Worcestershire County Council

Statement of Accounts 2016/17

Year ended 31 March 2017

Contents

Statement of Responsibilities of Worcestershire County Council ('the County Council')

The County Council is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this County Council, that officer is the 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 Date

The date that the Statement of Accounts is approved is 13 October 2017. All known material events that have occurred up to and including this date which relate to 2016/17 or before have been reflected in the accounts.

In accordance with Regulation 9(1) of the Accounts and Audit Regulations 2016 I certify that the Statement of Accounts 2016/17 provides a true and fair view of the financial position of the Council at 31 March 2017 and its income and expenditure for the year 2016/17.

Sean Pearce
Chief Financial Officer
13 October 2017

Approval of Accounts

In accordance with Regulation 9(2) b of the Accounts and Audit Regulations 2016 I certify that the Audit & Governance Committee approved the Statement of Accounts 2016/17 on 13 October 2017.

Councillor Nathan Desmond
Chairman of the Audit & Governance Committee
13 October 2017

Personal Assurance Statement of the Chief Financial Officer

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Worcestershire County Council ('the Council'), the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2017. All representations cover both the Council's accounts and Pension Fund accounts included within the financial statements.

I believe that I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice which give a true and fair view of the financial position and financial performance of the County Council, for the completeness of information provided to you and making accurate representations to you.

Supporting records

I believe that all of the accounting records and access to persons within Worcestershire County Council have been made available to you for the purpose of your audit and all the transactions undertaken by the Worcestershire County Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Council meetings, have been made available to you in accordance with your requests.

Related party transactions

I confirm that I am not aware of any information provided regarding the identification of Worcestershire County Council related parties and all the related party relationships and transactions which is incomplete or inaccurate and that the identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements.

Contingent Liabilities

I am unaware of any contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular, I am not aware of:-

- any pending or threatened litigation and claims, which is not properly recorded and disclosed in the financial statements;
- commitments or contractual issues, which are not properly recorded and disclosed in the financial statements; and
- any financial guarantees being given to third parties.

Law, regulations, contractual arrangements and codes of practice

I am not aware of any instances of non-compliance or suspected non-compliance with laws, regulations and codes of practice, except as disclosed in the notes to the financial statements.

All expenditure and income disclosed in the financial statements is in respect of services properly operated by the Authority under Acts and regulations made by Parliament.

I am not aware of any instance in which the Council has failed to comply with its contractual arrangements with third parties or with the requirements of Regulatory Bodies.

Accounting estimates

I believe that the assumptions used in making any accounting estimates, including those measured at face value, are reasonable.

Assets

I believe that the following have been both properly recorded and disclosed in the financial statements:-

- losses arising from sale & purchase commitments;
- agreements & options to buy back assets previously sold; and
- assets pledged as collateral.

Irregularities

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect error.

I am not aware of any:-

- irregularities involving management or employees who are responsible for the system of internal accounting control;
- irregularities involving other employees that could have an effect on the financial statements;
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

I also confirm that:

- I have disclosed my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on financial statements; and
- I have disclosed my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others
- I am unaware of any allegations or suspicions of fraud or actual fraud which may lead to a material misstatement of the financial statements.

Post balance sheet events

Since the date of the financial statements of the Council, I am aware of no post balance sheet events that have occurred which have not been adjusted or disclosed in the financial statements.

The Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Compensating arrangements

I am unaware of any compensating balancing arrangements with any of our cash and investment accounts.

Pension Provisions

I am unaware of any material amounts relating to unfunded liabilities, curtailments of settlement of past service costs relating to pension provision other than those which have been properly recorded and disclosed in the financial statements.

Pension Fund Investment

I am unaware of

- any restrictions affecting the ability of the Fund to realise its investments. The realisable value, however, may be more or less than the purchase price depending upon the movement in the markets.
- any investments which are not shown as quoted market value. Fund managers use "pooled vehicles" but they are valued by aggregating the market value of their underlying assets.

Sean Pearce

Chief Financial Officer

I am pleased to present Worcestershire County Council's Statement of Accounts for the financial year ended 31 March 2017. These accounts provide the reader with a view of the County Council's financial performance and effectiveness in its use of resources during the year and as a result are an important element of demonstrating sound financial stewardship and transparency of taxpayers' money.

The County Council's independent External Auditors, Grant Thornton UK LLP (' Grant Thornton'), commenced the main part of their audit during May 2017. The accounts, together with auditor recommendations, will be presented to the Audit Committee on 21 July 2017.

Prior to approval the draft accounts are subject to a thirty day public inspection period, which must include the first ten days of July. For the 2016/17 accounts this inspection period commences on 5 June 2017. During this period the unaudited accounts will be available to the public on the County Council's website.

The purpose of this Narrative Report is to provide an easily understandable guide to the most significant matters stated in the financial accounts.

This Statement of Accounts summarises the financial position of the County Council for the year ended 31 March 2017. These accounts have been produced for the County Council as a single entity. No group accounts are required. The principles adopted in compiling the Statement of Accounts are those recommended by The Chartered Institute of Public Finance and Accountancy (CIPFA) specifically:

- The Code of Practice on Local Authority Accounting in the United Kingdom (the Code); and
- International Financial Reporting Standards (IFRS); and

Introduction

Worcestershire is a county located in the West Midlands and is divided into six administrative districts: Worcester, Redditch, Wychavon, Malvern Hills, Wyre Forest, and Bromsgrove. The county borders Herefordshire, Shropshire, Staffordshire, West Midlands, Warwickshire, and Gloucestershire.

There are currently estimated to be 569,000 people living within the county of Worcestershire. The county has a lower proportion of young children (0-4) and young adults (18-34) and a higher proportion of people aged 45-plus than are seen regionally and nationally. Around 50.7% of the Worcestershire population is female, a similar proportion as the national average. In Worcestershire, just over 70% of people are defined as living in larger urban areas, with 20% of the population living in rural areas and 10% living in what is termed town and fringe. 19.3% of people are aged 65 or over and the age structure of the county is older than both the West Midlands region and England.

Political Structure

The County Council has a total of 57 Councillors in 52 Divisions, with the most recent elections in May 2017. The Conservative Group is the majority party as indicated in the table below.

Table 1: Political structure

Political Party	Seats
Conservative	40
Labour	10
2017 (Liberal Democrat & Green members)	5
Independent Alliance (Independent Community & Health Concern, and Independent members)	2

The Cabinet is responsible for most day to day County Council decisions, in line with overall policies and budget. The Leader of the Council appoints councillors to the Cabinet and these Cabinet Members have specific areas of responsibility; there are currently ten members of the Cabinet.

The Overview and Scrutiny Performance Board is a key part of the checks and balances necessary to hold the Cabinet to account and is also vital to improving policies and performance. The Board is supported by four Overview and Scrutiny Panels and the Health Overview and Scrutiny Committee. There are also a number of committees who take decisions on separate aspects of business and these may advise the Cabinet or full Council where appropriate.

The Senior Leadership Team

The Senior Leadership Team comprises the Chief Executive, Director of Adult Services, Director of Economy and Infrastructure, Director of Children, Families and Communities, Director of Commercial and Change, Director of Public Health, and Chief Financial Officer. Its role is to lead the organisation so that the County Council can fulfil its statutory responsibilities and deliver its services and local priorities. Supporting this are a team of Service Managers across all frontline and support services of the County Council.

Council Priorities

Our Corporate Plan, Shaping Worcestershire's Future 2017 to 2022, has four key priorities which will help guide the work of the County Council and our relationship with individuals, families, communities and partners over the next five years.

Open for Business

Worcestershire has one of the fastest growing local economies in the country. Being Open for Business remains the key priority for the County Council. This is vital if both individuals and businesses are to achieve their full potential and if Worcestershire is going to continue to prosper.

A successful and growing local economy will generate wealth for residents and businesses, and this growth will increase County Council income, enabling us to invest more in those areas that our residents and businesses tell us are most important to them.

Children and Families

We are focused on improving outcomes for all children, young people and families in Worcestershire. Our ambition is to see more children and young people achieving their full potential in education and being fully prepared to live happy, healthy, independent and prosperous adult lives.

Keeping children and young people safe is a key priority for this County Council and its partners. When the only safe option, for those vulnerable children and young people most at risk, is to come into our care, we will focus our efforts on providing a positive care experience in order for them to thrive and achieve their maximum potential.

The Environment

Our environment is one of the county's key features, providing easy access to the countryside and a wealth of stunning scenery. Our country parks, open spaces and woodlands provide great walking and cycling opportunities which support our health and wellbeing vision.

Worcestershire is a diverse county with fantastic examples of a historic and natural environment, which contributes to the unique character of the county.

Health and Wellbeing

It is our priority, working with partners, to ensure Worcestershire residents are healthier, live longer, have a better quality of life and remain independent for as long as possible.

We will work together with partners and communities to enable Worcestershire residents to make responsible choices when planning their lives to achieve the best possible outcomes. We will enable individuals to become or remain independent, self-reliant and an integrated part of their local communities.

The Corporate Plan can be accessed at:

Shaping Worcestershire's Future 2017 - 2022 | Worcestershire's Corporate Plan | Worcestershire County Council

Our Performance in 2016/17

Financial Performance - Outturn

During 2016/17 the General Fund revenue account has been subject to regular monitoring through budget monitoring processes and reporting to committees. The year-end net outturn position compared to budget is set out below:

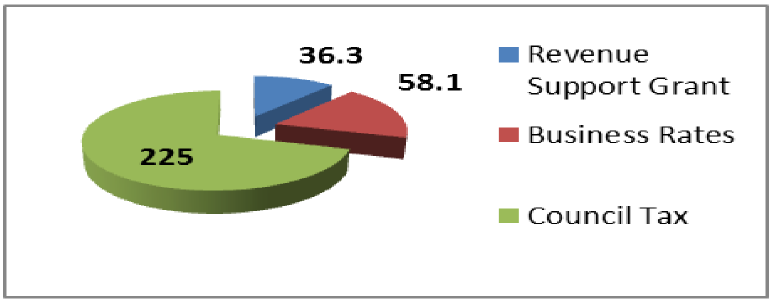
Overall Highlights

This section provides a brief summary of the key highlights of the 2016/17 County Council Statement of Accounts:

- A break-even position has been achieved;
- £6.5 million of the savings target has not been achieved and has been carried forward to 2017/18;
- The Council has used reserves and specific grant funding to achieve this outturn position;
- Adult Services cost pressures have been contained, although on a one-off basis; and
- Special Education Needs and Disability transport cost pressures, and Children's Social Care Improvement Plan costs have been offset by savings from deferring borrowing on a one-off basis

The County Council receives funding from a number of sources as shown below. Non- ring-fenced central government funding is through the Revenue Support Grant. Other sources of funding raised within Worcestershire are Council tax and the business rates retention scheme.

Table 2: 2016/17 Funding Sources



Funding sources	£m
Council tax	225.0
Revenue support grant	36.3
Business rates retention scheme	58.1
Total	**319.4**

Table 3: 2016/17 Directorate spend

£m	Budget	Actual	Variance	% variance
Adult Services	132.4	132.4	0	0
Public Health	0.4	0.3	(0.1)	25%
Children, Families and Communities (excluding schools budgets)	83.5	84.8	1.3	2%
Economy and Infrastructure	64.5	64.7	0.2	0
Commercial and Change / Finance	41.7	40.3	(1.4)	3%
Total	**322.5**	**322.5**	**0**	**0**

The County Council, like most local authorities, continues to face financial challenges and has mitigated these challenges through innovative approaches to service delivery and support functions. These have seen the majority of the savings found from efficiencies and income rather than from cuts to service delivery.

The underlying position regarding earmarked reserves is that the Children, Families and Communities (CFC), Economy and Infrastructure (DE&I), Adult Services (DAS) and Commercial and Change (COaCH) Directorates have drawn from their reserves in order to support additional demand for services during the year. There have been a number of other planned reserve transactions and ring-fenced but unspent Dedicated Schools Grant and Schools' funding has been carried forward. Public Health has spent within budget.

The use of reserves to cover recurring expenditure or non-achievement of savings targets is a short term measure only, and work is underway to minimise the need for this action in future.

The Transformation savings programme target for 2016/17 was £27.4 million, of which £20.9m has been delivered by recurring savings. This includes £3.2 million of projects carried forward from previous financial years (of which £2.2 million has been delivered). It is clear that savings are becoming more complex and difficult to deliver. In total, £6.5 million of Transformation savings for 2016/17 have been rolled forward into the 2017/18 programme.

The target for 2017/18, which now includes the rolled forward amount, is £27.9 million (£21.4 million as originally planned in the Council's Medium Term Financial Plan, £5.5 million carried forward from 2016/17, and £1.0 million carried forward from previous years).

A break even compared to the cash limited budgets

The Statement of Accounts show an accounting deficit of £28.7 million within which the County Council was in line with the cash limited net budget of £322.5 million. Accounting regulations require some items of expenditure and income that do not impact on the amount to be met from local taxation in the year to be reclassified and charged to the Comprehensive Income and Expenditure Statement. The technical accounting adjustments include the movement on the pensions reserve and capital accounting adjustments, and have a compensating adjustment through unusable reserves. The County Council's General Balances are a contingency sum available to pay for unforeseen or exceptional circumstances. External auditors often refer to the level of general balances when considering an organisation's financial health. All earmarked reserves are retained either under the delegated authority given to Chief Officers in the Financial Regulations or by Cabinet or Cabinet Member approval.

Table 4: General Fund Balance

£ million	**Value at 31/03/17**	**Value at 31/03/16**	**Change**
General Balances	12.0	13.0	(1.0)
Earmarked Reserves – Directorate c/fwd's	91.5	94.0	(2.5)
Revenue Grants unapplied	6.9	15.0	(8.1)
Total	110.4	122.0	(11.6)

Non-Current Assets

The County Council spent £132.1 million on capital expenditure in 2016/17. Significant capital investments have been delivered on the following projects:

- £47.4 million on energy from waste project
- £14.7 million on structural maintenance
- £11.2 million on Worcester Southern Link
- £8.3 million on Driving Home Programme
- £3.1 million on Worcestershire Parkway
- £4.3 million on Hoobrook Link Road Phase 3
- £2.2 million on maintenance programmes
- £2.1 million on Green Deal Communities Projects
- £1.3 million on Worcester Technology Park(W6)
- £1.7 million on Eastham Bridge
- £1.6 million on Bromsgrove station

Table 5: Capital expenditure summary for year ended 31 March 17

	£ million
Schools	15.0
Transport Infrastructure	65.1
Energy from Waste Loan Facility	47.4
Other	4.6
Total	**132.1**
Financed by:	
Applied contributions from revenue budgets	5.2
Prudential Borrowing	63.8
Capital Receipts	2.4
Capital Grant and Contributions from 3rd parties	60.7
Total	**132.1**

External Borrowing

The Council is able to raise finance for capital expenditure and operational requirements from a number of approved borrowing instruments. As part of its prudential indicators and treasury strategy, the Council sets limitations on borrowing and sets strategic objectives, including the minimisation of the value and cost of external borrowing.

The Prudential Code sets the following indicators for external debt:

- The Authorised Limit - This represents the limit beyond which borrowing is prohibited and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the term, but is not sustainable. It is the expected maximum borrowing need with some head room for unexpected movements. This is the statutory limit under Section 3 (1) of the Local Government Act 2003.

- The Operational Boundary - This indicator is based on the probable external debt during the course of the year. It is not a limit and actual borrowing could vary around the boundary for short times during the year. It should act as an indicator to ensure the authorised limit is not breached

The Council maintained its external debt within the authorised limit and operational boundary for the year.

Cash Flow

The Council maintained a healthy cash flow position during 2016/17, and invested surplus cash resources in line with its approved Treasury Management Policy.

Summary of key demand led cost pressures in 2016/17

The main areas of cost pressure on demand-led budgets are provided below.

Children's Home to School Transport

There has been a cost pressure during the year with regard to Home to School Transport mainly due to an increase in service provision for Special Education Needs and Disability travel as a result of expanded eligibility criteria through recently enacted legislation.

Adult Social Care

There are on-going budgetary pressures within Adult Social care which total over £3 million. The services impacted are Older People Domiciliary Care, Older People Residential and Nursing Care and Learning Disability Residential and Nursing care.

Children's Social Care Placements

For the last few years the increases in Looked-After Children placements has driven the Council's largest single cost pressure. The budget has been strengthened over recent years through the Medium Term Financial Plan. During 2016/17, social care placements have not been a significant cost pressure, following a combination of budget increase and cost management. However, towards the end of the year, there was increased expenditure with regard to Children's safeguarding activity.

Performance Indicators 2016/17

The following are high level financial performance indicators that are included in the Council's Balanced Scorecard and give performance context to complement the Statement of Accounts.

Table 6: Financial Performance Indicators

	2015/16 Actual	2016/17 Actual
Creditor days The average number of days to pay suppliers	17	17
Creditors paid within 10 days of invoice date	93%	94%
Debtor days The average number of days to receive payments from customers	39	41
Expected Budget position at end of financial year for the County Council's revenue budget	£0,9m underspend	Break Even

Further details on the Council's Balanced Scorecard can be accessed at:-

http://www.worcestershire.gov.uk/downloads/download/1116/balanced_scorecardsworcestershire_county_council

Financial Planning – Looking Ahead

The Budget 2017/18

The County Council prepares its budget in accordance with the Budget and Policy Framework Rules and reflects the County Council's Corporate Plan, Shaping Worcestershire's Future and the Medium Term Financial Plan (MTFP). The budget for 2017/18 of £318.5 million was approved by full Council on 9 February 2017 and invests in the plan for Worcestershire, whilst reflecting our residents' priorities of protecting vulnerable children, working with vulnerable older people and maintaining highways. Key investments include:

- £3.5 million to improve outcomes for our children and young people with this money being spent on increasing capacity to support front line social workers along with additional support for care leavers;
- The Council's Adult Social Care budget is to be increased in response to demographic growth and the increasing complexity of supporting vulnerable older people and adults with disabilities; and
- An extra £5 million is being invested in tackling traffic congestion, with £6 million to be invested over the next two years to improve the county's pavements.

A 2.94% increase to Council Tax was agreed, with 2% of that increase ring-fenced for Adult Social Care services to support older people and adults with disabilities and 0.94% to provide financial support for the delivery of outcomes in line with the Corporate Plan and the priorities identified by the public and business community.

Following the formal approval of the budget, Central Government presented the 2017 Budget which included some positive news for Local Government and Worcestershire in particular. Key elements relevant to the County Council are set out below:

- Adult Social Care – increased funding.
  Councils will receive an additional and one-off £2 billion over the next three years for social care, with £1 billion of this to be provided in 2017/18. The County Council's allocation is as follows:
  - 2017/18 £10.1 million
  - 2018/19 £6.8 million
  - 2019/20 £3.4 million
- Schools maintenance.
  An additional £216 million investment in school maintenance is to be provided nationally to improve the condition of the school estate. The specific allocation is not yet known.
- Extended rights to free travel.
  An increased entitlement to the rights for free travel to some schools. Further details on how this scheme will operate and the grant that will be made available to the County Council have not yet been provided.
- Infrastructure and Transport Investment.
  The County Council will receive £2.7 million from the Regional allocations of the National Productivity Improvement Fund for investment on pinch points on the strategic road network within Worcestershire.

Table 7: Directorate service budgets for 2017/18

£m	Gross expenditure	Gross income	Reserve movements	Net expenditure
Adult Services	186.6	55.1	0.5	131.0
Public Health	30.6	30.4	0.1	0.1
Children, Families and Communities (excluding schools budgets)	130.7	47.8	0.1	82.8
Schools	247.2	247.2	0	0
Economy and Infrastructure	100.0	31.0	2.1	67.0
Commercial and Change / Finance	85.2	39.4	3.0	42.8
Gross Expenditure, Income and Reserve Movements	**780.3**	**450.9**	**5.8**	**323.6**
Contribution to/ (from) Earmarked Reserves	(5.2)	-	-	(5.2)
Budget Requirement	**775.1**	**450.9**	**5.7**	**318.4**

The Council has a Treasury Management strategy that actively manages long term debt and investments, to ensure there are sufficient cash funds to meet financial obligations.

Future Years

The Medium Term Financial Plan (MTFP) – summarised in the table below - has been updated to reflect the reductions in funding levels confirmed in the draft Local Government Financial Settlement and revisions to income and expenditure. The County Council has a multi-year financial settlement deal with Central Government, although the requirement to support the national deficit recovery remains in place. The implementation of the 100% local retention of Business Rates will bring opportunities to take greater control over funding generated across Worcestershire, and the County Council is working with Central Government colleagues on modernising funding allocations to ensure service need is supported and that any funding is distributed in a fair and consistent manner across the local government sector.

Table 8: Medium Term Financial Plan 2017/18 to 2020/21

£m	2017/18	2018/19	2019/20	2020/21
Total Funding Available	354.8	357.9	367.5	381.0
Service costs based on provisional 2017/18 budget	(381.3)	(389.8)	(389.2)	(403.0)
Sub-Total	**(26.5)**	**(31.9)**	**(21.7)**	**(22.0)**
Withdrawal from Earmarked Reserves	5.2	-	-	-
Reform plans developed	21.3	12.7	2.6	0.6
Funding Gap	**-**	**19.2**	**19.1**	**21.4**
Cumulative Funding Gap	**-**	**19.2**	**38.3**	**59.7**

Further detail can be found in the following Council reports:
Cabinet 2 February 2017 Item 4 2017/18 Budget and Council Tax:
http://worcestershire.moderngov.co.uk/documents/g1660/Public%20reports%20pack%2002nd-Feb-2017%2010.00%20Cabinet.pdf?T=10
Council 9 February:
Agenda for Council on Thursday, 9th February, 2017, 10.00 am - Worcestershire County Council
Cabinet 6 April 2017 Item 5 Resources Report:
http://worcestershire.moderngov.co.uk/documents/b6001/Agenda%20item%205%20-%20Resources%20Report%2006th-Apr-2017%2010.00%20Cabinet.pdf?T=9

Introduction to the Statutory Accounts

The Statement of Accounts for the year 2016/17 is set out on pages 16 to 78. The purpose of the published Statement of Accounts is to give electors, local tax payers and service users, elected members, employees and other interested parties clear information about the Council's finances. It should answer such questions as:

- What did the Council's services cost in the year of account?
- Where did the money come from?
- What were the Council's assets and liabilities at the year-end?

The pages which follow attempt to give the reader a better understanding of the Council's Statement of Accounts for 2016/17.

Statement of Responsibilities

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

Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the year of providing services in accordance with International Financial Reporting Standards (IFRS), rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

Balance Sheet

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

Cash Flow Statement

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

Movement in Reserves Statement

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

Earmarked Reserves" line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves are undertaken by the Council.

Notes to the Accounts

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

Accounting Policies Statement

This explains the basis of the figures included in the accounts. The accounts can only be properly appreciated if the policies, accounting estimates and judgements, which have been followed in dealing with material items, are explained. Accounting policies have been reviewed and are explained fully in the Statement of Accounting Policies which is part of the financial statements.

Expenditure and Funding Analysis

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

The Annual Governance Statement

This statement summarises the systems and processes, cultures and values by which this Council is directed and controlled and through which it accounts to, engages with and where appropriate leads the community. It identifies any gaps or weaknesses and implements responding action plans.

