



Worcester

CITY COUNCIL

Building a successful future on 2,000 years of history

STATEMENT OF ACCOUNTS

2018/19



**WORCESTER CITY COUNCIL
STATEMENT OF ACCOUNTS 2018/19**

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WORCESTER CITY COUNCIL

STATEMENT OF RESPONSIBILITIES

The City Council's responsibilities

The City Council is required:

- to make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Corporate Director Finance and Resources. He is the council's Section 151 Officer
- to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets
- to approve the Statement of Accounts.

The Section 151 Officer's responsibilities

The Section 151 Officer is responsible for the preparation of the 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 Great Britain ("the Code"). The S151 Officer is required to present the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31 March 2019.

As the responsible officer, I certify that in preparing this Statement of Accounts for the year ended 31 March 2019, I have:

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

I have also:

- kept proper accounting records which were up to date
- taken reasonable steps to prevent and detect fraud and other irregularities.

These accounts give a true and fair view of the financial position of Worcester City Council at the reporting date and of its expenditure and income for the year ended 31 March 2019.



Shane Flynn
Corporate Director Finance and Resources

31 May 2019

WORCESTER CITY COUNCIL

NARRATIVE REPORT

1. Introduction

This Draft Statement of Accounts presents the financial position of the Council for the year ended 31 March 2019. The Accounts are produced in the format stipulated by the Chartered Institute of Public Finance and Accountancy (CIPFA) in accordance with best accounting practice under the terms of section 21(2) of the Local Government Act 2003.

The Accounts and Audit Regulations 2015 require that Local Authorities provide a narrative to the Statement of Accounts. This should provide an analysis of the development and performance of the authority in that financial year and its position at the end of the year.

2. An Introduction to Worcester City

Worcester City is the County town of Worcestershire and covers an area of c. 33 square kilometres of South Worcestershire. It is situated in the West Midlands, approximately 17 miles southwest of Birmingham and 23 miles north of Gloucester.

The River Severn and the Worcester and Birmingham Canal run through the centre of Worcester providing recreational and sporting opportunities for residents and visitors. Although predominantly urban, the City is surrounded by open countryside and features a variety of parks and open spaces.

The city's history spans more than 2,000 years. It is studded with monuments to its rich heritage, including the 12th Century Cathedral, the Guildhall, the 800-year-old Commandery and the site of the final battle of the Civil War.

Education is thriving in the city, which is home to the University of Worcester, Heart of Worcestershire College and Worcester Sixth Form College.

The city enjoys a varied retail and leisure offer with large high street brands, unique boutiques and independent shops all trading in the city centre. The recently opened £20m Cathedral Square development has provided a boost to the night time economy. The city also has a growing reputation for sport, hosting top class sporting venues including Worcestershire County Cricket Ground, Worcester Warriors Rugby Club and the 300-year-old Worcester Racecourse.

Worcester has a population of 102,314 people and the City's age profile is generally younger than for England and the rest of the surrounding county. 31.8% of the population are aged under-25 compared to 27.3% in Worcestershire, and 30.01% in England. The working age population (16-64) makes up 64.9% of the total population compared to 60.1% in Worcestershire and 62.8% in England.

Source: ONS mid-year population estimates 2017

The average house price in Worcester in February 2019 was £210,734 compared to the county average of £237,915 and £242,964 in England. Source: Land Registry

The unemployment rate in Worcester is 3.3%, which is lower than the UK average of 4.2%. Source: ONS / LFS : ILO unemployment rate December 2018

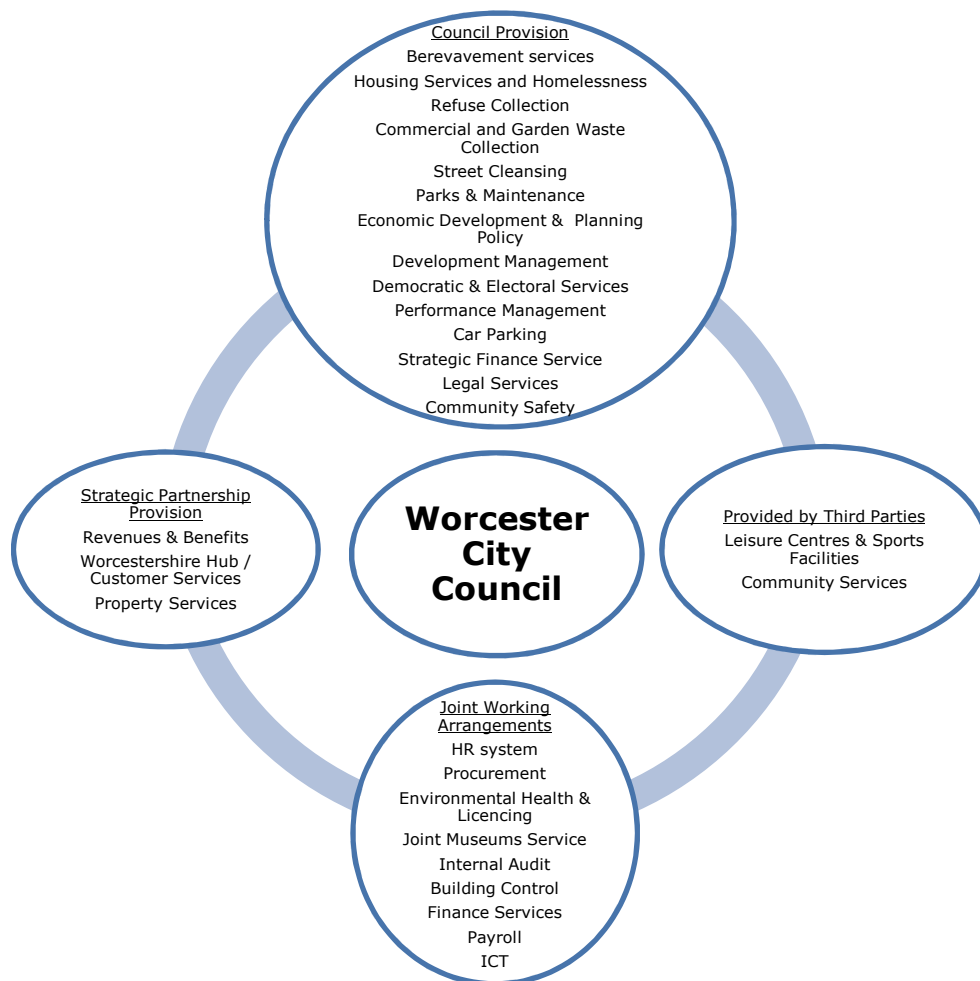
**WORCESTER CITY COUNCIL
NARRATIVE REPORT**

3. The City Council

Residents are represented by 35 councillors from 15 wards in the city. Each one is elected for a term of four years, with annual elections held in one third of wards in three of every four years. Following a change in the constitution regarding the appointment of the Leader of the Council the Conservative Group, which has the largest number of seats on the Council, holds the Leadership of the Council.

Political Party	Number of Seats		
	From 8 May 2018 to 8 March 2019	From 9 March 2019 to 3 May 2019	From 3 May 2019
Conservative Group	17	18	17
Labour Group	15	15	15
Green Group	3	2	3

The Council provides a wide range of services to residents through direct provision, joint working, strategic partnership and via third parties as shown below.



Property services was brought back in-house with effect from 1st April 2019

**WORCESTER CITY COUNCIL
NARRATIVE REPORT**

3. The City Council cont'd

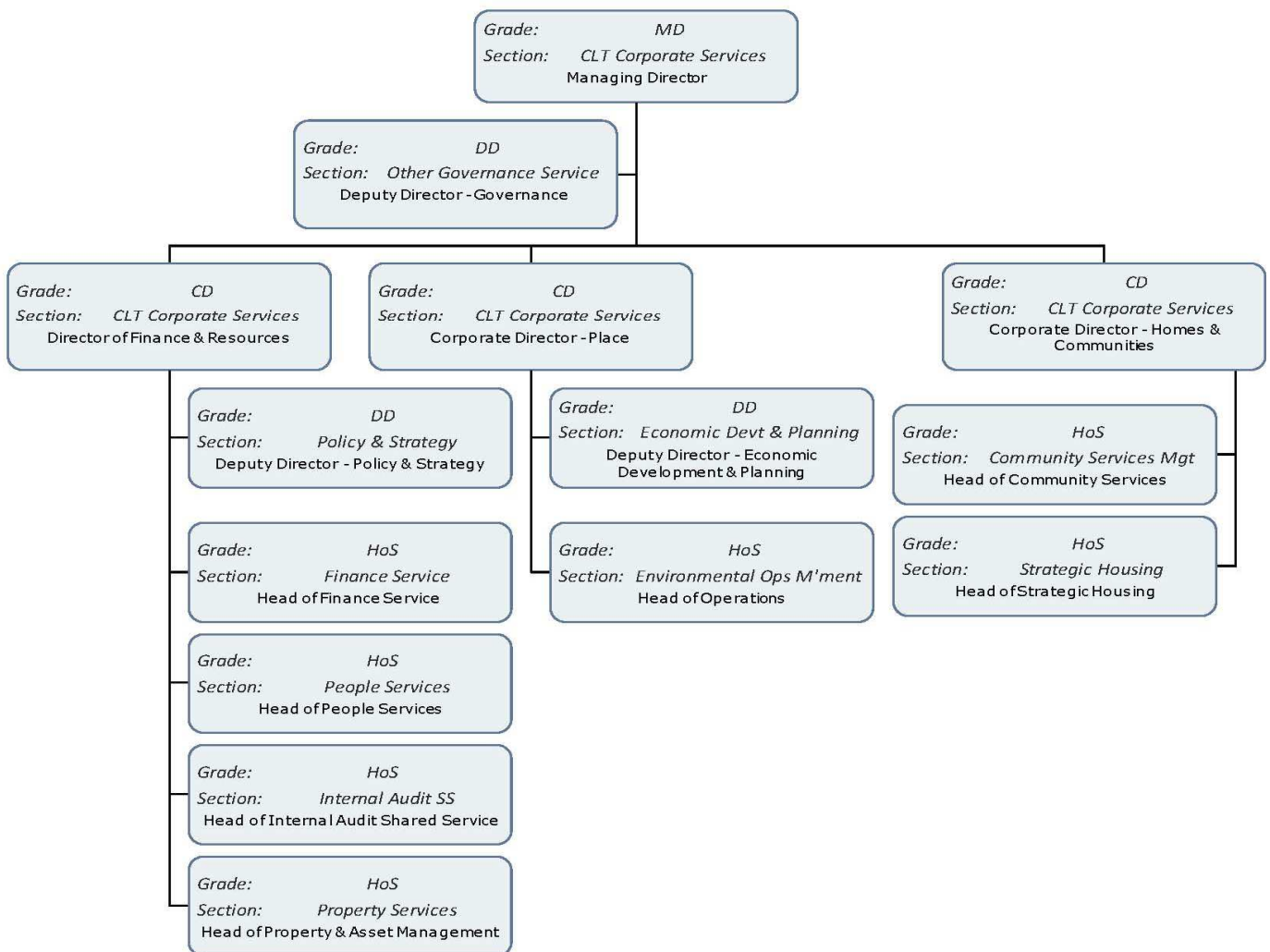
The council is governed by a Constitution which is based on the Committee model. This comprises Policy committees and Regulatory Committees.

The Policy Committees are responsible for implementing the budget and policy framework as agreed by full Council and decisions must be in line with the Council's overall policies and budget. All members of the Council are entitled to a seat on one of the Policy committees, which are the part of the Council with responsibility for most day to day decisions.

The Regulatory committees are responsible for specific functions of the Council, for example planning and licensing.

The council has approximately 300 employees to manage and deliver services making it one of the largest employers in the city.

The management structure is shown below with the Managing Director and Directors forming the Corporate Leadership Team, along with the Deputy Director Governance who acts as the council's Monitoring Officer.



WORCESTER CITY COUNCIL NARRATIVE REPORT

4. Financial Performance

The financial context for the Council is demonstrated by the following key statistics.

Worcester City Council manages cashflows and assets in excess of £260m by:

- collecting over £90m of Business Rates and Council Tax. 91% of this is passed onto central government and other agencies, with the Council retaining £9.15m for service delivery in 2018/19.
- administering over £29m of Housing Benefit claims
- managing over £90m of land, buildings and other assets. This includes the Grade 1 listed Commandery and The Guildhall as well as the Perdiswell swimming pool and leisure centre that opened in 2017.
- spending a total of approximately £24m each year on Council services.
- accounting for £19m pa of fees, charges, rents, grant funding and capital receipts, which are used to help deliver services and keep council tax down.

In common with the rest of local government, the Council has seen a steady reduction in its core funding in recent years. The Government's aim is to phase out non-specific grant funding altogether.

This is one of the key financial challenges the Council faces in the coming years, a selection of which are shown below:

- Central Government funding (Revenue Support Grant) will cease after 2018/19
- Changes to business rates retention regulations means that Worcester City Council will be further exposed to the level of appeals
- The financial impact of Brexit is as yet uncertain. It could be positive or negative, but is likely to affect interest and inflation rates, labour costs and property and rental values.

To balance the budget there will be a continuing need for transformation, efficiencies and other financial initiatives for the foreseeable future. In tackling these challenges, the council will balance sound financial stewardship with innovative approaches to service delivery, generating new sources of income and cost-effective support functions. To support this the Council approved a Commercial strategy in February 2018 and an Income Generation strategy in October 2018.

