

# Agenda

## Audit and Governance Committee

**Thursday, 29 July 2021, 10.30 am**  
**County Hall, Worcester**

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 846621 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, 29 July 2021, 10.30 am, County Hall, Worcester**

**Membership:** Cllr Nathan Desmond (Chairman), Cllr Salman Akbar, Cllr Aled Evans, Cllr Laura Gretton, Cllr Peter Griffiths, Cllr Aled Luckman, Cllr Luke Mallett and Cllr Dan Morehead

## **Agenda**

<b>Item No</b>	<b>Subject</b>	<b>Page No</b>
1	<b>Apologies and Named Substitutes</b>	
2	<b>Declarations of Interest</b>	
3	<p><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 third working day before the meeting (in this case 26 July). Further details are available on the Council's website. Enquiries can be made through the telephone number/e-mail address below.</i></p> <p><b>Subject to any guidance from Government between publication of this Agenda and the Meeting, places at the meeting may be limited, therefore, all members of the public who wish to attend the meeting should register by e-mail with the officer named with this agenda.</b></p> <p><b>Furthermore, attendees may be required to sign that they have either:</b></p> <ul style="list-style-type: none"> <li>• <b>Had Covid-19 in the last 6 months, or</b></li> <li>• <b>Received two Covid-19 vaccinations, or</b></li> <li>• <b>Had a negative lateral flow test in the 48 Hours prior to the meeting.</b></li> </ul>	
4	<p><b>Confirmation of Minutes</b>            To confirm the Minutes of the meeting held on 12 March 2021. (previously circulated)</p>	
5	<b>2020/21 Internal Audit Final Report</b>	1 - 12
6	<b>External Audit - Council and Pension Fund Audit Plans and Informing the Audit Risk Assessment</b>	13 - 124

Agenda produced and published by Abraham Ezekiel, Assistant Director for Legal and Governance County Hall, Spetchley Road, Worcester WR5 2NP

To obtain further information or a copy of this agenda contact Simon Lewis, Committee Officer on 01905 846621, slewis@worcestershire.gov.uk

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

Date of Issue: Wednesday, 21 July 2021

<b>Item No</b>	<b>Subject</b>	<b>Page No</b>
7	<b>Draft Annual Governance Statement 2020/21</b>	125 - 140
8	<b>Draft Annual Statutory Financial Statements for the year ended 31 March 2021</b>	141 - 286
9	<b>Internal Audit Progress Report</b>	287 - 292
10	<b>Risk Management Update</b>	293 - 294
11	<b>Income and Debt Management</b>	295 - 298
12	<b>Work Programme</b>	299 - 300

## **AUDIT AND GOVERNANCE COMMITTEE**

### **29 JULY 2021**

## **2020/21 INTERNAL AUDIT FINAL REPORT**

---

### **Recommendations**

- 1. The Chief Internal Auditor recommends that the Internal Audit 2020/21 Final Report and assurance level be noted.**

### **Background**

2. This document provides a summary of Internal Audit work during 2020/21 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 Internal Audit Annual Report 2020/21 is attached as Appendix 1.
4. 2020/21 Assurance Report is attached as Appendix 2.

### **Contact Points**

#### Specific Contact Points for this report

Jenni Morris, Chief internal Auditor

Tel: 01905 844405

Email: [jmorris4@worcestershire.gov.uk](mailto:jmorris4@worcestershire.gov.uk)

Michael Hudson, Chief Financial Officer

Tel: 01905 846268

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

### **Supporting Information**

Appendix 1: Internal Audit Annual Report 2020/21

Appendix 2: 2020/21 Assurance Report

### **Background Papers**

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

This page is intentionally left blank

**Chief Internal Auditor assurance - 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 2020/21 and, as required by the Accounts and Audit Regulations 2015, gives an overall opinion of the Council's control environment. The work undertaken has enabled me to give a moderate opinion regarding the internal controls of the Council.

The Internal Audit plan, approved by Audit and Governance Committee 13 March 2020, provided key themes to be audited but enabled flexibility which proved invaluable as the full impact of the Covid19 pandemic emerged over the course of the year. We were able to respond to emerging events as staff were moved to home working, governance and risk arrangements were changed and closer partnership working with health, district councils and central government were required. We worked closely with services to provide advisory and assurance reports and grant certifications relating to the Covid19 ongoing response, provided baseline assurance reports for areas with known weaknesses and successfully implemented a programme of remote auditing for schools.

No audit staff were redeployed as part of the Council's emergency response arrangements and, although we did have staff changes during the year, we managed these through recruitment and agency staff cover. As Chief Internal Auditor I met regularly with the Chief Finance Officer, Chief Executive and Leader of the Council and discussed the adequacy of resource and any required resolution. Progress against the audit plan, required changes, and resources updates were also reported to the Audit and Governance Committee.

The work of the Internal Audit service has identified that, whilst the Council's underlying controls are generally sound, there are some expected controls which are not in place or may not be operating effectively, thereby increasing the risk that the Council's objectives may not be achieved. The Council has shown that it can be flexible and respond quickly to emerging risks, however the changes experienced during the year in terms of ways of working and returning insourced services have resulted in some declining service levels. It is important to note that by the end of the year services which saw limited assurance have made good progress in meeting their agreed improvement programmes.

**Internal audit work 2020/21**

There were 31 audit themes (including controls assurance framework developments) and 12 grant certifications on the plan for 2020/21; 26 assurance audits, 3 advisory reports and 13 grant certifications were completed. Full details are provided in Appendix 2.

Activity has been amended for the following reasons:

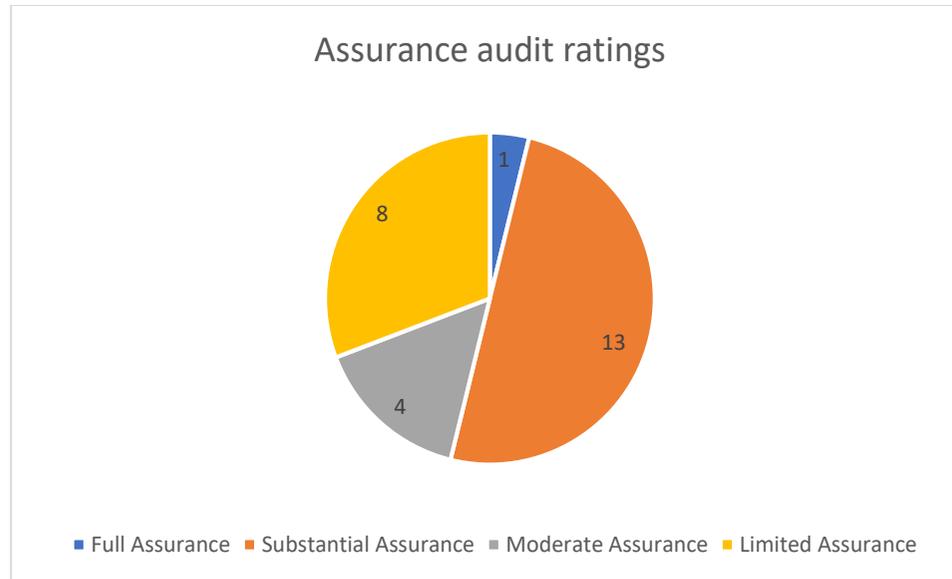
- Covid19 pandemic response impact

- Operational request
- Deferred to 2021/22
- Activity replaced by another audit activity
- Special investigation
- Fraud follow up

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 completed assurance audits have the following assurance levels:



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.

#### 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 – no audit reports have been provided. The service has been brought back into the Council for 2021/22 and we will evaluate controls as part of the 2021/22 programme.
- Liberata – substantial assurance for Payroll and reasonable assurance for Accounts Receivable and Accounts Payable. The Accounts Receivable and Accounts Payable functions have been brought back into the Council and we will evaluate controls as part of the 2021/22 programme.

<b>Audit actions update</b>	Work has continued all year to work with managers to complete audit actions within a reasonable timescale, but this has been impacted by the organisational response to the Covid19 pandemic. We are prioritising a full review of all actions in quarter 1 of 2021/22 and will report the outcome to Committee.
<b>Anti-fraud and corruption</b>	<p>During 2020/21 we launched an updated Anti-Fraud and Corruption Strategy. Circumstances resulted in a low-level launch, with updates for key staff alongside communications activities on the Council's OurSpace and Yammer platforms. The Yammer communications in particular have been very successful, with regular postings leading to significant engagement across the Council.</p> <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. During 2020/21 we received 5 allegations all of which were investigated in line with our standard process, and none of these led to any further action being taken.</p>
<b>Advisory services</b>	<p>Another key activity of the audit team is advising operational teams as requested. We have undertaken 3 advisory pieces of work this year, supporting the following areas:</p> <ul style="list-style-type: none"> <li>• HR travel and subsistence</li> <li>• Key contract review</li> <li>• Corporate governance – post Covid phase 1</li> </ul>
<b>Grant certifications</b>	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. We have seen an increase in the number of grants received by the Council as a result of the Covid19 pandemic response by central government and have ensured that all have been certified in accordance with the awarding body's requirements.
<b>PSIAS assurance</b>	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.

Area of coverage	2020/21 Plan status	Assurance outcome
<b>Assurance and risk assessment audits – completed</b>		
Covid response arrangements – phase 1	Added	Advisory Review of business continuity and emergency response arrangements
HR – travel and subsistence	Planned	Advisory Desk review of mileage and expenses claims completed as part of COVID19 response. Levels reduced and confirmed for critical staff only.
Key contact review	Planned	Advisory: contract management arrangements – suppliers and contract register
ICT risk register review	Added	Full assurance Service management robust with clearly identified risks and mitigations. Evidence of regular management and review
Financial forecasting	Planned	Substantial assurance Robust process for budgetary control and financial forecasting to support timely decision making. Training continues to be provided for some managers in the use of Collaborative Planning (manager financial forecasting tool)
System administration	Added	Substantial assurance Policies and controls are robust, with clear understanding of risk. Minimal weaknesses were identified which were low impact.
Covid response arrangements – phase 2	Added	Moderate assurance Robust financial management of emergency funding spend, budget monitoring and medium-term financial planning. The absence of robust recovery planning was a key risk.
Long term agency and consultancy placements	Planned	Limited assurance. Limited assurance follow up audit. Improvements have been made but further work is required. Further follow up in 2021/22
Debt management	Planned	Limited assurance In advance of the Accounts Receivable function transferring back to the Council from Liberata the audit provided a baseline position. The service are implementing an improvement service development plan. Continued advisory and assurance support will be provided during 2021/22

Area of coverage	2020/21 Plan status	Assurance outcome
Capital and Business Case Development	Planned	Limited assurance Capital project management has a structured approach however issues were identified relating to the ongoing reporting and scrutiny of the projects. Whilst we were given verbal assurance of processes in place, we were provided with minimal evidence to support this.
Direct payments	Added	Limited assurance Support plans and assessments are well managed. Financial management of packages is undergoing significant change and this has resulted in weaknesses which we are confident will be addressed.
<b>Assurance and risk assessment audits – ongoing</b>		
Digital strategy implementation / Organisational data management	Ongoing	Advisory engagement with digital strategy development. Ongoing support in 2021/22, with advisory and assurance audits as required
Risk management	Ongoing	Advisory engagement with risk management strategy development. Ongoing support in 2021/22, with advisory and assurance audits as required.
Insourced services – advisory and assurance support	Ongoing	Advisory support provided for Place Partnership insourcing Ongoing service engagement for insourced services
Democratic and governance	Ongoing	Revised focus to reflect governance arrangements during COVID19 pandemic response (COVID19 response arrangements Phase 1) Additional democratic and governance work planned for 2021/22
HR reviews to be determined	Ongoing	2021/22 assurance audits: full mileage and expenses audit underway; performance cycle review audit in plan
<b>Individual school and school thematic reviews</b>		
Schools qualitative reviews:		
Malvern St Joseph's Primary	Planned	Substantial assurance
St Mary's CofE Primary	Planned	Substantial assurance
Parkside Middle	Planned	Substantial assurance
Beoley First	Planned	Substantial assurance
Chawson First	Planned	Substantial assurance
Millfields First	Planned	Substantial assurance
Pitmaston Primary	Planned	Substantial assurance

Area of coverage	2020/21 Plan status	Assurance outcome
St Barnabas CofE Primary	Planned	Substantial assurance
St George's CofE Primary	Planned	Substantial assurance
Sytchampton Endowed Primary	Planned	Substantial assurance
Blessed Edward Catholic College	Planned	Moderate assurance
Omersley Endowed First	Planned	Moderate assurance
Crothorne with Charlton First	Planned	Moderate assurance
North Bromsgrove High	Planned	Limited assurance
Comberton Primary	Planned	Limited assurance
St Egwin's CE Middle	Planned	Limited assurance
Elmley Castle First	Planned	Limited assurance
<b>Assurance and risk assessment audits – deferred / removed</b>		
Transport services, external and internal management, and reporting	Deferred to 2021/22	Deferral agreed due to impact of COVID19 on transport arrangements. Additional transport grant allocations certified which provide additional assurance
Worcestershire Children First contract management	Deferred to 2021/22	COVID19 management arrangements required joint working between WCC and WCF teams. Contract management suspended during period.
Adult social care case management / LiquidLogic Adult Social Care system, Financial Interface Controcc – post implementation review	Deferred to 2021/22	Audit underway in 2021/22: terms of reference agreed for Adult social care working with people. Use of LiquidLogic and Controcc will be considered.
Starters and leavers process	Deferred to 2021/22	Audit in plan
Reserves management	Deferred to 2021/22	Financial position considered as part of COVID response.
Treasury management and the prudential code	Deferred to 2021/22	Deferral agreed with service
Governor support and training thematic review	Deferred to 2021/22	Limited assurance follow up.
General Ledger Maintenance - CP / e5 upgrades	Deferred to 2021/22	Upgrade delayed

<b>Area of coverage</b>	<b>2020/21 Plan status</b>	<b>Assurance outcome</b>
Value for money assessments	Deferred to 2021/22	Deferral agreed with service areas
Key contract review – Waste management	Deferred	Contract renewal 2024. Monitoring service activity to support contract provision.
Civica insourcing	Removed	Removal agreed with service
Financial Instruments to generate money for commercialisation	Removed	Financial instruments are not being used to generate money from commercialisation
<b>Grant certifications</b>		
Youth Justice	Planned	Certified
Troubled Families (4 quarters)	Planned	Certified
Growth Hub	Planned	Certified
Bus subsidy ring-fenced grant	Planned	Certified
Local transport block funding	Planned	Certified
Worcester Southern Bypass	Planned	Certified
Disabled Facilities Grant	Planned	Certified
Blue Badge Scheme	Added	Certified
Peer Networking Grant	Added	Certified
A38 Bromsgrove Route	Removed	Certification not required
Virgin Park and Ride	Removed	Certification not required
<b>Worcestershire Pension Fund assurance and risk assessment audits</b>		
Pensions investment reviews	Complete	Substantial assurance
Pensions administration reviews	Deferred to 2021/22	Service review underway; advisory and assurance support will be provided
<b>Fraud and special investigations</b>		
Fraud and special investigations	As required	
National Fraud Investigation	On-going	Data-matching completed for blue badges and underway for other areas
Continuous data monitoring	On-going	Exploring opportunities for automated processes
<b>Management and administration</b>		

Area of coverage	2020/21 Plan status	Assurance outcome
Communications – regular updates and newsletters		Updates provided quarterly to Chief Officers’ Group, Strategic Leadership Team and Audit & Governance Committee. Newsletter issued to schools each term Regular audit and fraud communications on Yammer
Training		Team development sessions being run by HR Mandatory Council training completed
Management		Successful recruitment Supervision, weekly team meetings, engagement with Finance Leadership and Wider Finance Leadership Team meetings.

This page is intentionally left blank

## **AUDIT AND GOVERNANCE COMMITTEE**

### **29 JULY 2021**

## **EXTERNAL AUDIT – COUNCIL AND PENSION FUND AUDIT PLANS AND INFORMING THE AUDIT RISK ASSESSMENT**

---

### **Recommendation**

1. **The Committee is asked to note the content of the external audit plans and the Informing the Audit Risk Assessment reports.**

### **Background**

2. Grant Thornton, the Council's external auditor has produced audit plans for the County Council and Pension Fund accounts together with audit risk assessment reports which are set out in the appendices.
3. A representative from Grant Thornton will be attending the meeting to answer any questions relating to these documents.

### **Contact Points**

#### Specific Contact Points for this report

Michael Hudson, Chief Financial Officer, 01905 845560, [mhudson@worcestershire.gov.uk](mailto:mhudson@worcestershire.gov.uk)

Mark Sanders, Chief Accountant, 01905 846519, [mssanders@worcestershire.gov.uk](mailto:mssanders@worcestershire.gov.uk)

### **Supporting Information**

- **Appendix 1-** Worcestershire County Council External Audit Plan for year ending 31 March 2021
- **Appendix 2-** Worcestershire Pension Fund External Audit Plan for year ending 31 March 2021
- **Appendix 3-** Informing the audit risk assessment for Worcestershire County Council 2020/21
- **Appendix 4-** Informing the audit risk assessment for Worcestershire County Council Pension Fund 2020/21

### **Background Papers**

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

This page is intentionally left blank

# Worcestershire County Council Audit Plan

**Year ending 31 March 2021**

Worcestershire County Council  
24 May 2021



# Contents



## Your key Grant Thornton team members are:

### Peter Barber

Key Audit Partner

T 0117 305 7897

E peter.a.barber@uk.gt.com

### Helen Lillington

Senior Audit Manager

T 0121 232 5312

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

### Meriel Clementson

Assistant Manager

T 0121 232 5436

E meriel.h.clementson

## Section

Key matters

Introduction and headlines

Group audit scope and risk assessment

Significant risks identified

Accounting estimates and related disclosures

Other matters

Progress against prior year recommendations

Materiality

Value for Money Arrangements

Risks of significant VFM weaknesses

Audit logistics and team

Audit fees

Independence and non-audit services

Appendix 1: Revised Auditor Standards and application guidance

## Page

3

4

5

6

9

12

13

15

16

17

18

19

21

22

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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

# Key matters

## Factors

### Council developments

The Council continues to operate in an uncertain and challenging environment due to changes to Government funding and the global pandemic. The Council continues to balance service delivery with the need to drive efficiencies. Financially the Council is forecasting a small underspend for 2020/21 and has set a balanced budget for 2021/22.

Whilst the Council's Medium Term Financial Strategy sets out a significant challenge, the Council is transparently reporting both the revenue and capital funding challenge to enable informed decision making.

At a national level, the UK left the European Union (EU) on 1 January 2021 although uncertainty remains over the country's trading relationship with the EU which could have implications for the supply chain and on EU nationals employed directly or indirectly by the Council. The Council will need to ensure that it is prepared for all outcomes, including in terms of any impact on the supply of any imported goods and equipment and overseas staff.

Management have changed the expert that they use to provide the valuations of their property, plant and equipment in year. We will work with the finance team to understand the process used, and any significant impact that this may have on the valuations used at year end.

### Impact of Covid 19 pandemic

The current lockdown restrictions mean that we will have to continue to work completely remotely for a longer period and potentially through much of the audit for 2020-21. Working in cooperation with the Council, we managed this effectively for the 2019-20 audit and we will be in regular contact with your finance team in respect of the logistics of these arrangements for our 2020-21 programme of audit work. We aim to build on our experience from last year. As restrictions ease will consider the implications for how this impacts on how we complete the audit.

### Financial Reporting and Audit – raising the bars

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 more robust testing. Our work in 2019/20 has highlighted areas where Local Government financial reporting, needs to be improved, with a corresponding increase in audit procedures. We have also identified an increase in the complexity of financial transactions in the Local Government sector which require greater audit scrutiny.

## Our response

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set further in this Audit Plan, has been agreed with the section 151 officer.
- As previously reported the Code has changed in relation to VFM. We will consider your arrangements for managing and reporting your financial resources as part of our work in completing our Value for Money work – please see more detail on pages 16 and 17.
- The Council's valuer reported a material uncertainty in regards to the valuation of land and buildings in 2019/20 due to the Covid 19 pandemic. Early indications from across the sector are that we do not expect a similar uncertainty to be reported in 2020/21. We do however, continue to identify a significant risk in regards to the valuation of these assets, this is due to the inherent high degree of estimation uncertainty. The change in management expert to value these assets also heightens the potential risk associated with these balances.
- We will continue to provide you with sector updates via our Audit and Governance committee updates.

# Introduction and headlines

## Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Worcestershire County Council ('the Council') for those charged with governance.

## Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Worcestershire County Council. We draw your attention to both of these documents.

## Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the:

- Council [and group]'s financial statements that have been prepared by management with the oversight of those charged with governance (the Audit and Governance committee); and
- Value for Money arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit and Governance Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Council's business and is risk based.

## Group Audit

The Council is required to prepare group financial statements that consolidate the financial information of Worcestershire Children First.

## Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Revenue and expenditure recognition (rebutted);
- Management override of controls;
- Valuation of land and buildings; and
- Valuation of net pension fund liability.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

## Materiality

We have determined planning materiality to be £13.2m (PY £11.8m) for the group and £13.1m (PY £11.6m) for the Council, which equates to 1.5% of your prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £650k (PY £600k).

## Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money have identified the following risk of significant weakness:

- Financial Sustainability

## Audit logistics

Our planning visit took place in March and our final visit will take place in June and aim to conclude in August. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report.

Our proposed audit fee for the audit has been set at £119,943. The scale fee, set by PSAA, is £73,493, however this does not reflect the additional work now required due to the changes in expectations of the regulator or the additional work required on the VFM conclusion as a result of the new Code issued by the NAO. The fee for 2019-20 was £104,893 for the Council. The fee for the current year, as in previous years, is subject to the Council delivering a good set of financial statements and working papers.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

# Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Individually Significant?	Level of response required under ISA (UK) 600	Risks identified	Planned audit approach
Worcestershire County Council	Yes	Audit of the financial information of the component using component materiality.	<ul style="list-style-type: none"> <li>As set out on page 4</li> </ul>	Full scope audit performed by Grant Thornton UK LLP
Worcestershire Children First	Yes	Audit of one or more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements.	<ul style="list-style-type: none"> <li>Management override of controls</li> <li>Revenue recognition (rebutted)</li> </ul>	Full scope audit performed by Grant Thornton. The nature, time and extent of our involvement in the work of the component auditor will begin with a discussion on risks, guidance on designing procedures, participation in meetings, followed by the review of relevant aspects of the component auditors audit documentation and meeting with appropriate members of management.

## Key changes within the group:

The group risk assessment has not identified any changes from the prior year. 2020/21 represents a full year of trading for Worcestershire Children First, however they still remain below the threshold for them to be considered individually significant.

## Audit scope

- Audit of the financial information of the component using component materiality
- Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
- Review of component's financial information
- Specified audit procedures relating to significant risks of material misstatement of the group financial statements
- Analytical procedures at group level

# Significant risks identified

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>The revenue cycle includes fraudulent transactions (rebutted)</p> <p>Risk relates to both the Group and the Council</p>	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• the culture and ethical frameworks of local authorities, including Worcestershire County Council mean that all forms of fraud are seen as unacceptable.</li> </ul>	<p>No specific work is planned as the presumed risk has been rebutted.</p>
<p>The expenditure cycle includes fraudulent transactions (rebutted)</p> <p>Risk relates to both the Group and the Council</p>	<p>Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom (PN10) states:</p> <p>"As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure may be greater than the risk of material misstatements due to fraud related to revenue recognition". Public sector auditors therefore need to consider whether they have any significant concerns about fraudulent financial reporting of expenditure which would need to be treated as a significant risk for the audit.</p> <p>We have rebutted this presumed risk for Worcestershire County Council because:</p> <ul style="list-style-type: none"> <li>• expenditure is well controlled and the Council has a strong control environment; and</li> <li>• the Council has clear and transparent reporting of its financial plans and financial position to the Council.</li> </ul> <p>We therefore do not consider this to be a significant risk for Worcestershire County Council.</p>	<p>No specific work is planned as the presumed risk has been rebutted.</p>

# Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<p>Management over-ride of controls</p> <p>Risk relates to both the Group and the Council</p>	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate the design effectiveness of management controls over journals;</li> <li>• analyse the journals listing and determine the criteria for selecting high risk unusual journals;</li> <li>• test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration;</li> <li>• gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and</li> <li>• evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul>
<p>Valuation of land and buildings</p> <p>Risk relates to the Council only</p>	<p>The Council revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£1071 million) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Council's financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used.</p> <p>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;</li> <li>• evaluate the competence, capabilities and objectivity of the valuation expert;</li> <li>• write to the valuer to confirm the basis on which the valuation was carried out;</li> <li>• challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the Council's valuer's report and the assumptions that underpin the valuation;</li> <li>• test revaluations made during the year to see if they had been input correctly into the Council's asset register; and</li> <li>• evaluate the assumptions made by the valuer for those assets revalued at 31 March 2021. For the assets not formally revalued in year we will assess how management has satisfied themselves that these assets are not materially different to the current value at the year end.</li> </ul>

# Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<p>Valuation of the pension fund net liability</p> <p>Risk relates to the Council only</p>	<p>The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£1322m) in the Council's balance sheet and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Council's pension fund net liability 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>• update our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls;</li> <li>• evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;</li> <li>• assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation;</li> <li>• assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability;</li> <li>• test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;</li> <li>• undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and</li> <li>• obtain assurances from the auditor of the Worcestershire Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.</li> </ul>

# Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* which includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

## Introduction

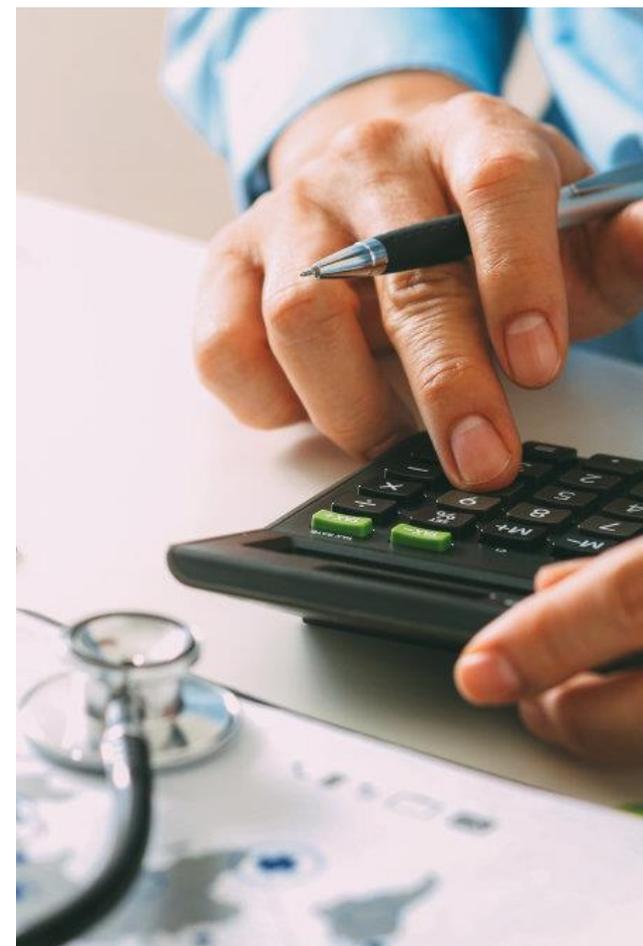
Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit and Governance Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?