Worcestershire County Council

Statement of Accounts

2016/17

1.0 Comprehensive Income and Expenditure Statement

Restated * 2015/16 Expenditure £m	Restated * 2015/16 Income £m	Restated * 2015/16 Net £m		2016/17 Expenditure £m	2016/17 Income £m	2016/17 Net £m	Note
			Service Expenditure Analysis				
183.0	(48.9)	134.1	Adult Services	189.0	(52.4)	136.6	
410.7	(296.3)	114.4	Children's Services	380.6	(281.7)	98.9	
34.2	(17.7)	16.5	Commercial and Change	38.9	(18.6)	20.3	
117.4	(30.5)	86.9	Economy and Infrastructure	120.1	(27.1)	93.0	
29.6	(29.7)	(0.1)	Public Health	33.0	(31.2)	1.8	
774.9	**(423.1)**	**351.8**	**Net Cost of Services**	**761.6**	**(411.0)**	**350.6**	**1.01a**
5.5	(2.8)	2.7	Other operating expenditure	6.2	(1.5)	4.7	1.11
68.6	(26.7)	41.9	Financing, investment income & expenditure	84.5	(33.0)	51.5	1.12
0.2	(371.8)	(371.6)	Taxation & non-specific grant income and expenditure		(378.1)	(378.1)	1.13
849.2	**(824.4)**	**24.8**	**(Surplus) / deficit on the provision of services**	**852.3**	**(823.6)**	**28.7**	
			Other comprehensive income and expenditure:				
		(13.2)	(Surplus) on revaluation of non-current assets	(18.6)		(18.6)	4.06
		4.2	Impairment losses on non-current assets charged to Revaluation Reserve	4.1		4.1	4.06
		1.5	Re-measurement on available for sale financial assets				
		(23.5)	Re-measurement of the net defined benefit liability/ (asset)	54.3		54.3	2.12.1
		(31.0)	**Total other comprehensive income and expenditure**			**39.8**	
		(6.2)	**Total comprehensive income and expenditure (surplus)/deficit**			**68.5**	

***** The Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 now requires the service analysis in the CIES to be based on the organisational structure under which the Council operates and manages its services. Previously the presentation was based on the service expenditure analysis set out in CIPFA's Service Reporting Code of Practice for Local Authorities (SeRCOP). The 2015/16 comparative figures have been re-stated to reflect this change (see note 1.01).

2.0 Balance Sheet

31 March 2016		31 March 2017	
£m		£m	Note
821.0	Property, plant and equipment	936.2	2.01
1.7	Heritage assets	1.7	
0.2	Intangible assets	1.0	
3.0	Long-term investments	3.1	2.06
80.0	Long-term debtors	122.9	2.07
905.9	**Long term assets**	**1,064.9**	
8.9	Non Operational Assets	11.7	2.01.6
45.0	Short-term investments	21.0	2.05.1
0.7	Inventories	1.1	
40.4	Short-term debtors	46.4	2.07
20.9	Cash and cash equivalents	19.6	2.08
115.9	**Current assets**	**99.8**	
(40.3)	Short-term borrowing	(42.6)	2.05.1
(98.0)	Short-term creditors	(106.0)	2.09
(0.6)	Short-term provisions	(0.5)	
(138.9)	**Current liabilities**	**(149.1)**	
(1.6)	Long Term Creditors	(1.8)	2.05.1
(1.4)	Long-term provisions	(0.6)	
(298.4)	Long-term borrowing	(325.4)	2.05.1
(465.3)	Other long-term liabilities	(640.1)	2.10
(766.7)	**Long-term liabilities**	**(967.9)**	
116.1	**Net assets**	**47.7**	
	Financed by:		
157.5	Usable reserves	147.4	4.01
(41.4)	Unusable reserves	(99.7)	4.03
116.1	**Total reserves**	**47.7**	

3.0 Cash Flow Statement

2015/16		2016/17	
£m		£m	Note
(24.8)	Net surplus/(deficit) on the provision of services	(28.7)	
90.5	Adjust net (surplus)/deficit for non-cash movements	87.1	3.01
(58.3)	Adjust for items included in the net (surplus)/deficit on the provision of services that are investing and financing activities	(64.7)	3.01
7.4	**Net cash flows from operating activities**	**(6.3)**	
(69.3)	Net cash flows from investing activities	(21.5)	3.02
73.8	Net cash flows from financing activities	26.5	3.03
11.9	**Net increase/(decrease) in cash or cash equivalents**	**(1.3)**	
9.0	**Cash and cash equivalents at 1 April**	**20.9**	**2.08**
20.9	**Cash and cash equivalents at 31 March**	**19.6**	**2.08**

4.0 Movement in Reserves Statement 2016/17

	General Fund (Non Earmarked) Balance £m	General Fund (Earmarked) Reserves £m	General Fund Total £m	Capital Receipts Reserve £m	Capital Grants Unapplied Account £m	Total Usable Reserves £m	Unusable Reserves £m	Total Reserves £m
Current Year								
Balance at 31 March 2016	**13.0**	**109.0**	**122.0**	**5.1**	**30.4**	**157.5**	**(41.4)**	**116.1**
Movement in reserves during 2016/17								
Total Comprehensive Income and Expenditure	(28.7)		(28.7)			(28.7)	(39.8)	(68.5)
Adjustments between accounting basis & funding basis under regulations (Note 1.02)	27.7	(10.5)	17.2	0.3	1.1	18.6	(18.6)	
Increase or Decrease in 2016/17	(1.0)	(10.5)	(11.5)	0.3	1.1	(10.1)	(58.4)	(68.5)
Balance at 31 March 2017 carried forward	**12.0**	**98.5**	**110.5**	**5.4**	**31.5**	**147.4**	**(99.8)**	**47.7**
Note Reference		**4.02**				**4.01**	**4.03**	

Additional analysis of the General Fund is provided in line with the Code. The 2015/16 comparison has been restated for consistency.

Movement in Reserves Statement 2015/16 Comparison

	General Fund (Non Earmarked) Balance £m	General Fund (Earmarked) Reserves £m	General Fund Total £m	Capital Receipts Reserve £m	Capital Grants Unapplied Account £m	Total Usable Reserves £m	Unusable Reserves £m	Total Authority Reserves £m
Balance at 31 March 2015	**13.0**	**117.0**	**130.0**	**3.2**	**33.5**	**166.7**	**(56.8)**	**109.9**
Movement in reserves during 2015/16								
Total Comprehensive Income and Expenditure	(24.8)		(24.8)			(24.8)	31.0	6.2
Adjustments between accounting basis & funding basis under regulations (Note 1.02)	24.8	(8.0)	16.8	1.9	(3.1)	15.6	(15.6)	
Increase or Decrease in 2015/16		(8.0)	(8.0)	1.9	(3.1)	(9.2)	15.4	6.2
Balance at 31 March 2016 carried forward	**13.0**	**109.0**	**122.0**	**5.1**	**30.4**	**157.5**	**(41.4)**	**116.1**

Notes to the Financial Statements

1. Notes supporting the Comprehensive Income & Expenditure Statement

1.01 Prior Period Adjustment - Re-statement of 2015-16 in accordance with a new Directorate reporting structure

The Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 now requires the service analysis in the CIES to be based on the organisational structure under which the Council operates and manages its services. Previously the presentation was based on the service expenditure analysis set out in CIPFA's Service Reporting Code of Practice for Local Authorities (SeRCOP). The 2015/16 comparative figures have been restated to reflect this change.

The following three tables - one each for Expenditure, Income and Net Expenditure – report the re-statement of the 2015-16 accounts in accordance with the 2016-17 reporting structure. For each of the tables:

1. The rows represent the 2015-16 structure
2. The columns represent the 2016-17 structure.

TOTAL EXPENDITURE (£m)

	Directorates					
SERCOP Categories	**Adults**	**CFC**	**CoaCH**	**E&I**	**Public Health**	**Total Expenditure**
Children's and Education Services		396.2	3.5	(3.4)		396.3
Adult Social Care	182.1	0.4	1.0		0.5	184.0
Highways, Roads & Transport			0.3	64.0		64.3
Environmental & Regulatory			0.4	42.4		42.8
Public Health					29.1	29.1
Corporate & Democratic Core			26.2			26.2
Cultural and Related Services		13.6				13.6
Planning			0.4	12.5		12.9
Central Services to the Public			1.0	1.9		2.9
Housing Services	0.9	0.5				1.4
Non Distributed Costs			1.4			1.4
Total Expenditure	**183.0**	**410.7**	**34.2**	**117.4**	**29.6**	**774.9**

TOTAL INCOME (£m)

	Directorates					
SERCOP Categories	**Adults**	**CFC**	**CoaCH**	**E&I**	**Public Health**	**Total Income**
Children's and Education Services		(296.3)	(1.5)	9.0		(288.8)
Adult Social Care	(48.2)		(0.9)	(0.5)	(0.3)	(49.9)
Highways, Roads & Transport			(0.2)	(10.8)		(11.0)
Environmental & Regulatory			(0.3)	(13.3)		(13.6)
Public Health					(29.4)	(29.4)
Corporate & Democratic Core			(13.8)			(13.8)
Cultural and Related Services				(6.0)		(6.0)
Planning			(0.3)	(7.4)		(7.7)
Central Services to the Public			(0.5)	(1.1)		(1.6)
Housing Services	(0.7)			(0.4)		(1.1)
Non Distributed Costs			(0.2)			(0.2)
Total Income	**(48.9)**	**(296.3)**	**(17.7)**	**(30.5)**	**(29.7)**	**(423.1)**

NET EXPENDITURE (£m)

	Directorates					
SERCOP Categories	**Adults**	**Children**	**CoaCH**	**E&I**	**Public Health**	**Net Expenditure**
Children's and Education Services		99.9	2.0	5.6		107.4
Adult Social Care	133.9	0.4	0.1	(0.5)	0.2	134.1
Highways, Roads & Transport			0.1	53.2		53.3
Environmental & Regulatory			0.1	29.1		29.2
Public Health					(0.3)	(0.3)
Corporate & Democratic Core			12.4			12.4
Cultural and Related Services		13.6		(6.0)		7.6
Planning			0.1	5.1		5.2
Central Services to the Public			0.5	0.8		1.4
Housing Services	0.2	0.5		(0.4)		0.3
Non Distributed Costs			1.2			1.1
Total Net Expenditure	**134.1**	**114.4**	**16.5**	**86.9**	**(0.1)**	**351.8**

1.01 a) EXPENDITURE AND FUNDING ANALYSIS

	2015/16			2016/17		
	Net Expenditure Chargeable to General Fund Balances	Adjustments between the Funding & Accounting Basis	Net Expenditure in the Comp Income and Expenditure Statement	Net Expenditure Chargeable to the General Fund Balances	Adjustments between the Funding & Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
	£m	£m	£m	£m	£m	£m
Adult Services	133.1	0.9	134.0	140.1	1.9	142.0
Public Health	(0.1)		(0.1)	2.1		2.1
Children's Services	89.9	24.6	114.5	93.1	13.7	106.8
Economy& Infrastructure	65.3	21.6	86.9	68.9	26.5	95.4
Commercial & Change	29.3	(12.8)	16.5	19.2	(14.9)	4.3
Net Cost of Services	**317.5**	**34.3**	**351.8**	**323.4**	**27.2**	**350.6**
Other Income and Expenditure	(309.5)	(17.5)	(327.0)	(311.9)	(10.0)	(321.9)
Net Deficit	**8.0**	**16.8**	**24.8**	**11.5**	**17.2**	**28.7**
Opening General Fund Balance	130.0			122.0		
Less Deficit on General Fund Balance in Year	(8.0)			(11.5)		
Closing General Fund Balance at 31 March	**122.0**			**110.5**		

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

1.01 b) Adjustments Between Funding and Accounting Basis 2016/17

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

Adjustments Between Funding and Accounting Basis 2015/16 Comparison

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes	Net Change for the Pensions Adjustments	Other Differences	Total Adjustments
	£m	£m	£m	£m
Adult Social Care	0.4	0.5		0.9
Public Health				
Children's, Families and Communities	22.7	1.9		24.6
Economy & Infrastructure :	21.3	0.3		21.6
Commercial & Change, Finance & Chief Executive	(12.5)	0.9	(1.2)	(12.8)
Net Cost of Services	**31.9**	**3.6**	**(1.2)**	**34.3**
Other Income and Expenditure from the Expenditure and Funding Analysis	(30.3)	12.8		(17.5)
Difference between General fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	**1.6**	**16.4**	**(1.2)**	**16.8**

1.02 Adjustments between Accounting Basis and Funding Basis under Regulation

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

2016/17	Usable Reserves				
	General Fund (Non Earmarked) Balance	General Fund (Earmarked) Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£m	£m	£m	£m	£m
Adjustments primarily involving the Capital Adjustment Account:					
Reversal of items debited or credited to the CI&E Statement:	**50.3**				**(50.3)**
Amortisation of intangible assets	0.4				(0.4)
Capital grants and contributions applied	(62.0)				62.0
Revenue expenditure funded from capital under statute	10.5				(10.5)
Net gain or loss on sale or derecognition of non-current assets and non-current assets held for sale					
Gain/loss on operating activities	7.0				(7.0)
Loss on investment on assets transferred to other bodies	24.5				(24.5)
Insertion of items not debited or credited to the CI&E Statement:					
Statutory provision for the financing of capital investment	(16.5)				16.5
Capital expenditure charged against the General Fund	(5.1)	(0.1)			5.2
Adjustments primarily involving the Capital Grants Unapplied Account:					
Capital grants & contributions unapplied credited to the CI&E Statement	0.2			52.4	(1.3)
Application of grants to capital financing transferred to Capital Adjustment Account				(51.3)	
Adjustments primarily involving the Capital Receipts Reserve:					
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the CI&E Statement	(2.7)		2.7		
Use of Capital Receipts Reserve to finance new capital expenditure			(2.4)		2.4
Adjustments primarily involving the Pensions Reserve:					
Reversal of items relating to retirement benefits debited or credited to the CI&E Statement	35.9				(35.9)
Employer's pension contributions and direct payments to pensioners payable in the year	(25.0)				25.0
Adjustments primarily involving the Collection Fund Adjustment Account:					
Amount by which council tax income credited to the CI&E Statement is different from council tax income calculated for the year in accordance with statutory requirements	(0.2)				0.2
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	(1.8)				1.8
Adjustment primarily involving the Accumulated Absences Account					
Amount by which officer remuneration charged to the CI&E Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	1.8				(1.8)
Sub Total	**17.3**	**(0.1)**	**0.3**	**1.1**	**(18.6)**
Transfer to/(from) earmarked reserves	**10.4**	**(10.4)**			**0.0**
Total Adjustments	**27.7**	**(10.5)**	**0.3**	**1.1**	**(18.6)**

2015/16	Usable Reserves				
	General Fund (non Earmarked) Balance	General Fund (Earmarked) Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£m	£m	£m	£m	£m
Adjustments primarily involving the Capital Adjustment Account:					
Reversal of items debited or credited to the CI&E Statement:					
Charges for depreciation and impairment of non-current assets	45.8				(45.8)
Amortisation of intangible assets	0.1				(0.1)
Capital grants and contributions applied	(52.7)				52.7
Revenue expenditure funded from capital under statute	15.6				(15.6)
Net gain of loss on sale or derecognition of non-current assets and non-current assets held for sale					
Gain/loss on operating activities	7.9				(7.9)
Loss on investment on assets transferred to other bodies	12.9				(12.9)
Insertion of items not debited or credited to the CI&E Statement:					
Statutory provision for the financing of capital investment	(16.4)				16.4
Capital expenditure charged against the General Fund	(6.4)	0.3			6.1
Adjustments primarily involving the Capital Grants Unapplied Account:					
Capital grants & contributions unapplied credited to the CI&E Statement				45.5	3.1
Application of grants to capital financing transferred to Capital Adjustment Account				(48.6)	
Adjustments primarily involving the Capital Receipts Reserve:					
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the CI&E Statement	(5.6)		5.6		
Use of Capital Receipts Reserve to finance new capital expenditure			(3.7)		3.7
Adjustments primarily involving the Pensions Reserve:					
Reversal of items relating to retirement benefits debited or credited to the CI&E Statement	40.6				(40.6)
Employer's pension contributions and direct payments to pensioners payable in the year	(24.2)				24.2
Adjustments primarily involving the Collection Fund Adjustment Account:					
Amount by which council tax income credited to the CI&E Statement is different from council tax income calculated for the year in accordance with statutory requirements	(0.2)				0.2
Amount by which National Non-Domestic Rates income credited to the CI&E Statement is different from Non-Domestic Rates income calculated for the year in accordance with statutory requirements	0.6				(0.6)
Adjustment primarily involving the Accumulated Absences Account					
Amount by which officer remuneration charged to the CI&E Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(1.5)				1.5
Sub Total	**16.5**	**0.3**	**1.9**	**(3.1)**	**(15.6)**
Transfer to/(from) earmarked reserves	8.3	(8.3)			
Total Adjustments	**24.8**	**(8.0)**	**1.9**	**(3.1)**	**(15.6)**

1.03 Segmental reporting

1.03.1 Segmental Reporting 2016-17 (£m)

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

Segmental Reporting Comparatives for 2015-16 (Re-stated) (£m)

	Adult Services	Public Health	Children's Services	Economy & Infrastructure	Commercial & Change	Total
Income from Fees and Charges	(32.8)	(0.9)	(29.4)	(22.0)	(16.3)	(101.4)
Depreciation and Impairment	0.4		21.5	22.1	2.0	46.0
Premises Costs	1.2		26.0	(1.8)	6.3	31.7
Transport Costs	2.1		13.4	1.7	0.1	17.3
Third Party Payments	141.5	16.9	80.4	64.2	5.2	308.2

1.03.2 Expenditure and Income Analysed by Nature

2015/16 £m		2016/17 £m
	Expenditure	
280.7	Employee benefits expenses	271.2
451.5	Other service expenses	441.7
46.0	Depreciation amortisation and impairment	50.6
15.2	Loss on disposal of non-current assets	28.8
55.6	Interest payments	59.7
0.2	Precepts and levies	0.2
849.2	**Total Expenditure**	**852.3**
	Income	
(101.4)	Fees and Charges and Other Service Income	(97.8)
(270.2)	Income from Council tax and Business Rates	(286.6)
(321.8)	Government Grants and Contributions	(314.2)
(101.6)	Other Grants	(90.4)
(26.6)	Interest and Investment Income	(33.0)
(2.8)	Other	(1.6)
(824.4)	**Total Income**	**(823.6)**
24.8	**Net Deficit on Provision of Services**	**28.7**

1.04. Agency income and expenditure

1.04.1 Registered Nursing Care Contributions

The County Council makes payments on behalf of the Worcestershire Clinical Commissioning Groups (CCGs) in respect of Registered Nursing Care Contributions. In 2016/17 the payments made were £10.8 million (2015/16 £8.1m) and income received of £11.0 million (2015/16 £8.0m). The cost to the County Council of administering this scheme is £53,031 (2015/16 £53,031).

1.04.2 Council Tax Income

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

2015/16 £m		2016/17 £m
	Income and Expenditure Statement	
(0.2)	**Council tax precept – billing authorities surplus/(deficit)**	(0.2)
	Balance Sheet	
7.9	**Debtors**	9.8
(4.1)	**Creditors**	(5.8)
3.8	**Collection fund adjustment account**	**4.0**

1.04.3 Non- Domestic Rates Income

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

2015/16 £m		2016/17 £m
	Income and Expenditure Statement	
0.6	Non domestic rates – billing authorities surplus/(deficit)	(1.8)
	Balance Sheet	
0.4	Debtors	1.8
(0.9)	Creditors	(0.3)
(1.5)	Provision for appeals	(1.7)
(2.0)	**Collection fund adjustment account**	**(0.2)**

1.05 Section 75 framework partnership agreements

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

Partnership expenditure (outturn) has been split to show what is controlled by the Clinical Commissioning Groups and the County Council for 2016/17. Included in the WCC contribution is £38.1m Better Care Fund.

Where services are controlled by the County Council the income and expenditure is reflected within the Net Cost of Services in the Comprehensive Income and Expenditure Statement. This also includes the County Council's proportion of jointly controlled budgets. Where services are hosted by the County Council, but controlled by the Clinical Commissioning Groups, the income and expenditure is not reflected in the County Council's accounts.

Partnership income	Partnership expenditure	Net partnership expenditure	CCG Controlled	WCC contribution		Partnership income	Partnership expenditure	Net partnership expenditure	CCG Controlled	WCC contribution
		2015/16						2016/17		
£m	£m	£m	£m	£m		£m	£m	£m	£m	£m
(120.4)	121.1	0.7	72.5	48.6	Consolidated Adult Social Care Services	(122.2)	124.3	2.1	73.9	50.4
(18.7)	17.5	(1.2)	13.6	3.9	Consolidated Children's and Education Services	(19.4)	18.5	(0.9)	15.8	2.7
(139.1)	**138.6**	**(0.5)**	**86.1**	**52.5**		**(141.6)**	**142.8**	**1.2**	**89.7**	**53.1**

1.06 External audit costs

2015/16		2016/17
£m		£m
0.2	Fees payable with regard to external audit services	0.1

Included in this figure is £95,000 (2015/16: £95,000) for fees payable for statutory audit services, £10,000 (2015/16: £60,000) for additional audit work, and £10,000 (2015/16: £nil) for non-audit fees.

1.07 Officers' remuneration

1.07.1 Remuneration over £50,000 per annum

2015/16 Total	Total Remuneration to Employees	2016/17 VA & Foundation Schools	Teachers	Non Teachers	Total
95	£50,000 to £54,999	11	49	20	80
74	£55,000 to £59,999	12	42	21	75
46	£60,000 to £64,999	4	32	12	48
27	£65,000 to £69,999	4	19	4	27
14	£70,000 to £74,999	1	9	3	13
3	£75,000 to £79,999		2	6	8
5	£80,000 to £84,999		2	4	6
6	£85,000 to £89,999	1		2	3
5	£90,000 to £94,999		2	4	6
4	£95,000 to £99,999		1	2	3
2	£100,000 to £104,999	1	1	3	5
1	£105,000 to £109,999				
	£110,000 to £114,999				
2	£115,000 to £119,999				
1	£120,000 to £124,999			1	1
	£125,000 to £129,999			1	1
	£130,000 to £134,999				
	£135,000 to £139,999				
	£145,000 to £149,999				
	£150,000 to £154,999				
1	£155,000 to £159,999				
	£160,000 to £164,999			1	1
286		**34**	**159**	**84**	**277**

Remuneration for these purposes includes all amounts paid to or receivable by an employee, and includes sums by way of expenses, allowances and the money value of any other benefits received other than in cash. The employees include senior employees shown in Note 1.07.2. Teachers include those in Voluntary controlled schools.

1.07.2 Senior employees' remuneration

2016/17

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

A) The Director of Children, Families and Communities started in post 1 June 2016.
B) The Director of Adult Services commenced in post on 1 July 2016.
C) The Interim Director of Commercial and Change commenced in post on 1 July 2016.
D) The Director of Public Health commenced in post in August 2016.