**WORCESTER CITY COUNCIL
NARRATIVE REPORT**

4. Financial Performance 2018/19

The Council's Statement of Accounts for the year are set out on the following pages. The core statements comprise the following:

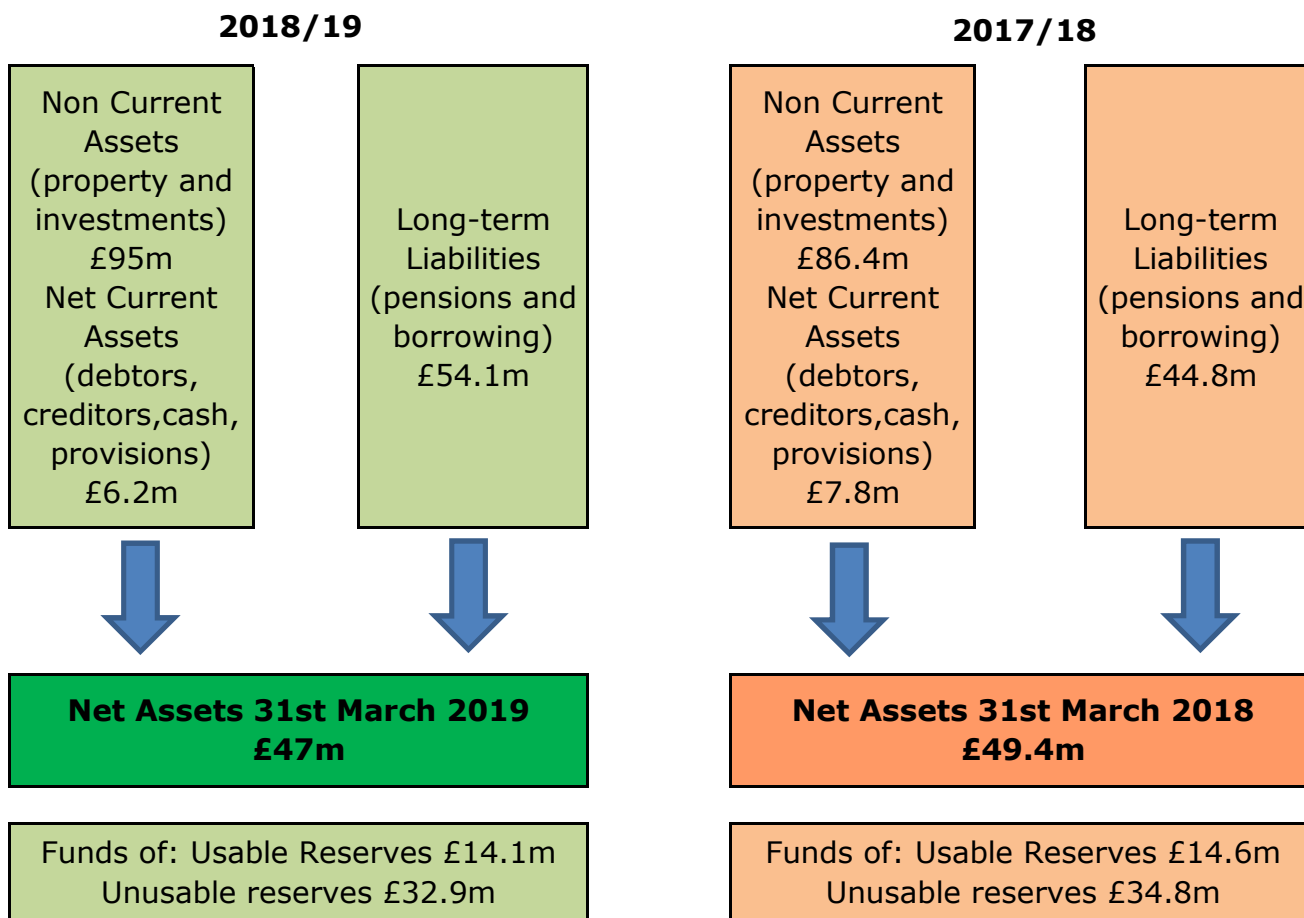
Comprehensive Income & Expenditure Statement	Movement in Reserves Statement
<p>A deficit of £1.2m on provision of services for 2018/19</p> <p>This records all of the Council's income and expenditure for the year. Expenditure is a combination of the cost of services that the Council is required to carry out by law (statutory duties) and discretionary expenditure focused on local needs. Income is a combination of the Council's Fees and Charges and other Income.</p>	<p>An overall decrease of £0.5m in Useable Reserves.</p> <p>This is a summary of the changes to the Council's reserves over the course of the year. Reserves are divided into 'useable' which can be invested in capital projects or service improvements and 'unusable' reserves which are technical accounting adjustments.</p>
Cashflow Statement	Balance Sheet
<p>A net cash outflow of £1.5m in cash or cash equivalents</p> <p>This shows the reasons for the changes in the Council's cash balances during the year and whether that change is due to operating activities, new investment or financing activities.</p>	<p>A decrease in net assets of £2.4m as at 31 March 2019</p> <p>This shows the value of the Council's assets and liabilities at 31 March 2019.</p>

The major factors in the decrease in net assets of £2.4m are the increase in the pension liability (excluding the prepayment made in 2017/18) of £9.5m offset by the increase in the value of land and buildings of £5.7m.

NARRATIVE REPORT

4. Financial Performance 2018/19 cont'd

The council holds a strong financial balance sheet with net assets of £47.0m



5. Budget Performance - Net Revenue and Capital Budgets

The 2018/19 budget was approved by Full Council in February 2018. This was a balanced budget achieved after a further reduction in funding mainly due to a reduced Revenue Support Grant. It included combined cost savings and income increases of £1.0m as part of a programme of budget reduction. This is in addition to the £3.3m achieved from this programme in the previous three years. There was a 2.99% increase in Council Tax. The capital programme was approved with a budget of £2.4m. This included the refurbishment of the Shambles in the city centre, provision of affordable housing and continuing the programme of vehicle replacement in the Environmental Operations service.

For 2018/19 the Council has delivered a budget surplus of £183k, despite the challenging financial climate and year-on-year budget savings.

At a headline level, the budget surplus is comprised as follows:

- £1.1m overspend on operating expenditure against a budget of £22.9m;
- £1.0m surplus on income against a budget of £12.2m;
- £0.15m surplus on net interest payments and Minimum Revenue Provision;
- £0.1m surplus on Business Rates

**WORCESTER CITY COUNCIL
NARRATIVE REPORT**

5. Budget Performance - Net Revenue Budget (cont'd.)

The budget surplus on operating budgets is £0.068m and the following table details the net revenue expenditure by service. This differs from the Net Cost of Service in the Comprehensive Income and Expenditure Statement by the exclusion of costs relating to depreciation, revenue funded from capital under statute and certain pension adjustments.

	2018/19		
	Budget	Actual	Variance
	£'000	£'000	£'000
Governance Services	1,030	1,103	73
People Services	405	429	24
Internal Audit Shared Service	49	49	(1)
Policy & Strategy	1,814	1,773	(41)
Finance Service	976	1,031	55
Revenues & Benefits Service	524	555	32
Property and Assets	1,604	1,689	85
Corporate Costs	1,737	1,712	(25)
Community Services	(3,064)	(3,362)	(298)
Strategic Housing Service	598	605	6
Environmental Operational Service	2,854	3,009	155
Museum Service	550	589	39
Devt. Mgt, Economic Devt and Planning	998	1,016	18
CLT & Corporate Services	568	533	(35)
Housing Benefit - net subsidy	(32)	26	58
Equivalent Net Cost of Service	10,613	10,757	144
Capital Charges/Interest/MRP	673	460	(213)
General Fund transfer	(103)	(103)	0
To Earmarked Reserves	2,261	2,261	(0)
From Earmarked Reserves	(1,660)	(1,660)	(0)
Other amounts reported	1,171	959	(213)
Total Net Expenditure	11,784	11,716	(68)

The favourable surplus to budget mainly relates to:

- increased income of £0.4m, particularly from car parking and bereavement. These are both included in Community Services
- extra costs of £0.15m in the Environmental Operational Service due to delayed transformation savings and higher vehicle running costs
- lower interest costs than budget of £0.2m as the level of borrowing required was lower than planned.

**WORCESTER CITY COUNCIL
NARRATIVE REPORT**

5. Budget Performance - Net Revenue Budget (cont'd)

Net revenue expenditure was financed by:

	2018/19		
	Budget £'000	Actual £'000	Variance £'000
NET BUDGET	11,784	11,716	(68)
New Homes Bonus	(1,609)	(1,609)	(0)
Council Tax	(5,758)	(5,758)	(0)
Business rates	(2,824)	(2,924)	(100)
Revenue Support Grant	(306)	(306)	0
Section 31 Grants / Other Grants	(1,287)	(1,302)	(15)
Total Funding	(11,784)	(11,899)	(115)
Net Budget Surplus	0	(183)	(183)

The total net Budget surplus is therefore £183k.

6. Comprehensive Income and Expenditure Statement

The Comprehensive Income and Expenditure Statement shows the gross cost and income generated from the service provision:

Expenditure Type	2018/19 £000	2017/18 £000
Employee expenses	12,477	10,339
Other service expenses	12,359	12,083
Housing Benefit payments	29,369	30,606
Capital charges/gain on disposal	3,643	3,879
Interest paid/Parish Precepts	480	495
Gross Cost of Service Provision	58,329	57,402

Employee expenses include all payments for the City Council's employees including salaries, employer's national insurance and pension contributions, training, professional subscriptions, recruitment, and health and safety costs.

Other service expenses comprising:

Premises, transport related expenses and supplies and services costs include the cost of maintaining buildings, of operating vehicles and of buying goods and services.

Third party payments mainly comprise payments to partners delivering services for the Council.

Capital charges are net servicing of finance costs, impairments and depreciation, and represent the real cost of using assets to provide the Council's services.

**WORCESTER CITY COUNCIL
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6. Comprehensive Income and Expenditure Statement (Cont'd)

Income Type	2018/19	2017/18
	£000	£000
Grants and Contributions	(7,798)	(7,706)
Housing benefit grant	(29,239)	(30,709)
Fees, Charges and other service income	(11,155)	(10,361)
Income from Council Tax and Business Rates	(9,147)	(8,154)
(Increase)/Decrease in value of Investment Properties	360	(1,619)
Change in Fair Value Pooled Investment Funds	191	0
Interest & Investment Income	(387)	(134)
Total Income in Service Provision	(57,175)	(58,683)

Grants and Contributions in compliance with proper accounting practice this includes the value of capital grants and contributions. As shown in the expenditure and funding analysis/movement in reserves statement, capital related items are subsequently adjusted in accordance with statutory provisions and do not impact the General Fund.

Fees and charges income comes from users paying for Council services such as leisure facilities, building control, car parking, planning, land charges and licensing.

Other service income includes miscellaneous items such as charges to external bodies and shared services partners.

7. Capital Expenditure and Financing

Expenditure on assets which will provide benefits for more than one year was £4.0m (2017/18 £3.5m). This compares with a final budget of £4.5m for the year (this included budgets carried forward from 2017/18 and further in-year approvals). The difference largely relates to delayed expenditure on capital projects including those managed in partnership with other local authorities. Funding will be carried forward to 2019/20 to complete these items.

Additionally the Council has added £0.5m to its heritage assets arising through a donation by the Arts Council of a collection previously on loan to the Council.

A summary of the capital expenditure in 2018/19 is shown below. Of the £4.0m Council spend, £3.0m was added to the value of the Council's own assets, and the balance of £1.0m was charged in year to the Comprehensive Income and Expenditure Statement as 'revenue expenditure funded from capital under statute'. This created assets which were owned by others - for example, grants to homeowners, or contributions to capital projects managed by other local authorities.

The sources of funding for the Council's capital expenditure are also shown below.

Capital Expenditure/Additions	£000	Source of Financing	£000
Housing and building grants	1,045	Usable capital receipts	1,365
City centre redevelopment	691	External Grants	1,647
Play Areas and Parks projects	719	Section 106 funds	317
Economic Development	363	Earmarked reserves	1,029
Vehicles, ICT and other equipment	1,211	Direct Revenue Financing	87
Heritage Assets (Donation)	540	Borrowing	169
Other small capital items	45		
Total	4,613	Total	4,613

WORCESTER CITY COUNCIL NARRATIVE REPORT

8. Treasury Management

The Council borrows for cash flow purposes within specified limits or to fund capital expenditure. Note 25 (Long Term Borrowing) in the Notes to the Core Financial Statements shows details of the Council's outstanding loans and when they mature.

The total cash and short-term investments balances at 31 March 2019 were £13.7m, which is an increase of £2.5m against the prior year. Major contributors were the partial unwinding of the prepayment to the pension fund (paid in 2017/18) and increases in cash retained as a provision for business rate appeals.

9. Pension Fund

The Council's share of the assets and liabilities in the Local Government Pension Fund, as administered by Worcester County Council, is a net liability, and has been calculated in accordance with International Accounting Standard 19. The net liability has increased by £9.4m to £46.7m, including the remaining prepayment of £2.0m (in 2017/18 it decreased by £8.4m to £37.3m). A further explanation can be found in Note 26 to the Core Financial Statements.

It is important to understand that the net pensions liability is a position taken at just one point in time and is based on many assumptions about the future. Market prices can move up as well as down in the short term and it is therefore not possible to quantify what long term effect the movement in market prices will have on the Pension Fund.

10. Reserves

The General Fund balance brought forward from 2017/18 was £2.0m. This has decreased to £1.2m at 31st March 2019, including the reallocation from brought forward balances to earmarked reserves of £0.9m.

The General fund is maintained for emergency funding issues and to bridge any short-term timing differences in matching income and expenditure budgets.

Earmarked reserves balances brought forward from 2017/18 were £9.5m. The balance at the year-end is £10.2m, a net increase of £0.7m. Of this net increase £2.7m of existing earmarked reserves were utilised in year and a further £3.4m was added to earmarked reserve balances during the year, including the reallocation from general fund balance of £0.9m.

11. Significant Changes in Accounting Policies

The Council regularly reviews its accounting policies. Whilst there have been no significant changes to accounting policies in the financial year, they have been reviewed to incorporate the requirements of IFRS 9 and IFRS 15, which have both been adopted this year.

12. Risk Management

Worcester City Council's risk management strategy was reviewed in 2016/17 as part of the Achieving Excellence improvement programme to embed a consistent approach to corporate, service and project risks within the Council.

The Corporate Risk Register is monitored by the Corporate Leadership Team on a quarterly basis and during 2018/19 was reported to the Policy and Resources Committee. A full copy of the report can be found on the Council's website.

12. Risk Management (cont'd)

The risk management strategy is in place to identify and evaluate risk. There are clearly-defined steps to support better decision making through the understanding of risk, whether a positive opportunity or threat and the likely impact. As examples, some of the key strategic risks that the council faces are shown below.

Risk	Impact	Mitigation
<p>Business Rates Rates Reduction in funding and impact of backdating of appeals. Localising of Business Rates will increase this risk from 50% to 75% for Local Authorities.</p>	<p>Adverse financial outcome(s) for the Council in future years</p>	<p>Review data with Valuation Agency and other relevant stakeholders to reduce number of appeals. Continuing discussions with MHCLG and the Valuation Office on measures to resolve outstanding appeals. Maintain risk reserve of £0.7m to mitigate the impact.</p>
<p>General Data Protection Regulation The General Data Protection Regulation (GDPR) Act came into effect on 25th May 2018.</p>	<p>Fines of up to 4% of annual turnover for serious infringements of compliance. Potential implications for the scope and ambition of some transformation initiatives. Implications for the way personal information is requested and stored by departments.</p>	<p>A data audit has been carried out and a review of the process for Privacy Impact Assessments. A data protection officer has been appointed in line with the requirements of the Act.</p>
<p>Reliance on Commercial Income Exploring alternative sources of income to offset core funding reductions and also ensure value for money for residents.</p>	<p>A recession or other unexpected / uncontrollable event could leave the Council exposed to under-funding or large losses in income. Competition - As well as individual factors influencing demand the Council has to consider competitive forces in certain service areas, especially trading activities.</p>	<p>Rigorous monthly monitoring which scrutinises forecast projections and challenges material movements against budgeted targets.</p>
<p>Major Incident Major incident impacting the city e.g. flooding from the river Severn.</p>	<p>Major disruption to Worcester's transport and roads; difficulties for staff getting to work. Impact on residents, especially those classed as vulnerable.</p>	<p>Business continuity plan and a crisis communications plan is in place and all staff are aware of how to respond to an emergency</p>

12. Non Financial Performance 2018/19

Performance management across all the council's services is measured using a series of key performance indicators that are reported quarterly to the Policy and Resources Committee. Copies of these reports can be found on the Council's website at www.worcester.gov.uk

Key performance achievements during 2018/19 include:

- All annual targets have been exceeded for the clean streets surveys which assesses if streets are of an acceptable standard with regards to detritus, litter, grass cutting and hedge maintenance. Performance has improved or been maintained for all elements.
- Three city parks – Cripplegate, Gheluvelt and Fort Royal – being named among the best in the country, all securing the coveted Green Flag award made by Keep Britain Tidy.
- Worcester became an open air art gallery over summer 2018, with 57 sculptures of giraffes decorated by local artists forming an art trail that attracted thousands of tourists and contributed almost £1m to the city economy. Supported by the City Council, the initiative raised £210,400 for St Richard's Hospice.
- Worcester was shortlisted in the GB High Street Awards.
- A consortium led by the City Council secured £3m from the Government's Cultural Development Fund to redevelop the historic railway arches.
- The city hosted the prestigious finish of the fourth stage of the OVO Energy Women's Tour bike race. The event attracted more than 10,000 spectators and brought a £251,283 economic boost to the city.
- Worcester marked the centenary of the World War One armistice with a wide-ranging programme of events, including hosting the internationally renowned Fields of Battle photographic exhibition.
- There were over 800,000 visits to the City Council's leisure centres and swimming pools, an increase of 12.5% on the previous year. The Learn to Swim programme has grown from 400 to nearly 2,000 participants in the three years to 2019.
- The Worcester City Run event, supported by the City Council, attracted a record number of over 4,000 entrants and has expanded to include a half-marathon, 10k and young athletes run.
- Over 700 new trees and saplings were planted in Worcester during winter 2018/19, to improve air quality and enhance the city's appearance.
- Worcester was once again named as Britain's happiest city in the Provident Personal Credit's Unbroken Britain survey. It was also listed as the most polite and had the second highest score for area upkeep (March 2019)
- Management of Museums Worcestershire was successfully brought in-house to the City Council during the year.
- Christmas footfall in the city increased by 0.3%, compared to a national drop of 2.6%.
- Collection of the amount billed for Council Tax was 98.1% (2017/18 98.1%), while Business Rates collection was 98.7% (2017/18 98.9%).

