

**Worcestershire County
Council**

Statement of Accounts 2010/11

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Statement of Responsibilities, Issue and Approval Date

Responsibilities of the County Council

The County Council is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this County Council, that officer is the Director of Resources;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- approve the Statement of Accounts.

Responsibilities of the Director Resources

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

In preparing this Statement of Accounts, the Director of Resources has:

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

The Director of Resources has also:

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

Issue Date

The date that these financial statements are authorised for issue is 22 June 2011.

All known material events that have occurred up to and including this date which relate to 2010/11 or before have been reflected in the accounts.

In accordance with the Accounts and Audit Regulations 8(2) I certify that the Statement of Accounts 2010/11 provides a true and fair view of the financial position of the Council at 31 March 2011 and its income and expenditure for the year 2010/11.

Patrick Birch
Director of Resources

Approval of Accounts

In accordance with Regulation 8(3)b of the Accounts and Audit Regulations 2011 I certify that the Audit & Governance Committee approved the Statement of Accounts 2010/11 on 30 June 2011.

Clive Holt
Chairman of the Audit & Governance
Committee

Explanatory Foreword

The Statement of Accounts

This Statement of Accounts presents the overall financial position of Worcestershire County Council and the Worcestershire County Council Pension Fund for the year ended 31 March 2011. The Accounts are produced as required by the Accounts and Audit Regulations 2011 and in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting 2010/11 (the Code).

General Sections

Statement of Responsibilities, Issue and Approval Date

Disclosure of the financial responsibilities of the County Council and the Chief Financial Officer (the Director of Resources), and confirmation the date the accounts were authorised for issue and the date approved by the Audit and Governance Committee.

Worcestershire County Council Accounts

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. For 2010/11 usable reserves increased by £15.025 million and other reserves by £115.546 million.

Comprehensive Income and Expenditure Statement

This Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. The 2010/11 Statement shows a surplus on the provision of services of £63.528 million.

The Balance Sheet

The balance sheet shows the value as at the Balance Sheet date of the asset and liabilities recognised by the authority. At 31 March 2011 the County Council's net worth was £604.966 million.

The Cash Flow Statement

The Cash Flow statement shows the changes in cash and cash equivalents of the authority during the reporting period. At 31 March 2011 the County Council had cash and cash equivalents valued at -£10.280 million.

Notes to the Core Financial Statements

The notes include accounting policies applied to the accounts, critical judgements and assumptions applied in the production of the accounts, transition arrangements resulting from the move to IFRS-based accounting and disclosure notes to support the financial statements.

Worcestershire County Council Pension Fund Accounts

This Statement of Accounts presents the overall financial position of the Worcestershire County Council Pension Fund for the year ended 31 March 2011. The Accounts are produced in the format stipulated by the Chartered Institute of Public Finance and Accountancy (CIPFA) in accordance with best accounting practice.

Explanatory Foreword and a Review of the Year 2010/11

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

Statement of Accounting Policies

The accounting policies and procedures adopted by the County Council Pension Fund.

The Worcestershire County Council Pension Fund Account

The Fund Account gives the changes in net assets available for benefits, detailing the money received and spent within the Pension Fund during 2010/11.

Net Assets Statement

The Net Assets Statement shows the assets available for benefits at 31 March 2011.

Notes to the Pension Fund Accounts

The notes provide additional information for the Fund Account and Net Assets Statement.

Financial Performance

The County Council reports internally on a directorate basis and these reports do not include financial adjustments such as capital charges, IAS 19 employee benefits, IFRIC 12 PFI accounting.

The main features of the Council's 2010/11 financial performance are:

- Revenue spending by Directorates was within delegated cash limits
- Directorates have carried forward £8.3 million from 2010/11 into their earmarked reserves in order to fund planned future investment
- The Council has increased its General Balances by £4.344 million, £0.066 million less than the £4.410 million planned when the 2010/11 budget was set
- One off costs of change to deliver the 2011/12 staffing reductions including redundancies have been met within 2010/11 resources.

The following table analyses the financial performance of the Council compared with the budget.

Directorate	2010/11 final budget	2010/11 net expenditure	Variation	Redundancy costs met centrally	Transfer to / (from) directorates reserves	Final variation
	£000	£000	£000	£000	£000	£000
Adult & Community Services	156,673	157,127	454	(231)	(223)	0
Children's Services	83,039	81,137	(1,902)	(1,358)	3,260	0
Environmental Services	60,812	56,629	(4,183)	(311)	4,494	0
Corporate Services	5,391	4,888	(503)	0	503	0
Planning, Economy & Performance	4,830	4,541	(289)	0	289	0
Financial Services	(6,072)	(7,906)	(1,834)	1,900	0	66
Directorate outturn	304,673	296,416	(8,257)	0	8,323	(66)
Contribution to General Balances	4,410	4,344	(66)	0	0	(66)
	309,083	300,760	(8,323)	0	8,323	0

The Council's net budget is financed as follows:

	2010/11
	£000
Revenue Support Grant	11,432
National non-domestic Rates (NNDR)	78,727
Council Tax	218,924
	309,083

The movement on the Council's General Balances is as follows:

	Estimate	Actual	Variance
	£000	£000	£000
Opening balance as at 1 April 2010	12,732	12,732	0
Transfer to General Balances	4,410	4,344	(66)
Closing balance as at 31 March 2011	17,142	17,076	(66)

Pensions' Liability

As part of the terms and conditions of employment of its employees, the Council offers retirement benefits through the Local Government Pension Scheme (LGPS). The Council Balance Sheet reflects its share of the Fund's assets and liabilities, a net liability for 2010/11 of £255.406 million. A liability of £3.8 million is also reflected on the Balance Sheet in respect of teachers' pensions added years. The total liability of £259.206 million is offset by the Pensions Reserve. The net pensions' liability is calculated by Mercer Limited, the Council's Actuary, at 31 March each year and is susceptible to movement in investment values and other factors. A comprehensive review of the Pension Fund is undertaken by the Actuary every three years.

The LGPS liability has reduced by £68.897 million from 2009/10. £48.078 million of this relates to the Government decision to up-rate public service pensions in line with the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI). The £48.078 million has been accounted for as a past service gain and so has contributed to the Surplus of £60.711 million on the Provision of Services on the Comprehensive Income and Expenditure Statement.

Provisions

The current programme of transformation across the Council reflects the expectation that there will be a reduced budget in future years. Where ever possible solutions are being sought in order to minimise service reductions, however it is recognised that this will not always be possible and that some staff reductions will be required. A restructuring provision of £1.659 million has been included in the accounts relating to employee redundancy costs.

Accounting Policies

The 2010/11 Statement of Accounts reflects the move in local government accounting from a UK GAAP-based SORP to an IFRS-based Code. This has resulted in a number of changes to the accounting policies the Council applies. The key changes are:

- Grants and contributions for capital purposes are recognised as income immediately rather than being deferred and released to revenue to match depreciation. Income of £42.473 million capital grants have been credited to revenue during 2010/11 as a result of this change and is included in the Surplus on the Provision of Services on the Comprehensive Income and Expenditure Statement.
- Investment properties are measured at fair value, with gains and losses recognised in the Surplus on the Provision of Services on the Comprehensive Income and Expenditure Statement. For 2010/11 losses of £4.463 million have been recognised.
- A new classification of non-current assets held for sale has been introduced. £4.623 million of assets for sale are shown on the Balance Sheet at 31 March 2011.

- All employee benefits are accounted for as they are earned by the employee. This has required an accrual of £11.720 million in 2010/11. The costs of this are shown against the Service and are included in the Surplus on the Provision of Services on the Comprehensive Income and Expenditure Statement. The impact of this is mitigated in the Accumulated Absences Adjustment Account included in the unusable reserves on the Balance Sheet.

Medium Term Financial Plan 2011/12 to 2014/15

Introduction

The County Council strives to ensure the best use of its resources to deliver services. This plan sets out a forecast of the Council's financial position for the period 2011/12 to 2014/15 and the principles that have guided its preparation are as set out below.

Guiding Principles

Worcestershire has consistently set a low rate of council tax compared to other county councils and has received low Government grants. Despite this we constantly strive for upper quartile performance with lower quartile funding.

The County Council through its work with the Worcestershire Partnership wants the county to be safe, cohesive and healthy with inclusive communities that thrive in a strong and diverse economy where the environment is valued and cherished. Under the current Corporate Plan the priorities are:

- (a) Value for money and low council tax;
- (b) The local economy;
- (c) Keeping people safe;
- (d) Roads, travel and transport;
- (e) Independent healthy living;
- (f) Educational achievement and skills; and
- (g) A green future.

A comprehensive review of the Corporate Plan is underway to reflect the new and challenging times ahead and will be considered by full Council in May 2011.

The Council strives for continual improvement in cost efficiency by:

- (a) doing more with the same amount of money;
- (b) improving the quality of services within existing resources;
- (c) harnessing new technology to improve productivity;
- (d) saving money through better purchasing arrangements;
- (e) promoting thrift and recycling of materials;
- (f) reviewing our administrative and clerical procedures to ensure that they are necessary and fit for purpose; and
- (g) disposing of surplus or redundant assets.

The real purchasing power of current revenue budgets will be preserved over the life of the Council.

Budgets will be set at realistic levels recognising that the Council faces complex risks that need prudent management. Working balances will be retained at levels proportionate to risk recognising that there is an opportunity cost of holding funds in reserve.

Relative priorities will be kept under review being adjusted in the light of community expectations and the prevailing economic conditions.

The plan will be reviewed and updated annually.

	2011/12	2012/13	2013/14	2014/15
	£m	£m	£m	£m
Forecast of Funding Available				
Council tax Yield (increase by 2.5% per year from 2012/13)	218.6	224.1	229.7	235.4
Collection Fund Surplus	0.4	0.0	0.0	0.0
Formula grant	109.2	99.6	97.0	94.0
Total Funding Available	328.2	323.7	326.7	329.4
Transfer from General Balances	3.5	0.0	0.0	0.0
	331.7	323.7	326.7	329.4

Forecast Expenditure

Base Budget		331.7	323.7	326.7
Inflation				
Pension increases		0.6	0.6	0.6
Landfill Tax		1.1	1.1	1.1
General Inflation		4.5	4.5	4.5
Income		-0.6	-0.6	-0.6
Pay Inflation (April 2013 and April 2014)			1.4	1.4
Growth				
Adult Social Care		3.0	3.0	3.0
The Hive (formerly Worcester Library and History Centre)		1.1		
Capital Financing		4.3	1.6	-0.7
BOLD Programme support			-0.5	
Community based transport		0.1		
Children's Early Intervention activities		0.3		
		346.1	334.8	336.0
Less savings from continuation of BOLD programme		-13.2	-13.2	
Shortfall in funding		-9.2	5.1	-6.6
Gross funding requirement		331.7	323.7	326.7
				329.4

Current Borrowing Facilities and Capital Borrowing

The bank rate remained at 0.50% for the whole year. In line with the Treasury Management Strategy approved by Council investments have been made with the UK Debt Management Office as in previous years and latterly with other local authorities.

The major sources of financing capital spending were from external borrowing £26.0 million, capital grants and contributions £49.5 million, capital receipts £7.8 million and direct revenue contributions £6.5 million.

Total debt outstanding reduced from £233.2 million to £230.0 million during the year. The majority of this decrease was made up of a loan of £3 million maturing in February, which the Council chose to defer refinancing until required by the cash flow.

The Public Works Loans Board (PWLB) is the main source of longer-term borrowing for the Council. However, no new borrowing was taken in 2010/11.

The Council borrows to pay for part of the capital programme within the borrowing limit approved by the County Council in February each year. Funds can be borrowed from the government via the Public Works Loans Board or the money market. As at 31 March 2011 borrowing was £234.212 million and an analysis of this is shown in the note 45.2 to the accounts.

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

	General fund balance	Earmarked specific reserves	Capital receipts reserve	Capital grants unapplied account	Total usable reserves	Pensions reserve	Financial instruments adjustment account	Collection fund adjustment account	Revaluation reserve	Capital adjustment account	Employee benefit adjustment account	Total unusable reserves	Total reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 31 March 2010	12,732	96,680	1,019	37,628	148,059	(328,503)	(1,182)	1,830	73,563	594,835	(14,207)	326,336	474,395
Surplus/ (deficit) on provision of services	63,528				63,528							0	63,528
Other comprehensive income & expenditure	0	0	0	0	0	32,917	0	0	34,126	0	0	67,043	67,043
Total comprehensive income & expenditure	63,528	0	0	0	63,528	32,917	0	0	34,126	0	0	67,043	130,571
Adjustments between accounting basis & funding basis under regulations	(44,314)	2,850	0	(7,039)	(48,503)	36,380	8	(988)	(1,894)	12,510	2,487	48,503	0
Net increase/ (decrease) before transfers to earmarked reserves	19,214	2,850	0	(7,039)	15,025	69,297	8	(988)	32,232	12,510	2,487	115,546	130,571
Transfers to/(from) earmarked reserves	(14,870)	14,870	0	0	0	0	0	0	0	0	0	0	0
Increase/ (decrease) in year	4,344	17,720	0	(7,039)	15,025	69,297	8	(988)	32,232	12,510	2,487	115,546	130,571
Balance at 31 March 2011	17,076	114,400	1,019	30,589	163,084	(259,206)	(1,174)	842	105,795	607,345	(11,720)	441,882	604,966

Other Comprehensive Income & Expenditure

	General fund balance	Earmarked specific reserves	Capital receipts reserve	Capital grants unapplied account	Total usable reserves	Pensions reserve	Financial instruments adjustment account	Collection fund adjustment account	Revaluation reserve	Capital adjustment account	Employee benefit adjustment account	Total unusable reserves	Total reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Capital receipts	0	0	0	0	0	0	0	0	34,126	0	0	34,126	34,126
Actuarial (gains) or losses on pensions assets and liabilities	0	0	0	0	0	32,917	0	0	0	0	0	32,917	32,917
	0	0	0	0	0	32,917	0	0	34,126	0	0	67,043	67,043

