has been a major piece of work this year involving all departments at all levels. The fundamentals behind the redesign are to remove operational silos, drive performance and productivity, reform processes to be more efficient and cost effective, and to use digital technology where appropriate to its full potential.

The first part of this process to implement the top tier and Assistant Directors has been completed whilst we have been reviewing remaining staffing structures which when complete will lead to a £3m per annum saving.

Within the field of organisational redesign and human resources work has been progressing throughout the year on improving performance, productivity and total reward. The following main points illustrate the work completed to date:

- We have moved to 100% compliance with mid-year and end of year ratings submissions for the performance process. This has been coupled with a calibration process looking to move performance ratings to a standard distribution curve.
- We have continued to embed our core employment policies (Managing Attendance, Conduct, Performance, Grievance etc). These have led to a continued improvement in attendance levels having moved from a projected c10 days average sickness per employee to 7.68 days per employee over the last 12 months. This has returned a significant amount of productivity back into the business

- We have continued to focus on recruitment of front-line social workers within Children’s Services in Worcestershire Children First. We have met our target of recruiting to 85% permanent front-line practitioner social workers in Children’s.

### **The creation and launch of Worcestershire Children First and the Ofsted reinspection**

The Council’s wholly owned company, Worcestershire Children First, was successfully launched on 1 October. More than 700 staff were smoothly TUPE-transferred to the new organisation, with no negative impact on performance and morale. The Department for Education (DfE) were pleased with the progress made to the agreed timescale.

The improvement work in Children’s Social Work and Safeguarding got independent and external recognition in July 2019 when Ofsted returned for a full inspection under the new ILACS framework. Ofsted confirmed the services were no longer “inadequate” and graded the service “Requires improvement to be good” with a strong trajectory of improvement. This improvement has been made possible by the success of our workforce strategy that is designed to ensure that the conditions are in place where social work can flourish, and that the organisation is the ‘employer of choice’ in a very competitive market place. At the end of year children’s social work permanency was running at 86%, a significant improvement on the previous year.

In October 2019, in line with DfE requirements, the new multi-agency Safeguarding Board arrangement went live with “Worcestershire Safeguarding Children Partnership”. The focus of

the new partnership is multi-agency quality assurance, protecting children from exploitation and learning lessons from serious cases.

In 2019 there was investment in Special Educational Needs and Disabilities (SEND) services as part of the response to the SEND Written Statement of Action from 2018. The development of this workforce in both capacity and practice has resulted in continued improvement this year particularly in the timely completion of the assessment and planning for Education Health and Care Plans (EHCP’s). In 2018/19 overall, 30% of EHCPs were completed within the 20 week timescale. In December 2019 100% of EHCPs due to be completed were done so within the 20 week timescale. The latest DfE monitoring visit concluded that we are making good progress with the Written Statement of Action and that previous concerns raised about the continuity of effort during a period of organisational change with the establishment of WCF and key senior personnel change were assuaged at the visit.

### **The introduction of a new digital case management system in both Children’s and Adult services**

We have successfully implemented our new social care case management system Liquidlogic for both the Council’s Adults Social Care staff and Worcestershire Children First’s Children’s teams. This new system will bring staff productivity improvements through improved mobile working.

## **Flooding**

I would also like to say a big thank you to Highways, Flood team, Emergency Planning and other colleagues for their superb efforts in managing the major floods we have had that began over the Autumn of this last year. Many properties and roads were badly affected on several occasions between late October and December, and the hard work of all involved and our partners in the District Councils and Environment Agency ensured we managed the difficult conditions and kept things moving as much as practicable. The later floods in February and March again saw these teams working very hard to keep the County's people safe and the roads clear.

## **COVID-19 Initial Recovery**

The Council has a clear role in support public health and the COVID-19 pandemic has created a significant challenge that will last for many months to come. The work of the staff and Councillors to date has been fantastic, working with partner agencies at the forefront of support. I am so proud of all that we have accomplished in such a short period of time.

As a workforce we have adapted fantastically to new working arrangements, for many staff keeping vital services continuing whilst for others there are many examples of volunteering in other roles such a support food parcel delivery or staffing our Here to Help service.

The Government has given us funding to see us through the first quarter of 2020/21 and we are working closely with MHCLG and the County Council's Network to model our future needs and to make sure we maintain financial stability and service provision.

Whilst it is very difficult to forecast what the total impact will be on the Council's service provision, we are working on what the future will look like and through the summer will be reviewing our Medium Term Financial Plan.

I am confident that our strong workforce and all our organisational redesign work will means we have an excellent operational base to move forward and continue to deliver our Corporate Plan objectives.

**Paul Robinson**  
**Chief Executive**



## Chief Financial Officer's Narrative Report

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

Despite significant challenges in 2019/20, the County Council delivered a small overspend of £0.3 million against its £330.4 million budget and achieved planned savings of £15.8 million. Through robust financial monitoring and prompt management action, we have ensured that additional costs arising from our response to flooding across Worcestershire at the beginning of 2020 and the current COVID-19 pandemic which started to have financial implications during March 2020, have not had an adverse impact on the outturn position at 31 March 2020. The outturn position by directorate is given below:

Service area	Budget £m	Outturn £m	Variance £m
People – Adults	125.870	127.413	1.543
People – Communities	21.165	20.255	-0.910
People – Public Health	2.389	2.471	0.082
Children’s Services/WCF	95.488	96.037	0.549
Economy & Infrastructure	55.749	54.766	-0.983
Commercial & Change	6.392	5.912	-0.480
Finance/Corporate Items	32.449	29.042	-3.407
Non-Assigned	(6.865)	(3.000)	3.865
Budgeted Use of Reserves	(2.247)	(2.247)	0
<b>Total</b>	<b>330.390</b>	<b>330.649</b>	<b>0.259</b>

The Council’s main cost pressure during the year arose on Adult Services where the £126 million budget was overspent by £1.6 million (1.3%), which was offset by underspends of £1 million on Community Services and £1 million on Economy and Infrastructure services.

School Balances overall reduced during the year to a net surplus of £1.4 million, although the net position includes £9.3 million of schools in deficit. School’s funding therefore remains an area of concern and the Council and Worcestershire Children First are working to support schools in achieving their financial plans as well as lobbying Central Government. The non-schools Dedicated Schools Grant (DSG) will carry forward a deficit of £6.2 million and this will be carried forward and offset against future DSG income.

Following storms Ciara and Dennis earlier this year, the Council set up a Worcestershire Flood Support Scheme and allocated £250,000 to support those most affected. The Council's own expenditure totalled £1.5 million and we are reclaiming £0.9 million of this under the Government's emergency fund – the Bellwin Scheme.

The COVID-19 pandemic started close to our financial year end and thus for 2019/20 it has not had a major financial impact, with expenditure totalling £0.4 million over the last two weeks of the financial year. On 27 March 2020 the Council received £14.9 million (being the first part of a total of £25.5 million given to the Council) to support costs and unspent monies will be carried forward for use in 2020/21. The Council has since been given additional Infection Control funding to forward to social care providers and is able to reclaim monies from the NHS to support hospital discharges.

We continued to make progress against our key financial service performance indicators throughout the year; the time taken to collect our debt has improved in 2019/20 with 98% collected in 90 days, compared with 97% in 2018/19, following a focused review of our income management processes. The centralisation of income management, with standardised income raising and debt collection procedures, agreed as part of our Finance Improvement Programme and the allocation of additional resources will ensure that this improvement is sustained in 2020/21. However, the time taken to pay creditors has slipped in 2019/20 with 96% of creditors paid within 30 days of invoice date, compared with our 2018/19 performance of 99%. We are in the process of reviewing and strengthening our Financial Transaction team and will continue to review this target.

We have taken appropriate measures to ensure the valuation of our assets and investments are robust, noting that they are subject

to a degree of uncertainty considering the current financial climate as a result of the COVID-19 pandemic. This equally will apply to our Pension fund investments. With regard to our debtors in light of COVID-19 we have increased our Provision of Bad Debts by £1.4 million to £3 million taking into account the financial challenges faced by individuals and businesses at this time. We will continue to review this in 2020/21.

Looking forward, there is considerable financial uncertainty regarding the impact of COVID-19, the length of time this will impact our services, our income and funding levels, the strength of our service providers and partners, and not least our own staff as we manage recovery.

In many respects, we are acting as agents for Central Government working with partner agencies managing the response to the COVID-19 crises at a local level and as such we continue to work with Government to reclaim costs and lost income. Funding so far that has come forward from Government has been quickly distributed to where it is needed most. The majority of the financial impact will occur in 2020/21 and the following year, and we will be revising our Medium-Term Financial Plan as matters continue to emerge.

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

As the financial pressures and funding uncertainties facing councils increase, it is imperative that we continue to put financial strength and competence at the heart of all decision making to deliver an innovative, strong, resilient and sustainable financial performance. The qualified finance team has been significantly strengthened during 2019/20 as we have made progress and driven change through our Financial Improvement Programme. We will continue to manage this programme and report to our Audit and Governance Committee on a regular basis.

Further in-depth highlights of the 2019/20 Statement of Accounts are contained in the Finance and Performance Review section below.



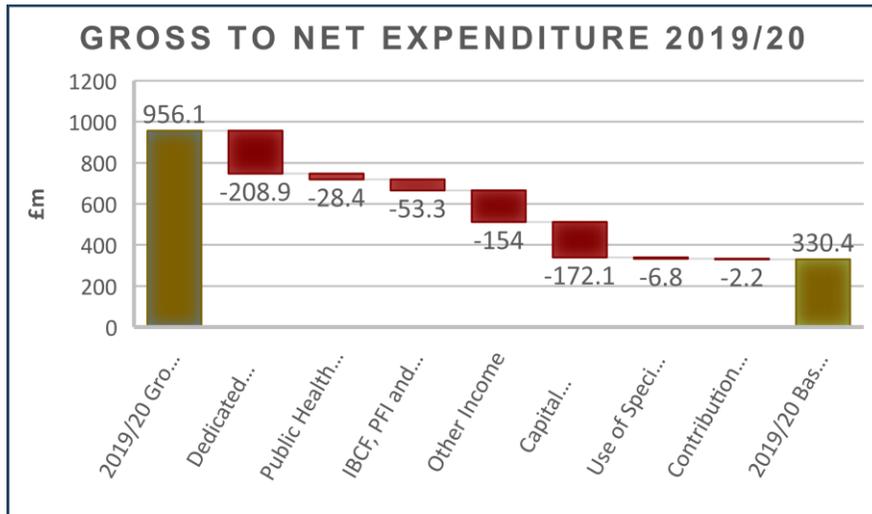
**Michael Hudson LLB (Hons), LLM, CPFA**

Chief Financial Officer

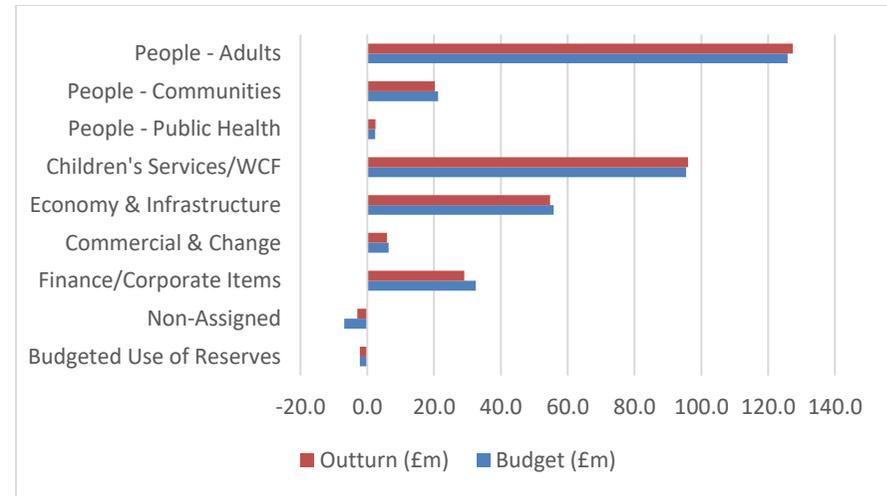
# Finance and Performance Review

## 2019/20 Financial performance

The County Council net budget for 2019/20 was £330.390 million. The breakdown of gross to net expenditure is shown in the graph below:



In line with budget monitoring throughout the year the County Council overspent it's £330 million budget by £0.3 million (0.1%) in 2019/20, with pressures in People, Children's Services and Finance, HR & Chief Executive being offset by underspends in Economy and Infrastructure and Commercial and Change Services. The graph below gives details of the outturn position by directorate.



Significant management action has been undertaken in year to manage cost pressures in addition to delivering savings of £15.8 million. The key financial and performance for each directorate is drawn out in the following paragraphs.

### People Services - Adults

As reported and forecast during 2019/20 the Adult Social Care budget ended the year overspent, although the level was better than predicted with a £1.6 million overall pressures across all areas of social care. A particular factor was the increased activity and unit price of nursing placements in the Older People service saw £4.6 million more spent than the original budget. The use of grants, changes to income, service delivery and vacancy management have enabled managers to offset some of these

pressures. The 2020/21 budget has again sought to redirect resources to rebalance these budgets.

### **People Services – Communities**

The Communities budget returned a £0.9 million underspend largely as a result of increased grant and registrars income.

### **Children’s Services**

Children’s social care placements demand and costs continued to increase in 2019/20, resulting in an overspend of £0.5 million which relates largely to costs pressures in the Home to School/College Transport budget. This is a significant improvement on the previous year. We continue to monitor the increased demand and underlying pressures on transport services through a technical working group, led by the Head of Finance.

The increasing cost of high needs provision has placed significant pressure on the Dedicated School’s Grant (DSG) funding as well as the Council. The overall DSG deficit at 31 March 2020 is £6.2 million and this will be carried forward against future DSG income. The Council continues to work with schools to optimise pressures within funding, whilst lobbying Central Government for the issue to be addressed nationally.

### **Economy and Infrastructure**

The directorate has delivered an underspend of £1.0 million (1.8% of its budget), with a significant proportion of this relating to underspends of £0.6 million in Streetworks services with delays in projects; and £0.4 million underspend achieved by a reduced volume of concessionary fares payments.

### **Commercial and Change**

Following close management action to contain expenditure, the Directorate has delivered an underspend of £0.5 million (7.5% of its budget) as a result of management action in holding vacant posts across a number of areas, reduced asset management spend and achieving contract savings.

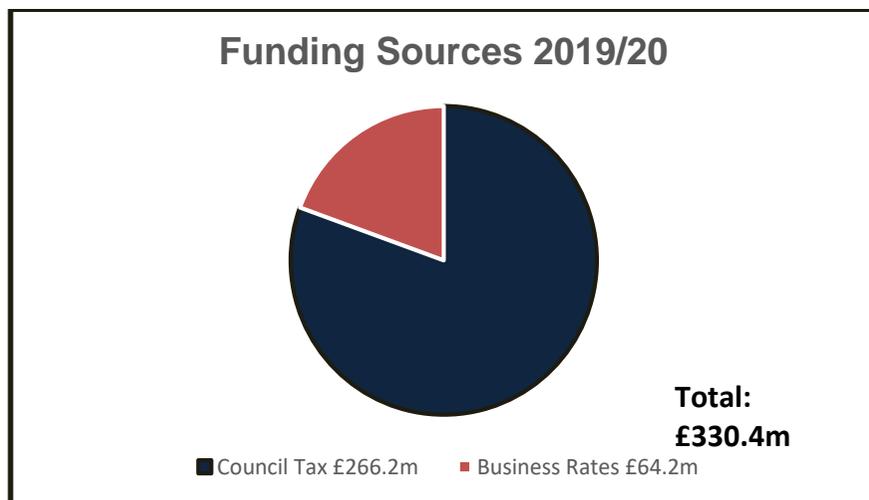
### **Finance, HR & Chief Executive**

Finance and Corporate budgets achieved an underspend of £2.9 million mainly as a result of reduced borrowing costs from prudently managing cash balances, withholding expenditure from the Council’s contingency budget, and reduce employer’s pension costs.

The corporately held savings target of £6.9 million for Organisational Redesign and Commercial Savings has been partially offset by a one-off withdrawal of £3 million from the Financial Risk Reserve, with the balance of £3.9 million reported as an overspend. The 2020/21 budget has been updated to reflect those savings that can be delivered in that or future years.

## Funding sources

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



The Council Tax Band D equivalent was set at £1,260.75, which includes £90.83 relating to the ring-fenced Adult Social Care precept.

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

## Impact on the Council's Assets and Liabilities

The value of our property plant and equipment has increased by a net £18.1 million in 2019/20. We have disposed of £30.9 million

of assets, including 8 schools which have converted to academy status during 2019/20 resulting in a £16.3 million reduction to the Council's assets at nil consideration.

We secured £9.7 million of capital receipts which have helped us manage our borrowing requirement and fund transformation. At the same time, we are reporting a further £7.6 million of assets held for sale (note 15.8 Non-operational assets). Of these a quarter of the value is linked to the disposal of a former school asset which has planning permission for a new adult's residential home which will increase capacity for care in the County.

The County Council's pensions liabilities have decreased by £42.9 million. Of this, £27.4 million relates to an actuarial gain from changes in financial assumptions surrounding discount rates and CPI inflation; in line with actuarial assumptions.

Whilst we have seen an improvement in performance in debts collected within 90 days, we saw the average time to collect a debt slip from 39 days to 55 days in 2019/20. Progress is underway, as part of our Finance Improvement Programme, to improve our income management and debt collection processes and we continue to work with our strategic partners, with support from colleagues in legal services, to facilitate the efficient resolution of queries in respect of debts that are over 30 days old. We are also now reporting collection rates and progress on a quarterly basis to the Audit and Governance Committee. In response to changes in the aged profile of debtor balances at 31 March 2020, we have increased our impairment allowance by £1.4 million: trade debtors by £0.9 million with a further £0.5 million increase in respect of Adult Social Care debt. The County Council has considered the

impact of the COVID-19 pandemic upon the recoverability of debtor balances at 31 March 2020 and has applied a professional judgement to increase the bad debt provision in 2019/20 by 25% to reflect the additional risk.

Whilst performance in respect of our time to pay creditors continues to be high (96% of all creditors paid within 30 days), we continue to review creditor payment terms to secure savings where we can negotiate reduced costs. Overall the increase of our trade creditors at 31 March 2020 by £12.6 million is mainly related to the timing of equalisation payments to District Councils in respect of the Business Rate Retention Scheme.

Our earmarked and other usable reserves have increased over the year by £9.5 million to £144.4 million. This reflects the financial position of the County Council in the year, with directorates drawing down amounts put by in previous years to support service delivery offset by corporate savings through lower Minimum Revenue Provision costs allowing savings to be added to the Financial Risk Reserve. Further detail is given below.

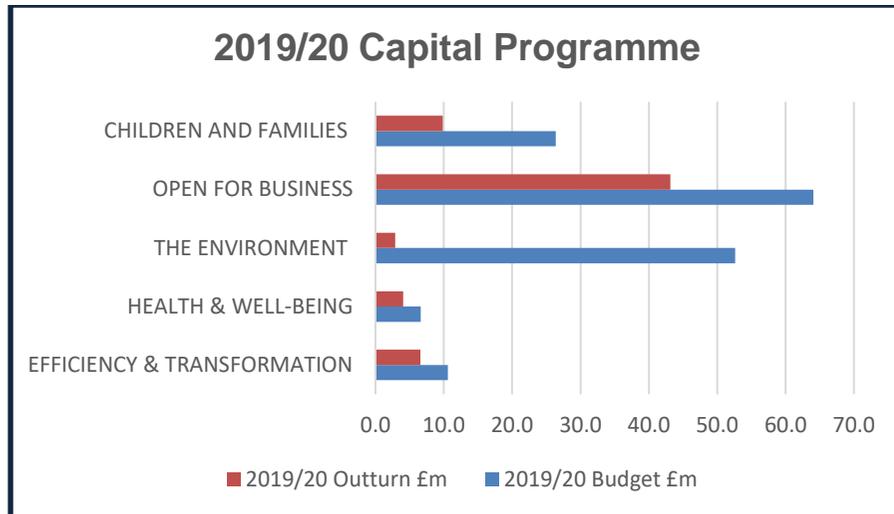
### Financial risks and our reserves

Over recent years, our trend for underlying cost pressures and extensive use of specific grants and other reserves has significantly reduced our earmarked reserves although that trend is reversing. Our General Fund Reserve balance at 31 March 2020 was unchanged at £12.2 million. Looking forward, the total resources available are £76.3 million, as noted in the table below:

	Balance at 31 March 2019	Transfers out	Transfers in	Balance at 31 March 2020
	£m	£m	£m	£m
Directorate Reserves	28.7	-14.9	15.1	28.9
Grant / Funding Reserves	13.8	-5.5	5.4	13.7
Corporate Funding / Insurance	21.6	-14.3	21.8	29.1
Schools / DSG Reserves	4.9	-12.8	3.0	-4.9
PFI Reserves	12.5	-7.8	4.8	9.5
<b>Total</b>	<b>81.5</b>	<b>-55.3</b>	<b>50.1</b>	<b>76.3</b>

### Capital Programme

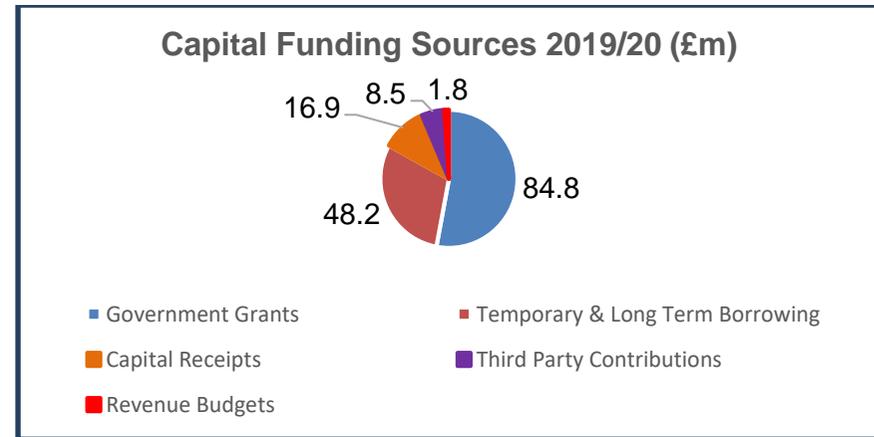
The capital programme for 2019/20 to 2021/22 and beyond totals £338.6 million, with £160.7 million in 2019/20. Expenditure is most significant in the Economy & Infrastructure Directorate which includes infrastructure support for Open for Business priorities.



Key schemes supported during 2019/20 are:

- Southern Link Road Dualling
- Worcestershire Parkway Regional Interchange
- Kidderminster Rail Station Enhancements
- A38 Bromsgrove
- Social Care Case Management System Replacement – Liquid Logic

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



#### Impact on Treasury Management and cash flow

Our short-term borrowing has reduced by £18.0 million whilst our long-term borrowing has increased by £26.6 million. This reflects our strategy of reprofiling our borrowing. All of our Treasury Management activities are reported separately and regularly to Cabinet and Council. All transactions have been completed in accordance with our Treasury Management Strategy for the year.

## Delivering the Corporate Plan

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

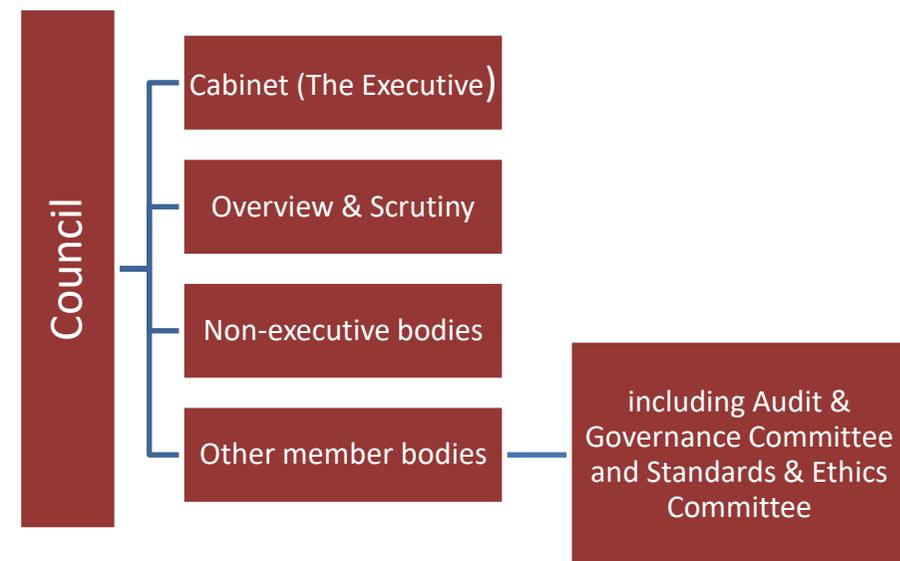
- Safeguarding vulnerable young people, particularly those in or leaving care to ensure they are safe and can make the most of the opportunities they have
- Protecting vulnerable older people, particularly those with physical, learning and mental health difficulties
- Maintenance of the highway.

### Political structure

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

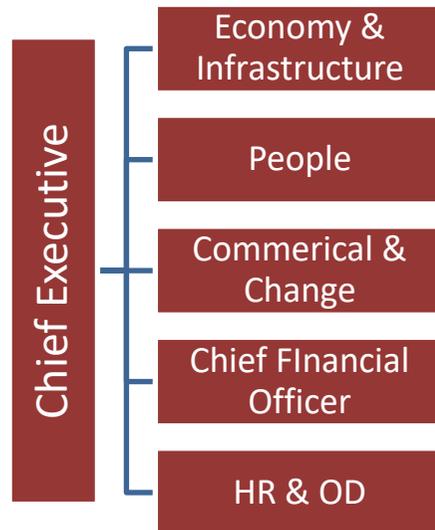
Full Council meetings are held regularly throughout the year. Council is responsible for agreeing the main policies and priorities for all services, including the County Council's budget. Cabinet is

responsible for most day to day Council decisions. The Leader of the Council, Simon Geraghty, appoints councillors to the Cabinet and these Cabinet members have specific areas of responsibility. There are currently nine members of Cabinet. Cabinet makes its decisions in line with overall policies, priorities and budget. All of its decisions are made in accordance with governance arrangements and details of Cabinet meetings are available at the following: [Browse meetings - Cabinet - Worcestershire County Council](#) The work of Council is supported by a number of other committees:



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

The County Council is operationally managed by the Strategic Leadership Team, comprising the Chief Executive, directors from the 3 directorates and the Chief Financial Officer.



## Looking ahead and going concern

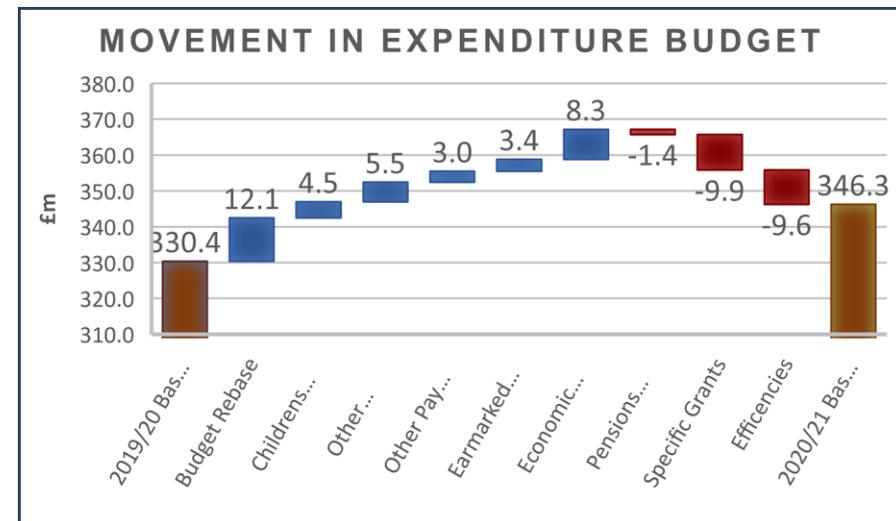
The 2020/21 budget was approved at Council on 13 February 2020, with the detailed proposals presented to Cabinet on 30 January 2020.

This budget and Medium Term Financial Plan was approved before the COVID-19 crises and therefore will need to be reviewed and updated taking into account all Central Government funding to support response activity, together with the impact of additional expenditure and risk of lost income. A review of the Medium Term Financial Plan will be undertaken at the same time. However, at this stage we are assuming that the majority of our costs and lost income will be funded by Government and there will be limited draw on our reserves.

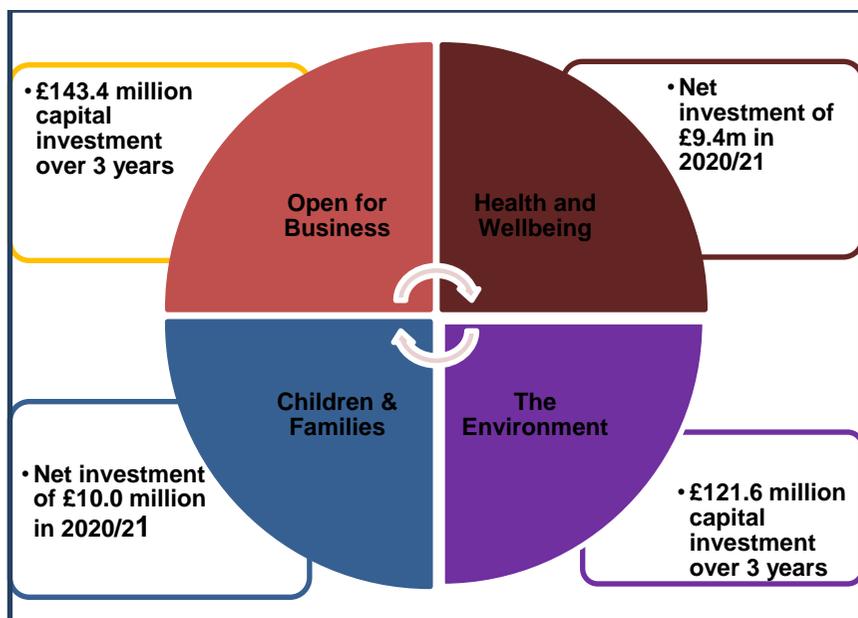
The paragraphs below details of the current budget for 2020/21.

### Expenditure

The net revenue budget requirement for 2020/21 is £346.246 million. That is a net £15.856 million more than 2019/20, however to achieve a balanced budget a programme of efficiency, reform and income proposals totalling £9.6 million was approved by Council in February 2020.



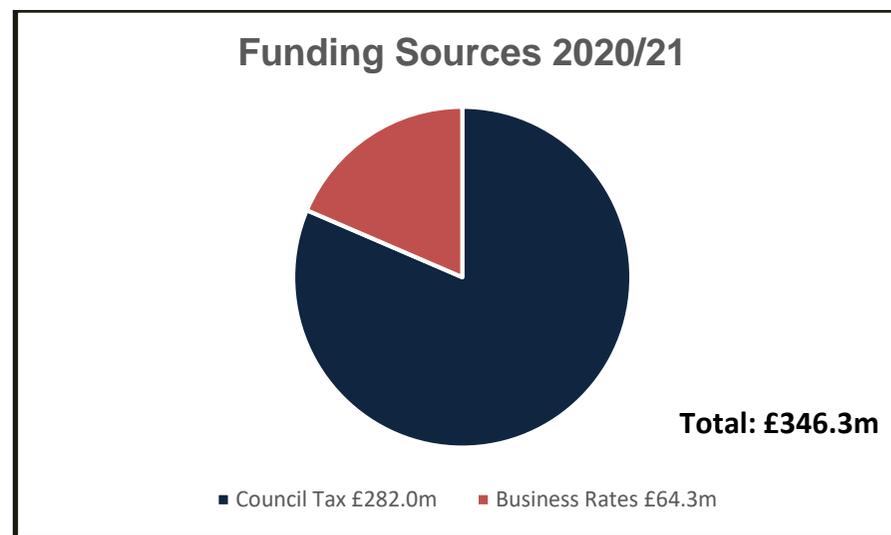
The medium-term financial plan confirms the commitment to continue to resource the Council's Corporate Plan priorities. It includes a capital programme of £338.6 million to deliver regeneration, infrastructure and other changes during 2020-23.



We are supporting this with a commitment to invest £29.0 million to ensure that the County Council is operating efficiently, prepared for the future including more digitally enabled operations, and closer working with our key partners.

**Funding**

The main sources of the County Council’s income are collected locally, with local taxation through Council Tax and the Adult Social Care Precept accounting for 81% of core funding income in 2020/21.