# Accounting estimates and related disclosures

## Additional information that will be required

To ensure our compliance with this revised auditing standard, we have requested further information from management and those charged with governance during our audit for the year ended 31 March 2021.

Based on our knowledge of the Council we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings
- Depreciation
- Valuation of defined benefit net pension fund liabilities
- PFI
- Accruals

## The Council's Information systems

In respect of the Council's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Council uses management experts in deriving some of its more complex estimates, e.g. asset valuations and pensions liabilities. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Council (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.



### Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- **What the assumptions and uncertainties are;**
- **How sensitive the assets and liabilities are to those assumptions, and why;**
- **The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and**
- **An explanation of any changes made to past assumptions if the uncertainty is unresolved.**

### Planning enquiries

As part of our planning risk assessment procedures we have worked with management to produce the Informing the Audit Risk Assessment report which included the details of the estimates that management are planning to make in the production of the financial statements. This will be reported as a separate item on the agenda for the Audit and Governance Committee.

### Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

[https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-\(UK\)-540\\_Revised-December-2018\\_final.pdf](https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf)

# Other matters

## Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
  - giving electors the opportunity to raise questions about your 2020/21 financial statements, consider and decide upon any objections received in relation to the 2020/21 financial statements;
  - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act).
  - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
  - issuing an advisory notice under section 29 of the Act
- We certify completion of our audit.

## Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

## Going concern

As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

The Public Audit Forum has been designated by the Financial Reporting Council as a "SORP-making body" for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).

PN 10 has recently been updated to take account of revisions to ISAs (UK), including ISA (UK) 570 on going concern. The revisions to PN 10 in respect of going concern are important and mark a significant departure from how this concept has been audited in the public sector in the past. In particular, PN 10 allows auditors to apply a 'continued provision of service approach' to auditing going concern, where appropriate. Applying such an approach should enable us to increase our focus on wider financial resilience (as part of our VfM work) and ensure that our work on going concern is proportionate for public sector bodies. We will review the Council's arrangements for securing financial sustainability as part of our Value for Money work and provide a commentary on this in our Auditor's Annual Report (see page 16). We will also need to identify whether any material uncertainties in respect of going concern have been reported for the Council's subsidiary. If such a situation arises, we will consider our audit response for the group.

# Progress against prior year audit recommendations

We identified the following issues in our 2019/20 audit of the group's financial statements, which resulted in 3 recommendations being reported in our 2019/20 Audit Findings Report. We are pleased to report that management have implemented all of our recommendations.

## Assessment Issue and risk previously communicated

## Update on actions taken to address the issue



### Financial statements – working papers

The Council continues to be on a journey to improve working papers to support the financial statements. There have been improvements in some aspects, but there remains the need to focus attention on providing information right first time and with suitable supporting information.

Officers should continue their focus on improving working papers. As in prior years PPE working papers remain those where greatest improvement is needed. Officers should give consideration to whether the current fixed asset register provides information in the most fit for purpose way to produce the disclosures in the financial statements and provide them with suitable management information.

Officers have confirmed that they will continue to improve and enhance the PPE working papers which support the disclosure of assets in the notes to the financial statements in 2020/21 to ensure the accurate classification and reporting of assets on a line by line basis as well as in total. The PPE notes and supporting working papers will be subject to additional quality review by the Central Finance Team as part of the accounts preparation process; to consider accuracy and compliance with the Code. The ratio of qualified staff has been increased in the Central Finance Team to strengthen the process.



### Financial statements – working papers

While the shift to a remote audit has been largely successful, the sheer volume of queries that have gone through email has made the process difficult and time consuming to manage. During the interim audit we explored with officers the ability to use an audit management tool called 'Inflow' which is a package that both the audit team and officers have access to to manage the query process and exchange of working papers. This is widely used throughout our firm on both commercial and PSA audits and is an efficient way of managing the audit process, particularly while auditing remotely. Officers explained that there were barriers to using this from an IT perspective and as a result we have used sharepoint and emails instead.

Explore more fully the barriers to implementing Inflow for the 2020/21 year of audit.

Inflow has been implemented for the 2020/21 financial statement audit. The audit team and finance officers will continue to explore the options to get the maximum benefit out of the tool, including the possibility of automating sample selection and agreement of the trial balance.

# Progress against prior year audit recommendations continued

## Assessment Issue and risk previously communicated

## Update on actions taken to address the issue

✓	<p><b>VFM – Financial Sustainability</b></p> <p>Continue to review and closely monitor the deliver of the savings plans for 2020/21 and robustly challenge the deliverability of the budget in for future years.</p>	<p>The Council's budget setting process in 20/21 is the result of detailed review and increased challenge of the key risks and assumptions which inform the agreed budget. The in-year budget monitoring activity considers year to date performance and communicates the key risks to the achievement of budget and delivery of savings plans in a timely manner to senior officers and those charged with governance. Budget monitoring activity in 2020/21 is informed by the additional processes and controls we have implemented to monitor income and expenditure specific to COVID-19 which is reported monthly to Central Government. We will consider the financial sustainability of the Council by reference to the standards set out in the CIPFA Financial Management Code to demonstrate our compliance with the principles of good financial management therein.</p>
---	--	--

# Materiality

## The concept of materiality

Materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

## Materiality for planning purposes

We have determined financial statement materiality based on a proportion of the gross expenditure of the group and Council for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £13.2m (PY £11.8m) for the group and £13.1m (PY £11.6m) for the Council, which equates to 1.5% of your prior year gross expenditure for the year. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £15k for Senior officer remuneration.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

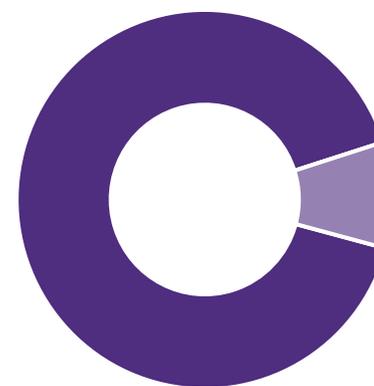
## Matters we will report to the Audit and Governance Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit and Governance Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the group and Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £650k (PY £600k).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit and Governance Committee to assist it in fulfilling its governance responsibilities.

## Prior year gross operating costs

£880m Group  
£884m Council



■ Prior year gross operating costs

## Materiality

£13.2m  
Group financial statements materiality (PY: £11.8m)

£13.1m  
Council financial statements materiality (PY: £11.6m)

£650k  
Misstatements reported to the Audit and Governance Committee (PY: £600k)

# Value for Money arrangements

## Revised approach to Value for Money work for 2020/21

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

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

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary (qualified / unqualified) approach to VFM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

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



### Improving economy, efficiency and effectiveness

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



### Financial Sustainability

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



### Governance

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



# Risks of significant VFM weaknesses

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we have identified are detailed in the first table below, along with the further procedures we will perform. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the second table below.

## Risks of significant weakness

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the body to deliver value for money. These risks have been identified at the planning stage and further risks may arise as the audit progresses. Any further risks identified will be reported to the Audit and Governance Committee



### Financial Sustainability

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

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

## Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, as follows:



### Statutory recommendation

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



### Key recommendation

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



### Improvement recommendation

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

# Audit logistics and team



## Peter Barber, Key Audit Partner

Peter's role will be to lead our relationship with you. He will take overall responsibility for the delivery of a high quality audit, meeting the highest professional standards and adding value to the Council.



## Helen Lillington, Audit Manager

Helen plans, manages and leads the delivery of the audit, is your key point of contact for your finance team and is your first point of contact for discussing any issues arising



## Meriel Clementson, Audit Incharge

Meriel's role is to assist in planning, managing and delivering the audit fieldwork, ensuring the audit is delivered effectively and efficiently, and is also involved in supervising and co-ordinating the audit team.



## Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audits. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

## Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the agreed timetable you have agreed with us, including all notes, the Narrative Report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

# Audit fees

PSAA awarded a contract of audit for Worcestershire County Council to begin with effect from 2012/13. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2020/21 audit.

As referred to on page 16, the 2020/21 Code introduces a revised approach to our VFM work. This requires auditors to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach. Auditors now have to make far more sophisticated judgements on performance, as well as issue key recommendations if any significant weaknesses in arrangements are identified during the audit. We will be working with the NAO and other audit firms to discuss and share learning in respect of common issues arising across the sector.

The new approach will be more challenging for audited bodies, involving discussions at a wider and more strategic level. Both the reporting, and the planning and risk assessment which underpins it, will require more audit time, delivered through a richer skill mix than in previous years.

Additionally, across all sectors and firms, the 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, as noted in the number of revised ISA's issued by the FRC that are applicable to audits of financial statements commencing on or after 15 December 2019, as detailed in Appendix 1..

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. We have engaged an audit expert to improve the level of assurance we require for property valuations estimates, which has been included in our proposed audit fee. Our proposed work and fee for 2020/21, as set out below, is detailed overleaf and has been agreed with the s151 Officer.

## Assumptions

In setting the above fees, we have assumed that the Council will:

- prepare a good quality set of accounts, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

## Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2019\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

	Actual Fee 2018/19	Actual Fee 2019/20	Proposed fee 2020/21
Worcestershire County Council Audit	£86,943	£104,893	£119,943
Total audit fees (excluding VAT)	£86,943	£104,893	£119,343

# Audit fees – detailed analysis

Scale fee published by PSAA	£73,493
<i>Ongoing increases to scale fee first identified in 2019/20</i>	
Group Accounts	£3,000
Enhanced audit procedures for Property, Plant and Equipment (which includes the cost of the auditors expert)	£9,350
Enhanced audit procedures for Pensions Liabilities (IAS19)	£3,500
<b>Bought forward ongoing fee from 2019/20</b>	<b>£89,343</b>
<i>New issues for 2020/21</i>	
Additional work on Value for Money (VfM) under new NAO Code	£19,000
Increased audit requirements of revised auditing standards (see appendix 1)	£11,500
<b>Total proposed audit fees 2020/21 (excluding VAT)</b>	<b>£119,943</b>

# Independence and non-audit services

## Auditor independence

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

There are two matters that impact on our independence as auditors that we are required or wish to draw to the attention of the Audit and Governance Committee.

- Kathryn Kenderdine acted as a member of the audit team for the audit of Worcestershire County Council during the 2019/20 financial statement audit. From the 12th April 2021, Kathryn will take up a post in the Internal Audit function of Worcestershire County Council. We have considered the ethical implications of this change of employment and gained assurances from the Chief Finance Officer that Kathryn will not be responsible for any part of the preparation of the financial statements for the 2020/21 financial year. We have ensured that appropriate safeguards have been in place from when Kathryn first applied for the role, through to her leaving her employment with Grant Thornton. These safeguards have included, restricting Kathryn's access to any files or documents relating to Worcestershire County Council, and ensuring she is not present at any meetings where audit issues are discussed. As a further safeguard, any review of Internal Audit work during the course of our audit will not be undertaken by any junior member of the audit team that has previously worked to Kathryn.
- Under ethical standards audit managers are required to complete no more than 10 years with any one client to reduce the risk of familiarity. An additional safeguard is in place for any audit's under the PSAA contract, and this requires further approval from PSAA for any managers having an association with a client for more than 7 years. The audit of the 2020/21 financial statements will be the 8th year of association for the manager of the County Council. PSAA have granted Helen Lillington an extension for the 2020/21 financial statement audit, and this has been confirmed by our own internal ethics function. An additional review process has been put in place for these audit's this year, using our Quality Support Team. This will act as a further safeguard to independence.

We are satisfied that the matters above and proposed safeguards provide sufficient protection to enable us to remain independent to the audit of Worcestershire County Council for 2020/21.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

## Other services

The following other services provided by Grant Thornton were identified.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

Service	Fees £	Threats	Safeguards
Audit related			
Certification of Teachers' pension return	4,500	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £4,500 in comparison to the total fee for the audit of and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Non-audit related			
CFO Insights	12,500	Self-Interest (because this is a recurring fee)	We have provided subscription services only; any decisions are made independently by the Council. The work is undertaken by a team independent to the audit team. This is the final year of a three year contract, which is due to expire 30/05/21
Contract Assurance	38,750	Self Interest, self-review, management.	The work was first agreed in April 2019 and was performed by a team totally separate to the engagement team. The fee for the work is not significant compared to the total audit fee income and the work is neither recurring or on a contingent fee basis. The work was concluded in October 2020.
Total	55,750		

# Appendix 1: Revised Auditor Standards and application guidance

## FRC revisions to Auditor Standards and associated application guidance

The following Auditing Standards and associated application guidance that were applicable to 19/20 audits, have been revised or updated by the FRC, with additional requirements for auditors for implementation in 2020/21 audits and beyond.

	Date of revision	Application to 2020/21 Audits
ISQC (UK) 1 – Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and other Assurance and Related Service Engagements	November 2019	
ISA (UK) 200 – Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (UK)	January 2020	
ISA (UK) 220 – Quality Control for an Audit of Financial Statements	November 2019	
ISA (UK) 230 – Audit Documentation	January 2020	
ISA (UK) 240 – The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements	January 2020	
ISA (UK) 250 Section A – Consideration of Laws and Regulations in an Audit of Financial Statements	November 2019	
ISA (UK) 250 Section B – The Auditor’s Statutory Right and Duty to Report to Regulators of Public Interest Entities and Regulators of Other Entities in the Financial Sector	November 2019	

# Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 260 – Communication With Those Charged With Governance	January 2020	
ISA (UK) 315 – Identifying and Assessing the Risks of Material Misstatement Through Understanding of the Entity and Its Environment	July 2020	
ISA (UK) 500 – Audit Evidence	January 2020	
ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures	December 2018	
ISA (UK) 570 – Going Concern	September 2019	
ISA (UK) 580 – Written Representations	January 2020	
ISA (UK) 600 – Special considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)	November 2019	
ISA (UK) 620 – Using the Work of an Auditor’s Expert	November 2019	
ISA (UK) 700 – Forming an Opinion and Reporting on Financial Statements	January 2020	

# Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 701 – Communicating Key Audit Matters in the Independent Auditor’s Report	January 2020	
ISA (UK) 720 – The Auditor’s Responsibilities Relating to Other Information	November 2019	
Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom	December 2020	



© 2021 Grant Thornton UK LLP.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

This page is intentionally left blank

# Worcestershire Pension Fund Audit Plan

**Year ending 31 March 2021**

Worcestershire Pension Fund  
24 May 2021

Page 41



# Contents



## Your key Grant Thornton team members are:

### Peter Barber

Key Audit Partner

T 0117 305 7897

E peter.a.barber@uk.gt.com

### Helen Lillington

Senior Audit Manager

T 0121 232 5312

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

### Meriel Clementson

Assistant Manager

T 0121 232 5436

E meriel.h.clementson

## Section

Key matters

Introduction and headlines

Significant risks identified

Accounting estimates and related disclosures

Other matters

Materiality

Audit logistics and team

Audit fees

Independence and non-audit services

Appendix 1: Revised Auditor Standards and application guidance

## Page

3

4

5

7

10

11

12

13

15

16

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Pension Fund or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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

# Key matters

## Factors

### Pension Fund developments

Pension Funds face increasing complexities in both the governance and administration of the LGPS, with increasing requirements from the Pension Regulator in terms of record keeping and the expectations from the national LGPS Scheme Advisory Board to follow good governance guidance as best practice.

There remain a number of consultations that are ongoing that will impact on the workload of the pension fund, in particular in relation to McCloud. The McCloud case affected reforms that moved the LGPS from a final salary to a career average salary basis in 2014. The Court of Appeal ruled that measures to protect older members from the effects of the change, based on their age on 1 April 2012, directly discriminated against younger members. It is the Government's intention to have the McCloud remedy legislation in place by April 2022. Funds need to ensure that they have the necessary plan in place to ensure that all the required checks and calculations can be completed by this target date, recognising that the volume of data to be collected and cleansed is likely to be significant and there will be a reliance on employers to provide this data.

### Impact of Covid 19 pandemic

The current lockdown restrictions mean that we will have to continue to work completely remotely for a longer period and potentially through much of the audit for 2020-21. Working in cooperation with the Fund, we managed this effectively for the 2019-20 audit and we will be in regular contact with your finance team in respect of the logistics of these arrangements for our 2020-21 programme of audit work. We aim to build on our experience from last year. As restrictions ease we will consider the implications for how this impacts on how we complete the audit.

### Financial Reporting and Audit – raising the bars

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 more robust testing. Our work in 2019/20 has highlighted areas where Local Government financial reporting, needs to be improved, with a corresponding increase in audit procedures. We have also identified an increase in the complexity of financial transactions in the sector which require greater audit scrutiny.

## Our response

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set further in our Audit Plan, has been agreed with the s151 officer.
- We will continue to provide you with sector updates via our Audit Committee updates.
- We will continue to consider the impact that Covid 19 has on asset valuations at year end. As at the end of March 2020, the fund concluded that there was not a material uncertainty in relation to asset valuations and this was supported by the views of the fund managers. Early discussions with officers demonstrate that this position is unlikely to change for the 2021 year end valuations.

# Introduction and headlines

## Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Worcestershire Pension Fund ('the Pension Fund') for those charged with governance.

## Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Worcestershire Pension Fund. We draw your attention to both of these documents.

## Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Pension Fund's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit and Governance committee).

The audit of the financial statements does not relieve management or the Audit and Governance Committee of your responsibilities. It is the responsibility of the Pension Fund to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Pension Fund is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Pension Fund's business and is risk based.

## Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Revenue and expenditure recognition (rebutted);
- Management override of controls; and
- Valuation of Level 3 investments

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

## Materiality

We have determined planning materiality to be £26.4m (PY £26.3m) for the Pension Fund, which equates to 1% of your prior year net assets. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £1.3m (PY £1.3m).

## Audit logistics

Our planning visit took place in March and our final visit will take place in June and aim to conclude in August. Our key deliverables are this Audit Plan and our Audit Findings Report. Our audit approach is detailed in Appendix A.

Our proposed audit fee for the audit has been set at £33,743. The scale fee, set by PSAA, is £19,222, however this does not reflect the additional work now required due to the changes in expectations of the regulator. The fee for 2019-20 was £29,743 for the Pension Fund. The fee for the current year, as in previous years, is subject to the Fund delivering a good set of financial statements and working papers.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

# Significant risks identified

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
The revenue cycle includes fraudulent transactions (rebutted)	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• the culture and ethical frameworks of local authorities, including Worcestershire County Council as the administering body for Worcestershire Pension Fund mean that all forms of fraud are seen as unacceptable.</li> </ul>	No specific work is planned as the presumed risk has been rebutted.
The expenditure cycle includes fraudulent transactions (rebutted)	<p>Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom (PN10) states: "As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure may be greater than the risk of material misstatements due to fraud related to revenue recognition". Public sector auditors therefore need to consider whether they have any significant concerns about fraudulent financial reporting of expenditure which would need to be treated as a significant risk for the audit.</p> <p>We have rebutted this presumed risk for Worcestershire County Council because:</p> <ul style="list-style-type: none"> <li>• expenditure is well controlled and the Fund has a strong control environment; and</li> <li>• the Fund has clear and transparent reporting of its financial plans and financial position to those charged with governance.</li> </ul> <p>We therefore do not consider this to be a significant risk for Worcestershire Pension Fund.</p>	No specific work is planned as the presumed risk has been rebutted.

# Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride of controls	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate the design effectiveness of management controls over journals;</li> <li>• analyse the journals listing and determine the criteria for selecting high risk unusual journals;</li> <li>• test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration;</li> <li>• gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and</li> <li>• evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul>
Valuation of Level 3 investments	<p>The Fund revalues its investments on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date.</p> <p>By their nature Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions</p> <p>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p> <p>Management utilise the services of investment managers and custodians as valuation experts to estimate the fair value as at 31 March 2021.</p> <p>We therefore identified valuation of Level 3 investments as a significant risk.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate management's processes for valuing Level 3 investments</li> <li>• review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments; to ensure that the requirements of the Code are met</li> <li>• independently request year-end confirmations from investment managers and custodians</li> <li>• for a sample of investments, test the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconcile those values to the values at 31 March 2021 with reference to known movements in the intervening period</li> <li>• in the absence of available audited accounts, we will evaluate the competence, capabilities and objectivity of the valuation expert</li> <li>• test revaluations made during the year to see if they had been input correctly into the Pension Fund's asset register</li> <li>• where available review investment manager service auditor report on design effectiveness of internal controls.</li> </ul>

# Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* which includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

## Introduction

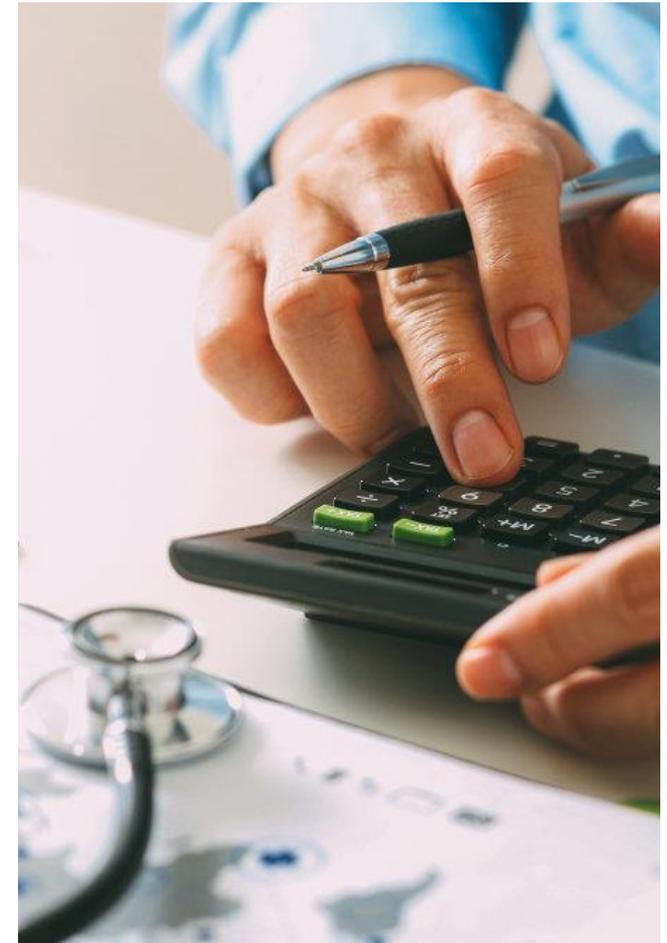
Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit and Governance Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?



# Accounting estimates and related disclosures

## Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2021.

Based on our knowledge of the Pension Fund we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of the pension liability
- Valuation of level 2 and level 3 investments

## The Pension Fund's Information systems

In respect of the Pension Fund's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Pension Fund uses management experts in deriving some of its more complex estimates, e.g. asset and investment. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Pension Fund (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.



### Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- **What the assumptions and uncertainties are;**
- **How sensitive the assets and liabilities are to those assumptions, and why;**
- **The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and**
- **An explanation of any changes made to past assumptions if the uncertainty is unresolved.**

### Planning enquiries

As part of our planning risk assessment procedures we have worked with management to produce the Informing the Audit Risk Assessment report which included the details of the estimates that management are planning to make in the production of the financial statements. This will be reported as a separate item on the agenda for the Audit and Governance Committee.

### Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

[https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-\(UK\)-540\\_Revised-December-2018\\_final.pdf](https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf)

# Other matters

## Other work

The Pension Fund is administered by Worcestershire County Council (the 'Council'), and the Pension Fund's accounts form part of the Council's financial statements.

Therefore, as well as our general responsibilities under the Code of Practice a number of other audit responsibilities also follow in respect of the Pension Fund, such as:

- We read any other information published alongside the Council's financial statements to check that it is consistent with the Pension Fund financial statements on which we give an opinion and is consistent with our knowledge of the Authority.
- We consider our other duties under legislation and the Code, as and when required, including:
  - Giving electors the opportunity to raise questions about your 2020/21 financial statements, consider and decide upon any objections received in relation to the 2020/21 financial statements;
  - Issue of a report in the public interest or written recommendations to the Fund under section 24 of the Act, copied to the Secretary of State.
  - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or
  - Issuing an advisory notice under Section 29 of the Act.
- We carry out work to satisfy ourselves on the consistency of the pension fund financial statements included in the pension fund annual report with the audited Fund accounts.

## Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

## Going concern

As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

The Public Audit Forum has been designated by the Financial Reporting Council as a "SORP-making body" for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).

PN 10 has recently been updated to take account of revisions to ISAs (UK), including ISA (UK) 570 on going concern. The revisions to PN 10 in respect of going concern are important and mark a significant departure from how this concept has been audited in the public sector in the past. In particular, PN 10 allows auditors to apply a 'continued provision of service approach' to auditing going concern, where appropriate. Applying such an approach should enable us to increase our focus on wider financial resilience and ensure that our work on going concern is proportionate for public sector bodies.

# Materiality

## The concept of materiality

Materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

## Materiality for planning purposes

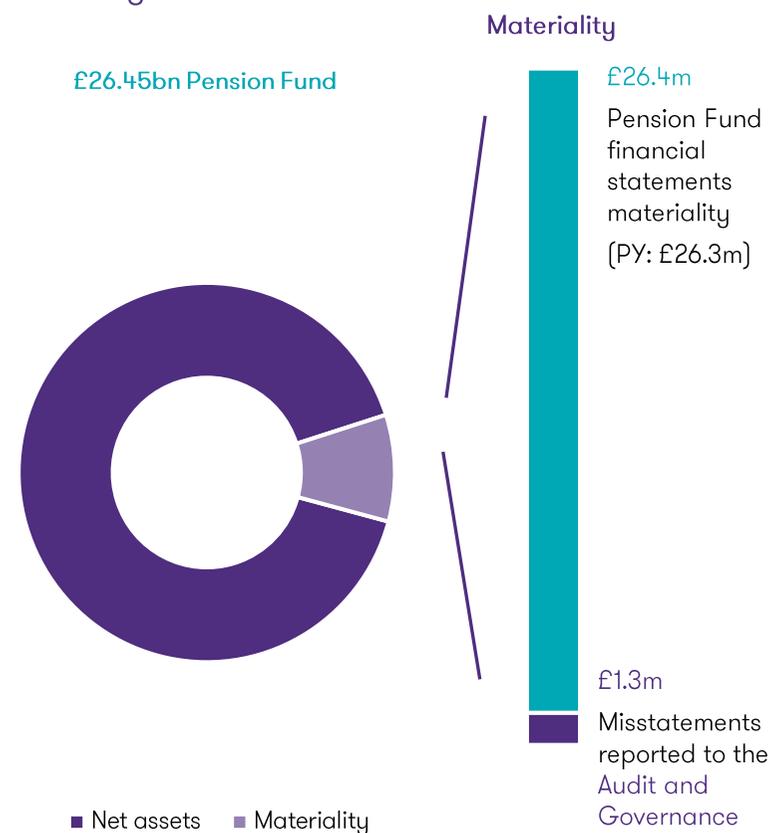
We have determined financial statement materiality based on a proportion of the net assets of the Pension Fund. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £26.4m (PY £26.3m), which equates to 1% of your prior year net assets. We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

## Matters we will report to the Audit and Governance Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit and Governance Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Pension Fund, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £1.3m (PY £1.3m).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit and Governance Committee to assist it in fulfilling its governance responsibilities.