2009/10 Comparatives

	General fund balance	Earmarked specific reserves	Capital receipts reserve	Capital grants unapplied account	Total usable reserves	Pensions reserve	Financial instruments adjustment account	Collection fund adjustment account	Revaluation reserve	Capital adjustment account	Employee benefit adjustment account	Total unusable reserves	Total reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 31 March 2009	12,732	81,505	3	18,561	112,801	(253,692)	(1,191)	982	67,015	610,409	(11,872)	411,651	524,452
Surplus/ (deficit) on provision of services	5,338	0	0	0	5,338	0	0	0	0	0	0	0	5,338
Other comprehensive income & expenditure	0	0	0	0	0	(63,031)	0	0	7,636	0	0	(55,395)	(55,395)
Total comprehensive income & expenditure	5,338	0	0	0	5,338	(63,031)	9	0	7,636	0	0	(55,395)	(50,057)
Adjustments between accounting basis & funding basis under regulations	8,728	1,109	1,016	19,067	29,920	(11,780)	9	848	(1,088)	(15,574)	(2,335)	(29,920)	0
Net increase/ (decrease) before transfers to earmarked reserves	14,066	1,109	1,016	19,067	35,258	(74,811)	9	848	6,548	(15,574)	(2,335)	(85,315)	(50,057)
Transfers to/(from) earmarked reserves	(14,066)	14,066	0	0	0	0	0	0	0	0	0	0	0
Increase/ (decrease) in year	0	15,175	1,016	19,067	35,258	(74,811)	9	848	6,548	(15,574)	(2,335)	(85,315)	(50,057)
Balance at 31 March 2010	12,732	96,680	1,019	37,628	148,059	(328,503)	(1,182)	1,830	73,563	594,835	(14,207)	326,336	474,395

Other Comprehensive Income & Expenditure

	General fund balance £000	Earmarked specific reserves £000	Capital receipts reserve £000	Capital grants unapplied account £000	Total usable reserves £000	Pensions reserve £000	Financial instruments adjustment account £000	Collection fund adjustment account £000	Revaluation reserve £000	Capital adjustment account £000	Employee benefit adjustment account £000	Total unusable reserves £000	Total reserves £000
Capital receipts					0			7,636				7,636	7,636
Amount used to finance capital expenditure					0								
Revenue contributions to capital expenditure					0	(63,031)						(63,031)	(63,031)
	0	0	0	0	0	(63,031)	0	0	7,636	0	0	55,395	55,395

Details of the movement on earmarked reserves are given in note 8 and adjustments between accounting basis & funding basis under regulations are given in note 7.

Comprehensive Income and Expenditure Statement

This Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, 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.

2009/10 Expenditure £000	2009/10 Income £000	2009/10 Net £000		2010/11 Expenditure £000	2010/11 Income £000	2010/11 Net £000
Service Expenditure Analysis						
175,846	(39,572)	136,274	Adult Social Care	173,319	(46,574)	126,745
558,615	(445,898)	112,717	Children's and Education Services	602,887	(492,591)	110,296
62,986	(13,297)	49,689	Highways and Transport Services	59,508	(16,698)	42,810
43,833	(19,958)	23,875	Cultural, Environmental, Regulatory and Planning Services	64,498	(21,514)	42,984
7,612	(2,942)	4,670	Corporate and Democratic Core	12,177	(5,923)	6,254
1,011	(281)	730	Non Distributed Costs	1,221	(238)	983
0	0	0	Exceptional Item-Pensions Past Service Costs	(47,619)	0	(47,619)
4,833	(1,216)	3,617	Central Services to the Public	4,737	(1,413)	3,324
18,643	(15,730)	2,913	Housing Services	17,977	(6,717)	11,260
873,379	(538,894)	334,485	Net cost of services	888,705	(591,668)	297,037
Other operating expenditure:						
1,313	(3,182)	(1,869)	Gains/(losses) on disposal of fixed assets	119	(3,410)	(3,291)
Financing, investment income & expenditure:						
15,590	(253)	15,337	Interest payable and similar charges	16,131	(23)	16,108
41,375		41,375	Pensions interest cost	45,968		45,968
	(21,791)	(21,791)	Expected return on pensions assets		(33,872)	(33,872)
83	(542)	(459)	Interest income	166	(294)	(128)
Taxation & non-specific grant income:						
	(211,910)	(211,910)	Council tax income		(217,936)	(217,936)
	(70,153)	(70,153)	National non-domestic rates distribution		(78,727)	(78,727)
	(41,839)	(41,839)	Non-ringfenced government grants		(48,495)	(48,495)
	(48,514)	(48,514)	Capital grants and contributions		(40,192)	(40,192)
931,740	(937,078)	(5,338)	Surplus or deficit on the provision of services	951,089	(1,014,617)	(63,528)
Other comprehensive income and expenditure:						
		(7,636)	(Surplus)/deficit on revaluation of fixed assets			(34,126)
		63,031	Actuarial (gains)/losses on assets and liabilities			(32,917)
		55,395	Total other comprehensive income and expenditure			(67,043)
		50,057	Total comprehensive income and expenditure			(130,571)

Balance Sheet

The balance sheet shows the value as at the Balance Sheet date of the asset and liabilities recognised by the authority. The net assets of the authority (assets less liabilities) are matched by the reserves held by the authority. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the capital receipts reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves are those that the authority 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".

01 April 2009 £000	31 March 2010 £000		31 March 2011 £000
1,080,549	1,101,298	Property, plant and equipment	1,155,612
0	3,086	Investment property	4,540
400	737	Intangible assets	498
12,860	8,224	Assets held for sale	4,623
327,649	494,018	Long-term investments (including net pensions asset)	524,475
5,342	5,522	Long-term debtors	5,802
1,426,800	1,612,885	Long term assets	1,695,550
71,307	51,778	Short-term investments	68,832
272	355	Inventories	1,088
39,180	40,850	Short-term debtors	33,839
110,759	92,983	Current assets	103,759
(622)	(1,976)	Cash and cash equivalents	(10,280)
(26,912)	(27,784)	Short-term borrowing	(29,226)
(93,705)	(98,798)	Short-term creditors	(96,342)
(180)	(562)	Short-term provisions	(1,659)
(121,419)	(129,120)	Current liabilities	(137,507)
0	(58)	Long-term creditors	(119)
(203)	(24)	Long-term provisions	(170)
(245,810)	(210,403)	Long-term borrowing	(204,986)
(645,650)	(891,849)	Other long-term liabilities	(851,556)
(25)	(19)	Capital Grants Receipts in Advance	(5)
(891,688)	(1,102,353)	Long-term liabilities	(1,056,836)
524,452	475,395	Net assets	604,966
		Financed by:	
112,801	148,059	Usable reserves	163,084
411,651	326,336	Unusable reserves	441,882
524,452	474,395	Total reserves	604,966

Cash Flow Statement

The Cash Flow statement shows the changes in cash and cash equivalents of the authority during the reporting period. The statement shows how the authority 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 authority are funded by way of taxation and grant income or from the recipients of services provided by the authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the authority'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 authority.

2009/10		2010/11
£000		£000
5,338	Net surplus on the provision of services	63,528
2,458,967	Adjust net (surplus)/deficit for non cash movements:	2,620,765
(2,428,587)	Adjust for items included in the net (surplus)/deficit on the provision of services that are investing and financing activities:	(2,622,447)
35,718	Net cash flows from operating activities	61,846
206	Net cash flows from investing activities	(65,902)
(37,278)	Net cash flows from financing activities	(4,248)
(1,354)	Net (increase)/decrease in cash or cash equivalents	(8,304)
(622)	Cash and cash equivalents at the beginning of the reporting period	(1,976)
(1,976)	Cash and cash equivalents at the end of the reporting period	(10,280)

Notes to the Financial Statements

1. Accounting policies
2. Accounting standards that have been issued but have not yet been applied
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1. Accounting Policies

1.1 General Principles

The Statement of Accounts for 2010/11 summarises the County Council's transactions for the 2010/11 financial year and its position at the 31 March 2011. The Accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) Code Board, supported by International Financial Reporting Standards (IFRS). The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2011.

1.2 Legislation

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

1.3 Accruals of Expenditure and Income

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

Money owed to Worcestershire County Council at 31 March is included as Debtors. Money owed by the County Council at 31 March is included as Creditors.

1.4 Area Based Grant

Area Based Grant is a general grant allocated by central government as additional revenue funding. It is non-ringfenced and is credited to Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement.

1.5 Borrowing Costs

Borrowing costs are the interest payments and other costs the Council incurs in connection with the borrowing of funds. These are treated as a revenue expense in the period in which they are incurred.

1.6 Cash and Cash Equivalents

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

1.7 Employee benefits

The accounting policy relating to the treatment of benefits payable during employment and post-employment benefits is consistent with FRS17 Retirement Benefits and IAS19 Employee Benefits.

1.7.1 Benefits Payable During Employment

The accounts reflect an accrual for accumulating short-term absences, that is the cost of holiday entitlements (e.g. annual leave and flexi time) earned by employees but not taken at 31 March. The accrual is charged to the Surplus or Deficit on the Provision of Services and reversed out through the Movement in Reserves Statement to an Employee Benefit Adjustment Account on the Balance Sheet so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

1.7.2 Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged to the Surplus or Deficit on the Provision of Services. Where the Council has notified an employee or group of employees of the decision to terminate employment, but the employee or employees have not left the Council before 31 March a provision has been established.

Where the termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not 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 pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

1.7.3 Post-Employment Benefits

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

a) The Teachers' Pension Scheme

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

b) The Local Government Pension Scheme

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

1.7.4 Discretionary Benefits

The Council 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 (including teachers) 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.

1.8 Events after the Balance Sheet date

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

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

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

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the 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.

1.10 Financial Instruments

1.10.1 Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost.

For borrowings the amount shown on 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.

1.10.2 Financial Assets – Loans and Receivables

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

For loans the amount shown on 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.

1.10.3 Financial Assets – Available-for-Sale Assets

Available-for-sale assets are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Income is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council. Assets are maintained in the Balance Sheet at fair value based on the latest share price.

1.11 Government Grants and Other Contributions

Government grants and contributions are credited to the relevant service line on the Comprehensive Income and Expenditure Statement if there are no conditions attached to the grant or any conditions are satisfied on receipt. Where conditions are not satisfied the grant will be held as either a receipt in advance, if the not fulfilling the conditions would result in the return of the grant, or as an earmarked reserve.

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.

1.12 Intangible Assets

Intangible assets refer to software licences purchased by the Council. The assets are capitalised at cost. Intangible assets are carried on the Balance Sheet at amortised cost. The depreciable amount is amortised over its useful life to the relevant service line in the Comprehensive Income and Expenditure Statement.

1.13 Inventories and Long-Term Contracts

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

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

1.14 Investment Property

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

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

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

1.15 Jointly Controlled Operations

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

1.16 Landfill Allowances Schemes

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

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

1.17 Leases

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

1.17.1 Operating Leases – the Council as lessee

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

1.17.2 Operating Leases – the Council as lessor

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

1.18 Overheads

In accordance with the Best Value Accounting Code of Practice (BVACOP) 2010/11 all central administration expenses are apportioned fully to services on the basis of either time spent by central staff on those services, or floor area occupied.

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

1.19 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.

1.19.1 Recognition

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

1.19.2 Measurement

Assets are initially measured at cost, comprising:

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

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its 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.

Assets are carried in the Balance Sheet using the following measurement bases:

- infrastructure, community assets and assets under construction – depreciated historical cost
- all other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

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

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

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

1.19.4 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).

Depreciation is calculated on the following bases:

- dwellings and other buildings – straight line allocation over the useful life of the property as estimated by the valuer
- vehicles, plant, furniture and equipment – straight line allocation over the useful life of the assets
- infrastructure – straight line over 20 years

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

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

1.19.5 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, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of the 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.

1.20 Private Finance Initiative (PFI) schemes

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

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

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

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

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

1.21 Provisions and Contingent Liabilities

1.21.1 Provisions

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

1.21.2 Contingent Liabilities

A contingent liability arises where an event has taken place that gives the 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 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.

1.22 Reserves

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

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

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

1.24 Value Added Tax (VAT)

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

2. Accounting Standards that have been issued but have not yet been applied

2.1 FRS30 Heritage assets

A heritage asset is a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture. The Council is part of, and host for, Museums Worcestershire, a joint service which includes the County Museum and museums in the City of Worcester in order to illustrate the life of Worcestershire people and communities. The service is governed by a joint committee and managed through a partnership agreement with Worcester City Council.

The Council balance sheet will, in 2011/12, reflect the value of the assets held in the County Museum, which are currently valued for insurance purposes at £0.84 million.

3. Critical Judgements in applying Accounting Policies

In applying the accounting policies set out in note 1, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The main critical judgement in the Statement of Accounts is due to the high degree of uncertainty about future levels of funding for local government from central government. The Council has been given details of a reduced financial settlement for 2011/12 and 2012/13 but does not yet have a sufficient level of certainty to provide an indication that the assets of the Council might be impaired as a result of any further reduction in funding.

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

The Statement of Accounts contains estimated figures based on assumptions made by the Authority. 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 Authority's Balance Sheet at 31 March 2011 for which there is a risk of material adjustment in the forthcoming year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Property plant and equipment	The Council has made estimated the number of photocopier leases in the County schools based on returns by 49% of schools. This could have been understated and there could be a higher number of photocopiers in schools than estimated.	The value of assets on the balance sheet may be understated, although it is not likely to be by a material amount.
Employee benefits – 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 this projected amount mainly due to: <ul style="list-style-type: none">• Actual asset returns are likely to be different from those assumed• Actuarial assumptions at the end of the year could be different from those at the start of the year• Other actuarial experience over the year could be different from that assumed.	The effects on the pensions liability of changes in individual assumptions can be measured and the sensitivity of the balance sheet deficit position are: <ul style="list-style-type: none">• +0.1% p.a. discount rate as at 31.03.11 £14 million reduction• +0.1% p.a. salary inflation gives a £4 million increase• 1 year added to members' life expectancy gives a £19 million increase

5. Transition Arrangements

5.1 Principles

The Statement of Accounts for 2010/11 is the first to be prepared on an IFRS basis. Adoption of the IFRS-based Code has resulted in the restatement of various balances and transactions, with the result that some amounts presented in the financial statements are different from the equivalent figures presented in the Statement of Accounts for 2009/10.

The following tables explain the material differences between the amounts presented in the 2009/10 financial statements and the equivalent amounts presented in the 2010/11 financial statements.

5.2 Short-Term Accumulating Compensated Absences

Short-term accumulating compensated absences refers to benefits that employees receive as part of their contract of employment, entitlement to which is built up as they provide services to the Council. The most significant benefit covered by this heading is holiday pay.