The County Council and its six District Council partners participated in a one-year 75% Business Rates Retention Pilot Scheme in 2019/20 resulting in a total gain of £8.7 million, with £4.9 million of this to be directed to help prevent or reduce the costs of Adults' and Children’s social care across the County. In 2020/21, the County Council and six District Councils plus Hereford and Worcester Fire and Rescue Service will form a pool under the allowed 50% Business Rates Retention Scheme which is likely to benefit Worcestershire residents by around £2.8 million.

**Medium Term Financial Plan 2020-23**

The Medium-Term Financial Plan takes account of the Corporate Plan commitment, the cost of providing our services and current central government funding announcements. Our current assumption, which may need to be reviewed in light of COVID-19, is that there will need to be a total of around £60 million of savings,

reforms and income generation over the period 2020-23, with around £23 million required in 2020/21.

	2020/21	2021/22	2022/23	Total
Medium Term Financial Plan	£000	£000	£000	£000
Funding	346,246	355,782	367,281	1,069,309
Transfer to Reserves	(1,107)			(1,107)
Projected Budget Requirement	345,139	364,029	383,079	1,092,247
Funding Gap (Before Reforms)	0	8,247	15,798	24,045

### Worcestershire Children First

The County Council's wholly owned subsidiary Worcestershire Children First (WCF) was successfully launched on 1<sup>st</sup> October 2019 and operational responsibility for the delivery of all of Children's services on behalf of Worcestershire County Council was transferred on that date. Over 800 staff were TUPE transferred from the County Council to the new company to ensure an efficient transition of services and responsibilities. The Department for Education (DfE) has been informed of the company's progress and performance throughout the transition period, as part of contract monitoring arrangements, and are satisfied with the progress made to date.

The County Council has accounted for the activity of Worcestershire Children First through group accounts and these can be found at pages 142 to 148 in the 2019/20 Statement of Accounts.

### EU Exit - The potential impacts of the United Kingdom leaving the European Union

Following a referendum in June 2016, the UK government invoked Article 50 of the Treaty of the European Union, starting the process for the exit from the European Union. The UK left the European Union on 31 January 2020 and there is now a transition period until 31 December 2020 while the UK and the EU negotiate additional arrangements with new rules in respect of trade, travel and business for the UK and EU to take effect from 1 January 2021. There has been minimal impact on the County Council's accounts for 2019/20. We will continue to review the potential impact with our key partners, including our financial advisors, Place Partnership Ltd valuers and the Pension Fund to actively manage any risks arising in the transition period and beyond.

### COVID-19

On 11 March 2020, the World Health Organisation (WHO) assessed COVID-19 as a global pandemic and in the UK, on 23 March 2020, the Prime Minister issued instructions to the UK public to stay at home, to protect the NHS and to save lives. The County Council's response included activating the Corporate Emergency Response Framework: setting up our own internal Gold, Silver and Bronze arrangements to meet the COVID-19 response requirements and establishing arrangements with strategic partners across the county to identify how the County Council can preserve continuity and quality of service throughout our communities in this unprecedented time.

The UK Government has issued two grants to local authorities both totalling £1.6 billion, of which the County Council has received £25.5 million in allocation, to contribute towards its cost of response and recovery to COVID-19. Funding of £14.9 million was received on 27 March 2020; £0.4 million has been recognised and used to offset COVID-19 related expenditure in 2019/20; the balance has been treated as a receipt in advance at 31 March 2020 and included in short-term creditors in Note 21 to the accounts.

## Statement of Responsibilities

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

### The Council is required to:

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

### Responsibilities of the Chief Financial Officer

The Chief Financial Officer is responsible for the preparation of the County Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

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

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent; and

- Complied with the Code of Practice on Local Authority Accounting

The Chief Financial Officer has also:

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

### Approval of Accounts

The date that the Statement of Accounts was approved is 5 June 2020. All known material events that have occurred up to and including this date which relate to 2019/20 or before are reflected in the accounts.

In accordance with Regulation 9(1) of the Accounts and Audit Regulations 2015 (as amended) I certify that the Statement of Accounts 2019/20 provides a true and fair view of the financial position of the County Council at 31 March 2020 and its income and expenditure for the year 2019/20.

**Michael Hudson, Chief  
Financial Officer**

In accordance with Regulation 9(2) b of the Accounts and Audit Regulations 2015 (as amended) I certify that the Audit & Governance Committee approved the Statement of Accounts 2019/20 on [xx/xx] 2020.

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

# **Worcestershire County Council Annual Governance Statement 2019/20**

## Introduction

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

Our risk management process is a key part of our governance arrangements and provides assurance that:

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

The 2019/20 Annual Governance Statement also reflects the unprecedented position the County Council finds itself in as it, along with the wider community, reacts to the challenges of working during the COVID-19 crisis.

## The governance framework

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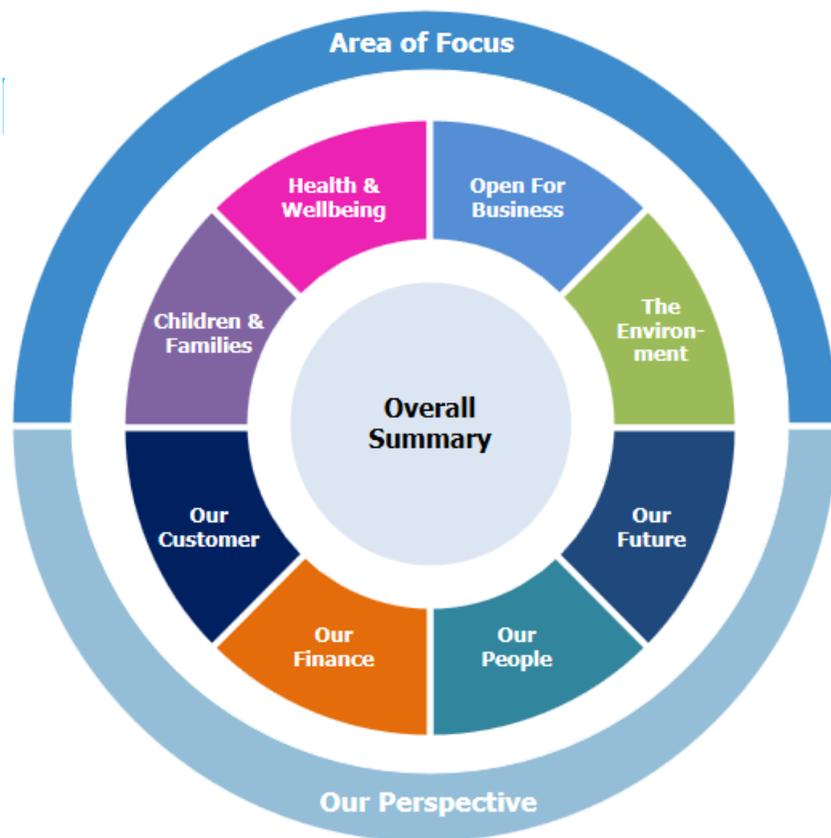
This Annual Governance Statement is published in accordance with the CIPFA/SoLACE Delivering Good Governance in Local Government Framework (2016) (The Framework). This comprises systems and processes for the direction and control of the County Council and the activities through which it accounts to,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

The County Council has approved the requirements of the Framework and several specific strategies and processes for

strengthening corporate governance such as the Corporate Risk Management Group and the Balanced Scorecard.

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

The Balanced Scorecard is used to show the relationship between the intended outcomes of the Corporate Plan - Shaping Worcestershire's Future with the finance, workforce and process measures that support their delivery. The Balanced Scorecard is available to the public via the County Council's website to improve accountability to local communities. Performance is measured and reported against areas of focus internally on a quarterly basis and publicly every six months. The COVID-19 crisis has meant that the year-end Balanced Scorecard position has been delayed.



Set out below are the activities carried out by the County Council which contribute to our delivery of the seven principles in the CIPFA/SoLACE Framework during 2019/20.

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

We have arrangements in place to provide assurance that our values are upheld, and that members and officers demonstrate high

standards of conduct and behaviour to comply with laws and regulations.

These include:

- Codes of conduct for officers and members;
- The inclusion of ethical values in policies and procedures for all areas;
- A complaints procedure ensuring appropriate investigation and response
- A Whistleblowing Policy which enables employees and others who have serious concerns about any aspect of the Council's work to come forward and voice those concerns;
- A commitment to equality of opportunity for all citizens, in line with the Public Sector Duty as set out in the Equality Act 2010;
- Our Constitution, which sets out the conditions to ensure that all officers, key post holders and members can fulfil their responsibilities in accordance with legislative requirements. Roles, responsibilities and delegated authority for individual Members, the Council, Cabinet and senior officers are documented.

### **Core Principle B: Ensuring openness and comprehensive stakeholder engagement**

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

In 2019/20, the County Council's "Making a Decision" Roadshows have enabled Councillors and Officers to engage with members of the local community to receive feedback and inform our Adult Social Care Services. The results of the Worcestershire Viewpoint Survey 2019 were published in July 2019; responses to the online survey have enabled us to monitor public perception in relation to local

priorities, satisfaction with Council services and level of engagement.

Feedback from events and surveys help to inform the council's four corporate priorities: supporting Children and families, promoting Health and Well Being, protecting the Environment and championing Open for Business.

We are registered as a Controller under the General Data Protection Regulation (GDPR) which governs how we manage and process the information we collect and retain. We have a nominated Data Protection Officer and procedures in place that explain how we use and share information, as well as arrangements for members of the public to access information. We have also adopted the model publication scheme produced by the Information Commissioner's Office.

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

Our Corporate Plan, Shaping Worcestershire's Future 2017-22, identifies four key priorities that help us shape the future vision for Worcestershire and focus the delivery of our services.



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those looking to relocate here.

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



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

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



business and encourage investment. We also have a key focus on minimising waste which goes to landfill.

**The Environment** - Worcestershire's environment is one of our key features and contributes to enhancing the quality of life for residents and visitors. We are committed to improving our infrastructure networks, including transport and digital technology to support

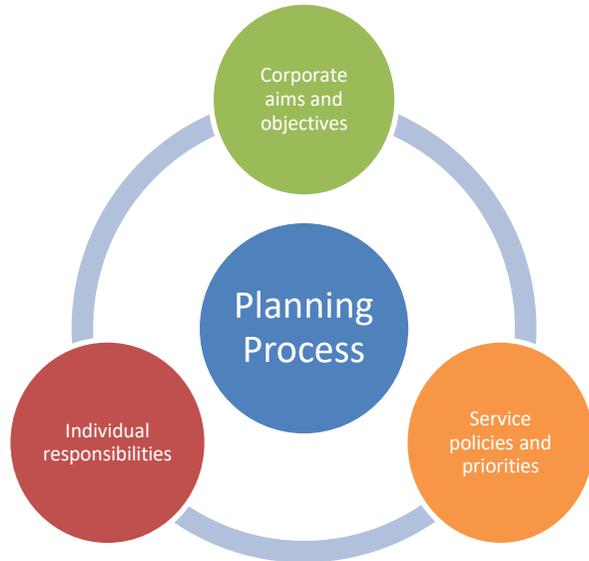


independent as possible by providing choice in how to live their lives.

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

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

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



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

Each key area of focus identifies several aims and targets, which are managed through the Balanced Scorecard. Responsibility for achieving these lies with individual directorates, and relevant aims and targets are included in individual service delivery plans. Risks and issues are managed through the Corporate Risk Management

Group and regular updates are provided to SLT and the Audit & Governance Committee.

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

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

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

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

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

Our annual performance review scheme forms a central part of our planning process. Discussions and review sessions take place between every member of staff and their line manager to agree and track personal objectives and actions, with formal mid-year reviews as a key part of the process. 99% of staff received mid-year reviews during 2019/20. The timing and impact of the COVID-19 lockdown and staff restrictions has meant that the end of year performance reviews for 2019/20 have been put on hold. Managers are being supported to put in place local monitoring arrangements, including managing any ongoing performance issues.

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

Risk management is about the identification, analysis and control of threats or events that adversely affect the achievement of the County Council's strategic and operational objectives. It also enables positive risks to be taken to innovate and improve service provision. The Risk Management Strategy details the methodology for evaluating corporate risk management arrangements and its delivery is enabled by the Corporate Risk Management Group. A specific risk framework has been put in place to manage the risks identified as a result of the COVID-19 crisis, with the County Council's Corporate Emergency Response Framework activated as part of our response.

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

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

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

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

The Forward Plan provides information about the matters on which the County Council will make decisions. Formal agenda, reports and minutes for all committee meetings are published on our website which ensures that people know what decisions the County Council is planning to take, and the decisions taken.

Our Monitoring Officer has a specific duty to ensure the County Council, its officers and elected councillors maintain the highest standards in all they do. In February 2020, the County Council's Monitoring Officer retired following 21 years of service. An interim Monitoring Officer has been appointed to fulfil this role and ensure the highest standards of conduct are maintained with a permanent replacement starting in June 2020.

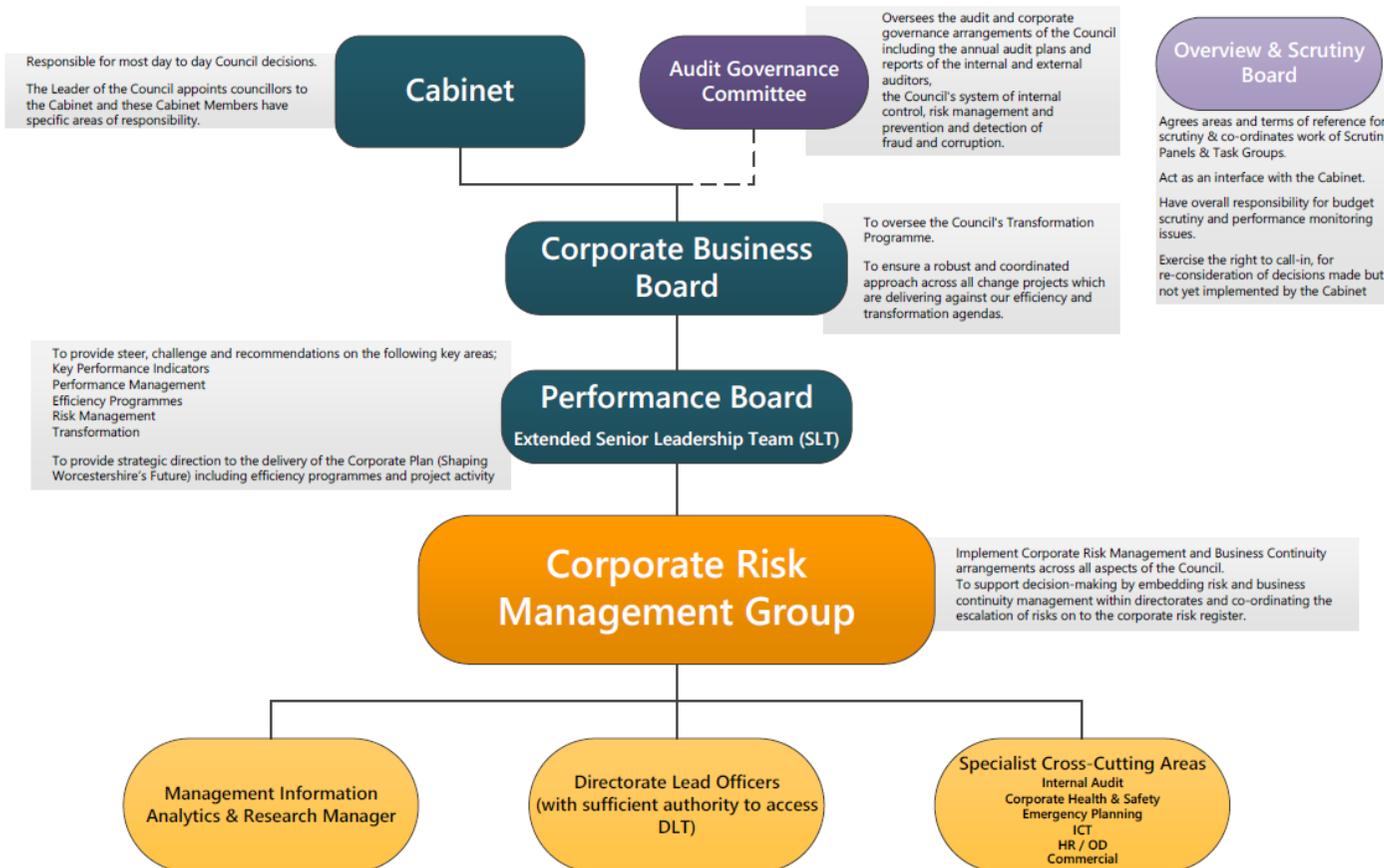
Arrangements are in place to ensure that we fully comply with the requirements of the Public Sector Internal Audit Standards (PSIAS) and CIPFA Statement on the Role of the Head of Internal Audit.

# Review of Effectiveness

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



## Corporate Risk Management Group Governance v0.1



## Audit and Audit Assurances

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The Council's Statement of Accounts are audited by Grant Thornton UK LLP. In accordance with statutory requirements, the annual audit includes an examination and certification of the financial statements to confirm they are 'true and fair' and an assessment of arrangements to secure economy, efficiency and effectiveness in the use of resources. In 2018/19, Grant Thornton gave an unqualified audit opinion on the financial statements.

From 1 April 2019, internal audit services have been provided by the Council's in-house team (previously provided by Warwickshire County Council). The team's role is to enhance and protect the County Council's value by providing risk-based and objective assurance, advice and insight. It is responsible for reviewing the adequacy of internal controls across all areas of the Council and its services are managed and delivered in accordance with the Public Sector Internal Audit Standards (PSIAS).

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

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

## Significant Governance Issues

2018/19 Governance issues	Update on Progress
<p><b>Sustainable improvement in Children's Services</b></p> <p>As noted in the 2017/18 AGS the response to the statutory improvement notice in Children's Services remains live. The improvement plan continues with regular programme monitoring and independent checking. The new wholly owned Council Company 'Worcestershire Children First' is in shadow form and will become live from 1 October 2019. A programme board is in place to ensure a smooth transition.</p>	<p>Worcestershire Children First (WCF) was successfully launched on 1st October 2019, following a two-year programme of activity. WCF officially took over the operational responsibility for all the delivery of Children's Services on behalf of Worcestershire County Council (WCC). More than 800 staff were smoothly TUPE transferred to the new organisation, with no negative impact on performance and morale. The Department for Education (DfE) were pleased with the progress made to the agreed timescale. DfE have been kept fully informed of progress of the company and its performance as part of the contract monitoring arrangements. The DfE have considered the Ofsted report of July 2019 and the Children's Services Commissioner's report of 22 January 2020 and the Secretary of State intends to withdraw the Children's Services Commissioner due to the good progress made in all areas, with the Direction and monitoring remaining in place.</p> <p>We will continue to monitor developments in Children's Services however following significant improvements noted above, this is no longer a governance issue for 2019/20.</p>
<p><b>Serious harm or death of a child or young person</b></p> <p>Safeguarding risk because of serious harm or death of a child or failure to safeguard children. Reputational risk as a result of poor inspection or service breakdown.</p>	<p>Children and Families have seen no change in service delivery or performance since launch of Worcestershire Children First. A Children Social Care staff survey was undertaken in December along with staffing data which shows a high level of stability and ongoing commitment from staff. Specific priorities for continual development and implementation are included in the Company Business Plan and detailed within Social Care and Safeguarding Business Plan, which is embedded throughout the service, key elements are:</p> <ul style="list-style-type: none"> <li>• Ofsted recommendations for areas of improvement</li> <li>• Service Area Business Development and Improvement Plans</li> <li>• Preparation for Inspections and Focused Visits</li> <li>• Innovation</li> <li>• Quality Assurance and Audit</li> </ul>

<p><b>Activity exceeds budget allocation</b> Inadequate budgets and / or ineffective financial management will impact on the County Council's ability to effectively provide services and impair our ability to forward plan. The level of earmarked and general reserves could also be impacted by any unplanned draw down.</p>	<p>Regular budget monitoring and a focus on demand / activity continues to strengthen and be a focus of our reporting and monitoring. Demand in WCF was in line / slightly better than forecast and Adult modelling has also improved but further work is scheduled with IT packages. This is subject now to review of COVID-19 'new normal' in 2020/21.</p>
<p><b>Serious harm or death of a vulnerable adult</b> A safeguarding risk because of serious harm / death from failure to safeguard a vulnerable adult. We also face reputational risk as a result of service breakdown.</p>	<p>A Safeguarding Adult Board is in place with representation from safeguarding partners. A centralised Adult Safeguarding Team located within the Safeguarding Hub ensures competency of staff, information sharing and consistency in decision making. The Adult Safeguarding Team are aligned with the Locality Teams and 3 Conversations processes. Staff are assessed against WSAB safeguarding competency framework.</p>
<p><b>Staff capacity, recruitment and retention</b> Our ability to deliver front line and key services will be impacted unless the County Council adopts a range of strategies to attract and retain a highly skilled and specialised workforce.</p>	<p>There is a dedicated HR team supporting social work recruitment. We are using agency workers to cover specialist and hard to fill roles and considering enhanced payment packages to attract / retain the right staff as part of the Organisational Redesign programme.</p> <p>The development of a workforce strategy to identify future needs and potential gaps is underway. We continue to develop and train internal resource, including maximisation of internal secondments.</p> <p>During 2019/20, the County Council's transactional recruitment team was in-sourced from Liberata and are fully integrated into the HR team.</p> <p>Following progress in our recruitment activity in the year, we have determined that this no longer a governance issue for 2019/20.</p>

2019/20 Governance issues	Identified Actions
<p><b>Serious harm or death of a child or young person</b> Safeguarding risk because of serious harm or death of a child or failure to safeguard children. Reputational risk as a result of poor inspection or service breakdown.</p>	<p>Safeguarding issues continue to be monitored and managed through the WCF Performance Board in and developed through partnership working with the Worcestershire Safeguarding Children Partnership (WSCP) and other local strategic partners. Quality Assurance measures are in place safeguarding and activity is monitored by the WSCP Safeguarding Practice Review Board and Get Safe Partnership Board.</p>
<p><b>Activity exceeds budget allocation</b> Inadequate budgets and / or ineffective financial management will impact on the County Council's ability to effectively provide services and impair our ability to forward plan. The level of earmarked and general reserves could also be impacted by any unplanned draw down.</p>	<p>In year financial monitoring and reporting to management, Council and Cabinet is by reference to performance against agreed budgets and forecast outturn position. Achievement of savings targets and the use of Council reserves are monitored as part of ongoing activity to consider financial sustainability and to inform our assessment of going concern.</p>
<p><b>Serious harm or death of a vulnerable adult</b> A safeguarding risk because of serious harm / death from failure to safeguard a vulnerable adult. We also face reputational risk as a result of service breakdown.</p>	<p>A Safeguarding Adult Board is in place with representation from safeguarding partners. A centralised Adult Safeguarding Team located within the Safeguarding Hub ensures competency of staff, information sharing and consistency in decision making. The Adult Safeguarding Team are aligned with the Locality Teams and 3 Conversations processes. Staff are assessed against WSAB safeguarding competency framework.</p>

### COVID-19 Impact upon governance arrangements

The restrictions imposed by Central Government to respond to the global COVID-19 pandemic have resulted in changes to the County Council's working practices and governance arrangements, with particular reference to:

- Council meetings and decision-making arrangements;
- Engagement in local and national response;
- Implementation of new policies and processes;
- Business as usual and delivery of services;
- Future funding and cashflow challenges; and
- Assessment of longer-term disruption and consequences.

Our response to the crisis included activating the Corporate Emergency Response Framework, setting up County Councils own internal Gold, Silver and Bronze arrangements to meet the Covid-19 response requirements, which in turn are aligned to the LRF structures of Strategic (SCG) and Tactical (TCG) Coordinating Groups. The Mission of Gold being: "to preserve life, prevent the spread of infection and maintain critical County Council services".

Officer decisions made in dealing with the Covid-19 response have been reported on the Council's website and include provision of PPE, Here2Help, development of the Adult Social Care Access Centre and purchase of care.

A revised governance framework has been developed and approved by Cabinet and arrangements made to ensure that meetings and the formal decision-making process conforms to the relevant legislative requirements for remote meetings of a local authority.

Our 'Here2Help' community action group was setup in April 2020 to provide information and assistance to vulnerable people in the community and signpost local residents to advice and support available throughout Worcestershire.

The Worcestershire COVID-19 Economic Response, Recovery and Resilience Group (WERRG), of which the Council holds the role of Chairman, has been established to ensure the alignment of vision and objectives across partner organisations and the Worcestershire Economic Recovery Plan. The group membership includes representatives from District Councils, Worcestershire Local Enterprise Partnership (WLEP), DWP Chamber of Commerce, Federation of Small Businesses and Farmers Union.

The impact of increased expenditure and lost income directly attributable to the County Council's response to COVID-19 is considered alongside funding, cashflow requirements and use of reserves as part of our routine financial monitoring and reporting activity. Information has been submitted to Central Government to report our impact in line with required deadlines.

### Issues identified for 2020/21

A number of the issues and corresponding action plans noted above will continue to be the key focus for the County Council's leadership in 2020/21:

- Sustaining improvement in Children's Services through Worcestershire Children's First
- Safeguarding vulnerable children and adults
- Ensuring a financially sustainable short and medium-term budget
- Implementing an alternative model for delivery of property services including consideration of TUPE proceedings for Place Partnership Ltd

In addition to these issues, the County Council's response to the COVID-19 pandemic will continue to inform our assessment of governance arrangements, with particular reference to:

- Impact of COVID-19 on the County Council's governance arrangements and new working practices
- Monitoring the financial impact of COVID-19 on budgeted income and expenditure
- Consideration of lessons learned from our response to COVID-19
- Further development of the County Council's performance, transformation and productivity culture

## 5. Certification

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

**Paul Robinson**

**Chief Executive**

**Date:**

**Simon Geraghty**

**Leader of the County Council**

**Date:**

# **Worcestershire County Council Statement of Accounts**

## Introduction to the Statutory Accounts

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The Statutory Accounts presents Worcestershire County Council's (the County Council) financial position in line with statutory reporting requirements. The accounts are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the Code) and the Accounts and Audit Regulations 2015 (as amended). The main objective of the Code is to give a true and fair view of the financial position of the County Council, including information about financial position, performance, the results of stewardship of management and any risks and uncertainties.

### Comprehensive Income and Expenditure Statement

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

### Movement in Reserves Statement

This shows the movement on the different reserves held, analysed into usable and unusable reserves. The net increase / decrease before transfers to / from earmarked reserves shows the statutory

General Fund balance before any discretionary transfers are undertaken.

### Balance Sheet

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

### Cash Flow Statement

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

### Notes to the Accounts

These give further detail in support of the information provided in the main accounts. Notes are only provided where the amounts involved are material. Materiality is determined by the nature or magnitude of the disclosure and the potential for the user of the accounts being influenced by any omission. The notes include the relevant accounting policies which explain the basis for the figures included in the accounts and details of relevant estimates and judgements. Any estimations which are likely to lead to a material adjustment in the 2020/21 accounts are evaluated and detailed in the notes.

## Group Accounts

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

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

## Comprehensive Income and Expenditure Statement

Restated							
2018/19	2018/19	2018/19		2019/20	2019/20	2019/20	
Expenditure	Income	Net		Expenditure	Income	Net	
£m	£m	£m		£m	£m	£m	Note
<b>Service Expenditure Analysis</b>							3,4,5,6,7,1
261.2	(116.0)	145.2	People	296.3	(145.3)	151.0	8
349.4	(238.5)	110.9	Children's Services	345.6	(236.7)	108.9	7,3, 8
106.4	(32.4)	74.0	Economy & Infrastructure	92.0	(26.5)	65.5	
61.4	(25.0)	36.4	Commercial & Change	32.9	(1.1)	31.8	
13.2	(11.5)	1.7	Finance, HR & Chief Executive	28.5	(4.5)	24.0	
<b>791.6</b>	<b>(423.4)</b>	<b>368.2</b>	<b>Net Cost of Services</b>	<b>795.3</b>	<b>(414.1)</b>	<b>381.2</b>	
3.9	(1.9)	2.0	Other operating expenditure	10.5	(4.5)	6.0	9
97.4	(32.5)	64.9	Financing, investment income & expenditure	77.9	(30.0)	47.9	10
0.2	(382.7)	(382.5)	Taxation & non-specific grant income and expenditure	0.2	(419.2)	(419.0)	7,2, 11
<b>893.1</b>	<b>(840.5)</b>	<b>52.6</b>	<b>(Surplus) / deficit on the provision of services</b>	<b>883.9</b>	<b>(867.8)</b>	<b>16.1</b>	
<b>Other comprehensive income and expenditure:</b>							
		(11.9)	(Surplus) on revaluation of property, plant & equipment			(26.2)	15.3
		10.5	Downward revaluations on non-current assets charged to Revaluation Reserve			20.6	15.3
		56.4	Actuarial (gains) / losses on pension assets & liabilities			(35.9)	26.2,2
		<b>55.0</b>	<b>Total other comprehensive income and expenditure</b>			<b>(41.5)</b>	
		<b>107.6</b>	<b>Total comprehensive income and expenditure (surplus)/deficit</b>			<b>(25.4)</b>	

## Movement in Reserves Statement 2019/20

	General Fund (Non-Earmarked) Balance	General Fund (Earmarked) Reserves	General Fund Total	Capital Receipts Reserve	Capital Grants Unapplied Account	Total Usable Reserves	Unusable Reserves	Total Reserves
	£m	£m	£m	£m	£m	£m	£m	£m
<b>Balance at 31 March 2019</b>	<b>12.2</b>	<b>81.5</b>	<b>93.7</b>	<b>0.1</b>	<b>41.1</b>	<b>134.9</b>	<b>(66.6)</b>	<b>68.3</b>
Movement in reserves during 2019/20:								
Total Comprehensive Income and Expenditure	(16.1)		(16.1)			(16.1)	41.5	25.4
Adjustments between accounting basis & funding basis under regulations (Note 12)	16.1	(5.2)	10.9	(0.1)	14.8	25.6	(25.6)	
Increase / (decrease) in 2019/20		(5.2)	(5.2)	(0.1)	14.8	9.5	15.9	25.4
<b>Balance at 31 March 2020 carried forward</b>	<b>12.2</b>	<b>76.3</b>	<b>88.5</b>		<b>55.9</b>	<b>144.4</b>	<b>(50.7)</b>	<b>93.7</b>
Note Reference		13.1				13	14	

## Movement in Reserves Statement 2018/19 Comparison

	General Fund (Non-Earmarked) Balance	General Fund (Earmarked) Reserves	General Fund Total	Capital Receipts Reserve	Capital Grants Unapplied Account	Total Usable Reserves	Unusable Reserves	Total Reserves
	£m	£m	£m	£m	£m	£m	£m	£m
<b>Balance at 31 March 2018</b>	<b>12.2</b>	<b>84.4</b>	<b>96.6</b>	<b>4.8</b>	<b>34.9</b>	<b>136.3</b>	<b>39.6</b>	<b>175.9</b>
Movement in reserves during 2018/19:								
Total Comprehensive Income and Expenditure	(52.6)		(52.6)			(52.6)	(55.0)	(107.6)
Adjustments between accounting basis & funding basis under regulations (Note 12)	52.6	(2.9)	49.7	(4.7)	6.2	51.2	(51.2)	
Increase / (decrease) in 2018/19		(2.9)	(2.9)	(4.7)	6.2	(1.4)	(106.2)	(107.6)
<b>Balance at 31 March 2019 carried forward</b>	<b>12.2</b>	<b>81.5</b>	<b>93.7</b>	<b>0.1</b>	<b>41.1</b>	<b>134.9</b>	<b>(66.6)</b>	<b>68.3</b>
Note Reference		13.1				13	14	

## Balance Sheet

31 March 2019		31 March 2020	
£m		£m	Note
1,052.5	Property, plant and equipment	1,070.7	15,16
1.7	Heritage assets	1.7	
4.0	Intangible assets	5.4	
3.0	Long-term investments	3.0	17,18
119.6	Long-term debtors	115.9	19
<b>1,180.8</b>	<b>Long term assets</b>	<b>1,196.7</b>	
8.3	Non-Operational Assets	7.6	15.8
7.1	Short-term investments	5.0	
1.2	Inventories	1.2	
56.2	Short-term debtors	93.9	19
38.1	Cash and cash equivalents	71.6	20
<b>110.9</b>	<b>Current assets</b>	<b>179.3</b>	
(57.4)	Short-term borrowing	(39.4)	17
(81.4)	Short-term creditors	(115.1)	21
<b>(138.8)</b>	<b>Current liabilities</b>	<b>(154.5)</b>	

31 March 2019		31 March 2020	
£m		£m	Note
(0.3)	Long Term Creditors		22
(3.2)	Long-term provisions	(7.6)	
(409.3)	Long-term borrowing	(435.9)	17
(646.9)	Other long-term liabilities	(654.9)	22
(24.9)	Grants receipts in advance	(29.4)	23
<b>(1,084.6)</b>	<b>Long-term liabilities</b>	<b>(1,127.8)</b>	
<b>68.3</b>	<b>Net assets</b>	<b>93.7</b>	
	<b>Financed by:</b>		
134.9	Usable reserves	144.4	13
(66.6)	Unusable reserves	(50.7)	14
<b>68.3</b>	<b>Total reserves</b>	<b>93.7</b>	

## Cash Flow Statement

2018/19	2019/20	
£m	£m	Note
(52.6) Net surplus/(deficit) on the provision of services	(16.1)	
137.3 Adjust net (surplus)/deficit for non-cash movements	126.0	
(61.7) Adjust for items included in the net (surplus)/deficit on the provision of services that are investing and financing activities	(87.5)	
<b>23.0 Net cash flows from operating activities</b>	<b>22.4</b>	24.1
(22.9) Net cash flows from investing activities	8.3	24.2
22.6 Net cash flows from financing activities	2.8	24.3
<b>22.7 Net increase/(decrease) in cash or cash equivalents</b>	<b>33.5</b>	
<b>Cash and cash equivalents</b>		20
15.4 Balance at 1 April	38.1	
38.1 Balance at 31 March	71.6	
<b>22.7 Movement in cash and cash equivalents increase / (decrease)</b>	<b>33.5</b>	

## Notes to the Financial Statements

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

- |  |   |
|--|---|
| 1 General accounting policies  | 19 Debtors                              |
| 2 Prior Period Adjustment – Restatement of 2018/19                       | 20 Cash & cash equivalents              |
| 3 Expenditure & funding analysis   | 21 Creditors                            |
| 4 Adjustments between funding & accounting basis                         | 22 Other long-term liabilities          |
| 5 Segmental reporting  | 23 Grants receipts in advance           |
| 6 Expenditure & income analysed by nature                                | 24 Cash activities                      |
| 7 Grants & contribution income   | 25 Officers remuneration                |
| 8 Section 75 framework partnership agreements                            | 26 Pension schemes                      |
| 9 Other operating expenditure  | 27 Termination benefits & exit packages |
| 10 Financing & investment income & expenditure                           | 28 Related parties                      |
| 11 Taxation & non-specific grants  | 29 Leases                               |
| 12 Adjustments between accounting basis & funding basis under regulation | 30 External audit costs                 |
| 13 Usable reserves   | 31 Events after the reporting period    |
| 14 Unusable reserves   |   |
| 15 Property, plant & equipment   |   |
| 16 Private finance initiatives   |   |
| 17 Financial instruments   |   |
| 18 Long-term investments   |   |

## 1. General accounting policies

The Statement of Accounts summarises the County Council's transactions for the 2019/20 financial year and its position at the year-end of 31 March 2020. The County Council is required by the Accounts and Audit Regulations 2015 (as amended) to prepare an annual Statement of Accounts in accordance the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and International Financial Reporting Standards (IFRS). The Accounts have been prepared on a going concern basis, under the assumption that the Council will continue in existence for the foreseeable future.