2015/16

Post Title	Salary £	National Insurance £	Expense allowances £	Pension Contributions £	Total £
Chief Executive, Clare Marchant	155,523	19,179	1,422	19,352	195,476
Director of Adult Services & Health (left 28/2/16)	118,048	14,182	1,142	16,242	149,614
Acting Director of Adult Social Care	81,887	9,018	779	10,189	101,873
Acting Director of Public Health	98,453	11,332	981	14,079	124,845
Director of Economy & Infrastructure Services	120,633	14,365	120	15,010	150,128
Director of Children's, Families and Communities Services (left 27/9/15)	58,611	6,947	401	7,517	73,476
Director of Commercial and Change	116,219	13,755	(11,627)	14,462	132,809
Chief Financial Officer	97,776	11,210	1,251	12,166	122,403
	847,150	**98,988**	**(5,531)**	**109,017**	**1,050,624**

1.08 Termination benefits and exit packages

2015/16 Total number of exit packages	2015/16 Total cost of exit packages £m	Exit package cost band (including special payments)	2016/17 Total number of exit packages	2016/17 Total cost of exit packages £m
81	0.5	**£0 - £20,000**	78	0.5
17	0.5	**£20,001 - £40,000**	21	0.6
4	0.2	**£40,001 - £60,000**	7	0.3
		£60,001 - £80,000		
2	0.2	**£80,001 - £100,000**	2	0.2
		£101,001 - £150,000	4	0.5
		£151,000 - £200,000	**1**	**0.2**
104	**1.4**	**Total Termination**	**113**	**2.3**

1.09 Grant and contribution income

1.9.1 Comprehensive Income and Expenditure Statement - credited to services

2015/16 £m		2016/17 £m
	Adult Services & Health	
12.1	Social Care in Support of Health	
2.5	IDTS	3.2
3.7	Care Act	0.2
2.3	Better Care Fund	13.9
0.7	Other	0.1
21.3		**17.4**
	Public Health	
28.1	Public Health	30.6
	Other	0.2
28.1		**30.8**
	Children, Families and Communities	
221.3	Dedicated Schools Grant	217.5
5.0	Education Service Grant	4.5
11.6	Pupil Premium	11.0
4.8	Libraries & Community	4.9
4.7	Bromsgrove Schools PFI Grant	4.6
3.1	Post 16 Learning Skills Council	2.9
5.7	Universal Free School Meals	5.6
5.5	Other	6.0
261.7		**257.0**
	Economy and Infrastructure	
0.2	Transport	0.6
1.8	Waste Disposal Private Finance Initiative	1.8
0.2	Environment / Winter Damage	0.1
5.2	Other	1.6
7.4		**4.1**
	Other	
2.7	New Homes	3.5
0.6	Other	1.4
3.3		**4.9**
321.8	**Total Credited to Services**	**314.2**

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

2015/16 £m	Credited to taxation and non-specific grant income:	2016/17 £m
54.4	Revenue Support Grant	36.3
1.7	Small Business Rate support	1.5
56.1	**Total non-ring fenced Government grants**	**37.8**
	Capital Grants	
15.0	Structural Maintenance	14.6
12.8	Worcestershire Local Growth Fund	24.0
4.8	Greater Birmingham & Solihull Local Growth Fund	
2.1	Transport	3.3
0.8	Broadband Project	1.0
8.3	Basic needs	10.8
4.2	LA Schools Condition Act	3.9
1.3	Social Care Act	
1.5	Other Capital Grants	1.8
50.8	**Total Capital Grants**	**59.4**
	Contributions:	
1.9	Other	2.6
52.7	**Capital Grants and Contributions**	**62.0**
(7.2)	Less Grants applied to CI&E re Revenue expenditure funded from capital under statute (REFCUS)	**(9.4)**
45.5	**Total Capital Grants and Contributions**	**52.6**
101.6	**Total credited to taxation and non-specific grant income**	**90.4**

1.09.3 Dedicated schools grant

	Central Expenditure £m	Individual Schools Budget £m	Total £m
Final DSG for 2016/17			369.9
Academy Recoupment 2016/17			(153.0)
Total DSG after recoupment			216.9
Brought forward from 2015/16			9.9
Agreed budgeted distribution in 2016/17	37.1	189.7	226.8
In year adjustments	1.3	(0.7)	0.6
Final budgeted distribution	38.4	189.0	227.4
Actual expenditure	(32.2)	(186.3)	(218.5)
Carry forward to 2017/18	**6.2**	**2.7**	**8.9**

1.10 Related parties

Central Government

Central Government has significant influence over the general operations of the County Council. It is responsible for providing the statutory framework within which the County Council works, provides funding in the form of grants, and sets the terms of many of the relationships that the County Council has with other organisations. Grants received from government departments are set out in the analysis in note 1.09.

Members

Members of the County Council have direct control over the County Council's financial and operating policies. A total of £0.9 million allowances and expenses were paid to members in 2016/17 (2015/16 £0.9 million). Members of the County Council are involved with other local organisations that have provided services for, or received services from the County Council. There are no related party disclosures to be made for elected members.

Officers

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

Section 75 Framework Partnership Agreements

The County Council has an integrated commissioning of services with Health through a Section 75 arrangement including Better Care Fund (details given in 1.05). Monitoring is through the Integrated Commissioning Executive Officers Group (ICEOG) agreed and controlled through the Clinical Commissioning Group board and the Health and Wellbeing Board.

Worcestershire County Council Pension Fund

At the year end, the County Council charged the Fund £1.1 million (£1.1million in 2015/16) for expenses incurred in administering the Pension Fund. Further details are given in note 2.12 Defined Benefit Pension Schemes.

West Mercia Energy Joint Committee

The County Council is represented by its elected members on the West Mercia Energy Joint Committee (WME). WME offers energy procurement and management on behalf of its four owning authorities and a number of outside bodies. WME is constituted as a Joint Committee and the County Council is one of four constituent authorities, alongside Shropshire Council, Herefordshire Council and Telford and Wrekin Council. The parties have rights to the net assets of the arrangement and, as such, this is judged to be a joint venture. As this is not a material interest for the County Council, there is no requirement to produce group accounts. The County Council spent £6.0 million with WME in 2016/17 (£6.5 million in 2015/16) and this is reflected in the Comprehensive Income and Expenditure Statement.

Place Partnership

Place Partnership Limited is a single asset management company co-owned by Worcestershire County Council, Hereford & Worcester Fire Authority, Redditch Borough Council, Warwickshire Police, West Mercia Police and Worcester City Council, each party has equal shares and equal voting rights. Any profits made by Place Partnership Limited would be distributed equally to members. 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 the party's boundaries. In 2016/17, the operating cost for Worcestershire County Council was £4.8 million (2015/16 £2.5 million) and this is reflected in the Comprehensive Income and Expenditure Statement. Place Partnership Limited has not been fully consolidated into Worcestershire County Council's accounts as a Joint Operation, because there is no material difference to the costs already reflected.

Worcestershire Local Enterprise Partnership (LEP)

The County Council is the accounting body in administering the Worcestershire Local Enterprise Partnership (LEP). In 2016/17 there was an annual expenditure of £25.1 million of which £24.1 million relates to Local Growth fund (capital) and £1.0 million relates to revenue. In addition £0.5 million was advanced from the Growing Places fund. The LEP is a partnership of local councils, local businesses, trade organisations and the voluntary sector working together with the aim of developing the best business environment for the County. This is not a defined related party but is of interest to readers of the accounts. Where funds are allocated to the County Council the expenditure and income is reflected in the appropriate service costs within the Comprehensive Income and Expenditure Statement and the capital programme.

Local Growth Fund schemes where expenditure in 2016/17 is in excess of £1 million are Worcester Tech Park (W6) (£4.7 million), Southern Link Road Phase 3A (£11.2 million) and Worcester Parkway (£2.9 million).

Set out below is the 2016/17 Income and Expenditure Memorandum Account for Worcestershire LEP. Whilst this income and expenditure is not consolidated into the County Council's Income and Expenditure Account, the following transactions have been processed by the County Council in its role as the Accountable Body of Worcestershire LEP.

Worcestershire LEP
Year Ended 31 March 2017

LEP Statement of Income and Expenditure	Actual £'000
Income	
Transfer from Reserves	167,340
Core Funding	250,000
Growth Plan	250,000
Growth Hub	205,000
Local Government Contribution	155,000
Sponsorship & other income	34,080
Apprenticeship Event	36,510
Total Income	**1,097,930**
Expenditure	
Staffing (including travel and subsistence)	643,127
Growth Plan Project Activity	24,760
External Consultancy Support/Research	59,927
Exhibitions and Events	99,134
Services and Supplies	29,610
Marketing/Promotions	9,430
Training	13,156
Other fees/ expenses	40,267
Apprenticeship Event	34,185
Total Expenditure	**953,596**
Excess of income over expenditure ye 31.3.17	**144,334**

Worcestershire Business Rates Pool

The County Council is the lead authority for the Worcestershire Business Rates Pool whose members are the County Council, Malvern Hills District Council, Worcester City Council, Wychavon District Council and Wyre Forest District Council. The Pool's aims are to drive forward economic growth and mitigate the effects of the volatility in local business rates with the additional local benefits devolved through the business rates retention scheme. The value of transactions in 2016/17 is £37.5 million (2015/16 £41.5 million) of which £36.3 million (2015/16 £40.7 million) is included in the Council's non-domestic rates income in Note 1.13 Taxation and Non-Specific Grants. This is not a related party under the definition but of interest to the stakeholders.

West Midlands Rail Devolution

The Council joined West Midlands Rail Limited and appointed directors to its Board pursuant to Section 1 of the Localism Act 2011, responsible for awarding New West Midlands Rail Franchise. New Rail Franchise is due to start October 2017. A Partnership agreement has been signed to enable the Department of Transport to delegate these responsibilities to West Midlands Rail Limited. This is not a related party under the definition but is of interest to the stakeholders.

Other Public Bodies

The County Council has shared service arrangements with Worcestershire district councils and acts as lead body for a number of smaller partnerships. Museums are a shared service between Worcestershire County Council and Worcester City Council. Worcestershire County Council is the accountable body for Improvement & Efficiency West Midlands.

1.11 Other operating expenditure

2015/16 £m		2016/17 £m
0.4	Admin Expenses Pension	0.4
2.3	Loss on disposal of non-current assets	4.3
2.7		**4.7**

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.

1.12 Financing and investment income and expenditure

2015/16 £m		2016/17 £m
19.3	Interest payable and similar charges	21.2
12.4	Pensions interest cost & expected return on pensions	13.2
12.9	Loss on transfer of schools to other bodies	24.5
(2.7)	Interest receivable and similar income	(7.4)
41.9		**51.5**

1.13 Taxation and Non Specific Grants

2015/16 £m		2016/17 £m
(214.4)	Council tax income	(228.2)
(55.8)	Non domestic rates	(58.4)
(56.1)	Non-ring fenced government grants	(40.4)
(45.5)	Capital grants and contributions	(51.3)
0.2	Environment Agency	0.2
(371.6)		**(378.1)**

1.14 Leases

1.14.1 County Council as Lessee – operating leases

Operating lease payments of £1.0 million were made in 2016/17 (2015/16 £1.0m). The County Council's outstanding obligations under lease agreements as at 31 March 2017 totalled £13.7 million (31 March 2016 £14.2m).

	£m
Leases expiring in less than 1 year	0.1
Leases expiring between 1 and 5 years	0.3
Leases expiring in 5 years+	13.3

The County Council leases photocopiers in a number of its establishments, on individual lease arrangements, with an estimated total asset value at 31 March 2017 of £1.1 million. None of the photocopiers is individually of material value and there has been no adjustment to the County Council's Balance Sheet.

2. Notes Supporting the Balance Sheet

2.01 Property, Plant and Equipment

2.01.1 Movements in 2016/17

	Land and Buildings £m	Vehicles, plant, furniture & equipment £m	Infrastructure assets £m	Community Assets £m	Assets under Construction £m	Total Property, Plant & Equipment £m	PFI Assets included in PPE £m
Cost or valuation							
At 1 April 2016	**611.5**	**57.8**	**422.3**	**0.3**	**54.3**	**1,146.2**	**87.0**
Additions	85.6	52.5	75.1		(27.8)	**185.4**	112.4
Revaluation increases recognised in Revaluation Reserve	17.3					**17.3**	1.4
Revaluation decreases recognised in Revaluation Reserve	(7.2)					**(7.2)**	
De-recognition/ Disposals	(34.3)					**(34.3)**	
Assets reclassified to other categories	(8.8)					**(8.8)**	
At 31 March 2017	**664.1**	**110.3**	**497.4**	**0.3**	**26.5**	**1,298.6**	**200.8**

	Land and Buildings £m	Vehicles, plant, furniture & equipment £m	Infrastructure assets £m	Community Assets £m	Assets under Construction £m	Total Property, Plant & Equipment £m	PFI Assets included in PPE £m
Accumulated depreciation and impairment							
At 1 April 2016	**(90.1)**	**(51.1)**	**(184.0)**			**(325.2)**	**(7.3)**
Depreciation written out to the Revaluation Reserve	(4.4)					**(4.4)**	
Depreciation written out to the Surplus / Deficit on the Provision of Services	(8.3)	(6.5)	(23.5)			**(38.3)**	(6.1)
De-recognition – disposals	4.5					**4.5**	
Assets reclassified to other categories	1.0					**1.0**	
At 31 March 2017	**(97.3)**	**(57.6)**	**(207.5)**	**(0.0)**	**0.0**	**(362.4)**	**(13.4)**
Net book value							
At 31 March 2017	**566.8**	**52.7**	**289.9**	**0.3**	**26.5**	**936.2**	**187.4**
At 31 March 2016	**521.4**	**6.7**	**238.3**	**0.3**	**54.3**	**821.0**	**79.7**

2.01.2 Comparative Movements in 2015/16

	Land and Buildings	Vehicles, plant, furniture & equipment	Infrastructure assets	Community Assets	Assets under Construction	Total Property, Plant & Equipment	PFI Assets included in PPE
	£m	£m	£m	£m	£m	£m	£m
Cost or valuation							
At 1 April 2015 (restated)	**619.5**	**55.6**	**386.4**	**0.3**	**68.6**	**1,130.4**	**84.9**
Additions	48.3	1.6	35.9		(14.3)	**71.5**	1.1
Revaluation increases recognised in Revaluation Reserve	11.4	0.7				**12.1**	1.0
Revaluation decreases recognised in Revaluation Reserve	(2.5)					**(2.5)**	
Revaluation decreases recognised in the deficit on the Provision of Services	(11.0)					**(11.0)**	
De-recognition – disposals	(46.7)	(0.1)				**(46.8)**	
Assets reclassified to other categories	(7.5)					**(7.5)**	
At 31 March 2016	**611.5**	**57.8**	**422.3**	**0.3**	**54.3**	**1,146.2**	**87.0**

	Land and Buildings	Vehicles, plant, furniture & equipment	Infrastructure assets	Community Assets	Assets under Construction	Total Property, Plant & Equipment	PFI Assets included in PPE
	£m	£m	£m	£m	£m	£m	£m
Accumulated depreciation and impairment							
At 1 April 2015 (restated)	**(108.6)**	**(48.3)**	**(164.0)**			**(320.9)**	**(5.8)**
Depreciation written out to the Revaluation Reserve	(1.6)					**(1.6)**	
Depreciation written out to the Surplus / Deficit on the Provision of Services	(8.6)	(2.8)	(20.0)			**(31.4)**	(1.5)
De-recognition – disposals	28.1					**28.1**	
Assets reclassified to other categories	0.6					**0.6**	
At 31 March 2016	**(90.1)**	**(51.1)**	**(184.0)**			**(325.2)**	**(7.3)**
Net book value							
At 31 March 2016	**521.4**	**6.7**	**238.3**	**0.3**	**54.3**	**821.0**	**79.7**
At 31 March 2015	**510.9**	**7.3**	**222.4**	**0.3**	**68.6**	**809.5**	**79.1**

2.01.3 Revaluations

	Land and Buildings	Vehicles, plant, furniture & equipment	Infrastructure assets	Community Assets	Assets under Construction	Total Property, Plant & Equipment	PFI Assets included in PPE
	£m	£m	£m	£m	£m	£m	£m
Fair value as at:							
31 March 2017	183.7	47.4				231.1	
31 March 2016	104.5					104.5	
31 March 2015	121.9					121.9	
31 March 2014	149.1					149.1	
31 March 2013	99.5					99.5	
Held at cost	2.3	62.9	497.4	0.3	29.6	592.4	
Total cost or valuation	**661.0**	**110.3**	**497.4**	**0.3**	**29.6**	**1,298.5**	

Assets held at cost mainly comprise assets relating to the Waste PFI agreement. These assets are held at a summary level and are revalued but not separately accounted for.

2.01.4 Contractual commitments for property, plant and equipment

As at 31 March 2017 the County Council has a capital programme comprising capital projects amounting to £195.7 million (2015/16 £430.4 m).

Major schemes where contracts have been let:	**£m**
Worcestershire Parkway Regional Interchange	22.1
Holyoaks First School	6.1
Somers Park Primary School Expansion	2.8
Structural Maintenance Programme	2.1
Local Broadband Phase 2	1.8
Sub-total	34.9
Committed schemes less than £2m	13.3
Major schemes where contracts have been let:	48.2

2.01.5 School assets

There are 242 local authority maintained, academy and free schools in Worcestershire. The level of control by the County Council over the use of the assets has determined which assets are held on the County Councils Balance Sheet. The County Council may have residual values for some retained assets shown against a category primarily off Balance Sheet (for example mobile classrooms).

	Number of schools	Value held on Balance Sheet at 31 March 2017 £m	Status
Community	75	292.1	On Balance Sheet
PFI	6	56.2	On Balance Sheet
Voluntary controlled	58	3.3	Off Balance Sheet
Voluntary aided	28	0.3	Off Balance Sheet
Academy	72	7.4	Off Balance Sheet
Free School	3		Off Balance Sheet
	242	**359.3**	

2.01.6 Non-Operational Assets

2015/16		2016/17
£m		£m
6.1	Surplus assets	10.2
2.8	Assets Held For Sale	1.5
8.9		**11.7**

2.02 Downward revaluations and disposal losses

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

2015/16 £m		2016/17 £m
13.5	Downward Revaluations - other land and buildings	7.2
3.7	Downward Revaluations - non-operational	4.6
15.2	Disposal losses – other land & buildings	28.8
32.4		**40.6**

2.03 Capital Expenditure and Capital Financing

2015/16 £m		2016/17 £m
421.4	**Opening capital financing requirement**	**483.8**
	Capital investment:	
71.5	Property, plant and equipment	72.9
54.5	Loan on PFI project	47.4
0.1	Intangible assets	1.2
15.6	Revenue expenditure funded from capital under statute	10.5
141.7	Total Capital Investment	132.0
	Sources of finance:	
(3.7)	Capital receipts	(2.4)
(55.8)	Government grants & other contributions	(60.7)
	Sums set aside from revenue:	
(6.1)	Direct revenue contributions	(5.2)
(13.7)	MRP/loans fund principal (excluding PFI)	(13.7)
483.8	**Closing Capital Financing Requirement**	**533.8**
	Explanation of movements in year	
62.4	Increase in underlying need to borrow (supported by government financial assistance)	50.1
62.4	***Increase / (decrease) in Capital Financing Requirement***	***50.0***

2.04 Private Finance Initiatives

2.04.1 Waste Disposal PFI

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

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

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.

2.04.2 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.

2.04.3 Worcester Library and History Centre (The Hive) PFI

In January 2010 the County Council entered into a PFI contract with Galliford Try Investments Ltd for the construction and provision of a new Worcester Library and History Centre (The Hive). The Hive became operational in January 2012 and opened to the public in the summer of 2012.

The Hive is a partnership initiative between the County Council and the University of Worcester ('the University')for the provision of a fully-integrated public and University library, plus the Worcestershire Record Office, Worcestershire Historic Environment and Archaeology Service and Worcestershire Hub Customer Service Centre.

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

2.04.4 Value of Assets and Liabilities under PFI Contracts

PPE - land & buildings					PPE - vehicle, plant & equipment
	Waste disposal	Bromsgrove schools	The Hive	Total	Waste disposal
	£m	£m	£m	£m	£m
Balance at 31 March 2016	**6.5**	**48.8**	**23.2**	**78.5**	**1.3**
Additions	67.5	0.1		67.6	44.8
Revaluations			1.4	1.4	
Depreciation	(2.9)	(0.5)	(0.2)	(3.6)	(2.5)
Balance at 31 March 2017	**71.1**	**48.4**	**24.4**	**143.9**	**43.6**

The additions figures above include assets relating to the Energy for Waste PFI

Finance lease liability

	Waste disposal	Bromsgrove schools	The Hive	Total
	£m	£m	£m	£m
Balance at 31 March 2016	**(7.7)**	**(54.4)**	**(19.2)**	**(81.3)**
Additions	(112.4)			**(112.4)**
Payments	1.5	1.0	0.4	**2.9**
Balance at 31 March 2017	**(118.6)**	**(53.4)**	**(18.8)**	**(190.8)**

2.04.5 Details of Payments due to be made under PFI Contracts

	Repayment of liability £m	Service Charge £m	Interest £m	Total £m
Payments due within one year	6.0	33.6	13.3	52.9
Payments due within 2 to 5 years	30.2	134.8	49.0	214.0
Payments due within 6 to 10 years	23.2	54.6	36.7	114.5
Payments due within 11 to 15 years	18.4	23.2	20.3	61.9
Payments due within 16 to 20 years	28.0	23.0	10.3	61.3
Payments due within 21 to 25 years	5.0	3.7	0.4	9.1

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

2.05. Financial instruments

2.05.1 Categories of Financial Instruments

Long-term 31 March 2016	Current 31 March 2016		Long-term 31 March 2017	Current 31 March 2017
£m	£m		£m	£m
		Investments		
	45.0	Loans & receivables		21.0
3.0		Available for sale financial assets	3.1	0.0
3.0	45.0		3.1	21.0
		Cash Equivalents		
	10.0	Cash equivalents at amortised cost		9.7
	14.1	Available for sale Investments		8.8
	24.1			18.5
		Debtors		
80.0	16.8	Loans & receivables	122.8	19.2
		Borrowings		
(298.4)	(40.3)	Financial liabilities at amortised cost	(325.4)	(42.6)
		Other long term liabilities		
(81.3)		PFI and finance lease liabilities	(190.8)	
		Creditors	(190.8)	
(1.6)	(57.8)	Financial liabilities at amortised cost	(1.8)	(58.7)

2.05.2 Income, expense, gains and losses

2015/16				2016/17		
Financial liabilities at amortised cost	Financial assets, loans & receivables	Total		Financial liabilities at amortised cost	Financial assets, loans & receivables	Total
£m	£m	£m		£m	£m	£m
(19.3)	(0.1)	(19.4)	Interest expense	(21.2)		**(21.2)**
	2.8	2.8	Interest income		7.4	**7.4**
(19.3)	**2.7**	**(16.6)**	**Net gain / (loss) for the year**	**(21.2)**	**7.4**	**(13.8)**

2.05.3 Fair value of assets and liabilities

31 March 2016			31 March 2017	
Carrying amount	Fair value		Carrying amount	Fair value
£m	£m		£m	£m
		Financial liabilities		
397.3	468.4	Financial liabilities	426.6	516.1
81.3	137.0	PFI liabilities	190.8	198.0
1.6	1.6	Long Term Creditors	1.8	1.8
		Financial assets		
65.7	65.7	Loans & receivables	43.3	43.3
80.0	80.0	Long Term Debtors	122.9	122.9
24.1	24.1	Short term investments held as cash	18.5	18.5

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

31st March 2016 Level 2	Level 3		31st March 2017 Level 2	Level 3
£m	£m		£m	£m
	2.9	Malvern Hills Science Park	0.1	2.9
0.1		Municipal Bonds Agency	0.1	
0.1	**2.9**	**Total Available for Sale Assets**	**0.2**	**2.9**

All other Financial Assets and Liabilities are carried at Amortised Cost, see 2.06 Long Term Investments for more information.