Employees build up an entitlement to paid holidays as they work. Under the Code, the cost of providing holidays and similar benefits is required to be recognised when employees render services that increase their entitlement to future compensated absences. As a result, the Council is required to accrue for any annual leave earned but not taken at 31 March each year. Under the previous accounting arrangements, no such accrual was required.

The government has issued regulations that mean local authorities are only required to fund holiday pay and similar benefits when they are used, rather than when employees earn the benefits. Amounts are transferred to the Accumulated Absences Accounts until the benefits are used.

Accruing for short-term accumulating compensated absences has resulted in the following changes being made to the 2009/10 financial statements:

	2009/10 Published Statements £000	Adjustments Made £000
Opening 1 April 2009 Balance Sheet		
Creditors	(121,619)	(11,872)
Accumulated Absences Account	0	11,872
31 March 2010 Balance Sheet		
Creditors	(156,142)	(14,290)
Accumulated Absences Account	0	14,290
2009/10 Comprehensive Income and Expenditure Statement		
Cost of Services (Net)		
Adult Social Care	132,552	126
Children's and Education Services	102,104	2,190
Highways and Transport Services	45,877	15
Cultural, Environmental, Regulatory and Planning Services	37,797	3
Corporate and Democratic Core	11,423	54
Housing Services	2,966	(53)

5.3 Government Grants - Capital

Under the Code, grants and contributions for capital schemes are recognised as income when they become receivable. Previously, grants were held in a grants deferred account and recognised as income over the life of the assets which they were used to fund.

As a consequence of adopting the policy required by the Code, the financial statements have been amended as follows:

- The balance on the Government Grants Deferred Account at 31 March 2009 has been transferred to the Capital Adjustment Account in the opening 1 April 2009 Balance Sheet.
- Portions of government grants deferred were previously recognised as income in 2009/10; these have been removed from the Comprehensive Income and Expenditure Statement in the comparative figures.
- Grants were received in 2009/10 but not used. Previously no income was recognised in respect of these grants, which were shown in the liabilities section of the Balance Sheet. Following the change in accounting policy, the grants have been reviewed and either recognised as capital grants receipts in advance in the liabilities section of the Balance Sheet, or recognised in full and transferred to the Capital Grants Unapplied Account within the Reserves section of the Balance Sheet.

This has resulted in the following changes being made to the 2009/10 financial statements:

	2009/10 Published Statements £000	Adjustments Made £000
Opening 1 April 2009 Balance Sheet		
Government Grants Deferred Account	(123,950)	123,950
Capital Grants Receipts in Advance	0	(25)
Creditors	(121,619)	18,586
Capital Adjustment Account	486,459	(123,950)
Capital Grants Unapplied Account	0	18,561
31 March 2010 Balance Sheet		
Government Grants Deferred Account	(145,475)	145,475
Capital Grants Receipts in Advance	0	(19)
Creditors	(156,142)	37,672
Capital Adjustment Account	449,360	145,475
Capital Grants Unapplied Account	0	37,628
2009/10 Comprehensive Income and Expenditure Statement		
Cost of Services (Net)		
Children's and Education Services	102,104	(3,002)
Cultural, Environmental, Regulatory and Planning Services	37,797	(183)
Taxation and Non-Specific Grant Income – Capital Grants and	0	(51,694)

Contributions

There is no change to the General Fund Balance, as capital grant income is transferred out of the General Fund under both the previous and current accounting policies.

5.4 Government Grants – Revenue

Under the Code revenue grants with no conditions attached requiring repayment are classified as earmarked reserves rather than creditors. This has resulted in the following changes being made to the 2009/10 financial statements:

	2009/10 Published Statements £000	Adjustments Made £000
Opening 1 April 2009 Balance Sheet		
Creditors	(121,619)	21,200
Earmarked Reserves	60,305	21,200
31 March 2010 Balance Sheet		
Creditors	(156,142)	12,646
Earmarked Reserves	62,834	12,646

6. Events after the Balance Sheet date

The Statement of Accounts was authorised for issue by the Director of Resources on 21 July 2011. 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 2011 as they provide information that is relevant to an understanding of the Council's position but do not relate to conditions at that date:

A number of the Council's schools are transferring to Academy status. Where a school is currently a Foundation school and the ownership has not been formally transferred pending the completion of the legal transfer of the property by registration with the land registry, the asset will transfer off the Council's Balance Sheet. Where a school is currently a community school the asset will be leased to the Academy on a 125-year finance lease, which will transfer the asset off the Council's balance sheet.

	Balance sheet adjustment £000
Academy schools from 01 July 2011 – currently Foundation status	23,090
Academy schools from 01 July 2011 – currently community schools	31,369
	54,459
Academy schools from 01 August 2011 – currently Foundation status	11,139
Academy schools from 01 August 2011 – currently community schools	41,849
	52,988

7. Adjustments between Accounting Basis and Funding Basis under Regulation

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Authority in year in accordance with proper accounting practice to the resources that are specified by the statutory provisions as being available to the Authority to meet future capital and revenue expenditure.

2010/11	Usable Reserves			Movement in Unusable Reserves
	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	
	£000	£000	£000	£000
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	64,588			(64,588)
• Amortisation of intangible assets	542			(542)
• Capital grants and contributions applied	(9,829)			9,829
• Revenue expenditure funded from capital under statute	(9,109)			6,259
• PFI adjustments	377			(377)
Insertion of items not debited or credited to the CI&E Statement:				
• Statutory provision for the financing of capital investment	(19,016)			19,016
Adjustments primarily involving the Capital Grants Unapplied Account:				
Capital grants & contributions unapplied credited to the CI&E Statement	(30,613)		30,589	
Application of grants to capital financing transferred to Capital Adjustment Account			(37,628)	37,652
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	(3,367)	7,819		3,367
Use of Capital Receipts Reserve to finance new capital expenditure		(7,819)		
Adjustments primarily involving the Financial Instrument Adjustment Account:				
Amount by which finance costs charged to the CI&E Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(8)			8
Adjustments primarily involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the CI&E Statement	(12,529)			12,529
Employer's pension contributions and direct payments to pensioners payable in the year	(23,851)			23,851
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	988			(988)
Adjustment primarily involving the Accumulated Absences Account				
Amount by which officer remuneration charged to the CI&E Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(2,487)			2,487
Total Adjustments	(44,314)	0	(7,039)	48,503

2009/10 Comparative figures

Usable
Reserves

	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000
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	66,356			(66,356)
• Amortisation of intangible assets	553			(553)
• Capital grants and contributions applied	(10,863)			10,863
• Revenue expenditure funded from capital under statute	(6,008)			4,899
• PFI adjustments	1,204			(1,204)
Insertion of items not debited or credited to the CI&E Statement:				
• Statutory provision for the financing of capital investment	(16,251)			16,251
Adjustments primarily involving the Capital Grants Unapplied Account:				
Capital grants & contributions unapplied credited to the CI&E Statement	(37,652)		37,647	
Application of grants to capital financing transferred to Capital Adjustment Account			(18,580)	18,585
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	(1,869)	6,891		853
Use of Capital Receipts Reserve to finance new capital expenditure		(5,875)		
Adjustments primarily involving the Financial Instrument Adjustment Account:				
Amount by which finance costs charged to the CI&E Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(9)			9
Adjustments primarily involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the CI&E Statement	36,500			(36,500)
Employer's pension contributions and direct payments to pensioners payable in the year	(24,720)			24,720
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	(848)			848
Adjustment primarily involving the Accumulated Absences Account				
Amount by which officer remuneration charged to the CI&E Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	2,335			(2,335)
Total Adjustments	8,728	1,016	19,067	(29,920)

8. 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 2010/11.

	Balance at 1 April 2009	Transfers out 2009/10	Transfers in 2009/10	Balance at 31 March 2010	Transfers out 2010/11	Transfers in 2010/11	Balance at 31 March 2011
	£000	£000	£000	£000	£000	£000	£000
Earmarked reserves:							
Balances held by schools under a scheme of delegation	13,678	(13,678)	14,479	14,479	(14,479)	15,576	15,576
Children's Services other revenue reserves	1,613	(23)	137	1,727	(85)	19	1,661
DSG c/fwd balance	4,022	(784)	82	3,320	(11)	155	3,464
Future capital investment	5,664	(3,292)	3,500	5,872	(1,784)	3,959	8,047
Insurance	4,590	(1,369)	2,195	5,416	(1,369)	1,725	5,772
Retained Waste Disposal PFI grant	9,289	0	2,134	11,423	0	3,403	14,826
Education Virtual Workspace PFI grant	963	(31)	0	932	0	651	1,583
Bromsgrove Schools Reorganisation PFI grant	1,981	(346)	0	1,635	0	525	2,160
Pooled budget risk reserve	2,212	(2,000)	960	1,172	(1,615)	1,489	1,046
Revenue grants unapplied	21,200	0	12,646	33,846	(15,319)	23,070	41,597
Other reserves	16,293	(3,800)	4,365	16,858	(3,903)	5,713	18,668
Total	81,505	(25,323)	40,498	96,680	(38,565)	56,285	114,400

The Council maintains an insurance reserve that is set to meet insurance excesses and any uninsured losses.

9. Other Operating Expenditure

2009/10 £000	2010/11 £000
1,869	3,291
Loss on the disposal of non-current assets	

10. Financing and Investment Income and Expenditure

2009/10 £000	2010/11 £000
15,337	16,108
19,584	12,096
(459)	(128)
3,111	1,479
37,573	29,555
Interest payable and similar charges	
Pensions interest cost and expected return on pensions	
Interest receivable and similar income	
Income and expenditure in relation to investment properties and changes in their fair value	

11. Taxation and Non Specific Grant Incomes

2009/10 £000	2010/11 £000
(211,910)	(217,936)
(70,153)	(78,727)
(41,839)	(48,495)
(48,514)	(40,192)
(372,416)	(385,350)
Council tax income	
Non domestic rates	
Non-ring fenced government grants	
Capital grants and contributions	

12. Property, Plant and Equipment

The freehold and leasehold properties that comprise the Authority's operational portfolio have been valued by the Council's in-house Estates Section (Director of Resources) in accordance with the Statements of Asset Valuation Practice and Guidance Notes of the Royal Institution of Chartered Surveyors. Revaluations of non-current assets are undertaken using a five-year rolling programme. Plant and machinery, including fixtures and fittings and museum artefacts, are not included in the valuation of the buildings.

12.1 Movements in 2010/11

	Land and Buildings £000	Vehicles, plant, furniture & equipment £000	Infrastructure assets £000	Community Assets £000	Assets under Construction £000	Total Property, Plant & Equipment £000	PFI Assets included in PPE £000
Cost or valuation							
At 1 April 2010	1,028,329	40,096	240,048	262	32,854	1,341,589	66,332
Restatement	(76)	0	0	0	0	(76)	0
Additions	43,215	5,052	33,353	0	5,247	86,867	106
Revaluation increases / (decreases) recognised in Revaluation Reserve	32,338	0	0	0	0	32,338	0
Derecognition - disposals	(676)	0	0	0	0	(676)	0
Assets reclassified (to) / from Held for Sale	(56)	0	0	0	0	(56)	0
Assets reclassified to other categories	(5,783)	0	0	0	0	(5,783)	0
At 31 March 2011	1,097,291	45,148	273,401	262	38,101	1,454,203	66,438

	Land and Buildings £000	Vehicles, plant, furniture & equipment £000	Infrastructure assets £000	Community Assets £000	Assets under Construction £000	Total Property, Plant & Equipment £000	PFI Assets included in PPE £000
Accumulated depreciation and impairment							
At 1 April 2010	(136,363)	(28,206)	(75,721)	(1)	0	(240,291)	(932)
Depreciation charge							
Depreciation written out to the Revaluation Reserve	(1,712)	0	0	0	0	(1,712)	0
Depreciation written out to the Surplus / Deficit on the Provision of Services	(14,415)	(4,524)	(14,469)	0	0	(33,408)	(908)
Impairment losses / (reversals) recognised in the Revaluation Reserve	(126)	0	0	0	0	(126)	0
Impairment losses / (reversals) recognised in the Surplus / Deficit on the Provision of Services	(23,054)	0	0	0	0	(23,054)	0
At 31 March 2011	(175,670)	(32,730)	(90,190)	(1)	0	(298,591)	(1,840)
Net book value							
At 31 March 2011	921,621	12,418	183,211	261	38,101	1,155,612	64,598
At 31 March 2010	891,966	11,890	164,327	261	32,854	1,101,298	65,400

12.2 Comparative Movements in 2009/10

	Land and Buildings	Vehicles, plant, furniture & equipment	Infrastructure assets	Community Assets	Assets under Construction	Total Property, Plant & Equipment	PFI Assets included in PPE
	£000	£000	£000	£000	£000	£000	£000
Cost or valuation							
At 1 April 2009	977,900	33,743	213,655	262	29,280	1,254,840	61,952
Additions	50,861	6,428	22,005	0	3,574	82,868	4,380
Revaluation increases / (decreases) recognised in Revaluation Reserve	11,474	0	0	0	0	11,474	0
Derecognition - disposals	(102)	(75)	0	0	0	(177)	0
Assets reclassified (to) / from Held for Sale	(4,033)	0	(297)	0	0	(4,330)	0
Assets reclassified to other categories	(7,771)	0	4,685	0	0	(3,086)	0
At 31 March 2010	1,028,329	40,096	240,048	262	32,854	1,341,589	66,332

	Land and Buildings £000	Vehicles, plant, furniture & equipment £000	Infrastructure assets £000	Community Assets £000	Assets under Construction £000	Total Property, Plant & Equipment £000	PFI Assets included in PPE £000
Accumulated depreciation and impairment							
At 1 April 2009	(91,014)	(20,349)	(62,919)	(1)	0	(174,283)	(786)
Depreciation charge							
Depreciation written out to the Revaluation Reserve	(1,088)	0	0	0	0	(1,088)	0
Depreciation written out to the Surplus / Deficit on the Provision of Services	(13,700)	(7,901)	(12,802)	0	0	(34,403)	(146)
Impairment losses / (reversals) recognised in the Revaluation Reserve	(3,068)	0	0	0	0	(3,068)	0
Impairment losses / (reversals) recognised in the Surplus / Deficit on the Provision of Services	(27,493)	0	0	0	0	(27,493)	0
Derecognition – disposals	0	44	0	0	0	44	0
At 31 March 2010	(136,363)	(28,206)	(75,721)	(1)	0	(240,291)	(932)
Net book value							
At 31 March 2010	891,966	11,890	164,327	261	32,854	1,101,298	65,400

12.3 Contractual Commitments for Property, Plant and Equipment

As at 31 March 2011 the Council has committed future resources to capital projects amounting to £187.9 million.