## Prior year net assets



# Audit logistics and team



Page 52



## Peter Barber, Key Audit Partner

Peter's role will be to lead our relationship with you. He will take overall responsibility for the delivery of a high quality audit, meeting the highest professional standards and adding value to the Council



## Helen Lillington, Audit Manager

Helen plans, manages and leads the delivery of the audit, is your key point of contact for your finance team and is your first point of contact for discussing any issues arising



## Meriel Clementson, Audit Incharge

Meriel's role is to assist in planning, managing and delivering the audit fieldwork, ensuring the audit is delivered effectively and efficiently, and is also involved in supervising and co-ordinating the audit team.

## Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audits. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

## Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the agreed timetable you have agreed with us, including all notes, the Narrative Report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

# Audit fees

PSAA awarded a contract of audit for Worcestershire Pension Fund to begin with effect from 2012/13. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2020/21 audit.

Additionally, across all sectors and firms, the 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, as noted in the number of revised ISA's issued by the FRC that are applicable to audits of financial statements commencing on or after 15 December 2019, as detailed in Appendix 1.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. Our proposed work and fee for 2020/21, as set out below, is detailed overleaf and has been agreed with the s151 Officer.

Page 53

	Actual Fee 2018/19	Actual Fee 2019/20	Proposed fee 2020/21
Worcestershire Pension Fund Audit	£20,722	£29,743	£33,743
Total audit fees (excluding VAT)	£20,722	£29,743	£33,743

## Assumptions

In setting the above fees, we have assumed that the Pension Fund will:

- prepare a good quality set of accounts, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

## Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2019\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

# Audit fees – detailed analysis

Scale fee published by PSAA	£19,222
<i>Ongoing increases to scale fee first identified in 2019/20</i>	
Raising the bar/regulatory factors	£2,500
Valuation of level 3 investments (including the use of an auditors expert on derivatives)	£4,021
Brought forward ongoing fee from 2019/20	£25,743
<i>New issues for 2020/21</i>	
Increased audit requirements of revised auditing standards (see appendix 1)	£8,000
<b>Total audit fees (excluding VAT)</b>	<b>£33,743</b>

# Independence and non-audit services

## Auditor independence

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

- Kathryn Kenderdine acted as the in charge auditor for the audit of Worcestershire Pension Fund during the 2019/20 financial statement audit. From the 12th April 2021, Kathryn will take up a post in the Internal Audit function of Worcestershire County Council. We have considered the ethical implications of this change of employment and gained assurances from the Chief Finance Officer that Kathryn will not be responsible for any part of the preparation of the financial statements for the 2020/21 financial year. We have ensured that appropriate safeguards have been in place from when Kathryn first applied for the role, through to her leaving her employment with Grant Thornton. These safeguards have included, restricting Kathryn's access to any files or documents relating to Worcestershire Pension Fund, and ensuring she is not present at any meetings where audit issues are discussed. As a further safeguard, any review of Internal Audit work during the course of our audit will not be undertaken by any junior member of the audit team that has previously worked to Kathryn.
- Under ethical standards audit managers are required to complete no more than 10 years with any one client to reduce the risk of familiarity. An additional safeguard is in place for any audit's under the PSAA contract, and this requires further approval from PSAA for any managers having an association with a client for more than 7 years. The audit of the 2020/21 financial statements will be the 9th year of association for the manager of the Pension Fund. PSAA have granted Helen Lillington an extension for the 2020/21 financial statement audit, and this has been confirmed by our own internal ethics function. An additional review process has been put in place for these audit's this year, using our Quality Support Team. This will act as a further safeguard to independence.

We are satisfied that the matters above and proposed safeguards provide sufficient protection to enable us to remain independent to the audit of Worcestershire Pension Fund for 2020/21.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

## Other services

The following other services provided by Grant Thornton were identified.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

Service	Fees £	Threats	Safeguards
Audit related			
IAS19 Assurance letters for Admitted Bodies	8,500	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is small in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Non-audit related	None		
Total	8,500		

# Appendix 1: Revised Auditor Standards and application guidance

## FRC revisions to Auditor Standards and associated application guidance

The following Auditing Standards and associated application guidance that were applicable to 19/20 audits, have been revised or updated by the FRC, with additional requirements for auditors for implementation in 2020/21 audits and beyond.

	Date of revision	Application to 2020/21 Audits
ISQC (UK) 1 – Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and other Assurance and Related Service Engagements	November 2019	
ISA (UK) 200 – Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (UK)	January 2020	
ISA (UK) 220 – Quality Control for an Audit of Financial Statements	November 2019	
ISA (UK) 230 – Audit Documentation	January 2020	
ISA (UK) 240 – The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements	January 2020	
ISA (UK) 250 Section A – Consideration of Laws and Regulations in an Audit of Financial Statements	November 2019	
ISA (UK) 250 Section B – The Auditor’s Statutory Right and Duty to Report to Regulators of Public Interest Entities and Regulators of Other Entities in the Financial Sector	November 2019	

# Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 260 – Communication With Those Charged With Governance	January 2020	
ISA (UK) 315 – Identifying and Assessing the Risks of Material Misstatement Through Understanding of the Entity and Its Environment	July 2020	
ISA (UK) 500 – Audit Evidence	January 2020	
ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures	December 2018	
ISA (UK) 570 – Going Concern	September 2019	
ISA (UK) 580 – Written Representations	January 2020	
ISA (UK) 600 – Special considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)	November 2019	
ISA (UK) 620 – Using the Work of an Auditor’s Expert	November 2019	
ISA (UK) 700 – Forming an Opinion and Reporting on Financial Statements	January 2020	

# Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 701 – Communicating Key Audit Matters in the Independent Auditor’s Report	January 2020	
ISA (UK) 720 – The Auditor’s Responsibilities Relating to Other Information	November 2019	
Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom	December 2020	



© 2021 Grant Thornton UK LLP.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

This page is intentionally left blank

# Informing the audit risk assessment for Worcestershire County Council 2020/21

Page 61

**Peter Barber**  
Director  
T 0117 305 7897  
E [peter.a.barber@uk.gt.com](mailto:peter.a.barber@uk.gt.com)

**Helen Lillington**  
Audit Manager  
T 0121 232 5312  
E [helen.m.Lillington@uk.gt.com](mailto:helen.m.Lillington@uk.gt.com)



The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

# Table of Contents

	<b>Section</b>	<b>Page</b>
	Purpose	4
	General Enquiries of Management	6
	Fraud	9
Page 63	Fraud Risk Assessment	10
	Laws and Regulations	15
	Impact of Laws and Regulations	16
	Related Parties	18
	Accounting Estimates	20
	Accounting Estimates - General Enquiries of Management	21
	Appendix A – Accounting Estimates	24

## Purpose

The purpose of this report is to contribute towards the effective two-way communication between the Authority's external auditors and the Authority's Audit and Governance Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit and Governance Committee under auditing standards.

## Background

Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the Audit and Governance Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Audit and Governance Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit and Governance Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit and Governance Committee and supports Audit and Governance Committee in fulfilling its responsibilities in relation to the financial reporting process.

## Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Authority's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Related Parties, and
- Accounting Estimates.

## Purpose

This report includes a series of questions on each of these areas and the response we have received from the Authority's management. The Audit and Governance Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

# General Enquiries of Management

Page 66

Question	Management response
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2020/21?	Issues and events that will have a significant impact on the 2020/21 financial statements will be: COVID-19 (the accounting treatment and disclosure of transactions in year and at the balance sheet date) , termination of PPL (the accounting treatment of transactions in year end and at the balance sheet date), appointment of new valuers for asset valuations.
2. Have you considered the appropriateness of the accounting policies adopted by the Authority? Have there been any events or transactions that may cause you to change or adopt new accounting policies?	Accounting policies are reviewed and updated on an annual basis to ensure that any new policies are incorporated and that existing policies are correct. The proposed 2020/21 accounting policies was subject to review and approval by the Audit & Governance Committee in March 2021.
3. Is there any use of financial instruments, including derivatives?	The Council's financial instruments comprise: Investments, Cash Equivalents, Debtors, Borrowings, PFI and Finance Lease liabilities and financial liabilities. Financial instruments are accounted for as per the requirements of IFRS9.
4. Are you aware of any significant transaction outside the normal course of business?	None in 2020/21.

## General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	None in 2020/21.
6. Are you aware of any guarantee contracts?	None in 2020/21.
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	None in 2020/21.
8. Other than in house solicitors, can you provide details of those solicitors utilised by the Authority during the year. Please indicate where they are working on open litigation or contingencies from prior years?	Barristers are engaged to support employment tribunal cases and, in Adult Social Care, they are engaged periodically to undertake advocacy work in the Court of Protection for more complex cases. There are currently no external solicitors engaged for legal work. The Insurance team use Weightmans Browne Jacobson and Plexus through our insurers to assist with legal claims.

## General Enquiries of Management

Question	Management response
9. Have any of the Authority's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	None noted in 2020/21.
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	No other advisors have been consulted in 2020/21.

# Fraud

## Issue

### Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit and Governance Committee and management. Management, with the oversight of the Audit and Governance Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit and Governance Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As the Authority's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit and Governance Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit and Governance Committee oversees the above processes. We are also required to make inquiries of both management and the Audit and Governance Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from the Authority's management.

# Fraud risk assessment

Page 70

Question	Management response
<p>1. Have the Authority assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Authority's risk management processes link to financial reporting?</p>	<p>Yes. The Council have a robust financial control framework, supported by financial regulations, standing orders, scheme of delegation and an independent and objective Internal Audit function. Responsibility for ensuring that fraud and corruption risks are addressed sits with the Chief Finance Officer of the Council. The results of reports prepared by Internal Audit are regularly reviewed and the implementation of recommendations made to management, to address highlighted risks and weakness in controls, is monitored. The Finance Team comprises skilled, qualified, accounting professionals responsible for the preparation of regular monthly management accounts which report actual income and expenditure against budgeted and forecast performance; this monthly process includes input from Service areas and a review of variances and activity to highlight instances of fraud and error. IA participate in NFI activity.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>We have determined the classes of accounts, transactions and disclosures most at risk to fraud to be those which comprise low value, manual entries. High value and automated transactions, for example to record treasury investments and banking transfers, have additional controls in place.</p>

## Fraud risk assessment

Question	Management response
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within the Authority as a whole or within specific departments since 1 April 2020?</p> <p>As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>No material instances of fraud have been identified in 2020/21. Risk and fraud issues are communicated to those charged with governance via quarterly Internal Audit and risk management reports presented to the Audit &amp; Governance Committee. Routine monthly financial monitoring reports presented to Cabinet also include any identified risks or issues.</p>
<p>4. Have you identified any specific fraud risks?</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within the Authority where fraud is more likely to occur?</p>	<p>We have not identified any specific fraud risks in 2020/21 or locations within the Council where fraud is more likely to occur. We are aware of the risks common to Local Authorities (Adult social care, insurance, procurement, grant, payroll/expenses and disabled parking concession fraud) and these underpin our approach to fraud identification and detection. The Council's Internal Audit Plan follows a risk-based approach to consider areas of potential fraud risk and whether the controls in place are designed and operating effectively to mitigate the identified risks. In addition, management is expected to identify and record fraud risks on the Corporate Risk Register.</p>
<p>5. What processes does the Authority have in place to identify and respond to risks of fraud?</p>	<p>The Council and Fund's Anti-Fraud and Corruption Strategy, revised and relaunched in 2020/21, outlines our approach to identify and respond to risks of fraud and this is consistent with the Local Government Fraud Strategy: 'Fighting Fraud Locally'. The 3 key themes of our approach are Acknowledge, Prevent and Pursue. The approach sits alongside an established framework of policies, procedures and controls to provide the major elements of our fraud and corruption prevention governance arrangements which include: Council Constitution including Financial Regulations, Code of Conduct for Councillors and Employees, Registers of Interest, Procurement Rules and Guidance, Whistle Blowing Policy, HR Policies and Procedure 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 of managing performance including disciplinary matters, IT Security Policy. The Strategy identifies the key stakeholders in deterring and preventing fraud and corruption and details their specific responsibilities. The Council's core policies and procedures are currently under review to ensure they continue to support our financial regulations.</p>

# Fraud risk assessment

Question	Management response
<p>6. How do you assess the overall control environment the Authority, including:</p> <ul style="list-style-type: none"> <li>the existence of internal controls, including segregation of duties; and</li> <li>the process for reviewing the effectiveness the system of internal control?</li> </ul> <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?</p>	<p>The Council's internal control framework is supported by the Risk Management Strategy and Anti-Fraud &amp; Corruption Strategy to provide a strong financial framework. The effectiveness of the control environment is considered throughout the year by the Corporate Risk Management Group (CRMG) which maintains and reviews the Council's risk register with Officers and Members on a regular basis. The risk based Internal Audit Plan tests the operating effectiveness of the control framework and reports to management and the Audit &amp; Governance Committee where weaknesses are identified. Policies and procedures which govern our business process are designed to provide separation of duties to reduce the risk of fraud and collusion and exception reporting, control account reconciliations and analytical review processes are used to identify fraudulent transactions and activity.</p> <p>The Council supports and submits data for the National Fraud Initiative (NFI) and assesses all matches for review and, where appropriate, mitigation. 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.</p> <p>We do not consider there is potential for override of controls or inappropriate influence over financial reporting.</p>
<p>7. Are there any areas where there is potential for misreporting?</p>	<p>The internal financial reporting process is subject to regular review and challenge through the finance team reporting structure to reduce the potential for misreporting. A quality review of the Statement of Accounts is undertaken by both Chief Accountant and Chief Finance Officer as well as an independent review by Internal Audit to identify instances of misreporting.</p>

## Fraud risk assessment

Question	Management response
<p>8. How does the Authority communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud?</p> <p>Have any significant issues been reported?</p>	<p>The Council has a robust financial control framework, supported by the Council's financial regulations and policies and procedures which are designed to detect and prevent instances of fraud and error. Where a fraud risk is suspected, the Council has a Whistleblowing and Anti-Fraud &amp; Corruption policy, made available to employees and residents via the Council intranet and internet respectively which outlines the relevant procedure to follow. In addition, a dedicated fraud hotline (01905 843222) is available to report instances of suspected fraud and there is an opportunity to report fraud via the Registrars. The Council uses 'Yammer' (a social networking tool) to communicate and raise awareness of potential fraud and the forms it may take within the Council and there is an internal fraud e-learning module for all staff. No significant issues have been reported in 2020/21.</p>
<p>9. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>There are no posts which have been determined as high-risk from a fraud and corruption perspective.</p>
<p>10. Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>Related party transactions are identified and monitored through routine reporting procedures. No instances of fraud in respect of related party transactions have been identified in 2020/21. Risks associated with fraud due to related party transactions are mitigated through Member/Officer requirements to disclose all relevant relationships and transactions at Council and Committee meetings and via the Council's Registers of Gifts/Interests.</p>

## Fraud risk assessment

Question	Management response
<p>11. What arrangements are in place to report fraud issues and risks to the Audit and Governance Committee?</p> <p>How does the Audit and Governance Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>Fraud and risk issues are reported on a quarterly basis to Audit &amp; Governance Committee through the Internal Audit Progress Report and Corporate Risk Report. The Audit &amp; Governance Committee exercises oversight over management processes for identifying and responding to risks of fraud and breaches of internal control through challenge of internal audit reports, monitoring the implementation of recommendations and seeking additional assurances from operational management.</p>
<p>12. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>We are not aware of any complaints in 2020/21.</p>
<p>13. Have any reports been made under the Bribery Act?</p>	<p>We are not aware of any reports made under the Bribery Act in 2020/21.</p>

# Law and regulations

## Issue

### Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit and Governance Committee, is responsible for ensuring that the Authority's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit and Governance Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

# Impact of laws and regulations

Page 76

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does the Authority have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Authority's regulatory environment that may have a significant impact on the Authority's financial statements?</p>	<p>The Council's Constitution identifies the Monitoring Officer as the individual responsible for reporting the actual or potential breach of a legal requirement to the Council meeting or Cabinet. The Monitoring Officer is supported by a team of Legal and Democratic Services Officers to communicate issues and matters of concern. The Monitoring Officer has sight of all reports presented to the Chief Officer Management Board and all reports presented to Members. All reports to Members are required to include a 'Legal Implications' and 'Risk' section to inform of relevant issues. The section 151 Officer is responsible for preparing the Council's annual Statement of Accounts in accordance with relevant legal and regulatory requirements.</p>
<p>2. How is the Audit and Governance Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>The Monitoring Officer (or representative) may attend Audit &amp; Governance Committee meetings to advise and inform Committee members on legal issues as they arise.</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2020 with an on-going impact on the 2020/21 financial statements?</p>	<p>None in 2020/21.</p>
<p>4. Is there any actual or potential litigation or claims that would affect the financial statements?</p>	<p>None in 2020/21.</p>

## Impact of laws and regulations

Question	Management response
5. What arrangements does the Authority have in place to identify, evaluate and account for litigation or claims?	The Council has an internal Insurance Team, under the line management of the s151 Officer, which advises and monitors any instances of litigation and claims. This is in addition to the services undertaken by the Legal and Democratic Services Team. All issues are brought to the attention of the Monitoring Officer and/or s151 Officer as the arise.
6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	None in 2020/21.

# Related Parties

## Issue

### Matters in relation to Related Parties

The Authority are required to disclose transactions with entities/individuals that would be classed as related parties. These may include:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the Authority;
- associates;
- joint ventures;
- an entity that has an interest in the authority that gives it significant influence over the Authority;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Authority or of any entity that is a related party of the Authority.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the [type of body]'s perspective but material from a related party viewpoint then the Authority must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

## Related Parties

Question	Management response
<p>1. Have there been any changes in the related parties disclosed in the Authority's 2019/20 financial statements? If so please summarise:</p> <ul style="list-style-type: none"> <li>the nature of the relationship between these related parties and the Authority whether the Authority has entered into or plans to enter into any transactions with these related parties</li> <li>the type and purpose of these transactions</li> </ul>	<p>Changes in 2020/21 in respect of the relationship between WCC and PPL will be disclosed in the related party note to outline the arrangements in place at the balance sheet date.</p>
<p>2. What controls does the Authority have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>Related party transactions are identified as part of an ongoing process throughout the year by Finance and Legal Services staff. Potential related parties are identified through a regular review of Cabinet papers, WCC intranet, verification from Directorates, review of registers maintained by WCC (Councillors' declaration of interests, Members/Officers registers of gifts/interests) and transactions recorded in our financial accounting system. As part of the final accounts process, a particular challenge exercise is carried out to identify related parties and relevant transactions; the results of this exercise are disclosed in the Statement of Accounts.</p>
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>Transactions with related parties are subject to the controls as determined by the Council's financial control framework, supported by financial regulations, standing orders and scheme of delegation.</p>
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	<p>No significant transactions outside the normal course of business have taken place in 2020/21.</p>

# Accounting estimates

## Issue

### Matters in relation to Related Accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit and Governance Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

We would ask the Audit and Governance Committee to satisfy itself that the arrangements for accounting estimates are adequate.

# Accounting Estimates - General Enquiries of Management

Question	Management response
<p>1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?</p>	<p>The following transactions/events/conditions are significant in the financial statements and give rise to the need for accounting estimates and related disclosures:</p> <p>PPE (including PFI schemes): valuations and depreciation</p> <p>Measurement of Financial Instruments</p> <p>Valuation of the pension fund liability</p> <p>Accruals – there are no individual accruals that are material at 31 March 2021.</p>
<p>2. How does the Authority's risk management process identify and addresses risks relating to accounting estimates?</p>	<p>The Council maintain a risk register. The risk register does not contain any risks in relation to accounting estimates. Management consider this to be appropriate as the risk is mitigated as the finance team led by the section 151 officer have a thorough understanding of the requirements of the Code. In addition, there are no significant changes to the Code that impact on accounting estimates. As management, we do not consider the accounting estimates made to be new, unusual or specialised in nature. In addition, management consider that the skills and experience of the finance team are sufficient to provide accounting estimates for depreciation and accruals. For the valuation of PPE, the pension liability and level 3 investments an external valuer is employed to provide the necessary skills and experience for these estimates.</p>
<p>3. How do management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?</p>	<p>For our material accounting estimates (PPE, Financial Instruments and Valuation of the Pension Fund Liability), source data and assumptions are provided by management experts and advisors and this information is supported by the in-year knowledge of the Council's Finance team and specialist staff in the wider Service teams.</p>

## Accounting Estimates - General Enquiries of Management

Question	Management response
4. How do management review the outcomes of previous accounting estimates?	The material accounting estimates noted above are determined as at the balance sheet date and any subsequent changes in the valuation methods or assumptions would not result in a change in the values disclosed in the statutory accounts. For PPE valuations, asset values are reviewed in line with our rolling programme of asset valuations and useful lives and asset impairments which may influence the carrying value of an asset/inform asset depreciation amounts are considered as part of year end procedures. For non-material estimates, (e.g. accruals), the outcome of the estimation methods are reviewed and adjusted once actual values are available and this information is considered to ensure that future estimates are based upon the most relevant source data and assumptions.
5. Were any changes made to the estimation processes in 2020/21 and, if so, what was the reason for these?	No changes have been made in 2020/21.
6. How do management identify the need for and apply specialised skills or knowledge related to accounting estimates?	We have identified the need for external experts in respect of the accounting estimates which require specialist skills/knowledge: valuation of PPE (RICS Registered Valuers), valuation of the Pension Fund Liability (Actuaries) and measurement of Financial Instruments (Treasury Management Advisors and Investment Fund Managers).
7. How does the Authority's determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?	<p>The skills and experience of experts are considered on appointment as part of routine procurement procedures and the Council's requirements are communicated to and agreed with experts via an annual work instruction or terms of engagement. Information provided by experts which informs our estimates is subject to management review and challenge.</p> <p>Control checks are performed as part of year end closedown procedures to review transactions which are informed by estimates: manual entries to process changes in values of PPE, Fin Instruments and PF Liability are subject to management review, accruals are subject to quality assurance and control checks as determined by their value and degree of estimation uncertainty.</p>

# Accounting Estimates - General Enquiries of Management

Question	Management response
<p>8. How do management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?</p>	<p>Control activities in respect of information provided by management experts are considered as part of our work instruction/terms of engagement and are monitored at key points in the year through regular meetings and communication with appointed service providers/management experts.</p> <p>For other control activities, these are subject to review and challenge as part of our closedown activity and these checks are built into our detailed final accounts closedown timetable.</p>
<p>9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including:</p> <ul style="list-style-type: none"> <li>- Management's process for making significant accounting estimates</li> <li>- The methods and models used</li> <li>- The resultant accounting estimates included in the financial statements.</li> </ul>	<p>Accounting estimates and the basis for their calculation and consideration of exposure of the estimate to risk are assessed by management and this assessment is presented to Audit &amp; Governance Committee for consideration and challenge.</p>
<p>10. Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)?</p>	<p>No</p>
<p>11. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?</p>	<p>Yes</p>

## Accounting Estimates - General Enquiries of Management

Question	Management response
12. How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ?	The assumptions which underpin the figures reported in the Statement of Accounts are reviewed in advance of preparation and estimates and assumptions are disclosed in the Notes to the accounts for transparency. Accounting estimates and the basis for their calculation and consideration of exposure of the estimate to risk are assessed by management and this assessment is presented to Audit & Governance Committee for consideration and challenge.

## Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Property, plant & equipment valuations	Valuations are performed by a qualified valuer (RICS/CIB Member) in line with our 5-year rolling programme of asset valuations. A review of assets not revalued in the year is undertaken to determine the potential risk of material movement in the valuation of asset categories not revalued in year.	The specific requirements in respect of year end asset valuations are communicated to our expert valuers through a detailed work instruction (issued in December 2020). A review of draft values is performed by management to challenge and understand any unusual or significant changes in valuation. The results of this review are discussed with the valuer prior to issue of the final valuation report and inclusion in the financial statements.	Y – We have appointed RICA registered firm Wilks Head & Eve LLP to undertake our asset valuations in 2020/21.	<p>A detailed exercise is undertaken to quantify and document our assessment of risk in respect of the assets not revalued in the year to conclude whether there is risk of material misstatement of asset values. This is informed by BCIS construction data, historic movements in land values and local/sector information.</p> <p>We consider the uncertainty relating to asset valuations in the context of information provided by our expert valuers alongside our local and market knowledge and input from relevant individuals across the Council.</p> <p>An estimate of the Council's exposure to this uncertainty in respect of impairment losses and revaluation losses is quantified and disclosed in the notes to the accounts.</p> <p>In 2020/21 we will consider RICS guidance, and information provided by our expert valuer, to determine any potential uncertainty as a result of the impact of COVID-19 on asset values.</p>	Change in expert valuer in 2020/21. No changes in valuation methods in 2020/21.

## Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
<p>Depreciation (including a consideration of estimated remaining useful lives of PPE)</p>	<p>Depreciation is provided for on PPE assets over their useful lives, with major components depreciated separately. Assets without a determinable life (e.g. freehold land and certain community assets) or those not yet available for use (e.g. Assets under Construction) are not depreciated. Depreciation is calculated on a straight-line basis over the remaining useful life of the asset, as determined by our expert 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 5year estimated useful life; IT equipment is depreciated over 3 years.</p> <p>The estimated remaining useful lives of PPE assets are reviewed by our expert valuer and service representatives.</p>	<p>Depreciation is calculated based on asset values and estimated useful lives as noted above.</p> <p>Asset lives are reviewed by the expert valuers as part of our 5-year rolling programme and are considered by Directorates as part of year-end procedures.</p>	<p>Y – in respect of assets revalued in year.</p>	<p>Variations to the estimated useful life of an asset will alter the amount of depreciation charged to the Comprehensive Income &amp; Expenditure Statement. The impact of this is minimised by the review of asset lives performed at each formal valuation as well as year-end procedures.</p>	<p>There are no changes to the method/models used in 2020/21</p>

## Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Measurement of Financial Instruments	The Council values its financial instruments at fair value, as informed by the advice of external and independent Treasury Management advisors and Investment Fund Managers.	Fair values are estimated by calculating the present value of cash flows that take place over the remaining term of the instruments, as provided by management experts.	Y	Management consider the exposure of each of its categories of financial instruments to credit, liquidity and market risks and, as per previous financial year, we will consider any additional credit risks arising as a result of the COVID-19 pandemic. Risks to accounting estimates used in our measurement of financial instruments are managed through our Treasury Management Strategy and the Council's overall risk management procedures which focus on the unpredictability of financial markets to minimise potential adverse effects on the resources available to fund sources.	There are no changes to the method/models used in 2020/21.

## Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
PFI schemes and similar contracts	PFI and similar contracts are agreements to receive services, where the responsibility for making available or improving the asset to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes, it carries the assets used under the contracts on its Balance Sheet as part of PPE. 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.	Accounting transactions in year are based upon the initial assessment as informed by expert advisors. We ensure continuity and expertise of qualified accountancy staff to undertake accounting entries consistent with previously audited figures.	Y	There is no exposure to risk of material uncertainty in respect of PFI transactions and balances.	There are no changes to the method/models used in 2020/21.

## Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Accruals – there are no individually material accruals in 20/21 Page 89	Accruals are prepared to reflect the costs of goods and services received and the income generated for goods and services supplied up to and including the period ending 31 March 2021. Accruals of income and expenditure are calculated for amounts greater than £5k.	All accruals are reviewed and signed off by finance. Additional controls are in place for accruals over £100k and working papers are maintained to support and evidence the calculation of the accrual.	N	Uncertainty in respect of accrued income and expenditure is considered on an individual basis and assumptions and risk are documented as part of supporting working papers.	There are no changes to the method/models used in 2020/21

## Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Valuation of the pension fund liability	The liabilities of the Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis. The Council relies on expert advice from our actuaries and all key assumptions are considered by management and disclosed in the financial statements.	The Council's Pension & Investments Manager communicates with externally appointed actuaries throughout the year and the year-end report is considered by management prior to inclusion in the financial statements	Y	The principal assumptions used by the actuary are in respect of mortality (longevity at 65 for current and future pensioners) and financial assumptions: rate of CPI inflation, rate of increase in salaries, rate of increase in pensions and rate for discounting scheme liabilities. We consider the sensitivity of the estimate based on reasonably possible changes in the assumptions occurring at the end of the reporting period. Proposed actuarial assumptions are communicated by the Actuary at the year end and an assessment of the impact of any changes in assumptions is provided for management review.	There are no changes to the method/models used in 2020/21

## Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Valuation of defined benefit pension amounts and disclosures	The valuation of assets and liabilities in respect of defined benefit obligations are calculated by the independent firm of actuaries. Liabilities are 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 and salary levels. The LGPS has been assessed by Mercer Ltd and estimated for the Council's fund are based on the latest full valuation of the scheme as at 31 March 2019.	The Council's Pension & Investments Manager communicates with externally appointed actuaries throughout the year and the year-end report is considered by management prior to inclusion in the financial statements.	Y	The principal assumptions used by the actuary are in respect of mortality (longevity at 65 for current and future pensioners) and financial assumptions: rate of CPI inflation, rate of increase in salaries, rate of increase in pensions and rate for discounting scheme liabilities. We consider the sensitivity of the estimate based on reasonably possible changes in the assumptions occurring at the end of the reporting period.	There are no changes to the method/models used in 2020/21

## Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Pension Fund Actuarial Gains/Losses	The actuarial gains and losses are calculated by the independent firm of actuaries. These figures are based on making percentage adjustments to the closing value of assets and liabilities. The Council relies on expert advice from our actuaries and all key assumptions are considered by management and disclosed in the financial statements.	The Council's Pension & Investments Manager communicates with externally appointed actuaries throughout the year and the year-end report is considered by management prior to inclusion in the financial statements.	Y	As noted above.	There are no changes to the method/models used in 2020/21



This page is intentionally left blank

# Informing the audit risk assessment for Worcestershire County Council Pension Fund 2020/21

Page 95

**Peter Barber**  
Director  
T 0117 305 7897  
E [peter.a.barber@uk.gt.com](mailto:peter.a.barber@uk.gt.com)

**Helen Lillington**  
Audit Manager  
T 0121 232 5312  
E [helen.m.Lillington@uk.gt.com](mailto:helen.m.Lillington@uk.gt.com)



The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

# Table of Contents

	<b>Section</b>	<b>Page</b>
	Purpose	4
	General Enquiries of Management	6
	Fraud	9
Page 97	Fraud Risk Assessment	10
	Laws and Regulations	15
	Impact of Laws and Regulations	16
	Related Parties	18
	Accounting Estimates	20
	Accounting Estimates - General Enquiries of Management	21
	Appendix A – Accounting Estimates	25

## Purpose

The purpose of this report is to contribute towards the effective two-way communication between the Fund's external auditors and the Fund's Audit and Governance Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit and Governance Committee under auditing standards.

## Background

Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the Audit and Governance Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Audit and Governance Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit and Governance Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit and Governance Committee and supports Audit and Governance Committee in fulfilling its responsibilities in relation to the financial reporting process.

## Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Fund's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Related Parties, and
- Accounting Estimates.

## Purpose

This report includes a series of questions on each of these areas and the response we have received from the Fund's management. The Audit and Governance Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

# General Enquiries of Management

Page 100

Question	Management response
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2020/21?	Issues and events that will have a significant impact on the 2020/21 financial statements will be: COVID-19 (the accounting treatment and disclosure of transactions in year and at the balance sheet date). Whilst we are still awaiting the formal remedy for the McCloud case an allowance has already been made in the pension valuation and is significantly in line with the final salary scheme underpin.
2. Have you considered the appropriateness of the accounting policies adopted by the Fund? Have there been any events or transactions that may cause you to change or adopt new accounting policies?	Accounting policies are reviewed and updated on an annual basis to ensure that any new policies are incorporated and that existing policies are correct. The proposed 2020/21 accounting policies have been subject to review by Management and there have been no changes required.
3. Is there any use of financial instruments, including derivatives?	The Pension Funds financial instruments comprise: Investments, derivatives, Cash Equivalents, Debtors, and financial liabilities. Financial instruments are accounted for as per the requirements of IFRS9. The Pension Fund uses derivatives to manage its exposure to specific risks relating to its passive market cap investments arising from its investment activities.
4. Are you aware of any significant transaction outside the normal course of business?	None in 2020/21.

## General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	None in 2020/21.
6. Are you aware of any guarantee contracts?	None in 2020/21.
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	None in 2020/21.
8. Other than in house solicitors, can you provide details of those solicitors utilised by the Fund during the year. Please indicate where they are working on open litigation or contingencies from prior years?	The Fund uses Gowling WLG to undertake work on new Pension Investment mandates and associated documents and if there are any changes proposed to the investment mandates where the fund would need support on its interpretation and impact.

## General Enquiries of Management

Question	Management response
9. Have any of the Funds service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	None noted in 2020/21.
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	No other advisors have been consulted in 2020/21.

# Fraud

## Issue

### Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit and Governance Committee and management. Management, with the oversight of the Audit and Governance Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit and Governance Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As the Fund's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit and Governance Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit and Governance Committee oversees the above processes. We are also required to make inquiries of both management and the Audit and Governance Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from the Fund's management.

# Fraud risk assessment

Page 104

Question	Management response
<p>1. Have the Fund assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Funds risk management processes link to financial reporting?</p>	<p>Yes. As with the Council, the Pension Fund has a robust financial control framework, supported by financial regulations, standing orders, scheme of delegation and an independent and objective Internal Audit function. Responsibility for ensuring that fraud and corruption risks are addressed sits with the Chief Finance Officer of the Council. The results of reports prepared by Internal Audit are regularly reviewed and the implementation of recommendations made to management, to address highlighted risks and weakness in controls, is monitored. The Pensions Finance Team comprises skilled, qualified, accounting professionals responsible for the preparation of regular account information which monitor the actual income and expenditure and Balance Sheet This monthly process includes the reconciliation of holding and suspense accounts, bank reconciliation, journal input etc. and reviews of variances and activity to highlight instances of fraud and error. The Funds investments cash and book value is also reconciled on a quarterly basis. IA participate in NFI activity. The Fund also updates the Pensions risk register which is reported to Committee on a quarterly basis.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>We have determined the classes of accounts, transactions and disclosures most at risk to fraud to be those which comprise low value, manual entries. High value and automated transactions, for example to pension investments and banking transfers, have additional controls in place.</p>

## Fraud risk assessment

Question	Management response
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within the Fund as a whole or within specific departments since 1 April 2020? As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>No material instances of fraud have been identified in 2020/21. Risk and fraud issues are communicated to those charged with governance via quarterly Internal Audit and risk management reports presented to the Audit &amp; Governance Committee. Routine monthly monitoring reports are undertaken, and the Pensions Administration monitoring is reported to Pensions Committee. The Pensions Risk Register, Administration and Investment update are reported quarterly to the Pensions Committee and policy documents relating to governance and risk are regularly maintained and reported to the Committee.</p>
<p>4. Have you identified any specific fraud risks? Do you have any concerns there are areas that are at risk of fraud? Are there particular locations within the Fund where fraud is more likely to occur?</p>	<p>We have not identified any specific fraud risks in 2020/21 where fraud is more likely to occur. We are aware of the risks common to Pension Funds (benefits and investments fraud) and these underpin our approach to fraud identification and detection. The Internal Audit Plan follows a risk-based approach to consider areas of potential fraud risk and whether the controls in place are designed and operating effectively to mitigate the identified risks. In addition, management is expected to identify and record fraud risks on the Pensions Risk Register.</p>
<p>5. What processes does the Fund have in place to identify and respond to risks of fraud?</p>	<p>The Fund is administered by the Council and as such complies with the Council and Fund's Anti-Fraud and Corruption Strategy, revised and relaunched in 2020/21, outlines our approach to identify and respond to risks of fraud and this is consistent with the Local Government Fraud Strategy: 'Fighting Fraud Locally'. The 3 key themes of our approach are Acknowledge, Prevent and Pursue. The approach sits alongside an established framework of policies, procedures and controls to provide the major elements of our fraud and corruption prevention governance arrangements which include: Council Constitution including Financial Regulations, Code of Conduct for Councillors and Employees, Registers of Interest, Procurement Rules and Guidance, Whistle Blowing Policy, HR Policies and Procedure 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 of managing performance including disciplinary matters, IT Security Policy. The Strategy identifies the key stakeholders in deterring and preventing fraud and corruption and details their specific responsibilities. The Council's (and Funds) core policies and procedures are currently under review to ensure they continue to support our financial regulations.</p>

# Fraud risk assessment

Question	Management response
<p>6. How do you assess the overall control environment the Fund, including:</p> <ul style="list-style-type: none"> <li>the existence of internal controls, including segregation of duties; and</li> <li>the process for reviewing the effectiveness the system of internal control?</li> </ul> <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?</p>	<p>The Pension Fund is covered under the Council's internal control framework, supported by the Risk Management Strategy and Anti-Fraud &amp; Corruption Strategy to provide a strong financial framework. The effectiveness of the control environment is considered throughout the year by the Corporate Risk Management Group (CRMG) which maintains and reviews the Council's risk register with Officers and Members on a regular basis. The Pension Fund Risk Register is also looked at monthly and reported to the Pension Committee quarterly. The risk based Internal Audit Plan tests the operating effectiveness of the control framework and reports to management and the Audit &amp; Governance Committee where weaknesses are identified. Policies and procedures which govern our business process are designed to provide separation of duties to reduce the risk of fraud and collusion and exception reporting, control account reconciliations and analytical review processes are used to identify fraudulent transactions and activity.</p> <p>The Council (including the Fund) supports and submits data for the National Fraud Initiative (NFI) and assesses all matches for review and, where appropriate, mitigation. 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. We do not consider there is potential for override of controls or inappropriate influence over financial reporting.</p>
<p>7. Are there any areas where there is potential for misreporting?</p>	<p>The internal financial reporting process is subject to regular review and challenge through the finance team reporting structure to reduce the potential for misreporting. A quality review of the Pension Fund Statement of Accounts is undertaken by the Chief Finance Officer as well as an independent review by Internal Audit to identify instances of misreporting.</p>

# Fraud risk assessment

Question	Management response
<p>8. How does the Fund communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud?</p> <p>Have any significant issues been reported?</p>	<p>The Pension Fund is administered by the Council which has a robust financial control framework, supported by the Council's financial regulations and policies and procedures which are designed to detect and prevent instances of fraud and error. Where a fraud risk is suspected, the Council has a Whistleblowing and Anti-Fraud &amp; Corruption policy, made available to employees and residents via the Council intranet and internet respectively which outlines the relevant procedure to follow. In addition, a dedicated fraud hotline (01905 843222) is available to report instances of suspected fraud and there is an opportunity to report fraud via the Registrars. The Council uses 'Yammer' (a social networking tool) to communicate and raise awareness of potential fraud and the forms it may take within the Council and there is an internal fraud e-learning module for all staff. No significant issues have been reported in 2020/21.</p>
<p>9. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>There are no posts which have been determined as high-risk from a fraud and corruption perspective.</p>
<p>10. Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>Related party transactions are identified and monitored through routine reporting procedures. No instances of fraud in respect of related party transactions have been identified in 2020/21. Risks associated with fraud due to related party transactions are mitigated through Member/Officer requirements to disclose all relevant relationships and transactions at Council and Committee meetings and via the Council's Registers of Gifts/Interests.</p>

## Fraud risk assessment

Question	Management response
<p>11. What arrangements are in place to report fraud issues and risks to the Audit and Governance Committee?</p> <p>How does the Audit and Governance Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>Fraud and risk issues are reported on a quarterly basis to Audit &amp; Governance Committee through the Internal Audit Progress Report and Corporate Risk Report. The Audit &amp; Governance Committee exercises oversight over management processes for identifying and responding to risks of fraud and breaches of internal control through challenge of internal audit reports, monitoring the implementation of recommendations and seeking additional assurances from operational management.</p> <p>The Pension Fund also maintains its own risk register which is reviewed monthly and reported to Pension Committee quarterly</p>
<p>12. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>We are not aware of any complaints in 2020/21.</p>
<p>13. Have any reports been made under the Bribery Act?</p>	<p>We are not aware of any reports made under the Bribery Act in 2020/21.</p>

# Law and regulations

## Issue

### Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit and Governance Committee, is responsible for ensuring that the Fund's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit and Governance Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

# Impact of laws and regulations

Page 110

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does the Fund have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Fund's regulatory environment that may have a significant impact on the Fund's financial statements?</p>	<p>The Council's Constitution identifies the Monitoring Officer as the individual responsible for reporting the actual or potential breach of a legal requirement to the Council meeting or Cabinet. The Monitoring Officer is supported by a team of Legal and Democratic Services Officers to communicate issues and matters of concern. The Monitoring Officer has sight of all reports presented to the Chief Officer Management Board and all reports presented to Members. All reports to Members are required to include a 'Legal Implications' and 'Risk' section to inform of relevant issues. The section 151 Officer is responsible for preparing the Council's and Pension Fund's annual Statement of Accounts in accordance with relevant legal and regulatory requirements.</p>
<p>2. How is the Audit and Governance Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>The Monitoring Officer (or representative) may attend Audit &amp; Governance Committee meetings to advise and inform Committee members on legal issues as they arise.</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2020 with an on-going impact on the 2020/21 financial statements?</p>	<p>None in 2020/21.</p>
<p>4. Is there any actual or potential litigation or claims that would affect the financial statements?</p>	<p>None in 2020/21.</p>

## Impact of laws and regulations

Question	Management response
5. What arrangements does the Fund have in place to identify, evaluate and account for litigation or claims?	The Council has an internal Insurance Team, under the line management of the s151 Officer, which advises and monitors any instances of litigation and claims. This is in addition to the services undertaken by the Legal and Democratic Services Team. All issues are brought to the attention of the Monitoring Officer and/or s151 Officer as the arise.
6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	None in 2020/21.

# Related Parties

## Issue

### Matters in relation to Related Parties

The Authority are required to disclose transactions with entities/individuals that would be classed as related parties. These may include:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the Authority;
- associates;
- joint ventures;
- an entity that has an interest in the authority that gives it significant influence over the Authority;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Authority or of any entity that is a related party of the Authority.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the [type of body]'s perspective but material from a related party viewpoint then the Authority must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

## Related Parties

Question	Management response
<p>1. Have there been any changes in the related parties disclosed in the Fund's 2019/20 financial statements? If so please summarise:</p> <ul style="list-style-type: none"> <li>the nature of the relationship between these related parties and the Fund whether the Fund has entered into or plans to enter into any transactions with these related parties</li> <li>the type and purpose of these transactions</li> </ul>	<p>There have been no changes in 2020/21</p>
<p>2. What controls does the Fund have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>Related party transactions are identified as part of an ongoing process throughout the year by Finance and Legal Services staff. Potential related parties are identified through a regular review of Committee papers, verification from Management, review of registers maintained by WCC (will have Pension Fund reps as well) (Councillors' declaration of interests, Members/Officers registers of gifts/interests) and transactions recorded in our financial accounting system. As part of the final accounts process, a particular challenge exercise is carried out to identify related parties and relevant transactions; the results of this exercise are disclosed in the Statement of Accounts.</p>
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>Transactions with related parties are subject to the controls as determined by the Council's financial control framework (which the Fund is part of), supported by financial regulations, standing orders and scheme of delegation.</p>
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	<p>No significant transactions outside the normal course of business have taken place in 2020/21.</p>

# Accounting estimates

## Issue

### Matters in relation to Related Accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit and Governance Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

We would ask the Audit and Governance Committee to satisfy itself that the arrangements for accounting estimates are adequate.

# Accounting Estimates - General Enquiries of Management

Question	Management response
<p>1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?</p>	<p>The following transactions/events/conditions are significant in the financial statements and give rise to the need for accounting estimates and related disclosures:</p> <ul style="list-style-type: none"> <li>• Valuation of pension fund liability disclosures</li> <li>• Valuation of L3 investments</li> <li>• Valuation of L2 investments</li> <li>• Measurement of financial instruments</li> </ul>
<p>2. How does the Fund's risk management process identify and addresses risks relating to accounting estimates?</p>	<p>The Pension Fund maintain a risk register which is reviewed regularly. The risk register does not contain any risks in relation to accounting estimates. Management consider this to be appropriate as the risk is mitigated as the Pensions finance team led by the section 151 officer have a thorough understanding of the requirements of the Code. In addition, there are no significant changes to the Code that impact on accounting estimates. As management, we do not consider the accounting estimates made to be new, unusual or specialised in nature. In addition, management consider that the skills and experience of the Pensions Finance team are sufficient to provide accounting estimates for accruals. For the valuation of Pension Fund liability disclosures, level 2 and 3 investments and measurement of financial instruments an actuary and custodian respectively is employed to provide the necessary skills and experience for these estimates.</p>
<p>3. How do management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?</p>	<p>For our material accounting estimates (Pension Fund liability disclosures, Financial Instruments and Valuation of Level 2 and 3 investments), source data and assumptions are provided by management experts and advisors and this information is supported by the in-year knowledge of the Pension Finance team and specialist staff in the Pensions Administrative Team.</p>

## Accounting Estimates - General Enquiries of Management

Question	Management response
4. How do management review the outcomes of previous accounting estimates?	The material accounting estimates noted above are determined as at the balance sheet date and any subsequent changes in the valuation methods or assumptions would not result in a change in the values disclosed in the statutory accounts. For Level 3 investments are reviewed using the latest available valuations adjusted for any capital and investment activity which is completed by our custodian. For the Pension Fund liability employer quarterly cashflow and expenditure data is provided to the actuary based requirements discussed with the actuary as part of the year end review who then provide detailed assumptions and relevant considerations which are taken on board as part of year end procedures. For non-material estimates, (e.g. accruals), the outcome of the estimation methods are reviewed and adjusted once actual values are available and this information is considered to ensure that future estimates are based upon the most relevant source data and assumptions.
5. Were any changes made to the estimation processes in 2020/21 and, if so, what was the reason for these?	No changes have been made in 2020/21.
6. How do management identify the need for and apply specialised skills or knowledge related to accounting estimates?	We have identified the need for external experts in respect of the accounting estimates which require specialist skills/knowledge: valuation of level 3 investments (Custodian in liaison with the investment Fund managers, valuation of the Pension Fund Liability (Actuaries) and measurement of Financial Instruments ( Investment Fund Managers).

# Accounting Estimates - General Enquiries of Management

Question	Management response
<p>7. How does the Fund determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?</p>	<p>The skills and experience of experts are considered on appointment as part of routine procurement procedures and the Council's requirements are communicated to and agreed with experts via an annual work instruction or terms of engagement. Information provided by experts which informs our estimates is subject to management review and challenge.</p> <p>Control checks are performed as part of year end closedown procedures to review transactions which are informed by estimates: manual entries to process changes in values of Level 2 and 3 investments, Fin Instruments and PF Liability are subject to management review, accruals are subject to quality assurance and control checks as determined by their value and degree of estimation uncertainty</p>
<p>8. How do management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?</p>	<p>Control activities in respect of information provided by management experts are considered as part of our work instruction/terms of engagement and are monitored at key points in the year through regular meetings and communication with appointed service providers/management experts. In particular regular quarterly meetings are held with our level 3 investment managers to understand the performance, valuations etc.</p> <p>For other control activities, these are subject to review and challenge as part of our closedown activity and these checks are built into our detailed final accounts closedown timetable.</p>
<p>9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including:</p> <ul style="list-style-type: none"> <li>- Management's process for making significant accounting estimates</li> <li>- The methods and models used</li> <li>- The resultant accounting estimates included in the financial statements.</li> </ul>	<p>Accounting estimates and the basis for their calculation and consideration of exposure of the estimate to risk are assessed by management and this assessment is presented to Audit &amp; Governance Committee for consideration and challenge.</p>

## Accounting Estimates - General Enquiries of Management

Question	Management response
10. Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)?	No
11. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	Yes
12. How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ?	The assumptions which underpin the figures reported in the Statement of Accounts are reviewed in advance of preparation and estimates and assumptions are disclosed in the Notes to the accounts for transparency. Accounting estimates and the basis for their calculation and consideration of exposure of the estimate to risk are assessed by management and this assessment is presented to Audit & Governance Committee for consideration and challenge.

## Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Pension Fund Liability disclosures	The valuation of assets and liabilities in respect of defined benefit obligations are calculated by the independent firm of actuaries. Liabilities are 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 and salary levels. The LGPS has been assessed by Mercer Ltd and estimated for the Fund is based on the latest full valuation of the scheme as at 31 March 2019.	The Council's Pension & Investments Manager communicates with externally appointed actuaries throughout the year and the year-end report is considered by management prior to inclusion in the financial statements.	Y	The principal assumptions used by the actuary are in respect of mortality (longevity at 65 for current and future pensioners) and financial assumptions: rate of CPI inflation, rate of increase in salaries, rate of increase in pensions and rate for discounting scheme liabilities. We consider the sensitivity of the estimate based on reasonably possible changes in the assumptions occurring at the end of the reporting period.	There are no changes to the method/models used in 2020/21

## Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Valuation of Level 3 investments	The Funds directly held investment properties are valued at fair value by independent valuers in accordance with RICS valuation professional standards, whilst infrastructure investments are valued at fair value by independent experts. From 2019-20 there has been additional uncertainty regarding the property valuations due to the time that it will take to fully realise the impact of COVID-19 upon illiquid assets such as property. The valuations have been updated based on the information available as at 31 March 2021 and may be subject to variations as further market information becomes available	The Council's Pension & Investments Manager communicates with the Fund Managers concerned during the year. The Fund employs the services of an independent advisor (Portfolio evaluation Limited) who assess the likely extent of variability in the values of the underlying assets. Also, the Fund may engage its Actuary to quantify any changes in value, if considered appropriate.	Y	The total value of such Investments in the 2019/20 accounts was £486.9m. The range of possible values was £440.8m to £532.8m  Alternative estimates from the Actuary may be used, if considered appropriate.	There are no changes to the method/models used in 2020/21

## Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Valuation of Level 2 Investments	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.	As above	Y	The total value of such Investments in the 2019/20 accounts was £1,147.4m. The Fund assesses different risk sensitivities around these valuations based on market risk, equity risk, currency etc but are normally based on the closing bid price where bid and offer prices are published or the single price as applicable	There are no changes to the method/models used in 2020/21

## Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Measurement of Financial Instruments	The Fund values its financial instruments at fair value, as informed by the advice of external Management advisors and Investment Fund Managers.	Fair values are estimated by calculating the present value of cash flows that take place over the remaining term of the instruments, as provided by management experts.	Y	Management consider the exposure of each of its categories of financial instruments to credit, liquidity and market risks and, as per previous financial year, we will consider any additional credit risks arising as a result of the COVID-19 pandemic. Risks to accounting estimates used in our measurement of financial instruments are managed through our Pensions Investment Strategy Statement and the Funds overall risk management procedures which focus on the unpredictability of financial markets to minimise potential adverse effects on the resources available to fund sources.	There are no changes to the method/models used in 2020/21



This page is intentionally left blank

## **AUDIT AND GOVERNANCE COMMITTEE**

### **29 JULY 2021**

## **DRAFT ANNUAL GOVERNANCE STATEMENT 2020/21**

---

### **Recommendation**

- 1. The Chief Financial Officer recommends that the draft Annual Governance Statement 2020/21 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 2020/21. 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 Audit and Governance Committee at its meeting on 24 September 2021.

3. The AGS is primarily retrospective. It reports on the assurance framework and measures in place for the financial year 2020/21 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 2019/20 AGS and remain governance issues following review in 2020/21 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.
- Serious harm or death of a vulnerable adult – the Council will continue to monitor and manage through the Safeguarding Adults Board, supported by teams where staff are trained and benchmarked against the safeguarding competency framework.

8. The following issues have been identified as part of the 2020/21 review process:

- Safeguarding vulnerable children and adults – safeguarding risk because of the serious harm or death of a child or adult or failure to safeguard children or adults.
- Ensuring the Council's financial sustainability; setting a realistic and achievable medium-term budget and monitoring the ongoing impact of COVID-19 on budgeted income and expenditure.

- The Council's response to and recovery from the impact of COVID-19 on residents and the local economy.

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

10. 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**

### Specific Contact Points for this report

Michael Hudson, Chief Financial Officer

Tel: 01905 845560

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

Mark Sanders, Chief Accountant

Tel 01905 846519

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

## **Supporting Information**

- Appendix: Draft Annual Governance Statement 2020/21

## **Background Papers**

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

This page is intentionally left blank

Draft Annual  
Governance  
Statement 2020/21

## Introduction

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

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

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

## The governance framework

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

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

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



Set out below are the activities carried out by the County Council which contribute to our delivery of the seven principles in the CIPFA/SoLACE Framework during 2020/21.

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

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

These include:

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

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

The Chief Executive, Chief Officer Group and Strategic Leadership Team value and are committed to acting on staff feedback. The

County Council has an annual staff survey, frequent pulse surveys and staff briefings. Staff are involved in issue resolution arrangements.

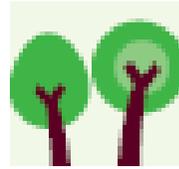
In 2020/21, the 2020 Worcestershire County Council Viewpoint Survey enabled Councillors and Officers to engage with members of the local community to receive feedback and monitor public perception in relation to local priorities, satisfaction with Council services and level of engagement.

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

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

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

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



**The Environment** - Worcestershire's environment is one of our key features and contributes to enhancing the quality of life for residents and visitors. We are committed to improving our infrastructure networks, including transport and digital technology to support business and encourage investment. We also have a key focus on minimising waste which goes to landfill.