Local authority school assets, liabilities, reserves and cash flows are recognised in the County Council's financial statements. Maintained schools comprise: Community, Voluntary Aided, Voluntary Controlled and Trust schools. Academies and Free schools are not maintained by the County Council and are not included in the consolidation

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

Consolidation of other accounts held by schools such as school funds and devolved capital accounts were reviewed and judged to be immaterial and are not recognised on the County Council's Balance Sheet. The Statement of Accounts contains estimated figures based on assumptions made by the County Council. Estimates are made considering historical experience, current trends and other relevant factors. Actual results may potentially be different from the assumptions and estimates used by the County Council and relevant notes include an assessment of the potential material impact of any changes in estimates which lead to significant risk of material adjustment in 2020/21.

## 2. Prior Period Adjustment – Restatement of 2018/19 comparative amounts

The County Council has completed a directorate restructure in 2019/20. The 2018/19 comparative figures in the Statements and supporting notes detailed below have been restated in the 2019/20 financial statements to reflect the changes:

- Comprehensive Income & Expenditure Statement
- Expenditure & Funding Analysis
- Adjustments between funding & accounting basis
- Segmental reporting
- Grants & contribution income

Details of the adjustments are shown in the table below:

	As published 2018/19			Adjustments for restructure			Restated comparatives			
	Exp £m	Income £m	Net £m	Exp £m	Income £m	Net £m	Exp £m	Income £m	Net £m	
<b>Service Analysis</b>										<b>Service Analysis</b>
Adult Services	209.6	(73.1)	136.5	51.6	(42.9)	8.7	261.2	(116.0)	145.2	People
Children, Families & Communities	382.5	(265.3)	117.2	(33.1)	26.8	(6.3)	349.4	(238.5)	110.9	Children's Services
Economy & Infrastructure	111.0	(34.5)	76.5	(4.6)	2.1	(2.5)	106.4	(32.4)	74.0	Economy & Infrastructure
Commercial & Change, Finance & Chief Executive	58.8	(20.5)	38.3	2.6	(4.5)	(1.9)	61.4	(25.0)	36.4	Commercial & Change
Public Health	29.7	(30.0)	(0.3)	(16.5)	18.5	2.0	13.2	(11.5)	1.7	Finance, HR & Chief Executive
<b>Net Cost of Services</b>	<b>791.6</b>	<b>(423.4)</b>	<b>368.2</b>				<b>791.6</b>	<b>(423.4)</b>	<b>368.2</b>	<b>Net Cost of Services</b>

### 3. Expenditure and funding analysis

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

2018/19 Restated				2019/20		
Net Expenditure Chargeable to General Fund Balances	Adjustments between the Funding & Accounting Basis	Net Expenditure in the CI&ES		Net Expenditure Chargeable to General Fund Balances	Adjustments between the Funding & Accounting Basis	Net Expenditure in the CI&ES
£m	£m	£m		£m	£m	£m
137.5	7.7	145.2	People	147.7	3.3	151.0
91.4	19.5	110.9	Children's Services	92.6	16.3	108.9
44.0	30.0	74.0	Economy & Infrastructure	34.5	31.0	65.5
23.1	13.3	36.4	Commercial & Change	21.1	10.7	31.8
1.3	0.4	1.7	Finance, HR & Chief Executive	18.3	5.7	24.0
<b>297.3</b>	<b>70.9</b>	<b>368.2</b>	<b>Net Cost of Services</b>	<b>314.2</b>	<b>67.0</b>	<b>381.2</b>
(294.4)	(21.2)	(315.6)	Other Income and Expenditure	(309.0)	(56.1)	(365.1)
<b>2.9</b>	<b>49.7</b>	<b>52.6</b>	<b>Net Deficit</b>	<b>5.2</b>	<b>10.9</b>	<b>16.1</b>
96.6			Opening General Fund Balance	93.7		
(2.9)			Less Deficit on General Fund Balance in Year	(5.2)		
<b>93.7</b>			<b>General Fund Balance</b>	<b>88.5</b>		

	<b>General Fund</b>	<b>Earmarked Reserves</b>	<b>Total</b>
	£m	£m	£m
<b>Opening General Fund Balance</b>	<b>12.2</b>	<b>81.5</b>	<b>93.7</b>
Surplus / (deficit) on general fund balance in year		(5.2)	(5.2)
<b>Closing General Fund Balance</b>	<b>12.2</b>	<b>76.3</b>	<b>88.5</b>

In respect of the net revenue outturn, the County Council's 2019/20 General Fund budget and actual spend figures are in the table below:

	<b>Original budget</b>	<b>Actual</b>	<b>Variance</b>
	£m	£m	£m
<b>Total General Fund (a)</b>	<b>332.6</b>	<b>332.3</b>	<b>0.3</b>
<b>Funded by:</b>			
Council tax	(264.4)	(264.4)	
Business rates retention scheme	(64.2)	(64.2)	
Collection fund surplus	(1.7)	(1.7)	
Contribution from earmarked reserves	(2.3)	(2.6)	(0.3)
<b>Total funding (b)</b>	<b>(332.6)</b>	<b>(332.9)</b>	<b>(0.3)</b>
<b>Movement on General Fund (a) + (b)</b>	<b>-</b>	<b>-</b>	<b>-</b>

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

#### 4. Adjustments between funding and accounting basis

This note provides additional analysis of the adjustments between the funding and accounting basis column in note 3 (Expenditure and funding analysis) and details the movement from the General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts

2019/20	Adjustments for Capital Purposes	Net Change for the Pensions Adjustments	Other Differences	Total Adjustments
	£m	£m	£m	£m
People	1.5	1.8		3.3
Children's Services	16.1	0.2		16.3
Economy & Infrastructure	30.7	0.3		31.0
Commercial & Change	10.5	0.2		10.7
Finance, HR & Chief Executive	(12.0)	24.3	(6.6)	(5.7)
<b>Net Cost of Services</b>	<b>46.8</b>	<b>26.8</b>	<b>(6.6)</b>	<b>67.0</b>
Other Income and Expenditure from the Expenditure and Funding Analysis	(56.1)			(56.1)
<b>Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services</b>	<b>(9.3)</b>	<b>26.8</b>	<b>(6.6)</b>	<b>10.9</b>

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

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

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

2018/19 Restated	Adjustments for Capital Purposes	Net Change for the Pensions Adjustments	Other Differences	Total Adjustments
	£m	£m	£m	£m
People	1.1	6.6		7.7
Children's Services	19.5			19.5
Economy & Infrastructure	29.2	0.8		30.0
Commercial & Change	(2.8)	17.3	(1.2)	13.3
Finance, HR & Chief Executive		0.3	0.1	0.4
<b>Net Cost of Services</b>	<b>47.0</b>	<b>25.0</b>	<b>(1.1)</b>	<b>70.9</b>
Other Income and Expenditure from the Expenditure and Funding Analysis	(21.7)		0.5	(21.2)
<b>Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services</b>	<b>25.3</b>	<b>25.0</b>	<b>(0.6)</b>	<b>49.7</b>

## 5.Segmental reporting

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

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

2018/19 Restated	People	Children's Services	Economy & Infrastructure	Commercial & Change	Finance, HR & Chief Executive	Total
	£m	£m	£m	£m	£m	£m
Income for Fees and Charges	(46.9)	(15.5)	(20.7)	(12.5)	(0.6)	(96.2)
Depreciation and Impairment	3.4	10.9	25.3	5.1		44.7
Premises Costs	7.8	15.8	(11.4)	9.7		21.9
Transport Costs	2.0	14.4	2.3	0.6		19.3
Third Party Payments	195.3	87.9	65.3	13.5		362.0

## 6. Expenditure and income analysed by nature

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

Revenue from the provision of services is recognised when the authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the authority. IFRS15 Revenue from Contracts with Customers was adopted in 2018/19. The County Council has undertaken a detailed assessment of income streams in 2019/20 and determined that there is no material impact on either the opening balances or the revenue recognised during the year. As such no adjustments have been made to opening balances or revenue and no transitional disclosures have been made.

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

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

<b>2018/19 Expenditure and Income analysed by nature</b>	<b>2019/20</b>
£m	£m
<b>Expenditure</b>	
275.9 Employee benefits expenses	256.2
473.4 Other service expenses	495.7
44.7 Depreciation amortisation and impairment	48.3
37.8 Loss on disposal of non-current assets	21.8
61.1 Interest payments	61.7
0.2 Precepts and levies	0.2
<b>893.1 Total Expenditure</b>	<b>883.9</b>
<b>Income</b>	
(99.7) Fees and charges and other service income	(118.9)
(315.9) Income from council tax and business rates	(321.6)
(312.2) Grants and contributions credited to services	(329.9)
(66.8) Grants and contributions credited to taxation and non-specific grant income	(97.5)
(32.5) Interest and Investment Income	(30.1)
(13.4) Other	30.2
<b>(840.5) Total Income</b>	<b>(867.8)</b>
<b>52.6 Net Deficit on Provision of Services</b>	<b>16.1</b>

## 7. Grant and contribution income

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

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

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

### 7.1 Comprehensive Income and Expenditure Statement - credited to services

2018/19		2019/20
restated		
£m		£m
<b>People Services</b>		
13.4	Improved Better Care Fund	16.1
12.1	Better Care Fund (contribution)	12.3
5.0	Disabled Facilities Grant	5.4
2.9	Independent Living Fund	2.8
2.4	Winter Pressures Grant	2.4
1.5	Adult Social Care Support Grant	4.1
0.2	Care Act	0.2
0.3	Other	0.1
29.1	Public Health	28.4

<b>2018/19</b>	<b>2019/20</b>
<b>restated</b>	
0.5 Other	0.7
5.3 Libraries & Community	5.8
4.7 Bromsgrove Schools PFI Grant	4.7
<b>77.4 Total People Services</b>	<b>83.0</b>
<b>Children's Services</b>	
213.2 Dedicated Schools Grant	210.0
9.5 Pupil Premium	8.7
4.9 Other Education & Skills	8.4
4.9 Universal Free School Meals	4.2
2.5 Post 16 Learning Skills Council	1.6
1.7 Other Children's Social Care	2.1
1.4 Alternative Delivery Model Implementation Grant	
1.3 Unaccompanied Asylum-Seeking Children	1.2
Youth Grants	1.2
0.4 Transport	0.4
<b>239.8 Total Children's Services</b>	<b>237.8</b>
<b>Economy &amp; Infrastructure</b>	
1.8 Waste Disposal PFI Grant	1.8
0.5 Transport	0.5

<b>2018/19</b>	<b>2019/20</b>
<b>restated</b>	
0.1 Environment / Winter Damage	1.1
2.0 Other	1.7
<b>4.4 Total Economy &amp; Infrastructure</b>	<b>5.1</b>
<b>Commercial &amp; Change</b>	
0.4 Other	0.8
<b>0.4 Total Commercial &amp; Change</b>	<b>0.8</b>
<b>Finance, HR &amp; Chief Executive</b>	
2.6 New Homes	2.6
0.1 Other	0.6
<b>2.7 Total Finance, HR &amp; Chief Executive</b>	<b>3.2</b>
(12.4) REFCUS Adjustment	
<b>312.3 Total Credited to Services</b>	<b>329.9</b>

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

2018/19	2019/20
£m	£m
<b>Credited to taxation and non-specific grant income:</b>	
9.5 Revenue Support Grant	
3.0 Business Rate Reliefs – S31 Grant	19.4
1.0 Levy Account Surplus Grant	0.2
<b>13.5 Total non ring-fenced Government grants</b>	<b>19.6</b>

2018/19	2019/20
£m	£m
<b>Capital grants</b>	
21.7 Structural maintenance	15.4
12.1 Transport	28.8
5.7 Basic Needs	14.4
5.4 LA Schools Condition Allocation	3.8
4.8 Worcestershire Local Growth Fund	3.6
1.9 European Regional Development Fund	1.5
1.8 Great Birmingham & Solihull Local Growth Fund	2.2
0.1 Broadband Project	0.8
2.5 Other Capital Grants	1.3

2018/19	2019/20
<b>56.0 Total Capital Grants</b>	<b>71.8</b>
3.4 Other contributions	6.1
<b>59.4 Total Capital Grants and Contributions</b>	<b>77.9</b>
(6.1) Less Transfer to unapplied capital grants reserve	
<b>53.3</b>	<b>77.9</b>
<b>66.8 Total credited to taxation and non-specific grant income</b>	<b>97.5</b>

### 7.3 Dedicated schools grant

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

The overall DSG deficit is £6.2 million and will be carried forward against future DSG income. Within the central expenditure, High Needs expenditure overspent by £8.7 million in 2019/20; an outcome which is similar for a significant number of local authorities. The Government has allocated an additional £780 million of funding in 2020/21 of which Worcestershire's share is £8.7 million.

	Central Expenditure	Individual Schools Budget	Total
	£m	£m	£m
Final DSG for 2019/20			414.0
Academy Recoupment 2019/20			(205.6)
<b>Total DSG after recoupment</b>			<b>208.4</b>
Brought forward from 2018/19			(0.6)
<b>Agreed budgeted distribution in 2019/20</b>	<b>39.6</b>	<b>168.2</b>	<b>207.8</b>
In year adjustments	1.6		1.6
<b>Final budgeted distribution</b>	<b>41.2</b>	<b>168.2</b>	<b>209.4</b>
Actual expenditure	(47.3)	(168.3)	(215.6)
<b>Carry forward to 2020/21</b>	<b>(6.1)</b>	<b>(0.1)</b>	<b>(6.2)</b>

## 8. Section 75 framework partnership agreements

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

Partnership expenditure (outturn) has been split to show what is primarily managed by the Clinical Commissioning Groups and the County Council for 2019/20. Included in the County Council contribution is £28.4 million Better Care Fund.

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Partnership income	Partnership expenditure	Net partnership expenditure	CCG managed	WCC contribution		Partnership income	Partnership expenditure	Net partnership expenditure	CCG managed	WCC contribution
£m	£m	£m	£m	£m		£m	£m	£m	£m	£m
(147.1)	149.4	2.3	103.8	45.6	Consolidated Adult Social Care Services	(164.2)	166.9	2.7	111.9	55.0
(19.1)	19.1		16.1	3.0	Consolidated Children's and Education Services	(19.2)	19.3	0.1	17.2	2.1
<b>(166.2)</b>	<b>168.5</b>	<b>2.3</b>	<b>119.9</b>	<b>48.6</b>		<b>(183.4)</b>	<b>186.2</b>	<b>2.8</b>	<b>129.1</b>	<b>57.1</b>

The County Council had outstanding balances with the Clinical Commissioning Groups at 31 March 2020 of £0.8 million debtors (2018/19 £1.4 million) and £0.7 million creditors (2018/19 £1.0 million).

## 9. Other operating expenditure

2018/19	2019/20
£m	£m
0.4 Admin Expenses Pension	0.4
1.6 Loss on disposal of non-current assets	5.6
<b>2.0</b>	<b>6.0</b>

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

## 10. Financing and investment income and expenditure

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

2018/19	2019/20
£m	£m
28.9 Interest payable and similar charges	29.3
9.3 Pensions interest cost & expected return on pensions	11.1
36.3 Loss on transfer of schools to other bodies (e.g. academies)	16.3
(9.6) Interest receivable and similar income	(8.8)
<b>64.9</b>	<b>47.9</b>

## 11. Taxation and non-specific grants

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

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

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

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

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

<b>2018/19 Taxation and non-specific grants</b>	<b>2019/20</b>
£m	£m
(254.0) Council tax income	(265.6)
(61.9) Non-domestic rates	(56.1)
(13.5) Non-ring-fenced government grants	(19.6)
(53.3) Capital grants and contributions	(77.9)
0.2 Environment Agency	0.2
<b>(382.5)</b>	<b>(419.0)</b>

## 12. Adjustments between accounting basis and funding basis under regulation

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

2019/20	Usable Reserves				
	General Fund (Non-earmarked balances)	General Fund (Earmarked reserves)	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£m	£m	£m	£m	£m
Depreciation of non-current assets	43.2				(43.2)
Amortisation of intangible assets	1.0				(1.0)
Capital grants and contributions applied	(78.0)				78.0
Revenue expenditure funded from capital under statute	11.8				(11.8)
Net loss on disposal of non-current assets	31.4				(31.4)
Statutory provision for the financing of capital investment	(12.0)				12.0
Capital expenditure charged against the General Fund	(0.6)	(0.5)			1.1
Revaluation to Capital Adjustment Account	4.0				(4.0)
Capital Grants and Contributions unapplied credited to the CI&ES				78.0	(78.0)
Application of grants to capital financing transferred to Capital Adjustment Account				(63.2)	63.2
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the CI&E Statement	(9.5)		9.5		

	General Fund (Non-earmarked balances)	General Fund (Earmarked reserves)	Capital Receipts Reserve	Capital Grants Unapplied	Capital Movement in Unusable Reserves
Use of Capital Receipts Reserve to finance new capital expenditure			(9.6)		9.6
Reversal of items relating to retirement benefits debited or credited to the CI&E Statement	56.7				(56.7)
Employer's pension contributions and direct payments to pensioners payable in the year	(29.9)				29.9
<b>Amount by which council tax income credited to the CI&amp;E Statement is different from council tax income calculated for the year in accordance with statutory requirements</b>	0.6				(0.6)
Amount by which National Non-Domestic Rates income credited to the CI&E Statement is different from Non-Domestic Rates income calculated for the year in accordance with statutory requirements	(9.3)				9.3
Amount by which officer remuneration charged to the CI&E Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	2.0				(2.0)
<b>Sub Total</b>	<b>11.4</b>	<b>(0.5)</b>	<b>(0.1)</b>	<b>14.8</b>	<b>(25.6)</b>
Transfer to/(from) earmarked reserves	4.7	(4.7)			
<b>Total Adjustments</b>	<b>16.1</b>	<b>(5.2)</b>	<b>(0.1)</b>	<b>14.8</b>	<b>(25.6)</b>

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

2018/19	Usable Reserves				
	General Fund (Non-earmarked balances)	General Fund (Earmarked reserves)	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
Use of Capital Receipts Reserve to finance new capital expenditure			(7.0)		7.0
Reversal of items relating to retirement benefits debited or credited to the CI&E Statement	50.1				(50.1)
Employer's pension contributions and direct payments to pensioners payable in the year	(25.1)				25.1
<b>Amount by which council tax income credited to the CI&amp;E Statement is different from council tax income calculated for the year in accordance with statutory requirements</b>	(0.4)				0.4
Amount by which National Non-Domestic Rates income credited to the CI&E Statement is different from Non-Domestic Rates income calculated for the year in accordance with statutory requirements	0.9				(0.9)
Amount by which officer remuneration charged to the CI&E Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(1.7)				1.7
<b>Sub Total</b>	<b>49.8</b>	<b>(0.6)</b>	<b>(4.7)</b>	<b>-</b>	<b>(44.5)</b>
Transfer to/(from) earmarked reserves	2.8	(2.3)		6.2	(6.7)
<b>Total Adjustments</b>	<b>52.6</b>	<b>(2.9)</b>	<b>(4.7)</b>	<b>6.2</b>	<b>(51.2)</b>

### 13. Usable Reserves

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

	<b>Opening Balance 01/04/19</b>	<b>Contributions To</b>	<b>From</b>	<b>Closing Balance 31/03/20</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
General fund	12.2			12.2
Earmarked specific reserves	81.5	50.1	(55.3)	76.3
Capital grants unapplied	41.1	78.0	(63.2)	55.9
Capital receipts reserve	0.1	9.5	(9.6)	0.0
<b>Total Usable Reserves</b>	<b>134.9</b>	<b>137.6</b>	<b>(128.1)</b>	<b>144.4</b>

#### 13.1 Transfers to/from Earmarked Reserves

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

	Balance at 31 March 2019	Transfers out	Transfers in	Balance at 31 March 2020	Purpose of the reserve
	£m	£m	£m	£m	
<b>Open for Business</b>					
Revolving Investment Fund	4.5	(0.3)	0.7	4.9	Investment in the local economy which delivers income to support future investment
Open for Business	3.9			3.9	Supporting measures to grow our local economy
Local Authority Business Growth Initiative	0.6			0.6	Residual Local Authority Business Growth Initiative funding
Sub regional mineral plan	0.6	(0.2)	0.2	0.6	Funds held to support the delivery of the sub regional mineral plan
Growing Places reserve	2.4	(0.5)	1.0	2.9	Supporting growth in the local economy
Regional Improvement and Efficiency Reserve	0.7	(0.7)		0.0	Money held for the Regional Improvement and Efficiency Programme (the County Council are the administering authority)
Other	0.4		0.4	0.8	Lower value reserves covering, for example, apprenticeships

	Balance at 31 March 2019	Transfers out	Transfers in	Balance at 31 March 2020	Purpose of the reserve
<b>Children &amp; Families</b>					
Safeguarding			1.1	1.1	Risk reserve maintained to support unexpected safeguarding costs that could arise through the contract with Worcestershire Children First.
Revenue grants unapplied	4.0	(2.4)	2.1	3.7	Grants held by the service for draw down as required
<b>The Environment</b>					
Regeneration and Infrastructure	3.0	(3.0)	0.5	0.5	Supporting measures to grow our local economy
Revenue grants unapplied	0.4			0.4	Grants held by the service for draw down as required
<b>Health and Wellbeing</b>					
Public Health	6.2	(1.9)	2.1	6.4	Balances from the Ring-fenced Public Health Grant held to support the service against future changes in funding
Revenue grants unapplied	0.1		0.2	0.3	Grants held by the service for draw down as required

	Balance at 31 March 2019	Transfers out	Transfers in	Balance at 31 March 2020	Purpose of the reserve
Transformation / Change Reserve	5.3	(3.4)	2.4	4.3	Financing invest to save schemes to change the shape and design of the County Council
Digital Reserve	3.0			3.0	Supporting the development of digitally enabled operations as part of the organisational review
Elections	0.2		0.1	0.3	Annual amounts set aside to provide County Council elections, which happen every 4 years
Property Management	0.5		0.1	0.6	Funding for property-related expenditure
Insurance	8.4	(0.5)	1.3	9.2	Covering claims below the County Council's insurance policy excess
Business Rates Pool	9.8	(13.2)	20.2	16.8	To enable smoothing of the impact of changes to the Business Rates retention across the Pool and changes in national funding levels, including rate appeal losses and any fall in rates collected
Coroners Major Inquests	0.2		0.2	0.4	Amounts set aside to cover significant inquest costs
Councillors Divisional Fund	0.6	(0.5)	1.1	1.2	Funds to support Councillors' local discretionary spend

	Balance at 31 March 2019	Transfers out	Transfers in	Balance at 31 March 2020	Purpose of the reserve
Fleet Surplus Reserve	0.4	(0.3)		0.1	Fleet support
Future Capital Investment	1.8	(0.6)	0.3	1.5	Monies set aside to fund future planned capital expenditure
Financial Services Reserve	1.6			1.6	Funding to support the employers' pension contributions
Financial Risk Reserve	5.5	(7.2)	8.3	6.6	Amount set aside to support financial risk
<b>Other reserves (not available for core spend)</b>					
Schools balances held under delegation	5.6	(5.6)	1.4	1.4	Balances held for individual maintained schools
Schools ICT PFI Reserve	0.4	(0.2)		0.2	PFI grant funding supporting the ongoing delivery of the programme
Bromsgrove High School PFI Advance	1.7	(0.1)		1.6	PFI grant funding supporting the ongoing delivery of the programme
DSG c/fwd Balance Reserve	(0.7)	(7.2)	1.6	(6.3)	Dedicated Schools Grant unallocated or unspent balances*
Waste Contract PFI Grant	10.4	(7.5)	4.8	7.7	To fund pressures relating to the increase on household waste disposal costs as the number of households in the County increases

<b>Total</b>	<b>81.5</b>	<b>(55.3)</b>	<b>50.1</b>	<b>76.3</b>	
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\* Within the above Earmarked Reserves table is a deficit reserve of £6.3 million for Dedicated Schools Grant. This relates to the High Needs Block where the costs incurred during the year were greater than the specific grant received from the Department for Education and any brought forward balances from last year. Guidance from Central Government does not enable these costs to be charged to the Council's General Fund. The Council is managing an action plan to reduce expenditure whilst at the same time additional funding is being received from Government for 2020/21. In the meantime, until recurrent income matches recurrent expenditure, the Council will need to carry a deficit reserve until it is paid off.

## 14. Unusable Reserves

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

	Opening Balance 01/04/19 £m	Contributions		Closing Balance 31/03/20 £m	Purpose of the reserve
		To £m	From £m		
Pensions reserve	(492.7)	(108.0)	117.1	(483.6)	Movement in remeasurement of the net defined liability
Accumulated absences adjustment account	(5.1)	5.1	(7.2)	(7.2)	Balances relating to the accumulated holiday due but not taken in year
Financial instruments adjustment account	(1.1)			(1.1)	Valuation gains and losses on financial instruments carried at fair value
Capital adjustment account	205.0	74.1	(67.4)	211.7	An accounting mechanism used to reconcile the different rates at which assets are depreciated
Revaluation reserve	225.0	26.2	(32.7)	218.5	Unrealised gains and losses arising from revaluations of long-term assets
Collection fund adjustment accounts	2.3	(0.5)	9.2	11.0	Surplus or deficit arising from agency arrangements
Rounding adjustment			0.2		
<b>Total Unusable Reserves</b>	<b>(66.6)</b>	<b>(3.1)</b>	<b>19.2</b>	<b>(50.7)</b>	

## 15. Property, Plant and Equipment

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

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

- Land and buildings – Current value based on existing use for operational assets where there is an active market or depreciated replacement cost for assets of a more specialist nature
- Vehicles, plant and equipment - Current value based on existing use for operational assets where there is an active market or depreciated replacement cost for assets of a more specialist nature
- Infrastructure – Historical cost
- Community assets – Depreciated historical cost
- Assets under construction – Historical cost.

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

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

## 15.1 Movements

2019/20	Land and Buildings	Vehicles, plant, furniture & equipment	Infrastructure assets	Community Assets	Surplus Assets	Assets under Construction	Total Property, Plant & Equipment	PFI Assets included in PPE
	£m	£m	£m	£m	£m	£m	£m	£m
Cost or valuation								
<b>At 1 April 2019</b>	<b>567.4</b>	<b>182.5</b>	<b>586.0</b>	<b>0.3</b>	<b>9.0</b>	<b>65.1</b>	<b>1,410.3</b>	<b>222.3</b>
Restatements								3.1
Additions	8.3	6.7	91.8				106.8	0.1
Revaluation increases / (decreases) recognised in Revaluation Reserve	(4.3)						(4.3)	(4.1)
Revaluation increases / (decreases) recognised in the Surplus on the Provision of Services	(5.9)				(1.0)		(6.9)	
De-recognition/ Disposals	(18.1)				(2.2)		(20.3)	(0.9)
De-recognition - Other	(10.6)						(10.6)	
Assets reclassified to Held for Sale	(0.2)				(1.2)		(1.4)	
Assets reclassified to other categories	(0.1)	0.1						
Other movements in cost or valuation						(16.5)	(16.5)	
<b>At 31 March 2020</b>	<b>536.5</b>	<b>189.3</b>	<b>677.8</b>	<b>0.3</b>	<b>4.6</b>	<b>48.6</b>	<b>1,457.1</b>	<b>220.5</b>

2019/20	Land and Buildings	Vehicles, plant, furniture & equipment	Infrastructure assets	Community Assets	Surplus Assets	Assets under Construction	Total Property, Plant & Equipment	PFI Assets included in PPE
	£m	£m	£m	£m	£m	£m	£m	£m
Accumulated depreciation and impairment								
<b>At 1 April 2019</b>	<b>(31.0)</b>	<b>(71.4)</b>	<b>(253.9)</b>		<b>(1.5)</b>		<b>(357.8)</b>	<b>(23.7)</b>
Restatements								
Depreciation written out to the Revaluation Reserve	(3.7)						(3.7)	
Depreciation written out to the Surplus / Deficit on the Provision of Services	(4.8)	(8.2)	(26.4)				(39.4)	(5.5)
De-recognition – disposals	0.7						0.7	
Derecognition - other	0.9						0.9	
Assets reclassified to Held for Sale					0.1		0.1	
Other movements in depreciation and impairment	11.7				1.1		12.8	1.3
<b>At 31 March 2020</b>	<b>(26.2)</b>	<b>(79.6)</b>	<b>(280.3)</b>		<b>(0.3)</b>		<b>(386.4)</b>	<b>(27.9)</b>
Net book value								
<b>At 31 March 2020</b>	<b>510.3</b>	<b>109.7</b>	<b>397.5</b>	<b>0.3</b>	<b>4.3</b>	<b>48.6</b>	<b>1,070.7</b>	<b>192.6</b>
<b>At 31 March 2019</b>	<b>536.4</b>	<b>111.1</b>	<b>332.1</b>	<b>0.3</b>	<b>7.5</b>	<b>65.1</b>	<b>1,052.5</b>	<b>198.6</b>

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

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

## 15.2 Revaluations

Asset categories are revalued at least every five years on a rolling basis in accordance with the Royal Institution of Chartered Surveyors (RICS) Valuation - Global Standards 2020 and UK National Supplement. Further revaluations are carried out where there have been material changes. Assets are revalued where completed capital expenditure represents more than 15% of the asset's opening net book value or is greater than £100,000. Non-property assets with short useful lives and/or low values are valued at depreciated historical cost and where there is no market-based evidence of current value because of the specialist nature of the asset, depreciated replacement cost (DRC) is used. The County Council's valuations have been completed by:

Mark Vincent MRICS  
Estates Surveyor  
Place Partnership Ltd  
Placepro House  
Unit 6 Berkeley Business Park  
Wainwright Road  
Worcester  
WR4 9FA

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

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

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

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

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

Where impairment losses are identified, they are accounted for by:

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

Where an impairment loss is subsequently reversed, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

## Revaluations

	Land and Buildings	Vehicles, plant, furniture & equipment	Infrastructure assets	Community Assets	Surplus Assets	Assets under Construction	Total Property, Plant & Equipment	PFI Assets included in PPE
	£m	£m	£m	£m	£m	£m	£m	£m
Net book value as at:								
31 March 2020	310.6	0.1			1.8		312.5	69.6
31 March 2019	30.2				1.3		31.5	3.5
31 March 2018	148.4	96.1			1.0		245.5	119.5
31 March 2017	10.3				0.2		10.5	
31 March 2016	10.8						10.8	
Held at cost		13.5	397.5	0.3		48.6	459.9	
<b>Total cost or valuation</b>	<b>510.3</b>	<b>109.7</b>	<b>397.5</b>	<b>0.3</b>	<b>4.3</b>	<b>48.6</b>	<b>1,070.7</b>	<b>192.6</b>

### 15.3 Revaluation reserve

The revaluation reserve contains revaluation gains arising from increases in the value of PPE assets. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.
- 

2018/19	2019/20
£m	£m
<b>242.7 Opening Balance at 1 April</b>	<b>225.0</b>
12.0 Revaluations upwards during the year	26.2
(3.7) Depreciation of revaluations	(3.7)
(10.5) Revaluations downwards during the year	(20.6)
(15.4) Disposal of revaluations	(8.4)
(0.1) Other adjustments	
<b>225.0 Closing Balance at 31 March</b>	<b>218.5</b>

#### 15.4 Downward revaluations and disposal losses

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

Schools converting to academy status are transferred for nil consideration.