Investments include £11.9 million invested by the Council for the Hereford and Worcester Fire Authority, under a Service Level Agreement which allows the Fire Authority to recall the money with 7 days' notice. Note 2.09 references the short term creditors position.

2.05.4 Nature and extent of risks arising from financial instruments

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

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

The County Council's overall risk management procedures focus on the unpredictability of financial markets and seek to minimise potential adverse effects on the resources available to fund services. The procedures for risk management are set out through a legal framework based on the Local Government Act 2003 and associated regulations. These require the County Council to comply with the CIPFA Prudential Code, the CIPFA Code of Practice on Treasury Management in the Public Services and investment guidance issued through the Act. Risk management is carried out by a central treasury team under policies approved by the County Council in the Treasury Management Strategy. The Strategy for 2016/17 was approved by Council on 11 February 2016.

Credit risk

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

During 2016/17 the County Council defined a body with high credit quality as Short Term of F1+ and Long Term AA (Fitch or equivalent rating); the County Council also placed funds with part government-owned banks and AAA-rated Money Market Funds. All three ratings agencies were used with the lowest of the three opinions being used. In practice the County Council deposited its surplus funds with the UK Central Government via the Debt Management Office, RBS Group, Lloyds Banking group, five selected Money Market Funds and with other Local Authorities. There was a limit of £10m with each counterparty, other than the DMO account which has no limit.

The Authority's maximum exposure to credit risk in relation to its investments in other Local Authorities and the DMO of £21 million has been assessed as a negligible sum; all other deposits of £18.5 million may be readily converted into cash and as such are subject to negligible credit risk. Recent experience has shown that it is unprecedented for such entities to be unable to meet their commitments. A theoretical risk of irrecoverability applies to all of the Authority's deposits, but there was no evidence as at 31st March 2017 that this was likely to crystallise

The County Council does not generally allow credit for customers, £5.4 million of the £11.2 million balance is past its due date for payment and can be analysed as follows:

	£m
One to three months	1.6
Three to six months	0.6
Six months to one year	0.8
More than one year	2.4
Total	**5.4**

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

Liquidity risk

The County Council has a comprehensive cash flow system that seeks to ensure that cash is available as needed. As the County Council has ready access to borrowings from the money markets to cover any day to day cash flow need and from the Public Works Loans Board and money markets for longer term funds, there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. All sums invested (£39.5 million) are due to be repaid in less than one year.

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

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

31 March 2016 £m		31 March 2017 £m
40.3	Maturing within one year	42.6
27.7	Maturing in 1-2 years	33.3
21.7	Maturing in 2-5 years	23.4
47.9	Maturing in 5-10 years	56.4
201.1	Maturing in more than 10 years	212.2
338.7	**Total**	**367.9**

Market risk - interest rates

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

- Borrowings at variable rates – the interest expense charged to the Surplus or Deficit on the Provision of Services will rise;
- Borrowings at fixed rates – the fair value of the borrowing will fall;
- Investments at variable rates – the interest income credited to the Surplus or Deficit on the Provision of Services will rise; and
- Investments at fixed rates – the fair value of the assets will fall.

Borrowings are not carried at fair value on the Balance Sheet, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance. No variable rate borrowing or investments were held by the County Council during the financial year ending 31 March 2017.

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

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

Market risk - price risk

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

The County Council holds Preference Shares to the value of £3.0 million in Malvern Hills Science Park, a joint venture with Malvern Hills District Council and Herefordshire and Worcestershire Chamber of Commerce. No active market exists for this class of share and, as a result of a Level 3 valuation given, this value is the lesser of the discounted cash flow of future dividends based on an assessment of similar assets or cost. Note 2.06 Long Term Investments gives further information.

2.06 Long term investments

31 March 2016 £m		31 March 2017 £m
2.9	Malvern Hills Science Park	3.0
0.1	Municipal Bonds Agency	0.1
3.0	**Total**	**3.1**

2.06.1 Malvern Hills Science Park

Malvern Hills Science Park is a limited company established by the County Council with its partners Malvern Hills District Council and the Hereford and Worcester Chamber of Commerce and Enterprise. The County Council holds 9 voting shares out of a total issue of 100. The County Council does not have a controlling interest in the company. In addition the County Council holds Preference shares of 957,103 P1 shares (957,103 in 2015/16) and 6,190 P2 shares (6,190 2015/16). 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 2016/17, is £2.9m (2015/16 £2.9m). This is shown on the Balance Sheet as a Long Term investment, and the asset is held as an available for sale financial asset (included in note 2.05.1). These shares are not publicly traded, therefore their value is not expected to change materially.

2.06.2 Municipal Bonds Agency

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

2.07 Debtors

31 March 2016 £m		31 March 2017 £m
	Long term debtors:	
76.4	Loans Treated as Capital Expenditure	119.3
1.9	Accrued Accommodation (Adult Social Care)	1.8
1.7	Other Long Term Debtors	1.8
80.0		**122.9**
	Short term debtors:	
6.2	Central government bodies	7.8
4.1	Other local authorities	3.9
4.7	NHS bodies	4.8
25.4	Other entities and individuals	29.9
40.4		**46.4**
120.4	**Total debtors**	**169.2**

2.08 Cash and cash equivalents

	Opening Balance 01/04/2016 £m	Movement During The Year £m	Closing Balance 31/03/2017 £m
Bank current accounts	(3.1)	4.2	1.1
Short Term investments held as cash	24.0	(5.5)	18.5
Total Cash and cash equivalents	**20.9**	**(1.3)**	**19.6**

2.09 Creditors – short term

31 March 2016 £m		31 March 2017 £m
(9.1)	Central Government Bodies	(13.1)
(18.7)	Other local authorities	(15.1)
(3.4)	NHS bodies	(3.9)
(0.2)	Public corporations & trading funds	(1.6)
(66.7)	Other entities and individuals	(72.3)
(98.1)	**Total**	**(106.0)**

Included in the short term creditors is £11.9 million which relates to money invested by the Council for the Hereford and Worcester Fire Authority. This money is invested under a Service Level Agreement which allows the Fire Authority to recall the money with 7 days' notice. Note 2.05 references the arrangement in terms of short term investments.

2.10 Other long term liabilities

2015/16 £m		2016/17 £m
(81.3)	PFI liabilities	(190.8)
(380.3)	Re-measurement of the net defined benefit	(445.7)
(3.7)	Teachers' Pension scheme Added year	(3.6)
(465.3)	**Other Long term Liabilities**	**(640.1)**

2.11 Defined Contribution Pension Schemes

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

2.11.1 Teachers' Pension Scheme

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

In 2016/17 the County Council paid £13.8 million (2015/16 £13.6m) to the Department for Education and Skills in respect of teachers' pension costs, which represents 16.5% (2015/16 15.5%) of teachers' pensionable pay.

In addition, the County Council is responsible for all pension payments relating to Teacher's added years it has awarded, together with the related increases. In 2016/17 these amounted to £0.4 million (2015/16 £0.4 m), representing 0.4% (2015/16 0.4%) of pensionable pay. The County Council's Actuary has calculated a long-term liability of £3.7 million in respect of these payments that will decline over time and this is included in the balance sheet under other long term liabilities.

2.11.2 NHS Pension Scheme

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

In 2016/17 the County Council paid £0.1 million (2015/16 £0.1m) to the NHS Superannuation scheme, which represents 14.3% (2015/16 14.3%) of NHS pensionable pay.

2.12 Defined Benefit Pension Schemes

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

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

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

The three principal risks to the scheme are:-
1. Market risk (volatility in stock prices, increase in interest rates and fluctuations in currency exchange rates);
2. Credit risk where a borrower does not make payments as promised; and
3. 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.

2.12.1 Transactions relating to post-employment benefits

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

Local Government Pension Scheme 2015/16 £m		Local Government Pension Scheme 2016/17 £m
	Comprehensive Income & Expenditure Statement	
	Cost of services:	
(27.2)	Current service cost	(22.8)
(0.6)	Settlements and curtailments	0.5
	Other Operating Expenses	
(0.4)	Administration expenses	(0.4)
	Financing & investment income & expenditure	
(36.3)	Interest on Pensions Liabilities	(38.5)
23.9	Interest on Pensions Assets	25.3
(40.6)	**Total post-employment benefit charged to the surplus or deficit on the Provision of Services**	**(35.9)**
	Re-measurement of the net defined liability charged to the Comprehensive Income & Expenditure Statement	
(37.2)	Return on Plan assets (excluding the amount included in net interest expense)	86.0
	Actuarial gains & losses arising on changes in experience	114.3
60.4	Actuarial gains & losses arising on changes in financial assumptions	(271.8)
	Actuarial gains & losses arising on changes in demographic assumptions	17.1
(17.4)	**Total post-employment benefit charged to the Comprehensive Income & Expenditure Statement**	**(90.3)**
	Movement in Reserves Statement	
(16.4)	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	(10.9)
	Actual amount charged against the General Fund Balance for pensions in the year:	
24.3	Employer's contributions payable to the scheme	24.9
(33.5)	Retirement benefits payable to pensioners	(34.3)

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

2015/ 16 £m		2016/17 £m
(37.2)	Return on Plan Assets (excluding the amount included in net interest expense)	86.0
0.0	Actuarial gains and losses arising from changes in experience	114.3
60.4	Actuarial gains and losses arising from changes in financial assumptions	(271.8)
0.0	Actuarial gains and losses arising from changes in demographic assumptions	17.1
0.3	(Increase)/decrease in Teachers Pension Liability	0.1
23.5	**Total**	**(54.3)**

2.12.2 Pension assets and liabilities recognised in the Balance Sheet

	2015/16 £m	2016/17 £m
Present value of liabilities	(1,089.0)	(1,259.4)
Fair value of assets	708.7	813.7
(Deficit) in the scheme	**(380.3)**	**(445.7)**

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

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

Reconciliation of present value of the scheme liabilities:

£m		£m
(1,112.3)	**Opening balance at 1 April**	**(1,089.0)**
(27.2)	Current service cost	(22.8)
(36.3)	Interest cost	(38.5)
(6.5)	Contributions by scheme participants	(6.2)
	Remeasurement (gains) and losses:	
	Actuarial gains & losses arising on changes in experience	114.3
60.4	Actuarial gains & losses arising on changes in financial assumptions	(271.8)
	Actuarial gains & losses arising on changes in demographic assumptions	17.1
33.5	Benefits paid	34.3
(0.6)	Curtailments	(1.1)
	Settlements	4.3
(1,089.0)	**Closing balance at 31 March**	**(1,259.4)**

Reconciliation of fair value of the scheme assets:

2015/16 £m		2016/17 £m
725.0	**Opening balance at 1 April**	**708.7**
23.9	Interest Income	25.3
(37.2)	Return on plan assets, excluding the amount included in the net interest expense Actuarial gains / (losses)	86.0
(0.4)	Administration expenses	(0.4)
24.3	Employer contributions	25.0
6.6	Contributions by scheme participants	6.1
(33.5)	Benefits paid	(34.3)
	Settlements	(2.7)
708.7	**Closing balance 31 March**	**813.7**

2.12.4 Local Government Pension Scheme assets comprised

2015/16 £m		Quoted (Y/N)	2016/17 £m
	Equities:		
5.2	UK Quoted	Y	4.2
242.0	Overseas quoted	Y	227.3
198.5	Pooled Investment Vehicle - UK Managed Funds	N	219.4
141.0	Pooled Investment Vehicle - UK Managed Funds - (overseas equities)	N	243.4
5.2	Pooled Investment Vehicle - Overseas Managed Funds	N	0.0
	Bonds:		
2.9	UK Corporate	Y	2.7
40.5	Overseas Corporate	Y	41.6
	Property:		
22.2	European Property Fund	N	22.9
8.3	UK Property Debt	N	7.5
1.6	Overseas Property Debt	N	4.1
	Alternatives:		
26.3	UK Infrastructure	N	22.0
	Cash:		
3.9	Cash Instruments	Y	1.9
3.8	Cash Accounts	Y	4.9
7.3	Net Current Assets	N	11.8
708.7	**Total**		**813.7**

2.12.5 Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The Local Government Pension Scheme has been assessed by Mercer Ltd, an independent firm of actuaries, and estimates for the County Council fund are based on the latest full valuation of the scheme as at 1 April 2016.

The principal assumptions used by the actuary are:

2015/16		2016/17
	Mortality assumptions	
	Longevity at 65 for current pensioners (years):	
23.5	Men	22.6
25.9	Women	25.6
	Longevity at 65 for future pensioners (years):	
25.8	Men	24.8
28.2	Women	27.9
	Financial assumptions	
2.0%	Rate of CPI inflation	2.3%
3.5%	Rate of increase in salaries	3.8%
2.0%	Rate of increase in pensions	2.3%
3.6%	Rate for discounting scheme liabilities	2.5%

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

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

	Increase in rate of	Increase (decrease) in Assumption
		£m
Discount Rate	0.1%	(21.5)
Inflation	0.1%	21.9
Pay	0.1%	3.8
Life Expectancy	1 year	24.9

2.12.7 Impact on the Council's cash flows

The weighted average duration of the defined benefit obligation for scheme members is 17 years (2015/16 18 years).

The County Council anticipates payments of £24.8 million expected contributions to the scheme in 2017/18.

3. Notes Supporting the Cash Flow Statement

3.01 Cash – operating activities

2015/16 £m		2016/17 £m
3.1	Interest received	0.3
(17.3)	Interest paid	(14.3)

2015/16 £m		2016/17 £m
	The surplus/deficit on the provision of services has been adjusted for the following non cash movements	
33.1	Depreciation	42.6
12.8	Impairment and downward valuations	7.7
0.1	Amortisation	0.4
(5.4)	(Decrease)/ Increase in Creditors	8.5
11.9	(Increase) / decrease in Debtors	(6.0)
16.4	Movement in pension liability	10.9
0.0	(Increase)/ decrease in Inventories	(0.5)
20.8	Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	31.5
0.8	Other non –cash items	(8.0)
90.5		**87.1**
	The surplus/deficit on the provision of services has been adjusted for the following items that are investing or financing activities	
(5.6)	Proceeds from the sale property plant and equipment, investment property and intangible assets	(2.7)
(52.7)	Any other items for which the cash effects are investing of financing cash flows	(62.0)
(58.3)		**(64.7)**

3.02. Cash - investing activities

2015/16 £m		2016/17 £m
(72.7)	Purchase of property, plant & equipment, investment property and intangible assets	(74.4)
(968.4)	Purchase of short-term & long-term investments	(944.4)
(57.4)	Other payments for investing activities	(35.8)
5.6	Proceeds from the sale of property, plant & equipment, investment property and intangible assets	2.7
970.9	Proceeds from short-term & long-term investments	968.4
52.7	Other receipts from investing activities	62.0
(69.3)	**Net cash flows from investing activities**	**(21.5)**

3.03. Cash – financing activities

2015/16 £m		2016/17 £m
83.3	Cash receipts of short-term & long-term borrowing	36.8
(2.7)	Cash payments for the reduction of the outstanding liabilities relating to finance leases & on-Balance Sheet PFI contracts	(2.8)
(6.8)	Repayments of short- and long-term borrowing	(7.5)
73.8	**Net cash flows from financing activities**	**26.5**

4. Notes supporting the Movement in Reserves Statement

4.01 Usable Reserves

	Opening Balance 01/04/16 £m	Contributions To £m	From £m	Closing Balance 31/03/17 £m
General fund	13.0		(1.0)	12.0
Earmarked specific reserves	109.0	43.0	(53.5)	98.5
Capital grants unapplied	30.4	52.4	(51.3)	31.5
Capital receipts reserve	5.1	2.7	(2.4)	5.4
Total Usable Reserves	**157.5**	**98.1**	**(108.2)**	**147.4**

4.02 Transfers to/from Earmarked Reserves

The amounts set aside from the General Fund in earmarked reserves to provide financing for future expenditure plans and amounts posted back from earmarked reserves to meet General Fund expenditure in 2016/17

	Balance at 31 March 2015 £m	Transfers out 2015/16 £m	Transfers in 2015/16 £m	Balance at 31 March 2016 £m	Transfers out 2016/17 £m	Transfers in 2016/17 £m	Balance at 31 March 2017 £m
Earmarked reserves:							
Balances held by schools under a scheme of delegation	**16.8**	(16.8)	18.1	**18.1**	(18.0)	13.2	**13.3**
Children's Services Other Revenue Reserves				**0**		0.1	**0.1**
DSG c/fwd balance	**12.5**	(2.6)		**9.9**	(1.0)		**8.9**
Youth Offending Reserve	**1.0**			**1.0**	(1.1)	0.1	**0.0**
Future capital investment	**5.3**	(0.5)	0.3	**5.1**	(0.7)		**4.4**
Insurance	**6.7**	(0.9)	1.5	**7.3**	(2.3)	2.0	**7.0**
Business Rate Pool	**2.1**	(1.1)	0.5	**1.5**	(0.3)	0.7	**1.9**
Retained Waste Disposal PFI grant	**16.2**	(3.7)		**12.5**	(2.4)		**10.1**
Bromsgrove Schools Reorganisation PFI grant	**2.4**	(0.2)		**2.2**	(0.5)		**1.7**
Health and Pooled Budgets	**2.8**	(0.3)	0.5	**3.0**	(2.7)		**0.3**
Public Health Grant	**3.3**	(0.1)	0.5	**3.7**	(0.7)	1.8	**4.8**
Growing Places	**3.3**	(0.2)	0.1	**3.2**	(1.6)	2.1	**3.7**
New Homes Bonus	**1.0**	(0.4)	1.0	**1.6**		0.8	**2.4**
Economic investment pool			1.4	**1.4**	(0.1)	4.4	**5.7**
Directorate revenue reserves	**9.7**	(2.9)	1.9	**8.7**	(3.8)	5.7	**10.6**
Future Fit	**4.7**	(2.6)	2.2	**4.3**	(3.3)	5.6	**6.6**
Corporate Trading	**1.2**		0.2	**1.4**	(0.4)		**1.0**
Councillors' Divisional Fund	**1.2**			**1.2**	(0.6)	0.6	**1.2**
Revenue grants unapplied	**19.4**	(6.7)	2.3	**15.0**	(9.3)	1.4	**7.1**
Other reserves	**7.4**	(2.1)	2.6	**7.9**	(4.7)	4.5	**7.7**
Total	**117.0**	**(41.1)**	**33.1**	**109.0**	**(53.5)**	**43.0**	**98.5**

4.03. Unusable Reserves

	Opening Balance 01/04/16 £m	Contributions To £m	From £m	Closing Balance 31/03/17 £m	Note
Pensions reserve	(384.0)	(307.7)	242.5	(449.3)	4.04
Available for Sale reserve	(1.5)			(1.5)	
Accumulated absences adjustment account	(4.8)	(6.5)	4.8	(6.5)	
Financial instruments adjustment account	(1.1)			(1.1)	
Capital adjustment account	235.8	68.3	(66.9)	237.2	4.05
Revaluation reserve	112.4	18.6	(13.4)	117.6	4.06
Collection fund adjustment accounts					
- Council Tax	3.8	0.2		4.0	
- National Non-Domestic Rates	(2.0)		1.8	(0.2)	
Total Unusable Reserves	**(41.4)**	**(227.1)**	**168.8**	**99.7**	

4.04 Pensions Reserve

2015/16 £m		2016/17 £m
(391.2)	**Balance at 1 April**	**(384.0)**
	Actuarial gains or (losses) on pensions assets & liabilities:	
	Changes in experience	114.3
60.4	Changes in financial assumptions	(271.8)
	Changes in demographic assumptions	17.1
(37.2)	Return on Plan assets (excluding the amount included in net interest expense)	86.0
(40.6)	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income & Expenditure Statement	(35.9)
24.3	Employer's pensions contributions & direct payments to pensioners payable in the year	24.9
0.3	Decrease in Teachers Pension Liability	0.1
(384.0)	**Balance at 31 March**	**(449.3)**

4.05 Capital Adjustment Account

2015/16 £m		2016/17 £m
228.3	**Balance at 1 April**	**235.8**
	Capital Financing:	
3.7	Capital Receipts	2.4
55.8	Capital Grants and Contributions	60.7
4.7	Revenue Contributions to Capital Expenditure	4.1
1.4	Capital Reserve	1.1
65.6		**68.3**
(12.9)	Impairment charged to Comprehensive Income and Expenditure Statement	(7.7)
(31.5)	Depreciation charged to Comprehensive Income and Expenditure Statement	(38.6)
13.7	Minimum Revenue Provision Adjustment	13.6
2.7	Minimum Revenue Provision PFI Adjustment	2.9
(15.6)	REFCUS Adjustment	(10.5)
(14.5)	Disposal of non-current assets	(26.9)
0.0	Other Adjustments	0.3
235.8	**Closing Balance at 31 March**	**237.2**

4.06 Revaluation Reserve

2015/16 £m		2016/17 £m
111.3	**Opening Balance at 1 April**	**112.4**
13.2	Revaluations during the year	18.6
(1.6)	Depreciation of revaluations	(4.4)
(4.2)	Impairment of Revaluations	(4.1)
(6.3)	Disposal of Revaluations	(4.6)
	Other adjustments	(0.3)
112.4	**Closing Balance at 31 March**	**117.6**

5. Accounting Policies

5.1 General Principles

The Statement of Accounts summarises the County Council's transactions for the 2016/2017 financial year and its position at the year-end of 31 March 2017. The County Council is required by the Accounts and Audit Regulations 2015 to prepare an annual Statement of Accounts in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2016/2017, supported by International Financial Reporting Standards (IFRS). The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

The Statement of Accounts has been prepared with reference to:

- The objective of providing information about the financial position, performance and cash flows in a way that meets the common needs of most users.
- The objective of showing the results of the stewardship and accountability of elected members and management for the resources entrusted to them.

5.2 Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from sale of goods is recognised when the County Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the County Council.
- Revenue from the provision of services is recognised when the County Council 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 County Council.
- Supplies are recorded as expenditure when they are consumed - where there is a gap between the date on which supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including those services provided by employees) are recorded as expenditure when services are received, rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where income and expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- Income and expenditure are credited and debited to the relevant service revenue account, unless they properly represent capital receipts or capital expenditure.
- Accruals are not made for amounts of less than £5,000 unless the manager feels it would improve the quality of information

5.3 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. As at 31st March 2017 there were £19.6 million cash equivalent figures on the Balance Sheet. Of this, there was a total of £8.75 million of cash investments in instant access AAA-rated Money Market Funds and other short-term accessible accounts.

5.4 Revenue Recognition

Council tax and Non Domestic rates

Revenue is recognised when the following conditions have been satisfied:

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

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

Revenue from the sale of goods is recognised when the County Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.

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

5.5 Presentation of Items in Other Comprehensive Income & Expenditure

The requirements of IAS 1 require Authorities to separately group items that will be reclassified subsequently to the Surplus or Deficit on the Provision of Services when specific conditions are met and those items that will not be reclassified.