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

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

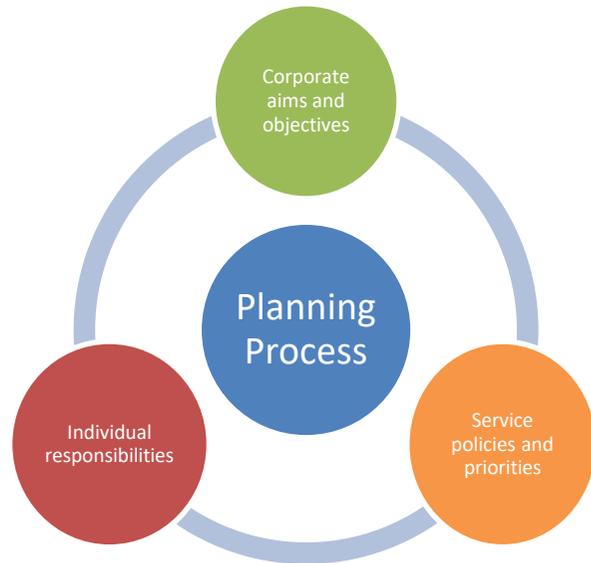
**Open for Business** – we have a significant programme of improvements in workforce skills, employment, infrastructure and productivity. We are aiming to become a financially self-sufficient Council and to achieve this aim we are promoting and supporting businesses in the County and those looking to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



**Children and Families** – we have a strong focus on improving outcomes for the children, young people and families of Worcestershire. We support schools with achieving a good or outstanding rating by Ofsted and facilitating young people achieving five or more good GCSE's, and support young people moving successfully into employment. These services are delivered in conjunction with our wholly owned company, Worcestershire Children First.



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



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

Each key area of focus identifies several aims and targets and responsibility for achieving these lies with individual directorates, and relevant aims and targets are included in individual service delivery plans. Risks and issues are managed by the Risk and Assurance Manager, supported by the Corporate Risk Management Group. The process has been at a high level during 2020/21 as the focus was on the COVID-19 emergency response process with non-COVID-19 risks managed at service level. The Risk and Assurance Manager has retained close contact with the Corporate Risk Management Group during this time and reporting has continued to the Audit and Governance Committee and Covid Silver Command.

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

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

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

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

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

Our annual performance review scheme forms a central part of our planning process. Discussions and review sessions take place between every member of staff and their line manager to agree and track personal objectives and actions, with formal mid-year reviews as a key part of the process. 98% of staff received mid-year reviews during 2020/21.

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

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

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

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

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

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

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

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

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

## Assessment of effectiveness of governance arrangements

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

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

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

## Audit and Audit Assurances

---

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

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

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

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

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

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

## Significant Governance Considerations

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

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

### Issues identified for 2021/22

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

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

### Certification

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

**Paul Robinson**

**Chief Executive**

**Date: XXXX**

**Simon Geraghty**

**Leader of the County Council**

**Date: XXXX**



**AUDIT AND GOVERNANCE COMMITTEE**  
**29 JULY 2021****DRAFT ANNUAL STATUTORY FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2021**

---

**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 2021, 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 2020/21 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 an update of the 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, and their audit plans and progress for the County Council and Pension Fund accounts is included as a separate Agenda Item at today's meeting and should be read in conjunction with this report.

**Key issues arising**

4. In response to COVID-19, the requirement to prepare draft accounts by 31 May has been extended to 31 July and the requirement for the public inspection period has been amended to commence on or before the first working day of August 2021. The Accounts and Audit (Amendment) Regulations 2021 extend the statutory audit deadlines for 2020-21 and 2021-22 for all local authorities.
5. Notwithstanding this, the Council has completed the 2020/21 draft accounts according to its planned timetable and has continued to enhance its supporting evidence and working papers, particularly in areas where professional judgement has been applied.
6. The Council has worked with Grant Thornton throughout and it is planned that audit fieldwork will be completed remotely by the External Audit team with minimal on site presence. Audit field work commenced on 28 June 2021 and supporting working papers and audit evidence were provided to the team on this date.

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 24 September 2021.

**Table 1: Accounts Process**

Area	Council Plan	Statutory Deadline
Publication of Draft Accounts	30 July 2021	31 July 2021
Public Inspection Period	1 August 2020 to 13 September 2021	Commence on or before 1 August 2021
Publication of Audited Accounts	24 September 2021	30 September 2021

8. The Council provided draft accounts to Grant Thornton on 21 June 2021. These draft accounts and the draft Annual Governance Statement were also reported to Cabinet at its meeting on 24 June 2021.

9. The financial position reported in the Council's Statutory Accounts for 2020/21 was an underspend of £0.8 million against the net budget of £346.3 million, with an accounting surplus taking into account pension actuarial costs, capital costs and other financial adjustments, of £28.9 million. The County Council's General Fund reserve balance has increased by £0.8 million to £13.0 million and there has been an increase of £25.3 million on available earmarked reserves taking their balance at 31 March 2021 to £96.9 million. Additionally, School reserves of £4.0 million and £13.8 million of Private Finance Initiative (PFI) reserves are retained.

**Table 2: Reserves**

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

10. The cumulative DSG deficit brought forward from last financial year was £6.2 million which will now be increased by £0.3 million deficit from 2020/21 and the deficit to carry forward into 2021/22 is now £6.5 million. In line with the School and Early years Finance (England) Regulations 2020, the DSG earmarked reserve was reclassified as an unusable reserve from 1 April 2020 and therefore now excluded from the above table.

11. The financial impact of the COVID-19 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. This is a matter of professional judgement and guidance from RICS, in respect of property valuations, and the Pension Fund Actuary has been considered. Nevertheless, there has not been a material impact on any asset category nor evidence since the valuation date that needs to be taken into account.

12. We appointed external valuers Wilks Head & Eve to perform the Land & Building asset valuations in 2020/21 in line with our rolling programme. Valuations were completed as per the planned timetable and revaluations have been processed to update carrying values at 31 March 2021 and are reflected in the 2020/21 draft accounts.

13. The value of the Pension Fund's net assets increased by £719.4 million from £2,645.4 million at 31 March 2020 to £3,364.8 million at 31 March 2021. During the year a surplus resulted on the Pension Fund accounts totalling £116.6 million, an increase of £107.4 million from a surplus of £9.2 million in the previous year.

14. The external audit fieldwork and Value for Money assessment will continue over August and September and members will be updated on audit findings at the 24 September 2021 committee meeting.

## Contact Points

### Specific Contact Points for this report

Michael Hudson, Chief Financial Officer

Tel: 01905 845560

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

Mark Sanders, Chief Accountant

Tel 01905 846519

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

## Supporting Information

- Appendix: Draft Annual Financial Report and Statement of Accounts 2020/21

## Background Papers

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

This page is intentionally left blank

**2020 /**

**2021**



**Annual Financial Report  
and Statement of  
Accounts**

**Worcestershire County Council**

## **Contents**

---

**Leader's Introduction**

**Chief Executive's Introduction**

**Chief Financial Officer's Narrative Report**

**Annual Governance Statement**

**Statement of Accounts**

**Introduction to the Statutory Accounts**

**Comprehensive Income and Expenditure Statement**

**Movement in Reserves Statement**

**Balance Sheet**

**Cash Flow Statement**

**Notes to the Financial Statements**

**Independent Auditor's Report**

**Group Accounts and Supporting Notes**

**Glossary of Terms**

# **Worcestershire County Council Annual Financial Report**

## Leader's Introduction

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

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

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

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



Get all the latest updates at: [www.worcestershire.gov.uk/here2help](http://www.worcestershire.gov.uk/here2help) **HERE 2 HELP WORCESTERSHIRE**

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



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

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

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

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

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

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



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

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

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



## Chief Executive's Introduction

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



Dr Kathryn Cobain,  
Director of Public Health

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

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

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

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



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

excellent delivery of services whilst managing dealing with the pandemic.

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

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

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

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



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



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

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

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



## Chief Financial Officer's Narrative Report

Worcestershire is a county with a proud heritage. Home to over half a million people; with a mix of urban and rural communities and a thriving economy.

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

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

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

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

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

## COVID-19 Pandemic

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

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

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

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

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

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

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

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

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

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

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

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

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



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

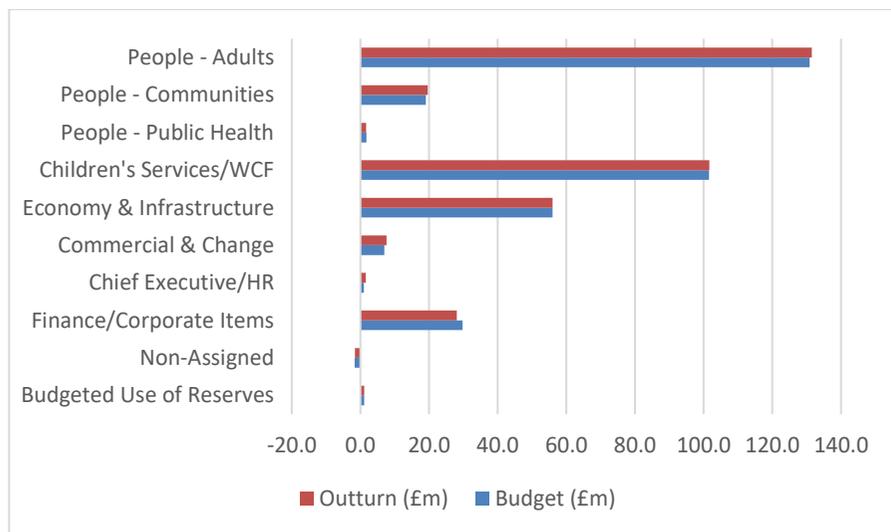
Chief Financial Officer

# Finance and Performance Review

## 2020/21 Financial performance

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

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



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

## People Services - Adults

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

## People Services – Communities

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

## Children's Services

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

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

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

## **Economy and Infrastructure**

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

## **Commercial and Change**

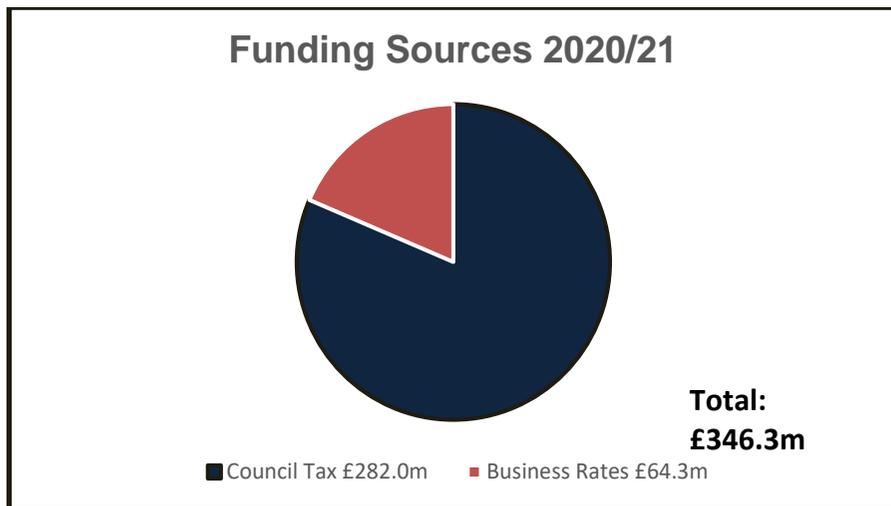
The directorate has delivered an underspend of £0.6 million (9% of its budget) as a result of reduced contract expenditure and underspend on additional works for administrative buildings.

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

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

## Funding sources

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



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

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

## Impact on the Council's Assets and Liabilities

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

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

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

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

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

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

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

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

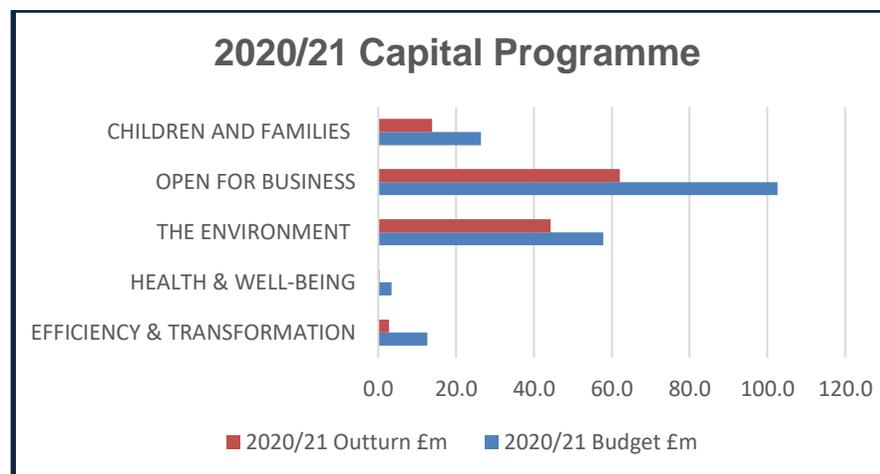
### Financial risks and our reserves

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

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

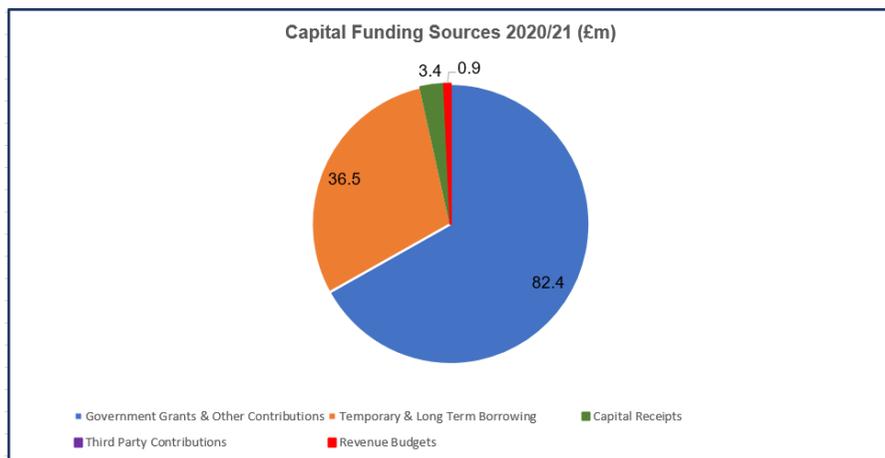
### Capital Programme

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



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

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



### Impact on Treasury Management and cash flow

Our short-term borrowing has increased by £30.8 million and our long-term borrowing has increased by £21.7 million. This reflects our strategy of reprofiling our borrowing and is in line with our Treasury Management Strategy. All of our Treasury Management activities are reported separately and regularly to Cabinet and Council. All transactions have been completed in accordance with our Treasury Management Strategy for the year.

## Delivering the Corporate Plan

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

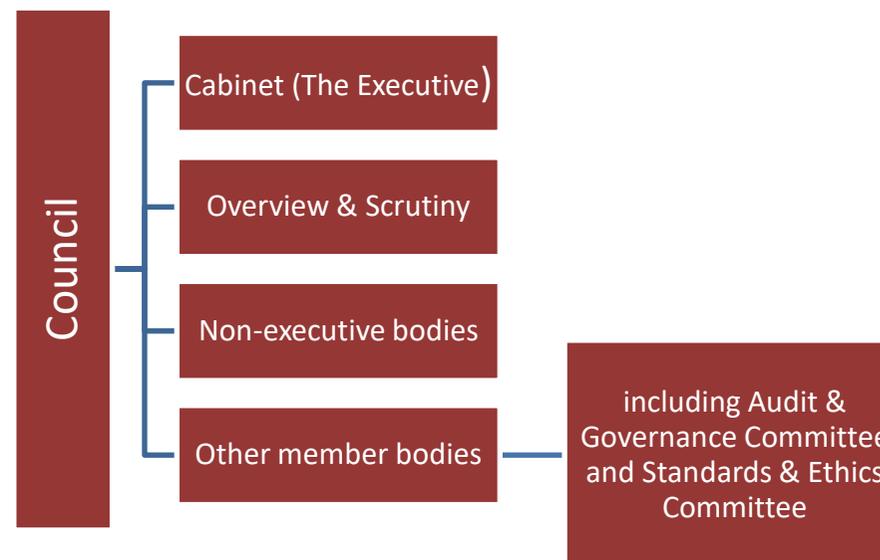
- Safeguarding vulnerable young people, particularly those in or leaving care to ensure they are safe and can make the most of the opportunities they have
- Protecting vulnerable older people, particularly those with physical, learning and mental health difficulties
- Maintenance of the highways.

### Political structure

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

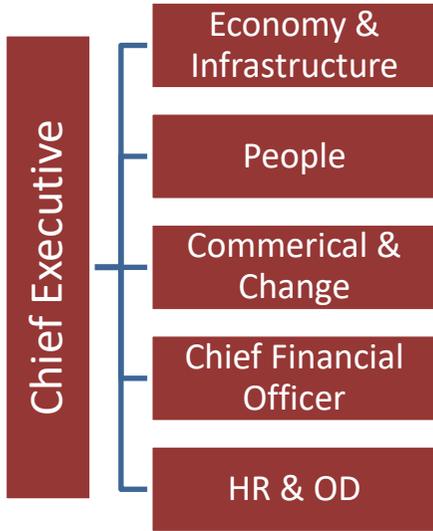
Full Council meetings are held regularly throughout the year. Council is responsible for agreeing the main policies and priorities for all services, including the County Council's budget. Cabinet is responsible for most day to day Council decisions. The Leader of the Council, Simon Geraghty, appoints councillors to the Cabinet and these Cabinet members have specific areas of responsibility. There are currently nine members of Cabinet. Cabinet makes its

decisions in line with overall policies, priorities and budget. All of its decisions are made in accordance with governance arrangements and details of Cabinet meetings are available 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 2021/22 budget was approved at Council on 18 February 2021 with the detailed proposals presented to Cabinet on 4 February 2021.

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

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

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

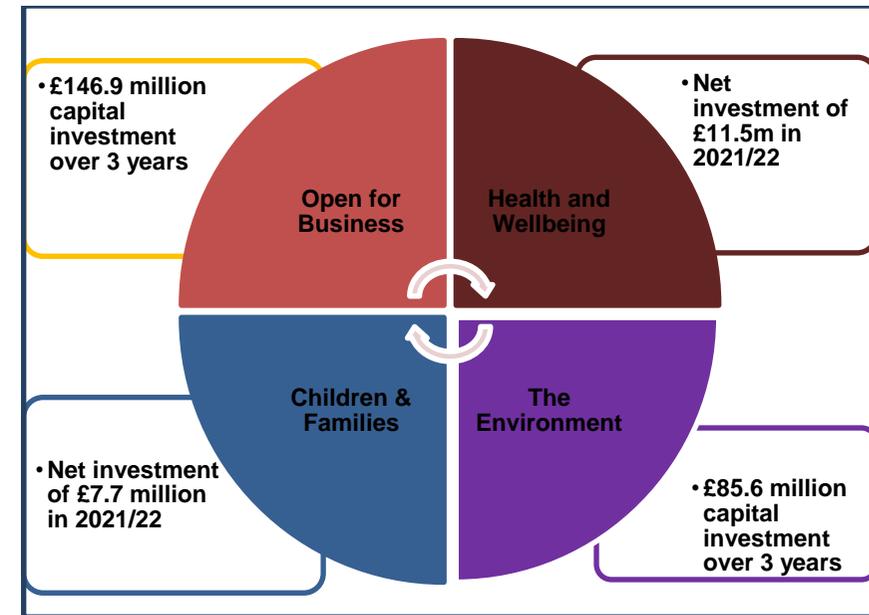
The paragraphs below sets out details of the current budget for 2021/22.

### Expenditure

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

The Medium Term Financial Plan confirms the commitment to continue to resource the Council's Corporate Plan priorities. It

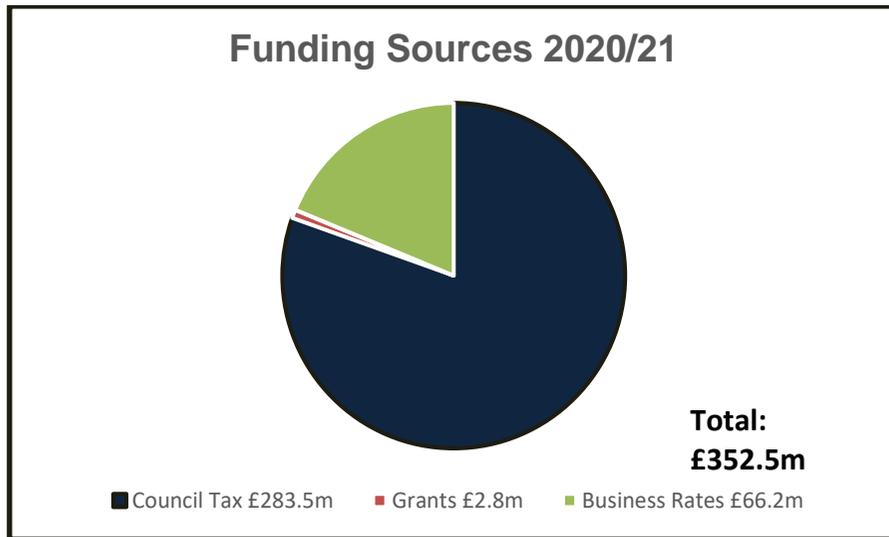
includes a capital programme of £391.6 million to deliver regeneration, infrastructure and other changes during 2021-23.



We are supporting this with a commitment to invest £23.2 million to ensure that the County Council is operating efficiently, prepared for the future including more digitally enabled operations, and closer working with our key partners.

## Funding

The main sources of the County Council's income are collected locally, with local taxation through Council Tax and the Adult Social Care Precept accounting for 80% of core funding income in 2021/22.



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

## Medium Term Financial Plan 2021-24

The Medium-Term Financial Plan takes account of the Corporate Plan commitment, the cost of providing our services and current central government funding announcements. Our current assumptions will need to be updated in light of Covid-19 and likely levels of Central Government funding and local taxation income.

## Worcestershire Children First

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

The County Council has accounted for the activity of Worcestershire Children First through group accounts and these can be found at pages 126 to 135 in the 2020/21 Statement of Accounts.

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

Following a referendum in June 2016, the UK government invoked Article 50 of the Treaty of the European Union, starting the process for the exit from the European Union. The UK left the European Union on 31 January 2020 and new rules in respect of trade, travel and business for the UK and EU took effect from 1 January 2021. There has been minimal impact on the County Council's accounts for 2020/21. We will continue to review the potential impact with our key partners, including our financial advisors, fixed asset valuers and the Pension Fund to actively manage any risks arising in the transition period and beyond.

## COVID-19

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

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

## Statement of Responsibilities

---

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

### The Council is required to:

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

### Responsibilities of the Chief Financial Officer

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

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

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent; and
- Complied with the Code of Practice on Local Authority Accounting

The Chief Financial Officer has also:

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

### Approval of Accounts

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

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

**Michael Hudson, Chief  
Financial Officer**

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

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

# **Worcestershire County Council Annual Governance Statement 2020/21**

## Introduction

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

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

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

## The governance framework

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

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

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



Set out below are the activities carried out by the County Council which contribute to our delivery of the seven principles in the CIPFA/SoLACE Framework during 2020/21.

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

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

These include:

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

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

The Chief Executive, Chief Officer Group and Strategic Leadership Team value and are committed to acting on staff feedback. The

County Council has an annual staff survey, frequent pulse surveys and staff briefings. Staff are involved in issue resolution arrangements.

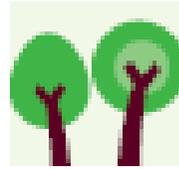
In 2020/21, the 2020 Worcestershire County Council Viewpoint Survey enabled Councillors and Officers to engage with members of the local community to receive feedback and monitor public perception in relation to local priorities, satisfaction with Council services and level of engagement.

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

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

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

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



**The Environment** - Worcestershire's environment is one of our key features and contributes to enhancing the quality of life for residents and visitors. We are committed to improving our infrastructure networks, including transport and digital technology to support business and encourage investment. We also have a key focus on minimising waste which goes to landfill.



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

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

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



**Children and Families** – we have a strong focus on improving outcomes for the children, young people and families of Worcestershire. We support schools with achieving a good or outstanding rating by Ofsted and facilitating young people achieving five or more good GCSE's, and support young people moving successfully into employment. These services are delivered in conjunction with our wholly owned company, Worcestershire Children First.



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



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

Each key area of focus identifies several aims and targets and responsibility for achieving these lies with individual directorates, and relevant aims and targets are included in individual service delivery plans. Risks and issues are managed by the Risk and Assurance Manager, supported by the Corporate Risk Management Group. The process has been at a high level during 2020/21 as the focus was on the Covid-19 emergency response process with non-Covid-19 risks managed at service level. The Risk and Assurance Manager has retained close contact with the Corporate Risk Management Group during this time and reporting has continued to the Audit and Governance Committee and Covid-19 Silver Command.

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

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

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

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

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

Our annual performance review scheme forms a central part of our planning process. Discussions and review sessions take place between every member of staff and their line manager to agree and track personal objectives and actions, with formal mid-year reviews as a key part of the process. 98% of staff received mid-year reviews during 2020/21.

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

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

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

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

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

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

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

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

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

## Assessment of effectiveness of governance arrangements

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

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

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

## Audit and Audit Assurances

---

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

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

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

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

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

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

## Significant Governance Considerations

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

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

### Issues identified for 2021/22

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

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

## Certification

---

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

**Paul Robinson**

**Chief Executive**

**Date: XXXX**

**Simon Geraghty**

**Leader of the County Council**

**Date: XXXX**

## Introduction to the Statutory Accounts

The Statutory Accounts presents Worcestershire County Council's (the County Council) financial position in line with statutory reporting requirements. The accounts are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (the Code) and the Accounts and Audit Regulations 2015 (as amended). The main objective of the Code is to give a true and fair view of the financial position of the County Council, including information about financial position, performance, the results of stewardship of management and any risks and uncertainties.

### Comprehensive Income and Expenditure Statement

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

### Movement in Reserves Statement

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

undertaken.