WORCESTER CITY COUNCIL NARRATIVE REPORT

12. Non Financial Performance 2017/18 cont'd

- The first-of-its kind Dementia Dwelling grant scheme – providing grants by the City Council of up to £750 to help adapt the homes of residents living with dementia – was recognised with a national Foundations innovation award.
- Employee absence for the City Council was an average of 9.9 days per employee in 2018/19. This is part of improving trend, with the 2017/18 figure having been 11.4 days.
- Staff turnover for voluntary leavers for the City Council improved to 8.8% from 13.5% in 2017/18.

13. Corporate Plan

In February 2015 the Council approved a five year City Plan: 'Building a successful future on 2,000 years of history'. It can be viewed on the City Council for which the link is - <https://www.worcester.gov.uk/cityplan>

It is focused on improving the city and includes five themes, each with supporting goals, strategies and measures:

1. Stronger and Connected Communities
2. A Prosperous City
3. A Healthy and Active City
4. A Heritage City for the 21st Century
5. Sustaining and Improving our Assets

This plan was jointly prepared and agreed by the three main political groups on the Council. Progress against the core themes within the plan is now being recorded through the Council's performance monitoring system.

14. Events after the Balance Sheet Date

From 1 April 2019, the Council has ended its contract with Place Partnership Ltd and has established its own in-house Property Service. The Council forecasts that this will generate a saving of £175k p.a. and provide a service that will be more adaptable to the Council's needs.

During 2018/19 the Council approved the setting up of a £30m Development Fund for the acquisition of investment properties. On 11 April 2019 the Council purchased the freehold of a commercial property in Worcester. The property is currently used as offices and is occupied by a tenant from the public sector.

WORCESTER CITY COUNCIL NARRATIVE REPORT

15. Further Information

Further information about the accounts is available from the Head of Finance, The Guildhall, High Street, Worcester, WR1 2EY. Interested members of the public also have a statutory right to inspect the draft accounts on the Council's website before the audit is completed.

In the 'About Your Council' pages under 'City Council Finances' on the Council's website, readers can find copies of audited Annual Accounts going back to 2010/11 as well as a wide range of information about the Council's budgets, medium term planning, fees and charges and annual reports. The 'Council reports' pages also has reports and documents covering the full spread of the Council's management and activities.

The website is at : <http://www.worcester.gov.uk>

WORCESTER CITY COUNCIL ANNUAL GOVERNANCE STATEMENT

Legal Framework

The preparation and publication of an Annual Governance Statement in accordance with the CIPFA/SOLACE publication Delivering Good Governance in Local Government: Framework (2016) fulfils the statutory requirements for a local authority to conduct a review at least once in each financial year of the effectiveness of its system of internal control and to include a statement reporting on the review with its Statement of Accounts.

In England the Accounts and Audit Regulations 2015 stipulate that the Annual Governance Statement must be "prepared in accordance with proper practices in relation to accounts". Therefore a local authority in England shall provide this statement in accordance with Delivering Good Governance in Local Government: Framework (2016) and this section of the CIPFA Code.

The Annual Governance Statement adopted by the Council can be found on the Council's website at:

<http://www.worcester.gov.uk>

WORCESTER CITY COUNCIL
STATEMENT OF ACCOUNTING POLICIES

1. General

The Statement of Accounts summarises the Council's transactions for the 2018/19 financial year and its position as at 31 March 2019. The Statement of Accounts is prepared in accordance with the Code of Practice on Local Authority Accounting 2018/19, relevant International Financial Reporting Standards and the Service Reporting Code of Practice (SeRCOP). The accounts generally use 'historical cost' figures, except for certain categories of non-current assets and financial instruments which are valued differently as required by accounting rules.

2. Accruals of Income and Expenditure

All revenue and capital transactions are accounted for on an 'accruals' basis. This means that the Council's costs and income due in the year are recorded whether or not the cash has actually been received or paid during the year. In particular:

- Fees, charges, rents and other income are shown as income at the point the Council provides the goods or service;
- Supplies and services provided to the Council are treated as expenditure as they are consumed;
- Interest receivable on investments is accounted for as income using the effective interest rate for the investment rather than the cash flows set by the contract;
- Where income and costs have been recognised but cash has not been received or paid, a debtor or creditor for that amount is recorded in the Balance Sheet. Where it is doubtful that a debtor will pay in full, the balance due is reduced and the income that might not be collected is charged to revenue.

3. Government Grants

Government grants and other contributions to revenue expenditure are shown on an accruals basis and recorded in the accounting statements when it is reasonably sure that the Council will comply with any conditions attached to the grants and that the grants will be received.

Grants received are not shown in the Comprehensive Income and Expenditure Account until the Council has met any conditions attached to the grant or contribution; until then, the grant is shown in the balance sheet as a creditor. Then when conditions are met, the grant or contribution is shown in the Comprehensive Income and Expenditure Account either in the relevant service line if it is a grant for a specific service ("ring-fenced"), or in the line Taxation and Non-Specific Grant Income if it is a general ("non-ringfenced") grant or a capital grant.

The Movement in Reserves Statement then takes capital grants credited to the Comprehensive Income and Expenditure Statement out of the General Fund Balance. Where the grant has been used to pay for capital spending, it is posted to the Capital Adjustment Account. When the grant has not yet been used by the end of the year, it is held in the Capital Grants Unapplied Reserve and transferred to the Capital Adjustment Account once it has been used to pay for capital spending.

Of the main Government grants received each year, Revenue Support Grant is a general grant allocated by central government, so it is 'non-ringfenced' and is credited to Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement.

WORCESTER CITY COUNCIL
STATEMENT OF ACCOUNTING POLICIES

4. Assets - Property, Plant & Equipment

This describes all assets that have physical substance and are used by the Council in providing its goods and services, rented to others, or used for administration, and that are expected to be used for more than one financial year.

Recognition

All expenditure on buying, creating or enhancing Property, Plant and Equipment has been capitalised on an accruals basis at the time the cost is incurred, provided that the Council expects to gain future economic benefits or service potential from the asset and the cost of the asset can be measured reliably. However, expenditure on repairing or maintaining assets is charged direct to revenue accounts as there is no increased future benefit. Assets costing less than £10,000 are treated as 'de minimis' - the amount is too small to be recorded as a capital asset - and charged to the revenue costs of services in the year.

Measurement

Property, Plant and Equipment are first measured at cost, which includes purchase price and any costs needed to bring the asset into use.

Assets are then carried in the Balance Sheet using these measurement bases:

- Community assets (mainly open land) and Infrastructure assets – depreciated historical cost;
- Heritage assets (items with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture) – historical cost or insurance value;
- Specialised assets – if the specialist nature of an asset means there is no evidence obtainable of current market value, then depreciated replacement cost (DRC) is used as an estimate of current value.
- All other assets – fair value, which means the amount that would be paid for the asset in existing use ("existing use value").

Assets included in the balance sheet at fair value are revalued as often as needed to be sure that their carrying amount is not materially different from their fair value at the year-end, and as a minimum are revalued every five years. Any increases in fair value are not taken as income but are held in the Revaluation Reserve as an "unrealised gains". Balance-sheet values are useful for general purposes, but are not usually used for decision-making - for example, if the Council was considering selling an asset, it would first refer to the balance-sheet value but then use an up-to-date valuation.

Downward revaluations are first charged against any revaluation gains in the Revaluation Reserve for the same asset, with any excess over the gain in the Revaluation Reserve then charged to the relevant service revenue costs.

The Revaluation Reserve was set up on 1 April 2007, and only holds gains after that date. Gains before then have been consolidated into the Capital Adjustment Account.

Impairment

Impairment happens when the value of an asset suddenly drops, and where it comes from a "clear consumption of economic benefits" (the asset will not last as long as had been expected) and is charged to the relevant service revenue costs.

WORCESTER CITY COUNCIL

STATEMENT OF ACCOUNTING POLICIES

Disposals

When it becomes probable that an asset will soon be sold, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of the revaluation or of 'fair value less costs to sell'. If the 'fair value less costs to sell' is less than the revaluation, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are only recognised up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale, as they are not being used.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet is written off to Other Operating Expenditure in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Any receipts from disposal are credited to the same line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

The Local Government Act 2003 states that amounts received when an asset is sold are classed as capital receipts. A share of receipts from housing disposals is payable to central Government; the remaining receipts must be credited to the Capital Receipts Reserve and can then only be used for new capital investment.

The Movement in Reserves Statement shows when all these amounts are taken out of the General Fund and put into capital reserves.

The written-off value of disposals is not a charge against Council Tax, because there are separate arrangements for capital financing. Any losses on disposals are shown in the Comprehensive Income and Expenditure Statement outside the costs of services, and then charged to the Capital Adjustment Account through the Movement in Reserves Statement. Any gains can only be spent on capital assets, so they too do not affect Council Tax.

5. Assets - Charges to Revenue for Non-current Assets

Service revenue accounts are charged with depreciation on assets to reflect the real cost of holding non-current assets during the year. Where capital expenditure is funded by Government Grants or other contributions the depreciation charge is offset by writing down the grant.

Impairment losses are charged to revenue. Impairment losses are losses attributable to the clear consumptions of economic benefits and other losses where there are no accumulated gains in the Revaluation Reserve to which they can be matched.

The Council is not required to raise Council Tax to cover depreciation or impairment losses.

WORCESTER CITY COUNCIL
STATEMENT OF ACCOUNTING POLICIES

6. Assets - Depreciation

Depreciation is the annual charge for using assets, and spreads the cost of an asset over the time it is used. It is calculated for all assets with a finite useful life on a straight line basis - the charge each year is the value of the asset divided by its expected useful life. Newly acquired assets are not depreciated in the year of acquisition, but all assets are fully depreciated in the year of disposal. Assets under construction are not depreciated until they are ready to be used. The life expectancy of the main asset classes is:

Buildings - 10 to 100 years;
Vehicles - 5 to 7 years;
Plant - 5 to 30 years;
Equipment - 4 to 15 years.

Community Assets and Investment Properties are not depreciated as the assets do not have an identifiable working life.

Where an item of Property, Plant and Equipment has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. A component is classed as significant if its value is greater than 20% of the total value of the asset or is over £200,000, whichever is higher.

7. Assets - Investment Properties

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals from investment properties are credited to the Financing and Investment Income and Expenditure line and result in a gain for the General Fund balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund balance. The revaluation gains and losses are therefore reversed out of the General Fund balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and, for any receipts, the Capital Receipts Account.

WORCESTER CITY COUNCIL

STATEMENT OF ACCOUNTING POLICIES

8. Revenue Expenditure Funded from Capital under Statute

To be classed as 'capital', expenditure normally has to create an asset of long-term benefit to the Council. Exceptionally, some costs that do not meet that definition can be capitalised by law, and for the City Council that is usually the costs of Disabled Facilities Grants, housing renovations grants, and grants to other bodies for their own capital spending. These create assets that are not owned by the City Council. The payments are charged as expenditure to the relevant service revenue account, and any grant funding the Council receives to support its own payments is credited to the same account. Where the Council funds its grants from existing capital resources or by borrowing, a transfer through the Movement in Reserves Statement takes the costs out of the revenue accounts into the Capital Adjustment Account. Hence there is no impact on Council Tax-payers.

9. Operating Leases

Rentals payable under operating leases are charged to the relevant service revenue account on an accruals basis (i.e. when the rents are due, not when they are paid).

10. Reserves

In addition to its general revenue balances the Council has set aside specific 'earmarked reserves' for future identified expenditure. Expenditure is not charged directly against reserves. When expenditure is incurred it is first charged against the relevant service revenue account, so that the costs are recorded in the right place. The Movement in Reserves Statement then shows the appropriate transfer from the reserve into the General Fund balance.

The pension reserve, employee benefit reserve and capital adjustment account do not represent useable revenue resources for the Council.

11. Estimation Techniques

In line with IAS 8, a distinction is made between accounting policies and estimation techniques. Accounting policies set out how things should be included and recorded; estimation techniques concern using expertise and information to attribute a financial value for assets, liabilities, gains, losses and changes in reserves where exact figures are not available - for example, in valuing an asset that accounting policies say should be recorded at 'fair value' but is not actually on the market. Where estimation techniques are used, the notes to the accounts explain when and how this has been done.

There have not been any material changes to the basis of the estimation techniques used since the preparation of the last Statement of Accounts.

12. Inventories

Inventories are valued at the latest price paid for the items held in stocks and stores, with an allowance made for slow moving and obsolete items.

WORCESTER CITY COUNCIL
STATEMENT OF ACCOUNTING POLICIES

13. Costs of Central Support Services

In previous years support services were reallocated to enable comparison of costs on a CIPFA SerCOP basis. Following the change in presentation of the comprehensive income and expenditure statement to a management reporting structure there is no longer the requirement to reallocate support services.

14. Employee Benefits

Benefits Payable During Employment

Short term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as salaries, paid annual leave, paid sick leave, and non-monetary benefits for current employees. They are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements and other forms of leave earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to the Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement age or an officer's decision to accept voluntary redundancy. Termination benefits are charged on an accruals basis to the relevant service line in the Comprehensive Income and Expenditure Statement when the Authority is demonstrably committed to the termination of employment of an officer or a group of officers.

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 or the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at year-end.

WORCESTER CITY COUNCIL

STATEMENT OF ACCOUNTING POLICIES

14. Employee Benefits (cont'd)

Post Employment Benefits

The Council participates in one defined benefits scheme for its employees, administered by Worcestershire County Council. Pension costs are assessed in accordance with the advice of an independent qualified actuary using the projected unit method. An actuarial valuation is undertaken by the funds actuaries Mercer Human Resource Consulting Limited every 3 years. It was performed in 2016 and is due again in 2019. This includes revised contribution rates payable by the Council in future financial years.

The liabilities of the Worcestershire County Council Local Government Pension Scheme attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – an assessment of future payments based on assumptions. Liabilities are discounted to their value at current prices using a discount rate prescribed by the actuary.

The assets of the pension scheme are included in the Balance Sheet at their fair value.