5.6 Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the County Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

5.7 Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding Property, Plant and Equipment during the year:

- depreciation attributable to the assets used by the relevant service
- revaluation and impairment losses used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- amortisation of intangible assets attributable to the service.

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue (the Minimum Revenue Provision) to reduce its overall borrowing requirement (equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance). Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the General Fund Balance by way of an adjusting transaction with the Capital Adjustment Account and the Movement in Reserves Statement for the difference between the two.

5.8 Intangible Fixed Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the County Council as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the County Council. Intangible assets meeting the relevant recognition criteria are initially measured at cost, subsequently measured at cost or using the revaluation model, and amortised on a systematic basis over their useful lives (unless the asset has an indefinite useful life, in which case it is not amortised). Amortisation, impairment losses and disposal gains and losses can be charged to the Comprehensive Income and Expenditure Statement. However, they are not permitted to have an impact on the General Fund Balance, so the gains and losses are therefore reversed out of the General Fund Balance in the movement in Reserves Statement.

The County Council has intangible assets in the form of purchased software licences. The assets are capitalised at cost. All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the County Council. To date, none of the capitalised software has been internally developed. The useful life assigned to major software is 3 years. The carrying amount of intangible assets is amortised on a straight line basis and is absorbed as an overhead across all service headings in the Net Expenditure of Services.

5.9 Joint Arrangements

Joint Arrangements are activities undertaken by the County Council in conjunction with other entities to jointly control an asset. Joint control involves the contractually agreed sharing of control and arrangements subject to joint control are classified as either a joint venture or a joint operation.

- **Joint Venture** - an arrangement under which two or more parties have **contractually agreed to share control**, such that decisions about the activities for the arrangement are given **unanimous consent from all parties**. The parties have joint control of and rights to the net assets of the arrangement. A Joint Venture requires group accounting in addition to the County Council's single accounts. However, where the Joint Venture is considered to be immaterial and omission of the group accounts does not impact on the understanding of the County Council's accounts then group accounts are not required. Where no group accounts are produced the Joint Venture costs are recognised in the Comprehensive Income and Expenditure Statement. The County Council has no material arrangements so has no requirement to produce group accounts.

• **Joint Operation** – the parties that have joint control of the arrangement and have rights to the assets, and obligation for the liabilities, relating to the arrangement. All parties have **joint control of decisions** and use of the assets and obligations for the liabilities relating to the arrangement. The County Council recognises, if material, on its Balance Sheet the assets that it controls and the liabilities that it incurs, and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure it incurs and the share of income it earns from the activity of the operation.

5.10 Employee Benefits

Benefits Payable During Employment

Short-term benefits are those due to be wholly settled within twelve months of the year-end. They include wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense in the year in which employees render service to the County Council. An accrual is made for the cost of holiday entitlements earned by employees but not taken before the year-end, which employees can carry forward into the next year.

The accrual is made at the salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday entitlements are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination Benefits, payable as a result of a decision by the County Council to terminate an officer's employment before the normal retirement date or of an officer's decision to accept voluntary redundancy, are charged on an accruals basis to the relevant service line in the Comprehensive Income and Expenditure Statement at the earlier of when the council can no longer withdraw the offer of those benefits or when the authority recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the County Council to the Pension Fund or pensioner in the year rather than the amount calculated according to the relevant accounting standards***. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for termination benefits related to pensions enhancements and replace them with debits for cash paid to the Pension Fund and pensioners and any such amounts payable but unpaid at the year-end***.

Post-Employment Benefits

Employees of the Council are members of three separate pension schemes:

- The Teachers' Pension Scheme, administered by the Teachers Pensions Agency on behalf of the Department for Education. This is an unfunded scheme and the pension cost charged to the accounts is the employer's contribution rate that has been set by the Department for Education on the basis of a notional fund.

- The Local Government Pensions Scheme, administered by the County Council itself under national regulations. Subject to certain qualifying criteria, other employees are eligible to join the Local Government Pension Scheme.

- The NHS Pension Scheme, administered by the Department for Health. This is an unfunded scheme administered by the NHS Superannuation scheme.

The schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees work for the County Council, however, the arrangements for the teachers' and NHS schemes mean that liabilities for these benefits cannot be identified specifically to the County Council. The schemes are accounted for as if they were defined contribution schemes and no liability for future payments of benefits is recognised in the Balance Sheet. Employer contributions payable to Teachers' Pensions and NHS Pensions in the year are charged to the relevant Service lines in the Comprehensive Income and Expenditure Statement.
Disclosures in relation to retirement benefits can be found in Note 2.11 and 2.12.

The Local Government Pension Scheme

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

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

The liabilities of the Worcestershire County Council pension scheme attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method - i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of earnings for current employees. Movements in the Pensions Reserve balance are explained in more detail in Note 4.04.

The assets of the Worcestershire County Council Pension Fund attributable to the County Council are included in the Balance Sheet at their fair value, which is the current bid price. Such instruments would include unquoted equity investments, pooled property investments and pooled infrastructure investments which are valued using various valuation techniques that require significant judgment in determining appropriate assumptions. The change in the net pensions liability is analysed into the following components:

a) Service Cost comprising:

- current service cost (the increase in liabilities as a result of years of service earned in the current year)
- allocated in the Comprehensive Income and Expenditure Statement to the services for which employees worked.
- past service cost (the increase in liabilities arising from a scheme amendment or curtailment whose effect relates to years of service earned in earlier years) - debited or credited as part of Non-Distributed Costs to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement.
- gains/losses on settlement (the result of actions to relieve the Council of liabilities for all or part of the employee benefits provided under the plan) - debited or credited as part of Non-Distributed Costs to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement.

b) Net interest cost:

- the expected increase in the present value of liabilities during the year as they move one year closer to being paid - debited to Net Operating Expenditure (Financing and Investment Income and Expenditure) in the Comprehensive Income and Expenditure Statement.

c) Re-measurements comprising:

- return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset)
- charged to the Pension Fund Reserve as Other Comprehensive Income and Expenditure.
- actuarial gains/losses (changes in the net pensions liability that arise because events have not followed assumptions in the last actuarial valuation or because the actuary has changed his assumptions)
- debited or credited to Other Comprehensive Income and Expenditure in the Comprehensive Income and Expenditure Statement.

d) Contributions paid to the Pension Fund (cash paid as employer contributions to the fund in settlement of liabilities not accounted for as an expense).

In relation to retirement benefits, statutory provisions require the General Fund to be charged with the amount payable by the 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, this means that 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 thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows and not as benefits are earned by employees.

Impact on the County Council's cash flows

The investment objectives of the Pension Fund are as follows:

a) to ensure that sufficient assets are available to meet liabilities as they fall due;

b) to maximise the return at an acceptable level of risk.

The County Council has agreed a strategy with the Pension Fund's Actuary to achieve a funding level of 100% over the next 21 years. Funding levels are monitored on an annual basis. The last valuation took place on 31 March 2016, with rates effective from 1 April 2017. The next triennial valuation is due to be completed on 31 March 2019.

The Pension Fund changed from a final salary scheme to an average salary scheme on 01.04.2014 in line with the Public Pensions Services Act 2013.

Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

5.11 Events After the Balance Sheet Date

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

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

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

5.12 Fair Value Measurement

The Authority measures some of its non-financial assets such as surplus assets and investment properties and some of its financial instruments at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

a) in the principal market for the asset or liability, or
b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The authority measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. This takes into account the three levels of categories for inputs to valuations for fair value assets:

• Level 1 – quoted prices.
• Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
• Level 3 – unobservable inputs for the asset or liability.

The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs).

When measuring the fair value of a non-financial asset, the Authority takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The authority uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

5.13 Financial Instruments

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

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the County Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective rate of interest is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Authority has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Financial Assets

Financial assets are classified as either:

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

Fair value of assets and liabilities

Financial liabilities and financial assets represented by loans and receivables and long-term debtors and creditors are carried in the Balance Sheet at amortized cost. For loans from the Public Works Loan Board (PWLB) and Money Market Lender Option Borrower Option (LOBO) loans with no planned change of interest this equates to the amount of the originating transaction less any repayments plus accrued interest. LOBO loans with stepped interest are shown at the real cost to the County Council rather than the cash flows under the contract. The effective interest charged to the accounts has been calculated by smoothing the effect of the two rates of interest charged over the life of the loans.

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 using the following assumptions:

- For PWLB loans, a level 2 valuation of the discounted cash flows at the market rate of replacement loans available for the same term. Arlingclose have provided the data.
- For LOBO loans a level 2 fair value is calculated in two parts: Firstly by valuing the options, using market data and the Black-Scholes formula. The interest rate swaps are valued as the discounted present value of future cash flows, given swap rates on the market. All data is extracted from Bloomberg.
- The fair value of other temporary borrowing and deposit loans repayable at 7 days' notice is taken as amortized cost due to their short-term nature.
- The fair values of the PFI Liabilities are calculated using zero coupon rates derived from the composite AA corporate bond yields as indicative interest rates. All data is extracted from Bloomberg.
- For long-term investments in unlisted companies, where the holding is material, a level 3 valuation has been obtained; involving discounting the future expected cash flows arising from the asset, at a rate appropriate for this type of company.
- A level 2 fair valuation of short-term loans and receivables have been assessed using benchmark rates relating to deposits of comparable security and liquidity. Due to their short-term nature, the difference between fair value and amortized cost is trivial.
- The fair value of all Cash Equivalents (available for sale and amortized cost) has been assessed at their carrying amount, due to their liquid nature.
- The fair value of Debtors and Creditors is taken to be the invoiced or billed amount.

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

Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the County Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are then measured at their amortised cost. Annual credits for interest receivable to the Financing and Investment Income Expenditure line in the Comprehensive Income and Expenditure Statement are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the County Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge is made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on the de-recognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

5.14 Available -for-Sale Assets

Assets (or disposal groups) held for sale are not depreciated, are measured at the lower of carrying amount and fair value less costs to sell, and are presented separately in the statement of financial position. Available-for-sale assets 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 and carried at fair value.

Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Authority.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following techniques:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis
- equity shares with no quoted market prices – independent appraisal of company valuations.

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).
Any gains and losses that arise on the de-recognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

5.15 Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Authority when there is reasonable assurance that:

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

Amounts recognised as due to the Authority are not credited to the Comprehensive Income and
Expenditure Statement until conditions attached to the grant or contributions have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as 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.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

5.16 Heritage Assets

Where an asset is primarily held for its contribution to knowledge and culture, rather than for any operational or service-related purpose, it is designated as a heritage asset.

Heritage Assets are recognised and measured at insurance values. However, some of the measurement rules are relaxed in relation to heritage assets as detailed below.

The Council has identified assets and valuations where possible, but, in some cases, it has not been possible to carry out or obtain valuations for a number of heritage assets. The Code permits non-disclosure of heritage assets in the financial statements where it would not be practicable to obtain a valuation for the assets at a cost that would be commensurate with the benefits to users of the financial statements. The Council has taken the view that it would not be practicable to obtain valuations of a number of heritage assets and they are not, therefore, recognised on the Balance Sheet.

The County Council also holds a small number of other assets, including furniture, art works and ceramics. The items have indeterminate lives and are not, therefore, depreciated. They are also valued infrequently, due to their relatively low value in relation to the Authority's overall asset base and the high cost of valuing a diverse set of assets without comparative values.

The carrying amounts of heritage assets are reviewed where there is evidence of impairment and any impairment is recognised and measured in accordance with the Council's general policy on impairment. The proceeds of any disposals are accounted for in accordance with the Council's general provisions relating to the disposal of property, plant and equipment and disposal proceeds are disclosed separately in the notes to the financial statements.

5.17 Inventories

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

5.18 Investment properties

Investment properties are those that are held solely to earn rentals and/or for capital appreciation. These properties are not used for the delivery of services.

The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale. Investment properties are measured initially at cost and subsequently at fair value, based on the amount for which the asset could be exchanged between knowledgeable parties at arms-length. Investment properties are not depreciated but properties of material value are revalued annually.

Net gains and losses on revaluation and on disposal are posted to the Financing and Investment Income and expenditure line in the Comprehensive Income and Expenditure Statement. Revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance and they are, therefore, reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

Rentals received in relation to investment properties are credited to Financing and Investment
Income and result in gains for the General Fund Balance.

5.19 Leases

Leases are classified as finance leases where the terms of the lease transfer substantially from the lessor to the lessee substantially all the risks and rewards incidental to ownership of the property, plant or equipment. All other leases are classified as operating leases. Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

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

The Authority as Lessee

Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the years in which they are incurred.
Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment - applied to write down the lease liability, and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement) Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income & Expenditure Statement as an expense of the services benefitting from the use of the leased property, plant or equipment. Charges are made on a straight line basis over the life of the lease; even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

The Council as Lessor

Finance Leases

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

Operating Leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to Other Operating Expenditure in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

5.20 Overheads and Support Services

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

5.21 Property, Plant and Equipment

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

Recognition

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

Measurement

The properties that comprise the Council's property portfolio are revalued on the basis required by the Code (i.e. at least every five years) and in accordance with the Statements of Asset Valuation Principles and Guidance Notes issued by The Royal Institution of Chartered Surveyors (RICS). The revaluation is prepared in accordance with RICS Valuation Professional Standards 2014 UK Edition and performed by an external suitably qualified valuer. It is confirmed that the valuation is carried out by a registered valuer with appropriate knowledge, skills and understanding needed to undertake the valuation competently. Further revaluations are also carried out where there are known to have been material changes.

Assets are initially measured at cost, comprising:

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

The cost of assets acquired other than by purchase is deemed to be at fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

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

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

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains.

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

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

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment

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

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

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

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

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction). An asset shall not be depreciated until it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation is calculated on the following basis:

- depreciation is charged on all Property, Plant and Equipment on a straight-line basis over the remaining useful life of the assets as estimated by the valuer;
- depreciation is not charged on freehold land and investment properties;
- newly acquired assets are depreciated from the mid-point of the year, although assets under construction are not depreciated until they are brought into use.

Asset Class	Depreciation Period
Land* and Buildings	10 - 99 years
Vehicles, Plant and Machinery	3 - 12 years
Infrastructure	20 years
Community Assets	Not Applicable
Surplus Assets, held for disposal	10 - 99 years
Assets under Construction	Not Applicable

*Land is not depreciated.

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

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

Componentisation

Each part of an item of PPE with a cost that is significant in relation to the total cost of the item shall be depreciated separately. This is applicable to both enhancements and acquisition expenditure incurred and revaluations carried out from 1st April 2010. It is not retrospective. This includes specific infrastructure assets.

Where there is more than one significant part of the same asset which has the same useful life and depreciation method, such parts may be grouped in determining the depreciation charge. Significant components will be separately accounted for where there are different useful lives and / or depreciation methods. Where a component of an asset is replaced or restored, the carrying amount of the old component shall be derecognised to avoid double counting and the new component reflected in the carrying amount.

Disposals and non-current assets held for sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use and when that sale is likely to be completed within one year of the Balance Sheet date, it is reclassified as an Asset held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised in the Surplus or Deficit on Provision of Services up to the amount of any previously recognised losses. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets (Property, Plant & Equipment) and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale. When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any valuation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for disposals in excess of £10,000 are categorised as capital receipts. A capital receipt received on the sale of an asset is required to be credited to the Usable Capital

Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the County Council's underlying need to borrow (the Capital Financing Requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of Property, Plant and Equipment is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Assets held for sale that are expected to be sold within 1 year are shown on the Balance Sheet as Current Assets. Assets expected to be sold more than 1 year after the Balance Sheet date are shown as Surplus Assets under Property, Plant and Equipment.

Non-current assets transferred to academies

When a school converts to an Academy the transfer of the asset is for nil consideration. The asset is de-recognised on the Balance sheet and shown as a loss on investments on the Comprehensive Income and Expenditure Statement.

Capital financing and asset restatement accounts

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

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

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

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

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

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

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

Minimum Revenue Provision (MRP)

MRP is a charge to the Comprehensive Income and Expenditure Accounts for the repayment of external borrowing required to finance capital expenditure in accordance with the Local Authorities (Capital Financing and Accounting) (England) (Amendment) Regulations 2008. The broad aim of the policy is to ensure that MRP is charged over a period that is broadly commensurate with the period over which the County Council receives benefit from the asset. The charge is calculated using the asset life method over equal instalments for either:

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

In 2015/16 Council approval was given to align pre 2008 long-term borrowing to the post 2008 method of matching the debt repayment to the average asset lives.

5.22 Private Finance Initiative and Similar Contracts

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide services passes to the PFI contractor.

As the County Council is deemed to control the services that are provided under such schemes and as the ownership of the property, plant and equipment will pass to the County Council at the end of the contracts for no additional charge, the County Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The County Council has entered into PFI schemes and has also entered into a service concession arrangement, which grants to another company or organisation the right to provide services on behalf of the Council, using infrastructure assets owned by the Council or the contractor. Further details of this are provided in Note 2.04.

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.

5.23 Provisions

Provisions are made where an event has taken place that gives the County Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the County Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service. Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the County Council settles the obligation.

5.24 Contingent Liabilities

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

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts where applicable.

5.25 Contingent Assets

A contingent asset arises where an event has taken place that gives the County Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the County Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

5.26 Reserves

The County Council has set aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year against the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

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

These reserves are explained in the relevant policies. Details of County Council's revenue reserves are set out in the Movement in Reserves Statement and in Note 4.

Reserves are reported in two categories - Usable and Unusable.

Usable Reserves

Those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve may only be used to fund capital expenditure or repay debt).

Unusable Reserves

Unusable Reserves are those reserves that the Council is not able to use to provide services. This category of reserves includes those that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets were sold; and the reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

5.27 Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the County Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

5.28 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.

5.29 Carbon Reduction Commitment Allowances

Accounting for the costs of the Carbon Reduction Commitment Scheme.

The authority is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. This scheme is currently in the initial year of its second phase, which ends in March 2019. The authority is required to purchase and surrender allowances, currently retrospectively, on the basis of emissions (i.e. carbon dioxide produced as energy is used). As carbon dioxide is emitted (i.e. as energy is used), a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the authority is recognised and reported in the costs of the authority’s services and is apportioned to services on the basis of energy consumption.

5.30 Accounting for Agency Income

Accounting for Council Tax

The Worcestershire district councils, in their role as billing authorities, act as agents for the County Council, the precepting authority, collecting council tax on our behalf. Council tax transactions and balances are allocated between the districts and the County Council and the Comprehensive Income & Expenditure Statement reflects the County Council's proportion of the net surplus or deficit. The Balance Sheet includes amounts to reflect the County Council's share of council tax debtors, overpayments and council tax creditors, and a debtor for the billing authority in respect of cash collected from council tax payers but not paid across or a creditor for cash paid in advance of receipt from council tax payers. The Collection Fund Adjustment Account holds the net effect of these activities.

The Code confirms that Council Tax income included in the Comprehensive Income and Expenditure Statement for the year shall be the accrued income for the year.

Accounting for National Non-Domestic Rates (NNDR)

Following the introduction of Business Rate Localisation, with effect from 1st April 2013, local authorities are responsible for collecting and distributing income from the business rates they collect rather than simply acting in an agency capacity for the Department for Communities and Local Government (DCLG) NNDR Pool as they had done until 31st March 2013.

The Council will continue to maintain balances for NNDR arrears, impairment allowances, prepayments and overpayments in its underling accounting records. However, for the final accounts purposes, NNDR transactions and balances are allocated between the County Council, the District Councils and Central Government.

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

5.31 Local Authority Schools

The Code of Practice on Local Authority Accounting in the United Kingdom confirms that the balance of control for local authority maintained schools lies with the local authority. The code also stipulates that those schools' assets, liabilities, reserves and cash flows are recognised in the local authority financial statements. Therefore the transactions, cash flows and balances of the local authority controlled schools are recognised in each of the financial statements of the County Council as if they were transactions, cash flows and balances of the County Council.

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

5.32 Partnerships and Related Party Transactions

The Council is required to disclose material transactions with related parties, bodies and individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

a. Central Government

Central government has effective control over the general operations of the Council – it is responsible for providing the statutory framework; within which the Council operates; provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills).

Further details of the grants received by the Council in 2016-17 are set out in Note 1.09 Grant Income and Note 1.13 Taxation and Non Specific Grant Income.

b. Councillors and Senior Officers

Members of the Council have direct control over the Council's financial and operating policies. The total members' allowances paid in 2016-17 are shown in Note 1.10.

The Chief Executive and those reporting directly to her may also be able to influence Council policy. Therefore accounting standards require the Council to disclose certain 'related party transactions' between County Councillors, Chief Officers and the Council. This information comes from the statutory registers of interest (maintained for members) and declarations of pecuniary interests (for Officers). Details of all transactions are recorded in the Register of Members' Interest, which are available for public inspection at County during normal office hours; or also on-line from the Council's website. All Council members and Chief Officers have been written to, advising them of their obligations and asking for any declarations of related party transactions to be disclosed within the Statement of Accounts.

5.33 Better Care Fund

There is a Section 75 joint agreement relating to the commissioning of health and social care services in Worcestershire, which includes The Better Care Fund. It is a joint budget arrangement between Worcestershire County Council, NHS Redditch and Bromsgrove Clinical Commissioning Group, NHS South Worcestershire Clinical Commissioning Group and NHS Wyre Forest Clinical Commissioning Group. Within the Section 75 agreement there are budgets controlled by the Clinical Commissioning Groups, budgets controlled by the County Council, pooled budgets (jointly controlled) and aligned budgets. Aligned budgets are where each party agrees to commission services towards a joint aim, but are not pooled together.

Where services are controlled by the County Council the income and expenditure is reflected within the Net Cost of Services in the Comprehensive Income and Expenditure Statement. This also includes the County Council's proportion of jointly controlled budgets. Where services are hosted by the County Council, but controlled by the Clinical Commissioning Groups, the income and expenditure is not reflected in the County Council's accounts.

6 Future accounting standards

6.1 Highways Network Assets

At its meeting on 8 March 2017, the CIPFA/LASAAC Code Board decided not to proceed with the introduction of the Highways Network Asset Code into the financial reporting requirements for local authorities. The Board decided that, currently and in particular in the absence of central support for key elements of the valuation, the benefits are outweighed by the costs of implementation for local authorities. The Board determined that it will give further consideration to this issue only if provided with clear evidence that benefits outweigh costs for local authorities.

6.2 IFRS 9 Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement. It includes:

- A single classification approach for financial assets driven by cash flow
- Characteristics and how an instrument is managed
- A forward looking ‘expected loss’ model for impairment rather than the ‘incurred loss’ model under IAS 39, and
- New provisions on hedge accounting.

6.3 IFRS 15 Revenue recognition

Accounting requirements for revenue

In the core principle of IFRS 15 is that the Council will recognise revenue to represent the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Council expects to be entitled in exchange for those goods or services. A contract with a customer will fall within the scope of IFRS 15 when all the following criteria are met:

- Identify the contract(s) with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognise revenue when (or as) the entity satisfies a performance obligation.

Application of this guidance will depend on the facts and circumstances present in a contract with a customer and will require the exercise of judgment.

6.4 IFRS 16 Leases

An entity will need to assess whether a contract contains a lease on a basis of whether a customer has the right to control the use of an identified asset over a period of time. This eliminates operating or finance lease classification for lesees.

All the standards above have no impact on the 2016/17 accounts.