Major schemes where contracts have been let:

	£m
Elgar Academy (Tudor Grange)	15.4
Wyre Forest Schools Reorganisation – Stourport Primary	5.7
Structural Carriageway/Bridgeworks	5.1
Worcester Library and History Centre (Non – PFI capital costs)	2.5
Sub-total	28.7
Committed schemes less than £2.0m	7.3
Total Commitment	36.0

Major schemes where contracts have not been let:

	£m
Structural Carriageway/Bridgeworks	42.4
Wyre Forest Schools Reorganisation – Special Schools	18.0
Wyre Forest Reorganisation – Primary Phase 1	15.2
Integrated Transport	12.5
Structural Improvements to the Rural Road Network	11.1
Capital Maintenance	9.5
Repair and Maintenance of a Longer Term Benefit	7.3
Highway Flood Mitigation Measures	4.7
Basic Need	3.9
Children's Services Minor Works	3.6
Information and Communication Technology Strategy / E-Government	3.6
Improvement to Footways	2.4
Schools Kitchen Capital	2.3
Repair and Maintenance of a Longer Term Benefit	2.3
Investment initiatives to support Business and/or Green Technology	2.0
Sub-total	140.8
Committed schemes less than £2.0m	11.1
Total Commitment	151.9
Total Capital Programme 2011/12 to 2012/13 and beyond	187.9

13. Investment Properties

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the CI&E Statement.

2009/10	2010/11
£000	£000
25	25
Rental income from investment property	Rental income from investment property

There are no restrictions on the Authority's ability to realise the value inherent in its investment property or on the Authority's right to the remittance of income and the proceeds of disposal. The Authority has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement.

The following table summarises the movement in the fair value of investment properties over the year.

2009/10		2010/11
£000		£000
0	Balance at the start of the year	3,086
	Additions:	
	• Construction	134
	Disposals:	
	• Net gains/losses from fair value adjustments	(4,463)
	Transfers:	
3,086	• to/from Property, Plant & Equipment	5,783
	Other changes	
3,086	Balance at end of the year	4,540

14. Intangible Assets

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 Council. To date, none of the capitalised software has been internally developed. The useful lives assigned to major software are 3 years.

The carrying amount of intangible assets is amortised on a straight line basis. The amortisation of £0.542m charged to revenue in 2010/11 was absorbed as an overhead across all service headings in the Net Expenditure of Services.

The movement on Intangible Asset balances during the year is as follows:

2009/10		2010/11
Total		Total
£000		£000
	Balance at start of the year:	
656	- Gross carrying amounts	1,546
(256)	- Accumulated amortisation	(809)
400	Net carrying amount at the start of the year	737
	Additions:	
890	- Purchases	304
(553)	Amortisation for the period	(543)
737	Net carrying amount at end of year	498
	Comprising:	
1,546	Gross carrying amount	1,850
(809)	Accumulated amortisation	(1,352)
737		498

15. Financial Instruments

15.1 Categories of Financial Instruments

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

Long-term 01 April 2009 £000	Current 01 April 2009 £000	Long-term 31 March 2010 £000	Current 31 March 2010 £000		Long-term 31 March 2011 £000	Current 31 March 2011 £000
Investments						
0	71,307	0	51,778	Loans & receivables	0	68,832
500	0	500	0	Available for sale financial assets	664	0
500	71,307	500	51,778	Total investments	664	68,832
Debtors						
5,342	18,415	5,522	19,377	Loans & receivables	5,802	16,051
5,342	18,415	5,522	19,377	Total debtors	5,802	16,051
Borrowings						
245,810	26,912	210,403	27,784	Financial liabilities at amortised cost	204,986	29,226
245,810	26,912	210,403	27,784	Total borrowings	204,986	29,226
Other long term liabilities						
66,386		69,828		PFI and finance lease liabilities	68,540	
66,386		69,828		Total other long term liabilities	68,540	
Creditors						
0	54,349	58	57,301	Financial liabilities at amortised cost	119	55,727
0	54,349	58	57,301	Total creditors	119	55,727

15.2 Income, Expense, Gains and Losses

2009/10			2010/11			
Financial liabilities at amortised cost £000	Financial assets, loans & receivables £000	Total £000		Financial liabilities at amortised cost £000	Financial assets, loans & receivables £000	Total £000
(15,590)	(83)	(15,673)	Interest expense	(16,131)	(166)	(16,297)
(15,590)	(83)	(15,673)	Total expense in Surplus or Deficit on the Provision of Services	(16,131)	(166)	(16,297)
253	542	795	Interest income	23	294	317
253	542	795	Total income in Surplus or Deficit on the Provision of Services	23	294	317
(15,337)	459	(14,878)	Net gain / (loss)	(16,108)	128	(15,980)

for the year

15.3 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 amortised cost. For loans from the Public Works Loan Board(PWLB) and Money Market Lender Option Borrower Option(LOBO) loans with no planned change of interest this equates to the amount of the originating transaction less any repayments plus accrued interest. LOBO loans with stepped interest are shown at the real cost to the County Council rather than the cash flows under the contract. The 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 the premature repayment rates at 31st March 2011 and the debt redemption procedure from the PWLB have been applied.
- For LOBO loans comparative market rates for similar replacement finance at 31st March 2011 have been used.

The fair value of other temporary borrowing and deposit loans repayable at 7 days is taken as amortised cost since there is no trade in these assets.

The fair value of loans receivable have been assessed using benchmark rates at 31st March 2011 relating to deposits of comparable security and liquidity.

The fair value of Debtors and Creditors is taken to be the invoiced or billed amount.

The fair value calculations below have been provided by the PWLB for their loans and the Council's Treasury Management advisors (Sector) for other money market and loans and receivables.

The fair values are calculated as follows:

	31 March 2010			31 March 2011	
	Carrying amount £000	Fair value £000		Carrying amount £000	Fair value £000
					Financial liabilities
	295,488	308,863		289,939	Financial liabilities
	69,828	69,828		68,540	PFI liabilities
	58	58		119	Long-term creditors
					Financial assets
	71,655	71,673		85,547	Loans & receivables
	5,522	5,522		5,802	Long-term debtors

Available for sale financial assets are represented by the Council's interest in Malvern Hills Science Park Ltd. The asset is included in the accounts at cost as there is no market for trading. In addition since there is no market price for the shares the fair value of the holding has also been assessed at cost. The details are given in note 35.3.

16. Inventories

Details of inventories held are shown below: -

1 April 2009 £000	31 March 2010 £000		31 March 2011 £000
85	156	Environmental Services Stock	814
95	103	County Infrastructure Services Computer Equip.	180
67	67	County Enterprises Stock	72
25	29	Other Stocks	22
272	355	Total	1,088

17. Debtors

An analysis of current debtors is shown below:

1 April 2009 £000	Restated 31 March 2010 £000		31 March 2011 £000
6,686	6,972	Central government bodies	6,351
7,485	7,804	Other local authorities	8,077
2,804	2,923	NHS bodies	1,019
392	409	Public corporations and trading funds	621
21,813	22,742	Other entities and individuals	17,771
39,180	40,850	Total	33,839

18. Cash and Cash Equivalents

The cash total includes £4.047 million in local imprest accounts and schools that operate their own bank accounts for revenue expenditure and income. This is reduced by £10.747 million overdrawn in operating bank accounts and £3.580 million to take account of cheques and BACS transactions that are outstanding at 31 March 2011.

	Opening Balance 01/04/2010 £000	Closing Balance 31/03/2011 £000	Movement During The Year £000
Bank current accounts	(1,976)	(10,280)	(8,304)

19. Assets Held for Sale

Non-current 2009/10 £000		Non-current 2010/11 £000
12,850	Balance outstanding at start of year	8,224
	Assets newly classified as held for sale:	
12,564	- Property, plant & equipment	56
	Revaluation losses	
182	Revaluation gains	
(4,321)	Impairment losses	(32)
	Assets declassified as held for sale:	
(8,234)	- Property, plant & equipment	
(4,889)	Assets sold	(3,776)
	Transfers from non-current to current	
72	Other movements	151

8,224 Balance outstanding at year end**4,623**

20. Creditors

Details of the Council's creditors are as follows: -

1 April 2009 £000	31 March 2010 £000		31 March 2011 £000
17,888	18,860	Central government bodies	6,877
3,799	4,006	Other local authorities	1,425
620	654	NHS bodies	2,235
30	32	Public corporations and trading funds	17
71,368	75,246	Other entities and individuals	85,788
93,705	98,798	Total	96,342

21. Provisions

An analysis of provisions is as follows:

	Opening Balance 01/04/10 £000	To £000	Contributions From £000	Closing Balance 31/03/11 £000
S117 Mental Health Clients	204	0	(34)	170
Restructuring Provision	328	3,151	(1,820)	1,659
Late payment of invoices	54	0	(54)	0
Total	586	3,151	(1,908)	1,829

The restructuring provisions include those relating to employee redundancy costs.

Comparative figures for 2009/10

	Opening Balance 01/04/09 £000	To £000	From £000	Closing Balance 31/03/10 £000
S117 Mental Health Clients	203	1	0	204
Restructuring Provision	180	328	(180)	328
Late payment of invoices	0	54	0	54
Total	383	383	(180)	586

22. Usable Reserves

An analysis of the usable reserves is shown below:

	Opening Balance 01/04/10 £000	To £000	From £000	Closing Balance 31/03/11 £000
General fund	12,732	4,344	0	17,076
Earmarked specific reserves (detail in note 8)	96,680	56,285	(38,565)	114,400
Capital grants unapplied	37,628	30,589	(37,628)	30,589
Capital receipts reserve	1,019	12,593	(12,593)	1,019
Total Usable Reserves	148,059	103,811	(88,786)	163,084

Comparative figures for 2009/10

	Opening Balance	Contributions		Closing Balance
	01/04/09	To	From	31/03/10
	£000	£000	£000	£000
General fund	12,732	0	0	12,732
Earmarked specific reserves (detail in note 8)	81,505	40,498	(25,323)	96,680
Capital grants unapplied	18,561	37,628	(18,561)	37,628
Capital receipts reserve	3	6,891	(5,875)	1,019
Total Usable Reserves	112,801	85,017	(49,759)	148,059

23. Unusable Reserves

An analysis of the unusable reserves is shown below:

	Opening Balance	Contributions		Closing Balance
	01/04/10	To	From	31/03/11
	£000	£000	£000	£000
Pensions reserve	(328,503)	0	69,297	(259,206)
Accumulated absences adjustment account	(14,207)	(11,720)	14,207	(11,720)
Financial instruments adjustment account	(1,182)	0	8	(1,174)
Capital adjustment account	594,835	61,809	(49,299)	607,345
Revaluation reserve	73,563	34,252	(2,020)	105,795
Collection fund adjustment account	1,830	0	(988)	842
Total Unusable Reserves	326,336	84,341	31,205	441,882

Comparative figures for 2009/10

	Opening Balance	Contributions		Closing Balance
	01/04/09	To	From	31/03/10
	£000	£000	£000	£000
Pensions reserve	(253,692)	(99,531)	24,720	(328,503)
Accumulated absences adjustment account	(11,872)	(14,207)	11,872	(14,207)
Financial instruments adjustment account	(1,191)	0	9	(1,182)
Capital adjustment account	610,409	40,608	(56,182)	594,835
Revaluation reserve	67,015	11,657	(5,109)	73,563
Collection fund adjustment account	982	848	0	1,830
Total Unusable Reserves	411,651	(60,625)	(24,690)	326,336

23.1 Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post employment benefits in the Comprehensive Income & Expenditure Statement as the benefits earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. Statutory arrangements, however, require benefits earned to be financed as the Council makes employer's contributions to pension fund or pays any pension for which it is directly responsible. The balance on the Pensions Reserve shows a substantial shortfall in the benefits earned by past and current employees and the resources available to meet them. The statutory arrangements will ensure that funding is available by the time the benefits come to be paid.

2009/10 £000		2010/11 £000
(253,692)	Balance at 1 April	(328,503)
(63,729)	Actuarial gains or (losses) on pensions assets & liabilities	32,917
(35,802)	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	12,529
24,720	Employer's pensions contributions & direct payments to pensioners payable in the year	23,851
(328,503)	Balance at 31 March	(259,206)

23.2 Accumulated Absences Adjustment Account

The accumulated absences adjustment account reflects the adjustment to recognise payments for absences as they occur rather than when they are earned.

2009/10 £000		2010/11 £000
(11,872)	Balance at 1 April	(14,207)
11,872	Reversal of opening balance	14,207
(14,207)	Accumulated absence accrual	(11,720)
(14,207)	Balance at 31 March	(11,720)

23.3 Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account reflects the results of smoothing the effect of the application of the effective interest rate charged to the accounts on the LOBO loans held by the Council (detailed in note 15 Financial Instruments).

2009/10 £000		2010/11 £000
(1,191)	Balance at 1 April	(1,182)
9	Effective interest rate smoothing	8
(1,182)	Balance at 31 March	(1,174)

23.4 Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

The Account contains the accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Council.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007.

Note 7 provides details of the source of all the transactions posted to the Accounts, apart from those involving the Revaluation Reserve.

2009/10 Restated £000		2010/11 £000
610,409	Opening Balance at 01 April	594,835
	Capital Financing	
5,876	Capital Receipts	7,819
29,447	Capital Grants and Contributions	47,481
4,543	Revenue Contributions to Capital Expenditure	5,399
742	Capital Reserve	1,110
40,608		61,809
(30,863)	Impairment charged to I&E Account	(29,463)
(34,958)	Depreciation charged to I&E Account	(33,954)
(1,204)	PFI Adjustments	(377)
(385)	REFCUS Adjustments	(251)
16,251	Minimum Revenue Provision Adjustment	19,016
(5,023)	Disposal of Fixed Assets	(4,270)
594,835	Closing Balance at 31 March	607,345

23.5 Revaluation Reserve

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

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

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

2009/10 £000		2010/11 £000
67,015	Opening Balance at 01 April	73,563
11,657	Revaluations during the year	34,252
(1,089)	Depreciation of revaluations	(1,713)
(4,020)	Impairment of Revaluations	(126)
0	Disposal of Revaluations	(181)
73,563	Closing Balance at 31 March	105,795

23.6 Collection Fund Adjustment Account

The Collection Fund Adjustment Account absorbs the net effect of the billing authorities acting as agents for the Council in the collection of council tax income.