<b>2018/19</b>	<b>2019/20</b>
<b>£m</b>	<b>£m</b>
11.6 Downward revaluations - other land and buildings	29.5
6.2 Downward revaluations - non-operational	0.5
37.8 Disposal losses – other land & buildings	21.9
<b>55.6</b>	<b>51.9</b>

## 15.5 Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or additions to those assets under statutory provisions.

2018/19	2019/20
£m	£m
<b>214.7 Balance at 1 April</b>	<b>205.0</b>
Capital Financing:	
7.0 Capital receipts	9.7
53.3 Capital grants and contributions	63.2
0.7 Revenue contributions to capital expenditure	0.6
0.5 Capital reserve	0.6
<b>61.5</b>	<b>74.1</b>
(5.3) Downward revaluations charged to Comprehensive Income and Expenditure Statement	(4.0)
(35.4) Depreciation charged to Comprehensive Income and Expenditure Statement	(40.6)
7.0 Minimum revenue provision adjustment	8.8
2.5 Minimum revenue provision PFI adjustment	3.2
(13.8) REFCUS adjustment	(11.8)
(24.7) Disposal of non-current assets	(23.0)
(1.5) Other adjustments	
<b>205.0 Closing Balance at 31 March</b>	<b>211.7</b>

## 15.6 Contractual commitments for property, plant and equipment

As at 31 March 2020 the County Council has a capital programme comprising capital projects amounting to £178.3 million (2018/19 £257.4 million). The following contracts have been entered into for the construction or enhancement of PPE.

<b>Major schemes where contracts have been let:</b>	<b>£m</b>
Worcestershire A4440 Southern Link Road Dualling	33.7
Local Broadband Plan	3.9
Worcester Southern Link - Battenhall Bridge (SLR3)	3.5
Holyoakes Field First School Relocation	5.4
<b>Sub-total</b>	<b>46.5</b>
Committed schemes less than £2 million	19.1
<b>Major schemes where contracts have been let:</b>	<b>65.6</b>

## 15.7 School assets

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

- Community schools – land and buildings are legally held by the County Council and are shown in full on the Balance Sheet. Valuation of these assets is at depreciated replacement cost to reflect the specialist nature of the assets;
- Voluntary Controlled schools and Voluntary Aided schools - land and buildings comprising the main body of the school are legally held by the other entities. In Worcestershire this is either the Church of England or Catholic Diocese who retain the control of the asset. The review determined that, for these assets, legal ownership in conjunction with the substantive rights to the asset and future economic benefits sit with the relevant church body. Accordingly, the County Council has not shown these assets on the Balance Sheet;
- Foundation schools/ Trust schools – land and buildings comprising the body of the school are legally held by other entities. The review determined that, for these assets, legal ownership in conjunction with the substantive rights to the asset and future economic benefits

sit with the relevant church body. The County Council has use of the assets but is not able to exert substantive control over them or to receive any future economic benefits. Accordingly, the County Council has not shown these assets on the Balance Sheet;

- Assets provided by the County Council as part of its responsibility for running the schools are shown on the Balance Sheet (for example the funding of mobile classrooms);
- Academy schools (previously community schools) – are not maintained by the County Council. The land and buildings comprising the body of the schools are leased to the academy on a 125-year lease and are therefore not shown on the Balance Sheet; local authority schools which are due to convert to academy status post balance sheet date are treated as non-adjusting post balance sheet date events. Where a school transfers after 31 March 2020, details are given in the Events after the Balance Sheet date note at the end of the accounts.

	<b>Number of schools at 31 March 2020</b>	<b>Value held on Balance Sheet at 31 March 2020</b>	<b>Status</b>
		£m	
<b>Community</b>	55	264.8	On Balance Sheet
<b>PFI</b>	7	70.9	On Balance Sheet
<b>Voluntary controlled</b>	43	1.8	Off Balance Sheet
<b>Voluntary aided</b>	22	0.2	Off Balance Sheet
<b>Academy</b>	111	1.0	Off Balance Sheet
<b>Foundation</b>	1	0.9	Off Balance Sheet
<b>Free School</b>	4		Off Balance Sheet
	<b>243</b>	<b>339.6</b>	

## 15.8 Non-operational assets

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

2018/19		2019/20
£m		£m
8.3	Assets Held for Sale	7.6

## 15.9 Capital expenditure and capital financing

2018/19	2019/20	
£m	£m	
<b>541.4</b>	<b>Opening capital financing requirement</b>	<b>578.4</b>
<b>Capital investment:</b>		
91.7	Property, plant and equipment	92.8
13.8	Revenue expenditure funded from capital under statute	11.8
<b>105.5</b>	<b>Total Capital Investment</b>	<b>104.6</b>
<b>Sources of finance:</b>		
(7.0)	Capital receipts	(9.7)
(53.3)	Government grants & other contributions	(63.2)
Sums set aside from revenue:		

(1.2) Direct revenue contributions	(1.2)
(7.0) MRP/loans fund principal (excluding PFI)	(8.9)
<b>578.4 Closing Capital Financing Requirement</b>	<b>600.0</b>

<b>Explanation of movements in year</b>	
37.0 Increase in underlying need to borrow (supported by government financial assistance)	21.6
<b>37.0 Increase / (decrease) in Capital Financing Requirement</b>	<b>21.6</b>

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

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

#### **15.10 Assumptions made about the future and estimate uncertainties**

<b>Item</b>	<b>Uncertainties</b>	<b>Effect if actual results differ from assumptions</b>
<b>Property plant &amp; equipment</b> assets – depreciation	Property plant and equipment assets held on the Balance Sheet have an estimated useful life. This is based on a professional judgement by the Valuer.	Depreciation is applied on a straight-line basis over the useful life of the asset. Variations to the useful life will alter the amount of depreciation charged to the Comprehensive Income and Expenditure Statement. The impact of this is minimised by a review of the useful life of an asset being undertaken at each valuation.

<p><b>Property plant &amp; equipment assets – valuation</b></p>	<p>Property plant &amp; equipment assets are valued by the County Council's Valuer on a five-year rolling programme, unless events indicate that a more frequent interval is required.</p>	<p>The Valuer uses his professional knowledge of the market and other factors to arrive at an asset value. Variations to this value would result in increased or decreased depreciation and, potentially, impairment losses being charged to the Comprehensive Income and Expenditure Statement.</p> <p>A 5% reduction in the Land and Buildings value of £536.5 million would result in a £26.8 million charge to the Comprehensive Income and Expenditure account if no amounts were available to cover the loss in the Revaluation Reserve.</p> <p>An increase in estimated asset values would result in an increase to the Revaluation Reserve and/or reversals of previous negative movements to the Comprehensive Income and Expenditure account and/or gains recognised in the Comprehensive Income and Expenditure account, as appropriate.</p>
<p><b>Property plant &amp; equipment assets – valuation</b></p>	<p>The outbreak of COVID-19 has impacted upon global financial markets and thus less weight can be attached to previous market evidence used to inform opinions on asset values.</p> <p>At the current time it is not possible to accurately predict the severity or longevity of the impact of COVID-19; asset values have been based on market evidence prior to COVID-</p>	<p>All physical valuations performed by the Council's external valuer were undertaken prior to the measures imposed by the UK Government and there have been no limitations in inspection of assets revalued in the year as a result of COVID-19 restrictions.</p> <p>In line with RICS Guidance issued in response to the potential market impact of the COVID-19 virus, the valuations provided have been reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global.</p>

	19 on the assumption that values will be restored in the future.	
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Property plant and equipment is valued at £1,070.7 million at 31 March 2020.

## 16. Private finance initiatives (PFI)

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

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

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

### 16.1 Waste Disposal PFI

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

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

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

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

### **16.2 Bromsgrove Schools PFI**

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

### **16.3 Worcester Library and History Centre (The Hive) PFI**

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

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

#### 16.4 Value of assets and liabilities under PFI contracts

	PPE - land & buildings				PPE - vehicle, plant & equipment	PPE
	Waste disposal	Bromsgrove schools	The Hive	Total	Waste disposal	Total
	£m	£m	£m	£m	£m	£m
<b>Balance at 31 March 2019</b>	<b>8.7</b>	<b>63.6</b>	<b>28.8</b>	<b>101.1</b>	<b>97.5</b>	<b>198.6</b>
Additions		0.2		0.2		0.2
Revaluations	(2.7)	(0.4)	(1.2)	(4.3)	0.1	(4.2)
Depreciation	(0.2)	(0.7)	0.2	(0.7)	(1.4)	(2.1)
<b>Balance at 31 March 2020</b>	<b>5.8</b>	<b>62.7</b>	<b>27.8</b>	<b>96.3</b>	<b>96.2</b>	<b>196.5</b>

#### Finance lease liability

	Waste disposal	Bromsgrove schools	The Hive	Total
	£m	£m	£m	£m
<b>Balance at 31 March 2019</b>	<b>(109.6)</b>	<b>(51.3)</b>	<b>(17.9)</b>	<b>(178.8)</b>
Additions	(0.1)			(0.1)
Payments	5.9	1.2	0.4	7.5
<b>Balance at 31 March 2020</b>	<b>(103.8)</b>	<b>(50.1)</b>	<b>(17.5)</b>	<b>(171.4)</b>

### 16.5 Details of payments due to be made under PFI contracts

	<b>Repayment of liability</b>	<b>Service Charge</b>	<b>Interest</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Payments due within one year	8.0	33.7	12.0	53.7
Payments due within 2 to 5 years	26.2	79.2	38.0	143.4
Payments due within 6 to 10 years	15.5	23.0	23.4	61.9
Payments due within 11 to 15 years	23.8	23.3	14.8	61.9
Payments due within 16 to 20 years	17.6	12.7	3.0	33.3

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

## 17. Financial instruments

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

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

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

Financial assets are classified as either:

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

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

Long-term 31 March 2019	Current 31 March 2019		Long-term 31 March 2020	Current 31 March 2020
£m	£m		£m	£m
<b>Investments</b>				
	7.0	Financial assets at amortised cost		5.0
3.0	0.1	Fair value through profit & loss	3.0	0.0
<b>3.0</b>	<b>7.1</b>		<b>3.0</b>	<b>5.0</b>
<b>Cash Equivalents</b>				
	8.9	Cash equivalents at amortised cost		10.0
	35.4	Fair value through profit & loss		70.2
	<b>44.3</b>			<b>80.2</b>
<b>Debtors</b>				
119.6	31.9	Financial assets at amortised cost	115.9	37.9
<b>Borrowings</b>				
(409.3)	(57.4)	Financial liabilities at amortised cost	(435.9)	(39.4)
<b>Other long-term liabilities</b>				
(178.8)		PFI and finance lease liabilities	(171.4)	
<b>Creditors</b>				
(0.3)	(45.2)	Financial liabilities at amortised cost		(57.2)

## 17.1 Income, expense, gains and losses

2018/19				2019/20				
Financial liabilities at amortised cost	Financial assets at amortised cost	Financial assets at fair value through profit & loss	Total		Financial liabilities at amortised cost	Financial assets at amortised cost	Financial assets at fair value through profit & loss	Total
£m	£m	£m	£m		£m	£m	£m	£m
(28.9)	1.2	(1.6)	(29.3)	Interest expense	(29.2)	0.6		(28.6)
	8.1	1.8	9.9	Interest income		8.0	0.2	8.2
<b>(28.9)</b>	<b>9.3</b>	<b>0.2</b>	<b>(19.4)</b>	<b>Net gain / (loss) for the year</b>	<b>(29.2)</b>	<b>8.6</b>	<b>0.2</b>	<b>(20.4)</b>

## 17.2 Fair value of assets and liabilities

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

31 March 2019		31 March 2020	
Carrying amount	Fair value	Carrying amount	Fair value
£m	£m	£m	£m
<b>Financial liabilities</b>			
512.0	605.3	532.5	790.9
178.8	165.9	171.4	153.7
0.3	0.3		
<b>Financial assets</b>			
41.9	41.9	46.0	46.0
119.6	119.6	115.9	115.9
44.3	44.3	80.2	80.2

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

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

31 March 2019		31 March 2020	
Level 2	Level 3	Level 2	Level 3
£m	£m	£m	£m
	3.0 Malvern Hills Science Park		3.0
<b>0.0</b>	<b>3.0 Total Available for Sale Assets</b>	<b>0.0</b>	<b>3.0</b>

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

31 March 2019	31 March 2020
£m	£m
57.4 Maturing within one year	39.5
29.2 Maturing in 1-2 years	32.2
34.1 Maturing in 2-5 years	34.2
55.7 Maturing in 5-10 years	53.3
290.4 Maturing in more than 10 years	316.2
<b>466.8 Total</b>	<b>475.4</b>

### 17.3 Nature and extent of risks arising from financial instruments

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

- Credit risk - the possibility that other parties might fail to pay amounts due to the County Council. The credit risk in respect of Trade Debtors is considered at Note 19. For our other Financial Assets Held at Amortised Cost, we have considered the additional credit risk arising as a result of the COVID-19 pandemic:
  - Cash and Cash Equivalents - No material risk on the basis that these are liquid assets.
  - Short-term investments – No material risk. The Short-term investments balance at 31 March 2020 comprises a single deposit at another local authority with a short-term maturity date; the expected credit loss was assessed by our Independent Treasury Advisors as a trivial sum.
  - Capital Advances treated as a Loan – No material risk. In respect of the loan arrangement to Mercia Waste, we assess the 12 month potential credit loss; as this has been quantified as not material, we see no reason to revise our assessment in light of the COVID-19 impact given that:
    - The nature of the Counterparty's activity (waste management), which has continued to operate during the pandemic and will continue to operate as the economy reopens; and
    - The nature of the underlying asset (clean power generation), notwithstanding short-term energy price fluctuations, we do not anticipate any risk of obsolescence, loss of amenity or other factors that would suggest an impairment in the value of the asset.
- Liquidity risk - the possibility that the County Council might not have funds available to meet its commitments to make payments. This is managed by our Treasury Management Strategy, referenced below. Additional risks to the Council's liquidity as a result of the COVID-19 pandemic are monitored as part of routine financial monitoring and planning activity; and
- Market risk - the possibility that financial loss might arise for the County Council because of changes in such measures as interest rates movements. This is not applicable to our loans as they are fixed-rate. There are no additional market risks arising from COVID-19; to date, there has been no impact upon the interest rates of our existing or anticipated borrowing.

The County Council's overall risk management procedures focus on the unpredictability of financial markets and seek to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by a central treasury team under policies

approved by the County Council in the Treasury Management Strategy. The Strategy for 2019/20 was approved by Council on 14 February 2019.

## 18. Long term investments

31 March 2019	31 March 2020
£m	£m
3.0 Malvern Hills Science Park	3.0
<b>3.0 Total</b>	<b>3.0</b>

### 18.1 Malvern Hills Science Park

Malvern Hills Science Park is a limited company established by the County Council with its partners Malvern Hills District Council and the Hereford and Worcester Chamber of Commerce and Enterprise. The County Council holds 9 voting shares out of a total issue of 100; this has been judged not to give the County Council a controlling influence. In addition, the County Council holds Preference shares of 957,103 P1 shares (957,103 in 2017/18) and 6,190 P2 shares (6,190 2017/18). The preference shares carry no voting rights. These are the only Level 3 investments held by the County Council. The County Council's investment, measured at fair value in 2019/20, is £3.0 million (2018/19 £3.0m). This is shown on the Balance Sheet as a Long-Term investment, and the asset is held at Fair Value Through Profit and Loss (included in note 17.2). These shares are not publicly traded therefore their value is not expected to change materially.

## 19. Debtors

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

31 March 2019	31 March 2020
£m	£m
<b>Long term debtors:</b>	
4.4 Trade receivables	4.3
115.2 Other receivables	111.6
<b>119.6</b>	<b>115.9</b>
<b>Short term debtors:</b>	
30.1 Trade receivables	40.1
4.9 Prepayments	4.8
21.2 Other receivables	49.0
<b>56.2</b>	<b>93.9</b>
<b>175.8 Total debtors</b>	<b>209.8</b>

The County Council does not generally allow credit for trade receivables debtors, however £9.5 million of balances are past due date for payment and can be analysed as follows. The current bad debt provision for trade debtors in the Balance Sheet is £1.4 million, an increase of £0.9 million.

	<b>£m</b>
One to three months	1.2
Three to six months	1.4
Six months to one year	2.0
More than one year	4.9
<b>Total</b>	<b>9.5</b>

## 20. Cash and cash equivalents

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

	<b>Opening Balance 01/04/2019</b>	<b>Movement During the Year</b>	<b>Closing Balance 31/03/2020</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Bank current accounts	(6.2)	(2.4)	(8.6)
Short Term investments held as cash	44.3	35.9	80.2
<b>Total cash and cash equivalents</b>	<b>38.1</b>	<b>33.5</b>	<b>71.6</b>

## 21. Creditors

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

<b>31 March 2019</b>	<b>31 March 2020</b>
<b>£m</b>	<b>£m</b>
<b>Long-term creditors</b>	
(0.3) Other payables	
<b>Short-term creditors</b>	
(49.6) Trade payables	(62.2)
(31.8) Other payables	(52.9)
<b>(81.4)</b>	<b>(115.1)</b>
<b>(81.7) Total creditors</b>	<b>(115.1)</b>

## 22. Other long-term liabilities

2018/19	2019/20
£m	£m
(178.8) PFI liabilities	(171.4)
(465.2) Re-measurement of the net defined benefit	(481.1)
(2.9) Teachers' Pension scheme Added year	(2.4)
<b>(646.9) Other Long-term Liabilities</b>	<b>(654.9)</b>

## 23. Grants receipts in advance

31 March 2019	31 March 2020
23.4 Section 106 Town and Country Planning Act 1990	27.8
1.5 Section 278 Highways Act 1980	1.6
<b>24.9</b>	<b>29.4</b>

## 24. Cash activities

### 24.1 Operating activities

2018/19	2019/20
£m	£m
1.4 Interest received	1.0
(29.1) Interest paid	(29.7)

2018/19	2019/20
£m	£m
<b>The surplus/deficit on the provision of services has been adjusted for the following non-cash movements</b>	
39.1 Depreciation	43.2
5.3 Downward revaluations	4.0
0.3 Amortisation	1.1
(Increase) / decrease in impairment for bad debts	0.2
6.5 (Decrease) / Increase in creditors	33.4
5.2 (Increase) / decrease in debtors	(33.0)
48.5 Movement in pension liability	51.4
(0.1) (Increase)/ decrease in Inventories	
40.1 Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	29.2

(7.6) Other non –cash items	(3.5)
<b>137.3</b>	<b>126.0</b>
<b>The surplus/deficit on the provision of services has been adjusted for the following items that are investing or financing activities</b>	
(2.3) Proceeds from the sale of property plant and equipment, investment property and intangible assets	(9.5)
(59.4) Any other items for which the cash effects investing of financing cash flows	(78.0)
<b>(61.7)</b>	<b>(87.5)</b>

## 24.2 Investing activities

2018/19	2019/20
£m	£m
(91.3) Purchase of property, plant & equipment, investment property and intangible assets	(92.6)
(736.5) Purchase of short-term & long-term investments	(935.4)
7.4 Other payments for investing activities	7.2
2.3 Proceeds from the sale of property, plant & equipment, investment property and intangible assets	9.5
731.5 Proceeds from short-term & long-term investments	937.4
63.7 Other receipts from investing activities	82.2
<b>(22.9) Net cash flows from investing activities</b>	<b>8.3</b>

### 24.3 Financing activities

2018/19	2019/20
£m	£m
64.8 Cash receipts of short-term & long-term borrowing	29.9
8.2 Other receipts from financing activities	1.8
(6.9) Cash payments for the reduction of the outstanding liabilities relating to finance leases & on-Balance Sheet PFI contracts	(7.5)
(43.5) Repayments of short- and long-term borrowing	(21.4)
<b>22.6 Net cash flows from financing activities</b>	<b>2.8</b>

## 25. Officers' remuneration

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

### 25.1 Remuneration over £50,000 per annum

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

2018/19			Total Remuneration to Employees	2019/20		
Teachers	Non-Teachers	Total		Teachers	Non-Teachers	Total
56	37	93	£50,000 to £54,999	67	25	92
40	27	67	£55,000 to £59,999	42	19	61
31	9	40	£60,000 to £64,999	20	11	31
21	4	25	£65,000 to £69,999	25	5	30
14	6	20	£70,000 to £74,999	15	7	22
2	4	6	£75,000 to £79,999	5	4	9
5	3	8	£80,000 to £84,999	6	2	8
	4	4	£85,000 to £89,999	2	2	4
2	3	5	£90,000 to £94,999	3	1	4
1	2	3	£95,000 to £99,999	1	5	6
2	2	4	£100,000 to £104,999	2	1	3
			£105,000 to £109,999	1	1	2
	1	1	£110,000 to £114,999	0	0	0

			£115,000 to £119,999	0	0	0
			£120,000 to £124,999	0	1	1
	2	2	£125,000 to £129,999	0	0	0
			£130,000 to £134,999	0	1	1
			£135,000 to £169,999	0	0	0
	1	1	£170,000 to £174,999	0	1	1
<b>174</b>	<b>105</b>	<b>279</b>		<b>189</b>	<b>86</b>	<b>275</b>

## 25.2 Senior employees' remuneration

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

Post Title		Salary	National Insurance	Expense allowances	Pension Contributions	Total	Position start date	Position end date
		£	£	£	£	£		
<b>Chief Executive, Paul Robinson</b>	<b>2019/20</b>	<b>179,048</b>	<b>23,516</b>	<b>339</b>	<b>27,424</b>	<b>230,327</b>		
Chief Executive, Paul Robinson	2018/19	172,471	22,638	62	25,028	220,199		
<b>Director of Children's Services^</b>	<b>2019/20</b>	<b>65,338</b>	<b>8,421</b>	<b>358</b>	<b>10,026</b>	<b>84,143</b>		
	2018/19	128,093	16,514	828	18,624	164,059		
<b>Director of Economy &amp; Infrastructure</b>	<b>2019/20</b>	<b>131,910</b>	<b>16,986</b>		<b>20,204</b>	<b>169,100</b>		

	2018/19	128,341	16,146		18,624	163,111	
<b>Director of Commercial &amp; Change</b>	<b>2019/20</b>	<b>121,910</b>	<b>15,633</b>		<b>18,967</b>	<b>156,510</b>	
	2018/19	111,334	14,208	76	16,197	141,815	30/04/2018
<b>Director of Public Health*</b>	<b>2019/20</b>	<b>64,699</b>	<b>8,135</b>	<b>39</b>	<b>7,032</b>	<b>79,905</b>	<b>01/08/2019</b>
<b>Director of Public Health</b>	<b>2019/20</b>	<b>21,051</b>	<b>2,508</b>		<b>3,098</b>	<b>26,657</b>	<b>31/07/2019</b>
	2018/19	62,766	7,499		9,113	79,378	
<b>Chief Financial Officer</b>	<b>2019/20</b>	<b>108,243</b>	<b>13,747</b>	<b>305</b>	<b>16,580</b>	<b>138,875</b>	
	2018/19	99,712	12,598		14,469	126,779	23/04/2018
<b>Interim Chief Financial Officer</b>	2018/19	6,162	737		847	7,746	21/04/2018
<b>Interim Director of People</b>	<b>2019/20</b>	<b>49,023</b>	<b>6,247</b>		<b>8,240</b>	<b>63,510</b>	<b>25/10/2019</b>
<b>Total</b>	<b>2019/20</b>	<b>741,222</b>	<b>95,193</b>	<b>1,041</b>	<b>111,571</b>	<b>949,027</b>	
	2018/19	708,879	90,340	966	102,902	903,088	

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

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

## 26. Pension schemes

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

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

### 26.1 Defined contribution pension schemes

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

#### 26.1.1 Teachers' Pension Scheme

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

In 2019/20 the County Council paid £14.3 million (2018/19 £11.8m) to the Department for Education and Skills in respect of teachers' pension costs, which represents 20.7% (2018/19 16.5%) of teachers' pensionable pay. In addition, the County Council is responsible for all pension payments relating to Teacher's added years it has awarded, together with the related increases. In 2019/20 these amounted to £0.3 million (2018/19 £0.3m), representing 0.4% (2018/19 0.4%) of pensionable pay. The County Council's Actuary has calculated a long-term liability of £2.5 million in respect of these payments that will decline over time and this is included in the balance sheet under other long-term liabilities.

#### 26.1.2 NHS Pension Scheme

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

In 2019/20 the County Council paid £0.1 million (2018/19 £0.1m) to the NHS Superannuation Scheme, which represents 14.4% (2018/19 14.4%) of NHS pensionable pay.

## 26.2 Defined benefit pension schemes

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

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

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

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

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

The three principal risks to the scheme are:

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

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

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

### 26.2.1 Transactions relating to post-employment benefits

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

2018/19		2019/20
£m		£m
	<b>Comprehensive Income &amp; Expenditure Statement</b>	
	<b>Cost of services:</b>	
(33.4)	Current service cost	(32.5)
(6.5)	Past service cost – McCloud judgement	(9.2)
(0.5)	Settlements and curtailments	(3.5)
	<b>Other Operating Expenses</b>	
(0.4)	Administration expenses	(0.4)
	<b>Financing &amp; investment income &amp; expenditure</b>	

(32.2)	Interest on Pensions Liabilities	(32.4)
22.9	Interest on Pensions Assets	21.3
<b>(50.1)</b>	<b>Total post-employment benefit charged to the surplus or deficit on the Provision of Services</b>	<b>(56.7)</b>

2018/19		2019/20
£m		£m
	<b>Re-measurement of the net defined liability charged to the Comprehensive Income &amp; Expenditure Statement</b>	
11.5	Return on Plan assets (excluding the amount included in net interest expense)	(51.3)
	Actuarial gain / (loss) arising on changes in experience	17.4
(68.1)	Actuarial gain / (loss) arising on changes in financial assumptions	27.4
	Actuarial gain / (loss) arising on changes in demographic assumptions	42.0
<b>(106.7)</b>	<b>Total post-employment benefit charged to the Comprehensive Income &amp; Expenditure Statement</b>	<b>(21.2)</b>
	<b>Movement in Reserves Statement</b>	
(25.1)	Reversal of net charges made to the surplus or deficit for the Provision of Services for post-employment benefits in accordance with the Code of Practice	(26.8)
	<b>Actual amount charged against the General Fund Balance for pensions in the year:</b>	
1.6	Employer's contributions payable to the scheme	5.3
(36.2)	Retirement benefits payable to pensioners	(39.8)

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

### 26.2.2 Pension gains and losses charged to the Comprehensive Income and Expenditure Statement

2018/19	2019/20	
£m	£m	
11.5	Return on Plan Assets (excluding the amount included in net interest expense)	(51.3)
	Actuarial gain / (loss) arising on changes in experience	17.4
(68.1)	Actuarial gain / (loss) arising from changes in financial assumptions	27.4
	Actuarial gain / (loss) arising on changes in demographic assumptions	42.0
0.2	(Increase)/decrease in Teachers Pension Liability	0.4
<b>(56.4)</b>	<b>Total gain / (loss)</b>	<b>35.9</b>

### 26.2.3 Pension assets and liabilities recognised in the Balance Sheet

2018/19	2019/20	
£m	£m	
(1,365.3)	Present value of liabilities	(1,322.4)
900.1	Fair value of assets	841.3
<b>(465.2)</b>	<b>Deficit in the scheme</b>	<b>(481.1)</b>

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

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

This table gives detail of the assets and liabilities as calculated by the County Council's actuary. The financial assumptions included are based on yield assumptions on corporate bonds and are impacted by the duration of our employee liabilities. Increases in benefits and pensions included in these assumptions are based on CPI. Salary growth assumptions are based on long-term "real" salary inflation assumptions. Further information is given in note 26.2.6 which breaks down the fund investment assets, note 26.2.7 which provides the underlying assumptions for calculations included and note 26.2.8 which estimates the impact of any sensitivities in these assumptions.

Reconciliation of present value of the scheme liabilities:

2018/19	2019/20
£m	£m
<b>(1,253.6)</b>	<b>(1,365.3)</b>
(33.4) Current service cost	(32.5)
(32.2) Interest cost	(32.4)
(6.6) Contributions by scheme participants	(6.1)
<b>Remeasurement (gains) and losses:</b>	
Actuarial gain / (loss) arising on changes in experience	17.4
(68.1) Actuarial gain / (loss) arising on changes in financial assumptions	27.4
Actuarial gain / (loss) arising on changes in demographic assumptions	42.0
36.2 Benefits paid	39.8
(0.6) Business combinations	0.0
(6.5) Past service cost – McCloud Judgement	(9.2)
(0.5) Curtailments	(3.5)
<b>(1,365.3) Closing balance at 31 March</b>	<b>(1,322.4)</b>

Reconciliation of fair value of the scheme assets:

<b>2018/19</b>	<b>2019/20</b>
£m	£m
<b>893.6 Opening balance at 1 April</b>	<b>900.1</b>
22.9 Interest Income	21.3
11.5 Return on plan assets, excluding the amount included in the net interest expense	(51.3)
(0.4) Administration expenses	(0.4)
1.6 Employer contributions	5.3
0.5 Business combinations	0.0
6.6 Contributions by scheme participants	6.1
(36.2) Benefits paid	(39.8)
<b>900.1 Closing balance 31 March</b>	<b>841.3</b>

## 26.2.5 Pensions Reserve

2018/19	2019/20
£m	£m
<b>(411.0) Balance at 1 April</b>	<b>(492.7)</b>
11.5 Return on Plan assets (excluding the amount included in net interest expense)	(51.3)
Actuarial gain / (loss) arising on changes in experience	17.4
(68.1) Actuarial gain / (loss) arising on changes in financial assumptions	27.4
Actuarial gain / (loss) arising on changes in demographic assumptions	42.0
(0.1) Business combinations	0.0
(50.1) 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	(56.7)
1.6 Employer's pensions contributions & direct payments to pensioners payable in the year	5.3
23.4 Employer's pension contributions – prepayment adjustment	24.6
0.2 Decrease in Teachers Pension Liability	0.4
<b>(492.7) Balance at 31 March</b>	<b>(483.6)</b>

## 26.2.6 Local Government Pension Scheme assets

2018/19	Quoted	2019/20
£m	(Y/N)	£m
<b>Equities:</b>		
1.8 UK Quoted	Y	1.7
237.6 Overseas quoted	Y	203.6
120.6 Pooled Investment Vehicle - UK Managed Funds	N	106.0
287.2 Pooled Investment Vehicle - UK Managed Funds - (overseas equities)	N	281.8
Pooled Investment Vehicle – Overseas Managed Funds	N	0.8
<b>Bonds:</b>		
2.7 UK Corporate	Y	3.4
41.4 Overseas Corporate	Y	38.7
72.9 UK Government Fixed	Y	60.6
Overseas Government	Y	0.8
<b>Property:</b>		
23.4 European Property Fund	N	19.4
8.1 UK Property Debt	N	5.9
5.4 Overseas Property Debt	N	4.2
19.8 UK Property Fund	N	17.7
Overseas REITS	N	1.7
<b>Alternatives:</b>		

32.4 UK Infrastructure	N	41.2
17.1 European Infrastructure	N	22.7
2.7 US Infrastructure	N	15.1
6.3 US Stock Options	N	5.9
Overseas Stock Options	N	(5.1)
Corporate Private Debt	N	10.1
<b>Cash:</b>		
3.6 Cash Instruments	Y	1.7
7.2 Cash Accounts	Y	1.7
9.9 Net Current Assets	N	1.7
<b>900.1 Total</b>		<b>841.3</b>

### 26.2.7 Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The Local Government Pension Scheme has been assessed by Mercer Ltd, an independent firm of actuaries, and estimates for the County Council fund are based on the latest full valuation of the scheme as at 31 March 2019, with an effective date of 1 April 2020. The principal assumptions used by the actuary are:

2018/19	2019/20
<b>Mortality assumptions</b>	
<b>Longevity at 65 for current pensioners (years):</b>	
22.8 Men	22.6
25.8 Women	25.0
<b>Longevity at 65 for future pensioners (years):</b>	
25.1 Men	24.2
28.2 Women	27.0
<b>Financial assumptions</b>	
2.2% Rate of CPI inflation	2.1%
3.7% Rate of increase in salaries	3.6%
2.3% Rate of increase in pensions	2.2%
2.4% Rate for discounting scheme liabilities	2.4%

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

### 26.2.8 Assumptions made about the future and estimate uncertainties

Item	Uncertainties	Effect if actual results differ from assumptions
<p><b>Pensions Fund – valuation of assets</b></p>	<p>The outbreak of COVID-19 has resulted in significant volatility and uncertainty in markets around the world.</p> <p>The Pension Fund’s pooled property funds are valued at fair value by independent valuers in accordance with RICS valuation professional standards, whilst infrastructure investments are valued at fair value by independent experts. For 2019-20 there is additional uncertainty regarding the property valuations due to the time that it will take to fully realise the impact of COVID-19 upon illiquid assets such as property. The valuations have been updated based on the information available as at 31 March 2020 and may be subject to variations as further market information becomes available.</p>	<p>The total value of direct property investments in the 2019/20 Pension Fund Accounts is £149.8 million (£171.8 million in 2018/19). There is a risk that this investment may be under or overstated.</p> <p>The total value of direct infrastructure investments in the 2019/20 Pension Fund Accounts statements is £299.1 million (£159.4 million in 2018/19). There is a risk that this investment may be under or overstated.</p>

### 26.2.9 Impact on the Defined Benefit Obligation in the Scheme (Liabilities)

	Increase in rate of	Increase/(decrease) in Assumption
		£m
Discount Rate	0.1%	(21.9)
Inflation	0.1%	22.3
Pay	0.1%	2.2
Life Expectancy	1 year	35.8

#### 26.2.10 Impact on the County Council's cash flows

The weighted average duration of the defined benefit obligation for scheme members is 17 years (2018/19 17 years). The County Council anticipates payments of £28.1 million expected contributions to the scheme in 2020/21.