The total pension cost recognised in the Comprehensive Income and Expenditure Statement is made up of:

- The **current service cost** represents the future cost to the employer of one year's accrual of pension benefits for active members, calculated on the actuarial assumptions used at the start of the year for accounting standard IAS19 purposes. Interest on the service cost is now included within the service cost. This cost is allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
- The **net interest cost** is the difference between the interest paid on pension liabilities and earned on pension assets. The costs are included in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- The **administration expenses** are the costs of running the fund payable by the employer. This does not include any investment management expenses. These charges are spread across services along with the current service cost.
- The **past service and curtailment costs** are normally the costs of increased benefits being awarded if members retire early during the year. These costs could also come from changes in scheme benefits or augmented benefits for active members. Any past service costs would be shown in the Comprehensive Income and Expenditure Account as the 'Non-distributed costs' line' within Net Cost of Services.

The Balance Sheet includes **actuarial gains and losses** – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions. These are debited or credited to the Pensions Reserve.

Contributions paid to the pension scheme (the cash paid as employer's contributions to the pension fund in settlement of liabilities) is budgeted and accounted for as an in-year expense.

Note 26 gives the details of assumptions, changes and costs for the current year and comparatives for the previous year.

WORCESTER CITY COUNCIL
STATEMENT OF ACCOUNTING POLICIES

14. Employee Benefits (cont'd)

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with the debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Further information can be found in Worcestershire County Council's Pension Fund Annual Report, available on their website www.worcestershire.gov.uk.

15. Impairment Allowances

An allowance is made for bad and doubtful debts in relation to council tax, business rates, housing benefit overpayments and sundry debts. These allowances reduce the value of total debtors shown on the Balance Sheet. The allowances have been estimated in accordance with recommended practice and past experience and where necessary, a charge is made to the Comprehensive Income and Expenditure Statement.

16. Financial Instruments

Polices adopted in relation to treatment of Financial Instruments are detailed in note 29.

17. VAT

VAT is included within the accounts only if it cannot be recovered, and then it is charged to service expenditure or capital expenditure as appropriate.

18. Associated and subsidiary companies, group accounts

In reviewing the requirement to prepare Group Accounts, the Council has considered IFRS 10 and the CIPFA Code of Practice. The Council is of the opinion that it does not have any material interests in companies and other entities and need not prepare group accounts.

WORCESTER CITY COUNCIL
STATEMENT OF ACCOUNTING POLICIES

19. Accounting for Council Tax

As a billing authority, the Council acts as an agent, collecting and distributing Council Tax income on behalf of its major preceptors - Worcestershire County Council, West Mercia Police Authority, Hereford and Worcester Fire and Rescue Authority, and itself.

Council Tax income for the year is the Council's accrued income for the year and not the amount required to be transferred from the Collection Fund under regulation. The difference between the amount included in the Income and Expenditure account and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

The cash collected by the Council from Council Tax debtors belongs proportionately to the billing authority and major preceptors. This results in a debtor/ creditor position between the Council and major preceptors for the difference between the cash collected from Council Tax debtors and the precept paid over during the year. The Balance Sheet includes the Council's share of Council Tax arrears and impairment for bad debts, Council Tax over payments and prepayments and the debtor/ creditor from the preceptors.

The Council's share of net cash collected from Council Tax debtors in the year is included within the Cash Flow Statement. The difference between the major preceptors' share of net cash collected and amounts paid to precepting authorities is included in the Net Increase/ Decrease in Other Liquid Resources within Management of Liquid Resources.

20. Accounting for National Non-Domestic Rates

From 2013/14 the National Non-Domestic Rates scheme was changed to a localised Business Rates regime. Worcester City is a member of a local Worcestershire Business Rates pooling arrangement with Worcestershire County Council, Wychavon District Council and Wyre Forest District Council. Under the pooling arrangement, levy income which would have been payable to central government is retained by the partners and transferred into the pool. The pool funds form a local risk reserve and available funding for partners.

The Council has made a provision for the likely cost of refunds following successful appeals by businesses against their NNDR assessment.

The cash received in respect of cost of collection allowance is included within Revenue Activities in the Cash Flow Statement. The difference between the amount of cash collected from NNDR taxpayers and the amount paid over to central government and other parties is included in the analysis of financing activities (see note 33).

21. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in 3 months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

22. Accounting for Jointly Controlled Operations

Joint operations are arrangements where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. The activities undertaken by the Council in conjunction with other joint operators involve the use of the assets and resources of those joint operators. In relation to its interest in a joint operation, the Council as a joint operator recognises:

- its assets, including its share of any assets held jointly
- its liabilities, including its share of any liabilities incurred jointly
- its revenue from the sale of its share of the output arising from the joint operation
- its share of the revenue from the sale of the output by the joint operation
- its expenses, including its share of any expenses incurred jointly.

The City Council receives Shared Services Building Control, ICT, Worcester Regulatory Services, a Joint Museum Service, and the Worcestershire Hub under a separate shared services contract, from the relevant host Council within Worcestershire. Under these jointly controlled operations, each Council accounts separately for its own transactions arising within the agreement, including the assets, liabilities, income, expenditure and cash flows.

The arrangements are consolidated into the City Council's accounts, and where appropriate, the notes to the accounts show both the details to support the accounts and the comparative details excluding the amounts for the Shared Service.

23. Heritage Assets

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

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

Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council's accounting policies on property, plant and equipment. The value on the balance sheet is on a valuation or cost basis if this information is available. Where a valuation is not practical the assets are held on the balance sheet at the valuation provided for insurance purposes.

Any impairment of heritage assets is recognised and measured in accordance with the Council's general policies on impairment.

WORCESTER CITY COUNCIL
STATEMENT OF ACCOUNTING POLICIES

24. Other Accounting Matters

The Hopmarket Charity is administered by the Council. Once completed, summary accounts for this charity will be reported to the Hopmarket Charity.

25. Events after the balance sheet date

The accounts take into consideration any material event after the balance sheet date i.e. those that:

- provide evidence of conditions that existed at the balance sheet date for which the Council adjusts the amounts recognised in its financial statements or recognise items that were not previously recognised (adjusting events);
- indicate conditions that arose after the balance sheet date for which the Council would not adjust the amounts in its financial statements (non-adjusting events).

Statement of Accounts

WORCESTER CITY COUNCIL
MOVEMENT IN RESERVES STATEMENT
For the year ended 31 March 2019

	General Fund Uncommitted	Earmarked Reserves	Total General Fund Balances	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Total Unusable Reserves	Total Authority Reserves
Note	£'000s	£'000s	£'000s	£'000s	£'000	£'000s	£'000s	£'000s
Balance at 1 April 2017	1,130	9,050	10,180	3,367	(0)	13,547	21,840	35,387
<u>Movement in Reserves During 2017/18</u>								
Deficit on the provision of services	1,281		1,281			1,281		1,281
Other Comprehensive Income and Expenditure	-					-	12,776	12,776
Total Comprehensive Income and Expenditure	1,281	-	1,281		-	1,281	12,776	14,057
13 Adjustments between accounting basis and funding basis under regulations	60	-	60	(289)	-	(229)	229	-
Increase in 2017/18	1,341	0	1,341	(289)	0	1,052	13,005	14,057
14 Transfers to/(from) Earmarked Reserves	(448)	448	0					
Balance at 31 March 2018	2,024	9,498	11,521	3,078	(0)	14,599	34,845	49,444
Balance at 1 April 2018	2,024	9,498	11,521	3,078	(0)	14,599	34,845	49,444
Reclassify opening balance	(912)	912	-					
Revised opening balance	1,112	10,410	11,521	3,078	(0)	14,599	34,844	49,444
<u>Movement in Reserves During 2018/19</u>								
Surplus on the provision of services	(1,154)		(1,154)	-		(1,154)		(1,154)
Other Comprehensive Income and Expenditure						-	(1,246)	(1,246)
Total Comprehensive Income and Expenditure	(1,154)	-	(1,154)		-	(1,154)	(1,246)	(2,401)
13 Adjustments between accounting basis and funding basis under regulations	1,029	-	1,029	(366)	-	663	(663)	-
Net Increase/(Decrease) before Transfer to Earmarked Reserve	(125)	-	(125)	(366)	-	(492)	(1,909)	(2,401)
14 Transfers to/(from) Earmarked Reserves	206	(206)	-	-		-	-	-
Increase/(Decrease) in 2018/19	81	(206)	(125)	(366)	-	(492)	(1,909)	(2,401)
Balance at 31 March 2019	1,192	10,204	11,396	2,712	(0)	14,108	32,935	47,043

WORCESTER CITY COUNCIL
COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT
For the year ended 31 March 2019

Note	2018/19 Gross Expenditure £000s	2018/19 Gross Income £000s	2018/19 Net Expenditure £000s	2017/18 Net Expenditure £000s	
				Restated *	
	Directorate Analysis				
	Corporate and Managing Director	1,952	(129)	1,823	1,514
	Finance and Resources	7,776	(1,352)	6,424	5,937
	Homes and Communities	8,587	(9,867)	(1,279)	(1,261)
	Housing Benefit/Subsidy Place	29,266	(29,239)	26	28
		9,416	(3,070)	6,345	5,994
1	NET COST of SERVICES	56,997	(43,658)	13,340	12,212
3	Other operating expenditure			(20)	(259)
4	Financing and investment income and expenditure			1,236	(672)
5	Taxation and non-specific grant income			(13,401)	(12,562)
	DEFICIT/ (SURPLUS) ON PROVISION OF SERVICES			1,154	(1,281)
28	Surplus on revaluation of non current assets			(5,460)	(7,851)
26	Remeasurements of the net defined benefit liability (pension)**			6,706	(4,924)
	Other Comprehensive (Income) and Expenditure			1,246	(12,776)
	TOTAL COMPREHENSIVE (INCOME) AND EXPENDITURE			2,401	(14,057)

* The Council has restated its 2017/18 Comprehensive Income and Expenditure Statement Net Cost of Services comparatives to reflect changes in the Directorate reporting structure.

** In 17/18 the pension fund rose in value, this financial year it decreased in value. Note 26 contains the detail.

WORCESTER CITY COUNCIL
COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT (2017/18)
For the year ended 31 March 2019

The Council has restated its 2017/18 Comprehensive Income and Expenditure Statement Net Cost of Services comparatives to reflect changes in the Directorate reporting structure.

Directorate Analysis	As reported 2017/18 CIES £000	Changes in Directorate Structure £000	Restated 2017/18 £000
Commissioning and Delivery	3,447	(3,447)	-
Resources and Governance	5,199	(5,199)	-
Corporate and Managing Director	678	836	1,514
Housing Benefit/Subsidy	28	-	28
Place	2,861	3,134	5,994
Finance and Resources		5,937	5,937
Homes and Communities		(1,261)	(1,261)
 Net Cost of Services	 <u>12,212</u>	 <u>0</u>	 <u>12,212</u>

WORCESTER CITY COUNCIL
BALANCE SHEET
as at 31 March 2019

	2018/19	2017/18
Note	£000s	£000s
Long term assets		
15 Property, plant & equipment	78,091	73,450
16 Heritage assets	9,134	7,696
17 Investment property	4,934	5,294
19 Long term Investments	2,809	0
18 Long term debtors	0	0
	94,968	86,440
Current assets		
19 Short term investments	8,043	4,012
20 Assets held for sale	800	1,469
Inventories	69	24
21 Short term debtors	5,616	5,764
22 Cash and cash equivalents	5,635	7,119
	20,162	18,388
Current liabilities		
23 Short term creditors	(11,265)	(8,580)
24 Provisions	(2,682)	(2,022)
	(13,947)	(10,602)
Long term liabilities		
25 Long term borrowing	(7,392)	(7,432)
26 Pensions liability	(46,748)	(37,352)
	(54,140)	(44,784)
NET ASSETS	47,043	49,443
Financed by:		
27 Usable reserves	14,107	14,599
28 Unusable reserves	32,935	34,844
TOTAL RESERVES	47,043	49,443

WORCESTER CITY COUNCIL
CASH FLOW STATEMENT
For the year ended 31 March 2019

	2018/19	2017/18
Note	£000s	£000s
Net deficit/(surplus) on the provision of services	1,154	(1,281)
34 Adjustments to net surplus or deficit on the provision of services for non-cash movements	(9,241)	1,624
Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	4,238	3,013
Net cash flows from:		
31 Operating activities	(3,849)	3,355
32 Investing activities	7,284	(4,024)
33 Financing activities	(1,951)	(166)
Net (increase)/decrease in cash and cash equivalents	1,484	(835)
Cash and cash equivalents at the beginning of the reporting period	7,119	6,284
Cash and cash equivalents at the end of the reporting period	5,634	7,119

Figures in (brackets) show cash 'in'; other figures show cash 'out'.

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

Notes to the Comprehensive Income and Expenditure Statement

WORCESTER CITY COUNCIL
NOTES TO THE CORE FINANCIAL STATEMENTS
For the year ended 31 March 2019

1. EXPENDITURE AND FUNDING ANALYSIS

2018/19

Adjustments between the Funding and Accounting basis

	Expenditure Reported Q4 Management £000	Joint Museum Service Transactions £000	Expenditure Chargeable to the General Fund £000	Adjustments for Capital Purposes £000	Net Change for Pensions Adjustments £000	Other Differences £000	Total Adjustments £000	Net Expenditure in the CIES £000
Corporate and Managing Director	1,636	-	1,636	66	121	-	187	1,823
Finance and Resources	7,239	-	7,239	175	(1,203)	213	(815)	6,424
Homes and Communities	(2,757)	-	(2,757)	1,227	251	-	1,478	(1,279)
Housing Benefit/Subsidy Place	26	-	26	-	-	-	-	26
	4,613	(221)	4,392	1,409	479	65	1,953	6,345
Net Cost of Services	10,757	(221)	10,536	2,876	(351)	278	2,804	13,340
Other Operating Expenditure	119	-	119	(139)	-	-	(139)	(20)
Financing & Inv inc and exp	1,510	-	1,510	(1,196)	1,009	(87)	(274)	1,236
Taxation & NSG	(12,039)	-	(12,039)	(1,037)	-	(325)	(1,362)	(13,401)
Other Income and Expenditure	(10,410)	-	(10,410)	(2,372)	1,009	(412)	(1,775)	(12,185)
(Surplus)/Deficit against GF balances in year	347	(221)	126	505	658	(134)	1,029	1,154
Opening General Fund Balances			(11,521)					
Less Deficit/(Surplus) on General Fund balances in year			126					
Closing General Fund Balances			<u>(11,395)</u>					
Opening Balances comprising:								
Unreserved General Fund			(2,023)					
Earmarked Reserves			<u>(9,498)</u>					
			<u>(11,521)</u>					
Closing Balances comprising:								
Unreserved General Fund			(1,191)					
Earmarked Reserves			<u>(10,205)</u>					
			<u>(11,395)</u>					

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (government grants, council tax and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the Council's directorates. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement. An analysis of the material items of income and expenditure, by directorate, can be found in the Note 12 to these accounts.

Throughout the year the Joint Museum Service is accounted for separately from the internal management reporting. With effect from 1 April 2018 Worcester City Council assumed hosting responsibilities. The adjustment of £221k noted above represents the in year surplus, together with external contributions received that are properly reported as part of the movement on general fund balances. These amounts have subsequently been earmarked for use in the Joint Museum Service.