### Balance Sheet

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

### Cash Flow Statement

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

### Notes to the Accounts

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

## Group Accounts

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

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

## Comprehensive Income and Expenditure Statement

2019/20	2019/20	2019/20		2020/21	2020/21	2020/21	
Expenditure	Income	Net		Expenditure	Income	Net	Note
£m	£m	£m		£m	£m	£m	
<b>Service Expenditure Analysis</b>							2,3,4,5,6,1
296.3	(145.3)	151.0	People	321.2	(187.7)	133.5	7
345.6	(236.7)	108.9	Children's Services	390.1	(274.1)	116.0	6,3,7
92.0	(26.5)	65.5	Economy & Infrastructure	100.9	(29.0)	71.9	
32.9	(1.1)	31.8	Commercial & Change	39.0	(9.8)	29.2	
28.5	(4.5)	24.0	Finance, HR & Chief Executive	55.9	(10.2)	45.7	
<b>795.3</b>	<b>(414.1)</b>	<b>381.2</b>	<b>Net Cost of Services</b>	<b>907.1</b>	<b>(510.8)</b>	<b>396.3</b>	
<b>10.5</b>	(4.5)	6.0	Other operating expenditure	3.9	(1.4)	2.5	8
<b>77.9</b>	(30.0)	47.9	Financing, investment income & expenditure	69.6	(30.3)	39.3	9
<b>0.2</b>	(419.2)	(419.0)	Taxation & non-specific grant income and expenditure	0.3	(467.3)	(467.0)	6,2,10
<b>883.9</b>	<b>(867.8)</b>	<b>16.1</b>	<b>(Surplus) / deficit on the provision of services</b>	<b>980.9</b>	<b>(1,009.8)</b>	<b>(28.9)</b>	
<b>Other comprehensive income and expenditure:</b>							
		(26.2)	(Surplus) on revaluation of property, plant & equipment			(23.0)	14.3
		20.6	Downward revaluations on non-current assets charged to Revaluation Reserve			22.3	14.3
		(35.9)	Actuarial (gains) / losses on pension assets & liabilities			1.7	25.2.2
		<b>(41.5)</b>	<b>Total other comprehensive income and expenditure</b>			<b>1.0</b>	
		<b>(25.4)</b>	<b>Total comprehensive income and expenditure (surplus) / deficit</b>			<b>(27.9)</b>	

## Movement in Reserves Statement 2020/21

	General Fund (Non-Earmarked) Balance	General Fund (Earmarked) Reserves	General Fund Total	Capital Receipts Reserve	Capital Grants Unapplied Account	Total Usable Reserves	Unusable Reserves	Total Reserves
	£m	£m	£m	£m	£m	£m	£m	£m
<b>Balance at 31 March 2020</b>	<b>12.2</b>	<b>76.3</b>	<b>88.5</b>	<b>0.0</b>	<b>55.9</b>	<b>144.4</b>	<b>(50.7)</b>	<b>93.7</b>
Reporting change to Schools Budget Deficit at 1 April 2020	0.0	6.2	6.2	0.0	0.0	6.2	(6.2)	0.0
<b>Restated balance at 31 March 2020</b>	<b>12.2</b>	<b>82.5</b>	<b>94.7</b>	<b>0.0</b>	<b>55.9</b>	<b>150.6</b>	<b>(56.9)</b>	<b>93.7</b>
Movement in reserves during 2020/21:								
Total Comprehensive Income and Expenditure	28.9	0.0	28.9	0.0	0.0	28.9	(1.0)	27.9
Adjustments between accounting basis & funding basis under regulations (Note 12)	(28.1)	32.2	4.1	2.7	15.3	22.1	(22.1)	0.0
Increase / (decrease) in 2020/21	0.8	32.2	33.0	2.7	15.3	51.0	(23.1)	27.9
<b>Balance at 31 March 2021 carried forward</b>	<b>13.0</b>	<b>114.7</b>	<b>127.7</b>	<b>2.7</b>	<b>71.2</b>	<b>201.6</b>	<b>(80.0)</b>	<b>121.6</b>
Note Reference		12.1				12	13	

## Movement in Reserves Statement 2019/20 Comparison

	General Fund (Non-Earmarked) Balance	General Fund (Earmarked) Reserves	General Fund Total	Capital Receipts Reserve	Capital Grants Unapplied Account	Total Usable Reserves	Unusable Reserves	Total Reserves
	£m	£m	£m	£m	£m	£m	£m	£m
<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)	0.0	(16.1)	0.0	0.0	(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)	0.0
Increase / (decrease) in 2019/20	0.0	(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>0.0</b>	<b>55.9</b>	<b>144.4</b>	<b>(50.7)</b>	<b>93.7</b>
Note Reference		12.1				12	13	

## Balance Sheet

31 March 2020		31 March 2021	
£m		£m	Note
1,070.7	Property, plant and equipment	1,088.7	14,15
1.7	Heritage assets	1.7	
0.0	Investment property	11.9	
5.4	Intangible assets	4.0	
3.0	Long-term investments	3.0	16,17
115.9	Long-term debtors	108.6	18
<b>1,196.7</b>	<b>Long term assets</b>	<b>1,217.9</b>	
7.6	Non-Operational Assets	5.7	15.8
5.0	Short-term investments	35.2	32
1.2	Inventories	1.4	
93.9	Short-term debtors	103.8	18
71.6	Cash and cash equivalents	67.3	19
<b>179.3</b>	<b>Current assets</b>	<b>213.4</b>	
(39.4)	Short-term borrowing	(71.3)	16
(115.1)	Short-term creditors	(145.2)	20
<b>(154.5)</b>	<b>Current liabilities</b>	<b>(216.5)</b>	

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

## Cash Flow Statement

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

## Notes to the Financial Statements

---

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

- |  |  |
|--|--|
| 1 General accounting policies  | 19 Cash & cash equivalents                     |
| 2 Expenditure & funding analysis   | 20 Creditors                                   |
| 3 Adjustments between funding & accounting basis                         | 21 Other long-term liabilities                 |
| 4 Segmental reporting  | 22 Grants receipts in advance                  |
| 5 Expenditure & income analysed by nature                                | 23 Cash activities                             |
| 6 Grants & contribution income   | 24 Officers remuneration                       |
| 7 Section 75 framework partnership agreements                            | 25 Pension schemes                             |
| 8 Other operating expenditure  | 26 Termination benefits & exit packages        |
| 9 Financing & investment income & expenditure                            | 27 Related parties                             |
| 10 Taxation & non-specific grants  | 28 Leases                                      |
| 11 Adjustments between accounting basis & funding basis under regulation | 29 External audit costs                        |
| 12 Usable reserves   | 30 Events after the reporting period           |
| 13 Unusable reserves   | 31 Accounting Standards issued not yet adopted |
| 14 Property, plant & equipment   | 32 Short term investments                      |
| 15 Private finance initiatives   |  |
| 16 Financial instruments   |  |
| 17 Long term investments   |  |
| 18 Debtors   |  |

## 1. General accounting policies

The Statement of Accounts summarises the County Council's transactions for the 2020/21 financial year and its position at the year-end of 31 March 2021. The County Council is required by the Accounts and Audit Regulations 2015 (as amended) to prepare an annual Statement of Accounts in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and International Financial Reporting Standards (IFRS). The Accounts have been prepared on a going concern basis, under the assumption that the Council will continue in existence for the foreseeable future.

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 2021/22.

## 2. Expenditure and funding analysis

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

	2020/21				
	Net expenditure for internal reporting	Adjustments to arrive at Net Expenditure chargeable to the General Fund Balance	Net Expenditure chargeable to General Fund Balances	Adjustments between the Funding & Accounting Basis	Net Expenditure in the CI&ES
	£m	£m	£m	£m	£m
People	150.7	(18.4)	132.3	1.2	133.5
Children's Services	101.4	(16.1)	85.3	30.7	116.0
Economy & Infrastructure	55.9	(19.4)	36.5	35.4	71.9
Commercial & Change	6.3	10.5	16.8	12.4	29.2
Finance, HR & Chief Executive	19.1	15.4	34.5	11.2	45.7
<b>Net Cost of Services</b>	<b>333.4</b>	<b>(28.0)</b>	<b>305.4</b>	<b>90.9</b>	<b>396.3</b>
Other Income and Expenditure	(345.1)	6.7	(338.4)	(86.8)	(425.2)
<b>Net Surplus</b>	<b>(11.7)</b>	<b>(21.3)</b>	<b>(33.0)</b>	<b>4.1</b>	<b>(28.9)</b>
Opening General Fund Balance	0.0	0.0	88.5	0.0	0.0
DSG Deficit Adjustment	0.0	0.0	6.2	0.0	0.0
Adjusted General Fund Balance	0.0	0.0	94.7	0.0	0.0
Less Deficit on General Fund Balance in Year	0.0	0.0	33.0	0.0	0.0
<b>General Fund Balance</b>			<b>127.7</b>		

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

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

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

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

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

### 3. Adjustments between funding and accounting basis

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

2020/21 Adjustments from management reporting and General Fund to arrive at the Comprehensive Income & Expenditure Statement amounts	Capital adjustments not included in internal reporting	Pension adjustments not included in internal reporting	Other adjustments not included in internal reporting	Recharges and internal training included in internal reporting, removed for financial statements	Reserve movements included in internal reporting, removed for financial statements	Total adjustments to arrive at net expenditure chargeable to the General Fund Balance	Adjustments for Capital Purposes	Net Change for the Pensions Adjustments	Other Differences	Total Adjustments
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
People	2.1	2.7	(8.1)	(8.4)	(6.7)	(18.4)	1.2	0.0	0.0	1.2
Children's Services	(3.5)	0.5	0.7	1.2	(15.0)	(16.1)	30.5	0.0	0.2	30.7
Economy & Infrastructure	0.0	0.5	(12.6)	(3.8)	(3.5)	(19.4)	35.4	0.0	0.0	35.4
Commercial & Change	2.3	0.4	0.2	7.2	0.4	10.5	12.4	0.0	0.0	12.4
Finance, HR & Chief Executive	8.4	(14.2)	(1.8)	3.8	19.2	15.4	(13.7)	13.1	11.8	11.2
<b>Net Cost of Services</b>	<b>9.3</b>	<b>(10.1)</b>	<b>(21.6)</b>	<b>0.0</b>	<b>(5.6)</b>	<b>(28.0)</b>	<b>65.8</b>	<b>13.1</b>	<b>12.0</b>	<b>90.9</b>
Other Income and Expenditure from the Expenditure and Funding Analysis	0.0	10.0	(3.3)	0.0	0.0	6.7	(86.8)	0.0	0.0	(86.8)
<b>Difference between General Fund surplus or deficit and CI&amp;ES Surplus or Deficit on the Provision of Services</b>	<b>9.3</b>	<b>(0.1)</b>	<b>(24.9)</b>	<b>0.0</b>	<b>(5.6)</b>	<b>(21.3)</b>	<b>(21.0)</b>	<b>13.1</b>	<b>12.0</b>	<b>4.1</b>

Page 191

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

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

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

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

#### 4.Segmental reporting

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

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

Page 193

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

## 5. Expenditure and income analysed by nature

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

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

## 6. Grant and contribution income

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

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

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

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

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

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

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

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

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

Page 199

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

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

### 6.3 Dedicated Schools Grant

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

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

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

## 7. Section 75 framework partnership agreements

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

Partnership expenditure (outturn) has been split to show what is primarily managed by the Clinical Commissioning Groups and the County Council for 2020/21. Included in the County Council contribution is £32.8 million Better Care Fund.

Page 202

2019/20					2020/21				
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
(164.2)	166.9	2.7	111.9	55.0	(110.7)	110.0	(0.7)	55.6	54.4
(19.2)	19.3	0.1	17.2	2.1	(11.5)	11.5	0	9.2	2.3
<b>(183.4)</b>	<b>186.2</b>	<b>2.8</b>	<b>129.1</b>	<b>57.1</b>	<b>(122.2)</b>	<b>121.5</b>	<b>(0.7)</b>	<b>64.8</b>	<b>56.7</b>

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

## 8. Other operating expenditure

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

## 9. Financing and investment income and expenditure

Page 203

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

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

## 10. Taxation and non-specific grants

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

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

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

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

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

Page 204

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

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

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

2020/21	Usable Reserves				
	General Fund (Non-earmarked balances)	General Fund (Earmarked reserves)	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£m	£m	£m	£m	£m
Depreciation of non-current assets	48.4	0.0	0.0	0.0	(48.4)
Amortisation of intangible assets	1.4	0.0	0.0	0.0	(1.4)
Capital grants and contributions applied	(97.8)	0.0	0.0	0.0	97.8
Revenue expenditure funded from capital under statute	13.7	0.0	0.0	0.0	(13.7)
Net loss on disposal of non-current assets	16.9	0.0	0.0	0.0	(16.9)
Statutory provision for the financing of capital investment	(13.7)	0.0	0.0	0.0	13.7
Capital expenditure charged against the General Fund	(1.1)	0.2	0.0	0.0	0.9
Revaluation to Capital Adjustment Account	16.8	0.0	0.0	0.0	(16.8)
Capital Grants and Contributions unapplied credited to the CI&ES	0.0	0.0	0.0	97.7	(97.7)
Application of grants to capital financing transferred to Capital Adjustment Account	0.0	0.0	0.0	(82.4)	82.4
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the CI&E Statement	(6.1)	0.0	6.1	0.0	0.0
Use of Capital Receipts Reserve to finance new capital expenditure	0.0	0.0	(3.4)	0.0	3.4
Reversal of items relating to retirement benefits debited or credited to the CI&E Statement	40.6	0.0	0.0	0.0	(40.6)
Employer's pension contributions and direct payments to pensioners payable in the year	(27.5)	0.0	0.0	0.0	27.5

2020/21

## Usable Reserves

	General Fund (Non-earmarked balances)	General Fund (Earmarked reserves)	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
Amount by which council tax income credited to the CI&E Statement is different from council tax income calculated for the year in accordance with statutory requirements	5.6	0.0	0.0	0.0	(5.6)
Amount by which National Non-Domestic Rates income credited to the CI&E Statement is different from Non-Domestic Rates income calculated for the year in accordance with statutory requirements	4.9	0.0	0.0	0.0	(4.9)
Amount by which officer remuneration charged to the CI&E Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	1.5	0.0	0.0	0.0	(1.5)
Transfer of in-year Schools balance deficit to Unusable Reserve	0.0	0.3	0.0	0.0	(0.3)
<b>Sub Total</b>	<b>3.6</b>	<b>0.5</b>	<b>2.7</b>	<b>15.3</b>	<b>(22.1)</b>
Transfer to/(from) earmarked reserves	(31.7)	31.7	0.0	0.0	0.0
<b>Total Adjustments</b>	<b>(28.1)</b>	<b>32.2</b>	<b>2.7</b>	<b>15.3</b>	<b>(22.1)</b>

Page 206

**2019/20****Usable Reserves**

	<b>General Fund (Non-earmarked balances)</b>	<b>General Fund (Earmarked reserves)</b>	<b>Capital Receipts Reserve</b>	<b>Capital Grants Unapplied</b>	<b>Movement in Unusable Reserves</b>
	£m	£m	£m	£m	£m
Depreciation of non-current assets	43.2	0.0	0.0	0.0	(43.2)
Amortisation of intangible assets	1.0	0.0	0.0	0.0	(1.0)
Capital grants and contributions applied	(78.0)	0.0	0.0	0.0	78.0
Revenue expenditure funded from capital under statute	11.8	0.0	0.0	0.0	(11.8)
Net loss on disposal of non-current assets	31.4	0.0	0.0	0.0	(31.4)
Statutory provision for the financing of capital investment	(12.0)	0.0	0.0	0.0	12.0
Capital expenditure charged against the General Fund	(0.6)	(0.5)	0.0	0.0	1.1
Revaluation to Capital Adjustment Account	4.0	0.0	0.0	0.0	(4.0)
Capital Grants and Contributions unapplied to the CI&ES	0.0	0.0	0.0	78.0	(78.0)
Application of grants to capital financing transferred to Capital Adjustment Account	0.0	0.0	0.0	(63.2)	63.2
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the CI&E Statement	(9.5)	0.0	9.5	0.0	0.0
Use of Capital Receipts Reserve to finance new capital expenditure	0.0	0.0	(9.6)	0.0	9.6
Reversal of items relating to retirement benefits debited or credited to the CI&E Statement	56.7	0.0	0.0	0.0	(56.7)
Employer's pension contributions and direct payments to pensioners payable in the year	(29.9)	0.0	0.0	0.0	29.9

Page 207

**2019/20****Usable Reserves**

	<b>General Fund (Non-earmarked balances)</b>	<b>General Fund (Earmarked reserves)</b>	<b>Capital Receipts Reserve</b>	<b>Capital Grants Unapplied</b>	<b>Movement in Unusable Reserves</b>
Amount by which council tax income credited to the CI&E Statement is different from council tax income calculated for the year in accordance with statutory requirements	0.6	0.0	0.0	0.0	(0.6)
Amount by which National Non-Domestic Rates income credited to the CI&E Statement is different from Non-Domestic Rates income calculated for the year in accordance with statutory requirements	(9.3)	0.0	0.0	0.0	9.3
Amount by which officer remuneration charged to the CI&E Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	2.0	0.0	0.0	0.0	(2.0)
<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)	0.0	0.0	0.0
<b>Total Adjustments</b>	<b>16.1</b>	<b>(5.2)</b>	<b>(0.1)</b>	<b>14.8</b>	<b>(25.6)</b>

Page 208

## 12. Usable Reserves

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

	<b>Opening Balance 01/04/20</b>	<b>Contributions To</b>	<b>From</b>	<b>Closing Balance 31/03/21</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
General fund	12.2	0.8	0.0	13.0
Earmarked specific reserves	76.3	71.6	(33.2)	114.7
Capital grants unapplied	55.9	97.8	(82.4)	71.3
Capital receipts reserve	0.0	6.1	(3.4)	2.7
<b>Total Usable Reserves</b>	<b>144.4</b>	<b>176.3</b>	<b>(119.0)</b>	<b>201.7</b>

Page 209

### 12.1 Transfers to/from Earmarked Reserves

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

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

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

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

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

### 13. Unusable Reserves

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

	Opening Balance 01/04/20 £m	Contributions		Closing Balance 31/03/21 £m	Purpose of the reserve
		To £m	From £m		
Pensions reserve	(483.6)	(310.3)	295.5	(498.4)	Movement in remeasurement of the net defined liability
Accumulated absences adjustment account	(7.2)	7.2	(8.4)	(8.4)	Balances relating to the accumulated holiday due but not taken in year
Financial instruments adjustment account	(1.1)	0.0	0.0	(1.1)	Valuation gains and losses on financial instruments carried at fair value
Capital adjustment account	211.7	86.6	(74.1)	224.2	An accounting mechanism used to reconcile the different rates at which assets are depreciated
Revaluation reserve	218.5	23.0	(31.9)	209.6	Unrealised gains and losses arising from revaluations of long-term assets
Collection fund adjustment accounts	11.0	0.0	(10.5)	0.5	Surplus or deficit arising from agency arrangements
DSG Adjustment Account	(6.2)	0.0	(0.3)	(6.5)	Accumulated DSG deficit
<b>Total Unusable Reserves</b>	<b>(56.9)</b>	<b>(193.5)</b>	<b>170.3</b>	<b>(80.1)</b>	

## 14. Property, Plant and Equipment

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

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

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

Page 215  
Capital expenditure that does not result in the creation of a long-term asset (Revenue Expenditure Funded from Capital under Statute, known as REFCUS) is charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement. Where the cost of this expenditure is met from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account so that there is no impact on the level of council tax.

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

## 14.1 Movements

2020/21	Land and Buildings	Vehicles, plant, furniture & equipment	Infrastructure assets	Community Assets	Surplus Assets	Assets under Construction	Total Property, Plant & Equipment	PFI Assets included in PPE
	£m	£m	£m	£m	£m	£m	£m	£m
Cost or valuation								
<b>At 1 April 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>1457.1</b>	<b>220.5</b>
Additions	2.1	3.6	45.4	0.0	0.0	46.5	97.6	0.0
Revaluation increases / (decreases) recognised in Revaluation Reserve	(8.0)	(17.6)	0.0	0.0	0.0	0.0	(25.6)	0.0
Revaluation increases / (decreases) recognised in the Surplus on the Provision of Services	(15.1)	(1.8)	0.0	0.0	0.0	0.0	(16.9)	(34.9)
De-recognition/ Disposals	(13.2)	0.0	0.0	0.0	0.0	0.0	(13.2)	0.0
De-recognition - Other	(0.2)	0.0	0.0	0.0	0.0	0.0	(0.2)	0.0
Assets reclassified to Held for Sale	0.0	0.0	0.0	0.0	(1.8)	0.0	(1.8)	0.0
Assets reclassified to other categories	(1.2)	0.0	0.0	0.0	1.2	0.0	0.0	0.0
Other movements in cost or valuation	0.9	0.3	6.1	0.0	0.0	(7.3)	0.0	8.2
<b>At 31 March 2021</b>	<b>501.8</b>	<b>173.8</b>	<b>729.3</b>	<b>0.3</b>	<b>4.0</b>	<b>87.8</b>	<b>1497.0</b>	<b>193.8</b>

2020/21	Land and Buildings	Vehicles, plant, furniture & equipment	Infrastructure assets	Community Assets	Surplus Assets	Assets under Construction	Total Property, Plant & Equipment	PFI Assets included in PPE
	£m	£m	£m	£m	£m	£m	£m	£m
<b>Accumulated depreciation and impairment</b>								
<b>At 1 April 2020</b>	<b>(26.2)</b>	<b>(79.6)</b>	<b>(280.3)</b>	<b>0.0</b>	<b>(0.3)</b>	<b>0.0</b>	<b>(386.4)</b>	<b>(27.9)</b>
Depreciation written out to the Revaluation Reserve	(3.6)	0.0	0.0	0.0	0.0	0.0	(3.6)	0.0
Depreciation written out to the Surplus / Deficit on the Provision of Services	(4.2)	(10.3)	(30.3)	0.0	0.0	0.0	(44.8)	(5.6)
De-recognition – disposals	0.2	0.0	0.0	0.0	0.0	0.0	0.2	0.0
De-recognition - other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Assets reclassified to Held for Sale	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other movements in depreciation and impairment	7.6	18.7	0.0	0.0	0.0	0.0	26.3	20.6
<b>At 31 March 2021</b>	<b>(26.2)</b>	<b>(71.2)</b>	<b>(310.6)</b>	<b>0.0</b>	<b>(0.3)</b>	<b>0.0</b>	<b>(408.3)</b>	<b>(12.9)</b>
<b>Net book value</b>								
<b>At 31 March 2021</b>	<b>475.6</b>	<b>102.6</b>	<b>418.7</b>	<b>0.3</b>	<b>3.7</b>	<b>87.8</b>	<b>1,088.7</b>	<b>180.9</b>
<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>

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>222.4</b>
Additions	2.6	5.8	46.9	0.0	0.0	35.0	90.3	0.1
Revaluation increases / (decreases) recognised in Revaluation Reserve	(4.3)	0.0	0.0	0.0	0.0	0.0	(4.3)	(4.1)
Revaluation increases / (decreases) recognised in the Surplus on the Provision of Services	(5.9)	0.0	0.0	0.0	(1.0)	0.0	(6.9)	0.0
De-recognition – Disposals	(18.1)	0.0	0.0	0.0	(2.2)	0.0	(20.3)	(0.9)
De-recognition – Other	(10.6)	0.0	0.0	0.0	0.0	0.0	(10.6)	0.0
Assets reclassified to Held for Sale	(0.2)	0.0	0.0	0.0	(1.2)	0.0	(1.4)	0.0
Assets reclassified to other categories	(0.1)	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Other movements in cost or valuation	5.7	0.9	44.9	0.0	0.0	(51.5)	0.0	0.0
<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>0.0</b>	<b>(1.5)</b>	<b>0.0</b>	<b>(357.8)</b>	<b>(23.7)</b>
Depreciation written out to the Revaluation Reserve	(3.7)	0.0	0.0	0.0	0.0	0.0	(3.7)	0.0
Depreciation written out to the Surplus / Deficit on the Provision of Services	(4.8)	(8.2)	(26.4)	0.0	0.0	0.0	(39.4)	(5.5)
De-recognition – disposals	0.7	0.0	0.0	0.0	0.0	0.0	0.7	0.0
Derecognition - other	0.9	0.0	0.0	0.0	0.0	0.0	0.9	0.0
Assets reclassified held for sale	0.0	0.0	0.0	0.0	0.1	0.0	0.1	0.0
Other movements in depreciation and impairment	11.7	0.0	0.0	0.0	1.1	0.0	12.8	1.3
<b>At 31 March 2020</b>	<b>(26.2)</b>	<b>(79.6)</b>	<b>(280.3)</b>	<b>0.0</b>	<b>(0.3)</b>	<b>0.0</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>

## 14.2 Revaluations

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

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

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

Page 220 Where decreases in value are identified, they are accounted for by:

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

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

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

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

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

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

## Revaluations

	Land and Buildings	Vehicles, plant, furniture & equipment	Infrastructure assets	Community Assets	Surplus Assets	Assets under Construction	Total Property, Plant & Equipment	PFI Assets included in PPE
	£m	£m	£m	£m	£m	£m	£m	£m
Net book value as at:								
31 March 2021	224.0	90.9	0.0	0.0	0.1	0.0	315.0	167.4
31 March 2020	142.1	0.1	0.0	0.0	1.6	0.0	143.8	10.2
31 March 2019	19.5	0.0	0.0	0.0	1.6	0.0	21.1	3.3
31 March 2018	88.9	0.0	0.0	0.0	0.0	0.0	88.9	0.0
31 March 2017	1.1	0.0	0.0	0.0	0.0	0.0	1.1	0.0
Held at cost	0.1	11.6	418.7	0.3	0.3	87.8	518.8	0.0
<b>Total cost or valuation</b>	<b>475.7</b>	<b>102.6</b>	<b>418.7</b>	<b>0.3</b>	<b>3.6</b>	<b>87.8</b>	<b>1,088.7</b>	<b>180.9</b>

### 14.3 Revaluation reserve

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

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

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

#### 14.4 Downward revaluations and disposal losses

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

Schools converting to academy status are transferred for nil consideration.

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

## 14.5 Capital Adjustment Account

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

2019/20	2020/21
£m	£m
<b>205.0 Balance at 1 April</b>	<b>211.7</b>
Capital Financing:	
9.7 Capital receipts	3.4
63.2 Capital grants and contributions	82.4
0.6 Revenue contributions to capital expenditure	0.9
0.6 Capital reserve	0.0
<b>74.1</b>	<b>86.7</b>
(4.0) Downward revaluations charged to Comprehensive Income and Expenditure Statement	(16.9)
(40.6) Depreciation charged to Comprehensive Income and Expenditure Statement	(46.2)
8.8 Minimum revenue provision adjustment	10.4
3.2 Minimum revenue provision PFI adjustment	3.2
(11.8) REFCUS adjustment	(13.7)
(23.0) Disposal of non-current assets	(10.8)
0.0 Other adjustments	(0.1)
<b>211.7 Closing Balance at 31 March</b>	<b>224.3</b>

## 14.6 Contractual commitments for property, plant and equipment

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

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

Page 225

## 14.7 School assets

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

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

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

- Assets provided by the County Council as part of its responsibility for running the schools are shown on the Balance Sheet (for example the funding of mobile classrooms);
- Academy schools (previously community schools) – are not maintained by the County Council. The land and buildings comprising the body of the schools are leased to the academy on a 125-year lease and are therefore not shown on the Balance Sheet; local authority schools which are due to convert to academy status post balance sheet date are treated as non-adjusting post balance sheet date events. Where a school transfers after 31 March 2021, details are given in the Events after the Balance Sheet date note at the end of the accounts.