7 Critical judgements in applying accounting policies

In applying the accounting policies set out in note 5, the County Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made are:

7.1 Consolidation of school activities

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

- Maintained schools comprise: Community, Voluntary Aided, Voluntary Controlled and Trust schools.
- Academies and Free schools are not maintained by the County Council and are not included in the consolidation
- Consolidation of other accounts held by schools such as school funds and devolved capital accounts were reviewed and judged to be immaterial, and are not recognised on the County Council's Balance Sheet.

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

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

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

The accounting treatment of the schools' land and buildings is as follows:-

- Community schools – land and buildings are legally held by the County Council and are shown in full on the Balance Sheet;
- Voluntary Controlled schools and Voluntary Aided schools - land and buildings comprising the main body of the school are legally held by the other entities. In Worcestershire this is either the Church of England or Catholic Diocese who retain the control of the asset. The

review determined that, for these assets, legal ownership in conjunction with the substantive rights to the asset and future economic benefits sit with the relevant church body. Accordingly, the County Council has not shown these assets on the Balance Sheet.

- Foundation schools/ Trust schools – land and buildings comprising the body of the school are legally held by other entities. The review determined that, for these assets, legal ownership in conjunction with the substantive rights to the asset and future economic benefits sit with the relevant church body. The County Council has use of the assets but is not able to exert substantive control over them or to receive any future economic benefits. Accordingly ,the County Council has not shown these assets on the Balance Sheet;
- Assets provided by the County Council as part of its responsibility for running the schools are shown on the Balance Sheet (for example the funding of mobile classrooms)
- Academy schools (previously community schools) – are not maintained by the County Council. The land and buildings comprising the body of the schools are leased to the academy on a 125 year lease and are therefore not shown on the Balance Sheet;
- Local authority schools which are due to convert to academy status post-balance date are treated as non-adjusting post balance date events. Details are given in Note 9 where the transfer has taken place at the time the accounts are closed.

7.3 Other judgements

- The County Council has 5 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 County Council has classified £1.5 million of PPE as Assets Held for Sale and £10.2m Surplus assets held for sale in accordance with accounting practice. These assets are judged to be actively marketed and, as such, are not depreciated.
- The County Council owns shares with a fair value of £3.0 million in Malvern Hills Science Park. There are preference shares and 9% of the voting shares issued by the Company. This holding has been judged not to give the County Council a controlling influence.
- Heritage assets have been recognised in the accounts at insurance or historic cost values. Any variations to individual valuations will not have a material impact on the accounts.
- The County Council has considered all significant relationships with companies and other entities in line with accounting standards and the Code of Practice on group accounts. The review considered all relationships for material interests that have the nature of subsidiaries, associates and jointly-controlled entities. This included assessment of control by a single entity, joint control and materiality. There are no material interests and no group accounts. Refer to Note 1.10 for arrangements the County Council has with related parties. WM Energy is considered to be a Joint Venture but will not have a material impact on the accounts.
- Place Partnership Ltd is considered to be a joint operation but will not have a material impact on the accounts.
- The Section 75 agreement (including the Better Care Fund) is considered to be a joint operation. The County Council and the Clinical Commissioning Groups have reviewed the accounting treatment of all services within the agreement. Where services are controlled by the County Council the income and expenditure is reflected within the Net Cost of Services in the Comprehensive Income and Expenditure Statement.

8 Assumptions made about the future and estimate uncertainties

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

The items in the County Council's Balance Sheet at 31 March 2017 for which there is a significant risk of material adjustment in the forthcoming year are as follows:

Item	**Uncertainties**	**Effect if actual results differ from assumptions**
Retirement benefits	Assumptions are applied by the Actuary in order to calculate the pension expense and liability. The actual amount to be recognised in the Balance Sheet at year end is unlikely to equal the projected amount mainly due to: • Actual asset returns are likely to be different from those assumed; • Actuarial assumptions at the end of the year could be different from those at the start of the year; • Other actuarial experience over the year could be different from that assumed.	The effects on the pensions liability of changes in individual assumptions can be measured and the impact on the Balance Sheet deficit position are: • +0.1% p.a. discount rate as at 31.03.17 £21.5 million reduction • +0.1% p.a. inflation £21.9 million increase • 1 year added to members' life expectancy £24.9 million increase • +0.1% p.a. pay growth £3.8 million increase
Non-current assets - depreciation	Non-current assets held on the Balance Sheet have an estimated useful life. This is based on a professional judgement by the Valuer.	Depreciation is applied on a straight line basis over the useful life of the asset. Variations to the useful life will alter the amount of depreciation charged to the Comprehensive Income and Expenditure Statement. The impact of this is minimised by a review of the

		useful life of an asset being undertaken at each valuation.
Non-current assets - valuation	Non-current assets are valued by the County Council's Valuer on a five year rolling programme, unless events indicate that a more frequent interval is required.	The Valuer uses his professional knowledge of the market and other factors to arrive at an asset value. Variations to this value would result in increased or decreased depreciation and, potentially, impairment losses being charged to the Comprehensive Income and Expenditure Statement.

9 Events after the Balance Sheet date

The draft Statement of Accounts was authorised for issue by the Chief Financial Officer on 5 June 2017. Events taking place after this date are not reflected in the financial statements or notes. The financial statements and notes have not been adjusted for the following events which took place after 31 March 2017 as they provide information that is relevant to an understanding of the County Council's position but do not relate to conditions at that date:

	Balance Sheet adjustment
	£m
Ten schools have converted into academies since 1st April 2017.	2.9

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

We have audited the financial statements of Worcestershire County Council (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Financial Officer and auditor

As explained more fully in the Statement of Responsibilities, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements present a true and fair view of the financial position of the Authority as at 31 March 2017 and of its expenditure and income for the year then ended; and
- the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the audited financial statements.

Matters on which we are required to report by exception
We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE; or
- we have reported a matter in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Act.

We have nothing to report in respect of the above matters.

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Respective responsibilities of the Authority and auditor

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 20(1)(c) of the Act to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criteria as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of its resources for the year ended 31 March 2017.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether in all significant respects the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Basis for qualified conclusion

In considering the Authority's arrangements for securing economy, efficiency and effectiveness we identified the following matter:

In January 2017, Ofsted issued its report on the inspection of the Authority's services for children in need of help and protection. The overall judgement was that children's services were rated as inadequate.

The report concluded that:

- there are widespread and serious failures in the services provided to children in Worcestershire who need help and protection and children looked after;
- services for care leavers are inadequate, because young people leaving care do not consistently receive the necessary support to make a successful transition to adulthood;
- services for children in need of adoption require improvement; and
- elected members and senior leaders have not taken sufficient action to ensure the protection of vulnerable children

At the date of our opinion, the Authority has submitted a service improvement plan which is aimed at addressing the issues highlighted in the report, however there was no clear evidence of improvement in the arrangements during 2016/17.

This matter is evidence of weaknesses in proper arrangements for understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management, and for planning, organising and developing the workforce effectively to deliver strategic priorities.

Qualified conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, except for the effects of the matter described in the Basis for qualified conclusion paragraphs above, we are satisfied that, in all significant respects, the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of its resources for the year ended 31 March 2017.

Delay in certification of completion of the audit

We are required to give an opinion on the consistency of the pension fund financial statements of the Authority included in the Pension Fund Annual Report with the pension fund financial statements included in the Statement of Accounts. The Local Government Pension Scheme Regulations 2013 require authorities to publish the Pension Fund Annual Report by 1 December 2017. As the Authority has not finalised the latest draft of the Pension Fund Annual Report at the time of this report we have yet to issue our report on the consistency of the pension fund financial statements. Until we have done so, we are unable to certify that we have completed the audit of the financial statements in accordance with the requirements of the Act and the Code of Audit Practice.

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Act and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2017. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

John Gregory
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Colmore Plaza
20 Colmore Circus
Birmingham
B4 6AT

17 October 2017

Worcestershire County Council Pension Fund

Statement of Accounts 2016/17

About the Accounts

This Statement of Accounts presents the overall financial position of the Pension Fund for the year ended 31 March 2017. The Accounts are produced in the format stipulated by the Chartered Institute of Public Finance and Accountancy (CIPFA) in accordance with best accounting practice.

1. **Explanatory Foreword and a Review of the Year 2016/17**
   Contains a review of the year and other general information about the accounts.

2. **The Worcestershire County Council Pension Fund Account**
   Details the money received and spent within the Pension Fund during 2016/17

3. **Net Assets Statement**
   Statement showing the Pension Fund's financial position at 31 March 2017.

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

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

1. Explanatory Foreword and a Review of the Year 2016/17

Foreword by the Chief Financial Officer

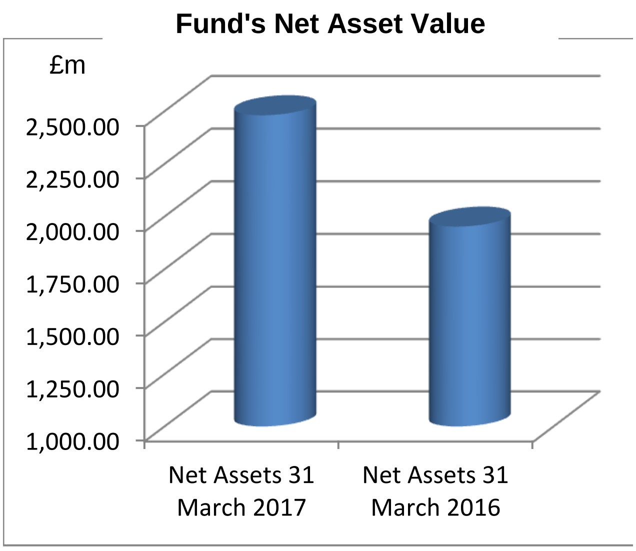
Welcome to the Worcestershire County Council Pension Fund 2016/17 Statement of Accounts. Worcestershire County Council administers the Local Government Pension Scheme (LGPS), which provides for the occupational pensions of employees, other than teachers, police officers, and fire fighters of the local authorities within the Herefordshire and Worcestershire area. Worcestershire County Council also operates the scheme for members of other organisations which have made admission agreements with the fund and designated bodies who have passed resolutions with Worcestershire County Council.

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

Key headlines

- The value of the Fund's net assets increased by £528.6 million from £1,952.3 million at 31 March 2016 to £2,480.9 million at 31 March 2017:

- Recurring income from contributions increased by 3.4%, due to the impact of the uplift in contribution rates following the 2013 actuarial valuation. Net investment earnings decreased by 22.8%, due to the transition of active equity investments to passively managed pooled funds, whilst ongoing expenditure increased by 2.5%. The investment income associated with the passive managed pooled funds is retained within the pooled funds and reinvested



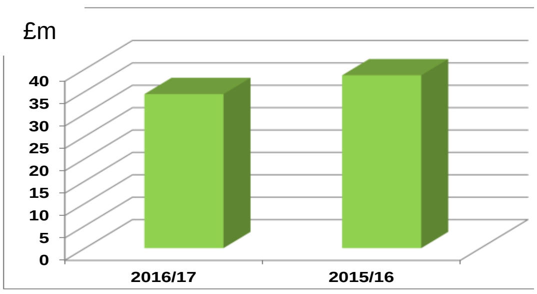
increasing the value of the pooled funds' units and therefore increasing the market value of the Fund.

- Contributions from staff and employers plus net interest and dividends received exceeded benefits paid in 2016/17 by £41.7 million. It is expected that an operating surplus will exist for the foreseeable future.

- During the year a surplus resulted on the Pension Fund account totalling for 2016/17 £34.4 million, a decrease of £4.2 million from the surplus of £38.6 million for 2015/16. The fall in surplus is mainly as a result of the fall in investment income.

- An analysis of changes within the fund's membership profile is displayed below:

Surplus on the pension fund account



	31 March 2016		31 March 2017	Change	Change %
Contributors to the fund	22,697		22,308	(389)	(1.7)
Pensions paid	16,353		16,918	565	3.5
Deferred members*	18,771		19,970	1,199	6.4
	57,821		**59,196**		

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

Governance

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

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

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

Management of the fund's assets

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

The fund's asset allocation is kept under regular review and the current long term investment allocation includes investments in a wide variety of UK and overseas companies, Corporate Bonds, Property and Infrastructure. As a result of an asset allocation review that took place in November 2016, the following Pension Committee endorsed recommendations were progressed during 2016/17:

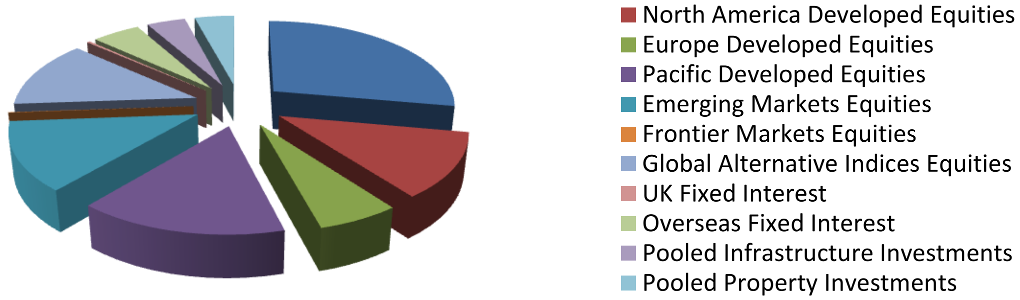
a) An increase in the allocation to Infrastructure or a mix of Infrastructure and Real Estate by 5% from the current strategic allocation of up to 10% of the Fund to 15%.

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

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

As at 31st March 2017 the 2013 strategic asset allocation review recommendation of a 10% commitment to 'Alternatives including property' was fully implemented following investments into three pooled property funds; Invesco Real Estate – European Fund, Venn Commercial Real Estate Fund, Walton Street Real Estate Debt Fund and two pooled Infrastructure funds; UK Green Investment Bank Offshore Wind Fund and Hermes GPE Infrastructure Fund (Core).

The following chart details the distribution of the fund's assets as at 31 March 2017:



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

Management of the fund's liabilities

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

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

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

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

The next actuarial valuation will be undertaken in 2019/20, with any changes to the employers' contribution rates being implemented with effect from 1 April 2020.

To meet the requirements of the Regulations, Worcestershire County Council as administering authority of the fund has set a clear long-term funding objective; to achieve and then maintain assets equal to 100% of projected accrued liabilities, assessed on an ongoing basis.

Sean Pearce
CPFA
Chief Financial Officer

2. Worcestershire County Council Pension Fund Account

For the year ended 31 March 2017

2015/16 £m		Notes	2016/17 £m
	Dealings with members, employers and others directly involved in the fund		
104.3	Contributions	5	107.8
5.4	Transfers in from other pension funds	6	8.0
109.7			**115.8**
(93.9)	Benefits	7	(95.5)
(7.3)	Payments to and on account of leavers	8	(7.0)
(101.2)			**(102.5)**
8.5	**Net additions / (Withdrawals) from dealings with members**		**13.3**
(1.2)	Administrative expenses	9	**(1.0)**
(6.8)	Management expenses	10	**(7.2)**
0.5	**Net additions / (Withdrawals) including fund management and administrative expenses**		**5.1**
	Returns on investments		
40.0	Investment income	11	30.4
(1.9)	Taxes on income	12	(1.0)
(73.6)	Profit and losses on disposal of investments and changes in the market value of investments	13a	494.1
(35.5)	**Net return on investments**		**523.5**
(35.0)	**Net increase / (decrease) in the net assets available for benefits during the year**		**528.6**
1,987.3	**Opening fund net assets of the scheme**		**1,952.3**
1,952.3	**Closing fund net assets of the scheme**		**2,480.9**

3. Net Assets Statement for the year ended 31 March 2017

2015/16 £m		Notes	2016/17 £m
0.0	Long term Investment Assets	13	0.1
1,918.4	Investment Assets	13	2,453.4
20.0	Cash deposits	13	22.4
1,938.4			**2,475.9**
(5.6)	Investment Liabilities	13	(5.2)
21.2	Current Assets	16	12.0
2.2	Non Current Assets	17	1.4
(3.9)	Current Liabilities	18	(3.2)
1,952.3	**Net Assets of the fund available to fund benefits at the period end**		**2,480.9**

The Financial Statements do not take into account liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits (determined in accordance with IAS 19) are disclosed in the Actuarial Statement included in the Pension Fund Annual Report and note 2 to the accounts.

4. Notes to the Pension Fund Accounts

1. Description of Fund

a) General

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

In matters relating to the management of the Fund's assets the Pension Committee is advised in relation to asset allocation decisions and the monitoring of external managers' performance by the Pension Investment Advisory Panel, which includes an independent financial adviser and the scheme manager. The Pension Committee consists of County Councillors and an Employer and Employee Representative. Formal monitoring takes place on a quarterly basis through meetings with investment managers to discuss their performance. Asset allocation is reviewed at least annually and pension administration issues are to be discussed quarterly at the Pension Administration Advisory Forum with any resulting recommendations considered by the Pension Committee.

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

b) Membership

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

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

Organisations participating in the Worcestershire County Council Pension Fund include:

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

There are 194 employer organisations within the Worcestershire County Council Pension Fund including Worcestershire County Council.

The following table provides detail of fund membership:

	31 March 2016	31 March 2017
Contributors to the fund		
County Council	8,049	8,049
Other employers	14,648	14,259
Total	**22,697**	**22,308**
Pensions paid		
County Council	4,473	4,721
Other employers	11,880	12,197
Total	**16,353**	**16,918**
Deferred members		
County Council	8,142	8,307
Other employers	10,629	11,663
Total	**18,771**	**19,970**

Total number of members in the fund	**57,821**	**59,196**

A separate detailed Annual Report and Accounts, including the Statement of Investment Principles, is available from the Chief Financial Officer, Worcestershire County Council, County Hall, Spetchley Road, Worcester, WR5 2NP. The report is also available on the Council's website: www.worcestershire.gov.uk/downloads/download/697/pension_fund_annual_report

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending March 2017. Employee contributions are matched by employers' contributions which are set based on triennial funding valuations. The last such valuation was at 31 March 2016. Currently, employer contribution rates range from 5.5% to 41.9% of pensionable pay. The common 2016/17 employer contribution rate for the fund is 15.3%. In order to ensure employer contribution increases, required by the fund's actuary following the 31st March 2013 actuarial valuation, remained affordable, the administering authority agreed with employers to phase in any increases in their Secondary rate over a period of up to 6 years.

d) Pension Benefits

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

Retirement Benefits

From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is up-rated annually in line with the Consumer Price Index. Members in the 50/50 option build up a pension of a 98th of the pay received during that year, which is again protected against inflation.

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

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

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

Age of retirement

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

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

Death Benefits In service

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

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

Cost of Living Increases
Career average pensions that are being built up and pensions in payment are increased annually to protect them from inflation. Pension increases are currently in line with the Consumer Prices Index (CPI). Where a member has a guaranteed minimum pension (which relates to membership during SERPS prior to 5 April 1997) some of the pension increase may be paid with the State Pension.
Leaving before pension age
Members leaving before becoming entitled to receive pension benefits can apply for a refund of pension contributions paid if their scheme membership is less than two years. Members with more than two years membership have the option to defer their benefits in the fund until normal retirement age or transfer their benefits to another pension scheme.

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

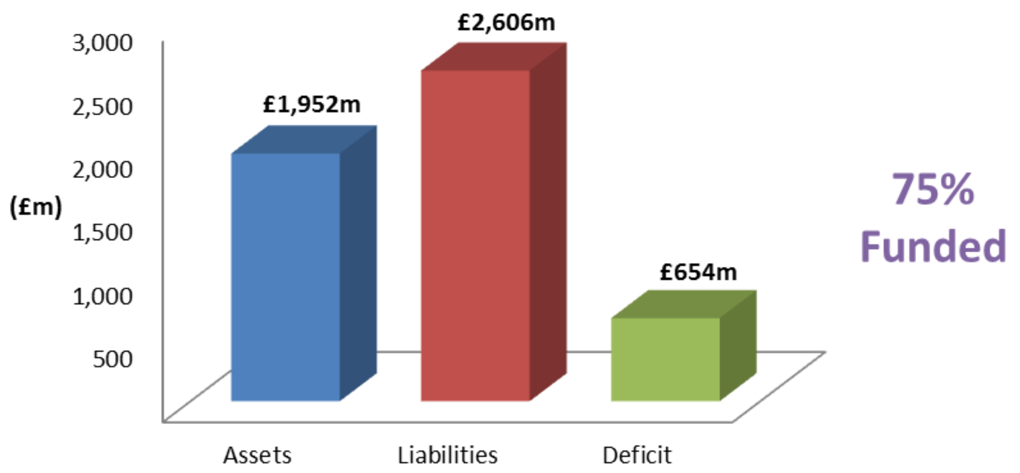
2. Actuarial Valuation and Actuarial Present Value of Promised Retirement Benefits

ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2017 - STATEMENT BY THE CONSULTING ACTUARY

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

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

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



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

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

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

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

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

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

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

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

The assets were assessed at market value.

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

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

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

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

Ian Kirk
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
May 20

3. Pension Fund Investments 2016/17

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

External Fund Manager	31 March 2016 £m	%	31 March 2017 £m	%
JP Morgan Asset Management (Bonds)	131.2	7	136.5	5
JP Morgan Asset Management (Emerging Markets)	109.9	6	153.0	6
Capital International Ltd	179.5	9	0.0	0
Nomura Asset Management UK Ltd	287.1	15	390.4	16
Schroder Investment Management	119.1	6	163.0	7
Legal and General Asset Management	933.4	49	1,412.2	57
Green Investment Bank	34.2	2	49.4	2
Hermes	38.0	2	49.2	2
Invesco	61.0	3	66.7	3
VENN	22.8	1	22.9	1
Walton Street	4.4	0	13.6	1
WCC Managed Account	8.1	0	8.4	0
	1,928.7	**100**	**2,465.3**	**100**

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

Security	Market value 31 March 2016 £m	% of total fund	Market value 31 March 2017 £m	% of total fund
LGIM – UK Equity Index Pooled Fund	545.7	28.2	667.9	27.1
LGIM – North America Index Pooled Fund	33.7	1.7	289.3	11.7
LGIM – Europe (ex-UK) Index Pooled Fund	114.9	6.0	147.2	6.0

The Fund operates the practice of lending stock to a third party for a financial consideration.

Securities released to a third party under the stock lending agreement with the Fund's custodian, BNY Mellon, are included in the net assets statement to reflect the Fund's continuing economic interest of a proprietorial nature in those securities.

The total amount of stock lent at the year-end was £27.8million (2016 £15.3million). Counterparty risk is managed through holding collateral at the fund's custodian bank. The total collateral, which consisted of acceptable corporate and sovereign debt as well as equities was £29.5million (2016 £16.2million) representing 106% of stock lent.

Income received from stock lending activities was £0.1million for the year ending 31 March 2017 (2016 £0.1million). This is included within the 'Investment Income' figure detailed on the Pension Fund Account.

Stock lending commissions are remitted to the fund via the custodian. During the period the stock is on loan, the voting rights of the loaned stocks are passed to the borrower.

There are no liabilities associated with the loaned assets.

4. Events after the Balance Sheet Date

The Statement of Accounts was authorised for issue by the Chief Financial Officer on 2nd June 2017. These are events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. Events taking place after this date are not reflected in the financial statements or notes. There are no material events that have occurred after the balance sheet date of 31st March 2017.