WORCESTER CITY COUNCIL
NOTES TO THE CORE FINANCIAL STATEMENTS
For the year ended 31 March 2019

1. EXPENDITURE AND FUNDING ANALYSIS

2017/18

Adjustments between the Funding and Accounting basis

	Expenditure Chargeable to the General Fund £000	Adjustments for Capital Purposes £000	Net Change for Pensions Adjustments £000	Other Differences £000	Total Adjustments £000	Net Expenditure in the CIES £000
Corporate and Managing Director	1,333	49	132	-	180	1,514
Finance and Resources	6,725	265	(1,265)	212	(788)	5,937
Homes and Communities	(3,250)	1,709	280	-	1,989	(1,261)
Housing Benefit/Subsidy Place	28	-	-	-	-	28
	4,129	1,367	434	65	1,866	5,994
Net Cost of Services	8,965	3,390	(420)	277	3,247	12,212
Other Operating Expenditure	136	(395)	-	-	(395)	(259)
Financing & Inv inc and exp	1,870	(3,264)	1,008	(286)	(2,542)	(672)
Taxation & NSG	(12,312)	(481)	-	230	(251)	(12,562)
Other Income and Expenditure	(10,306)	(4,140)	1,008	(56)	(3,188)	(13,494)
(Surplus)/Deficit against GF balances in year	(1,341)	(750)	588	221	59	(1,281)
Opening General Fund Balances	(10,180)					
Less Deficit/(Surplus) on General Fund balances in year	(1,341)					
Closing General Fund Balances	(11,521)					
Opening Balances comprising: Unreserved General Fund	(1,400)					
Earmarked Reserves	(8,780)					
	(10,180)					
Closing Balances comprising: Unreserved General Fund	(2,293)					
Earmarked Reserves	(9,228)					
	(11,521)					

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (government grants, council tax and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the Council's directorates. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement. An analysis of the material items of income and expenditure, by directorate, can be found in **Note 12** to these accounts.

1. EXPENDITURE AND FUNDING ANALYSIS Continued

Adjustments for Capital purposes

This column adds in depreciation and impairment and revaluation gains and losses in the service line. For other operating expenditure, it adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets. For financing and investment income and expenditure, it adjusts for the statutory charges for capital financing and investment i.e. Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices. For taxation and non-specific grant income and expenditure, capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The taxation and non-specific grant income and expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

Net change for the pensions adjustments

This column adjusts for the net change for the renewal of pension contributions and the addition of IAS19 Employee Benefits pension related expenditure and income. For services, this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs. For financing and investment income and expenditure, this adjusts for the net interest on the defined benefit liability is charged to the Comprehensive Income and Expenditure Statement.

Other differences

Other differences between amounts debited / credited to the Comprehensive Income and Expenditure Statement and amounts payable / receivable to be recognised under statute. For services, this represents removal of the annual leave accrual adjustment. For financing and investment income and expenditure the other differences column recognises adjustments to General Fund for the timing differences for premiums and discounts and financial instruments. The charge under taxation and non-specific grant income and expenditure represents the difference between what is chargeable under statutory regulations for Council Tax and Non-Domestic Rates that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference, as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

WORCESTER CITY COUNCIL
NOTES TO THE CORE FINANCIAL STATEMENTS
For the year ended 31 March 2019

2. Expenditure and Income analysed by nature

<u>Expenditure</u>	2018/19 £000's	2017/18 £000's
Employee Benefits Expenses	12,477	10,339
Other services expenses	12,359	12,083
Transfer Payments (Housing Benefit)	29,369	30,606
Depreciation, amortisation, impairment, downwards revaluations	3,803	4,274
Interest Payments	340	359
Precepts and Levies	140	136
Gain on disposal of assets	(160)	(395)
	58,329	57,402
<u>Income</u>		
Fees, charges and other service income	(11,155)	(10,361)
Interest and Investment Income	(387)	(134)
Change in Fair Value Pooled Investment Funds	191	0
Change in Fair Value of Investment Properties	360	(1,619)
Income from council tax and non domestic rates	(9,147)	(8,154)
Housing Benefit related grants	(29,239)	(30,709)
Grants and contributions - Other	(7,798)	(7,706)
	(57,175)	(58,683)
(Surplus)/Deficit on Provision of Services	1,154	(1,281)

WORCESTER CITY COUNCIL
NOTES TO THE CORE FINANCIAL STATEMENTS
For the year ended 31 March 2019

	2018/19	2017/18
	£000's	£000's
3. Other operating expenditure		
Precepts from Council Tax paid to parish councils	140	136
Gains/Losses on disposal of non-current assets	(160)	(395)
Total	(20)	(259)

4. Financing and investment income and expenditure

Interest payable and similar charges	340	359
Pensions interest cost and expected return on pensions assets	1,009	1,008
Interest receivable and similar income	(387)	(134)
Net (gains)/losses on financial assets at fair value through profit and loss	191	-
Income and expenditure in relation to investment properties	(278)	(286)
Change in Fair Value of Investment Properties	360	(1,619)
Total	1,236	(672)

The pensions figure includes actuarial estimates of long-term performance, and so may change significantly from year to year.

5. Taxation and non-specific grant income

This note consolidates all non-specific grants and contributions receivable that cannot be identified to any particular service expenditure and therefore cannot be credited to the gross income amount relevant to an individual service area. All capital grants and contributions are credited to non-specific grant income even if service specific. The note also identifies the Council's proportion of council tax and business rates used to fund in year service activities.

	2018/19	2017/18
	£000's	£000's
Council tax income	(5,905)	(5,675)
Non-domestic rates	(3,242)	(2,479)
Revenue Support Grant*	(306)	(653)
Non-ringfenced government grants*	(2,911)	(3,274)
Capital grants and contributions*	(866)	(172)
S106 Developer Contributions*	(171)	(309)
Total	(13,401)	(12,562)

* Further analysed in Note 6	(4,254)	(4,408)
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WORCESTER CITY COUNCIL
NOTES TO THE CORE FINANCIAL STATEMENTS
For the year ended 31 March 2019

6. Grants and Contributions

The Council credited the following grants and contributions to the Comprehensive Income and Expenditure Statement:

Shown within 'Taxation and non specific grant income'	2018/19 £000's	2017/18 £000's
MHCLG Revenue Support Grant (RSG)	(306)	(653)
MHCLG New Homes Bonus	(1,609)	(2,188)
MHCLG Section 31 Grants (Business Rates)	(1,202)	(1,033)
MHCLG Minor grants < £50,000	(72)	(26)
Council Tax Hardship Grant	(28)	(28)
S106 Developer Contributions	(171)	(309)
Capital Grants	(866)	(172)
Total	<u>(4,254)</u>	<u>(4,408)</u>

Shown within the 'Service Expenditure Analysis' lines	2018/19 £000's	2017/18 £000's
DWP Housing Benefit Grants	(29,045)	(30,505)
DWP Housing Benefit Admin	(311)	(337)
MHCLG Disabled Facilities Grant	(781)	(619)
Cabinet Office Individual Electoral Reg	(27)	(39)
DWP New Burdens Grants	(139)	(12)
Parliamentary Election	-	(153)
DWP Discretionary Housing Payments	(194)	(204)
MHCLG Single Homelessness / Preventing Homelessness	(300)	(300)
MHCLG Preventing Homelessness	(186)	(200)
MHCLG Flexible Housing Grant	(383)	(200)
PCC Election Funding	-	5
DCLG Property Searches New Burdens	-	(17)
MHCLG Local Council Tax Admin Support Grant	(107)	(115)
Developer contributions (REFCUS)	(146)	(264)
Developer contributions (Other)	(124)	(55)
Other grants of less than £50,000	(137)	(107)
Total	<u>(31,878)</u>	<u>(33,122)</u>

WORCESTER CITY COUNCIL
NOTES TO THE CORE FINANCIAL STATEMENTS
For the year ended 31 March 2019

7. Members' allowances

Councillors (or Members) are not paid but do receive allowances. Part 6 of Worcester City Council's Constitution sets out the rules for the Members' Allowance Scheme, and is available on the Council's public website. The allowances paid are recommended by an independent remuneration panel and approved by full Council.

The amount paid to members for basic allowances, special responsibility allowances and attendance allowances, travel and subsistence and ICT allowance in 2018/19 was £226,953 (2017/18 £222,137).

8. Employees' remuneration

The Authority's other employees (excluding Corporate Directors) receiving more than £50,000 remuneration for the year (excluding employer's pension contributions) were paid the following amounts:

Remuneration Band	Number of employees	
	2018/19	2017/18
£50,000 - £54,999	-	1
£54,999 - £59,999	2	2
£60,000 - £64,999	3	-
£65,000 - £69,999	2	1
£70,000 - £74,999	-	-
£75,000 - £79,999	-	-
£80,000 - £84,999	-	-
£85,000 - £89,999	-	-
£90,000 - £94,999	-	-
£105,000 - £109,999	-	-
£120,000 - £124,999	-	-
	7	4

Remuneration for these purposes means all amounts paid to or receivable by an employee except for pensions contributions, and includes any payments made on termination of employment, allowances and the money value of any other benefits received other than in cash.

WORCESTER CITY COUNCIL
NOTES TO THE CORE FINANCIAL STATEMENTS
For the year ended 31 March 2019

8. Employees' remuneration (cont'd.)

The total remuneration of senior management (including employer's pension contributions) earning between £50,000 and £150,000 per year is shown below. Senior management for the purposes of this note is the Corporate Leadership team of the Council.

<u>Post Title</u>	2018/19				
	Salary, Allowances & Benefits £	Loss of Office £	Sub Total £	Pension Contrib'ns £	Total £
Managing Director	108,629	-	108,629	28,026	136,655
Director of Resources	82,416	-	82,416	21,263	103,679
Director of Homes & Communities*	19,316	-	19,316	4,984	24,300
Director of Place	82,416	-	82,416	21,263	103,679
Director of Commissioning & Delivery **	19,638	-	19,638	5,067	24,705
Deputy Director Policy & Strategy	68,251	-	68,251	17,609	85,860
Deputy Director Governance***	48,434	-	48,434	12,627	61,061
Interim Deputy Director Governance ^	47,320	-	47,320	0	47,320
Deputy Director Economic Development	71,199	-	71,199	18,464	89,663

* From Jan 19
** Until June 18
*** Apr 18 to Nov 18 & from Feb 19
^ Nov 18 to Feb 19

<u>Post Title</u>	2017/18				
	Salary, Allowances & Benefits £	Loss of Office £	Sub Total £	Pension Contrib'ns £	Total £
Managing Director	105,196	-	105,196	27,140	132,336
Director of Resources *	53,867	-	53,867	13,898	67,764
Director of Place **	20,200	-	20,200	5,212	25,412
Director of Commissioning & Delivery	77,166	-	77,166	19,696	96,863
Deputy Director Commissioning & Delivery	65,650	-	65,650	16,938	82,588
Deputy Director Governance	65,600	-	65,600	16,939	82,539
Deputy Director Economic Development	70,700	-	70,700	18,241	88,941

* from Aug 2017
** from Jan 2018

9. Exit Packages

Number of exit packages agreed:

	2018/19		2017/18	
	Number	£000's	Number	£000's
In the band £0-£20k	0	0	1	14
In the band £20k-£40k	1	27	0	0
In the band £40k-£60k	0	0	0	0
In the band £60k-£80k	0	0	0	0
In the band £80k-£100k	0	0	0	0
In the band £100k-£120k	0	0	0	0
In the band £120k-£140k	0	0	0	0
In the band £140k-£160k	1	144	0	0
	2	171	1	14

Includes compulsory redundancies:

0 0 0 0

Exit packages include compulsory and voluntary redundancy costs and pension contributions in respect of added years .

WORCESTER CITY COUNCIL
NOTES TO THE CORE FINANCIAL STATEMENTS
For the year ended 31 March 2019

10. Fees payable to auditors

Ernst Young are the Council's auditors for 2018/19. The Council has incurred the following fees for the audit of the Statement of Accounts, certification of grant claims and statutory inspections and non audit services provided by the Council's external auditor.

	2018/19 £000's	2017/18 £000's
External audit fees	42	51
Certification of grant claims fees	41	8
Total	<u>83</u>	<u>59</u>

The certification of grant claims fees includes £22k in respect of prior year claims.

WORCESTER CITY COUNCIL
NOTES TO THE CORE FINANCIAL STATEMENTS
For the year ended 31 March 2019

11. Leases

Operating Leases (Council as lessor)

The Council, in accordance with its statutory and discretionary responsibilities, leases out property under operating leases for the following purposes:

- for the provision of community services, such as sports facilities, tourism services and community centres
- for economic development purposes to provide suitable affordable accommodation for small local businesses
- any other purposes

The future minimum lease payments receivable under non-cancellable leases in future years are:

	2018/19	2017/18
	£000's	£000's
Not later than one year	249	245
Later than one year and not later than five years	868	824
Later than five years	6,714	5,799
	<u>7,831</u>	<u>6,868</u>

The increase in the future minimum lease payments is mainly due to the reduced discount rate applied to future payments due.

The income for these operating leases has been credited to the I&E. The amounts received in 2018/19 were £255k.

Operating Leases (Council as lessee)

The Council has a variety of assets such as office equipment and land and buildings by way of operating lease agreements.

	2018/19	2017/18
	£000's	£000's
Lease payments made in the period	<u>66</u>	<u>63</u>

No sub-lease payments or contingent rent payments were made or received. No material sublease income is expected as all assets held under operating lease agreements are used exclusively by the Council.

The future minimum lease payments due under non-cancellable operating leases in future years are set out below:

	2018/19	2017/18
	£000's	£000's
Not later than one year	51	58
Later than one year and not later than five years	146	160
Later than five years	51	78
	<u>248</u>	<u>296</u>

WORCESTER CITY COUNCIL
NOTES TO THE CORE FINANCIAL STATEMENTS
For the year ended 31 March 2019

12. Segmental Income and Expenditure

Note 2 to the accounts shows the Council's income and expenditure by type. The tables below provide an analysis of material items of income and expenditure by reporting segments.