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

## 14.8 Non-operational assets

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

2019/20		2020/21
£m		£m
7.6	Assets Held for Sale	5.7

## 14.9 Capital expenditure and capital financing

2019/20		2020/21
£m		£m
<b>578.4</b>	<b>Opening capital financing requirement</b>	<b>600.0</b>
<b>Capital investment:</b>		
92.8	Property, plant and equipment	109.5
11.8	Revenue expenditure funded from capital under statute	13.7
<b>104.6</b>	<b>Total Capital Investment</b>	<b>123.2</b>
<b>Sources of finance:</b>		
(9.7)	Capital receipts	(3.4)
(63.2)	Government grants & other contributions	(82.4)
Sums set aside from revenue:		
(1.2)	Direct revenue contributions	(0.9)
(8.9)	MRP/loans fund principal (excluding PFI)	(10.4)
<b>600.0</b>	<b>Closing Capital Financing Requirement</b>	<b>626.1</b>

### Explanation of movements in year

21.6	Increase in underlying need to borrow (supported by government financial assistance)	26.1
------	--	------

### 21.6 Increase / (decrease) in Capital Financing Requirement 26.1

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

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

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

Item	Uncertainties	Effect if actual results differ from assumptions
<b>Property plant &amp; equipment assets – depreciation</b>	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.
<b>Property plant &amp; equipment assets – valuation</b>	Property plant & equipment assets are valued by the County Council's Valuer on a five-year rolling programme, unless events indicate that a more frequent interval is required.	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.  A 5% reduction in the Land and Buildings value of £501.8 million would result in a £25.1 million charge to the Comprehensive Income and

		<p>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-19 on the assumption that values will be restored in the future.</p>	<p>There have been no limitations in the valuation of assets performed by the Council’s external valuer in the year as a result of Covid-19 restrictions.</p> <p>In line with RICS Guidance issued in response to the potential market impact of the Covid-19 virus, the valuations provided are not reported as being subject to ‘material valuation uncertainty’ as per VPS 3 and VPGA 10 of the RICS Red Book Global.</p>

Property plant and equipment is valued at £1,088.7 million at 31 March 2021.

## 15. 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:

### 15.1 Waste Disposal PFI

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

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

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

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

### 15.2 Bromsgrove Schools PFI

In December 2005 the County Council entered into a 30-year contract with BAM PPP UK Limited (previously known as HBG PFI Projects Ltd) for the replacement of seven schools in the Bromsgrove area. The estimated cost over the life of the contract is approximately £300 million. During 2007/08

the seven new schools were completed and opened to provide educational services for the children of Bromsgrove and the surrounding area. In 2014/15 one school became an Academy. This has no impact to the main PFI contract. The Academy has entered into an agreement with the County Council to continue the obligations of the school in respect of the PFI contract.

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

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

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

## 15.4 Value of assets and liabilities under PFI contracts

	PPE - land & buildings				PPE -	PPE
	Waste disposal	Bromsgrove schools	The Hive	Total	vehicle, plant & equipment	
					Waste disposal	Total
	£m	£m	£m	£m	£m	£m
<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>192.5</b>
Additions	0.0	0.0	0.0	0.0	0.0	0.0
Revaluations	0.0	(2.0)	(5.3)	(7.3)	(19.4)	(26.7)
Depreciation	(0.2)	1.0	0.0	0.8	14.2	15.0
<b>Balance at 31 March 2021</b>	<b>5.6</b>	<b>61.7</b>	<b>22.5</b>	<b>89.8</b>	<b>91.0</b>	<b>180.8</b>

Page 232

### Finance lease liability

	Waste disposal	Bromsgrove schools	The Hive	Total
	£m	£m	£m	£m
	<b>Balance at 31 March 2020</b>	<b>(103.8)</b>	<b>(50.1)</b>	<b>(17.5)</b>
Additions	0.0	0.0	0.0	0.0
Payments	6.5	1.3	0.6	8.4
<b>Balance at 31 March 2021</b>	<b>(97.3)</b>	<b>(48.8)</b>	<b>(16.9)</b>	<b>(163.0)</b>

### 15.5 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	8.4	33.8	11.5	53.7
Payments due within 2 to 5 years	20.4	50.0	31.7	102.1
Payments due within 6 to 10 years	16.9	23.1	21.9	61.9
Payments due within 11 to 15 years	26.0	23.2	12.7	61.9
Payments due within 16 to 20 years	11.4	8.1	1.4	20.9

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

## 16. Financial instruments

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

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

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

Financial assets are classified as either:

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

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

Long-term 31 March 2020	Current 31 March 2020		Long-term 31 March 2021	Current 31 March 2021
£m	£m		£m	£m
<b>Investments</b>				
	5.0	Financial assets at amortised cost		35.0
3.0	0.0	Fair value through profit & loss	3.0	0.2
<b>3.0</b>	<b>5.0</b>		<b>3.0</b>	<b>35.2</b>
<b>Cash Equivalents</b>				
	10.0	Cash equivalents at amortised cost		5.0
	70.2	Fair value through profit & loss		38.0
	<b>80.2</b>			<b>43.0</b>
<b>Debtors</b>				
115.9	37.9	Financial assets at amortised cost	108.6	59.6
<b>Borrowings</b>				
(435.9)	(39.4)	Financial liabilities at amortised cost	(456.5)	(71.3)
<b>Other long-term liabilities</b>				
(171.4)		PFI and finance lease liabilities	(163.0)	
<b>Creditors</b>				
	(57.2)	Financial liabilities at amortised cost		(45.6)

## 16.1 Income, expense, gains and losses

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

## 16.2 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 2020		31 March 2021	
Carrying amount	Fair value	Carrying amount	Fair value
£m	£m	£m	£m
<b>Financial liabilities</b>			
532.5	790.9	524.5	705.6
171.4	153.7	163.0	135.0
<b>Financial assets</b>			
46.0	46.0	97.8	97.8
115.9	115.9	108.6	108.6
80.2	80.2	43.0	43.0

Page 237

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 2020****31 March 2021**

<b>Level 2</b>	<b>Level 3</b>		<b>Level 2</b>	<b>Level 3</b>
<b>£m</b>	<b>£m</b>		<b>£m</b>	<b>£m</b>
0.0	3.0 Malvern Hills Science Park		0.0	3.0
<b>0.0</b>	<b>3.0 Total</b>		<b>0.0</b>	<b>3.0</b>

---

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

---

**31 March 2020****31 March 2021**

Page 238

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

---

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

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

- Credit risk - the possibility that other parties might fail to pay amounts due to the County Council. The credit risk in respect of Trade Debtors is considered at Note 18. For our other Financial Assets Held at Amortised Cost, we have considered the 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 2021 comprises a single deposit at another local authority with a short-term maturity date; the expected credit loss was assessed by our Independent Treasury Advisors as a trivial sum.
  - Capital Advances treated as a Loan – No material risk. In respect of the loan arrangement to Mercia Waste, we assess the 12 month potential credit loss; as this has been quantified as not material, we see no reason to revise our assessment in light of the Covid-19 impact given that:
    - The nature of the Counterparty's activity (waste management), which has continued to operate during the pandemic and will continue to operate as the economy reopens; and
    - The nature of the underlying asset (clean power generation), notwithstanding short-term energy price fluctuations, we do not anticipate any risk of obsolescence, loss of amenity or other factors that would suggest an impairment in the value of the asset.
- Liquidity risk - the possibility that the County Council might not have funds available to meet its commitments to make payments. This is managed by our Treasury Management Strategy, referenced below. Additional risks to the Council's liquidity as a result of the Covid-19 pandemic are monitored as part of routine financial monitoring and planning activity; and
- Market risk - the possibility that financial loss might arise for the County Council because of changes in such measures as interest rates movements. This is not applicable to our loans as they are fixed-rate. There are no additional market risks arising from Covid-19; to date, there has been no impact upon the interest rates of our existing or anticipated borrowing.

The County Council's overall risk management procedures focus on the unpredictability of financial markets and seek to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by a central treasury team under policies approved by the County Council in the Treasury Management Strategy. The Strategy for 2020/21 was approved by Council on 13 February 2020.

## 17. Long term investments

31 March 2020	31 March 2021
£m	£m
3.0 Malvern Hills Science Park	3.0
<b>3.0 Total</b>	<b>3.0</b>

### 17.1 Malvern Hills Science Park

Malvern Hills Science Park is a limited company established by the County Council with its partners Malvern Hills District Council and the Hereford and Worcester Chamber of Commerce and Enterprise. The County Council holds 9 voting shares out of a total issue of 100; this has been judged not to give the County Council a controlling influence. In addition, the County Council holds Preference shares of 957,103 shares (957,103 in 2019/20) and 6,190 P2 shares (6,190 2019/20). The preference shares carry no voting rights. These are the only Level 3 investments held by the County Council.

The County Council's investment, measured at fair value in 2020/21, is £3.0 million (2019/20 £3.0m). This is shown on the Balance Sheet as a Long-Term investment, and the asset is held at Fair Value Through Profit and Loss (included in note 16.2). These shares are not publicly traded therefore their value is not expected to change materially.

Page 240

## 18. Debtors

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

31 March 2020	31 March 2021
£m	£m
<b>Long term debtors:</b>	
4.3 Trade receivables	0.6
111.6 Other receivables	108.0
<b>115.9</b>	<b>108.6</b>
<b>Short term debtors:</b>	
40.1 Trade receivables	49.8
4.8 Prepayments	26.2
49.0 Other receivables	27.8
<b>93.9</b>	<b>103.8</b>
<b>209.8 Total debtors</b>	<b>212.4</b>

Page 241

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

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

## 19. Cash and cash equivalents

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

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

## 20. Creditors

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

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

## 21. Other long-term liabilities

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

## 22. Grants receipts in advance

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

## 23. Cash activities

### 23.1 Operating activities

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

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

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

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

**23.2 Investing activities**

2019/20	2020/21
£m	£m
(92.6) Purchase of property, plant & equipment, investment property and intangible assets	(109.5)
(935.4) Purchase of short-term & long-term investments	(1,124.8)
7.2 Other payments for investing activities	6.9
9.5 Proceeds from the sale of property, plant & equipment, investment property and intangible assets	6.1
937.4 Proceeds from short-term & long-term investments	1,094.8
82.2 Other receipts from investing activities	102.0
<b>8.3 Net cash flows from investing activities</b>	<b>(24.5)</b>

Page 245

**23.3 Financing activities**

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

## 24. Officers' remuneration

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

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

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

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

0	1	1	£130,000 to £134,999	0	1	1
0	0	0	£135,000 to £139,999	0	1	1
0	0	0	£140,000 to £144,999	0	1	1
0	0	0	£145,000 to £169,999	0	0	0
0	0	0	£170,000 to £174,999	0	0	0
0	1	1	£175,000 to £179,999	0	0	0
0	0	0	£180,000 to £184,999	0	1	1
<b>189</b>	<b>86</b>	<b>275</b>		<b>199</b>	<b>96</b>	<b>295</b>

## 24.2 Senior employees' remuneration

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

Page 248

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

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

\* 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

## 25. Pension schemes

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

- The Local Government Pensions Scheme (a defined benefit scheme), administered by the County Council under national regulations;
- The Teachers' Pension Scheme (a defined 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.

### 25.1 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.

#### 25.1.1 Teachers' Pension Scheme

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

In 2020/21 the County Council paid £16.3 million (2019/20 £14.3m) to the Department for Education and Skills in respect of teachers' pension costs, which represents 23.68% (2019/20 20.7%) of teachers' pensionable pay. In addition, the County Council is responsible for all pension payments relating to Teacher's added years it has awarded, together with the related increases. In 2020/21 these amounted to £0.3 million (2019/20 £0.3m), representing 0.4% (2019/20 0.4%) of pensionable pay. The County Council's Actuary has calculated a long-term liability of £2.4 million in respect of these payments that will decline over time and this is included in the balance sheet under other long-term liabilities.

#### 25.1.2 NHS Pension Scheme

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

In 2020/21 the County Council paid £0.1 million (2019/20 £0.1m) to the NHS Superannuation Scheme, which represents 14.4% (2019/20 14.4%) of NHS pensionable pay.

### 25.2 Defined benefit pension schemes

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

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

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

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

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

The three principal risks to the scheme are:

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

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

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

### **25.2.1 Transactions relating to post-employment benefits**

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

made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

2019/20		2020/21
£m		£m
	<b>Comprehensive Income &amp; Expenditure Statement</b>	
	<b>Cost of services:</b>	
(32.5)	Current service cost	(27.6)
(9.2)	Past service cost – McCloud judgement	0.0
(3.5)	Settlements and curtailments	(3.0)
	<b>Other Operating Expenses</b>	
(0.4)	Administration expenses	(0.3)
	<b>Financing &amp; investment income &amp; expenditure</b>	
(32.4)	Interest on Pensions Liabilities	(31.4)
21.3	Interest on Pensions Assets	21.7
<b>(56.7)</b>	<b>Total post-employment benefit charged to the surplus or deficit on the Provision of Services</b>	<b>(40.6)</b>

2019/20		2020/21
£m		£m
<b>Re-measurement of the net defined liability charged to the Comprehensive Income &amp; Expenditure Statement</b>		
(51.3)	Return on Plan assets (excluding the amount included in net interest expense)	186.5
17.4	Actuarial gain / (loss) arising on changes in experience	29.3
27.4	Actuarial gain / (loss) arising on changes in financial assumptions	(217.6)
42.0	Actuarial gain / (loss) arising on changes in demographic assumptions	0.0
<b>(21.2)</b>	<b>Total post-employment benefit charged to the Comprehensive Income &amp; Expenditure Statement</b>	<b>(42.4)</b>
<b>Movement in Reserves Statement</b>		
(26.8)	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	(13.1)
<b>Actual amount charged against the General Fund Balance for pensions in the year:</b>		
5.3	Employer's contributions payable to the scheme	79.6
(39.8)	Retirement benefits payable to pensioners	(36.7)

The County Council made an up-front payment of Employer's contributions payable to the scheme of £77.1 million in 2020/21 for the three years 2020/21 to 2022/23. 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.

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

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

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

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

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

This table gives detail of the assets and liabilities as calculated by the County Council's actuary. The financial assumptions included are based on yield assumptions on corporate bonds and are impacted by the duration of our employee liabilities. Increases in benefits and pensions included in these assumptions are based on CPI. Salary growth assumptions are based on long-term "real" salary inflation assumptions. Further information is given in note 25.2.6 which breaks down the fund investment assets, note 25.2.7 which provides the underlying assumptions for calculations included and note 25.2.8 which estimates the impact of any sensitivities in these assumptions.

Reconciliation of present value of the scheme liabilities:

2019/20	2020/21
£m	£m
<b>(1,365.3)</b>	<b>(1,322.4)</b>
(32.5) Current service cost	(27.6)
(32.4) Interest cost	(31.4)
(6.1) Contributions by scheme participants	(5.6)
<b>Remeasurement (gains) and losses:</b>	
17.4 Actuarial gain / (loss) arising on changes in experience	29.3
27.4 Actuarial gain / (loss) arising on changes in financial assumptions	(217.6)
42.0 Actuarial gain / (loss) arising on changes in demographic assumptions	0.0
39.8 Benefits paid	36.7
0.0 Business combinations	0.0
(9.2) Past service cost – McCloud Judgement	0.0
(3.5) Curtailments	(3.0)
<b>(1,322.4) Closing balance at 31 March</b>	<b>(1,541.6)</b>

Reconciliation of fair value of the scheme assets:

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

## 25.2.5 Pensions Reserve

2019/20	2020/21
£m	£m
<b>(492.7) Balance at 1 April</b>	<b>(483.6)</b>
(51.3) Return on Plan assets (excluding the amount included in net interest expense)	186.5
17.4 Actuarial gain / (loss) arising on changes in experience	29.3
27.4 Actuarial gain / (loss) arising on changes in financial assumptions	(217.6)
42.0 Actuarial gain / (loss) arising on changes in demographic assumptions	0.0
0.0 Business combinations	0.0
(56.7) Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income & Expenditure Statement	(40.6)
5.3 Employer's pensions contributions & direct payments to pensioners payable in the year	79.6
24.6 Employer's pension contributions – prepayment adjustment	(52.1)
0.4 Decrease in Teachers Pension Liability	0.1
<b>(483.6) Balance at 31 March</b>	<b>(498.4)</b>

## 25.2.6 Local Government Pension Scheme assets

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

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

### 25.2.7 Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The Local Government Pension Scheme has been assessed by Mercer Ltd, an independent firm of actuaries, and estimates for the County Council fund are based on the latest full valuation of the scheme as at 31 March 2020, with an effective date of 1 April 2021. The principal assumptions used by the actuary are:

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

### Financial assumptions

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

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

Page 260

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

Item	Uncertainties	Effect if actual results differ from assumptions
<b>Pensions Fund – valuation of assets</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. From 2020/21 there has been additional uncertainty regarding the property valuations due to the time that it will take to fully realise the impact of Covid-19 upon illiquid assets such as property. The valuations have	<p>The total value of direct property investments in the 2020/21 Pension Fund Accounts is £160.7 million (£149.8 million in 2019/20). There is a risk that this investment may be under or overstated in the accounts.</p> <p>The total value of direct infrastructure investments in the 2020/21 Pension Fund Accounts statements is £332.6 million (£299.1 million in 2019/20). There is a risk that this investment may be under or overstated in the accounts.</p>

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

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

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

Page 261

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

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

## 26. Termination benefits and exit packages

This discloses both exit packages for employees who have left the County Council in 2020/21 and any provisions for packages which have been agreed where the employee will leave at a future date. The cost includes redundancy costs, costs of pension added years and any other departure costs. Termination Benefits are charged in the year in which they are paid or on an accrual basis if appropriate.

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

2019/20			2020/21	
Total number of exit packages	Total cost of exit packages	Exit package cost band (including redundancy, pension strain, and settlement payments)	Total number of exit packages	Total cost of exit packages
	£m			£m
68	0.5	£0 - £20,000	23	0.2
21	0.6	£20,001 - £40,000	9	0.3
8	0.4	£40,001 - £60,000	1	0.0
5	0.3	£60,001 - £80,000	1	0.1
2	0.2	£80,001 - £100,000	0	0.0
3	0.3	£100,001 - £150,000	3	0.4
1	0.2	£150,001 - £200,000	3	0.5
0	0.0	£200,001 - £250,000	2	0.5
1	0.3	£250,001 - £300,000	0	0.0
0	0.0	£300,001 - £350,000	1	0.3
0	0.0	£350,001 - £400,000	1	0.4
<b>109</b>	<b>2.8</b>	<b>Total Termination Packages</b>	<b>44</b>	<b>2.7</b>

## **27. Related parties**

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

### **27.1 UK Central Government**

The UK Central Government has significant influence over the general operations of the County Council. It is responsible for providing the statutory framework within which the County Council works, provides funding in the form of grants (note 6 refers), and sets the terms of many of the relationships that the County Council has with other organisations.

### **27.2 Elected Members**

Elected members of the County Council have direct control over the County Council's financial and operating policies. A total of £1.1 million allowances and expenses were paid to members in 2020/21 (2019/20 £1.1 million). Elected members of the County Council may be involved with other local organisations that provide services for or receive services from the County Council. Transactions for these organisations have been reviewed and there are no related party disclosures to be made for elected members.

### **27.3 Officers**

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

### **27.4 Section 75 Framework Partnership Agreements**

The County Council has an integrated commissioning unit with Health through a Section 75 arrangement including the Better Care Fund (details given in note 7). Monitoring is through the Integrated Commissioning Executive Officers Group (ICEOG) and agreed and controlled through the Clinical Commissioning Group Board and the Health and Wellbeing Board.

### **27.5 Worcestershire County Council Pension Fund**

At the year-end the County Council charged the Pension Fund £1.5 million (2019/20 £1.5 million) for expenses incurred in administering the Pension Fund. Further details are given in note 25 Defined Benefit Pension Schemes.

### **27.6 West Mercia Energy Joint Committee**

The County Council is represented by its elected members on the West Mercia Energy Joint Committee (WME). WME offers energy procurement and management on behalf of its four owning authorities and a number of outside bodies. WME is constituted as a Joint Committee and the County Council is one of four constituent authorities, alongside Shropshire Council, Herefordshire Council and Telford and Wrekin Council. The parties have rights to the net assets of the arrangement and, as such, this is judged to be a joint venture. This joint venture is not consolidated into the Group Accounts because it is not considered to be material. The County Council spent £4.8 million with WME in 2020/21 (2019/20 £5.8 million) and this is reflected in the Comprehensive Income and Expenditure Statement.

### **27.7 Place Partnership Limited**

Place Partnership Limited is a single asset management company co-owned by the County Council, Hereford & Worcester Fire Authority, Warwickshire Police and West Mercia Police and each party has equal shares and equal voting rights. Any profits made by Place Partnership Limited would be distributed equally to members and any loss distribution would be limited by shareholding. Place Partnership Limited has been classified as a Joint Operation for the purpose of financial reporting, because there is joint control, and the activity of the arrangement is primarily to provide services to the parties within their boundaries. In 2020/21, the operating cost for the County Council was £5.6 million (2019/20 £5.2 million) and this is reflected in the Comprehensive Income and Expenditure Statement. Place Partnership Limited has not been fully consolidated into the County Council's accounts as a Joint Operation, because there is no material difference to the costs already reflected. There is a creditor for £0.5 million outstanding at the year-end (2019/20 £0.2 million), and a debtor for £0.01 million (2019/20 £0.02million).

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

### **27.8 Severn Arts**

Severn Arts is a Private Company Limited by Guarantee that provides education in music and the Arts within Worcestershire. The County Council appoints one out of the ten trustees. This is a Related Party because the trustee appointed is a key management personnel of the County Council.

The company commenced trading on 1<sup>st</sup> June 2018, after a transfer of service provision and assets from the County Council. As part of the transfer, the County Council loaned Severn Arts £0.4 million, which is to be paid back in monthly instalments over 7 years with 4.78% interest per annum. There is a loan balance of £0.238 million outstanding at 31 March 2021 (2019/20 £0.268 million).

## 27.9 Worcestershire Children First

Worcestershire Children First is a Private Limited Company by Guarantee without share capital and is 100% owned and controlled by Worcestershire County Council. The company was incorporated on 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 2020/21, the Council spent £118.7 million (2109/20 £55.1 million) on services from the company and received £7.6 million (2109/20 £3.5 million) in income from the provision of support services. This is reflected in the single entity Comprehensive Income and Expenditure Statement. There is a debtor of £27.4 million (2019/20 £6.2 million) and a creditor of £26.7 million (2109/20 £3.8 million) outstanding at 31 March 2021 and these balances are included in the single entity Balance Sheet.

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

## 28. Leases

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

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

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

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

Page 266

### 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 £2.2 million were received in 2020/21 (2019/20 £2.0 million). The County Council's outstanding obligations under lease arrangements as at 31 March 2021 totalled £6.3 million (2019/20 £7.4 million).

	£m
Leases expiring in less than 1 year	0.8
Leases expiring between 1 and 5 years	4.1
Leases expiring in 5 years+	1.4
	<b>6.3</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 2022.

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

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

### 29. External audit costs

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

Page 267

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

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

### 30. Events after the reporting period

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

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

These draft accounts were authorised for issue by the Chief Financial Officer on 18 June 2021. Events taking place after this date are not reflected in the financial statements or supporting notes. At the date of issue, there are no events after the Balance Sheet date to report.

### 31. Accounting standards issued but not yet adopted

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

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

### 32. Short term investments

<b>31 March 2020</b>	<b>31 March 2021</b>
£m	£m
5.0 Short term investments	35.2
<b>5.0 Total</b>	<b>35.2</b>



# Worcestershire County Council Group Accounts

# Group Accounts and Supporting Notes

---

## Group Accounts

### Introduction

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

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

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

Page 271

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

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

## Group Comprehensive Income and Expenditure Statement

	2019/20	2019/20	2019/20		2020/21	2020/21	2020/21
	Expenditure	Income	Net		Expenditure	Income	Net
	£m	£m	£m		£m	£m	£m
	0.0	0.0	0.0	Turnover	0.0	(1.0)	(1.0)
	<b>Service Expenditure Analysis</b>						
	296.3	(145.3)	151.0	People	321.2	(187.7)	133.5
	341.7	(233.4)	108.3	Children's Services	378.3	(266.5)	111.8
	92.0	(26.5)	65.5	Economy & Infrastructure	100.9	(29.0)	71.9
	32.9	(1.1)	31.8	Commercial & Change	39.0	(9.8)	29.2
	28.5	(4.5)	24.0	Finance, HR & Chief Executive	55.9	(10.2)	45.7
	<b>791.4</b>	<b>(410.8)</b>	<b>380.6</b>	<b>Net Cost of Services</b>	<b>895.3</b>	<b>(504.2)</b>	<b>391.1</b>
	10.5	(4.5)	6.0	Other operating expenditure	3.6	(1.4)	2.2
	77.	(30.0)	47.9	Financing, investment income & expenditure	69.6	(30.3)	39.3
	0.2	(419.2)	(419.0)	Taxation & non-specific grant income and expenditure	0.3	(467.3)	(467.0)
	<b>880.0</b>	<b>(864.5)</b>	<b>15.5</b>	<b>(Surplus) / deficit on the provision of services</b>	<b>968.8</b>	<b>(1,003.2)</b>	<b>(34.4)</b>
	<b>0.1</b>	-	0.1	Tax expenses of subsidiary			(0.1)
	<b>880.1</b>	<b>(864.5)</b>	<b>15.6</b>	<b>Group (surplus)/deficit</b>			<b>(34.5)</b>
	<b>Other comprehensive income and expenditure</b>						
			(26.2)	(Surplus) on revaluation of property, plant & equipment			(23.0)
			20.6	Downward revaluations on non-current assets charged to Revaluation Reserve			22.3
			(35.9)	Actuarial (gains) / losses on pension assets & liabilities			1.7
			(41.5)	<b>Total other comprehensive income and expenditure</b>			<b>1.0</b>
			<b>(25.9)</b>	<b>Total comprehensive income and expenditure (surplus) / deficit</b>			<b>(33.5)</b>

## Group Movement in Reserves Statement 2020/21

	General Fund (Non- Earmarked) Balance	General Fund (Earmarked) Reserves	General Fund Total	Capital Receipts Reserve	Capital Grants Unapplied Account	Total Usable Reserves	Unusable Reserves	Total Council Reserves	Council's Share of Reserves of subsidiary	Total Reserves attributable to Council
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
<b>Balance at 31 March 2020</b>	12.2	76.3	88.5	0.0	55.9	144.4	(50.7)	93.7	0.5	94.2
Reporting change to Schools Budget Deficit at 1 April 2020	0.0	6.2	6.2	0.0	0.0	6.2	(6.2)	0.0	0.0	0.0
<b>Restated Balance at 31 March 2020</b>	12.2	82.5	94.7	0.0	55.9	150.6	(56.9)	93.7	0.5	94.2
<b>Movement in reserves during 2020/21:</b>										
Total Comprehensive Income and Expenditure	140.0	0.0	140.0	0.0	0.0	140.0	(1.0)	139.0	0.6	139.6
Adjustments between Group accounts and Authority accounts	(111.1)	0	(111.1)	0.0	0.0	(111.1)	0.0	(111.1)	0.0	(111.1)
<b>Net increase/ (decrease) before transfers</b>	<b>28.9</b>	<b>0.0</b>	<b>28.9</b>	<b>0.0</b>	<b>0.0</b>	<b>28.9</b>	<b>(1.0)</b>	<b>27.9</b>	<b>0.6</b>	<b>28.5</b>
Adjustments between accounting basis and funding basis under regulations	(28.1)	32.2	4.1	2.7	15.3	(22.1)	(22.1)	0.0	0.0	0.0
<b>Increase / (decrease) in 2020/21</b>	<b>0.8</b>	<b>32.2</b>	<b>33.0</b>	<b>2.7</b>	<b>15.3</b>	<b>51.0</b>	<b>(23.1)</b>	<b>27.9</b>	<b>0.6</b>	<b>28.5</b>
<b>Balance at 31 March 2021 carried forward</b>	<b>13.0</b>	<b>114.7</b>	<b>127.7</b>	<b>2.7</b>	<b>71.2</b>	<b>201.6</b>	<b>(80.0)</b>	<b>121.6</b>	<b>1.1</b>	<b>122.7</b>