#### 26.2.11 Future accounting standards – IAS 19 Employee Benefits

IAS 19 Employee Benefits will require the remeasurement of net pension asset/liability following plan amendments, curtailments or settlements to be used to determine current service cost and net interest for the remainder of the year after the change to the plan. The updating of these assumptions will apply to changes from 1st April 2020 and could result in positive, negative or no movement in the net pension liability and, as such, we cannot determine the possible impact on the accounts.

## 27. Termination benefits and exit packages

This discloses both exit packages for employees who have left the County Council in 2019/20 and any provisions for packages which have been agreed where the employee will leave at a future date. The cost includes redundancy costs, costs of pension added years and any other departure costs. Termination Benefits are charged in the year in which they are paid or on an accrual basis if appropriate.

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

2018/19		2019/20		
Total number of exit packages	Total cost of exit packages	Exit package cost band (including redundancy, pension strain, and settlement payments)	Total number of exit packages	Total cost of exit packages
	£m			£m
107	0.8	£0 - £20,000	68	0.5
27	0.7	£20,001 - £40,000	21	0.6
14	0.7	£40,001 - £60,000	8	0.4
3	0.2	£60,001 - £80,000	5	0.3
2	0.3	£80,001 - £200,000	7	1.0
<b>153</b>	<b>2.7</b>	<b>Total Termination Packages</b>	<b>109</b>	<b>2.8</b>

## **28. Related parties**

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

### **28.1 UK Central Government**

The UK Central Government has significant influence over the general operations of the County Council. It is responsible for providing the statutory framework within which the County Council works, provides funding in the form of grants (note 7 refers), and sets the terms of many of the relationships that the County Council has with other organisations.

### **28.2 Elected Members**

Elected members of the County Council have direct control over the County Council's financial and operating policies. A total of £1.1 million allowances and expenses were paid to members in 2019/20 (2018/19 £1.0 million). Elected members of the County Council may be involved with other local organisations that provide services for or receive services from the County Council. Transactions for these organisations have been reviewed and there are no related party disclosures to be made for elected members.

### **28.3 Officers**

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

### **28.4 Section 75 Framework Partnership Agreements**

The County Council has an integrated commissioning unit with Health through a Section 75 arrangement including the Better Care Fund (details given in note 8). Monitoring is through the Integrated Commissioning Executive Officers Group (ICEOG) and agreed and controlled through the Clinical Commissioning Group Board and the Health and Wellbeing Board.

### **28.5 Worcestershire County Council Pension Fund**

At the year-end the County Council charged the Pension Fund £1.5 million (2018/19 £1.0 million) for expenses incurred in administering the Pension Fund. Further details are given in note 26 Defined Benefit Pension Schemes.

### **28.6 West Mercia Energy Joint Committee**

The County Council is represented by its elected members on the West Mercia Energy Joint Committee (WME). WME offers energy procurement and management on behalf of its four owning authorities and a number of outside bodies. WME is constituted as a Joint Committee and the County Council is one of four constituent authorities, alongside Shropshire Council, Herefordshire Council and Telford and Wrekin Council. The parties have rights to the net assets of the arrangement and, as such, this is judged to be a joint venture. This joint venture is not consolidated into the Group Accounts because it is not considered to be material. The County Council spent £5.8 million with WME in 2019/20 (2018/19 £6.7 million) and this is reflected in the Comprehensive Income and Expenditure Statement.

### **28.7 Place Partnership**

Place Partnership Limited is a single asset management company co-owned by the County Council, Hereford & Worcester Fire Authority, Warwickshire Police and West Mercia Police and each party has equal shares and equal voting rights. Any profits made by Place Partnership Limited would be distributed equally to members and any loss distribution would be limited by shareholding. Place Partnership Limited has been classified as a Joint Operation for the purpose of financial reporting, because there is joint control, and the activity of the arrangement is primarily to provide services to the parties within their boundaries. In 2019/20, the operating cost for the County Council was £5.2 million (2018/19 £5.0m) and this is reflected in the Comprehensive Income and Expenditure Statement. Place Partnership Limited has not been fully consolidated into the County Council's accounts as a Joint Operation, because there is no material difference to the costs already reflected. There is a creditor for £0.2 million outstanding at the year-end (2018/19 £0.4 million), and a debtor for £0.02m (2018/19 £0).

### **28.8 Severn Arts**

Severn Arts is a Private Company Limited by Guarantee that provides education in music and the Arts within Worcestershire. The County Council appoints one out of the ten trustees. This is a Related Party because the trustee appointed is a key management personnel of the County Council. The County Council spent £0.001 million on behalf of Severn Arts post transfer (2018/19 £0.05 million) and this is reflected in the Comprehensive Income and Expenditure Statement.

The company commenced on 1st June 2018, after a transfer of service provision and assets from the County Council. As part of the transfer, the County Council loaned Severn Arts £0.4 million, which is to be paid back in monthly instalments over 7 years with 4.78% interest per annum. There is a loan balance of £0.268 million outstanding at 31 March 2020 (2018/19 £0.343 million), and a debtor balance of £0.001 million (2018/19 £0.03 million).

### **28.9 Worcestershire Children First**

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

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

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

## 29. Leases

### 29.1 The County Council as lessee – operating leases

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

Operating lease payments of £1.3 million were made in 2019/20 (2018/19 £1.1 million). The County Council's outstanding obligations under lease agreements as at 31 March 2020 totalled £12.4 million (31 March 2019 £11.7 million).

	£m
Leases expiring in less than 1 year	0.3
Leases expiring between 1 and 5 years	0.7
Leases expiring in 5 years+	11.5
	<b>12.4</b>

### 29.2 The County Council as lessor – operating leases

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

Operating lease receipts of £2.0 million were received in 2019/20 (2018/19 £2.2 million). The County Council's outstanding obligations under lease arrangements as at 31 March 2020 totalled £7.4 million (2018/19 £9.8 million).

	<b>£m</b>
Leases expiring in less than 1 year	0.8
Leases expiring between 1 and 5 years	1.5
Leases expiring in 5 years+	5.1
	<b>7.4</b>

### **29.3 Future accounting standards - IFRS 16 Leases**

At the balance sheet date, IFRS 16 Leases has been published but not yet adopted by the Code of Practice of Local Authority Accounting in the United Kingdom. IFRS 16 will require local authorities that are lessees to recognise a lease on their balance sheet as a right-of-use asset with a corresponding lease liability (there are exemptions for low-value and short-term leases). CIPFA/LASAAC have deferred implementation of IFRS 16 for local government to 1 April 2021.

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

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

### 30. External audit costs

2018/19	2019/20
£m	£m
0.1 Fees payable regarding external audit services	0.1

The fee of £82k paid to Grant Thornton comprised £74k audit fee and £4k grant certification fee. An audit fee of £4k was agreed by the Public Sector Audit Appointments body to cover additional audit work required in certifying the 2018/19 accounts.

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

### **31. Events after the reporting period**

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

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

#### **Non-adjusting events**

No schools have converted to academy status after 31 March 2020.

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

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# Worcestershire County Council Group Accounts

# Group Accounts and Supporting Notes

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## Group Accounts

### Introduction

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

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

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

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

### Results of Subsidiary

#### Worcestershire Children First

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

For 2019/20, the company's results showed a profit for the year of £0.5 million and net assets of £0.5 million.

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

## Group Comprehensive Income and Expenditure Statement

	2019/20	2019/20	2019/20
	Expenditure	Income	Net
	£m	£m	£m
People	296.3	(145.3)	151.0
Children's Services	341.7	(233.4)	108.3
Economy & Infrastructure	92.0	(26.5)	65.5
Commercial & Change	32.9	(1.1)	31.8
Finance, HR & Chief Executive	28.5	(4.5)	24.0
<b>Net Cost of Services</b>	<b>791.4</b>	<b>(410.8)</b>	<b>380.6</b>
Other operating expenditure	10.5	(4.5)	6.0
Financing, investment income & expenditure	77.9	(30.0)	47.9
Taxation & non-specific grant income and expenditure	0.2	(419.2)	(419.0)
<b>(Surplus) / deficit on the provision of services</b>	<b>880.0</b>	<b>(864.5)</b>	<b>15.5</b>
<b>Tax expenses of subsidiary</b>	<b>0.1</b>		<b>0.1</b>
<b>Group (surplus) / deficit</b>	<b>880.1</b>	<b>(864.5)</b>	<b>15.6</b>
<b>Other comprehensive income and expenditure:</b>			
(Surplus) on revaluation of property, plant & equipment			(26.2)
Downward revaluations on non-current assets charged to Revaluation Reserve			20.6
Actuarial (gains) / losses on pension assets & liabilities			(35.9)
<b>Total other comprehensive income and expenditure</b>			<b>(41.5)</b>
<b>Total comprehensive income and expenditure (surplus)/deficit</b>			<b>(25.9)</b>

## Group Movement in Reserves Statement 2019/20

	General Fund (Non-Earmarked) Balance	General Fund (Earmarked) Reserves	General Fund Total	Capital Receipts Reserve	Capital Grants Unapplied Account	Total Usable Reserves	Unusable Reserves	Total Council Reserves	Council's Share of Reserves of subsidiary	Total Reserves attributable to Council
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Balance at 31 March 2019	12.2	81.5	93.7	0.1	41.1	134.9	(66.6)	68.3		68.3
<b>Movement in reserves during 2019/20:</b>										
<b>Total Comprehensive Income and Expenditure</b>	35.5		35.5			35.5	41.5	77.0	0.5	77.5
<b>Adjustments between group accounts and authority accounts</b>	(51.6)		(51.6)			(51.6)		(51.6)		(51.6)
<b>Net increase/ (decrease) before transfers</b>	(16.1)		(16.1)			(16.1)	41.5	25.4	0.5	25.9
Adjustments between accounting basis and funding basis	16.1	(5.2)	10.9	(0.1)	14.8	25.6	(25.6)			

	General Fund (Non-Earmarked) Balance	General Fund (Earmarked) Reserves	General Fund Total	Capital Receipts Reserve	Capital Grants Unapplied Account	Total Usable Reserves	Unusable Reserves	Total Council Reserves	Council's Share of Reserves of subsidiary	Total Reserves attributable to Council
under regulations										
Increase / (decrease) in 2019/20		(5.2)	(5.2)	(0.1)	14.8	9.5	15.9	25.4	0.5	25.9
Balance at 31 March 2020 carried forward	12.2	76.3	88.5		55.9	144.4	(50.7)	93.7	0.5	94.2

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

	2019/20
	General Fund Total
	£m
Removal of intercompany transactions	51.6
<b>Total adjustments between Group Accounts and Authority Accounts</b>	<b>51.6</b>

## Group Balance Sheet

	31 March 2020		31 March 2020
	£m		£m
Property, plant and equipment	1,070.7	<b>Long Term Creditors</b>	
Heritage assets	1.7	Long-term provisions	(7.6)
Intangible assets	5.4	Long-term borrowing	(435.9)
Long-term investments	3.0	Other long-term liabilities	(654.9)
Long-term debtors	115.9	Grants receipts in advance	(29.4)
<b>Long term assets</b>	<b>1,196.7</b>	<b>Long-term liabilities</b>	<b>(1,127.8)</b>
Non-Operational Assets	7.6	<b>Net assets</b>	<b>94.2</b>
Short-term investments	5.0		
Inventories	1.2	<b>Financed by:</b>	
Short-term debtors	89.9	Usable reserves	144.9
Cash and cash equivalents	78.2	Unusable reserves	(50.7)
<b>Current assets</b>	<b>181.9</b>	<b>Total reserves</b>	<b>94.2</b>
Short-term borrowing	(39.4)		
Short-term creditors	(117.2)		
<b>Current liabilities</b>	<b>(156.6)</b>		

## Group Cash Flow Statement

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	2019/20
	£m
Net surplus/(deficit) on the provision of services	(15.6)
Adjust net (surplus)/deficit for non-cash movements	129.7
Adjust for items included in the net (surplus)/deficit on the provision of services that are investing and financing activities	(87.5)
<b>Net cash flows from operating activities</b>	<b>26.6</b>
Net cash flows from investing activities	8.3
Net cash flows from financing activities	2.8
<b>Net increase/(decrease) in cash or cash equivalents</b>	<b>37.7</b>
<b>Cash and cash equivalents</b>	
Balance at 1 April	38.1
Balance at 31 March	78.2
<b>Movement in cash and cash equivalents increase / (decrease)</b>	<b>40.1</b>

# Notes to the Group Accounts

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## 1. Group boundary

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

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

## 2. Accounting policies

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

The Group Accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 issued by the Chartered Institute of Public Finance (CIPFA). In preparing the Group Accounts, the Council has:

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

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

- Pensions – the Group Accounts have been prepared incorporating the requirements of IAS19: Retirement Benefits for the treatment of pension costs. IAS19 requires that pension costs are recorded in the year in which the benefit entitlements are earned by the employee rather than the year in which the pension and employer's contributions are actually paid. The Pension Reserve represents the net liability for future pension costs. The financial statements of WCF have been prepared in accordance with Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. The financial position under FRS102 is not significantly different under IAS19 and no adjustments have been made in the Group Accounts.

## Glossary of Terms

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Accounting policies	The principles, rules and procedures used in the preparation of the accounts
Accruals	The recognition of income and expenditure as goods and services are provided, not when cash is received or paid
Actuary	An independent company which advises on the assets and liabilities of the pension fund with the aim of ensuring that the payment of pensions and future benefits are met.
Admitted bodies	Voluntary and charitable bodies whose staff can become members of the Local Government Pension Scheme, subject to certain terms and conditions, and other organisations to which Local Government employees have been transferred under the outsourcing of local government services
Agent	The County Council or other authority acting as an intermediary
Amortisation	The drop-in value of intangible assets as they become out of date
Asset	<p>A resource controlled by the County Council because of past events and from which economic benefits or service potential is expected. Assets can be:</p> <ul style="list-style-type: none"><li>• Intangible – assets of non-physical form, e.g. patents, goodwill, trademarks and copyrights</li><li>• Property, plant and equipment – assets which give the Council benefits for more than one year</li><li>• Community – assets held in perpetuity which may have restrictions on their disposal</li><li>• Infrastructure – assets such as highways and footways</li><li>• Non-operational – assets not directly used for service provision</li><li>• Heritage – assets held solely for historical, artistic, or environmental qualities</li></ul>
Assets under construction	Capital expenditure on assets where the work is incomplete
Augmentation	Additional employer contributions relating to the cost of employees who are allowed to retire before their normal retirement age

Billing authority	The local authority which collects Council Tax. In Worcestershire this is the district or borough council
Capital charge	A charge to services to reflect the cost of Property, Plant and Equipment used in the provision of services
Capital expenditure	Expenditure on acquisition or construction of assets which have a value to the authority for more than one year e.g. land and buildings
Capital financing costs	The costs of financing assets, being the interest costs of external loans and monies used to repay debt
Capital receipts	Income from the sale of capital assets
Commutation / commuting	Where a member of the pension scheme gives up part or all of their pension in return for an immediate lump sum. It is also called a cash option
Council tax precept	A property based tax which is set by the County Council and administered by district and borough councils
Creditors	Amounts owed by the County Council for work done, goods received or services provided but for which payment has not been made by the end of the accounting period
Current service cost	Officers employed during the year will have earned one or more years of pensionable service. The current service cost is the increase in the value of the pension scheme's liabilities arising from the employee service during the period
Custodian	The organisation that holds and safeguards the Pension Fund assets
Debtors	Amounts due to the County Council for work done, goods received or services provided but which remain unpaid by the end of the accounting period
Dedicated Schools Grant (DSG)	A central government grant paid to the County Council for use for expenditure on schools.
Deferred pension benefit	A pension benefit which a member of the fund has accrued but is not yet entitled to receive payment
Depreciation	The fall in value of an asset, as recorded in the financial records, due to wear and tear, age or obsolescence

Derivative	A financial instrument whose characteristics and value depend upon the characteristics and value of an underlier, typically a commodity bond, equity or currency. Examples of derivatives include futures and options
Effective Interest rate (EIR)	The rate that exactly discounts estimated future cash payments or receipts through the expected life of a financial instrument. When calculating the EIR, the County Council shall estimate cash flows considering all contractual terms of the financial instrument
Equities	Shares representing the capital of a company issued to shareholders, usually with voting rights on the way the company runs the business
Fair value	The amount for which an asset could be exchanged or a liability settled
Financial instruments	Any contract giving rise to a financial asset or liability. For the County Council this is likely to be a loan or investment
Fixed interest	A corporate bond in the form of a certificate of debt issues by a company or institution in return for a fixed rate of interest with a promise of redemption to repay the original sum
Gilt	Similar to corporate bonds by way of interest and redemption, but these are issued by Government and are a loan to the Government
Forward foreign exchange	An agreement to purchase or sell an amount of foreign currency at a future date and predetermined price
Imprest accounts	Petty cash accounts used for small items of expenditure
Index linked	Stock whose value is related directly to an index, usually the Retail Price Index and therefore provides a hedge against inflation
Joint Venture	A joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement
Joint Operation	A joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligation for the liabilities, relating to the arrangement

Liability	A present obligation of the County Council arising from past events, the settlement of which is expected to result in an outflow of resources
Minimum revenue provision (MRP)	The statutory amount set aside from the revenue budget which can be used to repay external loans
National Non-Domestic Rates (NNDR)	A tax collected locally by borough and district councils and paid to Central Government. It is then redistributed to county, unitary, borough and district councils on the basis of the resident population
Operating leases	A method of obtaining the use of an asset where the rewards and risks of ownership of the asset remain with the leasing company and the annual rental is charged directly to the revenue account
Pooled investment vehicles	A fund in which multiple investors contribute assets and hold them as a group, for example a unit trust
PPE (Property, Plant & Equipment)	For the purposes of the Statement of Accounts, the Council's property, plant & equipment is abbreviated to PPE.
Precept	The amount the County Council (the precepting authority) ask district and borough councils to collect as council tax.
Private Finance Initiative (PFI)	A long-term contractual public private partnership under which the private sector takes on the risks associated with the delivery of public services in exchange for payments tied to standards of performance
Provisions	Monies set aside to meet any liabilities or losses which are likely or will be incurred, but the amounts or the dates on which they will arise are uncertain e.g. provision for bad debts
Public Works Loan Board (PWLB)	A government agency which provides long-term loans to local authorities at favourable interest rates
Reserves	Money set aside to meet the cost of specific future expenditure. These can be either: <ul style="list-style-type: none"> <li>• Usable – those which can be used to provide services</li> <li>• Unusable – those which cannot be used to provide services</li> </ul>

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

**Worcestershire  
Pension Fund**



# **Worcestershire Pension Fund**

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## **Draft Unaudited Statement of Accounts 2019/20**

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## **Pension Fund Statements 2019/20**

### **a) About the Accounts**

- 1. Explanatory Foreword and a Review of the Year 2019/20**
- 2. Worcestershire Pension Fund Account**
- 3. Net Assets Statement for the year ended 31<sup>st</sup> March 2020**
- 4. Notes to the Pension Fund Accounts**

### **b) Independent Auditors Report to the Members of Worcestershire Pension Fund**

## About the Accounts

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### **BASIS OF PREPARATION**

The statement of Accounts summarises the Fund's transaction for the 2019 / 2020 financial year and its position at year-end as at 31 March 2020. The accounts have been prepared in accordance with the Code of Practice on Local Accounting in the United Kingdom 2019/20 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

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

### **Explanatory Foreword and a Review of the Year 2019/20**

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

### **The Worcestershire Pension Fund Account**

Details the money received and spent within the Pension Fund during 2019/20.

### **Net Assets Statement**

Statement showing the Pension Fund's financial position at 31 March 2020.

### **Notes to the Pension Fund Accounts**

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

## Statement of Accounting Policies

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

The accounts have been prepared on a going concern basis.

## 1. Explanatory Foreword and a Review of the Year 2019/20

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### Foreword by the Chief Financial Officer

Welcome to the Worcestershire Pension Fund 2019/20 Statement of Accounts. Worcestershire County Council administers the Local Government Pension Scheme (LGPS), which provides for the occupational pensions of employees, other than teachers, police officers, and fire fighters of the local authorities within the Herefordshire and Worcestershire area. Worcestershire County Council also operates the scheme for members of other organisations which have made admission agreements with the fund and designated bodies who have passed resolutions with Worcestershire County Council.

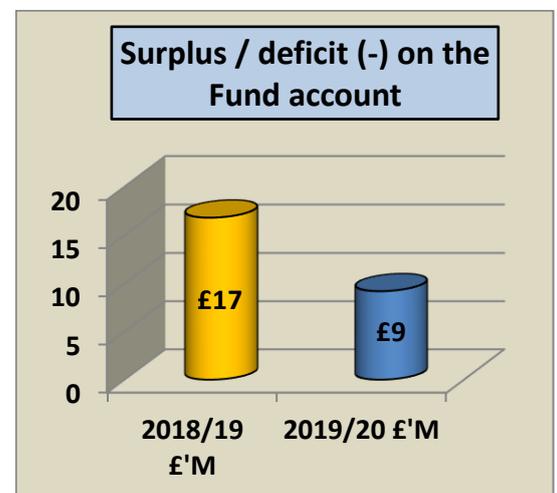
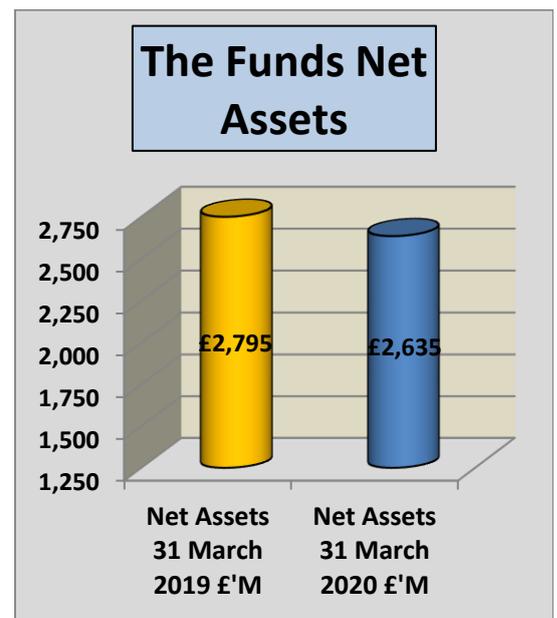
### Table 1 Aim and Purpose of the Scheme

The aims of the Scheme are to:	
•	enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the taxpayers, scheduled, designated, community and admitted bodies.

•	<b>manage employers' liabilities effectively.</b>
•	<b>ensure that sufficient resources are available to meet all liabilities as they fall due.</b>
•	<b>Maximise the returns from investments within reasonable risk parameters.</b>
<b>The purpose of the Scheme is to:</b>	
•	<b>receive monies in respect of contributions, transfer values and investment income,</b>
•	<b>Pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses.</b>

### Key headlines

- The value of the Fund's net assets decreased by £160.3 million from £2,795.3 million at 31 March 2019 to £2,635.0 million at 31 March 2020:
- Income from contributions increased by 7%, (£87.5 million from £81.8 million).
- Net investment returns decreased by £249.3 million compared to 2018/19 which was mainly due to the impact of COVID 19 cushioned somewhat by the equity protection strategy. There was also some disinvestment from passively managed pooled funds to Infrastructure and property funds in line with the investment strategy.
- Contributions from staff and employers were less than the benefits paid and management expenses in 2019/20 by £38.7 million. This was expected due mainly to some employers paying their 3-year pension contributions upfront in 2017/18 to reduce their overall costs.
- During the year a surplus resulted on the Pension Fund account (aside from the net investments returns) totalling £9.2 million a decrease of £7.6 million compared to 2018/19.



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

	31 March		31 March	Change	Change
	2019		2020		%
Contributors to the fund	23,436		23,133	(303)	(1.3)
Pensions paid	18,089		18,917	828	4.4
Deferred members	20,729		21,585	856	4.0
	<b>62,254</b>		<b>63,635</b>	<b>1,381</b>	<b>2.2</b>

Scheme membership has continued to grow and is now in excess of 63,600. Active employer numbers have increased from 196 to 202 at the end of March 2020. Given the administrative challenges presented by this continued growth, the Fund regularly review its systems and processes and importantly, the way it engages with, and receives data from scheme employers

## **Governance**

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

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

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

The Fund has also undertaken the Scheme Advisory Board (SAB) 'Good Governance' review which was provided to the Pensions Committee in March 2020 detailing the Funds 'Good Governance' position statement.

### **Management of the fund's assets**

The management of the fund's assets is operated through thirteen specialist external managers with seventeen mandates in total. The Pension Committee is advised in relation to asset allocation decisions and the monitoring of external managers' performance by the Pension Investment Sub 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, Corporate Bonds, Corporate Private Debt, Property and Infrastructure. As a result of an asset allocation review that took place in November 2016, the following Pension Committee endorsed recommendations were progressed during 2017/18 and have continued during 2019/20:

- a) An increase in the allocation to Infrastructure or a mix of Infrastructure and Real Estate by 5% from the current strategic allocation of up to 10% of the Fund to 15%.
- b) An increase in the Fund's allocation to alternative indices by 5% from the current strategic allocation of up to 10% of the Fund to 15%.
- c) The Fund returns the Strategic Asset Allocation to North American equities to Passive Management.

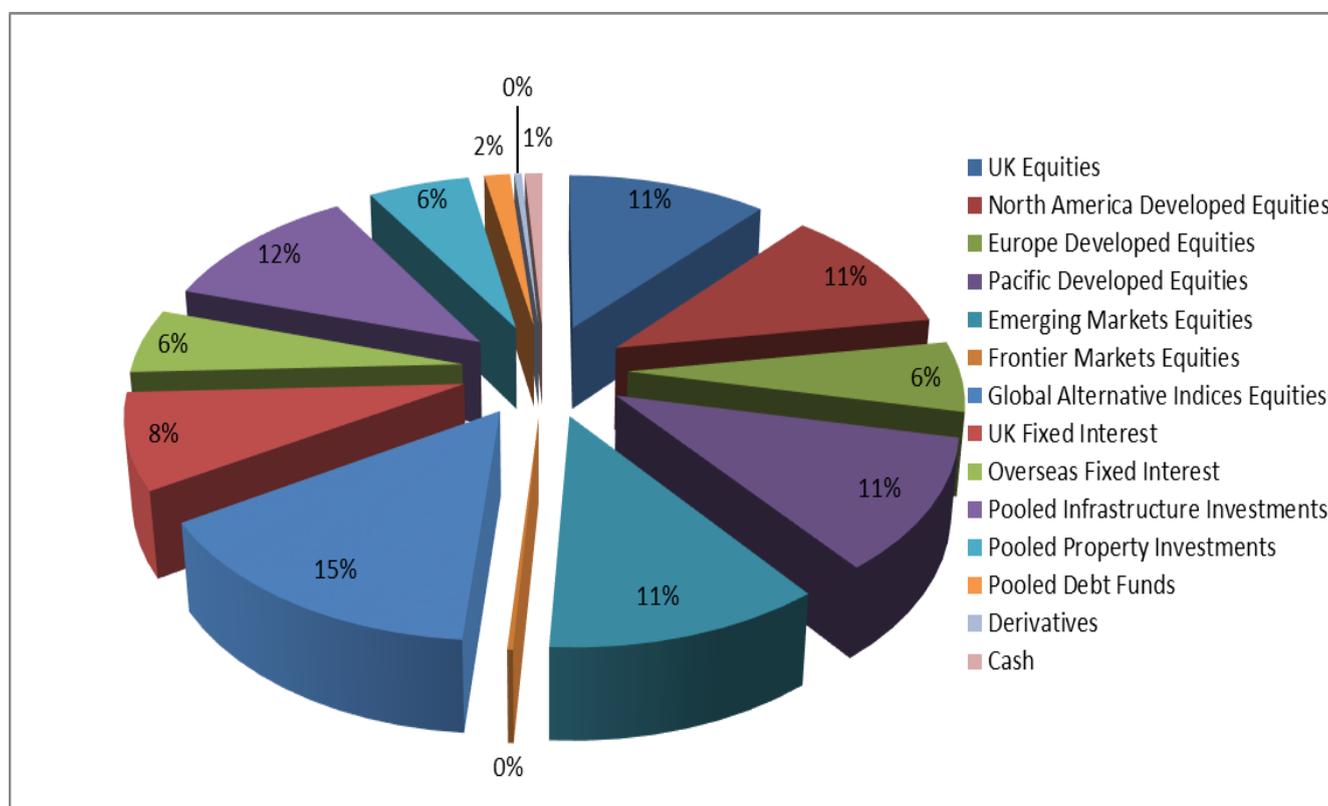
As at 31<sup>st</sup> March 2020 the 2016 strategic asset allocation review recommendation of a 15% commitment to 'Alternatives including property' continued to be implemented following investments into a pooled Property Debt Fund for Walton Street Fund II and a further commitment to the British Strategic Infrastructure Fund (BSIF) and Venn property debt Fund II were agreed by Committee in 2019/20 and are due to be implemented in 2020/21.

In addition, the fund transitioned its active Emerging Market equity funds and active corporate bond funds to LGPS Central during 2019/20

River and Mercantile continue to manage the Equity Protection Strategy that was implemented during early March 2018, which has provided some asset valuation protection for the passive equity portfolio following the significant impact of COVID 19 on the Funds asset valuation as at the end of March 2020.

The following chart details the distribution of the fund's assets as at 31 March 2020:

**Table 3 Distribution of the Funds Assets**



### Impact of COVID 19

Ongoing discussions have taken place with existing fund managers and our actuary to consider the implications of COVID 19 on the market valuation of the fund. As detailed above the fund had already taken steps to diversify some of its asset allocations from equities into property and infrastructure as well as implementing an equity protection strategy to guard against major market fluctuations. Excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. However, this potentially has far-reaching consequences

in terms of funding and risk, which will need to be kept under review. Meetings were held with the actuary to ensure the most up to date market valuation position was used for the Employers IAS19 Pension statements at year end.