2009/10 £000		2010/11 £000
982	Balance at 1 April	1,830
848	Movement in year	(988)
1,830	Balance at 31 March	842

24. Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following items:

2009/10 £000		2010/11 £000
1,240	Interest received	199
(14,650)	Interest paid	(16,191)

25. Cash Flow Statement – Investing Activities

2009/10 £000		2010/11 £000
(78,705)	Purchase of property, plant & equipment, investment property and intangible assets	(87,001)
(2,349,695)	Purchase of short-term & long-term investments	(2,601,334)
6,892	Proceeds from the sale of property, plant & equipment, investment property and intangible assets	7,819
2,370,020	Proceeds from short-term & long-term investments	2,584,045
51,694	Other receipts from investing activities	30,569
206	Net cash flows from investing activities	(65,902)

26. Cash Flow Statement – Financing Activities

2009/10 £000		2010/11 £000
10,003	Cash receipts of short-term & long-term borrowing	14
(2,142)	Cash payments for the reduction of the outstanding liabilities relating to finance leases & on-balance sheet PFI contracts	(1,289)
(44,291)	Repayments of short- and long-term borrowing	(3,960)
(848)	Appropriations to/(from) collection fund account	987
(37,278)	Net cash flows from financing activities	(4,248)

27. Amounts Reported for Resource Allocation Decisions

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

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

Directorate Income and Expenditure 2010/11	Adult & Community Services £000	Children's Services £000	Environmental Services £000	Corporate Services £000	Planning, Economy & Performance £000	Financial Services £000	Total £000
Fees, charges & other services income	60,943	389,250	26,123	40,443	1,254	6,885	524,898
Government grants	4,368	418,870	6,420	237	2,207	37,062	469,164
Total Income	65,311	808,120	32,543	40,680	3,461	43,947	994,062
Employee expenses	50,635	351,382	14,137	21,465	3,801	3,642	445,062
Other service expenses	149,755	215,970	71,780	19,691	3,514	36,002	496,712
Support service recharges	21,825	325,165	7,749	4,915	976	741	361,371
Total Expenditure	222,215	892,517	93,666	46,071	8,291	40,385	1,303,145
Net Expenditure	156,904	84,397	61,123	5,391	4,830	(3,562)	309,083

Directorate Income and Expenditure 2009/10 comparative figures	Adult & Community Services £000	Children's Services £000	Environmental Services £000	Corporate Services £000	Planning, Economy & Performance £000	Financial Services £000	Total £000
Fees, charges & other services income	52,574	359,361	25,999	39,602	2,221	7,612	487,369
Government grants	17,634	381,861	4,873	529	315	25,647	430,859
Total Income	70,208	741,222	30,872	40,131	2,536	33,259	918,228
Employee expenses	50,333	340,553	15,258	18,730	4,062	3,510	432,446
Other service expenses	136,843	185,929	67,651	20,620	2,429	28,766	442,238
Support service recharges	24,012	301,111	8,614	5,438	985	791	340,951
Total Expenditure	211,188	827,593	91,523	44,788	7,476	33,067	1,215,635
Net Expenditure	140,980	86,371	60,651	4,657	4,940	(192)	297,407

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

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

2009/10 £000		2010/11 £000
297,407	Net expenditure in the Directorate analysis	309,083
46,052	Amounts in the Comprehensive Income & Expenditure Statement not reported to management in the analysis	3,867
(8,974)	Amounts included in the analysis not included in the Comprehensive Income & Expenditure Statement	(15,913)
334,485	Cost of services in the Comprehensive Income & Expenditure Statement	297,037

27.2 Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

2010/11	Directorate analysis £000	Amounts not reported to management for decision making £000	Amounts not included in I&E £000	Allocation of recharges £000	Cost of Services £000	Corporate amounts £000	Total £000
Fees, charges & other service income	524,898		(301)	(361,371)	163,226		163,226
Interest & investment income						317	317
Expected return on Pension Assets						33,872	33,872
Income from council tax & NDR						217,936	217,936
Contribution from Non-Domestic Rates						78,727	78,727
Government grants & contributions	469,164		(37,312)		431,852	88,687	520,539
Gain on disposal of fixed assets			(3,410)		(3,410)	3,410	0
Total Income	994,062	0	(41,023)	(361,371)	591,668	422,949	1,014,617
Employee expenses	445,062	(50,154)			394,908		394,908
Other service expenses	496,712	(11,109)	(44,120)		441,483		441,483
Revenue contribution to Capital outlay			(9,359)		(9,359)		(9,359)
Support Services recharges	361,371			(361,371)	0		0
Depreciation, amortisation and impairment		65,130			65,130		65,130
Interest payments			(166)		(166)	16,297	16,131
Pension Interest cost						45,968	45,968
Loss on disposal of fixed assets			(3,291)		(3,291)	119	(3,172)
Total Expenditure	1,303,145	3,867	(56,936)	(361,371)	888,705	62,384	951,089

28. Agency Income and Expenditure

28.1 Registered Nursing Care Contributions

The Council makes payments on behalf of the Worcestershire Primary Care Trust in respect of Registered Nursing Care Contributions. In 2010/11 the payments were £8.1 million (2009/10 £8.7m) and the Council received a contribution for administration expenses.

28.2 Council Tax Income

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

2009/10 £000		2010/11 £000
	Income and Expenditure Statement	
(848)	Council tax precept – billing authorities surplus/deficit	987
	Balance Sheet	
7,290	Debtors	5,438
(5,460)	Creditors	(4,596)
1,830	Collection fund adjustment account	842

29. Pooled budgets

Under s31 of the Health Act 1999, the Council has entered into joint working arrangements with Worcestershire Primary Care Trust (PCT) for the following services.

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

29.1 Learning Disability Services

2009/10 £000		2010/11 £000
	Income:	
(45,167)	Worcestershire County Council	(45,401)
(7,602)	Worcestershire PCT	(7,760)
(52,769)		(53,161)
	Expenditure:	
44,799	Worcestershire County Council	45,510
7,435	Worcestershire PCT	7,342
52,234		52,852
(535)	Net Partnership expenditure	(309)
(368)	Worcestershire County Council net expenditure	109
35,543	Worcestershire County Council contribution	36,081

29.2 Older People Services

2009/10 £000		2010/11 £000
	Income:	
(19,714)	Worcestershire County Council	(17,841)
(33,971)	Worcestershire PCT	(38,605)
(53,685)		(56,446)
	Expenditure:	
19,926	Worcestershire County Council	19,300
35,796	Worcestershire PCT	38,987
55,722		58,287
2,037	Net Partnership expenditure	1,841
212	Worcestershire County Council net expenditure	1,459
19,714	Worcestershire County Council contribution	17,841

29.3 Integrated Community Equipment Service

2009/10 £000		2010/11 £000
	Income:	
(1,071)	Worcestershire County Council	(1,081)
(709)	Worcestershire PCT	(715)
(1,780)		(1,796)
	Expenditure:	
1,149	Worcestershire County Council	1,075
761	Worcestershire PCT	715
1,910		1,790
130	Net Partnership expenditure	(6)
78	Worcestershire County Council net expenditure	(6)
1,071	Worcestershire County Council contribution	1,081

29.4 Mental Health Services

2009/10 £000		2010/11 £000
	Income:	
(7,611)	Worcestershire County Council	(7,371)
(30,060)	Worcestershire PCT	(34,934)
(37,671)		(42,305)
	Expenditure:	
7,409	Worcestershire County Council	7,268
30,228	Worcestershire PCT	34,971
37,637		42,239
(34)	Net Partnership expenditure	(66)
(202)	Worcestershire County Council net expenditure	(103)
7,611	Worcestershire County Council contribution	7,371

29.5 Older Adults Mental Health Services

2009/10 £000		2010/11 £000
	Income:	
1,662	Worcestershire County Council	(1,483)
(17,558)	Worcestershire PCT	(17,714)
(15,896)		(19,197)
	Expenditure:	
1,622	Worcestershire County Council	1,572
16,045	Worcestershire PCT	17,201
17,667		18,773
1,771	Net Partnership expenditure	(424)
3,284	Worcestershire County Council net expenditure	89
1,662	Worcestershire County Council contribution	1,483

29.6 Substance Misuse Services

2009/10 £000		2010/11 £000
	Income:	
(496)	Worcestershire County Council	(499)
(6,133)	Worcestershire PCT	(6,268)
(6,629)		6,767
	Expenditure:	
496	Worcestershire County Council	499
6,133	Worcestershire PCT	6,268
6,629		6,767
0	Net Partnership expenditure	0
0	Worcestershire County Council net expenditure	0
496	Worcestershire County Council contribution	499

30. Members' Allowances and Expenses

The total allowances paid to elected members are as follows:

2009/10 £000		2010/11 £000
513	Basic allowances	511
296	Special responsibility	305
34	Mileage, subsistence and fares	33
843	Total	849

31. Officers' Remuneration

31.1 Officers' Remuneration Bands

In 2010/11 the number of senior employees who received remuneration in excess of £50,000 fell into the following bands:

Revised 2009/10	Total Remuneration to Employees	Number of Employees 2010/11		
		Teachers	Non Teachers	Total
124	£50,000 to £54,999	84	37	121
93	£55,000 to £59,999	57	32	89
39	£60,000 to £64,999	37	14	51
11	£65,000 to £69,999	16	1	17
10	£70,000 to £74,999	6	1	7
3	£75,000 to £79,999	3	1	4
14	£80,000 to £84,999	1	10	11
7	£85,000 to £89,999	4	6	10
5	£90,000 to £94,999	3	1	4
3	£95,000 to £99,999	2	1	3
2	£100,000 to £104,999			0
3	£105,000 to £109,999		3	3
1	£115,000 to £119,999		1	1
1	£120,000 to £124,999		1	1
0	£130,000 to £134,999			0
0	£175,000 to £179,999			0
1	£180,000 to £184,999		1	1

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

31.2 Disclosure of Remuneration for Senior Employees

2009/10			Post Title	2010/11		
Salary £	Pension Contributions £	Total Remuneration £		Salary £	Pension Contributions £	Total Remuneration £
184,228	32,703	216,931	Chief Executive - Mrs T Haines	183,010	33,989	216,999
124,296	22,125	146,421	Director of Adult and Community Services	124,296	22,995	147,291
115,862	20,324	136,186	Director of Children's Services	118,225	21,741	139,966
104,896	19,077	123,973	Director of Environmental Services	105,045	19,827	124,872
106,979	19,250	126,229	Director of Resources (previously Director of Corporate Services)	108,077	20,382	128,459
108,220	19,077	127,297	Director of Financial Services (leaving date 31 August 2010)	44,978	8,261	53,239
107,947	19,077	127,024	Director of Planning Economy and Performance	108,001	19,827	127,828
852,428	151,633	1,004,061		791,632	147,022	938,654

32. External Audit Costs

External audit services to the Council are provided by the Audit Commission in relation to the audit of the Statement of Accounts and certification of grant claims.

2009/10 £000		2010/11 £000
257	Accrued fees payable with regard to external audit services	228
12	Fees paid with regard to the certification of grant claims and returns	13
269	Total	241

33. Dedicated Schools Grant

Details of the deployment of the Dedicated Schools Grant:

	Central Expenditure £000	Individual Schools Budget £000	Total £000
Final DSG for 2010/11			297,173
Brought forward from 2009/10			3,319
Agreed budgeted distribution in 2010/11	34,531	265,961	300,492
Actual central expenditure	31,067		31,067
Actual ISB deployed to schools		265,961	265,961
Carry forward to 2011/12	3,464	0	3,464

34. Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2010/11.

2009/10 £000	Credited to taxation and non specific grant income:	2010/11 £000
16,192	Revenue Support Grant	11,432
25,647	Area Based Grant	37,063
41,839	Total credited to taxation and non specific grant income	48,495
Credited to services:		
Adult & Community Services		
14,984	Supporting People	0
777	Adult & Community Learning	648
1,907	Transforming Social Care	2,369
582	Other	641
18,250		3,658
Children's Services		
288,576	Dedicated Schools Grant	297,173
29,086	Standards Fund	31,235
24,400	Post 16 Learning Skills Council	24,117
16,393	School Standards Grant	16,478
11,981	General sure start & Early Years	13,503
4,695	Bromsgrove Schools PFI Grant	4,695
1,061	ICT Private Finance Initiative	1,061
578	Diploma Specific Formula Grant	758
323	School Sport Co-ordinator	0
3,723	Other	5,570
380,816		394,590
Environmental Services		
4,144	Waste Disposal Private Finance Initiative	4,144
0	Winter Damage	4,357
349	Other	208
462	Malvern Hills	132
109	Sustainable Development	137
159	Animal Welfare Licensing & Enforcement	140
0	WRAP	125
0	Supporting Community Transport	204
0	Bus Service Operators Grant	300
93	Accessible Partnership	0
5,316		9,747
Other		
6,478	RIEP Efficiency & Transformation	0
2,400	RIEP LIA Support	0
8,441	RIEP Capacity Building Fund	6,894
56	RIEP Capacity Build Climate Change	0
1,401	RIEP –Other	134
163	LABGI	0
563	RIEP Health & Wellbeing	212
340	New Growth points	0
556	Future Jobs Fund	328
4,406	LAA Performance	0
7	Leader	383
169	Other	323
24,980		8,274
429,362	Total Credited to Services	416,269

The Council has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the giver. The balance at year end is as follows:

2009/10 £000	2010/11 £000
19	5

35. Related Parties

35.1 General Principles

Central Government has effective control over the Council's general duties. It is responsible for providing the legal framework within which we work, provides funding in the form of grants, and sets the terms of many of the relationships that we have with other organisations. Grants received from government departments are set out in the subjective analysis in note 27 on reporting for resource allocation decisions and in note 34 breakdown of grant income.

Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2010/11 is shown in note 30. A number of Councillors and officers are involved with other local organisations that have provided services for, or received services from the Council. These organisations include, for example, West Mercia Police Authority, Hereford & Worcester Fire & Rescue Authority and the district councils in Worcestershire. Details of related party disclosures are given on the Council's website for Chief Officers at <http://www.worcestershire.gov.uk/cms/council-and-democracy/chief-executive-unit/chief-officers.aspx> and for elected members at <http://www.worcestershire.gov.uk/cms/council-and-democracy/councillor-information/disclosures-by-councillors.aspx>.

The Council has partnership arrangements in place to assist in effective delivery of services. The key ones are S31 Pooled budget with Health (details given in note 29) and shared services arrangements with Worcestershire district councils.

The Council acts as the accountable body for the Regional Improvement and Efficiency Partnership and the Worcestershire Partnership Board. The Council acts as lead body for a number of smaller partnerships, including the Forward Consortium and Destination Worcestershire.

During the financial year, the Pension Fund had an average balance of £5.8 million of surplus cash deposited with the Council. The Council paid the Fund a total for interest of £21k on these deposits and charged the Fund £665k for expenses incurred in administering the Fund.

35.2 West Mercia Supplies Joint Committee

The Council is also represented by its elected members on the West Mercia Supplies Joint Committee and the Director of Financial Services is Treasurer to the Joint Committee. West Mercia Supplies (WMS) is a Purchasing Consortium that was established in 1987. It is constituted as a Joint Committee and Worcestershire County Council is one of four constituent authorities. The other three Councils are Shropshire Council, Herefordshire Council and Telford and Wrekin Council. WMS exists in order to provide joint procurement services to the four constituent authorities. The financial advantage of bulk purchasing arrangements is reflected in the Income and Expenditure Account. The Council's share, at 35% based on the proportion of the surplus attributable to the Council, of the joint arrangement as detailed in the following table is not considered material to the accounts.

Extract of West Mercia Supplies accounts	£000	WCC share £000
Fixed assets	3,539	1,239
Current assets	14,099	4,935
Current liabilities	(10,008)	(3,503)

Payments of £10.5 million were made 2010/11 (2009/10 £10.1 million), including a yearend creditor of £0.009 million.

35.3 Malvern Hills Science Park

Malvern Hills Science Park is a joint venture company established by the Council with its partners Malvern Hills District Council and the Hereford and Worcester Chamber of Commerce and Enterprise. The asset is held as an available for sale financial asset (included in note 15).

During 2010/11, the Council purchased 141,752 additional preference shares in the company. The Council has 664,052 (522,300 on 31.03.2010) preference shares which represent 32% (26% on 31.03.2010) of the total issued share capital of the company.

The allocation of voting shares is such that local authority interest is less than 20% and therefore under Part V of the 1989 Act this is neither a local authority 'controlled' company, nor a local authority 'influenced' company. The preference shares referred to above carry no voting rights.

36. Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and PFI contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed below.

2009/10 £000		2010/11 £000
350,920	Opening capital financing requirement	376,040
	Capital investment:	
78,949	Property, plant and equipment	87,079
0	Investment properties	134
888	Intangible assets	304
3,185	Revenue expenditure funded from capital under statute	2306
	Sources of finance:	
(5,876)	Capital receipts	(7,818)
(32,632)	Government grants & other contributions	(49,537)
	Sums set aside from revenue:	
(5,285)	Direct revenue contributions	(6,509)
(14,109)	MRP/loans fund principal (excluding PFI)	(17,320)
(376,040)	Closing Capital Financing Requirement	384,679
	Explanation of movements in year	
22,913	Increase in underlying need to borrow (supported by government financial assistance)	8,639
2,207	Increase in underlying need to borrow (unsupported by government financial assistance)	
	Assets acquired under finance leases	
	Assets acquired under PFI contracts	
25,120	Increase / (decrease) in Capital Financing Requirement	8,639

37. Leases

37.1 Council as Lessee – operating leases

Operating lease payments of £1.578 million were made in 2010/11 (2009/10 £1.520 million). The Council's outstanding obligations under lease agreements as at 31 March 2011 totalled £17.867 million (31 March 2010 £18.577 million).

	£000
Leases expiring in less than 1 year	145
Leases expiring between 1 and 5 years	915
Leases expiring in 5 years+	16,807

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

37.2 Council as Lessor – operating leases

Assets with a gross value of £52.005 million are held for use in operating leases.

	£000
Leases expiring in less than 1 year	338
Leases expiring between 1 and 5 years	1,531
Leases expiring in 5 years+	2,180

38. Private Finance Initiatives

38.1 Waste Disposal PFI

In December 1998 the 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 Worcestershire 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.

The contract is currently in the course of variation to allow the more stringent government targets on recycling and diversion of biodegradable waste from landfill to be achieved.

38.2 Bromsgrove Schools PFI

In December 2005 the Council entered into a 30 year contract with HBG PFI Projects Ltd for the replacement of seven schools in the Bromsgrove area. The estimated cost over the life of the contract is approximately £300 million.

During 2007/08 the seven new schools were completed and opened to provide educational services for the children of Bromsgrove and the surrounding area.

The Waste Disposal and Bromsgrove Schools PFI schemes are accounted for in accordance with IFRIC 12 Service Concession Arrangements and as such property and other related assets are recognised as assets of the Council. A related liability is also recognised. The unitary payments made during the contract are separated into service and construction elements, with the service element expensed as incurred and the construction element accounted for as if it were a finance lease.

38.3 Value of Assets and Liabilities under PFI Contracts

2008/09	2009/10		2010/11	2010/11
£000	Restated		Movement	£000
	£000		£000	
		Waste Disposal PFI		
2,680	7,562	Land and buildings	(149)	7,413
775	698	Vehicles, plant and equipment	(203)	495
(7,186)	(11,167)	Finance lease liability	706	(10,461)
		Bromsgrove Schools PFI		
63,109	57,140	Land and buildings	(450)	56,690
(59,200)	(58,662)	Finance lease liability	583	(58,079)

38.4 Details of Payments due to be made under PFI Contracts

	Repayment of liability £000	Interest £000	Service charge £000	Total £000
Payments due within one year	1,781	5,683	22,375	29,839
Payments due within 2 to 5 years	7,995	21,859	89,502	119,356
Payments due within 6 to 10 years	12,860	24,456	111,877	149,193
Payments due within 11 to 15 years	11,888	19,426	52,762	84,076
Payments due within 16 to 20 years	12,363	14,949	13,352	40,664
Payments due within 21 to 25 years	18,435	8,878	13,352	40,665
Payments due within 26 to 30 years	9,699	1,226	5,341	16,266

38.5 Non-Operational PFI Schemes

In addition to the above PFI schemes in January 2010 the Council entered into a PFI contract with Galliford Try Investments Limited for the provision of a new Worcester Library and History Centre, in partnership with the University of Worcester. The target date for completion of the project is February 2012 and the service term for the contract is 25 years from the handover of the new facility. The annual unitary payment during the life of the contract is £4.813 million (at April 2007 prices).

In March 2004 the Council in partnership with Wolverhampton City Council entered into an 8 year contract with Nord Anglia Education PLC for the provision of a Virtual Workspace (an internet-based education portal). The contract was terminated in 2008/09. The DfE have indicated that the remaining grant can be retained and utilised in the provision of equivalent schemes.

39. Impairment Losses

The Council has incurred £29.589 million impairment losses relating to changes in market prices in 2010/11, across the following asset categories:

	£000
Other land and buildings	23,180
Assets held for sale	32
Investment properties	6,377
	29,589

40. Capitalisation of Borrowing Costs

The costs of borrowing to fund capital expenditure were not capitalised during the financial year.

41. Termination Benefits

The Council terminated the contracts of 271 employees in 2010/11, incurring liabilities of £4.683m (2009/10 £0.253m).

Of this total, £142,172.80 is payable to a Children's Services Head of Service and a Financial Services Head of Service.

The remaining £4.541m is payable to 18 officers from Adult and Community Services, 29 officers for Environmental Services, 174 officers from Children's Services, 47 officers from Corporate Services, and 1 officer from Planning, Economy and Performance.

42. Pensions Schemes accounted for as defined Contribution Schemes

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. It is not possible for the Council to identify its share of the underlying liabilities in the scheme attributable to its own employees, and therefore for the purposes of the Statement of Accounts it is accounted for as a defined contribution scheme, that is, actual costs are included in the revenue accounts, with no assets or liabilities in the balance sheet.

In 2010/11 the Council paid £23.9 million (2009/10 £23.4m) to the Department for Education and Skills in respect of teachers' pension costs, which represents 14.1% (2009/10 14.1%) of teachers' pensionable pay.

In addition, the Council is responsible for all pension payments relating to added years it has awarded, together with the related increases. In 2010/11 these amounted to £0.4 million (2009/10 £0.4m), representing 0.2% (2009/10 0.2%) of pensionable pay. The Council's Actuary has calculated a long-term liability of £3.8 million in respect of these payments that will decline over time, and this is included in the balance sheet under liabilities relating to defined benefit pension schemes.

43. Defined Benefit Pension Schemes

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

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

The Council is committed to developing shared services with district councils across the County and as a result of this a number of staff have transferred to the County for the Worcestershire Hub during 2009/10 and for the South Worcestershire ICT and Joint Museum shared services during 2010/11. The actuary has provided an analysis of the pension liabilities and assets for these staff. The impact of the Worcestershire Hub has been included in the pension liability and reserve for the Council and is included in the details given below. Where key assumptions are different than those of the Council, these are detailed separately. The liabilities for the South Worcestershire ICT and Joint Museum Services are not material, with a net liability of £0.243m, and have not been included in the accounts.

43.1 Exceptional item – past service gain

In the UK budget statement on 22 June 2010 the Chancellor announced that with effect from 1 April 2011 public service pensions would be up-rated in line with the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI). This has the effect of reducing the Council's liabilities in the Pensions Fund by £48.078m and has been recognised as a past service gain in accordance with guidance set down in UITF (Urgent Issues Task Force) Abstract 48, since the change is considered to be a change in benefit entitlement. There is no impact upon the General Fund.

43.2 Transactions relating to Post-Employment Benefits

The 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 2009/10 £000		Local Government Pension Scheme 2010/11 £000
	Comprehensive Income & Expenditure Statement	
	Cost of services:	
(16,342)	Current service cost	(22,994)
(116)	Past service costs	47,979
(458)	Settlements and curtailments	(360)
	Financing & investment income & expenditure	
(41,375)	Interest cost	(45,968)
21,791	Expected return on scheme assets	33,872
(36,500)	Total post employment benefit charged to the surplus or deficit on the Provision of Services	12,529
	Other post employment benefit charged to the Comprehensive Income & Expenditure Statement	
(59,529)	Actuarial gains & losses	32,517
(96,029)	Total post employment benefit charged to the Comprehensive Income & Expenditure Statement	45,046
	Movement in Reserves Statement	
(11,780)	Reversal of net charges made to the surplus or deficit for the Provision of Services for post employment benefits in accordance with the Code	36,380
	Actual amount charged against the General Fund Balance for pensions in the year:	
24,720	Employer's contributions payable to the scheme	23,851
(22,731)	Retirement benefits payable to pensioners	(25,092)

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2011 is a gain of £32,517 million.

43.3 Assets and Liabilities in relation to Post-Employment Benefits

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

Funded liabilities: LGPS 2009/10 £000		Funded liabilities: LGPS 2010/11 £000
(579,264)	Opening balance at 1 April	(817,821)
(16,342)	Current service cost	(22,994)
(41,375)	Interest cost	(45,968)
(8,724)	Contributions by scheme participants	(8,176)
(191,953)	Actuarial gains / (losses)	43,031
22,731	Benefits paid	25,092
(116)	Past service costs	47,979
(2,320)	Entity combinations	0
(458)	Curtailments	(360)
0	Settlements	0
(817,821)	Closing balance at 31 March	(779,217)

Reconciliation of fair value of the scheme assets:

Local Government Pension Scheme 2009/10 £000		Local Government Pension Scheme 2010/11 £000
325,572	Opening balance at 1 April	493,518
21,791	Expected rate of return	33,872
132,424	Actuarial gains / (losses)	(10,514)
24,720	Employer contributions	23,851
8,724	Contributions by scheme participants	8,176
(22,731)	Benefits paid	(25,092)
3,018	Entity combinations	0
0	Settlements	0
493,518	Closing balance 31 March	523,811

The expected rate of return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date.

Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The actual return on scheme assets in the year was £41.249m loss (2009/10 £154.215m gain).

43.4 Scheme History

	2006/07 £000	2007/08 £000	2008/09 £000	2009/10 £000	2010/11 £000
Present value of liabilities	(589,306)	(676,209)	(579,264)	(817,821)	(779,217)
Fair value of assets	437,246	417,602	325,572	493,518	523,811
Surplus / (deficit) in the scheme	(152,060)	(258,607)	(253,692)	(324,303)	(255,406)

The liabilities show the underlying commitments that the Council has in the long run to pay post employment (retirement) benefits. The total liability of £779.217m has a substantial impact on the net worth of the Council as recorded in the Balance Sheet, resulting in a negative overall balance of £255.406m. Statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy:

- the deficit on the local government scheme will be made good by increased contributions over the remaining working life of the employees (i.e. before payments fall due), as assessed by the scheme actuary

- finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2012 are £24.146m.

43.5 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 Council fund are based on the latest full valuation of the scheme as at 1 April 2010. Where different assumptions are made for the County Council and the Worcestershire Hub valuations, these are detailed.

The principal assumptions used by the actuary are:

2009/10	2009/10		2010/11	2010/11
		Long term expected rate of return on assets in the scheme		
7.5%		Equity investments	7.5%	
4.5%		Government bonds	4.4%	
5.2%		Other bonds	5.1%	
0.5%		Cash / liquidity	0.5%	
		Mortality assumptions		
		Longevity at 65 for current pensioners (years):		
21.2		Men	22.0	
24.1		Women	24.5	
		Longevity at 65 for future pensioners (years):		
22.2		Men	23.4	
25.0		Women	26.1	
		Financial assumptions		
WCC	Hub	Rate of RPI inflation	3.4%	3.5%
3.3%	3.5%	Rate of CPI inflation	2.9%	3.0%
2.8%	2.8%	Rate of increase in salaries	4.4%	4.5%
4.8%	4.8%	Rate of increase in pensions	2.9%	3.0%
3.3%	3.3%	Rate for discounting scheme liabilities	5.5%	5.5%
5.6%	5.6%	Take up of option to convert annual pension into retirement lump sum	50.0%	50.0%
50.0%	50.0%			

The Local Government Pension Scheme's assets consist of the following categories, by proportion of the total assets held:

31 March 2010 %		31 March 2011 %
92.3	Equity investments	92.7
2.8	Government bonds	2.6
3.9	Other bonds	3.8
1.0	Cash / liquidity	0.9
100.0		100.0

43.6 History of Experience Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in 2010/11 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2010.