2018/19

	Revenue from external customers £000	Capital			Depreciation / REFCUS/ Downward valuations £000
		Depreciation £'000	REFCUS £'000	Asset valuations £'000	
Corporate and Managing Director	(94)	51	-	15	66
Finance and Resources	(678)	175	-	-	175
Homes and Communities Place	(7,822) (2,561)	1,108 1,137	1,045 -	- 272	2,153 1,409
	<u>(11,155)</u>	<u>2,471</u>	<u>1,045</u>	<u>287</u>	<u>3,803</u>

2017/18

	Revenue from external customers £000	Capital			Depreciation / REFCUS/ Downward valuations £000
		Depreciation £'000	REFCUS £'000	Asset valuations £'000	
Corporate and Managing Director	(88)	49	-	-	49
Finance and Resources	(681)	185	-	80	265
Homes and Communities Place	(7,285) (2,308)	1,093 803	923 500	577 65	2,593 1,367
	<u>(10,361)</u>	<u>2,129</u>	<u>1,423</u>	<u>722</u>	<u>4,274</u>

Notes to the Movement in Reserves Statement

WORCESTER CITY COUNCIL
NOTES TO THE CORE FINANCIAL STATEMENTS
For the year ended 31 March 2019

13. Adjustments between accounting basis and funding basis under regulations

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

	Usable Reserves 2018/19			Movements in unusable reserves £000s
	General Fund Balance £000s	Capital Receipts Reserve £000s	Capital Grants Unapplied £000s	
Adjustments involving the Capital Adjustment Account				
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement (CIES):				
Changes for depreciation and impairment of non current assets	2,758			(2,758)
Changes in Fair value of Investment Properties	360			(360)
Revenue expenditure funded from capital under statute	1,045			(1,045)
Capital expenditure/REFCUS financed from revenue reserves/balances	(1,116)			1,116
Statutory Provision for repayment of Debt	(440)			440
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	860			(860)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:				
Payments to Housing Capital Receipts Pool	-	-		-
Adjustments involving the Capital Grants Unapplied Account				
Grants received to fund REFUS	(926)		926	-
Other Capital grants and contributions unapplied credited to the CIES	(1,037)		1,037	-
Application of grants to capital financing transferred to the Capital Adjustment Account			(1,963)	1,963
Adjustments involving the Capital Receipts Reserve				
Transfer of sale proceeds as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(999)	999		-
Transfer from Deferred Capital Receipts Reserve		-		-
Use of the Capital Receipts Reserve to finance capital expenditure		(1,365)		1,365
Adjustments involving the Pensions Reserve				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement.	3,357			(3,357)
Employers' pension contributions and direct payments to pensioners payable in the year	(2,698)			2,698
Adjustments involving the Collection Fund adjustment account				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements.	(325)			325
Adjustments involving the Pooled Investment Funds adjustment account				
Amount by which changes in the fair value of pooled investment funds differs from amounts chargeable to the general fund in accordance with statutory requirements	191			(191)
Adjustment primarily involving the Accumulated Absences Account				
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements.	-			-
Total adjustments	1,029	(366)	-	(662)

WORCESTER CITY COUNCIL
NOTES TO THE CORE FINANCIAL STATEMENTS
For the year ended 31 March 2019

13. Adjustments between accounting basis and funding basis under regulations

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

	Usable Reserves 2017/18			Movements in unusable reserves £000s
	General Fund Balance £000s	Capital Receipts Reserve £000s	Capital Grants Unapplied £000s	
Adjustments involving the Capital Adjustment Account				
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement (CIES):				
Changes for depreciation and impairment of non current assets	2,851			(2,851)
Changes in Fair value of Investment Properties	(1,619)			1,619
Revenue expenditure funded from capital under statute	1,423			(1,423)
Capital expenditure/REFCUS financed from revenue reserves/balances	(1,174)			1,174
Statutory Provision for repayment of Debt	(472)			472
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	196			(196)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:				
Payments to Housing Capital Receipts Pool				-
Adjustments involving the Capital Grants Unapplied Account				
Grants received to fund REFUS	(884)		884	-
Other Capital grants and contributions unapplied credited to the CIES	(481)		481	-
Application of grants to capital financing transferred to the Capital Adjustment Account			(1,364)	1,364
Adjustments involving the Capital Receipts Reserve				
Transfer of sale proceeds as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(591)	591		-
Transfer from Deferred Capital Receipts Reserve		-		-
Use of the Capital Receipts Reserve to finance capital expenditure		(880)		880
Adjustments involving the Pensions Reserve				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement.	2,996			(2,996)
Employers' pension contributions and direct payments to pensioners payable in the year	(2,407)			2,407
Adjustments involving the Collection Fund adjustment account				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements.	230			(230)
Adjustment primarily involving the Accumulated Absences Account				
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements.	(9)			9
Total adjustments	60	(289)	-	230

WORCESTER CITY COUNCIL
NOTES TO THE CORE FINANCIAL STATEMENTS
For the year ended 31 March 2019

14. Transfers to or from Earmarked Reserves

This note sets out the amounts set aside from the General Fund in earmarked reserves to provide financing for future expenditure plans and the amounts posted back to earmarked reserves to meet General Fund expenditure in 2018/19.

2018/19	Balance at 1 April 2018 £000's	Transferred			Balance at 31 March 2019 £000's	Purpose of reserve
		In £000's	Out £000's	Between £000's		
Transformation Fund	1,015	13	(592)		436	For regeneration/transformation/service delivery improvements to fund projects for income generation To fund small projects nominated by members To fund projects supporting the City plan. To fund various specific service projects incl. External Grants (see below)
Income Generation	380		(6)		374	
Small Projects	168		(49)		119	
City Plan	2,176	1,077	(695)	201	2,759	
Other Revenue and Capital Reserves	5,759	2,306	(1,347)	(201)	6,517	
Total Earmarked Reserves	9,498	3,396	(2,689)	-	10,205	
Other Revenue and Capital Reserves						
Affordable Housing bid process	820				820	For expansion of affordable housing in the city
Localised Business Rates	761	787			1,548	For NNDR appeal costs and collection fund deficit
Income Contingency	495				495	To provide mitigation against a down-turn in income levels.
Public realm improvements	400				400	Contribution to the refurbishment of the Shambles
Crematorium Reserve	327	149	(44)		432	For funding of replacement Cremators
Capital Programme Reserve	196		(40)		156	For capital investment, replacement and maintenance of assets
Gheluvelt Park Toilets	162		(162)		-	For funding of the refurbishment project
Property Maintenance Fund	101	50	(55)		96	To support 5 year maintenance plan
Commandery Project	51				51	For funding of refurbishment
External Grants (housing)	682	508	(175)		1,015	For ring-fenced grant funded housing schemes including homelessness
Play Area Improvement Programmed	88	20			108	Play area project delayed to 18/19
Skills Strategy	342		(134)		208	To support Skills strategy & Training
Tourism Strategy	150		(41)		109	To support Tourism Strategy & Events
Leisure Developments	-	200	(157)		43	Development of Leisure Facilities
Other Minor Projects	1,184	592	(539)	(201)	1,036	For various initiatives
Total Other Revenue & Capital Reserves	5,759	2,306	(1,347)	(201)	6,517	

WORCESTER CITY COUNCIL
NOTES TO THE CORE FINANCIAL STATEMENTS
For the year ended 31 March 2019

14. Transfers to or from Earmarked Reserves (cont'd.)

For comparison, this note sets out the amounts set aside in the previous year from the General Fund in earmarked reserves to provide financing for future expenditure plans and the amounts posted back to earmarked reserves to meet General Fund expenditure in 2017/18

2017/18	Balance at 1 April 2017 £000's	Transferred			Balance at 31 March 2018 £000's	Purpose of reserve
		In £000's	Out £000's	Between £000's		
Transformation Fund	1,331		(190)	(126)	1,015	For regeneration/transformation/service delivery improvements
Income Generation	451		(71)		380	to fund projects for income generation
Small Projects	250		(30)	(52)	168	To fund small projects nominated by members
City Plan	112	1,000	(152)	1,216	2,176	To fund projects supporting the City plan.
Other Revenue and Capital Reserves	6,635	1,554	(1,662)	(769)	5,759	To fund various specific service projects incl. External Grants (see below)
Total Earmarked Reserves	8,780	2,554	(2,106)	269	9,498	
Other Revenue and Capital Reserves						
Affordable Housing bid process	820				820	For expansion of affordable housing in the city
Localised Business Rates	221	540			761	For NNDR appeal costs and collection fund deficit
Income Contingency	225			270	495	To provide mitigation against a down-turn in income levels.
Public realm improvements	400				400	Contribution to the scheme
Crematorium Reserve	262	65			327	For funding of replacement Cremators
Capital Programme Reserve	260	40	(104)		196	For capital investment, replacement and maintenance of assets
Gheluvelt Park Toilets	200		(38)		162	For funding of the refurbishment project
Worcester Technology Park	500		(500)		-	Contribution to the scheme
Property Maintenance Fund	50	80	(29)		101	To support 5 year maintenance plan
	959			(959)	-	
Environmental Warranty Res						For insurance premiums excesses and claims on former housing land
Commandery Project	206		(155)		51	For funding of refurbishment
External Grants (housing)	482	410	(210)		682	For ring-fenced grant funded housing schemes including homelessness (restated to include Flexible Housing Grant)
Play Area Improvement Programmed	156	73	(141)		88	Play area project delayed to 2018/19
Skills Strategy	467	13	(138)		342	To support Skills strategy & Training
Tourism Strategy	184		(29)	(5)	150	To support Tourism Strategy & Events
Other Minor Projects	1,244	333	(318)	(75)	1,184	For various initiatives funded by underspends (restated to exclude Flexible Housing Grant)
Total Other Revenue & Capital Reserves	6,636	1,554	(1,662)	(769)	5,759	

Notes to the Balance Sheet

WORCESTER CITY COUNCIL
NOTES TO THE CORE FINANCIAL STATEMENTS
For the year ended 31 March 2019

15. Movement in non-current assets

The movements in the Council's non-current asset base is detailed in the table below. All of the assets of the Council were used during 2018/19 by one or more of the services shown in the Comprehensive Income and Expenditure Statement.

Reporting Year	Land and Buildings	Vehicles, Plant & Equipment	Community Assets	Infrastructure Assets	Surplus Assets	Assets under Construction	Total Property Plant & Equipment	Heritage Assets	Assets Held for Sale	Investment Assets	TOTAL
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Cost or valuation											
At 1 April 2018	67,330	14,452	370	1,902	-	678	84,733	7,696	1,469	5,294	99,192
Additions	706	1,431	22	-	-	869	3,028	540	-	-	3,568
Revaluation increases/(decreases) to revaluation reserve	3,454	-	-	-	-	-	3,454	878	191	-	4,523
Revaluation (decreases) to surplus/deficit on provision of services	(321)	-	-	-	-	(2)	(323)	-	-	(360)	(683)
Derecognition - disposals	-	(2,500)	-	-	-	-	(2,500)	-	(860)	-	(3,360)
Derecognitions - other	-	-	-	-	-	-	-	-	-	-	-
Other movements - reclassifications	85	8	339	-	-	(451)	(20)	20	-	-	(0)
At 31 March 2019	71,253	13,391	731	1,902	-	1,095	88,371	9,134	800	4,934	103,240
Accumulated depreciation											
At 1 April 2018	1,960	9,204	-	119	-	-	11,283	-	-	-	11,283
Depreciation charge for year	1,346	989	-	136	-	-	2,471	-	-	-	2,471
Depreciation written out to the revaluation reserve	(937)	-	-	-	-	-	(937)	-	-	-	(937)
Depreciation written out to surplus/deficit on provision of services	(36)	-	-	-	-	-	(36)	-	-	-	(36)
Derecognition - disposals	-	(2,500)	-	-	-	-	(2,500)	-	-	-	(2,500)
Derecognition - other	-	-	-	-	-	-	-	-	-	-	-
Other movements - reclassifications	-	-	-	-	-	-	-	-	-	-	-
At 31 March 2019	2,333	7,693	-	255	-	-	10,281	-	-	-	10,281
Net book value											
At 31 March 2019	68,920	5,698	731	1,647	-	1,095	78,091	9,134	800	4,934	92,959
At 31 March 2018	65,371	5,248	370	1,783	-	678	73,450	7,696	1,469	5,294	87,909

WORCESTER CITY COUNCIL
NOTES TO THE CORE FINANCIAL STATEMENTS
For the year ended 31 March 2019

15. Movement in non-current assets

The movements in the Council's non-current asset base is detailed in the table below. All of the assets of the Council were used during 2017/18 by one or more of the services shown in the Comprehensive Income and Expenditure Statement.

Reporting Year	Land and Buildings	Vehicles, Plant & Equipment	Community Assets	Infrastructure Assets	Surplus Assets	Assets under Construction	Total Property Plant & Equipment	Heritage Assets	Assets Held for Sale	Investment Assets	TOTAL
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Cost or valuation											
At 1 April 2017	60,969	13,837	475	978	1,000	716	77,975	7,667	-	3,676	89,318
Additions	443	1,268	-	18	-	383	2,112	-	-	-	2,112
Revaluation increases to revaluation reserve	6,711	-	-	-	-	-	6,711	-	969	-	7,680
Revaluation (decreases) to surplus/deficit on provision of services	(174)	-	-	-	-	-	(174)	-	(500)	1,618	944
Derecognition - disposals	(187)	(587)	-	-	-	-	(774)	-	-	-	(774)
Derecognitions - other	(88)	-	-	-	-	-	(88)	-	-	-	(88)
Other movements - reclassifications	(343)	(66)	(105)	906	(1,000)	(421)	(1,029)	29	1,000	-	-
At 31 March 2018	67,332	14,452	370	1,902	-	678	84,734	7,696	1,469	5,294	99,193
Accumulated depreciation											
At 1 April 2017	912	8,911	-	96	-	-	9,919	-	-	-	9,919
Depreciation charge for year	1,224	881	-	23	-	-	2,128	-	-	-	2,128
Depreciation written out to the revaluation reserve	(171)	-	-	-	-	-	(171)	-	-	-	(171)
Depreciation written out to surplus/deficit on provision of services	-	-	-	-	-	-	-	-	-	-	-
Derecognition - disposals	(1)	(576)	-	-	-	-	(577)	-	-	-	(577)
Derecognition - other	(4)	(12)	-	-	-	-	(16)	-	-	-	(16)
Other movements - reclassifications	-	-	-	-	-	-	-	-	-	-	-
At 31 March 2018	1,960	9,204	-	119	-	-	11,283	-	-	-	11,283
Net book value											
At 31 March 2018	65,371	5,248	370	1,783	-	678	73,450	7,696	1,469	5,294	87,909
At 31 March 2017	60,057	4,926	475	882	1,000	716	68,056	7,667	-	3,676	79,399

WORCESTER CITY COUNCIL
NOTES TO THE CORE FINANCIAL STATEMENTS
For the year ended 31 March 2019

15. Movement in non-current assets (cont'd)

Capital commitments

The Council had capital commitments of £0.648m as at 31 March 2019.

Asset valuation

The Authority carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at current value is revalued at least every five years.

Place Partnership Limited act as the Council's external valuer. The Council's property portfolio is valued by Andrew Harding, a member of the Royal Institute of Chartered Surveyors (RICS). The valuations are carried out in accordance with the requirements of the RICS Appraisal and Valuation Manual and the Accounting Code of Practice. Asset valuations are reviewed on a regular basis having regard to use and type of asset. Plant and machinery are included in the valuation of buildings.

Revaluations and impairments were:	2018/19 Change £000s	2017/18 Change £000s
<u>Operational Properties</u>		
Community Centres x 6	2,429	-
Swan Theatre	485	-
Museum and Art Gallery	469	-
Guildhall	391	-
Other Properties	293	6,708
<u>Non-Operational Properties</u>		
Surplus Assets	-	-
Held for Sale	191	469
Buildings (Investment Properties)	(360)	1,619
Heritage Assets (see following page for detail)	878	-

Operational Property

Within Operational Properties (Other) the Commandery is a grade 1 listed building located in the heart of the city and owned by the City Council. It is used as a museum with the focus on its role in the English Civil War. It was extensively refurbished in 2017 improving both the fabric of the building and the exhibits. In recognition of its specialist nature, the revaluation carried out in 2017/18 was based on depreciated replacement cost (DRC) and increased its value from £0.75m to £7.9m.

Community Centres have been valued in 2018/19 on a DRC basis and reflect general increases in building prices and land values since their previous valuation.

Non-operational Property, Plant and Equipment (Held for Sale/Surplus Assets)

The council is currently holding Perdiswell Park and Ride as an Asset Held for Sale. The site has been valued on a fair value basis at £0.8m.