## **LGPS Central**

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

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

LGPS Central has been in operation just over 2 years and WPF transitioned funds into LGPS Central's Global Active Emerging Market managed mandate in July 2019 and LGPS Central's Active Corporate Bond mandate in March 2020.

## **Management of the fund's liabilities**

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

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

- A common rate of contribution of 15.3% of pensionable pay per annum is required from employers. The common rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.
- The deficit of £654 million would be eliminated by a contribution addition of £34 million per annum increasing at 3.7% per annum for 18 years.

The next actuarial valuation was undertaken during 2019/20, and changes to the employers' contribution rates have been implemented with effect from 1 April 2020.

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

**Michael Hudson**

**LLB (Hons), LLM, CPFA**

**Chief Financial Officer**

## 2. Fund Account (money received and spent during 2019/20)

**For the year ended 31 March 2020**

2018/19		2019/20	
£m	Notes	£m	
<b>Dealings with members, employers and others directly involved with the Fund</b>			
81.8	Contributions	4	87.5
12.9	Transfers in from other pension funds	5	12.9
<b>94.7</b>			<b>100.4</b>
(106.3)	Benefits	6	(111.9)
(8.7)	Payments to and on account of leavers	7	(11.2)
<b>(115.0)</b>			<b>(123.1)</b>

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<b>(20.3)</b>	<b>Net additions / (Withdrawals) from dealings with members</b>		<b>(22.7)</b>
(1.1)	Administrative expenses	8	(1.5)
(12.0)	Management expenses	9	(14.5)
<b>(33.4)</b>	<b>Net additions / (Withdrawals) including fund management and administrative expenses</b>		<b>(38.7)</b>
	<b>Returns on investments</b>		
51.7	Investment income	10	48.6
(1.5)	Taxes on income	11	(0.7)
77.5	Profit and losses on disposal of investments and changes in the market value of investments	12a & 15b	(169.5)
<b>127.7</b>	<b>Net return on investments</b>		<b>(121.6)</b>
<b>94.3</b>	<b>Net increase / (decrease) in the net assets available for benefits during the year</b>		<b>(160.3)</b>
<b>2,701.0</b>	<b>Opening fund net assets of the scheme</b>		<b>2,795.3</b>
<b>2,795.3</b>	<b>Closing fund net assets of the scheme</b>		<b>2,635.0</b>

Management expenses have increased mainly due to disinvesting some existing passive equity funds into Infrastructure and Property funds which by their nature have larger management fees. The decrease in market valuations is mainly due to the impact of COVID 19.

### 3. Net Assets Statement for the year ended 31 March 2020 (showing the financial position at 31 March 2019 and 2020)

2018/19	Notes	2019/20
£m		£m

1.4	Long term Investment Assets	12	1.4
2,753.1	Investment Assets -Internally Managed	12 &13	2,169.7
0.0	Investment Assets -LGPS Central Managed	12 &13	428.8
32.9	Cash Deposits	12	25.5
<b>2,787.4</b>			<b>2,625.4</b>
(29.0)	Investment Liabilities	12	(21.4)
39.2	Current Assets	17	35.3
1.5	Non-Current Assets	18	2.0
(3.8)	Current Liabilities	19	(6.3)
<b>2,795.3</b>	<b>Net Assets of the Fund available to fund benefits at the period end</b>		<b>2,635.0</b>

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

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

- i) **Market-quoted investments** the value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.
- ii) **Fixed interest securities** fixed interest securities are recorded at net market value based on their current yields.
- iii) **Unquoted investments** the fair value of investments for which market quotations are not readily available is determined as follows:
  - a. **Valuations of delisted securities** are based on the last sale price prior to delisting, or where subject to liquidation, the amount the Fund expects to receive on wind-up, less estimated realisation costs.

- b. **Securities subject to takeover offer** – the value of the consideration offered under the offer, less estimated realisation costs.
  - c. **Directly held investments** include investments in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement.
  - d. **Investments in unquoted property and infrastructure pooled funds** are valued at the net asset value or a single price advised by the fund manager.
  - e. **Investments in unquoted listed partnerships** are valued based on the Fund's share of the net assets in the limited partnership using the latest financial statements published by the respective fund managers in accordance with the *International Private Equity and Venture Capital Valuation Guidelines 2012*.
- iv) **Limited partnerships** Fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership.
- v) **Pooled investment vehicles** Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the fund, net of applicable withholding tax.

### **Financial Liabilities**

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

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

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These now comprise of a summary of significant accounting policies (shown against the relevant note as opposed to a prescribed list of accounting policies in previous year's

accounts). Further information and detail of entries in the prime statements and other explanatory information and disclosures are as follows: -

## **NOTE 1: DESCRIPTION OF FUND**

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### **a) General**

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

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

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

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

### **b) Membership**

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

- Scheduled bodies which are automatically entitled to be members of the fund. These include county councils, district councils, foundation schools / colleges and academies

- Admitted bodies, which participate in the fund under the terms of an admission agreement between the fund and the employer. Admitted bodies include voluntary, charitable and similar not for profit organisations, or private contractors undertaking a local authority function following outsourcing to the private sector
- Designated bodies which are organisations that have passed resolutions with town or parish councils

Membership details are set out below:

	31 March 2019	31 March 2020
Number of employers	196	202
<b>Employee Members of the Fund</b>		
County Council	8,256	7,653
Other Employers	15,180	15,480
<b>Total</b>	<b>23,436</b>	<b>23,133</b>
<b>Pensioner Members of the Fund</b>		
County Council	5,240	5,565
Other Employers	12,849	13,352
<b>Total</b>	<b>18,089</b>	<b>18,917</b>
<b>Deferred Members of the Fund</b>		
County Council	8,379	8,602
Other Employers	12,350	12,983
<b>Total</b>	<b>20,729</b>	<b>21,585</b>
<b>Total Number of Members in the Fund</b>	<b>62,254</b>	<b>63,635</b>

### c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by employee members of the Fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending March

2020. Employee contributions are matched by employer contributions which are set based on actuarial valuations. The last valuation conducted was at 31 March 2019 which will take effect from the 1<sup>st</sup> April 2020 onwards. Currently, employer contribution rates range from 5.5% to 41.9% of pensionable pay based on the valuation undertaken as at the 31<sup>st</sup> March 2016. The common 2019/20 employer contribution rate for the Fund is 15.3%. To ensure employer contribution increases, required by the Fund's Actuary following the 31 March 2013 actuarial valuation, remained affordable, the Administering Authority agreed with employers to phase in any increases in their Secondary rate over a period of up to 6 years.

#### **d) Pension Benefits**

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

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

#### **Actuarial present value of promised retirement benefits**

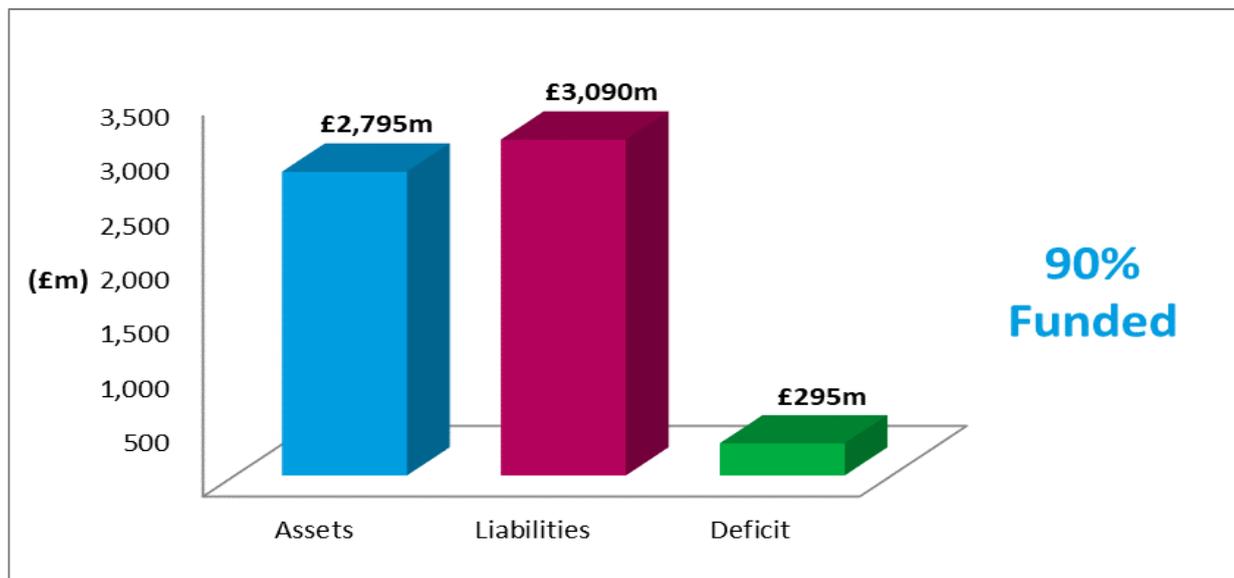
The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of the International Accounting Standard (IAS) 19 and relevant actuarial standards. As permitted under the Code, the fund has opted to disclose the actuarial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

### **NOTE 2: FUNDING ARRANGEMENTS AND ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS**

#### **Funding Arrangements**

This statement has been provided to meet the requirements under Regulation 57(1)(d) of The Local Government Pension Scheme Regulations 2013. An actuarial valuation of the Worcestershire Pension Fund was carried out as at 31 March 2019 to determine the contribution rates with effect from 1 April 2020 to 31 March 2023.

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



The valuation also showed that a Primary contribution rate of 17.5% of pensionable pay per annum was required from employers. The Primary rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

The funding objective as set out in the FSS is to achieve and maintain a solvency funding level of 100% of liabilities (the solvency funding target). In line with the FSS, where a shortfall exists at the effective date of the valuation a deficit recovery plan will be put in place which requires additional contributions to correct the shortfall. Equally, where there is a surplus it is usually appropriate to offset this against contributions for future service, in which case contribution reductions will be put in place to allow for this.

The FSS sets out the process for determining the recovery plan in respect of each employer. At this actuarial valuation the average recovery period adopted is 15 years, and the total initial recovery payment (the "Secondary rate" for 2020-2023) is an addition of approximately £28m per annum in £ terms (which allows for the contribution plans which have been set for individual employers under the provisions of the FSS).

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated 31 March 2020.

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

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

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

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

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

\*\*This is the discount rate for the “growth pot” and applies to most of the employers. Certain employers have a more cautious investment strategy, and so a lower discount rate

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

## The McCloud Judgment

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The “McCloud judgment” refers to a legal challenge in relation to historic benefit changes for all public sector schemes being age discriminatory. The Government announced in 2019 that this needs to be remedied for all public sector schemes including the LGPS. This is likely to result in increased costs for some employers. This remedy is not yet agreed but guidance issued requires that each Fund sets out its policy on addressing the implications.

In line with guidance issued by the LGPS Scheme Advisory Board, the above funding level and Primary contribution rate do not include an allowance for the estimated cost of the McCloud judgment. However, at the overall Fund level we estimate that the cost of the judgment could be an increase in past service liabilities of broadly £29 million and an increase in the Primary Contribution rate of 0.6% of Pensionable Pay per annum.

Where the employer has elected to include a provision for the cost of the judgment, this is included within the secondary rate for that employer (and also within the whole Fund secondary rate of £28 million per annum shown above).

## Impact of Covid 19

The valuation results and employer contributions above were assessed as at 31 March 2019. In 2020 we have so far seen significant volatility and uncertainty in markets around the world in relation to the COVID-19 pandemic. This potentially has far-reaching consequences in terms of funding and risk, which will need to be kept under review. We believe that it is important to take stock of the situation as opposed to make immediate decisions in what is an unprecedented set of events. Our view is that employer contributions should not be revisited but the position should be kept under review by the Administering Authority who will monitor the development of the situation and keep all stakeholders informed of any potential implications so that the outcome can be managed effectively.

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

IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed, and for this purpose the actuarial assumptions and methodology used should be based on IAS 19 rather than the assumptions and methodology used for funding purposes. To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2020 (the 31 March 2019 assumptions are included for comparison):

	31 March 2019	31 March 2020
Rate of return on investments (discount rate)	2.4% per annum	2.4% per annum
Rate of CPI Inflation / CARE benefit revaluation	2.2% per annum	2.1% per annum
Rate of pay increases*	3.7% per annum	3.6% per annum
Rate of increases in pensions in payment (in excess of GMP) / Deferred revaluation	2.3% per annum	2.2% per annum

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

The demographic assumptions are the same as those used for funding purposes, with the 31 March 2020 assumptions being updated to reflect the assumptions adopted for the 2019 actuarial valuation. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2020.

Corporate bond yields were similar at the start and end of year resulting in the same discount rate of 2.4% p.a. being used for IAS 26 purposes at the year-end as for last year. The expected long-term rate of CPI inflation decreased during the year, from 2.2% p.a. to 2.1%, which served to decrease the liabilities slightly over the year.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2019 was estimated as £4,202 million including the potential impact of the McCloud Judgment.

Interest over the year increased the liabilities by c£101 million and allowing for net benefits accrued/paid over the period also increased the liabilities by c£63 million (this includes any increase in liabilities arising as a result of early retirements/augmentations and the potential impact of GMP Indexation – see comments below). There was also a decrease in liabilities of £159 million due to “actuarial gains” (i.e. the effects of the *changes in the actuarial assumptions used, referred to above, and the incorporation of the 31 March 2019 actuarial valuation results into the IAS26 figures*).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2020 is therefore £4,207 million.

### **GMP Indexation**

At present, the public service schemes are required to provide full CPI pension increases on GMP benefits for members who reach State Pension Age between 6 April 2016 and 5 April 2021. The UK Government may well extend this at some point in the future to include members reaching State Pension Age from 6 April 2021 onwards, which would give rise to a further cost to the LGPS and its employers. If the Fund were required to index-link GMP benefits in respect of those members who reach their State Pension Age after April 2021, then this would increase the Fund liabilities and we have included an approximate allowance for this within the final IAS26 liability figure above.

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Paul Middleman  
Fellow of the Institute and  
Faculty of Actuaries

Laura Evans  
Fellow of the Institute and  
Faculty of Actuaries

Mercer Limited

**May 2020**

### NOTE 3: EVENTS AFTER THE REPORTING DATE

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These are events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. Events taking place after this date are not reflected in the financial statements or notes. Management have reviewed and can confirm that there are no significant events after the reporting period.

### NOTE 4: CONTRIBUTIONS RECEIVABLE

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

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

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

	2018/19	2019/20
By Category	£m	£m
Employers		
Normal contributions	36.5	39.6
Deficit recovery contributions	18.8	19.0
Augmentation contributions	3.2	4.4
Additional contributions	0.0	0.0
Employees		
Normal contributions	23.0	24.0
Additional contributions	0.3	0.5

	2018/19	2019/20
	£m	£m
	81.8	87.5
<b>By authority:</b>		
Worcestershire County Council	9.4	10.0
Scheduled bodies*	58.2	63.2
Community admission bodies	5.4	5.9
Transferee admission bodies	7.8	7.5
Designated bodies	1.0	0.9
	81.8	87.5

## NOTE 5: TRANSFERS IN AND FROM OTHER PENSION FUNDS

Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund during the financial year and are calculated in accordance with LGPS regulations. Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement. The Transfers in and from other Pension Funds are as follows:

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	2018/19	2019/20
	£m	£m
Individual transfers	12.9	12.9
	12.9	12.9

## NOTE 6: BENEFITS PAYABLE

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities. The benefits paid are as follows: -

By category:	2018/19	2019/20
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	£m	£m
Pensions	84.3	89.1
Commutations and lump sum retirement benefits	19.9	20.7
Lump sum death benefits	2.1	2.1
	<b>106.3</b>	<b>111.9</b>

By authority:	2018/19	2019/20
	£m	£m
Worcestershire County Council	39.1	41.7
Scheduled bodies	55.7	57.7
Admitted bodies	1.7	1.6
Community admission bodies	6.4	7.2
Transferee admission bodies	2.8	3.0
Designated bodies	0.6	0.7
	<b>106.3</b>	<b>111.9</b>

## NOTE 7: PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	2018/19	2019/20
	£m	£m
Individual transfers	8.7	11.2
Group transfers	0.0	0.0
	<b>8.7</b>	<b>11.2</b>

At year-end there were no potential liabilities in respect of individuals transferring out of the Fund upon whom the Fund is awaiting final decisions.

## NOTE 8: ADMINISTRATIVE EXPENSES

All administrative expenses are accounted for on an accruals basis. All staff costs of the Fund's administration team are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

	2018/19	2019/20
	£m	£m
Employee expenses	0.6	0.6
Support services	0.1	0.1
Actuarial services	0.4	0.8
Other expenses	0.0	0.0
	<b>1.1</b>	<b>1.5</b>

The audit fee for work completed by the Fund's external auditors for the year ended 31 March 2020 was £23,742 1.6% of total admin costs (£19,222 for the year ended 31 March 2019 1.9% of total admin costs).

## NOTE 9: MANAGEMENT EXPENSES

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 permit costs incurred in connection with the investment and administration of the Fund to be charged against the Fund.

The Code of Practice does not require any breakdown of the Fund's administrative expenses. However, in the interests of greater transparency, the Fund discloses its management expenses in accordance with CIPFA guidance *accounting for Local Government Pension Scheme Management Costs*.

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

	2018/19	2019/20
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	£m	£m
<b>Oversight and Governance</b>	0.1	0.1
<b>Investment Management Expenses</b>		
Administration, management and custody fees*	11.9	14.4
Other expenses	0.0	0.0
	<b>12.0</b>	<b>14.5</b>

## NOTE 9A: INVESTMENT MANAGEMENT EXPENSES

Fixed Income and Equity Investment Managers' expenses are charged on a percentage basis of the market value of assets under management and therefore increase or reduce as the value of these investments change. Global Custodian fees are agreed in the respective mandate governing their appointment.

The cost of obtaining investment advice from the Fund's Independent Investment Adviser is included in investment management charges. All investment management expenses are accounted for on an accruals basis. The management costs are as follows: -

	2018/19	2019/20
	£m	£m
Management fees	10.7	13.4
Custody fees	0.4	0.3
Transaction costs	0.8	0.7
	<b>11.9</b>	<b>14.4</b>

The £14.4m investment management expenses incurred in 2019/20 represent 0.55% or 55 basis points (bps) of the market value of the Fund's assets as at 31<sup>st</sup> March 2020 (0.42% or 42bps 31 March 2019).

The cash for the pooled property investments, pooled infrastructure investment and Equity Protection solution drawdowns were transitioned from the overweight position held in UK passive equities, which have a very low management fee in comparison.

The reason for the investment in pooled property investments and pooled infrastructure investments was to further diversify the Fund's assets whilst maintaining long term target

investment returns. These investments have a J-Curve return profile, so are expected to provide increased returns as the pooled funds mature.

\* The Fund has applied CIPFA's guidance 'Accounting for Local Government Pension Scheme Management Costs', which requires external investment management fees and transaction costs to be deducted from asset values (rather than invoiced and paid directly). These are shown gross: the application of the guidance increases management expenses from £12.8 million to £14.5 million for 2019/20 (£9.7 million to £12.0 million for 2018/19). It is important to note that the application of the guidance does not represent an actual increase in costs, or a decrease in the Fund's resources to pay pension benefits.

## NOTE 10: INVESTMENT INCOME

Income from equities (dividend income) is accounted for on the date stocks are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

Income from fixed interest, cash and short-term deposits is accounted for on an accruals basis, using the effective interest rate of the financial institution as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs (where material) or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis. Income from other investments is accounted for on an accruals basis.

The changes in market value of investments during the year are recognised as income and comprise all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments and unrealised changes in market value.

	2018/19	2019/20
	£m	£m
Fixed interest securities	14.4	2.0
Equity dividends	23.8	25.2
Pooled property investments	7.3	10.4
Pooled infrastructure investments	5.5	9.0
Interest on cash deposits	0.6	2.0

Securities lending	0.1	0.0
	<b>51.7</b>	<b>48.6</b>

## NOTE 11: TAXES ON INCOME

The Fund is a registered public service scheme under section (1) of schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

	2018/19	2019/20
	£m	£m
Withholding tax – equities	(1.5)	(0.7)
	<b>(1.5)</b>	<b>(0.7)</b>

## NOTE 12: INVESTMENTS

	Market value 31 March 2019	Market Value 31 March 2020
	£m	£m
<b>Long term Investment Assets</b>		
LGPS Central –AFIM	0.0	0.0
LGPS Central shares	1.4	1.4
<b>Investment Assets -LGPS Central Managed</b>		
Equities	0.0	285.2
Fixed Interest Securities	0.0	143.6
<b>Investment assets -WPF Managed</b>		
Fixed interest securities	361.5	211.2
Equities	715.7	307.9
Pooled investment vehicles	1,291.0	1,126.0

	Market value 31 March 2019	Market Value 31 March 2020
	£m	£m
Pooled property investments	171.8	149.8
Pooled Infrastructure investments	159.4	299.1
Pooled Debt Assets	12.4	38.0
Derivatives - futures	32.1	32.4
Derivatives - forward FX	0.1	0.0
Cash deposits	32.9	25.5
Investment income due	7.3	5.3
Amounts receivable for sales	1.8	0.0
<b>Total investment assets</b>	<b>2,787.4</b>	<b>2,625.4</b>
<b>Investment liabilities</b>		
Derivatives - futures	(20.8)	(21.4)
Derivatives - forward FX	(2.8)	(0.0)
Amounts payable for purchases	(5.4)	(0.0)
<b>Total investment liabilities</b>	<b>(29.0)</b>	<b>(21.4)</b>
<b>Net investment assets</b>	<b>2,758.4</b>	<b>2,604.0</b>

## NOTE 12A: RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

	Market value 31 March 2019	Purchase s during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 March 2020
	£m	£m	£m	£m	£m
-					

**Long-term Investment  
Assets**

	Market value 31 March 2019	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 March 2020
-	£m	£m	£m	£m	£m
LGPS Central – AFIM	0.0	0.0	0.0	0.0	0.0
LGPS Central – Shares	1.4	0.0	0.0	0.0	1.4
	<b>1.4</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>1.4</b>
<b>Investment Assets -LGPS Central Managed</b>					
Fixed Interest Securities	<b>0.0</b>	345.9	0.0	(60.7)	285.2
Equities	<b>0.0</b>	158.6	0.0	(15.0)	143.6
	<b>1.4</b>	<b>504.5</b>	<b>0.0</b>	<b>(75.7)</b>	<b>430.2</b>
<b>Investment Assets -WPF Managed</b>					
Fixed interest securities	<b>361.5</b>	313.4	(466.1)	(2.4)	<b>211.2</b>
Equities	<b>715.7</b>	149.8	(541.6)	(16.0)	<b>307.9</b>
Pooled investment vehicles	<b>1,291.0</b>	3.8	(65.4)	(103.4)	<b>1,126.0</b>
Pooled Property investments	<b>171.8</b>	12.6	(26.2)	(8.4)	<b>149.8</b>
Pooled Infrastructure Investments	<b>159.4</b>	203.0	(78.0)	14.7	<b>299.1</b>
Pooled Debt investments	<b>12.4</b>	25.8	(1.6)	1.4	<b>38.0</b>
	<b>2,713.2</b>	<b>1,212.9</b>	<b>(1,178.9)</b>	<b>(185.0)</b>	<b>2,562.2</b>
<b>Derivative contracts:</b>					
Futures	<b>11.3</b>	74.7	(94.3)	19.3	<b>11.0</b>
Forward currency contracts	<b>(2.7)</b>	15.0	(14.7)	2.4	<b>0.0</b>
	<b>2,721.8</b>	<b>1,302.6</b>	<b>(1,287.9)</b>	<b>(163.3)</b>	<b>2,573.2</b>
<b>Other investment balances:</b>					
Cash deposits	32.9			(6.2)	25.5
Investment income due	7.3				5.3

	Market value 31 March 2019	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 March 2020
	£m	£m	£m	£m	£m
-					

Amount receivable for sales of investments	1.8				0.0
Amounts payable for purchases of investments	(5.4)				0.0
<b>Net investment assets</b>	<b>2,758.4</b>			<b>(169.5)</b>	<b>2,604.0</b>

#### Prior year comparators:

	Market value 31 March 2018	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 March 2019
	£m	£m	£m	£m	£m
-					

#### Long-term Investment Assets

LGPS Central – AFIM	0.5	0.0	(0.5)	0.0	0.0
LGPS Central – Shares	1.4	0.0	0.0	0.0	1.4
	<b>1.9</b>	<b>0.0</b>	<b>(0.5)</b>	<b>0.0</b>	<b>1.4</b>

#### Investment Assets

Fixed interest securities	359.8	90.9	(88.3)	(0.9)	<b>361.5</b>
Equities	752.5	301.8	(304.5)	(34.1)	<b>715.7</b>
Pooled investment vehicles	1,292.0	1.7	(131.3)	128.6	<b>1,291.0</b>
Pooled Property investments	128.5	64.2	(22.8)	1.9	<b>171.8</b>

	Market value 31 March 2018	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 March 2019
-	£m	£m	£m	£m	£m

Pooled Infrastructure Investments	96.1	77.9	(16.0)	1.4	159.4
Pooled Debt investments	0.0	15.0	(2.9)	0.3	12.4
	<b>2,630.8</b>	<b>551.5</b>	<b>(566.3)</b>	<b>97.2</b>	<b>2,713.2</b>
<b>Derivative contracts:</b>					
Futures	24.5	1.4	(1.3)	(13.3)	11.3
Forward currency contracts	1.6	13.7	(7.3)	(10.7)	(2.7)
	<b>2,656.9</b>	<b>566.6</b>	<b>(574.9)</b>	<b>73.2</b>	<b>2,721.8</b>

**Other investment balances:**

Cash deposits	27.1			4.3	32.9
Investment income due	6.5				7.3
Amount receivable for sales of investments	0.7				1.8
Amounts payable for purchases of investments	(1.8)				(5.4)

<b>Net investment assets</b>	<b>2,689.4</b>			<b>77.5</b>	<b>2,758.4</b>
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The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

Transaction costs are not included in the cost of purchases and sale proceeds, as they have been included in Investment Management Expenses as per CIPFA guidance. Transaction costs include costs charged directly to the scheme such as fees, commissions, and other fees. Transaction costs incurred during the 2019/2020 year amounted to £0.7 million, (2018/2019 £0.8 million). These transaction costs represent

0.03% or 3bps of the Market Value of the Fund's assets as at 31 March 2020 (3bps at 31 March 2019).

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

## NOTE 12B ANALYSIS OF INVESTMENTS (EXCL. DERIVATIVE CONTRACTS, CASH AND OTHER BALANCES)

	31 March 2019	31 March 2020
	£m	£m
<b>Long term Investment Assets</b>		
LGPS Central – AFIM	0.0	0.0
LGPS Central – shares	1.4	1.4
	<b>1.4</b>	<b>1.4</b>
<b>Fixed interest securities</b>		
UK Gilts	220.1	211.2
UK corporate quoted	7.3	0.0
Overseas public sector quoted	0.0	0.0
Overseas corporate quoted	134.1	0.0
	<b>361.5</b>	<b>211.2</b>
<b>Equities</b>		
UK quoted	13.2	8.8
Overseas quoted	702.5	293.1
	<b>715.7</b>	<b>301.9</b>
<b>Pooled Investment Vehicles</b>		
Other UK managed funds – UK equities	375.0	285.9
– Overseas equities	483.5	449.4
– Global equities	417.8	389.0
– Emerging Market Equities	0.0	287.9
– Global Bonds	0.0	143.6
Other overseas managed funds – Overseas equities	14.7	5.0

	31 March 2019	31 March 2020
	£m	£m
	1,291.0	1,560.8
<b>Pooled Funds - Additional Analysis</b>		
Pooled property investments - UK	86.8	75.2
Pooled property investments - overseas	85.0	74.6
	171.8	149.8
Pooled Infrastructure investments	159.4	299.1
	159.4	299.1
Pooled Debt investments	12.4	38.0
	12.4	38.0
Derivatives - futures	32.1	32.4
Derivatives - forward FX	0.1	0.0
Cash deposits	32.9	25.5
Investment income due	7.3	5.3
Amounts receivable for sales	1.8	0.0
<b>Total investment assets</b>	<b>2,787.4</b>	<b>2,625.4</b>
<b>Investment liabilities</b>		
Derivatives - futures	(20.8)	(21.4)
Derivatives - forward FX	(2.8)	(0.0)
Amounts payable for purchases	(5.4)	(0.0)
<b>Total investment liabilities</b>	<b>(29.0)</b>	<b>(21.4)</b>
<b>Net investment assets</b>	<b>2,758.4</b>	<b>2,604.0</b>

## NOTE 12C: PENSION FUND INVESTMENTS ANALYSED BY FUND MANAGER

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

External Fund Manager	2018/19		2019/20	
	£m	%	£m	%
LGPS Central (Bonds)	0.0	0	143.6	6
LGPS Central (Emerging Markets)	0.0	0	285.2	11
JP Morgan Asset Management (Bonds)	144.6	5	0.2	0
JP Morgan Asset Management (Emerging Markets)	165.4	6	1.5	0
Nomura Asset Management UK Ltd	382.8	14	321.1	12
Schroder Investment Management	189.9	7	1.4	0
Legal and General Asset Management	1276.2	46	1118.3	43
Green Investment Bank	48.3	2	46.7	2
Hermes (Fund I and II)	48.6	2	97.9	4
Invesco (Euro and a UK Property Fund)	108.2	4	100.5	4
VENN	26.7	1	21.1	1
Walton Street	17.0	1	7.6	0
Walton Street II	0.0	0	3.2	0
AEW	19.9	1	17.4	1
Stonepeak	10.6	0	60.6	2
First State	51.9	2	93.9	4
EQT	12.4	0	38.0	1
River and Mercantile	241.8	9	235.0	9
WCC Managed Account	5.4	0	4.1	0
	<b>2,749.7</b>	<b>100</b>	<b>2,597.3</b>	<b>100</b>

The above excludes £1.4m (2018/19 £1.4m) Invested in LGPS Central and £5.3m (2018/19 £7.3m) of Investment Income due.

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 2019	Fund	31 March 2020	Fund
	£m		£m	
LGIM – North America Index Pooled Fund	307.5	11.2	287.7	11.1
LGIM – UK Equity Index Pooled Fund	375.0	13.7	285.9	11.0

LGPS Central Emerging Market Equity Pool	0.0	0.0	285.2	11.0
River and Mercantile UK Gilts	220.1	8.0	211.2	8.1
LGIM – Europe (ex-UK) Index Pooled Fund	176.0	6.4	155.8	6.0
LGPS Central Corporate Bond Pool	0.0	0.0	143.6	5.5
LGIM - Client Specific United Fund -STAJ	133.8	4.9	137.4	5.3
LGIM - FTSE Developed Equity Pooled Fund	159.6	5.8	134.0	5.1

## NOTE 12 D STOCK LENDING

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The Fund operates the practice of lending stock to a third party for a financial consideration. Securities released to a third party under the stock lending agreement with the Fund's custodian, BNY Mellon, are included in the net assets statement to reflect the Fund's continuing economic interest of a proprietorial nature in those securities.

The total amount of stock lent at the year-end was £4.6 million (2019 £25.9 million). Counterparty risk is managed through holding collateral at the Fund's custodian bank. The total collateral, which consisted of acceptable corporate and sovereign debt as well as equities was £5.0 million (2019 £28.1 million) representing 108.8% of stock lent.

Income received from stock lending activities was £0.0 million for the year ending 31 March 2020 (2019 £0.1million). This is included within the 'Investment Income' figure detailed on the Fund Account.

Stock lending commissions are remitted to the Fund via the custodian. During the period the stock is on loan, the voting rights of the loaned stocks are passed to the borrower. There are no liabilities associated with the loaned assets.

## NOTE 13A: ANALYSIS OF DERIVATIVES

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

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

exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract.

## **Objectives and Policies for Holding Derivatives**

Most of the holding in derivatives is to hedge exposures to reduce risk in the Fund. Derivatives may be used to gain exposure to an asset more efficiently than holding the underlying asset. The use of derivatives is managed in line with the investment management agreement between the Fund and its investment managers.

In 2019/20 the Fund entered into a contract with River and Mercantile, to hedge the recent gains in Equities. This involved entering into exchange-traded options on 3 major indices and purchasing a collateral pool of Gilts.