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

	2020/21
	General Fund Total
	£m
Removal of intercompany transactions	111.1
<b>Total adjustments between Group Accounts and Authority Accounts</b>	<b>111.1</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
<b>Balance at 31 March 2019</b>	12.2	81.5	93.7	0.1	41.1	134.9	(66.6)	68.3	0.0	68.3
<b>Movement in reserves during 2019/20:</b>										
Total Comprehensive Income and Expenditure	35.5	0.0	35.5	0.0	0.0	35.5	41.5	77.0	0.5	77.5
Adjustments between group accounts and authority accounts	(51.6)	0.0	(51.6)	0.0	0.0	(51.6)	0.0	(51.6)	0.0	(51.6)
<b>Net increase/ (decrease) before transfers</b>	<b>(16.1)</b>	<b>0.0</b>	<b>(16.1)</b>	<b>0.0</b>	<b>0.0</b>	<b>(16.1)</b>	<b>41.5</b>	<b>25.4</b>	<b>0.5</b>	<b>25.9</b>
Adjustments between accounting basis and funding basis under regulations	16.1	(5.2)	10.9	(0.1)	14.8	25.6	(25.6)	0.0	0.0	0.0
<b>Increase / (decrease) in 2019/20</b>	<b>0.0</b>	<b>(5.2)</b>	<b>(5.2)</b>	<b>(0.1)</b>	<b>14.8</b>	<b>9.5</b>	<b>15.9</b>	<b>25.4</b>	<b>0.5</b>	<b>25.9</b>
<b>Balance at 31 March 2020 carried forward</b>	<b>12.2</b>	<b>76.3</b>	<b>88.5</b>	<b>0.0</b>	<b>55.9</b>	<b>144.4</b>	<b>(50.7)</b>	<b>93.7</b>	<b>0.5</b>	<b>94.2</b>

## 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 £m		31 March 2021 £m
1,070.7	Property, plant and equipment	1,088.7
1.7	Heritage assets	1.7
-	Investment property	11.9
5.4	Intangible assets	4.0
3.0	Long-term investments	3.0
115.9	Long-term debtors	108.6
<b>1,196.7</b>	<b>Long term assets</b>	<b>1,217.9</b>
7.6	Non-Operational Assets	5.7
5.0	Short-term investments	35.2
1.2	Inventories	1.4
89.9	Short-term debtors	78.1
78.2	Cash and cash equivalents	81.2
<b>181.9</b>	<b>Current assets</b>	<b>201.6</b>
(39.4)	Short-term borrowing	(71.3)
(117.2)	Short-term creditors	(132.3)
<b>(156.6)</b>	<b>Current liabilities</b>	<b>(203.6)</b>

31 March 2020 £m		31 March 2021 £m
(7.6)	Long-term provisions	(2.6)
(435.9)	Long-term borrowing	(456.5)
(654.9)	Other long-term liabilities	(609.3)
(29.4)	Grants receipts in advance	(24.8)
<b>(1,127.8)</b>	<b>Long-term liabilities</b>	<b>(1,093.2)</b>
<b>94.2</b>	<b>Net assets</b>	<b>122.7</b>
<b>Financed by:</b>		
144.9	Usable reserves	202.8
(50.7)	Unusable reserves	(80.1)
<b>94.2</b>	<b>Total reserves</b>	<b>122.7</b>

## Group Cash Flow Statement

---

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

## Notes to the Group Accounts

---

### 1. Group boundary

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

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

### 2. Accounting policies

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

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

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

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

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

## Glossary of Terms

---

Accounting policies	The principles, rules and procedures used in the preparation of the accounts
Accruals	The recognition of income and expenditure as goods and services are provided, not when cash is received or paid
Actuary	An independent company which advises on the assets and liabilities of the pension fund with the aim of ensuring that the payment of pensions and future benefits are met.
Admitted bodies	Voluntary and charitable bodies whose staff can become members of the Local Government Pension Scheme, subject to certain terms and conditions, and other organisations to which Local Government employees have been transferred under the outsourcing of local government services
Agent	The County Council or other authority acting as an intermediary
Amortisation	The drop-in value of intangible assets as they become out of date
Asset	<p>A resource controlled by the County Council because of past events and from which economic benefits or service potential is expected. Assets can be:</p> <ul style="list-style-type: none"><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



This page is intentionally left blank

## **AUDIT AND GOVERNANCE COMMITTEE**

### **29 JULY 2021**

## **INTERNAL AUDIT PROGRESS REPORT**

---

### **Recommendations**

- 1. The Chief Internal Auditor recommends that the Internal Audit progress report be noted.**

### **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 2021/22 Q1 deliverables and Q2 plan**

3. The first quarter of 2021/22 covered completion of 2020/21 audits (as reported in the 2020/21 Annual audit report) and progress against the 2021/22 plan. Progress as at the end of June 2021 is shown in Appendix 1, including planned audits for the remainder of the year.

### **Audit actions update**

4. We are working closely with operational service managers to ensure that actions are undertaken. For actions relating to limited assurance audits where a follow up audit is planned, actions are transferred to the new audit. As the work is currently ongoing and we will provide detailed analysis in our quarter 2 report.

### **Anti-Fraud and Corruption**

5. There have been 2 investigations undertaken in the first quarter. Investigations have been completed and no evidence found to require further action.
6. The Council continues to engage with the National Fraud Initiative programme, providing key data sets to the Cabinet Office to enable matches to be identified and investigated. The process is currently underway, and progress will be reported in due course.

### **Advisory services**

7. A post process review has been undertaken following a breakdown of contractual arrangements. The review identified improvements to the procurement and contract management process which have been reported to the relevant service areas.

## **Grant certifications**

8. 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. 3 grants have been certified as accurate during the first quarter. We continue to see increases in the number of grants which require certification and are working closely with service areas to ensure adequate planning and quality of evidence provision. Details of certifications are given in Appendix 1.

## **Staffing**

9. 3 Principal Auditors started in the first quarter and have already made positive contributions to the team. Following an internal recruitment process 1 of the Principal Auditors has been promoted to the role of Audit and Compliance Manager. We are considering recruitment options.

10. 2 new apprentices also started with the team in April as part of the Financial Services rotation and have successfully integrated into the team and are providing key support to the work of team.

11. We have been working with the HR Organisational Development team and introduced a team development training programme. This programme supports individual and team development and will continue for the remainder of the year.

## **Contact Points**

### Specific Contact Points for this report

Jenni Morris, Chief internal Auditor

Tel: 01905 844405

Email: [jmorris4@worcestershire.gov.uk](mailto:jmorris4@worcestershire.gov.uk)

Michael Hudson, Chief Financial Officer

Tel: 01905 846268

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

## **Supporting Information**

Appendix 1: Audit and grant certification quarter 1 report

## **Background Papers**

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

## Assurance audits

Audit	Rating	Current Milestone
2020/21-50 - PY - HO - Asset management controls assurance	Not assessed	Start Field Work
2020/21-35 - Bewdley School & Sixth Form Centre	Not assessed	Start Field Work
2021/22-07 - HR mileage and expenses	Not assessed	Start Field Work
2021/22-20 - Chaddesley Corbett Endowed Primary School	Not assessed	Start Field Work
2020/21-31 - Adult Social Care Working with People	Not assessed	Terms of Reference agreed
2020/21-77 - Rushwick CoE Primary	Not assessed	Terms of Reference agreed
2020/21-43 - Effective governance of the WCC / WCF arrangements and Contract Management	Not assessed	
2020/21-47 - General Ledger Maintenance - CP / e5 upgrades	Not assessed	
2020/21-76 - Rigby Hall Day Special	Not assessed	
2020/21-81 - Transport services, external and internal management, and reporting	Not assessed	
2020/21-82 - Treasury management and the prudential code (revised)	Not assessed	
2020/21-95 - Value for Money	Not assessed	
2021/22-01 - Covid Response Arrangements	Not assessed	
2021/22-02 - Democratic and Governance	Not assessed	
2021/22-03 - Digital strategy implementation	Not assessed	
2021/22-04 - Risk management	Not assessed	
2021/22-05 - Insourced services – advisory and assurance support	Not assessed	
2021/22-06 - Starters and leavers process	Not assessed	
2021/22-08 - Financial resilience	Not assessed	
2021/22-09 - St Egwin's Middle School	Not assessed	
2021/22-11 - Comberton Primary School	Not assessed	
2021/22-13 - HR Performance Cycle Review	Not assessed	
2021/22-14 - Direct payments	Not assessed	
2021/22-15 - Debt management	Not assessed	
2021/22-16 - Pensions administration reviews	Not assessed	
2021/22-21 - Public Health (tbc)	Not assessed	
2021/22-22 - Registration Service - Marriage Schedule Scheme	Not assessed	
2021/22-23 - Provider fee reviews	Not assessed	
2021/22-24 - Archaeology Service - Field Section	Not assessed	

Audit	Rating	Current Milestone
2021/22-43 - Upton-upon-Severn CoE Primary School	Not assessed	
2021/22-48 - Bayton Primary School	Not assessed	
2021/22-49 - Franche Primary School	Not assessed	
2021/22-50 - Grove Primary School	Not assessed	
2021/22-51 - St George's CE Primary	Not assessed	
2021/22-52 - St Richard's CE First School	Not assessed	
2021/22-54 - Long term agency and consultancy placements	Not assessed	
2021/22-55 - Capital and Business Case Development	Not assessed	

### Grant certifications

Grant	Status	Current Milestone
2021/22-39 - Worcester Business Central Growth Hub	Certified	End Audit
2021/22-42 - Worcester Business Central Growth Hub Supplementary	Certified	End Audit
2021/22-45 - EU Transition Business Readiness Growth Hub Grant	Certified	End Audit
2021/22-47 – Non-Executive Directors	Certified	End Audit
2020/21-04 PY - COVID Bus Services Support Grant	Not assessed	Start Field Work
2020/21-24 - Track and Trace Funding Grant	Not assessed	Start Field Work
2020/21-26 PY - Transport to School (post COVID) Grant	Not assessed	Start Field Work
2021/22-37 - Covid19 Bus Services Support Grant	Not assessed	Start Field Work
2021/22-38 - Covid19 Tendered Bus Service Provision	Not assessed	Start Field Work
2021/22-40 - Community Testing Fund	Not assessed	Start Field Work
2021/22-53 - LA COVID19 Test & Trace Project Eagle Variant of Concern Surge Testing Grant 31/5513	Not assessed	Start Field Work
2021/22-17 – Pothole Challenge Fund Grant	Not assessed	
2021/22-26 - Bus Subsidy Ring Fenced Grant	Not assessed	
2021/22-27 - Local Transport Block Funding - Integrated Transport	Not assessed	
2021/22-28 - Local Transport Block Funding - Pot Hole Action Fund	Not assessed	
2021/22-29 - Local Transport Block Funding - National Productivity Investment Fund	Not assessed	
2021/22-30 - Local Transport Block Funding - Flood Resilience	Not assessed	
2021/22-31 - Disability Facilities Grant	Not assessed	

Grant	Status	Current Milestone
2021/22-39 - Worcester Business Central Growth Hub	Certified	End Audit
2021/22-42 - Worcester Business Central Growth Hub Supplementary	Certified	End Audit
2021/22-45 - EU Transition Business Readiness Growth Hub Grant	Certified	End Audit
2021/22-47 – Non-Executive Directors	Certified	End Audit
2021/22-36 - Blue Badges	Not assessed	

This page is intentionally left blank

## **AUDIT AND GOVERNANCE COMMITTEE**

### **29 JULY 2021**

## **RISK MANAGEMENT UPDATE**

---

### **Recommendations**

- 1. The Chief Internal Auditor recommends that the Risk Management update be noted.**

### **Background**

2. The Corporate Risk Register is a mechanism for collating and accurately reporting risks that could affect the delivery of corporate objectives. In March 2020, a new risk management role was created to evaluate the current system, provide assurance to the Council that clear and effective processes were in place and manage the risk process.
3. The risks associated with the Covid19 pandemic have brought the need for a strong and effective risk culture to the forefront. The Council adopted a coordinated approach with district councils and other partners which has evolved and improved to produce an efficient process for the effective escalation of risk to Silver and Gold Command. Independent weekly reviews of Covid risks are undertaken by the Risk and Assurance Manager to ensure accurate reporting and escalation, and to enable relevant mapping to the current corporate risks.
4. An understanding of the risks has allowed for a prompt response by the Local Outbreak Resilience Team (LORT) to arrange both surge and door-to-door testing in key areas. It should be noted that the pandemic had raised the profile of infectious diseases risk globally to the highest potential impact for 2021 whereas extreme weather had maintained a position as one of the most likely risks this year.

### **Corporate Risk Management Group (CRMG)**

5. The role of the group is to assist in the implementation and management of risk across all aspects of the Council's activities. They support decision-making by embedding risk within directorates and coordinating the escalation of risks on to the corporate risk register.
6. CRMG have a responsibility to set the overall risk framework and establish and monitor the corporate risk register. Corporate risks are those that might impact on the high level, medium to long-term goals and objectives of the Council together with those cross-cutting issues that have potential to impact significantly on service delivery.

7. In 2021/22 the group continue to improve risk management by actively engaging in the development of a more effective process for recording and evaluating risks based on key themes. The risks will be recorded in a new system called Pentana Risk which sits alongside the existing Audit system, Pentana Audit.

## **Risk management**

8. A corporate risk review was undertaken which evaluated all risks and concluded that there was inconsistency in terminology and depth of risk recording, which provided challenges in effective reporting. The Pentana Risk system was procured to improve both consistency and reporting and is currently being implemented. The risk management team is mapping the corporate risks to the new system to give a clearer profile of risk. This process will initially increase volume of risks but provide a clearer overall profile.

9. The implementation process, which includes uploading current data, will be completed mid-July with a period of review before a wider launch to the workforce. The system will also enable us to report to Committee in a more interactive way and we will demonstrate this functionality in due course.

10. At the end of March 2021, the Corporate Risk Register contained 124 individual risks of which 12 were identified as high risks. At the same point there were no high risks on the Covid Risk Register. CRMG is monitoring the existing high risks to escalate any matters to the Strategic Leadership Team (SLT). At this stage no escalation has been proposed.

11. Going forward the Risk Management team and CRMG, alongside the SLT and Chief Officer's Group will be reviewing the corporate risk strategy, register and processes for managing risk and will engage this Committee in that process.

## **Contact Points**

### Specific Contact Points for this report

Jenni Morris, Chief internal Auditor

Tel: 01905 844405

Email: [jmorris4@worcestershire.gov.uk](mailto:jmorris4@worcestershire.gov.uk)

Michael Hudson, Chief Financial Officer

Tel: 01905 846268

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) there are no background papers relating to the subject matter of this report.

## **AUDIT AND GOVERNANCE COMMITTEE**

### **29 JULY 2021**

## **INCOME AND DEBT MANAGEMENT**

---

### **Recommendation**

- 1. The Chief Financial Officer recommends that the Income and Debt Management report be noted.**

### **Progress on Income Management**

2. The Audit and Governance Committee has been receiving regular updates on the Council's approach to managing short term debt and redesigning the organisations income management processes. This report updates the Committee on progress with this change programme.
3. Since the last Committee meeting in March 2021, we have continued to recruit to the Income team and begun a project to review and transform all income related transactional services.
4. An Internal Audit was completed in the last 6 months on income and debt management and the outcome of the audit was Limited. The timing of the audit was such that the changes had not yet begun so this was not an unexpected outcome. Significant changes are already underway to address the issues raised in the report. Following discussions with Directorates it was agreed that there would be a central debt team created with increased staffing levels to focus on debt collection across the whole of WCC. This had previously been Directorate specific and as a result lacked a cohesive approach. Additional investment was also put in place to ensure legal support was available as required. The central team takes any Council debt over 90 days and is funding by taking a small percentage of the debt it handles. The Committee requested and has seen regular debt reports that are part of the new debt process and awareness raising, including the latest position in this report. This also reflects the good work the team is doing driving debt levels down.
5. We have been progressing with our deeper analysis of debts whilst improving our data extraction and analysis report which will enable us to access information faster.
6. The fallout from COVID has continued to have an impact on the review and level of debt and bad debt provisions, with the bad debt provision increased by £2.8 million in the year end accounts to reflect the ongoing pandemic. Officers will continue to monitor this alongside legal colleagues in the chasing of debt.
7. In addition, the responsibility for commercial rent debt has now transferred to the County Council from Place Partnership Ltd and officers are reviewing and appraising the system to ensure billing can take place.
8. Over the next quarter, an Income Strategy and Debt Policy will be presented for consideration and reported to the September 2021 Committee for comments.

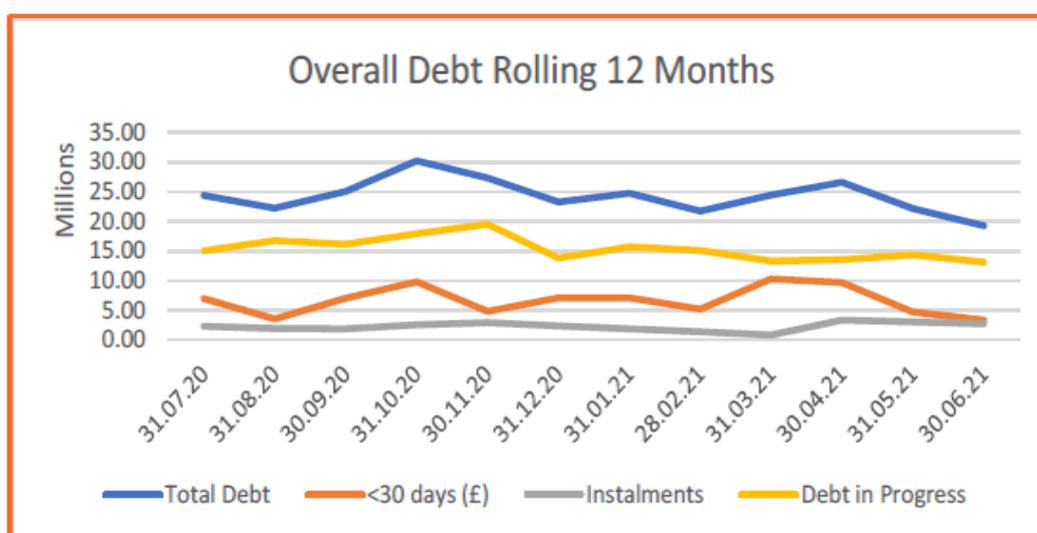
## Latest position on debts

9. The following Table 1 shows the latest level of short-term debt stands at £3.4 million, of which the majority was raised this financial year. This has fallen significantly in the last month mainly related to debt chasing and management of old debts, including write off provisions. Collection continues to be prioritised for larger amounts, but more work is progressing to address older debts.

**Table 1 – Summary of aged debt by month**

Month	Total Debt outstanding (£)	of which <30 days (£)	Of which paid by instalments	total debt outstanding less <30 days and less instalments (£)
30.06.21	19,242,558.06	3,372,404.73	2,760,298.67	13,109,854.66
31.05.21	22,151,251.74	4,716,709.91	3,078,478.76	14,356,063.07
30.04.21	26,564,205.60	9,660,860.35	3,335,474.90	13,567,870.35
31.03.21	24,451,398.69	10,325,806.26	843,483.09	13,282,109.34
28.02.21	21,729,634.60	5,198,779.52	1,412,190.41	15,118,664.67
31.01.21	24,709,472.93	7,124,236.38	1,857,335.26	15,727,901.29
31.12.20	23,270,710.68	7,085,169.24	2,399,486.84	13,786,054.60
30.11.20	27,299,577.24	4,855,215.72	2,902,851.92	19,541,509.60
31.10.20	30,229,005.90	9,776,457.50	2,541,268.23	17,911,280.17
30.09.20	25,034,759.58	7,018,715.26	1,852,529.07	16,163,515.25
31.08.20	22,189,669.86	3,516,190.45	1,917,087.63	16,756,391.78
31.07.20	24,363,210.74	6,996,626.22	2,321,326.25	15,045,258.27

10. Of the total debt recorded greater than 30 days old, for which there is not an instalment or pending cancellation is £13.1 million (68%). However, that is a reduction from the end of February reported position of £15.1m. The amount paid now by instalments has significantly increased and the overall trend in debt is downwards as shown below:



11. The £13.1 million debt greater than 30 days can be further categorised for each Directorate as follows:

**Table 2: Aged Debt Analysis - by Directorate**

Directorate	Up To 30 Days	Installment	31 to 120 Days	121 to 365 Days	>365 Days	Total
Chief Executive	5,512.20		78,753.98	8,311.63	18,815.24	111,393.05
Coach Directorate	79,273.03	37,905.22	213,096.74	59,713.81	102,499.91	492,488.71
Economy & Infrastructure	290,458.82	18,634.60	823,124.60	158,562.55	446,127.43	1,736,908.00
Finance	507.21	11,307.36	1,542.23	866.79	22,688.86	36,912.45
Income received but not yet allocated to individual Debtors	- 289,105.88		- 258,709.47	- 308,425.58	- 390,993.03	- 1,247,233.96
Other Organisations					64,485.50	64,485.50
Pensions	44,855.23	2,430,588.63	530,864.98	178,124.68	180,280.34	3,364,713.86
WCF	160,954.64		33,950.79	39,865.32	11,823.37	246,594.12
Whole Council costs	54,518.00	21,456.33		13,721.41	5,651.24	95,346.98
People - Adults	2,594,827.11	214,215.04	1,415,902.98	2,937,557.64	4,111,053.52	11,273,556.29
People - Schools	314,473.12	26,191.49	172,985.22	156,038.01	1,121,578.82	1,791,266.66
People - Communities	116,131.25		135,528.87	232,361.23	763,578.76	1,247,600.11
People - Public Health			828.13	1,668.75	24,604.67	27,101.55
Trusts					1,424.74	1,424.74
Total	3,372,404.73	2,760,298.67	3,147,869.05	3,478,366.24	6,483,619.37	19,242,558.06

12. Debts recorded as Finance as above relate to where finance staff have raised debts on behalf of a service directorate.

13. The top 20 debtors, anonymised, are as follows:

**Table 5: To 20 Debtors - Anonymised**

NAME	Up To 30 Days	31 to 120 Days	121 to 365 Days	>365 Days	Grand Total
EDUCATIONAL INSTITUTE		8,695.50	214,237.50	618,119.40	823,661.40
CONSTRUCTION COMPANY		324,588.14			324,588.14
UTILITIES	53,841.50	144,155.28	25,114.65	60,564.82	283,676.25
UTILITIES	27,837.08	207,511.69	7,248.13	22,559.32	265,156.22
CONSTRUCTION COMPANY	685.00	234,155.50		2,650.00	232,190.50
LOCAL AUTHORITY	15,930.76	31,536.92	40,914.19	141,892.23	230,274.10
INDIVIDUAL			195,412.57		195,412.57
INDIVIDUAL			191,582.50	2,067.36	193,649.86
EDUCATIONAL INSTITUTE	1,500.00			172,972.67	174,472.67
EDUCATIONAL INSTITUTE			164,266.06		164,266.06
CONSTRUCTION COMPANY	1,440.00	860.00		145,653.83	147,953.83
HEALTH	147,869.84				147,869.84
EDUCATIONAL INSTITUTE	2,933.68	138,024.16		896.00	141,853.84
LOCAL AUTHORITY	424.80	123,056.58		437.00	123,918.38
INDIVIDUAL				119,057.43	119,057.43
INDIVIDUAL	70,064.11	43,194.96			113,259.07
INDIVIDUAL				111,582.80	111,582.80
LOCAL AUTHORITY	104,875.75			4,178.69	109,054.44
HEALTH		114,192.00	5,347.51		108,844.49

14. This is a drop since the last report to Committee and Legal officers have been working alongside transactional staff to reduce this list. Senior council officers are discussing with the education sector, Council and NHS debtors to obtain payment.

15. There are five 'individual' debts – these are more sensitive as they relate to social care service clients / cases.

16. Where companies owe us money, we are liaising with operational managers responsible for contracting with them to ensure the most appropriate debt collection method is chosen.

17. In addition to the general debt noted above the Council has a Longer-Term Debt that it recognises of c.£1 million relating to social care accrued accommodation costs. This debt is secured against property assets pending sufficient house value. This is regularly reviewed, and charges secured against properties.

### **Legal, Financial and HR Implications**

18. There is a risk that without this work there will be further calls to increase the Council's bad debt provisions which will draw from current resources. In assessing the ability to chase the levels of capacity within Legal, Finance and HR will need to be considered. At this stage these are all risks that we are still seeking to mitigate and further updates will be brought back to this Committee.

### **Contact Points**

#### Specific Contact Points for this report

Michael Hudson, Chief Finance Officer, 01905 845560, [mhudson@worcestershire.gov.uk](mailto:mhudson@worcestershire.gov.uk)

Mark Sanders, Deputy Chief Finance Officer (Corporate Finance), 01905 846519, [mssanders@worcestershire.gov.uk](mailto:mssanders@worcestershire.gov.uk)

### **Background Papers**

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

**AUDIT AND GOVERNANCE COMMITTEE**  
**29 JULY 2021****WORK PROGRAMME**

---

**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****24 September 2021**

Internal Audit Progress Report 2021/22  
External Auditor – Annual Audit Letter  
External Audit – Audit Findings Report  
Annual Governance Statement  
Draft Annual Statutory Financial Statements for the year ending 31 March 2021  
Corporate Risk Report  
Anti-Fraud Report 2020/21  
Strategy and Debt Policy

**3 December 2020**

Internal Audit Progress Report 2021/22  
Corporate Risk Report

**March 2022**

Internal Audit Progress Report 2021/22  
Internal Audit Plan 2022/23  
Corporate Risk Report  
Income and Debt Management

**July 2022**

Internal Audit Annual Report 2021/22  
External Audit – Audit Findings Report  
Draft Annual Governance Statement  
Draft Annual Statutory Financial Statements for the year ending 31 March 2022  
Internal Audit Progress Report 2022/23  
Corporate Risk Report  
Income and Debt Management

**Contact Points**Specific Contact Points for this report

Simon Lewis, Committee Officer

Tel: 01905 846621

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

### **Background Papers**

In the opinion of the proper officer (in this case the Assistant Director for Legal and Governance) there are no background papers relating to the subject matter of this report.