In last year's balance sheet the former swimming pool at Sansome Walk was held as an Asset Held for Sale at a nominal value. It has now been recategorised to Surplus Assets and has been valued at 31 March 2019 at the same nominal value. This reflects the expected cost of demolition of the building prior to disposal.

WORCESTER CITY COUNCIL
NOTES TO THE CORE FINANCIAL STATEMENTS
For the year ended 31 March 2019

16. Heritage Assets

Cost or Valuation	Memorials/ Sculptures £'000	Museums £'000	Guildhall £'000	Total £'000
At 1 April 2017	15	5,860	1,792	7,667
Additions	29	-	-	29
Disposals	-	-	-	-
Revaluations/Impairments	-	-	-	-
Reclassifications	-	-	-	-
At 31 March 2018	44	5,860	1,792	7,696
At 1 April 2018	44	5,860	1,792	7,696
Additions	-	540	-	540
Disposals	-	-	-	0
Revaluations/Impairments	-	478	400	878
Reclassifications	-	20	-	20
At 31 March 2019	44	6,898	2,192	9,134

General

Heritage assets are things of historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture. They are rarely sold and are held at 'valuation' or, if valuation is impracticable, at historical cost.

St Andrew's Spire - In the opinion of the Council, St Andrew's Spire cannot be valued. This is a church spire of cultural value for which there is no alternative use that could be used to inform a valuation on market or fair value basis, and it is most unlikely that in the event of total destruction the spire would be rebuilt. Cost or valuation information is therefore not available and conventional valuation techniques are not reliable in these cases. The Council has decided that the costs of obtaining valuations for this item would be disproportionate in terms of the benefit derived.

Memorials/Sculptures - A memorial in memory of a former council employee, the Stuart McNidder Memorial, located on the Sidbury canal bridge, features helmets, breastplates and pikes to represent the opposing sides of the Civil War. The memorial is reported in the balance sheet at insurance valuation. Two Art Sculptures, funded by Section 106 developer contributions have been installed at Pitmaston Park and Cripplegate Park as part of an arts trail which depicts different aspects of Worcester's heritage. These are valued at historic cost.

Museums - The Council's museums collections are reported in the balance sheet at insurance valuations. The museums collections are managed as part of the Joint Museums Service shared service with the City and Worcestershire County Council. The collections include archaeology, social history, natural sciences, fine and decorative arts.

A collection previously on loan from the Arts Council has been gifted to the City and is reflected in the museum additions in 2018/19.

Guildhall - The Guildhall collections are reported in the balance sheet based upon valuations provided in March 2019 by Philip Serrell (Auctioneers and Valuers). The collection held at the Guildhall includes oil paintings, water colours, prints, antiques, furnishings, porcelain, silver and Civic Regalia.

WORCESTER CITY COUNCIL
NOTES TO THE CORE FINANCIAL STATEMENTS
For the year ended 31 March 2019

17. Non current assets - Investment Property

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement:

	2018/19	2017/18
	£000s	£000s
Rental income from investment property	(280)	(290)
Direct operating expenses arising from investment property	2	4
Net (gain)/loss	<u>(278)</u>	<u>(286)</u>

There are no restrictions on the Council's ability to realise the value inherent in its investment property or on the Council's right to the remittance of income and the proceeds of disposal.

The Council 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:

	2018/19	2017/18
	£000s	£000s
Balance at the start of the year	5,294	3,676
Additions:		
Purchases	-	-
Construction	-	-
Subsequent expenditure	-	-
Disposals	-	-
Net gains/(losses) from fair value adjustments	(360)	1,619
Transfers		
To/from inventories	-	-
To/from Property, Plant & Equipment	-	-
Other changes	-	-
Balance at the end of the year	<u>4,934</u>	<u>5,295</u>

17: Non Current Assets - Investment Property (cont'd)

Fair Value Hierarchy

The fair value hierarchy prescribed in IFRS13 categorises the inputs to valuation techniques into three levels:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities that the Council can access at the measurement date
- Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset either directly or indirectly
- Level 3 - unobservable inputs for the asset

In the context of the Council's investment property assets there is an active market for most types of property although some adjustment of market data is usually required in the valuation process, and on that basis the valuation inputs are considered as Level 2. For specialised properties for which there is no recognised market the valuation inputs are classified as level 3.

Valuation techniques used to determine fair values for investment properties

The fair value of investment property has been measured using the Investment Method of Valuation. The valuers have inspected the properties unless where valued on a desktop basis relying on data provided by Place Partnership Limited. Valuations have taken account of the following factors: existing lease terms and rentals taken from the tenancy schedule, independent research into market evidence including market rentals and yields, and then adjusted to reflect the nature of each business tenancy or void and the covenant strength for existing tenants.

Highest and best use of investment properties

In estimating the fair value of the Council's investment properties, the highest and best use of the properties is deemed to be their current use.

Valuers

The investment property portfolio has been valued at 31 March 2019 in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution for Chartered Surveyors.

WORCESTER CITY COUNCIL
NOTES TO THE CORE FINANCIAL STATEMENTS
For the year ended 31 March 2019

18. Long Term Debtors

A £1,000,000 bank deposit in respect of the City Council's indemnity under the Local Authority Mortgage Scheme (LAMS), was returned by the bank during 2017/18, eliminating the associated long term debtor balance.

The indemnity remained in place throughout 2018/19, ending in February 2019.

19. Investments

The Council has long term investments at 31st March as shown:

	2018/19	2017/18
	£000's	£000's
CCLA Property Fund	<u>2,809</u>	<u>0</u>
	2,809	0

The Council's short term investments on 31st March were:

	2018/19	2017/18
	£000's	£000's
Bank/Building Society balances at amortised cost - invested:		
Over 3 months and up to 12 months	<u>8,043</u>	<u>4,012</u>
	8,043	4,012

Joint ventures

Worcester Racecourse Ltd (WRL) is a joint venture company owned 81% by Arena Leisure Racing Limited and 19% by Worcester City Council. The purpose of the venture is to operate National Hunt Racing at the Racecourse on Pitchcroft, an activity which is authorised by the Worcester City Council Act 1985. The Council has 19 £1 shares with voting rights. The latest available set of Audited Accounts is as at 31st December 2017 and shows that the shareholders' deficit at that time (£4,265,917) was broadly similar to that of the previous year (£3,910,590). Therefore the Council has not revalued the fair value of the investment.

WRL is a company with limited liability and so in the event of losses or deficits the Council's liability is restricted to the £19 value of its shareholding. Copies of the audited accounts for WRL are available from Companies House.

WORCESTER CITY COUNCIL
NOTES TO THE CORE FINANCIAL STATEMENTS
For the year ended 31 March 2019

20. Assets held for sale

	2018/19	2017/18
	£000's	£000's
Current assets		
Opening balance	1,469	-
Assets newly classified as held for sale	-	1,000
Revaluations	191	469
Disposals	(860)	-
Closing balance	800	1,469

Assets that are available for immediate sale in their present condition, and where a sale is highly probable, are shown separately from the assets that the Council uses to deliver its services or to provide future income.

The Council is currently holding the former Perdiswell Park and Ride site as an Asset Held for Sale.

WORCESTER CITY COUNCIL
NOTES TO THE CORE FINANCIAL STATEMENTS
For the year ended 31 March 2019

21. Debtors

The money owed to the Council and due for payment in less than one year is:

	2018/19	2017/18
	£000's	£000's
Council tax/NNDR/Housing Benefit Overpayments	3,137	3,281
Government departments	559	1,672
Local authorities - Taxation/Non exchange	787	0
Local authorities - Other*	376	322
Worcester Community Housing*	180	232
Payments in advance	276	251
Other debtors*	1,408	1,223
	6,722	6,982
Less: impairment allowance for doubtful debts		
Council tax/NNDR/Housing Benefit Overpayments	(1,033)	(1,144)
Other*	(73)	(73)
	5,616	5,764

Items marked with a * are reflected as part of the financial instruments balances

The amount due from Worcester Community Housing is the City Council's share of the proceeds from the sale of former Council dwellings.

The impairment allowance for doubtful debts is based upon an age analysis of the arrears. 100% is provided on sundry debts that are over three months old, 100% is provided on Housing Benefit overpayments that are over two years old and 100% on Council Tax and National Non-Domestic Rates arrears that are over four years old. The percentage allowance for debts that are more recent is based on a sliding scale according to the year due. For sundry debts no allowance is provided where the counter party is central or local government.

22. Cash and cash equivalents

Cash equivalents are investments that can be cashed within 3 months of deposit - the balances of cash and cash equivalents are:

	2018/19	2017/18
	£000's	£000's
Cash and bank held by the Council	(765)	319
Short term investments	6,400	6,800
	5,635	7,119

WORCESTER CITY COUNCIL
NOTES TO THE CORE FINANCIAL STATEMENTS
For the year ended 31 March 2019

23. Creditors

The money owed by the Council and due for payment in less than one year is:

	2018/19	2017/18
	£000's	£000's
Government departments	4,602	2,807
Local Authorities - Taxation/Non exchange	1,670	1,336
Local Authorities - Other*	1,587	1,258
Receipts in advance	702	484
Section 106 planning obligations*	793	918
Council Taxpayers/NNDR prepayments	517	516
Other creditors*	1,394	1,261
	<u>11,265</u>	<u>8,580</u>

Items marked with a * are reflected as part of the financial instruments balances.

24. Provisions

	2018/19	2017/18
	£000's	£000's
Non Domestic Rates - 40% Share of Appeals Provision (Pool)	2,682	2,022
	<u>2,682</u>	<u>2,022</u>

Due to the localisation of Business Rates, which became effective from the 1st April 2013, the Council has set aside a provision for any potential liabilities as a result of business rate payers' appeals against rateable valuations. The Council is responsible for a 40% share of this liability (shown above).

25. Long term borrowing

	2018/19	2017/18
	£000's	£000's
P.W.L.B.	2,319	2,360
Money market	5,073	5,072
	<u>7,392</u>	<u>7,432</u>
Maturing within one year	5,139	5,138
Maturing in 1-2 years	73	41
Maturing in 2-5 years	139	172
Maturing in 5-10 years	41	81
Maturing in more than 10 years	2,000	2,000
	<u>7,392</u>	<u>7,432</u>

£5m of the amount shown as 'Long term borrowing maturing within one year' is a 50-year LOBO loan that is due for repayment in 2054 but can be repaid without penalty on the specified 'call dates' 3rd June or 3rd December each year if the lender exercises their right to change the interest rate.

WORCESTER CITY COUNCIL
NOTES TO THE CORE FINANCIAL STATEMENTS
For the year ended 31 March 2019

26. Pension costs

As part of the terms and conditions of employment, the Council offers retirement benefits to its employees. Although these benefits will not be payable until the employee retires, 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 participates in the Worcestershire County Council Pension Fund, which is a defined benefit scheme. This means that 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 pensions liabilities and investment assets.

The principal risks to the Council of the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme (i.e. large-scale withdrawals from the scheme), changes to inflation, bond yield and the performance of the equity investments held. These are mitigated to a certain extent by the statutory requirements to charge to the General Fund the amounts required by statute as highlighted in the Statement of Accounting Policies.

Discretionary Post-retirement Benefits

Discretionary post-retirement benefits on early retirement are a planned unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. There are no plan assets built up to meet these pension liabilities. Where applicable, the obligation relating to unfunded benefits is reflected in the Worcester City columns within this disclosure note.

Pensions liability relating to the Regulatory Shared Service (WRS) & Place Partnership Limited (PPL)

WRS - This Council transferred its staff to the host authority (Bromsgrove District Council) on a fully funded basis. The shared service was admitted to the pension fund as a ghost admitted body, any liability or surplus that accrues is the responsibility of the partners to the shared service.

The Council's share of assets and liabilities in the WRS scheme represents 16.76% (16.76% 2017/18 of the total).

PPL - The Council has a 4.7% share of the assets and liabilities of the scheme. At 31 March 2019 the scheme was fully funded.

	Regulatory Services		Place Partnership (100%)	
	31 March	31 March	31 March	31 March
	2019	2018	2019	2018
	£'000	£'000	£'000	£'000
Present value of liabilities	(31,125)	(28,404)	(33,988)	(30,525)
Fair value of assets	22,792	21,774	33,988	30,525
Deficit in scheme	(8,333)	(6,630)	0	0
Worcester City Council share of deficit	(1,397)	(1,111)	-	-

No provision is made to recover the deficits within this account. The deficit will be made good over time, either through improved fund performance or through higher contribution rates being paid into the fund as advised by the independent actuaries. The Council's share of transactions and net liability is reflected in the WRS/PPL columns within this disclosure note.

WORCESTER CITY COUNCIL
NOTES TO THE CORE FINANCIAL STATEMENTS
For the year ended 31 March 2019

26. Pension costs (cont'd)

Transactions Relating to Retirement 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. However, the charge required to be made against 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:

Included in the Comprehensive Income and Expenditure Account

	Worcester City (excluding WRS)		Share of WRS/PPL		Combined Total	
	2018/19 £000's	2017/18 £000's	2018/19 £000's	2017/18 £000's	2018/19 £000's	2017/18 £000's
Net cost of service						
Current service cost	2,044	1,818	147	169	2,191	1,987
Past service and curtailment costs	156	0	0	47	156	47
Financing & Investment Income and Expenditure						
Net interest expense	981	978	28	30	1,009	1,008
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	3,181	2,796	176	247	3,357	3,043

Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement

	2018/19 £000's	2017/18 £000's	2018/19 £000's	2017/18 £000's	2018/19 £000's	2017/18 £000's
<u>Remeasurement of the net defined benefit liability comprising:</u>						
Return on plan assets (excluding the amount included in the net interest)	86	(908)	(170)	(14)	(84)	(922)
<u>Remeasurements (Liabilities)</u>						
Change in business combination	507	-	-	-	507	-
Actuarial gains and losses arising on changes in demographic assumptions	-	-	-	-	-	-
Actuarial gains and losses arising on changes in financial assumptions	5,893	(3,725)	390	(278)	6,283	(4,003)
Experience (gains)/losses on liabilities	-	-	-	-	-	-
Total remeasurements included in Other Comprehensive Income & Expenditure	6,486	(4,633)	220	(292)	6,706	(4,925)
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	9,667	(1,837)	396	(45)	10,063	(1,882)

Movement in Reserves Statement

Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	(3,181)	(2,796)	(176)	(247)	(3,357)	(3,043)
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Actual amount charged against the General Fund Balance for pensions in the year:

Employers' contributions payable to scheme	2,588	2,310	110	97	2,698	2,407
Retirement benefits payable to pensioners/Transfers Paid	1,874	2,922				

WORCESTER CITY COUNCIL
NOTES TO THE CORE FINANCIAL STATEMENTS
For the year ended 31 March 2019

26. Pension costs (cont'd)

Pension Assets and Liabilities Recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the Council's obligation in respect of its defined benefit plan is as follows:

	Worcester City (excluding WRS)		Share of WRS/PPL		Combined Total	
	2018/19 £000's	2017/18 £000's	2018/19 £000's	2017/18 £000's	2018/19 £000's	2017/18 £000's
Present value of the defined benefit	122,323	108,835	5,701	5,083	128,024	113,918
Fair value of plan assets	(74,978)	(68,569)	(4,306)	(3,972)	(79,284)	(72,541)
Sub-total	47,345	40,266	1,395	1,111	48,740	41,377
Net liability arising from defined benefit obligation	47,345	40,266	1,395	1,111	48,740	41,377

Statutory arrangements for funding the deficit mean that the financial position of the Council is consistent with previous financial years. The deficit on the local government scheme will be made good by increased contributions over the remaining working life of the employees (i.e. before payments fall due), as assessed by the scheme actuary.