5. Contributions Receivable

By category:

		2015/16 £m	2016/17 £m
Employers			
	Normal contributions	45.6	46.3
	Deficit recovery contributions	33.5	36.8
	Augmentation contributions	3.5	2.7
Employees			
	Normal contributions	21.3	21.6
	Additional contributions	0.4	0.4
		104.3	**107.8**

By authority:

	2015/16 £m	2016/17 £m
Worcestershire County Council	31.3	30.8
Scheduled bodies*	60.1	62.0
Community admission bodies	7.8	5.5
Transferee admission bodies	4.6	8.7
Designated bodies	0.5	0.8
	104.3	**107.8**

* The increase in Scheduled Bodies' contributions is mainly a result of the maintained schools converting to Academies during 2016/17. Maintained schools are included within Worcestershire County Council's contributions, whilst Academies are Scheduled bodies in the Fund.

6. Transfers in and from other Pension Funds

	2015/16 £m	2016/17 £m
Individual transfers	5.4	8.0
	5.4	**8.0**

7. Benefits Payable

By category:

	2015/16 £m	2016/17 £m
Pensions	75.0	77.3
Commutations and lump sum retirement benefits	17.1	16.0
Lump sum death benefits	1.8	2.2
	93.9	**95.5**

By authority:

	2015/16 £m	2016/17 £m
Worcestershire County Council	37.8	36.1
Scheduled bodies	47.0	48.4
Admitted bodies	1.7	1.6
Community admission bodies	4.7	6.2
Transferee admission bodies	2.2	2.7
Designated bodies	0.5	0.5
	93.9	**95.5**

8. Payments to and on Account of Leavers

	2015/16 £m	2016/17 £m
Individual transfers	6.1	7.0
Group transfers	1.2	0.0
	7.3	**7.0**

At year-end there are potential liabilities of £0.2 million in respect of individuals transferring out of the Pension Fund upon whom the fund is awaiting final decisions.

9. Administrative Expenses

	2015/16 £m	2016/17 £m
Employee expenses	0.4	0.5
Support services	0.3	0.1
Actuarial services	0.2	0.2
Other expenses	0.3	0.2
	1.2	**1.0**

The audit fee for work completed by the Fund's external auditors for the year ended 31st March 2017 was £26,156 (£26,156 for the year ended 31st March 2016).

10. Management Expenses

	2015/16 £m	2016/17 £m
Oversight and Governance	0.1	0.1
Investment Management Expenses		
Administration, management and custody fees*	6.5	7.0
Other expenses	0.2	0.1
	6.8	**7.2**

10 a. Investment Management Expenses

	2015/16 £m	2016/17 £m
Management fees	5.3	5.6
Custody fees	0.4	0.3
Transaction costs	1.0	1.2
	6.7	**7.1**

The £7.2m management expenses incurred in 2016/17 represent 0.29% or 29bps of the market value of the fund's assets as at 31st March 2017 (0.35% or 35bps 31st March 2016). The increase in management expenses is mainly due to the addition of pooled property investments and pooled infrastructure investments to the fund's portfolio and the increase in the Fund's equities market value resulting in an increase in investment management fees that are based on the value of assets under management. The decrease in investment management fees as a percentage of the Fund's market value is mainly due to the reduction in active management of the Fund's equities in favour of passive management combined with negotiated investment management fee reductions. No performance related fees were paid by the fund in 2016/17 or 2015/16.

The cash for the pooled property investments and pooled infrastructure investment drawdowns was transitioned from the overweight position held in UK passive equities, which have a very low management fee in comparison. The reason for the investment in pooled property investments and pooled infrastructure investments was to further diversify the fund's assets whilst maintaining long term target investment returns. These investments have a J-Curve return profile, so are expected to provide increased returns as the pooled funds mature.

* The Fund has applied CIPFA's guidance 'Accounting for Local Government Pension Scheme Management Costs', which requires external investment management fees and transaction costs to be deducted from asset values (rather than invoiced and paid directly). These are shown gross: the application of the guidance increases management expenses from £5.1 million to £7.2 million for 2016/17 (£5.7 million to £6.7 million 2015/16). It is important to note that the application of the guidance does not represent an actual increase in costs, nor a decrease in the Fund's resources to pay pension benefits.

11. Investment Income

	2015/16 £m	2016/17 £m
Fixed interest securities	4.3	4.2
Equity dividends*	32.5	18.4
Pooled Property investments	0.7	4.6
Pooled Infrastructure investments	1.6	2.9
Interest on cash deposits	0.8	0.2
Securities lending	0.1	0.1
	40.0	**30.4**

* The reduction in equity dividends is due to the transition of North America equity investments from active management to passive management during 2016/17. The investment income associated with the passive managed pooled funds is retained within the pooled funds and reinvested increasing the value of the pooled funds' units.

12. Taxes on Income

	2015/16 £m	2016/17 £m
Withholding tax - equities	(1.9)	(1.0)
	(1.9)	**(1.0)**

13. Investments

	Market value 31 March 2016 £m	Market Value 31 March 2017 £m
Long term Investment Assets		
LGPS Central –AFIM	0.0	0.1
Investment assets		
Fixed interest securities	119.5	130.7
Equities	679.7	678.9
Pooled investment vehicles	947.8	1,434.9
Pooled property investments	88.2	101.5
Pooled Infrastructure investments	72.2	98.6
Derivatives - futures	0.0	0.1
Derivatives - forward FX	3.1	1.2
Cash deposits	20.0	22.4
Investment income due	4.1	5.3
Amounts receivable for sales	3.8	2.2
Total investment assets	**1,938.4**	**2,475.9**
Investment liabilities		
Derivatives - futures	(0.1)	(0.2)
Derivatives - forward FX	(0.5)	(0.2)
Amounts payable for purchases	(5.0)	(4.8)
Total investment liabilities	**(5.6)**	**(5.2)**
Net investment assets	**1,932.8**	**2,470.7**

13 a: Reconciliation of movements in investments and derivatives

-	Market value 31 March 2016 £m	Purchases during the year and derivative payments £m	Sales during the year and derivative receipts £m	Change in market value during the year £m	Market value 31 March 2017 £m
Long-term Investment Assets					
LGPS Central – AFIM	0.0	0.1	0.0	0.0	0.1
	0.0	**0.1**	**0.0**	**0.0**	**0.1**
Investment Assets					
Fixed interest securities	119.5	80.0	(85.5)	16.7	130.7
Equities	679.7	361.6	(534.8)	172.4	678.9
Pooled investment vehicles	947.8	360.2	(179.5)	306.4	1,434.9
Pooled Property investments	88.2	21.1	(16.1)	8.3	101.5
Pooled Infrastructure investments	72.2	27.3	(5.0)	4.1	98.6
	1,907.4	**850.2**	**(820.9)**	**507.9**	**2,444.6**
Derivative contracts:					
Futures	(0.1)	2.7	(2.9)	0.2	(0.1)
Forward currency contracts	2.6	30.7	(11.7)	(20.6)	1.0
	1,909.9	**883.6**	**(835.5)**	**487.5**	**2,445.6**
Other investment balances:					
Cash deposits	20.0			6.6	22.4
Investment income due	4.1				5.3
Amount receivable for sales of investments	3.8				2.2
Amounts payable for purchases of investments	(5.0)				(4.8)
Net investment assets	**1,932.8**			**494.1**	**2,470.7**

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

	Market value 31 March 2015	Purchases during the year and derivative payments restated	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 March 2016
-	£m	£m	£m	£m	£m
Fixed interest securities	127.4	74.2	(83.8)	1.7	119.5
Equities	1,199.9	363.6	(801.5)	(82.3)	679.7
Pooled investment vehicles	623.3	954.1	(638.9)	9.3	947.8
Pooled Property investments	0.0	91.9	(5.7)	2.0	88.2
Pooled Infrastructure investments	0.0	89.7	(18.8)	1.3	72.2
	1,950.6	**1,573.5**	**(1,548.7)**	**(68.0)**	**1,907.4**
Derivative contracts:					
Futures	(0.1)	3.2	(2.7)	(0.5)	(0.1)
Forward currency contracts	(2.6)	20.5	(11.7)	(3.6)	2.6
	1,947.9	**1,597.2**	**(1,563.1)**	**(72.1)**	**1,909.9**
Other investment balances:					
Cash deposits	15.6			(1.5)	20.0
Investment income due	6.9				4.1
Amount receivable for sales of investments	2.4				3.8
Amounts payable for purchases of investments	(2.8)				(5.0)
Net investment assets	**1,970.0**			**(73.6)**	**1,932.8**

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

Transaction costs are not included in the cost of purchases and sale proceeds, as have been included in Investment Management Expenses, as per CIPFA guidance. Transaction costs include costs charged directly to the scheme such as fees, commissions, and other fees. Transaction costs incurred during the 2016/17 year amounted to £1.2 million, (2015/16 £0.9 million). These transaction costs represent 0.05% or 5bps of the Market Value of the Fund's assets as at 31st March 2017 (5bps at 31st March 2016).

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

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

		31 March 2016 £m	31 March 2017 £m
Long term Investment Assets			
LGPS Central – AFIM		0.0	0.1
		0.0	**0.1**
Fixed interest securities			
UK corporate quoted		8.1	8.2
Overseas public sector quoted		0.0	0.0
Overseas corporate quoted		111.4	122.5
		119.5	**130.7**
Equities			
UK quoted		14.2	12.5
Overseas quoted		665.5	666.4
		679.7	**678.9**
Pooled Investment Vehicles			
Other UK managed funds	– UK equities	545.7	667.9
	– Overseas equities	148.6	436.5
	– Global equities	239.1	307.8
Other overseas managed funds	– Overseas equities	14.4	22.7
		947.8	**1,434.9**
Pooled Funds - Additional Analysis			
Pooled property investments - UK		22.8	23.0
Pooled property investments - overseas		65.4	78.5
		88.2	**101.5**
Pooled Infrastructure investments - UK		72.2	98.6
		72.2	**98.6**
Derivatives - futures		0.0	0.1
Derivatives - forward FX		3.1	1.2
Cash deposits		20.0	22.4
Investment income due		4.1	5.3
Amounts receivable for sales		3.8	2.2
Total investment assets		**1,938.4**	**2,475.9**
Investment liabilities			
Derivatives - futures		(0.1)	(0.2)
Derivatives - forward FX		(0.5)	(0.2)
Amounts payable for purchases		(5.0)	(4.8)
Total investment liabilities		**(5.6)**	**(5.2)**
Net investment assets		**1,932.8**	**2,470.7**

Analysis of derivatives

Objectives and policies for holding derivatives

Most of the holding in derivatives is to hedge exposures to reduce risk in the fund. Derivatives may be used to gain exposure to an asset more efficiently than holding the underlying asset. The use of derivatives is managed in line with the investment management agreement between the fund and investment managers.

a) Futures

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

b) Forward foreign currency

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

Futures

Outstanding exchange traded futures contracts are as follows:

Assets

Type of future	Expiration	Economic Exposure Value £m	Market Value 31 March 2016 £m	Economic Exposure Value £m	Market Value 31 March 2017 £m
UK gilt exchange traded	Less than one year	1.1	0.0	0.3	0.0
Overseas exchanged traded	Less than one year	9.3	0.0	29.4	0.1
Total assets			**0.0**		**0.1**

Liabilities

Type of future	Expiration	Economic Exposure Value £m	Market Value 31 March 2016 £m	Economic Exposure Value £m	Market Value 31 March 2017 £m
Overseas exchanged traded	Less than one year	0.5	(0.1)	(21.3)	(0.2)
Total liabilities			**(0.1)**		**(0.2)**
Net futures			**(0.1)**		**(0.1)**

Open forward currency Contracts as at 31 March 2017

Settlement	Currency Bought	Local Currency Value m	Currency Sold	Local Currency Value m	Asset Value £m	Liability Value £m
One to six months	EUR	36.5	GBP	31.4	0.1	
One to six months	USD	250.5	GBP	201.4	1.1	
One to six months	EUR	32.5	GBP	27.7		(0.1)
One to six months	GBP	0.8	EUR	0.9		0.0
One to six months	GBP	7.0	USD	0.9		(0.1)
One to six months	USD	0.8	GBP	0.6		(0.0)
					1.2	**(0.2)**
Net forward currency contracts at 31 March 2017						**1.0**
Prior year comparative:						
Open forward currency contracts at 31 March 2016					**3.1**	**(0.5)**
Net forward currency contracts at 31 March 2016						**(2.6)**

Analysis of Cash

Cash	**2015/16 £m**	**2016/17 £m**
Cash deposits	9.2	13.7
Cash instruments	10.8	8.7
	20.0	**22.4**

Note 14: Financial Instruments

Note 14 a: Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities by category and net assets statement heading. No financial assets were reclassified during the accounting period.

Designated as fair value through profit and loss 31 March 2016	Loans and receivables 31 March 2016	Financial liabilities at amortised cost 31 March 2016		Designated as fair value through profit and loss 31 March 2017	Loans and receivables 31 March 2017	Financial liabilities at amortised cost 31 March 2017
£m	**£m**	**£m**		**£m**	**£m**	**£m**
			Financial assets			
119.5			Fixed interest securities	130.7		
679.7			Equities	678.9		
947.8			Pooled investment vehicles	1,434.9		
88.2			Pooled property investments	101.5		
72.2			Pooled Infrastructure investments	98.6		
0.0			Derivatives - Futures	0.1		
3.1			Derivatives - Forward FX	1.2		
	28.0		Cash		25.2	
7.9			Other investment Balances	7.5		
	13.2		Current assets		9.2	
	2.2		Non-current assets		1.4	
1,918.4	**43.4**	**0.0**		**2,453.4**	**35.8**	**0.0**
			Financial liabilities			
(0.1)			Derivatives - Futures	(0.2)		
(0.5)			Derivatives - Forward FX	(0.2)		
(5.0)			Other investment balances	(4.8)		
		(3.9)	Current liabilities			(3.2)
(5.6)	**0.0**	**(3.9)**		**(5.2)**	**0.0**	**(3.2)**
1,912.8	**43.4**	**(3.9)**		**2,448.2**	**35.8**	**(3.2)**

Note 14 b: Net gains and losses on financial instruments

31 March 2016		31 March 2017
£m		**£m**
	Financial assets	
(68.0)	Fair value through profit and loss	507.9
(1.5)	Loans and receivables	6.6
	Financial liabilities	
(4.1)	Fair value through profit and loss	(20.4)

(73.6)	**Total**	**494.1**

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

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

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

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

Level 1

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

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

Level 2

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

Level 3

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

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

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

Values at 31 March 2017	**Quoted market price Level 1 £m**	**Using observable inputs Level 2 £m**	**With significant unobservable inputs Level 3 £m**	**£m**
Fair Value Financial assets				
Financial assets at fair value through profit and loss	817.1	1,436.2	200.1	2,453.4
Loans and receivables	35.8	0.0	0.0	35.8
Total fair value financial assets	**852.9**	**1,436.2**	**200.1**	**2,489.2**
Fair Value Financial Liabilities				
Financial liabilities at fair value through profit and loss	0.0	(5.2)	0.0	(5.2)

Total fair value financial liabilities	**0.0**	**(5.2)**	**0.0**	**(5.2)**
Net fair value financial assets	**852.9**	**1,431.0**	**200.1**	**2,484.0**

Values at 31 March 2016	**Quoted market price Level 1 £m**	**Using observable inputs Level 2 £m**	**With significant unobservable inputs Level 3 £m**	**£m**
Fair Value Financial assets				
Financial assets at fair value through profit and loss	807.1	950.9	160.4	1,918.4
Loans and receivables	43.4	0.0	0.0	43.4
Total fair value financial assets	**850.5**	**950.9**	**160.4**	**1,961.8**
Fair Value Financial Liabilities				
Financial liabilities at fair value through profit and loss	(0.0)	(5.6)	(0.0)	(5.6)
Total fair value financial liabilities	**(0.0)**	**(5.6)**	**(0.0)**	**(5.6)**
Net fair value financial assets	**850.5**	**945.3**	**160.4**	**1,956.2**

Level 3 Investments: Further analysis

Sensitivity Analysis	**Valuation range +/- %**	**Value as at 31st March 2017 £m**	**Valuation Increase £m**	**Valuation Decrease £m**
Pooled Investments - Property Funds	7%	101.5	108.6	94.4
Pooled Investments - Infrastructure Funds	7%	98.6	105.5	91.7
Total		**200.1**	**214.1**	**186.1**

Investment Movement	**Property £m**	**Infrastructure £m**
Market Value 1st April 2016	88.2	72.2
Purchases and Payments	21.1	27.4
Sales	(15.2)	(5.1)
Unrealised gains/(losses)	7.1	2.3
Realised gains/(losses)	0.3	1.8
Market value 31st March 2017	**101.5**	**98.6**

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

In the course of every day operating, the Pension Fund is subject to a number of risk factors arising from the holding of financial instruments. The main risks arising from the holding of the Fund's financial instruments are market risk, credit risk and liquidity risk.

As detailed in the Pension Fund Statement of Investment principles the Fund holds equity and bond instruments in order to meet the Fund's investment objectives. The Fund's investment objectives and risk management policies are as follows;

(1) The investment objective for the Fund is to:-
(a) ensure that sufficient assets are available to meet liabilities as they fall due;
(b) maximise the return at an acceptable level of risk.

(2) Risk management is mostly concerned with:
- avoiding the possibility of loss, or
- limiting a deficiency in the underlying Fund, or
- avoiding a contribution rate increase in the future.

Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the fund’s risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

There are three main types of market risk that the Fund is exposed to as at 31 March 2017:

- Equity Risk
- Interest Rate Risk
- Foreign Exchange Risk

Equity risk refers to the risk arising from the volatility in stock prices; this can be systematic risk, the risk due to general market factors and affects the entire industry, or unsystematic risk, which refers to the risk specific to a company that arises due to the company specific characteristics. Interest rate risk is the risk that the value of a security will fall as a result of increase in interest rates. Foreign exchange risk arises because of fluctuations in the currency exchange rates.

The Fund reduces its unsystematic equity risk by diversifying investments across global markets, investing in over 1000 companies worldwide through active segregated mandates and passive pooled funds. Investment restrictions are built into contracts held with each investment manager to ensure risk concentration is minimal and gearing of the Fund's equity and fixed income assets cannot take place.

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

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

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

Equity risk analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the fund's independent financial adviser and Portfolio Evaluation Ltd, the Fund has determined that the following movements in market price risk are reasonably possible for the 2016/17 reporting period:

Asset Type	Potential Market Movements (+/-)
Fixed interest securities	3.4 %
UK equities	7.7 %
Overseas equities	12.8 %
UK pooled investment vehicle	7.7 %
Overseas pooled investment vehicle	12.8 %
Global pooled investment vehicle	12.2 %
Pooled property investments	5.0 %
Pooled Infrastructure investments	5.0 %

The potential price changes disclosed above are broadly consistent with a one standard deviation movement in the value of the assets. The analysis assumes that all other variables, in particular foreign exchange rates and interest rates, remain the same.

If the market price of the fund investments increases/decreases in line with the potential market movements above, the change in the net assets available to pay benefits will be as follows (the actual prior year movement in all asset classes is shown in note 13):

Asset Type	Value as at 31 March 2017 £m	Percentage change %	Value on increase £m	Value on decrease £m
Cash and cash equivalents	22.4	0.0%	22.4	22.4
Investment portfolio assets:				
UK fixed interest securities	8.2	3.4%	8.5	7.9
Overseas fixed interest securities	122.5	3.4%	126.7	118.3
UK equities	12.5	7.7%	13.5	11.5
Overseas equities	666.4	12.8%	751.7	581.1
UK pooled investment vehicle	667.9	7.7%	719.3	616.5
Overseas pooled investment vehicle	459.2	12.8%	518.0	400.4
Global pooled investment vehicle	307.8	12.2%	345.4	270.2
Pooled property investments	101.5	5.0%	106.6	96.4
Pooled Infrastructure investments	98.6	5.0%	103.5	93.7
Net derivative assets	0.9	0.0%	0.9	0.9
Investment income due	5.3	0.0%	5.3	5.3
Amounts receivable for sales	2.2	0.0%	2.2	2.2
Amount payable for purchases	(4.8)	0.0%	(4.8)	(4.8)

Total	**2,470.6**	**2,719.2**	**2,222.0**

Interest rate risk analysis

The fund's direct exposure to interest rate movements as at 31 March 2017 and 31 March 2016 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

Asset Type	Value as at 31 March 2016	Value as at 31 March 2017
	£m	**£m**
Cash and cash equivalents	20.0	22.4
Cash balances	8.0	2.8
Fixed interest securities	119.5	130.7
Total	**147.5**	**155.9**

Interest rate risk sensitivity analysis

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

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits as at 31 March 2017 of a +/- 100 Basis Points (BPS) change in interest rates:

Asset Type	Carrying amount as at 31 March 2017	Change in year in the net assets available to pay benefits	
		+ 100 BPS	**- 100 BPS**
	£m	**£m**	**£m**
Cash and cash equivalents	22.4	22.6	22.2
Cash balances	2.8	2.8	2.8
Fixed interest securities	130.7	132.0	129.4
Total change in assets available	**155.9**	**157.4**	**154.4**

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

Currency Risk

The following table summarises the fund's currency exposure as at 31 March 2017 and as at the previous period end:

Currency exposure - asset type	Asset value as at 31 March 2016	Asset value as at 31 March 2017
	£m	£m
Overseas quoted securities	665.5	666.4
Overseas pooled investment vehicle	163.0	459.2
Global pooled investment vehicle	239.1	307.8
Overseas pooled property investments	65.4	78.5
Total overseas assets	**1,133.0**	**1,511.9**

Overseas bonds are 100% hedged to GBP at 31 March 2017.

Currency Risk – Sensitivity analysis

Following analysis of historical data in consultation with the fund's performance measurement provider, the Council considers the likely volatility associated with foreign exchange rate movements to be 7.6% (as measured by one standard deviation).

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

A 7.6% strengthening/weakening of the pound against various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency exposure - asset type	Asset value as at 31 March 2017	Change to net assets available to pay benefits	
		+ 7.6%	-7.6 %
	£m	£m	£m
Overseas quoted securities	666.4	717.0	615.8
Overseas pooled investment vehicle	459.2	494.1	424.3
Global pooled investment vehicle	307.8	331.2	284.4
Overseas pooled property investments	78.5	84.5	72.5
Total change in assets available	**1,511.9**	**1,626.8**	**1,397.0**

Credit Risk

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

The bond manager provides a quarterly investment report to the Fund, which details the credit risk held in the portfolio. The Fund's Independent Financial Adviser also provides a yearly report to the

Pension Investment Advisory Panel, providing details of the Fund's bond portfolio absolute and relative risk.
Deposits are not made with banks and financial institutions unless they are rated independently and have a strong credit rating. In addition, the council invests an agreed percentage of its funds in the money markets to provide diversification. Money market funds chosen all have an 'AAA' rating from a leading rating agency.

The fund's cash holding at 31 March 2017 was £25.2million (31 March 2016: £28.0million). This was held with the following institutions:

Summary	Rating	Balances as at 31 March 2016 £m	Balances as at 31 March 2017 £m
Money market funds			
BNY Mellon Sterling Liquidity Fund	AAA	0.5	0.2
BNY Mellon US Dollar Liquid Fund	AAA	5.5	4.5
BNY Mellon US Dollar	AAA	0.0	0.0
JPM liq-ster Liquidity-x	AAA	3.3	2.3
JPM liq-USD Liquidity-XDI	AAA	1.5	1.7
Bank deposit accounts			
The Bank of New York Mellon	A-1+	9.2	13.7
Bank current accounts			
Barclays Bank PLC	A-2	8.0	2.8
Total		**28.0**	**25.2**

Liquidity Risk

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

All financial liabilities at 31 March 2017 are due within one year.