	2006/07	2007/08	2008/09	2009/10		2010/11	
	%	As restated %	%	WCC %	Hub %	WCC %	Hub %
Experience gains / (losses) on assets	(0.2)	(13.5)	(39.6)	26.8	26.3	(1.7)	(38.7)
Experience gains / (losses) on liabilities	0.0	(1.2)	0.0	0.0	0.0	4.5	18.2

44. Contingent Liabilities

44.1 S117 Mental Health Clients

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

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

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

The Council has reflected the value of identified liabilities of £170k as a provision.

45. Nature and Extent of Risks arising from Financial Instruments

The Council is exposed to the following risks in its dealing with financial instruments:

- credit risk - the possibility that one party to a financial instrument will fail to meet their contractual obligations, causing a loss for the other party
- liquidity risk - the possibility that a party will be unable to raise funds to meet its commitments associated with financial instruments
- market risk - the possibility that the value of an instrument will fluctuate because of changes in interest rates, market prices, etc

The Council's Treasury Management Policy Statement, Strategy and Prudential Indicators have been developed in accordance with the Prudential Code for Capital Finance and are used to manage these risks.

For further information, follow the links below:

Treasury Management Policy Statement:

<http://www.worcestershire.gov.uk/cms/pdf/FI%20Treasury%20Management%20Policy%20Statement.pdf>

Annual Treasury Management Strategy: <http://www.worcestershire.gov.uk/cms/idoc.ashx?docid=cf818080-9e9d-424f-9818-d126b0817b32&version=-1>

Prudential Indicators: <http://www.worcestershire.gov.uk/cms/idoc.ashx?docid=a3c1e26a-2c41-4c40-bfa0-af41d8ff7b55&version=-1>

45.1 Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. This risk is minimised through the Annual Investment Strategy which details which financial institutions can be invested with. During 2010/11 the Council deposited surplus funds with the UK Government via the Debt Management Office and with other local authorities.

The Council does not generally allow credit for customers, such that £2.3m of the £6.9m balance is past its due date for payment. The past due date amount can be analysed by age as follows:

	£000
One to three months	632
Three to six months	153
Six months to one year	755
More than one year	728
	2,268

The Council regularly reviews outstanding debtors and calculates the potential for default. The current bad debt provision for trade debtors in the balance sheet is £0.780 million.

45.2 Liquidity Risk

The Council has a comprehensive cash flow system that seeks to ensure that cash is available as needed. As the 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. The current borrowing strategy is to have no more than 25% of total borrowing maturing within 12 months, no more than 25% maturing more than 12 months but less than 24 months, no more than 50% maturing more than 2 years but less than 5 years, no more than 75% maturing more than 5 years but less than 10 years and at least 25% maturing 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 is as follows:

31 March 2010 £000		31 March 2011 £000
27,784	Maturing within one year	29,226
25,798	Maturing in 1-2 years	25,381
25,000	Maturing in 2-5 years	25,646
15,646	Maturing in 5-10 years	10,651
143,959	Maturing in more than 10 years	143,308
238,187	Total	234,212

45.3 Market Risk - Interest Rates

The Council is exposed to significant risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council. For instance, a rise in interest rates would have the following effects:

- borrowings at variable rates - the interest expense charged to the Income and Expenditure Account will rise
- borrowings at fixed rates - the fair value of the liabilities borrowings will fall
- investments at variable rates - the interest income credited to the Income and Expenditure Account will rise
- 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 the Other Comprehensive Income and Expenditure. Changes in interest payable and receivable on variable rate borrowings or investments would be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance. No variable rate borrowings or investments are held by the Council during the financial year ending 31st March 2011.

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

45.4 Price Risk

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

The Council holds Preference Shares in Malvern Hills Science Park (see note 15.3), no active market exists for this class of share; as a result, there is no movement in price and no exposure to loss.

45.5 Foreign Exposure Risk

The Council has no financial assets or liabilities denominated in foreign currencies and thus has no exposure to loss arising from movements in exchange rates.

46. Trust Funds

The Council acts as trustee for a number of legacies left by benefactors to be applied to a variety of educational and social purposes.

An analysis of the trust funds assets and liabilities as at 31 March 2011, and income and expenditure during the year is as follows:

Income	Expenditure	Assets less liabilities	31 March 2010 Fund balances		Income	Expenditure	Assets less liabilities	31 March 2011 Fund balances
£000	£000	£000	£000		£000	£000	£000	£000
2	7	198	198	Children's Services Funds	2	4	196	196
1	0	150	150	Worcestershire Bridges	1		151	151
0	0	22	22	Other Funds			22	22
3	7	370	370	Total	3	4	369	369

Worcestershire County Council Pension Fund

Statement of Accounts 2010/11

About the Accounts

This Statement of Accounts presents the overall financial position of the Pension Fund for the year ended 31 March 2011. 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 2010/11**
Contains a review of the year and other general information about the accounts.
- 2. Statement of Accounting Policies**
Accounting policies and procedures adopted by the County Council Pension Fund.
- 3. The Worcestershire County Council Pension Fund Account**
Details the money received and spent within the Pension Fund during 2010/11.
- 4. Net Assets Statement**
Statement showing the Pension Fund's financial position at 31 March 2011.
- 5. Notes to the Pension Fund Accounts**
Notes providing additional information for the Fund Account and Net Assets Statement.
- 6. Auditor's Report**
External Auditor's report and opinion on the accounts.
- 7. Glossary**
Glossary of financial terms.

1. Explanatory Foreword and a Review of the Year 2010/11

The management of the Fund's assets is operated through five specialist external managers in a mix of active and passive equities, under the general direction of the Director of Resources who is advised by a small group of elected members and an independent financial adviser.

The Fund is invested in a wide variety of UK and overseas companies, Government Securities and Corporate Bonds.

During the year the surplus on the Pension Fund account totalled £45.072 million for 2010/11, an increase of £9.086 million from the surplus of £35.986 million for 2009/10.

Recurring income from contributions increased by 8.3% and investment earnings also rose by 22.2%. Ongoing expenditure increased by 4.1%.

The value of the Fund's net assets has risen by £136 million from £1,368 million at 31 March 2010 to £1,504 million at 31 March 2011.

Contributions from staff and employers plus interest and dividends received exceeded benefit entitlements paid in 2010/11 by around £48 million. It is expected that an operating surplus will exist for many years to come.

The funding strategy and asset allocations are kept under regular review and the fund's actuary assesses at three yearly intervals the balance of the fund's assets against its liabilities. The next actuarial valuation will be undertaken in 2013/14, with any changes to the employer's contribution rates being implemented with effect from 1 April 2014.

2. Statement of Accounting Policies

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

1. General

The Accounts for 2010/11 have been prepared in compliance with the International Financial Reporting Standards (IFRS) and Statement of Recommended Practice (Financial Reports of Pension Schemes) 2007 and also follow the 2010 Code of Practice on Local Authority Accounting issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). The codes of practice have been followed, with the exception of any departures indicated below.

As a consequence of the full implementation of IFRS, a number of 2009/10 balances have been restated. The only change in accounting policy resulting from the transition to IFRS was the requirement to account for employers' augmentation contributions on an accruals basis as instead of in accordance with the agreement under which they were paid, or on a receipts basis, which was required under the SORP. The transition has not resulted in material differences.

The 2010/11 Accounts value equity investments at bid price rather than mid-market value as required by the SORP.

The core financial statements are as follows:

- The Fund Account
- Net Assets Statement

2. Legislation

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

3. Basis upon which Debtors and Creditors are included

With the exception of Transfer Values that are accounted for on a cash basis, all other transactions are accounted for on an accruals basis. This means that all revenue income is recorded when the debt has been established rather than when money has been received. Similarly, expenditure is recorded when it is owed rather than when the payment is made.

4. Investments

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

The value of fixed interest and index linked securities in the Scheme's investment portfolio excludes interest earned but not paid over at the scheme end. This is included separately within accrued investment income.

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

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

5. Investment Income

Income from equities is accounted for on the date stocks are quoted ex-dividend.

Income from fixed interest and index-linked securities, cash and short-term deposits is accounted for on an accruals basis.

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

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 and unrealised changes in market value.

6. Foreign Currencies

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

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

7. Contributions

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

8. Benefits Payable

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

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

9. Transfers to and from other schemes

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

10. Expenses

Investment Managers' expenses are charged on a percentage basis of the market value of assets under management.

Other administrative expenses include employee costs that are charged to the Fund on a time basis.

11. Augmentation/Actuarial Strain Costs

The costs of early retirement are accounted for on an accruals basis.

3. Worcestershire County Council Pension Fund Account

For the year ended 31 March 2011

Restated 2009/10 £000		Notes	2010/11 £000
Contributions and Benefits			
85,679	Contributions	4	92,792
10,889	Transfers In	5	7,387
96,568			100,179
70,751	Benefits	6	73,683
9,492	Leavers	7	6,189
935	Administrative expenses	8	964
81,178			80,836
15,390	Net additions from dealings with Fund members		19,343
Returns on Investments			
25,494	Investment Income	9	31,034
(1,746)	Taxes on Income	9	(2,009)
409,183	Change in Market Value of Investments	10	91,153
(3,152)	Investment management expenses	11	(3,296)
429,779	Net returns on investments		116,882
445,169	Net increase in the Fund during the year		136,225
922,524	Opening net assets of the Fund		1,367,693
1,367,693	Closing net assets of the Fund		1,503,918

4. Net Assets Statement As At 31 March 2011

1 April 2009 £000	Restated 31 March 2009/10 £000		Notes	31 March 2010/11 £000
		Investment Assets	10	
95,476	50,850	Fixed Interest Securities		56,120
500,959	794,227	Equities		945,435
23,585	36,069	Index Linked Securities		37,805
265,465	465,617	Pooled Investment Vehicles		413,046
91	86	Derivatives –Futures		295
309	398	Derivatives – Forward FX		681
25,984	10,412	Cash		22,032
4,010	4,629	Other Investment Balances		5,939
915,879	1,362,288			1,481,353
		Investment Liabilities		
(55)	(123)	Derivatives – Futures		(68)
(1,117)	(1,852)	Derivatives – Forward FX		(1,103)
(1,172)	(1,975)			(1,171)
7,330	7,086	Current Assets	12	21,000
1,076	1,145	Non Current Assets	13	6,254
(589)	(851)	Current Liabilities	14	(3,518)
922,524	1,367,693	Net Assets of the Fund		1,503,918

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.

5. Notes to the Pension Fund Accounts

1. Pension Fund Accounts

The Pension Fund is administered by the County Council on behalf of their own employees (except Teachers), those of the Herefordshire Council, the District Councils and other bodies in the county of Worcestershire. The County Council has delegated responsibility for the management of the Fund to the Director of Resources.

In matters relating to the management of the Fund's assets the Director of Resources is advised by an Investment Monitoring Group and an independent financial adviser. The Group consists of County Councillors. Formal monitoring takes place on a quarterly basis through meetings with investment managers to discuss their performance. Asset allocation is reviewed at least annually.

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

At the 31 March 2011 there were 20,984 contributors to the fund (2010 21,725), 13,361 pensions were paid (2010 12,765) and there were 12,934 deferred members of the Fund (2010 11,498). A list of scheduled and admitted bodies contributing to the Fund is given in note 18 to these accounts.

A separate detailed Annual Report and Accounts, including a list of the scheduled and admitted bodies contributing to the Fund and the Statement of Investment Principles, is available from the Director of Resources, Worcestershire County Council, County Hall, Spetchley Road, Worcester, WR5 2NP.

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

An actuarial valuation of the fund undertaken as at 31 March 2010 indicated that the Fund's assets were £1,366m and covered 69.0% of the Fund's liabilities. This compares with assets of £1,246m at the valuation as at 31 March 2007 which covered 72.0% of the Fund's liabilities.

The main actuarial assumptions for the 2010 valuation were as follows: -

	Past Service Per Annum	Future Service Per Annum
Investment Return		
- pre-retirement	6.5%	6.75%
- post retirement	5.25%	6.75%
Rate of Pensionable Pay inflation	4.5%	4.5%
CPI price inflation	3.0%	3.0%
Rate of price inflation	3.0%	3.0%

The funding objective is to achieve and then maintain assets equal to the funding target. The funding target is the present value of 100% of projected accrued liabilities, including allowance for projected final pay.

The Fund is valued using the projected unit method which is consistent with the aim of achieving a 100% funding level over 19 years in accordance with the Funding Strategy Statement.

The changes in contribution rates resulting from the actuarial valuation as at 31 March 2010 were effective from 1 April 2011, including stepped increases each year up to 2013/14.

The next actuarial valuation is due as at 31 March 2013 and any change in contribution rates as a result of that review will take place with effect from 1 April 2014.

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

Whilst the Pension Fund accounts are prepared on the basis of estimating the actuarial present value of promised retirement benefits based on the methodologies and estimates used for funding purposes, IAS 26 requires that an alternative valuation based on the actuarial assumptions and methodology under IAS 19 should be disclosed.

In order to assess the value of the benefits on this basis, the Fund's actuary used the same actuarial assumptions as those used for funding purposes, other than the discount rate where the Fund's Actuary used a rate of 5.6% p.a. both before and after retirement, rather than the rates as outlined above. The Fund's Actuary also used valuation methodology in connection with ill-health and death benefits which is consistent with IAS 19. The change in the actuarial assumptions has had a significant effect on the actuarial present value of promised retirement benefits. On this basis for accounting purposes, the value of the Fund's promised retirement benefits as at 31 March 2010 was £2,044 million.

The Fund's actuary also carried out similar calculations as at the previous actuarial valuation date of 31 March 2007, using the same actuarial assumptions as those used for funding purposes at that date, other than the discount rate where a rate of 5.4% p.a. both before and after retirement was used. On this basis, the value, for IAS 26 purposes, of the Fund's promised retirement benefits at that date was £1,824 million.