### **a) Futures**

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

### **b) Forward Foreign Currency**

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

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

### **Futures**

Outstanding exchange traded futures contracts are as follows:

<b>ASSETS</b>		<b>Economic Exposure</b>	<b>Market Value 31 March 2019</b>	<b>Economic Exposure</b>	<b>Market Value 31 March 2020</b>
<b>Type of future</b>	<b>Expiration</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
UK gilt exchange traded	Under one year	1.9	0.0	1.9	0.0
UK FTSE exchange traded option	Under one year	0.0	23.5	0.0	23.5
EUROSTOXX exchange traded option	Under one year	0.0	4.5	0.0	4.5
US S+P exchange traded option	Under one year	0.0	3.8	0.0	3.8
Overseas exchanged traded	under one year	27.6	0.3	27.6	0.3
<b>Total assets</b>			<b>32.1</b>		<b>32.1</b>

<b>LIABILITIES</b>		<b>Economic Exposure Value</b>	<b>Market Value 31 March 2019</b>	<b>Economic Exposure Value</b>	<b>Market Value 31 March 2020</b>
<b>Type of future</b>	<b>Expiration</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
UK gilt exchange traded	Under one year	0.0	0.0	0.0	0.0
UK FTSE exchange traded option	Under one year	0.0	(12.8)	0.0	(12.8)
EUROSTOXX exchange traded option	Under one year	0.0	(2.7)	0.0	(2.7)
US S+P 500 exchange traded option	Under one year	0.0	(5.1)	0.0	(5.1)
Overseas exchanged traded	Under one year	(21.4)	(0.2)	(21.4)	(0.2)
<b>Total liabilities</b>			<b>(20.8)</b>		<b>(20.8)</b>

**Net futures**

**11.3**

**11.3**

## **OPEN FORWARD CURRENCY CONTRACTS AS AT 31 MARCH 2020**

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

There were no Open contracts as at the 31<sup>st</sup> of March 2020

Net forward currency contracts at 31 March 2020

0.0 (0.0)

0.0

Prior year comparative:

Open forward currency contracts at 31 March 2019

0.1 (2.8)

Net forward currency contracts at 31 March 2019

(2.7)

## ANALYSIS OF CASH

Cash comprises demand deposits and cash equivalents; these include amounts held by the Fund's external managers. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

	2018/19	2019/20
20Cash	£m	£m
Cash deposits	18.2	18.6
Cash instruments	14.7	6.9
	<b>32.9</b>	<b>25.5</b>

## NOTE 14: FAIR VALUE

### NOTE 14 A: BASIS OF VALUATION

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been

valued using fair value techniques which represent the highest and best price available at the reporting date.

<b>Description of asset</b>	<b>Valuation hierarchy</b>	<b>Basis of valuation</b>	<b>Observable and unobservable inputs</b>	<b>Key sensitivities affecting the valuations provided</b>
Market-Quoted Investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Fixed Interest Securities	Level 1	Fixed interest securities are valued at net market value based on current yields	Not required	Not required
Pooled Equity Funds	Level 2	Closing bid price where bid and offer prices are published; or the single price, as applicable	Net Asset Value (NAV)-based pricing set on a forward pricing basis and in the case of accumulation funds, reinvested income net of applicable withholding tax.	Not required
Forward foreign exchange derivatives	Level 2	Market forward exchange rates at the year-end	Exchange rate risk	Not required
Derivatives - Futures	Level 2	Option pricing model	Annualised volatility of counterparty credit risk	Not required
Property, Infrastructure and Debt Funds	Level 3	Unit or security price as advised by Investment Manager or responsible entity.	Funds share of net assets in limited partnership, using Financial Statements published by the	Valuations could be affected by material events occurring between the date of the financial statements provided and the fund's own reporting

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
			manager as at the final day of the accounting period.	date, by changes to expected cashflows, and by any differences between audited and unaudited accounts

*Please see paragraphs under the Net Assets Statement for more detail of our basis for measurement for the above Financial Instruments.*

## NOTE 14 B: FAIR VALUE HIERARCHY

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### Level 1

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

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

### Level 2

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

### Level 3

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

Such instruments would include unquoted equity investments, pooled property investments and pooled infrastructure investments which are valued using various

valuation techniques that require significant judgement in determining appropriate assumptions.

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

	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
Values at 31 March 2020	Level 1	Level 2	Level 3	
	£m	£m	£m	£m
<b>Fair Value Financial assets</b>				
Financial assets at fair value through profit and loss	953.2	1,158.4	486.9	2,598.5
<b>Total fair value financial assets</b>	<b>953.2</b>	<b>1,158.4</b>	<b>486.9</b>	<b>2,598.5</b>
<b>Fair Value Financial Liabilities</b>				
Financial liabilities at fair value through profit and loss		(21.4)		(21.4)
<b>Total fair value financial liabilities</b>	<b>0.0</b>	<b>(21.4)</b>	<b>0.0</b>	<b>(21.4)</b>
<b>Net fair value financial assets</b>	<b>953.2</b>	<b>1,137.0</b>	<b>486.9</b>	<b>2,577.1</b>

	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
Values at 31 March 2019	Level 1	Level 2	Level 3	
	£m	£m	£m	£m
<b>Fair Value Financial assets</b>				
Financial assets at fair value through profit and loss	1,086.3	1,323.2	343.6	2,753.1
<b>Total fair value financial assets</b>	<b>1,086.3</b>	<b>1,323.2</b>	<b>343.6</b>	<b>2,753.1</b>
<b>Fair Value Financial Liabilities</b>				
Financial liabilities at fair value through profit and loss		(29.0)		(29.0)
<b>Total fair value financial liabilities</b>	<b>0.0</b>	<b>(29.0)</b>	<b>0.0</b>	<b>(29.0)</b>
<b>Net fair value financial assets</b>	<b>1,086.3</b>	<b>1,294.2</b>	<b>343.6</b>	<b>2,724.1</b>

## NOTE 14 C: SENSITIVITY OF ASSETS VALUED AT LEVEL 3

Having analysed historical data and current market trends, and consulted with independent investment advisors, the fund has determined that the valuation methods described in Note 14a are likely to be accurate to within the following ranges and has set out below the consequent potential impact on the closing value of investments held at 31 March 2020.

Sensitivity Analysis	Valuation range	Value as at 31 <sup>st</sup> March 2020	Valuation Increase	Valuation Decrease
	+/- %	£m	£m	£m
Pooled Investments - Property Funds	6.5%	149.8	160.3	139.3
Pooled Investments - Infrastructure Funds	6.5%	299.1	320.0	278.2
Pooled Investments - Debt Funds	6.5%	38.0	407.	35.3
<b>Total</b>		<b>486.9</b>	<b>521.0</b>	<b>452.8</b>

## Reconciliation of Fair Value Measurements within Level 3

Investment Movement	Pooled Investments – Property Funds	Pooled Investments – Infrastructure Funds	Pooled Investments – Debt Funds	Total
	£m	£m		£m
Market Value 1 <sup>st</sup> April 2019	171.8	159.4	12.4	343.6
Transfers into Level 3	0.0	0.0	0.0	0.0
Transfers out of Level 3	0.0	0.0	0.0	0.0
Purchases and derivative Pymts	12.6	203.0	25.8	241.4
Sales and derivative receipts	(26.2)	(78.0)	(1.6)	(105.8)
Unrealised gains/(losses)	(8.9)	15.2	0.9	7.2
Realised gains/(losses)	0.5	(0.5)	0.5	0.5
<b>Market value 31<sup>st</sup> March 2020</b>	<b>148.9</b>	<b>299.1</b>	<b>38.0</b>	<b>486.9</b>

Unrealised and realised gains and losses are recognised in the profit and losses on disposal and changes in the market value of investments line of the fund account. Unrealised losses on Property Funds include an estimated £13.3m reduction in the value of certain funds after discussions and detailed information with Fund Managers compared with the Custodian-supplied valuation as a result of the effects of the COVID-19 Pandemic.

## NOTE 15: FINANCIAL INSTRUMENTS

### NOTE 15 A: CLASSIFICATION OF FINANCIAL INSTRUMENTS

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities by category and net assets statement heading.

Fair value through profit and loss	Financial Instruments at Amortised Cost	Fair value through profit and loss	Financial Instruments at Amortised Cost
2018/19	2018/19	2019/20	2019/20
£m	£m	£m	£m
<b>Financial assets</b>			

Fair value through profit and loss	Financial Instruments at Amortised Cost		Fair value through profit and loss	Financial Instruments at Amortised Cost
2018/19	2018/19		2019/20	2019/20
£m	£m		£m	£m
	1.4	Other share capital		1.4
0.0		LGPS Central Managed	428.8	
361.5		Fixed interest securities	211.1	
715.7		Equities	307.9	
1,291.0		Pooled investment vehicles	1,126.0	
171.8		Pooled property investments	149.8	
159.4		Pooled Infrastructure investments	299.1	
12.4		Pooled Debt investments	38.0	
32.1		Derivatives - Futures	32.4	
0.1		Derivatives - Forward FX	0.0	
	58.7	Cash		29.6
9.1		Other investment Balances	5.3	
	13.4	Current assets		29.6
	1.5	Non-current assets		2.0
<b>2,753.1</b>	<b>75.0</b>		<b>2,598.5</b>	<b>62.6</b>
		<b>Financial liabilities</b>		
(20.8)		Derivatives - Futures	(21.4)	
(2.8)		Derivatives - Forward FX	(0.0)	
(5.4)		Other investment balances	(0.0)	
	(3.8)	Current liabilities		(6.3)
<b>(29.0)</b>	<b>(3.8)</b>		<b>(21.4)</b>	<b>(6.3)</b>
<b>2,724.1</b>	<b>71.2</b>		<b>2,577.1</b>	<b>56.3</b>

## NOTE 15 B: NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

31 March 2019		31 March 2020
£m		£m
	<b>Financial assets</b>	
97.2	Fair value through profit and loss	(185.0)
4.3	Financial Assets at Amortised Cost	(6.2)
	<b>Financial liabilities</b>	
(24.0)	Fair value through profit and loss	21.7
<b>77.5</b>	<b>Total</b>	<b>(169.5)</b>

Fair value through profit and loss is the combination of realised and unrealised profit and loss.

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

## NOTE 16: NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

In the course of every day operating, the Fund is subject to a number of risk factors arising from the holding of financial instruments. The main risks arising from the holding of the Fund's financial instruments are market risk, credit risk and liquidity risk.

As detailed in the Investment Strategy Statement, the Fund holds equity and bond instruments in order to meet its investment objectives. The Fund's investment objectives and risk management policies are as follows;

- 1) The investment objective for the Fund is to: -
  - a. ensure that sufficient assets are available to meet liabilities as they fall due;
  - b. Maximise the return at an acceptable level of risk.
  
- 2) Risk management is mostly concerned with:
  - a. avoiding the possibility of loss, or
  - b. limiting a deficiency in the underlying Fund, or
  - c. Avoiding a contribution rate increase in the future.

## Market Risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk. There are three main types of market risk that the Fund is exposed to as at 31 March 2020:

- Equity Risk
- Interest Rate Risk
- Foreign Exchange Risk

Equity risk refers to the risk arising from the volatility in stock prices; this can be systematic risk, the risk due to general market factors and affects the entire industry, or unsystematic risk, which refers to the risk specific to a company that arises due to the company specific characteristics. Interest rate risk is the risk that the value of a security will fall as a result of increase in interest rates. Foreign exchange risk arises because of fluctuations in the currency exchange rates.

The Fund reduces its unsystematic equity risk by diversifying investments across global markets, investing in over 1,000 companies worldwide through active segregated mandates and passive pooled funds. Investment restrictions are built into contracts held with each investment manager to ensure risk concentration is minimal and gearing of the Fund's equity and fixed income assets cannot take place. An Equity Protection Strategy has also been implemented to protect against significant market falls in its passive equity portfolio.

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

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

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

## Equity Risk Analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's Independent Investment Adviser and Portfolio Evaluation Ltd, the Fund has determined that the following movements in market price risk are reasonably possible for the 2019/20 reporting period:

Asset Type	Potential Market Movements (+/-)
Fixed interest securities	5.7%
Global Bonds	5.7%
UK equities	14.1%
Overseas equities	11.9%
UK pooled investment vehicle	14.1%
Overseas pooled investment vehicle	12.5%
Global pooled investment vehicle	12.5%
Emerging Markets Pooled Equities	12.5%
Pooled property investments	6.5%
Pooled Infrastructure investments	6.5%
Pooled Debt Investments	6.5%

The potential price changes disclosed above are broadly consistent with a one standard deviation movement in the value of the assets. The analysis assumes that all other variables, in particular foreign exchange rates and interest rates, remain the same.

If the market price of the Fund's investments increases/decreases in line with the potential market movements above, the change in the net assets available to pay benefits will be as follows (the actual prior year movement in all asset classes is shown in note 12):

Asset Type	Value as at	Percentage change	Value on increase	Value on decrease
	31 March 2020			
	£m	%	£m	£m
Cash and cash equivalents	25.5	0.0%	25.5	25.5
<b>Investment portfolio assets:</b>				
UK fixed interest securities	211.2	5.7%	223.2	199.2
Overseas fixed interest securities	0.0	5.7%	0.0	0.0
Global Bonds	143.6	5.7%	151.8	135.4
UK equities	8.8	14.1%	10.0	7.6
Overseas equities	293.1	11.9%	328.0	258.2
UK pooled investment vehicle	285.9	14.1%	326.2	245.6
Overseas pooled investment vehicle	454.4	12.5%	511.2	397.6
Global pooled investment vehicle	389.0	12.5%	437.6	340.4
Emerging Market Pooled Equities	287.9	12.5%	323.9	251.9
Pooled property investments	149.8	6.5%	159.6	140.0
Pooled Infrastructure investments	299.1	6.5%	318.6	279.6
Pooled Debt Investments	38.0	6.5%	40.5	35.5
Net derivative assets	11.0	0.0%	11.0	11.0
Investment income due	5.3	0.0%	5.3	5.3
Amounts receivable for sales	0.0	0.0%	0.0	0.0
Amount payable for purchases	0.0	0.0%	0.0	0.0
<b>Total</b>	<b>2,602.6</b>		<b>2,872.5</b>	<b>2,332.7</b>

### Prior-year comparators

Asset Type	Value as at	Percentage change	Value on increase	Value on decrease
	31 March 2019			
	£m	%	£m	£m
Cash and cash equivalents	32.9	0.0%	32.9	32.9
<b>Investment portfolio assets:</b>				
UK fixed interest securities	227.4	3.3%	234.9	219.9
Overseas fixed interest securities	134.1	3.3%	138.5	129.7
UK equities	13.2	9.2%	14.4	12.0
Overseas equities	702.5	12.1%	787.5	617.5

Asset Type	Value as at	Percentage change	Value on increase	Value on decrease
	31 March 2019			
	£m	%	£m	£m
UK pooled investment vehicle	375.0	9.2%	409.5	340.5
Overseas pooled investment vehicle	498.2	10.5%	550.5	445.9
Global pooled investment vehicle	417.8	10.5%	461.7	373.9
Pooled property investments	171.8	6.1%	182.3	161.3
Pooled Infrastructure investments	159.4	6.1%	169.1	149.7
Pooled Debt Investments	12.4	6.1%	13.2	11.6
Net derivative assets	8.6	0.0%	8.6	8.6
Investment income due	7.3	0.0%	7.3	7.3
Amounts receivable for sales	1.8	0.0%	1.8	1.8
Amount payable for purchases	(5.4)	0.0%	-5.4	-5.4
<b>Total</b>	<b>2,757.0</b>		<b>3,006.8</b>	<b>2,507.2</b>

### Interest Rate Risk Analysis

The Fund's direct exposure to interest rate movements is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

Asset Type	Value as at 31 March 2019	Value as at 31 March 2020
	£m	£m
Cash and cash equivalents	32.9	25.5
Cash balances	25.8	4.1
Fixed interest securities	361.5	211.2
<b>Total</b>	<b>420.2</b>	<b>240.8</b>

### Interest Rate Risk Sensitivity Analysis

The Fund recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. The Fund's performance reporting advisor, Portfolio Evaluation Limited, has advised that medium to long-term average rates are expected to move less than 100 basis points from one year to the next and experience suggests that such movements are likely.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits as at 31 March 2020 of a +/- 100 Basis Points (BPS) change in interest rates:

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

Asset Type	Carrying amount as at 31 March 2019	Change in year in the net assets available to pay benefits	
		+100 BPS	-100 BPS
	£m	£m	£m
Cash and cash equivalents	32.9	33.2	32.6
Cash balances	25.8	26.1	25.5
Fixed interest securities	361.5	365.1	357.9
<b>Total change in assets available</b>	<b>420.2</b>	<b>424.4</b>	<b>416.0</b>

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

## Currency Risk

The following table summarises the Fund's currency exposure:

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Currency exposure - asset type	Asset value as at 31 March 2019	Asset value as at 31 March 2020
	£m	£m
Overseas quoted securities	702.5	293.1
Overseas pooled investment vehicle	483.0	454.4
Global pooled investment vehicle	433.0	389.0
Global Bonds and Pooled EM Equities	0.0	431.5
Overseas pooled property investments	85.0	74.6
<b>Total overseas assets</b>	<b>1,703.5</b>	<b>1,642.6</b>

Overseas bonds are 100% hedged to GBP at 31 March 2020.

### Currency Risk – Sensitivity Analysis

Following analysis of historical data in consultation with the fund's performance measurement provider, the Fund considers the likely volatility associated with foreign exchange rate movements to be 11.0% (as measured by one standard deviation).

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

An 11.0% strengthening/weakening of the pound against various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

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

	Change to net assets available to pay benefits		
	Asset value as at 31 March 2019	+11.0%	-11.0%
	£m	£m	£m
Overseas quoted securities	702.5	779.9	625.1
Overseas pooled investment vehicle	498.2	553.1	443.3
Global pooled investment vehicle	417.8	463.8	371.8
Overseas pooled property investments	85.0	94.4	75.6
<b>Total change in assets available</b>	<b>1,703.5</b>	<b>1,891.2</b>	<b>1,515.8</b>

## Credit Risk

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

The bond manager provides a quarterly investment report to the Fund, which details the credit risk held in the portfolio. The Fund's Independent Investment Adviser also provides a yearly report to the Pension Investment Advisory Panel, providing details of the Fund's bond portfolio absolute and relative risk.

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

The fund's cash holding at 31 March 2020 was £29.6 million (31 March 2019: £58.4 million). This was held with the following institutions:

Summary	Rating	Balances as at 31 March 2019	Balances as at 31 March 2020
---------	--------	------------------------------	------------------------------

		£m	£m
<b>Money market funds</b>			
BNY Mellon US Dollar Liquidity Fund	AAA	6.4	6.9
JPM GBP Liquidity LVNAV	AAA	6.7	0.0
JPM liq-USD Liquidity-XDI	AAA	1.7	0.0
<b>Bank deposit accounts</b>			
The Bank of New York Mellon	A-1+	17.8	18.6
<b>Bank current accounts</b>			
Barclays Bank PLC	A-1	25.8	4.1
<b>Total</b>		<b>58.4</b>	<b>29.6</b>

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

### Liquidity Risk

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

## NOTE 17: CURRENT ASSETS

	2018/19	2019/20
	£m	£m

Contributions due from employer in respect of:

Employer	8.8	6.9
Members	1.7	1.8
Magistrates Courts Bulk Transfer Payment Due	0.6	0.0
Augmentation	0.1	0.0
Cash balances	25.8	4.1
Other Debtors	2.2	22.5
	<b>39.2</b>	<b>35.3</b>

The above Assets are carried at Amortised cost, other than cash balances and other debtors (see below), the funds are due from Government institutions and therefore no allowance for expected losses has been set aside. The other debtors increase in 2019/20 mainly relate to the withdrawal of part of our Equity portfolio with River & Mercantile.

## NOTE 18: NON-CURRENT ASSETS

	2018/19	2019/20
	£m	£m
Magistrates Courts Bulk Transfer Payment Due	0.0	0.0
*LGPS Central Capital Advance treated as loan	0.7	0.7
**Reimbursement of lifetime tax allowances	0.2	0.2
Contributions from Employers	0.0	0.1
Augmentation	0.6	1.0
	<b>1.5</b>	<b>2.0</b>

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

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

## NOTE 19: CURRENT LIABILITIES

	2018/19	2019/20
--	---------	---------

	£m	£m
Investment management expenses	(3.6)	(0.8)
Payroll and external vendors	(0.2)	(1.0)
Other expenses	(0.0)	(4.5)
	<b>(3.8)</b>	<b>(6.3)</b>

## NOTE 20: RELATED PARTY TRANSACTIONS

### Worcestershire County Council

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

The Council incurred costs of £1.5 million in 2019/2020 (2018/2019: £1.0 million) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The Council is also the single largest employer of members of the Fund and contributed £10.0 million to the Fund in 2019/2020 (2018/2019: £9.4 million).

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

The annual running costs of £0.6 million was charged to the fund in 2019/20 by LGPS Central (£0.5 million in 2018/19).

### Key Management Personnel

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

	2018/19	2019/20
	£000	£000
Short term benefits*	50	49
Long term/ post-retirement benefits**	389	429
	<b>439</b>	<b>478</b>

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

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

## **Governance**

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

## **NOTE 21: CONTINGENT LIABILITIES**

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A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events.

Outstanding capital commitments (investments) at 31 March 2020 totalled £147.5 million (31 March 2019: £294.5 million).

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

## **NOTE 22: CONTINGENT ASSETS**

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A contingent asset arises where an event has taken place that gives the Fund a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Fund.

Contingent assets are not recognised in the financial statements but are disclosed as a note to the accounts.

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

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

There are a further 15 organisations with a pension liability less than £195,000. The Fund has considered various factors in determining the potential risk of having to fund any future liability, including risk of failure of the business and membership profile, and is satisfied that they do not represent a significant potential liability. There are also 10 organisations with a guarantee via pass through arrangements. As new contractors, these employers will all commence fully funded with no initial funding deficit. In line with the 'Initial pension guarantee' employers above, we are assuming that the active members would remain active on termination of the contract and be transferred back to the relevant school/academy or to the new service provider. On this basis, the amount for all these employers is reflected as nil for this year's accounts.

Eleven admitted body employers in the Fund hold insurance bonds to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the Fund and payment will only be triggered in the event of employer default. No bonds were called upon in this financial year.

Note that the existing bonds and guarantees from the previous financial year have all been discussed with the Actuary 'Mercers' and updated where necessary

## **NOTE 23: ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCS)**

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The Fund provides an in-house AVC scheme for its members. In 2019/2020 some members of the Fund paid voluntary contributions and transfers to Scottish Widows and Utmost Life (Was Equitable Life until the 1<sup>st</sup> January 2020) to buy extra pension benefits when they retire. Retirement benefits were also purchased during the year. The contributions are paid directly from scheme employers to the AVC provider. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the pension fund accounts in accordance with Regulation 4(1) (b) of the Local Government Pension Scheme (Management and Investment of funds) Regulations 2016 but are disclosed as a note only.

The amounts administered under AVC arrangements are as follows:

	2018/19	2019/20
	£m	£m
Contributions received	0.2	0.2
Investments purchased	0.2	0.2
Change in market value	0.2	(0.2)
Retirement benefits paid or transferred	0.3	0.2

The combined value of the AVC funds at 31 March 2020 was £2.6 million, (31 March 2019 £2.8 million).

## NOTE 24: AGENCY SERVICES

The Fund pays discretionary awards to the former employees of Herefordshire County Council. The amounts paid are not included within the Fund's Accounts but are provided as a service and fully reclaimed from the employer. The sums are disclosed below.

	2018/19	2019/20
	£m	£m
Payments on behalf of Herefordshire County Council	0.1	0.1
	<b>0.1</b>	<b>0.1</b>

## NOTE 25: CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

There were no significant changes to the CIPFA code of practice on local authority accounting (the code). IFRS 9 requires the investment assets to be accounted for at fair value within the accounts. The adoption of IFRS 9 in 2018 had no impact on the accounts for pension funds as the investment assets were already held at fair value through profit and loss as directed by the code.

The adoption of IFRS 15 revenue from customers with contracts was also introduced from 1 April 2018. This had no impact on the pension fund accounts as the Funds revenue is primarily Investment Interest and Contributions, both of which are outside the scope of the standard.

## **NOTE 26: ASSUMPTIONS MADE ABOUT THE FUTURE AND ANY OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY**

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

The item in the notes to the accounts at 31 March 2020 for which there is a significant risk of material adjustment in the forthcoming financial year is as follows.

Item	Uncertainties	Effect is actual results differ from assumptions
<b>Actuarial present value of promised retirement benefits (Note 2)</b>	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance: <ul style="list-style-type: none"> <li>• a 0.5% increase in the discount rate assumption would result in an 8% decrease in the pension liability, which is equivalent to £229m</li> <li>• a 0.25% increase in assumed earnings inflation would result in a 0.8% increase in the value of liabilities, which is equivalent to £23m</li> <li>• a one-year increase in assumed life expectancy would result in a 2% increase in the value of liabilities, which is equivalent to £69m.</li> </ul>
<b>Property and infrastructure valuations. (Level 3 investments)</b>	The Funds directly held investment properties are valued at fair value by independent valuers in accordance with RICS valuation professional standards, whilst infrastructure investments are valued at fair value by independent experts. For 2019-20 there is additional uncertainty regarding the property valuations due to the time that it will take to fully realise the impact of COVID-19 upon illiquid assets such as property. The valuations have been updated based on the information available as at 31 March 2020 and may be subject to variations as further market information becomes available	The total value of direct property investments in the financial statements is £149.8m (£171.8m in 2018-19). There is a risk that this investment may be under or overstated in the accounts  The total value of direct infrastructure investments in the financial statements is £299.1m (£159.4m in 2018-19). There is a risk that this investment may be under or overstated in the accounts

### VALUATION OF INVESTMENTS LEVEL 3

Financial instruments at level 3 are those where at least one input could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments, pooled property investments and pooled infrastructure investments which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions. As well as the details in the table above, further detail is provided in Notes 14a to c above.



# Independent Auditor's Report

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To be inserted

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**AUDIT AND GOVERNANCE COMMITTEE**  
**30 JULY 2020****INTERNAL AUDIT PROGRESS REPORT AND ANTI-FRAUD  
AND CORRUPTION STRATEGY**

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**Recommendations**

- 1. The Chief Internal Auditor recommends that:**
  - a) The Internal Audit progress report be noted; and**
  - b) The Anti-Fraud and Corruption Strategy be approved.**

**Background**

2. The role of the Council's Internal Audit service is to enhance and protect organisational value by providing independent assurance, advice and insight into the Council's risk management, governance and internal control processes.

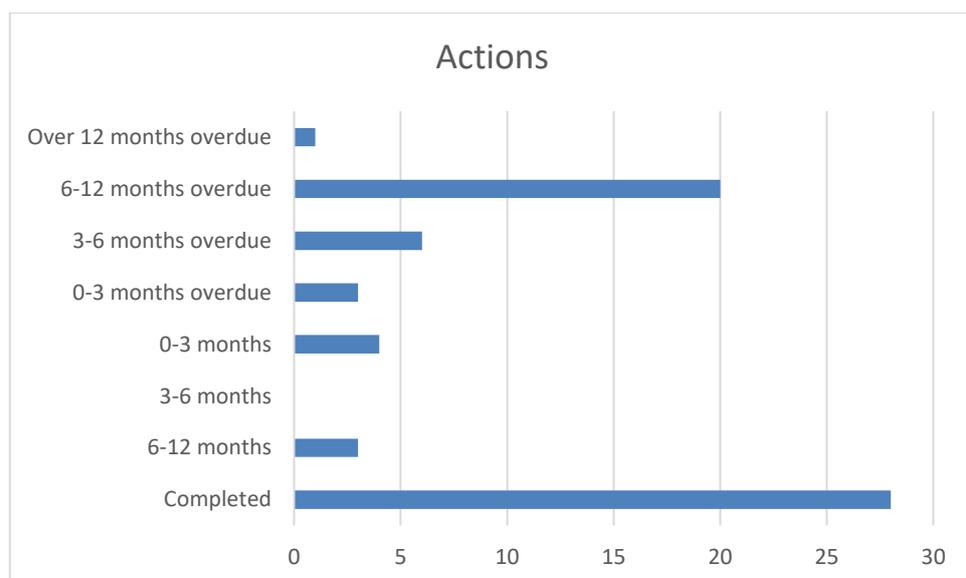
**Audit and compliance 2020/21 Q1 deliverables and Q2 plan**

3. The first quarter of 2020/21 has provided us with a unique opportunity to develop standards and control frameworks to support our 3-year audit plan and evaluated the risk profile of our schools to ensure comprehensive coverage. We are completing audits carried forward from 2019/20, following up limited assurance audits and investigation requests, have initiated a wide-ranging governance audit and completed grant certifications.
4. Our main audit work in the first quarter relates to the Governance Control Framework. We have agreed terms of reference for Executive Decisions and Meetings, Business Continuity Planning and Delegation Arrangements. The Business Continuity Planning audit would have been carried out later in the year as a follow up to a limited assurance audit but has been escalated in response to the risk level as a result of both the January flood response and the Covid 19 pandemic response. This work will continue during Q2, with regular updates to Senior Leaders and the first stage report will be available by the end of September; follow on work from there will be determined by the stage of the pandemic response.
5. We have fully risk assessed all the Council's schools, utilising intelligence from the Schools Finance Team and Worcestershire Children First. This follows a sustained period of minimal audit engagement with schools. We have identified 5 schools (over and above those due limited assurance reviews) who we will be auditing in the next quarter. Committee should be aware that focussing on schools in this way may lead to an increase in adverse audit.

### Audit actions update

6. Work has continued all year to work with managed to complete audit actions within a reasonable timescale. As part of our ongoing improvements to the audit process we are providing clearer guidance to operational managers about the priority which should be given to resolving actions identified.

7. Actions are tracked and we make regular contact with operational managers to follow up progress. We currently have 10 audits with open actions. The graph below gives analysis of the current situation.



8. Further detail is given in Appendix 1.

### Anti-Fraud and Corruption

9. We have completed our development of the Anti-Fraud and Corruption Strategy (attached as Appendix 2), as presented to Committee in March and ask that Committee approve which will be introduced across the Council in 2020/21 and a training programme rolled out. This is supported by a revised Anti-Money Laundering Policy.

### Advisory services

10. We are undertaking a range of low-level advisory work on a day to day basis. This includes calls from operational staff, schools and project teams.

### Grant certifications

11. Our grant certification work supports the Council in ensuring that money claimed from government agencies is correctly accounted for and we work closely with operational teams to deliver this. 2 grants have been certified as accurate during the first quarter. We have seen an increase in the number of grants which require certification mainly as a result of Covid-related funding and these are included in our plans.

## Staffing

12. Our 2 Principal Auditors have been successful in applications to work at Warwickshire County Council and will be leaving the team by the middle of October. Alongside the vacant Audit and Compliance Manager role this gives an opportunity for a focussed recruitment campaign. We have a very successful interim Audit and Compliance Manager working with us and are investigating other resource options, including the appointment of apprentices to support the work of the team.

## PSIAS assurance

13. All work undertaken by the team complies with PSIAS (Public Sector Internal Audit Standards) requirements. We are working to improve our engagement with the standards by implementing Engagement Standards, training and developing the team and improving our audit approach to ensure coverage provides maximum assurance. We have a PSIAS improvement plan in place and will look to be assessed against the Standards in a formal External Quality Assessment during 2021/22.

## Contact Points

### County Council Contact Points

County Council: 01905 763763

Worcestershire Hub: 01905 765765

### Specific Contact Points for this report

Jenni Morris, Chief internal Auditor

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## Supporting Information

Appendix 1: Audit actions update

Appendix 2: Anti-Fraud and Corruption Strategy

## Background Papers

In the opinion of the proper officer (in this case the Chief Internal Auditor) the following are the background papers relating to the subject matter of this report:

Previous update reports to the Audit and Governance Committee

<https://worcestershire.moderngov.co.uk/ieListMeetings.aspx?CId=135&Year=0>

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Internal Audit Actions Update 2020/21 quarter1									Appendix 1
	Completed	6-12 months left	0-3 months left	0-3 months late	3-6 months late	6-12 months late	> 1 year late	No Date Given	Total Number of Actions
<b>Substantial Assurance</b>									
Approval of development	2			2			1		5
Winter Service	2								2
Finstall First School	1								1
Destruction of confidential waste	1								1
Worcestershire Children First Cut Over Testing	1			1					2
HR strategy / policy development and compliance	6			2	2				10
Appointees & Deputies	2				3				5
Overbury First School	2			3					5
<b>Moderate Assurance</b>									
Payroll	3			1	1	1			6
Inventory	7								7
Legacy systems	1	2							3
Offmore Primary	1				4			1	6
Wolverley CE Secondary School	8		3			5			16
<b>Limited Assurance</b>									
Accounts Receivable.	4								4
Northleigh primary	19								19
Long Term Placements (Agency & Consultancy)	10								10
Governor support and training - thematic review	7								7
Adult & Community Learning - Budget Management Review	3				4				7
	<b>80</b>	<b>2</b>	<b>3</b>	<b>9</b>	<b>14</b>	<b>6</b>	<b>1</b>	<b>1</b>	<b>116</b>

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## **Anti-fraud and corruption strategy**

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A framework for the prevention and detection of fraud, bribery and corruption.