Note 16: Current assets

	2015/16 £m	2016/17 £m
Contributions due from employer in respect of:		
Employer	6.8	5.0
Members	1.7	1.8
Magistrates Courts Bulk Transfer Payment Due	0.7	0.7
Augmentation	3.5	1.2
Cash balances	8.0	2.8
Other Debtors	0.5	0.5
	21.2	**12.0**

Note 17: Non-current assets

	2015/16 £m	2016/17 £m
Magistrates Courts Bulk Transfer Payment Due	2.0	1.3
Augmentation	0.2	0.1
	2.2	**1.4**

Note 18: Current liabilities

	2015/16 £m	2016/17 £m
Investment management expenses	(0.9)	(1.3)
Payroll and external vendors	(1.8)	(1.5)
Other expenses	(1.2)	(0.4)
	(3.9)	**(3.2)**

Note 19: Analysis of debtors and creditors

Analysis of debtors

	31 March 2016 £m	31 March 2017 £m
Central government bodies	2.7	2.0
Other local authorities	5.8	5.6
Other entities and individuals	6.9	3.0
	15.4	**10.6**

Analysis of creditors

	31 March 2016 £m	31 March 2017 £m
Central government bodies	(0.9)	(1.3)
Other local authorities	(1.8)	(1.5)
Other entities and individuals	(1.2)	(0.4)
	(3.9)	**(3.2)**

20. Related Party Transactions

Worcestershire County Council

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

The Council incurred costs of £1.1 million in 2016/17 (2015/16: £1.1 million) in relation to the administration of the fund and was subsequently reimbursed by the fund for these expenses. The council is also the single largest employer of members of the pension fund and contributed £29.9 million to the fund in 2016/17 (2015/16: £31.3 million).

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

Key Management Personnel

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

	2015/16	2016/17
	£000	£000
Short term benefits*	44	46
Long term/ post-retirement benefits**	247	364
	291	**410**

*This is the pensions element of short term remuneration for key management personnel, i.e. annual salary, benefits in kind and employer contributions
**This is the accrued pension benefits assessed on assumptions consistent with those used for Worcestershire County Council's IAS19 figures as at 31 March 2016 and 31 March 2017.

Governance

The Pensions Committee Employer Representative and Employee Representative are active members of the Fund.

21. Contingent liabilities

Outstanding capital commitments (investments) at 31 March 2017 totalled £31.7 million (31 March 2016: £44.1 million).

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

22. Contingent assets

Eleven admitted body employers in the Worcestershire County Council Pension Fund hold insurance bonds to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the pension fund and payment will only be triggered in the event of employer default. No bonds were called upon in this financial year.

23. Additional voluntary contributions

The amounts administered under AVC arrangements during 2016/17 are as follows:

	2015/16	2016/17
	£m	£m
Contributions received	0.2	0.1
Investments purchased	0.2	0.1
Change in market value	0.0	(0.1)
Retirement benefits paid or transferred	0.4	0.3

The combined value of the AVC funds at 31 March 2017 was £2.2 million, (31 March 2016 £3.0 million).

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

24. Agency Services

The Worcestershire County Council Pension Fund pays discretionary awards to the former employees of Herefordshire County Council. The amounts paid are not included within the Fund Account but are provided as a service and fully reclaimed from the employer. The sums are disclosed below.

	2015/16	2016/17
	£m	£m
Payments on behalf of Herefordshire County Council	0.1	0.1
	0.1	**0.1**

25. Participating Employers of the Fund at 31 March 2017

Scheduled Bodies

Worcestershire County Council
Advance Trust/Vale of Evesham School
Ashperton Primary School Academy
Aspire Academy
Astwood Bank 1st School
Barrs Court Special School & College
Bengeworth First School
Bishop Perowne Academy
Bredon Hill Middle
Brockhampton Academy
Bromsgrove District Council
Brookfield School
Building Control
Burghill Community Primary School
Burley Gate Primary
Canon Pyon Academy
Chantry Academy
Christopher Whitehead Academy
ContinU Plus
Crabbs Cross
Diocese of Worcs MAT
Droitwich Academy
Dyson Perrins Academy
Farifield High School
Marden Primary School Academy
Matchborough First
Mordiford Academy
N E W College
Newbridge Advance Trust
Nunnery Wood Academy
Oasis Community Learning (Warndon Primary)
Our Lady of Lourdes Academy
Perry Wood Prim & Nursery(Griffin Sch T)
Pershore Academy
Prince Henry's High School
Probation
Queen Elizabeth Academy
Reach Assisted Living
Redditch Borough Council
Redditch RSA Academies Trust
Regency High School
Regulatory Services (Broms)
Ridgeway Academy
Riversides Academy
Robert Owen Free School Academy
Somers Park Academy
South Bromsgrove High School - Academy
South Worcestershire Coll (Was Evesham & Malvern Hills College)

Gorse Hill Academies
Great Malvern Academy
Great Witley Primary
H & W Community Council
H & W Fire Authority
Hanley Castle Academy
Haybridge Academy
Hereford Academy
Hereford College of Art
Hereford College of Technology
Hereford Marches Fed of Academies
Hereford Sixth Form College
Hereford Steiner Academy
Herefordshire (unitary)
HIBOS
Holmer Primary School
Honeybourne Primary Academy
Ipsley CE RSA Academy
John Kyrle High & 6th Form
John Masefield High School & Sixth Academy
Joint Museum Shared Services
Kidderminster College of F E
King Charles Academy
Kingfisher Academy
Kingstone High School
Lady Hawkins Academy
Lickhill Academy
Llangrove Academy
Lugwardine Academy
Malvern Hills District Council
Malvern the Chase Academy
South Worcestershire ICT Shared Services
St John's CofE Middle
St Matthias Academy
St Michaels Primary
St Nicholas Owen Catholic Multi Academy Company
St Pauls C of E Academy
St Thomas Cantilupe Academy
Stourport Academy
Stretton Sugwas Academy
Suckley Academy
Tenbury academy
Tenbury High School
The Coppice Primary Academy
The Vaynor Academy
Trinity Academy
Tudor Grange
Tudor Grange Academy Redditch
University College Worcester
Valuation & Community Charge Tribunal
Walkwood Middle
Waseley Hills Academy
Webheath Academy
West Mercia Police & Crime Commissioner
West Mercia Police Authority
Whitecross Hereford
Woodfield Academy
Woodrush Academy
Worcester City Council
Worcester College of Technology
Worcester Sixth Form College
Worcestershire Hub
Wychavon District Council
Wyre Forest District Council

Community Bodies

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

Transferee Bodies

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

Designated Bodies

Baxter College
Belbroughton parish council
Bewdley Woen Council
Bredon Parish Council
Broadway Parish Council
Colwall Parish council
Droitwich Town Council
Evesham Town Council
Hagley Parish Council
Hereford City Parish Council
Initial Facilities Service UK Ltd
Integral UK Ltd
Kempsey Parish Council
Kidderminster town council
Ledbury Town Council
Leominster Town Council
Malvern Town Council
Pershore Joint Burial Committee
Pershore Town Council
Rock Parish Council
Ross-on-Wye Town Council
Stourport Town Council
Upton-on-Severn T C
Wigmore High & Primary
Wythall Parish Council

26. Critical Judgements in Applying Accounting Policies

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

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

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

The item in the notes to the accounts at 31 March 2017 for which there is a significant risk of material adjustment in the forthcoming financial year is as follows:

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

5. Statement of Accounting Policies

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

1. General

The statement of Accounts summarises the fund's transaction for the 2016/17 financial year and its position at year-end as at 31 March 2017. The accounts have been prepared in accordance with the Code of Practice on Local Accounting in the United Kingdom 2016/17 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

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

2. Legislation

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

3. Contribution Income

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

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

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

4. Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund during the financial year and are calculated in accordance with The Local Government Pension Scheme Regulations.

Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

5. Investment Income

Income from equities (dividend income) is accounted for on the date stocks are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

Income from fixed interest, cash and short-term deposits is accounted for on an accruals basis, using the effective interest rate of the financial institution as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs (where material) or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

Income from other investments is accounted for on an accruals basis.

The changes in market value of investments during the year are recognised as income and comprise all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments and unrealised changes in market value.

6. Benefits Payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities.

7. Taxation

The fund is a registered public service scheme under section (1) of schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

8. Management Expenses

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 permit costs incurred in connection with the investment and administration of the Fund to be charged against the Fund.

The Code of Practice does not require any breakdown of pension fund administrative expenses. However in the interests of greater transparency, the Council discloses its Pension Fund management expenses in accordance with CIPFA guidance *Accounting for Local Government Pension Scheme Management Costs*.

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund.

Fixed Income and Equity Investment Managers' expenses are charged on a percentage basis of the market value of assets under management and therefore increase or reduce as the value of these investments change. Global Custodian fees are agreed in the respective mandate governing their appointment.

The cost of obtaining investment advice from the fund's independent financial adviser is included in investment management charges.

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

9. Administrative Expenses

All administrative expenses are accounted for on an accruals basis. All staff costs of the pensions administration team are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund.

10. Financial Assets

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

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

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

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

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

- Valuations of delisted securities are based on the last sale price prior to delisting, or where subject to liquidation, the amount the council expects to receive on wind-up, less estimated realisation costs.
- Securities subject to takeover offer – the value of the consideration offered under the offer, less estimated realisation costs.
- Directly held investments include investments in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement.
- Investments in unquoted property and infrastructure pooled funds are valued at the net asset value or a single price advised by the fund manager.
- Investments in unquoted listed partnerships are valued based on the fund's share of the net assets in the limited partnership using the latest financial statements published by the respective fund managers in accordance with the *International Private Equity and Venture Capital Valuation Guidelines* 2012.

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

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

11. Foreign Currency transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

12. Derivatives

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

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

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

13. Cash and cash equivalents

Cash comprises demand deposits and cash equivalents, these include amounts held by the fund's external managers. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

14. Financial liabilities

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

15. Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS19 and the relevant actuarial standards.

As permitted under the code, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 2).

16. Contingent Assets and Contingent Liabilities

A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events. Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the balance sheet date to measure the value of the financial obligation reliably.

A contingent asset arises where an event has taken place that gives the Pension Fund a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Pension Fund.

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

17. Additional voluntary contributions

The Worcestershire County Council Pension Fund provides an Additional Voluntary Contributions (AVC) scheme for its members. In 2016/17 some members of the pension scheme paid voluntary contributions and transfers to Scottish Widows and Equitable Life to buy extra pension benefits when they retire. Retirement benefits were also purchased during the year. The contributions are paid directly from scheme employers to the AVC provider. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

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

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

We have audited the pension fund financial statements of Worcestershire County Council (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The pension fund financial statements comprise the Pension Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Financial Officer and auditor

As explained more fully in the Statement of Responsibilities, the Chief Financial Officer is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, which give a true and fair view. Our responsibility is to audit and express an opinion on the pension fund financial statements in accordance with applicable law, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the pension fund financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the pension fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer; and the overall presentation of the pension fund financial statements. In addition, we read all the financial and non-financial information in the Authority's Statement of Accounts and the Annual Report to identify material inconsistencies with the audited pension fund financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the pension fund financial statements

In our opinion:

- the pension fund financial statements present a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2017 and of the amount and disposition at that date of the fund's assets and liabilities, and
- the pension fund financial statements have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited pension fund financial statements in the Authority's Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the audited pension fund financial statements.

John Gregory
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Colmore Plaza
20 Colmore Circus Birmingham
B4 6AT

17 October 2017

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Annual Governance Statement

1. Scope of responsibility

Worcestershire County Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively. The County Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. In discharging this overall responsibility, the County Council is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

2. The purpose of the governance framework

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

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the County Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised, and to manage them efficiently, effectively and economically.

3. The governance framework

Service planning

The County Council's planning process links corporate aims and objectives with service policies and priorities to the responsibilities of individual staff.

The Corporate Plan – Shaping Worcestershire's Future, is a single document setting out the County Council's vision and overall strategic direction. The Corporate Plan - Shaping Worcestershire's Future is developed by the Leader of the County Council after each main County Council election to reflect the strategic priorities of the ruling party/parties or where there has been a significant change in the environment within which the County Council operates and approved by full council. Against each key area of focus the Plan identifies a number of key aims and targets, which are managed through the quarterly Balanced Scorecards. Responsibility for achieving these lies with individual directorates, and relevant aims and targets are included in individual service delivery plans. Progress against the Corporate Plan - Shaping Worcestershire's Future is monitored and reported to councillors on a monthly basis. Updates take account of achievements against the Plan and any new information that needs to be included.

Statutory plans, as prescribed by Central Government, and Service Delivery Plans, which cover areas of service not covered by statutory plans, provide strategic direction and contain aims and objectives for individual services. They have a clear link to the Corporate Plan - Shaping Worcestershire's Future and contain aims and targets based directly on corporate policy priorities, as well as others reflecting additional service policy priorities. Progress against service delivery and statutory plans is managed through Cabinet Members with Responsibilities. Responsibility for producing service delivery and statutory plans rests with chief officers. Service delivery plans are produced on an annual basis and include the setting of performance improvement targets.

Compliance with Statutes and established policies and procedures is ensured through the Officers' Scheme of Delegation as set out in the Constitution and also the appointment of separate individuals to the posts of Head of Paid Service, Monitoring Officer and Chief Financial Officer each of whom has specific statutory responsibilities relating to the governance of the County Council. The Scheme of Delegation sets out general delegations and responsibilities which all Chief Officers have and those specifically delegated to a particular Chief Officer. The Scheme also contains restrictions on the way officers carry out their functions. The County Council also publishes an Officers' Code of Conduct as part of the Constitution which applies to all officers of the County Council.

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

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

Having considered all the principles, we are satisfied that the organisation has adopted a response that is appropriate for its fraud and corruption risks and commits to maintain its vigilance to tackle fraud.

Financial management

The County Council's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010). The Chief Financial Officer is a member of the Strategic Leadership Team and helps to develop and implement strategy and deliver the County Council's strategic objectives sustainably and in the public interest. Finance staff are actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and aligned with the County Council's financial strategy. The Chief Financial Officer leads the promotion and delivery by the whole organization of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively.

The County Council has a four year rolling Medium Term Financial Plan (MTFP) which is used to inform the annual budget setting process. The MTFP is updated annually as part of the budget setting process.

The Constitution formally sets out parameters for the financial management of the County Council and Service Directors are responsible for budgetary control within their services. Budget monitoring reports are routinely considered by both officers and elected members. In addition there are a range of national indicators against which services are monitored during the year and the results are published on an annual basis.

Balanced Scorecard

The Balanced Scorecard is used to show the relationship between the intended outcomes of the Corporate Plan - Shaping Worcestershire's Future with the vital finance, workforce and process measures that support their delivery. The indicators have been specifically designed to reflect the needs of the County Council rather than meet central government requirements, following consultation with a focus group of residents. The Balanced Scorecard is available to the public via the County Council's website to improve accountability to local communities. Performance is measured and reported internally on a quarterly basis and publicly every six months.

Political structure

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

Cabinet members have specific areas of responsibility:

- Finance
- Environment;
- Localism and Communities;

- Children and Families;
- Economy, Skills and Infrastructure;
- Adult Social Care;
- Health and Well-being;
- Highways;
- Transformation and Commissioning

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

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

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

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

4. Review of Effectiveness

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

Each Directorate has in place a risk register which records the major risks facing the Directorate and assesses the potential impact of those risks. Registers are reviewed and added to during the year to reflect service changes. Within each Directorate there are also operational controls that are used on a day-to-day basis to control the delivery of services, none of which disclosed any significant weaknesses in control during the year.

In writing this statement reliance has been placed upon the Directors, the Chief Financial Officer and their management teams who have provided reports relating to the application of the appropriate controls. Also statutory duties placed upon the Monitoring Officer and the Chief Financial Officer requires them to draw to Members' attention improper practices or financial imprudence. In 2016/17 4 audits were given limited assurance. No issues have been reported that indicate that the organisations control environment has been compromised. The Audit and Governance Committee receive reports on these audits. In all cases, either actions have already been implemented to address weaknesses identified or where actions remain outstanding, the area of limited assurance does not impact materially compromise those controls in place within the County Council.

The process of review of financial systems by the internal audit section is continuous. Regular budget monitoring reports have been presented to Members during the year and have confirmed that expenditure is within cash limits.

The County Council has contractual arrangements to govern its relationship with the majority of the organisations with which it deals. A key partner in the delivery of services is the Worcestershire Partnership Executive Group, which brings together local government, public services such as health, learning providers, police and voluntary and community organizations within Worcestershire. The role of the Partnership is to develop and deliver a vision for the future of Worcestershire that meets the aspirations of local people and which promotes the social, economic and environmental well-being of Worcestershire.

5. Significant Governance issues

The County Council is seeking to continuously enhance its management arrangements to improve service delivery, efficiency and value for money, whilst achieving its objectives. The review of effectiveness has informed identification of the following key challenges, along with the actions taken / proposed to take to detail with the issues:

1) Sustainable Improvement in Children's Services

   On 24 January 2017, Ofsted published their report entitled 'Inspection of services for children in need of help and protection, children looked after and care leavers; and Review of the effectiveness of the Local Safeguarding Children Board' for the County Council. The overall judgement for Worcestershire was 'inadequate'. The County Council has established an Improvement Plan, 'Working Together', to deliver the change required for this service. This Plan is monitored by an Independently Chaired Improvement Board that considers both service outcomes and financial performance. This Plan is also subject to review by both the Department for Education and Ofsted.

   Where areas to improve were reported, as part of the County Council's 'Working Together' Plan, enhanced processes were and will be incorporated into the Governance processes to ensure progress in these areas is transparent and remaining issues are known and addressed.

   Whilst the children's social care placement budget was delivered within a balanced budget for 2016/17 a significant increase in the monthly expenditure in this budget in quarter 4 was noted. This particular area is subject to detailed financial reporting at a Directorate and Corporate level and any impact from the investment required into these services wiil be subject to review at the County Council's Cabinet and Full Council alongside progress being made on 'Working Together'.

2) Home to School Transport

   Alongside many other County Council's the demand for services in relation to the provision of specialist transport services has increased and has created the most significant demand led financial pressure after Adult Social Care and Children's Social Care. The County Council have commenced a High Needs review to look at how the increased demand can be addressed from a strategic perspective and how the risk of expenditure being incurred in excess of the budget can be addressed in addition to current initiatives. This will be overseen through Directorate Leadership Teams.

3) Migration of Human Resources and Finance Systems

   The County Council's Managed Services Provider, Liberata, is undertaking an implementation of new Human Resources and Finance Systems for 2017/18 as part of their service provided to the County Council and Schools. This represents a significant change for the County Council. The implementation experienced a number of issues at Go-Live and as a result a Recovery Plan was established and is monitored through a Joint County Council and Liberata Board. The delivery of the Plan and its impact on the County Council's Control Environment will be monitored through this Board and is then considered through the Council Council's Senior Leadership Team.

4) Ensuring delivery of the Council's vision and corporate objectives, in line with the Medium Term Financial Plan

   Central Government has provided a clear indication of continuing to reduce its funding for Local Government through the traditional Revenue Support Grant. The current Medium Term Financial Plan includes a requirement to identify and plan for a significant level of transformation to deliver a balanced financial position over the medium term. When taken together with the County Council's need to recover from the Ofsted report into Children's Services the County Council's Governance process needs to remain robust to ensure plans are developed well in advance of their need for implementation and delivery is assured through the County Council's Transformation Board and Steering Group.

A full meeting of the Council approves the Medium Term Financial Strategy and sets the revenue and capital Budgets each year. Members will receive regular briefing s prior to them making Budget decisions. Delivery of the budget is monitored on a regular basis by the Council's Cabinet.

Whilst these four areas have not impacted on the County Council's overall control environment in 2016/17, further development continues to ensure the County Council is able to strengthen the effectiveness of its control environment in these areas.

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 Council's Corporate Risk Management Group.

Steve Stewart	Simon Geraghty
Chief Executive	**Leader of the County Council**

Glossary of Terms

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

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

Actuary
An independent company which advises on the assets and liabilities of the fund with the aim of ensuring that the payment of pensions and future benefits are met.

Admitted bodies
Voluntary and charitable bodies whose staff can become members of the Local Government Pension Scheme, subject to certain terms and conditions, and other organisations to which Local Government employees have been transferred under the outsourcing of local government services.

Agent
The Council or other authority is acting as an intermediary.

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

Asset
A resource controlled by the Council as a result of past events and from which economic benefits or service potential is expected.

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 non-current assets, being the interest costs of external loans and monies used to repay debt.

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

Central Support Services
The provision of services by the central directorates of the County Council in respect of finance, human resources, legal, administration, information technology and property.

Commutation/commuting
Where a member of the pension scheme gives up part or all of their pension in return for an immediate lump sum. It is also called a cash option.

Council tax precept
A property based tax which is set by the County Council and administered by District and Borough Councils

Creditors
Amounts owed by the County Council for work done, goods received or services provided but for which payment has not been made by the end of the accounting period.

Current service cost
Officers employed during the year will have earned one or more years of pensionable service. The current service cost is the increase in the value of the pension scheme's liabilities arising from the employee service during the period.

Custodian
The organisation that holds and safeguards the Pension Fund assets.

Debtors
Amounts due to the County Council for work done, goods received or services provided but which remain unpaid by the end of the accounting period.

Dedicated Schools Grant (DSG)
A central government grant paid to the County Council for use for expenditure on schools.

Deferred pension benefit
A pension benefit which a member has accrued but is not yet entitled to receive payment.

Depreciation
The fall in value of an asset, as recorded in the financial records, due to wear and tear, age or obsolescence.

Derivatives
A financial instrument whose characteristics and value depend upon the characteristics and value of an underlier, typically a commodity bond, equity or currency. Examples of derivatives include futures and options.

Effective Interest rate

The Effective Interest Rate (EIR) is the rate that exactly discounts estimated future cash payments or receipts through the expected life of a financial instrument. When calculating the EIR, the 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
Corporate bond – a certificate of debt issues by a company or institution in return for a fixed rate of interest with a promise of redemption to repay the original sum.

Gilt – similar to corporate bonds by way of interest and redemption, but these are issued by Government and are a loan to the Government.

Forward foreign exchange
An agreement to purchase or sell an amount of foreign currency at a future date and predetermined price.

Imprest accounts
Petty Cash Accounts used for small items of expenditure.

Index linked
Stock whose value is related directly to an index, usually the Retail Price Index and therefore provides a hedge against inflation.
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 Council arising from past events, the settlement of which is expected to result in an outflow of resources.

Minimum revenue provision (MRP)
The amount set aside out of the revenue budget to repay external loans.

National Non-Domestic Rates (NNDR)
A tax collected locally by borough and district councils and paid to Central Government. It is then redistributed to county, unitary, borough and district councils on the basis of the resident population.

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

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

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

Private Finance Initiative (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.

Revenue balances
This is the general reserve of the County Council.

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

Revenue Support Grant (RSG)
A general central government grant paid to the County Council in support of annual revenue expenditure.

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

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

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

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