3. Pension Fund Investments 2010/11

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 2010		31 March 2011	
	£000	%	£000	%
JP Morgan Asset Management	88,332	7	94,867	7
UBS Global Asset Management (Active)	47,304	3	48,484	3
UBS Global Asset Management (Passive)	553,120	41	813,051	55
Capital International Ltd	118,347	9	131,673	9
GLG Partners	314,790	23	0	0
Mellon Transition Management	0	0	130,395	9
Nomura Asset Management UK Ltd	233,791	17	255,773	17
	1,355,684	100	1,474,243	100

The contract with GLG Partners was terminated during the year and Mellon Transition Management was employed to manage the Transition to new contracts. It is anticipated the Fund will employ two investment managers to manage Emerging Market active equity mandates in the new financial year.

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

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

The total amount of stock lent at the year end was £21.183million (2010 £24.372million). The total collateral, which consisted entirely of equities was £23.027million (2010 £25.906million) representing 109% of stock lent.

Income received from stock lending activities was £200,579 for the year ending 31 March 2011 (2010 £224,657). This is included within the 'Investment Income' figure detailed on the Pension Fund Account.

4. Contributions Receivable

Contributions receivable are analysed below:

		Restated 2009/10 £000	2010/11 £000
Employers			
	Normal	41,571	41,724
	Deficit Funding	17,961	26,161
	Augmentation	3,617	2,453
Members			
	Normal	21,982	21,925
	Additional contributions	548	529
		85,679	92,792

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

These contributions can be analysed by type of Member Body as follows:

	Restated 2009/10 £000	2010/11 £000
Worcestershire County Council	32,769	34,964
Scheduled Bodies	45,164	52,057
Admitted Bodies	7,503	5,489
Resolution Bodies	243	282
	85,679	92,792

5. Transfers In

During the year individual transfers in from other schemes amounted to £7.387 million (£10.889 million in 2009/2010).

6. Benefits Payable

	2009/10 £000	2010/11 £000
Pensions	52,787	55,339
Commutations and Lump Sum		
Retirement Benefits	15,882	16,553
Lump Sum Death Benefits	2,082	1,791
	70,751	73,683

These benefits can be analysed by type of Member Body as follows:

	£000	£000
Worcestershire County Council	27,982	30,264
Scheduled Bodies	37,833	37,934
Admitted Bodies	4,717	5,269
Resolution Bodies	219	216
	70,751	73,683

7. Payments to and on Account of Leavers

	2009/10	2010/11
	£000	£000
Individual transfers to other schemes	9,497	6,180
Refunds to members leaving service	(5)	9
	9,492	6,189

8. Administrative Expenses

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

A breakdown of these costs is set out below:

	2009/10	2010/11
	£000	£000
Employee Expenses	385	399
Support Services	281	274
Actuarial Services	57	151
Other Expenses	215	142
Printing / Publications	19	21
Recharges to other bodies	(22)	(23)
	935	964

Employee expenses have been charged to the Fund on a time basis. Office expenses and other overheads have also been charged.

9. Investment Income

	2009/10	2010/11
	£000	£000
Fixed Interest Securities	2,486	2,862
Equities	20,995	26,303
Index Linked Securities	930	1,478
Cash Deposits	853	189
Securities Lending	225	201
Commission Recapture	5	1
	25,494	31,034
Taxes on Income	(1,746)	(2,009)
	23,748	29,025

10. Investments

	Value at 01/04/2010	Purchases at Cost and Derivative Payments	Sales Proceeds and Derivative Receipts	Change in Market Value	Value at 31/03/2011
	£000	£000	£000	£000	£000
Fixed Interest Securities	50,850	69,343	(65,031)	958	56,120
Equities	794,227	665,554	(566,186)	51,840	945,435
Index Linked Securities	36,069	7,924	(7,241)	1,053	37,805
Pooled Investment Vehicles	465,617	187,856	(277,724)	37,297	413,046
Derivatives – Futures	(37)	1,539	(1,280)	5	227
	1,346,726	932,216	(917,462)	91,153	1,452,633
Derivatives – Forward FX	(1,454)				(422)
Cash	10,412				22,032
Other Investment Balances	4,629				5,939
	1,360,313				1,480,182

	Value at 01/04/2009	Purchases at Cost and Derivative Payments	Sales Proceeds and Derivative Receipts	Change in Market Value	Value at 31/03/2010
	£000	£000	£000	£000	£000
Fixed Interest Securities	95,476	112,299	(160,326)	3,401	50,850
Equities	500,959	274,175	(222,680)	241,773	794,227
Index Linked Securities	23,585	16,919	(6,522)	2,087	36,069
Pooled Investment Vehicles	265,465	52,826	(14,180)	161,506	465,617
Derivatives – Futures	36	1,113	(1,602)	416	(37)
	885,521	457,332	(405,310)	409,183	1,346,726
Derivatives – Forward FX	(808)				(1,454)
Cash	25,984				10,412
Other Investment Balances	4,010				4,629
	914,707				1,360,313

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

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the scheme such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to £1.218million, 2009/10 (£1.060million). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investments vehicles. The amount of indirect costs is not separately provided to the scheme.

A further analysis of the market value of investments is given below:

		31 March 2010 £000	31 March 2011 £000
Fixed Interest Securities			
UK Quoted		5,583	7,645
Overseas Public Sector Quoted		257	202
Overseas Quoted		45,010	48,273
		50,850	56,120
Equities			
UK Quoted		290,066	487,913
Overseas Quoted		504,161	457,522
		794,227	945,435
Index Linked			
UK Public Sector		34,720	36,292
UK Other		0	0
Overseas Other		1,349	1,513
		36,069	37,805
Pooled Investment Vehicles			
Other UK Managed Funds	– UK Equities	299,031	112,620
	– Overseas Equities	153,478	284,361
Other Overseas Managed Funds	– Overseas Equities	13,108	16,065
		465,617	413,046
Derivative Contracts			
Futures Contracts (Assets)		86	295
Futures Contracts (Liabilities)		(123)	(68)
		(37)	227
Type of Future	Expiration	Economic Exposure Value £000 31 March 2011	Market Value £000 31 March 2011
UK gilt exchange traded	Less than one year	3,191	(15)
Overseas exchanged traded	Less than one year	5,237	204
Cash and cash equivalents exchange traded	Less than one year	(3,064)	38
		5,364	227

Type of Future	Expiration	Economic Exposure	Market Value
		Value £000	Value £000
		31 March 2010	31 March 2010
UK gilt exchange traded	Less than one year	(3,443)	(54)
Overseas exchanged traded	Less than one year	3,242	(1)
Cash and cash equivalents exchange traded	Less than one year	53	18
		(148)	(37)

	2009/10 £000	2010/11 £000
Forward Foreign Exchange (Assets)	398	681
Forward Foreign Exchange (Liabilities)	(1,852)	(1,103)
	(1,454)	(422)

Derivative receipts and payments represent the realised gains and losses on futures contracts. The active bond mandate and passive equity mandate provides discretion for the managers to enter into derivative contracts in order to enhance the return for the fund. The portfolio cannot be geared to and must have the liquidity needed to cover open positions.

	2009/10 £000	2010/11 £000
Cash		
Cash Deposits	2,254	3,569
Cash Instruments	15,890	16,216
Outstanding trades	(7,732)	2,247
	10,412	22,032

Other Investment Balances

Outstanding dividend entitlements	4,029	5,164
Recoverable withholding tax	600	775
	4,629	5,939

11. Investment Management Expenses

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 permit costs incurred in connection with the investment of the Fund to be charged against the Fund. A breakdown of the costs is set out below:

	2009/10 £000	2010/11 £000
Administration, Management and Custody Fees	3,035	3,176
Performance Monitoring Service	23	24
Other Advisory Fees	12	12
Other Expenses	82	84
	3,152	3,296

Administration includes employee expenses that have been charged to the Fund on a time basis. Office expenses and other overheads have also been charged.

12. Current Assets

	1 April 2009	Restated 2009/10	2010/11
	£000	£000	£000
Contributions due from: Employer	2,836	2,999	5,227
Members	1,111	1,140	1,804
Magistrates Court Service Bulk Transfer	0	0	607
Augmentation	590	880	3,125
Cash balances	2,626	1,887	9,345
Other Debtors	167	180	892
	7,330	7,086	21,000

13. Non Current Assets

	1 April 2009	Restated 2009/10	2010/11
	£000	£000	£000
Magistrates Court Service Bulk Transfer	0	0	5,463
Augmentation	1,076	1,145	791
	1,076	1,145	6,254

14. Current Liabilities

	2009/10	2010/11
	£000	£000
Investment Management Expenses	(813)	(676)
Payroll and External Vendors	0	(2,286)
Other Expenses	(38)	(556)
	(851)	(3,518)

Contributions due to the Pension Fund were received in line with the schedule of contributions currently in force.

Any surplus cash balances are loaned on a daily basis to Worcestershire County Council. The County Council invests its total funds in short term deposits with a range of banks in accordance with the WCC Treasury Management Policy.

15. Related Party Transactions

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

Capital International Limited
 JP Morgan Asset Management
 Nomura Asset Management UK Limited
 UBS Global Asset Management UK Limited
 Mellon Transition Management

The payment of investment management fees are related party transactions with the above managers, which are detailed on an aggregate basis in note 11 to the Pension Fund accounts.

The Pension Fund employs BNY Mellon Asset Servicing as its global custodian. BNY Mellon are considered a related party and the Fund's fee payments to the Custodian are related party transactions and are disclosed in note 11 to the Pension Fund accounts

Scheduled, Admitted and Resolution bodies of the Fund are also related parties and are listed in note 18 to the accounts. Transactions with these bodies are disclosed on an aggregate basis in notes 4, 6, 12 and 13 to the accounts.

16. Contingent Liabilities

The Fund had no material contingent liabilities as at 31 March 2011.

17. Additional Voluntary Contributions

The Pension Fund scheme provides an Additional Voluntary Contributions (AVC) facility for scheme members. In 2010/11 some members of the pension scheme paid voluntary contributions and transfers to Scottish Widows and Equitable Life to buy extra pension benefits when they retire. Retirement benefits were also purchased during the year. The contributions are paid directly from scheme members to the AVC provider. The amounts administered under AVC arrangements during 2010/11 are as follows:

	2009/10	2010/11
	£000	£000
Contributions received	190	305
Investments purchased	180	305
Change in market value	420	91
Retirement benefits paid or transferred	381	502

The combined value of the AVC funds at 31 March 2011 was £3.382 million, (2009/10 £3.489 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

18. Participating Employers of the Fund at 31 March 2011

Scheduled Bodies

Worcestershire County Council	West Mercia Probation Service
Bromsgrove District Council	Redditch District Council
Building Control	Regulatory Services (Bromsgrove)
Evesham and Malvern Hills College	Revenue and Benefits
Hereford and Worcester Community Council	South Worcestershire ICT shared
Hereford and Worcester Fire and Rescue Authority	Services
Hereford City Parish Council	Tudor Grange
Hereford College of Art and Design	University College Worcester
Hereford Sixth Form College	West Mercia Police Authority
Hereford Steiner Academy	Worcester City Council
Hereford College of Technology	Worcester College of Technology
Herefordshire District Council	Worcester Sixth Form College
John Kyrle High School and Sixth Form	Worcestershire Hub
Joint Museum Shared Services	Wychavon District Council
Kidderminster College of Further Education	Wychavon Leisure (Bromsgrove)
Malvern Hills District Council	Wyre Forest District Council
North East Worcestershire College	

Admitted Bodies

Amey Plc	Midland Heart
Bromsgrove District Housing Trust	Redcliffe Catering Ltd
Bromsgrove PFI	Ringway Ltd
Courtyard Trust	Rooftop Housing Association
Hereford Futures	Shaw Homes Housing Association
Festival Housing Group	Valuation and Community Charge
FOCSA Services (UK) Ltd	Tribunal
Hereford Community Leisure Trust	Whitecross PFI
Herefordshire Housing Association	Worcester Community Housing Ltd
Marches Housing Association	Wychavon Leisure Community
	Association Ltd
	Wyre Forest Community Housing Ltd

Resolution Bodies

Belbroughton Parish Council	Malvern Hills Conservators
Bredon Parish Council	Malvern Town Council
Broadway Parish Council	Pershore Town Council
Brockhampton Parish Council	Rock Parish Council
Droitwich Town Council	Ross-on-Wye Town Council
Evesham Town Council	Stourport-on-Severn Town Council
Kempsey Parish Council	Upton Bishop Parish Council
Lea Parish Council	Upton-upon-Severn Town Council
Ledbury Town Council	Wigmore High and Primary
Linton Parish Council	Wythall Parish Council

19. Local Government Pension Scheme (LGPS)

Pension Benefits – A Brief Summary

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

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

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

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

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

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

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

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

A comprehensive statement of benefits is available in an explanatory booklet from the Pension Section - telephone 01905 766525, or e-mail: pensions@worcestershire.gov.uk.

20. 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 follow;

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

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

Market risk

There are three main types of market risk that the Fund is exposed to as at 31 March 2011:

- Interest Rate Risk
- Equity Risk
- Foreign Exchange Risk

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Interest rate risk is the risk that the value of a security will fall as a result of increase in interest rates. 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. 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 800 companies worldwide (excluding investments through pooled vehicles) and using four different investment managers to manage the Fund's equity investments. Investment restrictions are built into contracts held with each investment manager to ensure risk concentration is minimal and gearing of the Fund's assets can not take place.

Interest rate risk has been reduced through the holding of less 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 unhedged portfolios and therefore is subject to currency fluctuations. It is the administering authority's view that in the long-run currency volatility trends to an average of nil against Sterling and therefore any hedging of currency would just be an additional cost to the Fund.

The Fund employs WM Company to independently measure the Fund's investment returns and the Fund's absolute and relative risk for each portfolio and also the Fund as a whole. The Fund receives quarterly reports from WM Company listing returns and risk. The Fund's Independent Financial Adviser also provides a yearly report to the Investment Monitoring Panel, providing details of the Fund's risk and comparisons to all other Funds in the Local Authority universe.

Credit Risk

Credit risk is an investor's risk of loss arising from a borrower who does not make payments as promised. Credit risk applies to the Fund's bond holdings, which are managed by JP Morgan. 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 Investment Monitoring Panel, providing details of the Fund's bond portfolio absolute and relative risk.

Liquidity Risk

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 spending obligations of the Fund. 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 the bond holdings is monitored and managed by the bond manager on an on-going basis.