## Foreword

Worcestershire County Council and Worcestershire Pension Fund are committed to protecting public monies and we will, through oversight by the Audit & Governance Committee and the Pensions Committee, prevent, detect and prosecute instances of fraud and corruption.

The complexities, types and scale of public spending means the risk of fraud and corruption remains a key issue for local government to manage. Fraud is difficult to identify and often only the instances of fraud that have been discovered are reported. It is essential that we have a strategic response to fraud that focuses on minimising the risks and proactively takes measures to prevent fraud occurring, keeping every pound safe to be spent on Worcestershire residents. This Strategy will ensure that best practice is identified and embedded across all services, projects and partnerships.

Our ambition is to manage the risk of fraud and corruption by keeping it to an absolute minimum. We have already taken steps to manage these risks through our robust governance arrangements. These arrangements are further supported through the Internal Audit service tasked with delivering this Strategy. The threat from fraud and corruption is both internal and external. Our expectation is that councillors and employees at all levels will lead by example to ensure the highest standards of probity and accountability are established and strictly adhered to, and that personal conduct is above reproach. Every employee and councillor has a responsibility to be vigilant and report any suspicions that fraud or corruption have been, are being or may be committed.

The Strategy underpins the Council and Fund's goals and ambitions in seeking to ensure sound governance and supports the outcomes in enabling greater engagement with the community and partners, whilst protecting the public purse.

**Councillor Simon Geraghty**  
**Leader and Cabinet Member, Finance**

**Councillor Nathan Desmond**  
**Chair of Audit & Governance Committee**

**Councillor Paul Middleborough**  
**Chair, Worcestershire Pension Fund**

The Anti-Fraud and Corruption Strategy (the Strategy) is based upon comprehensive ongoing risk assessments in all areas of Council and Fund activity, to reduce losses from fraud and corruption, through:

- Reinforcing an organisational culture of zero tolerance to fraud and corruption
- Encouraging prevention through training and information updates
- Pro-actively detecting fraud and corruption
- The instigation of legal, disciplinary and recovery action against any individual found to have acted fraudulently or corruptly in their relationship and dealings with the Council
- Ensuring a strong control environment

The Strategy will continually evolve as the Council gains a better understanding of the potential threat from fraud and corruption and as new and existing partnerships develop. The strategic ambitions will be further supported in practical terms by an operational delivery plan which is contained in Appendix A of this document.

## **1. What do we mean by fraud and corruption?**

### *Fraud*

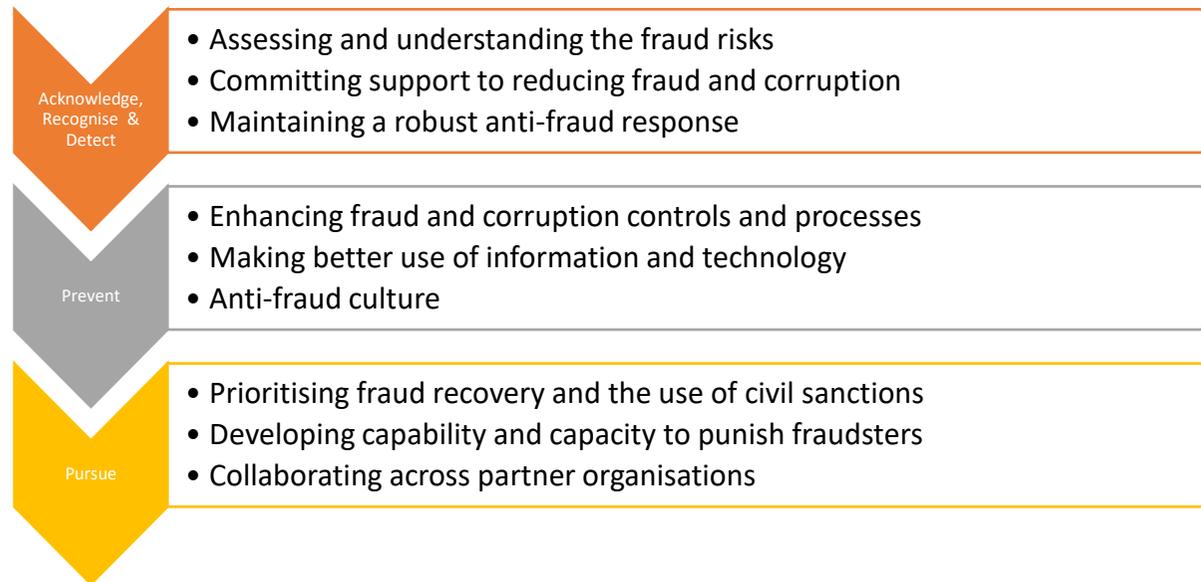
The term fraud commonly includes activities such as theft, deception, bribery, forgery, extortion, conspiracy, and money laundering. These include, but are not confined to, the specific offences in the Fraud Act 2006. For the purposes of this document fraud can be attempted or include actual acts committed against the council and/or its partners.

### *Corruption*

Corruption is the offering, giving, soliciting, or acceptance of an inducement or reward, or showing any favour or disfavour which may influence any person to act improperly. It is an offence under the Prevention of Corruption Act 1906 – and as amended by subsequent Acts and section 117 (3) of the Local Government Act 1972.

## **2. What is our control environment?**

The Council and Fund implement a strategic approach to minimise fraud and corruption consistent with that outlined in the Local Government Fraud Strategy 'Fighting Fraud Locally'. The three key themes of this approach are Acknowledge, Prevent and Pursue:



This approach sits alongside an established framework of policies, procedures and controls which provide the major elements of its fraud and corruption prevention governance arrangements. These include:

- Council Constitution including Financial Regulations
- Code of Conduct for Councillors and for Employees
- Registers of Interest
- Procurement Rules and Guidance
- Whistle Blowing Policy
- HR policies and procedures for managing recruitment
- Standards Committee
- Codes of Practice on Planning Matters and Local Authority Publicity
- Anti-Money Laundering Policy and Procedures
- HR policies and procedures for managing performance including disciplinary matters
- I.T. Security Policy

Our aim is to fully integrate this Strategy into existing policies, procedures and controls, ensuring it becomes a key part of the governance and risk management framework.

The Council and Fund will also have full regard to relevant legislative requirements, including but not limited to:

- Regulation of Investigatory Powers Act 2000
- Proceeds of Crime Act 2002
- Money Laundering Regulations 2007
- Bribery Act 2010
- Companies Act 2006
- Terrorism Act 2006
- Police and Criminal Evidence Act 1984
- Fraud Act 2006
- Competition Act 1998
- Relevant Pension Regulation

Everyone has a role to play in deterring, preventing and prosecuting fraud and corruption:

Stakeholder	Specific Responsibilities
<b>Chief Executive (Head of Paid Service)</b>	Ultimately accountable for the effectiveness of the Council's arrangements for countering fraud and corruption.
<b>Chief Financial Officer / Treasurer to the Fund (Section 151 Officer)</b>	To ensure the Council and Fund have an effective fraud and corruption prevention strategy, there is an effective internal control environment and there is an effective internal audit service to provide an objective view of the internal control environment.
<b>Monitoring Officer (Head of Legal and Democratic Services)</b>	To help ensure that the Council does not act unlawfully
<b>Audit &amp; Governance Committee / Pension Committee</b>	To monitor and oversee the Council's strategies and policies and consider the effectiveness of the Whistleblowing Policy, Money Laundering and Anti-Fraud and Corruption Strategy.
<b>Councillors</b>	To promote and support the Council's and Fund's stance on fraud, corruption and bribery.
<b>External Audit</b>	A statutory duty to ensure that the Council and Fund has in place sound arrangements for the prevention and detection of fraud, corruption, bribery and theft.
<b>Internal Audit</b>	To develop and implement the Anti-Fraud and Corruption Strategy and to investigate any cases of suspected fraud reported under this Strategy or via the Whistleblowing Policy. To provide advice and reviews on the effectiveness of internal controls which are designed to reduce the risk of fraud, corruption, bribery and theft.

<b>Heads of Service and Service Managers</b>	To promote staff awareness and ensure that all suspected or reported irregularities are immediately referred to Internal Audit. To ensure that strong internal controls are in place and that these are properly implemented.
<b>Staff</b>	To comply with Council and Fund' policies and procedures, to be aware of the possibility of fraud, corruption, bribery and theft, and to report any genuine concerns to management and/or Internal Audit, taking into consideration, if necessary, the Whistleblowing Policy
<b>Public, Partners, Suppliers, Contractors and Consultants</b>	To be aware of the possibility of fraud, corruption and bribery against the Council and report any genuine concerns or suspicions

### 3. How will we acknowledge, recognise and detect fraud and corruption?

Our control framework will be informed through a clear understanding of the threat, emerging risks, trends and the savings that can be achieved by investing in countering fraud and corruption. Use of technology and interrogation of data to assess vulnerability and proactively target higher risk areas is key. We will also be focusing on raising staff awareness of the risks of fraud and corruption and what they can do to prevent or identify it.

Management information and analytics provide a valuable source to inform directed testing. Analysing financial and performance data to target investigations and produce exception reports for management to question and challenge will be co-ordinated through Internal Audit and form a key part of information provided regularly to the Council's leadership.

The diversity of the services the Council and its partners provide, and the multiplicity of systems used to manage them, generates huge volumes of records and data. Our fraud detection processes will compare data from a variety of its systems and partners systems to identify anomalies, improve information sharing across services and inform the risk management process. This process will include ongoing engagement with the National Fraud Initiative and other data sharing initiatives.

Whistle blowing remains the most common way that fraud and corruption is detected in large organisations. The Council will raise awareness and continually promote its whistle blowing policy and other associated policies and procedures ensuring all reports of suspected fraud or corruption are treated seriously and acted upon.

[http://www.worcestershire.gov.uk/downloads/file/4725/whistleblowing\\_policy\\_and\\_procedure](http://www.worcestershire.gov.uk/downloads/file/4725/whistleblowing_policy_and_procedure)

The Internal Audit service also manage the fraud hotline (01905 843222) where staff, partners and residents can register any concerns.

#### **4. How will we prevent fraud and corruption?**

##### **Enhancing fraud and corruption controls and processes**

The best way to fight fraud and corruption is to prevent it happening in the first place. The Council and Fund will continually work towards realigning counter fraud resources away from enforcement towards prevention, aiming to deter all would be offenders. Existing measures to prevent fraud and corruption will be strengthened through the establishment of a Fraud resource within the Internal Audit service who will have the capability and capacity, across the whole organisation and working with partners, to:

- Identify fraud prevention controls
- Investigate allegations of fraud and corruption
- Prosecute and sanction offenders

Preventative measures will be supported by the ongoing assessment of those areas most vulnerable to the risk of fraud and corruption, in conjunction with risk management arrangements and risk-based audit reviews. The reviews will support the development of effective, value for money counter fraud measures that also enhance the quality of our customer service

##### **Anti-fraud culture**

The Council and Fund are resolute that there is a culture and tone of honesty with zero tolerance towards fraud and corruption, as demonstrated through its behavioural framework and codes of conduct for employees and members. The right organisational culture will be continually reinforced by:

- Raising awareness of this strategy to new and existing employees
- Publicising the results of all proactive work, sanctions and recovery of losses due to fraud and corruption increase and maintain the general public awareness of the facilities available to report concerns about fraud and corruption.

## **5. How will we pursue fraud and corruption?**

Fraud must not pay, and where fraud or corruption is discovered the full range of sanctions will be deployed, including civil, disciplinary and criminal action. Every effort will be made to recoup losses and confiscate assets gained as a result of criminal activity. Criminal prosecutions deter offenders and reinforce a culture of zero tolerance towards fraud. Successful prosecutions require cases to be professionally investigated ensuring all evidence is collected within the law. Investigative staff must be adequately trained with the appropriate skills and access to specialist resources to secure effective prosecutions We will always publicise successful prosecutions.

Organised fraud can cross a range of organisations and services. Effective cooperation and joint working between local authorities and with other agencies including the Police and NHS Primary Care Trust will be essential in the ongoing development of the Council's and Fund's strategic response.

## **6. How will we implement and communicate the strategy?**

A proactive and robust response to fraud and corruption which is embedded at the heart of an organisation will help to deter even the most determined fraudster.

The aims of this Strategy have determined a set of actions which can be found in Appendix A to this document. Delivery of the action plan will be reviewed and monitored by regular reporting to the Council's Audit and Governance Committee and the Pension Fund Committee and an annual update to Full Council.

We are developing a communication strategy which will set out our detailed approach, but this will be underpinned by our commitment to always be proactive in promoting our culture and approach to fraud and corruption, both internally to the council's staff and councillors, but also externally to the public, businesses and partners.

## Appendix A – Action plan

Ref	Link to Strategy	Action	Assigned To	Target Date	Commentary
<b>1. Culture</b>					
1.1	The Council and Fund embed a culture of integrity and honesty for all staff. The Council and Fund also expects that all outside individuals and organisations including suppliers, contractors and claimants will act towards the Council and Fund with honesty and integrity.	<p>The Anti-Fraud and Corruption Strategy will be made available to all individuals and organisations outside of the Council and Fund</p> <p>Enhance fraud communications and update literature including:</p> <ul style="list-style-type: none"> <li>• Introduction of periodical fraud newsletter for all staff. As well as highlighting fraud risks of significance to the Council the newsletter will also feature national fraud alerts that may be of interest to staff.</li> <li>• Review and update the fraud pages on the intranet and on the Council's website as necessary.</li> <li>• Internally promote fraud communications and literature, particularly during International Fraud Awareness Week.</li> </ul>	Jenni Morris. Chief Internal Auditor	July 2020	This will be done via the Council Website and the Strategy will be included in Partnership and contractual agreements
1.2	All councillors and employees are expected to be aware of standards of conduct and the procedures designed to reduce the risk of fraud, bribery and corruption occurring.	<p>A reminder will be issued to all councillors and employees of the expected standards of conduct and procedures.</p> <p>All staff and councillors to complete an annual declaration of interest.</p> <p>This will also be included in both councillor and employee inductions.</p>	Jenni Morris. Chief Internal Auditor	Annual review	<p>This will be done via the Intranet</p> <p>Annual declaration of interest by all staff Inclusion in Induction Programme</p>

Ref	Link to Strategy	Action	Assigned To	Target Date	Commentary
1.3	All employees shall be responsible for their own conduct, with managers being additionally responsible for maintaining internal checks and control procedures within their service area.	<p>Managers should ensure they are aware of the types of fraud that may affect their service area and that appropriate internal checks and controls are in place to mitigate these risks.</p> <p>Internal Audit to disseminate fraud warnings and alerts to relevant managers and officers.</p> <p>Undertake service specific fraud awareness training and presentations – ongoing programme to be guided by investigation work (organisational learning) and fraud risks.</p>	ALL	Immediate	<p>Advice notes to be passed to Managers by Internal Audit.</p> <p>Internal Audit to carry out fraud awareness training</p>
1.4	Fraud and corruption risks will be considered as part of the council's strategic risk management arrangements.	<p>Continually review and update the fraud risk register to:</p> <ul style="list-style-type: none"> <li>Identify new and emerging risks</li> <li>Ensure inherent and residual risk ratings are appropriate for risks already included on the risk register</li> <li>Enable management to understand the risks their service areas are exposed to.</li> </ul>	Corporate Risk Management Group	Quarterly	
1.5	The Council's and Fund's employees are positively encouraged to raise any concerns that they may have on potential instances of fraud and corruption,	Review the Council's and Fund's whistleblowing arrangements, taking into consideration any amendments to law, including the European Commission's proposed law to increased protections for	Jenni Morris, Chief Internal Auditor	Annual review	

Ref	Link to Strategy	Action	Assigned To	Target Date	Commentary
	<p>immaterial of seniority, rank or status, where they are associated with the council's activity. This they can do in the knowledge that such concerns will, wherever possible, be treated in confidence and properly investigated. The public also has a role to play in this process and should inform the council if they feel fraud/corruption may have occurred.</p>	<p>whistle-blowers. Any review should also take account of best practice, particularly that provided by "Public Concern at Work".</p> <p>Once reviewed and updated where necessary, the Policy should be made available to all members of staff, councillors and the public.</p> <p>Additional opportunities to discuss fraud should be made available, such as team meetings etc.</p> <p>Appropriate fraud training should be provided to all new and existing employees (mandatory) and councillors (recommended).</p>		Ongoing	

Ref	Link to Strategy	Action	Assigned To	Target Date	Commentary
<b>2. Prevention</b>					
	The Council and Fund recognise that a key preventive measure in the fight against fraud, bribery and corruption is the taking of effective steps at the recruitment stage to establish, as far as possible, the previous record of potential staff, in terms of their propriety and integrity. In this regard temporary & contract staff will be treated in the same manner as permanent staff.	Whether an employee is permanent, temporary or contract, all relevant checks should be undertaken for the job role in question.	Human Resources	Ongoing	Review of relevant checks
2.2	The Council and Fund will regularly review and keep its disciplinary procedures up to date and in line with good practice.	The Council's and Fund's disciplinary procedures should be reviewed on an annual basis or in the event of updated regulations or guidance.	Human Resources	Ongoing	
2.3	The Council and Fund have contract procedure rules and financial procedure rules in place that specify procedures to be followed in administering the council's affairs and place a requirement on employees when dealing with the council's affairs to act in accordance with best practices.	Engage more readily with suppliers/contractors to reinforce the Council's and Fund's anti-fraud and corruption culture.	Human Resources / CFO / Head of Procurement	Ongoing	Consider use of the Competition and Markets Authority cartel tool to review all contractors / suppliers working with the Council to help them in their fight against illegal cartel behaviour & to investigate and report

Ref	Link to Strategy	Action	Assigned To	Target Date	Commentary
					such activity to the CMA.
2.4	<p>The Chief Finance Officer has been designated with the statutory responsibilities as Chief Financial Officer as defined by section 151 of the Local Government Act 1972. These responsibilities outline that every local authority in England and Wales should: ‘make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has the responsibility or the administration of those affairs’.</p> <p>‘Proper administration’ encompasses all aspects of local authority financial management including:</p> <ul style="list-style-type: none"> <li>• Compliance with the statutory requirements for accounting and internal audit;</li> <li>• Managing the financial affairs of the council;</li> <li>• The proper exercise of a wide range of delegated powers both formal and informal;</li> </ul>	The CFO should ensure they are fully aware of and complying with the responsibilities as defined by the section 151 of the Local Government Act 1972. This should include a review of the delegated powers, both formal and informal, to ensure they are appropriate, adequate and that all relevant employees are aware of their responsibilities.	CFO	Annual Review	Under these statutory responsibilities the section 151 officer contributes to the antifraud and corruption framework of the council.

Ref	Link to Strategy	Action	Assigned To	Target Date	Commentary
2.5	The solicitor to the Council (monitoring officer) is responsible for ensuring that all decisions made by the council are within the law. The monitoring officer's key role is to promote and maintain high standards of conduct throughout the council by developing, enforcing and reporting appropriate governance arrangements including codes of conduct and other standard policies.	There should be an annual review of the Council's suite of fraud documents. Consideration should also be given to undertaking a baseline and periodical review of ethics within the Council by surveying all staff to provide an ongoing barometer of attitude towards ethical behaviour.	Monitoring officer	Annual Review	
2.6	The Council and Fund has developed, and is committed to continuing, with systems and procedures that incorporate efficient and effective internal controls, including adequate separation of duties wherever possible. It is required that the directors, assistant directors and heads of service and other key managers will ensure that such controls, including those in a computerised environment are properly maintained. Their existence and appropriateness will	Development and implementation of a fraud risk plan tailored to individual fraud risks. Activities to be incorporated into Internal Audit plans, as appropriate. Directors, assistant directors, heads of service and other key managers should review their internal controls to ensure they are appropriate and effective.	Chief Internal Auditor	Annual Review	

Ref	Link to Strategy	Action	Assigned To	Target Date	Commentary
	be independently reviewed by the council's internal audit service.				
2.7	The Council and Fund will work with Partner Organisations to develop where possible a joint approach to anti-fraud activity.	<p>Explore opportunities for joint working and networking and determine informal and formal arrangements as necessary (e.g. other local authorities and housing associations).</p> <p>Contribute to and consider the results from any national fraud surveys from leading bodies and organisations to inform the strategy and fraud risk management (e.g. NFI, CIPFA, DWP etc.).</p> <p>Develop links with external agencies to enhance opportunities for information sharing.</p> <p>Explore opportunities with neighbouring authorities to undertake data matching.</p>	Chief Internal Auditor	Annual Review	

Ref	Link to Strategy	Action	Assigned To	Target Date	Commentary
<b>3. Detection</b>					
3.1	Strategic Directors, Directors and Assistant Directors and all managers shall ensure that internal control is implemented and maintained and will report any matters where internal control has failed to the Chief Internal Auditor.	Strategic Directors, Directors and Assistant Directors and all managers should be reminded of their responsibility to ensure that internal control is implemented and maintained and to report any matters where internal control has failed to the Chief internal Auditor.	Operational managers	Ongoing	Intranet
3.2	<p>Internal audit has a preventative role in ensuring that systems and procedures are in place to prevent and deter fraud and corruption. Internal audit may be requested to investigate cases of suspected financial irregularity, fraud or corruption, except benefit fraud investigations, in accordance with agreed procedures.</p> <p>Within the financial regulations in the constitution (Appendix 7), representatives of internal audit, on behalf of the Chief Financial Officer, are empowered to:</p> <ul style="list-style-type: none"> <li>• Enter any land, building, vehicle or plant owned or used by the Council;</li> </ul>	<p>Internal Audit should ensure there are adequate resources available to undertake proactive and reactive fraud work to prevent, deter and detect fraud and corruption.</p> <p>All council employees should be reminded of their individual responsibilities in relation to support the work of Internal Audit.</p>	Chief Internal Auditor	Ongoing	

Ref	Link to Strategy	Action	Assigned To	Target Date	Commentary
	<ul style="list-style-type: none"> <li>• Have access to all records, documents or correspondences;</li> <li>• Possess or take copies of any record, document or correspondence;</li> <li>• Require any information and explanation from any member or officer of the Council.</li> </ul>				
3.3	The Council and Fund will take part in the National Fraud Initiative and engage with other data matching and analytical exercises as determined appropriate.	<p>Continue active involvement in data matching exercises, such as NFI.</p> <p>Internal Audit will lead the co-ordination, and where appropriate direct services or undertake via audit resources follow up testing.</p> <p>The Chief Internal Auditor will report NFI findings at least twice a year to the Audit &amp; Governance Committee.</p>	Chief Internal Auditor	<p>Annual Exercise</p> <p>Ongoing</p> <p>At least twice a year</p>	
3.4	The Audit and Governance Committee and Pension Committee will review and approve as part of the annual audit plan the internal audit programme for fraud prevention and detection work.	The Audit and Governance Committee and Pension Committee should ensure there is coverage in the internal audit programme for fraud prevention and detection work.	Chairs of Audit and Governance Committee and Pension Committee on advice from s151	Annual review	Annual Exercise and Quarterly reporting

Ref	Link to Strategy	Action	Assigned To	Target Date	Commentary
3.5	The Council's and Fund's code of practice on whistleblowing and fraud allows employees and councillors to raise any concerns they may have in confidence and anonymously should they wish.	<p>Review the Council's and Fund's whistleblowing arrangements, taking into consideration any amendments to law, including the European Commission's proposed law to increased protections for whistleblowers.</p> <p>Promote the Council's and Fund's Anti-fraud and corruption strategy and Whistleblowing Policy to increase knowledge of and confidence in reporting suspicious and irregular activity.</p> <p>Ensure the whistleblowing hotline, provided by HR and OD Service, is active, operating effectively and monitored on a regular basis.</p> <p>Ensure the fraud hotline, provided by the Internal Audit Service, is active, operating effectively and monitored on a regular basis.</p>	<p>Chief Internal Auditor</p> <p>Head of HROD and Chief Internal Auditor</p> <p>Head of HROD and Chief Internal Auditor</p> <p>Chief Internal Auditor</p>	<p>Annual review</p> <p>Ongoing</p> <p>Ongoing</p> <p>Ongoing</p>	

Ref	Link to Strategy	Action	Assigned To	Target Date	Commentary
<b>4. Reporting</b>					
4.1	<p>Employees should normally raise concerns with their immediate manager or that manager's manager. This depends, however on the seriousness of the issues involved and who is suspected of the malpractice. If staff believe that their management is involved, they should approach:</p> <p>i) The S151 and Chief Financial Officer (01905 845560)</p> <p>ii) The Chief Internal Auditor (01905 844405)</p> <p>iii) The Solicitor to the Council (01905 846670)</p> <p>iv) The Head of Human Resources and Organisational Development (01905 846021)</p>	<p>The process for employees to raise concerns should be clearly available for all staff to access. This should include:</p> <ul style="list-style-type: none"> <li>• A dedicated page on the Worcestershire County Council Intranet;</li> <li>• A reminder issued to all employees via email; and,</li> <li>• Regularly include fraud and corruption on team meeting agendas.</li> </ul>	Chief Internal Auditor and Head of HROD	.	
4.2	Elected councillors will report any concerns to the appropriate senior management team member or one of the officers listed in 4.1.	<p>The process for councillors to raise concerns should be clearly available for all councillors to access. This should include:</p> <ul style="list-style-type: none"> <li>• A dedicated page on the Worcestershire County Council Intranet;</li> <li>• A reminder issued to all councillors via email</li> </ul>	Chief Internal Auditor		Intranet

Ref	Link to Strategy	Action	Assigned To	Target Date	Commentary
4.3	The Council and Fund encourages anybody who has reasonably held suspicions to take positive action to report the matter. Understanding that doing nothing, investigating themselves or making accusations could result in any further investigations being compromised.	All employees should be reminded of the need to report any concerns through the appropriate channels as documented in the Anti-Fraud, Theft and Bribery Strategy and policy.	Chief Internal Auditor	Annual review	Intranet
4.4	Senior management is responsible for following up any allegation of fraud or corruption and will do so in line with the council's financial regulations.	All senior management should be given appropriate training to enable them to undertake their responsibilities in relation to following up any allegation of fraud or corruption.	Chief Internal Auditor	Annual review	SLT
4.5	Senior management is expected to deal swiftly and firmly with those who have defrauded the council or who are corrupt.	Senior management should be reminded of their responsibilities and expectations in relation to dealing with those who have defrauded the council or who are corrupt in a swift and firm manner.	Chief Internal Auditor	Annual review	SLT
4.6	There is a need to ensure that any investigation process is not misused and therefore, any abuse such as raising unfounded malicious allegations will, where appropriate, be dealt with as a disciplinary matter.	A reminder should be issued to all employees and councillors that the investigation process should not be misused for unfounded malicious allegations. Review the Council's sanctions and redress to reflect this.	Chief Internal Auditor / Head of HROD	Annual review	Intranet

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## **AUDIT AND GOVERNANCE COMMITTEE**

### **30 JULY 2020**

## **RISK MANAGEMENT UPDATE**

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### **Recommendations**

- 1. The Chief Internal Auditor recommends that the Risk Management update be noted.**

### **Background**

2. The risk management function transferred to the Internal Audit team in April of this year. This was during the Covid19 emergency response and the risk process has been focussed on supporting this.

### **Risk management 2020/21**

3. The risk management process has focused on supporting the Covid19 emergency response since early March, providing regular updates to the Silver command. The situation has required a flexible approach enabling ongoing monitoring alongside responding to emerging risks and ensuring that operational managers have the best information available to support decision making.
4. The risks have focused on thematic areas, including community protection, partnership working, financial and communication. The standard risk assessment and profile has been completed by risk owners with review and any further action assessed by Silver Command.
5. We currently have one red risk:
  - There is a risk of diminishing availability of care home beds in Worcestershire as more care homes become subject to Covid19 infections, with the risk that they are unable to accept new admissions, or in the worst-case scenario become financially unviable. Currently approximately one third of Worcestershire's care home have reported infections during the Covid19 outbreak.

An up to date position will be provided at the meeting.

6. Going forward the team alongside the Strategic Leadership Team and Chief Officer's Group will be reviewing the corporate risk strategy and processes for managing risk and will engage the Audit and Governance Committee in that process.

### **Contact Points**

County Council Contact Points  
County Council: 01905 763763

Worcestershire Hub: 01905 765765

Specific Contact Points for this report

Jenni Morris, Chief internal Auditor

Tel: Ext 4405

Email: [jmorris4@worcestershire.gov.uk](mailto:jmorris4@worcestershire.gov.uk)

Michael Hudson, Chief Financial Officer

Tel: Ext 6268

Email: [mhudson@worcestershire.gov.uk](mailto:mhudson@worcestershire.gov.uk)

## **Background Papers**

In the opinion of the proper officer (in this case the Chief Internal Auditor) the following are the background papers relating to the subject matter of this report:

Previous update reports to the Audit and Governance Committee

<https://worcestershire.moderngov.co.uk/ieListMeetings.aspx?CId=135&Year=0>

## **AUDIT AND GOVERNANCE COMMITTEE**

### **30 JULY 2020**

## **INCOME AND DEBT MANAGEMENT UPDATE**

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### **Recommendation**

- 1. The Chief Financial Officer recommends that the latest update on Income and Debt Management be noted and a further update be reported to the next meeting.**

### **Background**

2. The Committee has received a number of reports on the Council's continued improvement in its income and debt management reporting, as well as processes. At the last meeting it was noted that further steps were planned for the Spring of 2020 and an update would be presented to this Committee on that progress.

### **Key issues arising**

3. In response to an unprecedented situation relating to the COVID-19 pandemic and the need to reduce the immediate pressure on the Council's resources and redirect all efforts to the support and prevention of COVID-19 the decision was taken to pause the Income and Debt Management transformation work.

4. As a result, all non-urgent billing was suspended. The year end account's position was updated to reflect the potential impact on the bad debt provision, with a £1.2 million increase being made in the provision. Discussion and reporting was also provided to Government to reflect our potential forecast of the impact of COVID19 on our debt position. Over the last four months this forecast has been scaled back as new data becomes known and billing and collection started again on 1 July 2020. Any risk of write off is now within the forecast provision, and we have further guidance from Government on the recoup of lost income which is available at the following link

<https://www.gov.uk/government/publications/covid-19-emergency-funding-for-local-government>.

5. Overall in the first quarter the debt greater than 30 days increased by £2.5 million. This is being analysed and resources will now be focused on recovery of this and all sums.

6. Progress on recruiting and appointing to the centralised income and debt management team was also suspended due to the COVID19 response, but work has now started again.

7. A further update is proposed for the next Committee.

### **Contact Points**

#### County Council Contact Points

County Council: 01905 763763

Worcestershire Hub: 01905 765765

#### Specific Contact Points for this report

Michael Hudson, Chief Financial Officer

Tel: 01905 845560

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Mark Sanders, Chief Accountant

Tel 01905 846519

Email: [mssanders@worcestershire.gov.uk](mailto:mssanders@worcestershire.gov.uk)

### **Background Papers**

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

**AUDIT AND GOVERNANCE COMMITTEE**  
**30 JULY 2020****WORK PROGRAMME**

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**Recommendation**

- 1. The Committee is asked to note its future work programme and consider whether there are any matters it would wish to be incorporated.**

**Work Programme****2 October 2020**

Internal Audit Progress Report 2020/21  
External Auditor – Annual Audit Letter  
Corporate Risk Report

**4 December 2020**

Internal Audit Progress Report 2020/21  
Anti-Fraud Report 2019/20  
Corporate Risk Report

**March 2021**

Internal Audit Progress Report 2020/21  
Internal Audit Plan 2021/22  
Corporate Risk Report

**July 2021**

Internal Audit Annual Report 2020/21  
External Audit – Audit Findings Report  
Annual Governance Statement  
Annual Statutory Financial Statements for the year ending 31 March 2021  
Internal Audit Progress Report 2021/22  
Corporate Risk Report

**Contact Points**County Council Contact Points

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Specific Contact Points for this report

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## **Background Papers**

In the opinion of the proper officer (in this case the Strategic Director for Commercial and Change) the following are the background papers relating to the subject matter of this report:

Agenda and Minutes of this Committee from December 2005 onwards

<https://worcestershire.moderngov.co.uk/ieListMeetings.aspx?CId=135&Year=0>