The net liability shown above differs to the pension fund liability shown in the balance sheet by the remaining balance of £2.0m from the pre-payment which was made in 2017/18. This pre-payment secured a reduction of £0.4m over the 3 years to 2019/20.

Reconciliation of present value of the scheme liabilities

	2018/19 £000s	2018/19 £000s	2018/19 £000s	2017/18 £000s	2017/18 £000s	2017/18 £000s
	Worcester City (excluding WRS)	Share of WRS/ PPL	Combined Total	Worcester City (excluding WRS)	Share of WRS/ PPL	Combined Total
Opening balance at 1 April	108,835	5,082	113,917	110,573	5,117	115,690
Current Service Cost	2,044	147	2,191	1,818	169	1,987
Interest Cost	2,897	166	3,063	2,733	160	2,893
Contributions by scheme participants	433	34	467	358	36	394
<u>Remeasurement (gain)/loss</u>						
- Experience gain/Loss	-	-	-	-	-	-
- Actuarial gains/losses arising from changes in demographic assumptions	-	-	-	-	-	-
- Actuarial gains/losses arising from changes in financial assumptions	5,893	390	6,283	(3,725)	(278)	(4,003)
Benefits paid	(1,874)	(118)	(1,992)	(2,922)	(122)	(3,044)
Past service cost	-	-	-	-	-	-
Entity combinations	3,939	-	3,939	-	-	-
Curtailments	156	-	156	-	-	-
Closing balance at 31 March	122,323	5,701	128,024	108,835	5,082	113,917

WORCESTER CITY COUNCIL
NOTES TO THE CORE FINANCIAL STATEMENTS
For the year ended 31 March 2019

26. Pension costs (cont'd)

Reconciliation of movement in the Fair Value of Scheme Assets

	2018/19			2017/18		
	£000s	£000s	£000s	£000s	£000s	£000s
	Worcester City (excluding WRS)	Share of WRS/ PPL	Combined Total	Worcester City (excluding WRS)	Share of WRS/ PPL	Combined Total
Opening balance at 1 April	68,569	3,972	72,541	66,160	3,817	69,977
Interest Income	1,942	140	2,082	1,776	133	1,909
Contributions by employer - Current Year	2,588	110	2,698	2,310	97	2,407
Contributions by scheme participants	433	34	467	358	36	394
<u>Remeasurement gain/loss</u>						
Return on plan assets excluding the amount included in the net interest expense	(86)	170	84	908	14	922
Entity combinations	3,432	-	3,432			
Benefits paid	(1,874)	(118)	(1,992)	(2,922)	(122)	(3,044)
Admin Expenses	(26)	(2)	(28)	(21)	(2)	(23)
Closing balance at 31 March	74,978	4,306	79,284	68,569	3,972	72,541

Pension Scheme Assets (Worcester City Only) Comprised:

	Fair value of scheme assets	
	2018/19	2017/18
	£000s	£000s
Cash and cash equivalents	1,875	823
Equity instruments by type:		
- UK quoted	149	275
- Overseas quoted	19,719	19,611
- PIV UK Managed Funds	10,047	16,799
- PV UK Managed Funds (Overseas equities)	23,918	22,559
- PIV Overseas Managed Funds	-	-
Sub-total equity	53,833	59,244
Bonds by sector:		
- Corporate	3,824	3,291
- UK Government Fixed	5,923	-
Sub-total bonds	9,747	3,291
Property by region:		
- European Property Funds	2,174	1,714
- UK Property Debt	675	549
- Overseas Property Debt	450	343
- UK Property Funds	1,650	274
Sub-total property	4,949	2,880
Alternatives		
- UK Infrastructure	2,624	2,331
- European Infrastructure	1,425	-
- US Infrastructure	225	-
- UK Stock Options	300	-
Sub-total Alternatives	4,574	2,331
Total assets	74,978	68,569

All scheme assets have quoted prices in active markets.

WORCESTER CITY COUNCIL
NOTES TO THE CORE FINANCIAL STATEMENTS
For the year ended 31 March 2019

26. Pension costs (cont'd)

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 including mortality rates and salary levels. Both the Local Government Pension Scheme and discretionary benefits liabilities have been estimated by Mercers, an independent firm of actuaries. The last full valuation of the scheme was as at 1 April 2016 and is due again in 2019.

The principal assumptions used by the actuary are:

Local Government Pension Scheme & Unfunded Benefits Assumptions	2018/19	2017/18
Mortality rates		
Longevity at 65 for current pensioners		
Male	22.8	22.7
Female	25.8	25.7
Longevity at 65 for future pensioners		
Male	25.1	24.9
Female	28.2	28.0
Other		
Rate of inflation (CPI)	2.20%	2.10%
Rate of increase in salaries	3.70%	3.60%
Rate of increase in pensions	2.30%	2.20%
Rate for discounting scheme liabilities	2.40%	2.60%
Take up of option to convert annual pension into retirement lump sum	n/a	n/a

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

WORCESTER CITY COUNCIL
NOTES TO THE CORE FINANCIAL STATEMENTS
For the year ended 31 March 2019

26. Pension Costs (cont'd)

Impact on the Defined Benefit Obligation in the Scheme	Increase / (Decrease) in Assumption £'000
Longevity (increase or decrease in 1 year)	2,481
Rate of inflation (increase or decrease by 0.1%)	1,938
Rate of increase in salaries (increase or decrease by 0.1%)	138
Rate of discounting scheme liabilities (increase by 0.1%)	(1,908)

Impact on the Council's Cash Flows

The actuarial estimate of contributions payable in 2019/20 is £2.470m. However, the Council has taken advantage of the discount available by paying three years contributions in advance in April 2017.

The weighted average duration of the defined benefit obligation for scheme members is 16 years for 2018/19.

WORCESTER CITY COUNCIL
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27. Usable reserves	2018/19	2017/18
	£000's	£000's
Earmarked General Fund Reserves	10,205	9,498
Capital Grants Unapplied	0	0
Uncommitted General Fund Balance	1,191	2,023
Useable Capital Receipts	2,712	3,078
	<u>14,107</u>	<u>14,599</u>

The Council's 'usable reserves' represent money that can be used to pay for services or reduce the amounts that have to be raised from taxation.

Earmarked reserves have been set aside for specific spending in the future, and Note 14 lists all the earmarked reserves and shows the changes during the year.

There is no legal minimum or maximum level of reserves that a local authority is expected to keep: each Council chooses its own working balance to help smooth out uneven cash flows, avoid unnecessary temporary borrowing and be ready for any unexpected events or emergencies.

28. Unusable reserves	2018/19	2017/18
	£000's	£000's
Revaluation Reserve	29,691	25,603
Capital Adjustment Account	52,039	50,806
Pensions Reserve	(48,742)	(41,378)
Pooled Investment Funds Adjustment Account	(191)	0
Accumulated Absences Adjustment Account	(172)	(172)
Collection Fund Adjustment Account	310	(15)
Balance at 31 March	<u>32,936</u>	<u>34,844</u>

The Council's 'unusable reserves' cannot be used to provide services or reduce the amounts that have to be raised by taxation. They are shown in more detail on the following pages.

WORCESTER CITY COUNCIL
NOTES TO THE CORE FINANCIAL STATEMENTS
For the year ended 31 March 2019

28. Unusable Reserves (cont'd)

Revaluation Reserve

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

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

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

	2018/19	2017/18
	£000's	£000's
Balance at 1 April	25,601	18,086
Upward revaluation of assets	6,039	8,398
Downward revaluation of assets	(579)	(546)
Difference between fair value depreciation and historical cost depreciation	(436)	(304)
Accumulated gains on assets sold or scrapped	(935)	(31)
Balance at 31 March	<u>29,690</u>	<u>25,601</u>

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 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, the date that the Revaluation Reserve was created to hold such gains.

The figures on the next page show details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

WORCESTER CITY COUNCIL
NOTES TO THE CORE FINANCIAL STATEMENTS
For the year ended 31 March 2019

28. Unusable Reserves (cont'd)

Capital Adjustment Account

	2018/19	2017/18
	£000's	£000's
Balance at 1st April	50,807	49,433
<i>Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:</i>		
Charges for depreciation and impairment and revaluation losses of non current assets	(2,758)	(2,851)
Revenue expenditure funded from capital under statute (REFCUS)*	(1,045)	(1,423)
Statutory provision for repayment of debt	440	472
Current Cost_Historic Cost Depreciation Adjustment	437	304
Changes in Fair Value Investment Properties	(360)	1,619
Write out revaluations gains on disposal of assets	935	31
Amounts of non current assets written off on disposal as part of the gain on disposal to the Comprehensive Income and Expenditure Statement	(860)	(196)
<i>Capital financing applied in the year:</i>		
Use of the Capital Receipts Reserve to finance new capital expenditure	1,365	880
Capital contributions	317	573
Use of earmarked reserves	1,029	983
Direct Revenue Financing	87	191
Application of grants to capital financing	1,647	791
Balance at 31st March	<u>52,040</u>	<u>50,807</u>

*The 2017/18 figure for REFCUS includes an adjustment of £24k relating to previous years capital expenditure on non-owned assets. The in-year REFCUS expenditure amounted to £1.399m as reflected in Note 30 Capital Expenditure.

WORCESTER CITY COUNCIL
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28. Unusable Reserves (cont'd)

Pensions Reserve

	2018/19	2017/18
	£000's	£000's
Balance at 1st April	(41,377)	(45,713)
Remeasurements of the net defined pension liability	(6,706)	4,925
Reversal of items relating to retirement benefits debited on the Provision of Services in the Comprehensive Income and Expenditure Statement	(3,357)	(2,996)
Employer's pension contributions and direct payments to pensioners payable in the year	2,698	2,407
Balance at 31st March	(48,741)	(41,377)

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 and Expenditure Statement as the benefits are 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. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to the pension fund or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources that the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

Pooled Investment Funds Adjustment Account (PIFAA)

	2018/19	2017/18
	£000's	£000's
Balance at 1st April	-	-
Amount by which changes in the fair value of pooled investment funds differs from amounts chargeable to the general fund in accordance with statutory requirements	191	
Balance at 31st March	191	-

The PIFAA is a statutory non useable reserve which mitigates the impact of fair value movements on pooled investment funds on taxpayer funds. The adjustment does not apply to impairment losses, sale or disposals related to pooled investment funds.

WORCESTER CITY COUNCIL
NOTES TO THE CORE FINANCIAL STATEMENTS
For the year ended 31 March 2019

28. Unusable Reserves (cont)

Accumulated Absences Adjustment Account

This account absorbs the differences that would otherwise show in the General Fund Balance from accruing for compensated absences earned but not taken in the year i.e. annual leave entitlement carried forward at 31 March. As this is not a cash charge to taxpayers, statutory arrangements require transfers to or from this account so that there is no impact on the General Fund Balance.

	2018/19	2017/18
	£000's	£000's
Balance at 1st April	(172)	(181)
Amounts accrued at the end of the current year	-	-
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	-	9
Balance at 31st March	<u>(172)</u>	<u>(172)</u>

Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences from the council tax and business rates income shown in the Comprehensive Income and Expenditure Statement, as it falls due from council tax payers, compared with the statutory arrangements for paying amounts to the General Fund from the Collection Fund.

	2018/19	2017/18
	£000's	£000's
Balance at 1st April	(16)	214
Amount by which Collection Fund council tax and business rates income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements:		
- Council Tax	7	(19)
- NNDR (Business rates)	318	(211)
Balance at 31st March	<u>310</u>	<u>(16)</u>

WORCESTER CITY COUNCIL
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29. Financial Instruments - Classifications

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Non-exchange transactions, such as those relating to taxes, benefits and government grants, do not give rise to financial instruments.

Financial Liabilities

A financial liability is an obligation to transfer economic benefits controlled by the Council and can be represented by a contractual obligation to deliver cash or financial assets or an obligation to exchange financial assets and liabilities with another entity that is potentially unfavourable to the Council.

The majority of the Council's financial liabilities held during the year are measured at amortised cost and comprised:

- long-term loans from the Public Works Loan Board and commercial lenders,
- trade payables for goods and services received.

Financial Assets

A financial asset is a right to future economic benefits controlled by the Council that is represented by cash, equity instruments or a contractual right to receive cash or other financial assets or a right to exchange financial assets and liabilities with another entity that is potentially favourable to the Council. The financial assets held by the Council during the year are accounted for under the following classifications:

Amortised cost (where cash flows are solely payments of principal and interest and the Council's business model is to collect those cash flows) comprising:

- cash in hand,
- bank current and deposit accounts with HSBC bank,
- fixed term deposits and reverse repurchase agreements with banks and building societies,
- loans to other local authorities,
- certificates of deposit and covered bonds issued by banks and building societies,
- trade receivables for goods and services provided.

Fair value through other comprehensive income (where cash flows are solely payments of principal and interest and the Council's business model is to both collect those cash flows and sell the instrument; and equity investments that the Council has elected into this category). The Council did not hold any instruments matching this classification.

Fair value through profit and loss (all other financial assets) comprising:

- various money market funds ,
- property funds managed by CCLA fund managers,

Financial assets held at amortised cost are shown net of a loss allowance (where material) reflecting the statistical likelihood that the borrower or debtor will be unable to meet their contractual commitments to the Council.

WORCESTER CITY COUNCIL
NOTES TO THE CORE FINANCIAL STATEMENTS
For the year ended 31 March 2019

29 Financial Instruments (balances)

The financial liabilities disclosed in the Balance Sheet are analysed across the following categories:

Financial Liabilities	Long Term		Short Term	
	31.3.2019 £000s	31.3.2018 £000s	31.3.2019 £000s	31.3.2018 £000s
Loans at amortised cost:				
- Principal sum borrowed	7,294	7,334	0	0
- Accrued interest	99	98	0	0
Total Borrowing	7,392	7,432	0	0
Liabilities at amortised cost:				
- Trade payables	0	0	3,774	3,437
Included in Creditors *	0	0	3,774	3,437
Total Financial Liabilities	7,392	7,432	3,774	3,437

* The creditors line on the balance sheet includes items that do not meet the definition of a financial liability as they relate to non exchange transactions. Note 23 provides more detail.

The financial assets disclosed in the Balance Sheet are analysed across the following categories:

Financial Assets	Long Term		Short Term	
	31.3.2019 £000s	31.3.2018 £000s	31.3.2019 £000s	31.3.2018 £000s
At amortised cost:				
- Principal	0	0	8,000	4,000
- Accrued interest	0	0	43	12
At fair value through profit & loss				
- Fair Value	2,809	0	0	0
Total Investments	2,809	0	8,043	4,012
At amortised cost:				
- Principal	0	0	2,835	2,519
At fair value through profit & loss				
- Fair Value			2,800	4,600
Total Cash and Cash Equivalents	0	0	5,635	7,119
At amortised cost:				
- Trade Receivables	0	0	1,964	1,778
- Loss allowance	0	0	-73	-73
Included in Debtors	0	0	1,891	1,705
Total Financial Assets	2,809	0	15,569	12,837

WORCESTER CITY COUNCIL
NOTES TO THE CORE FINANCIAL STATEMENTS
For the year ended 31 March 2019

29 Financial Instruments (Gains and Losses)

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments consist of the following:

	Financial Liabilities	Financial Assets		2018/19 Total £'000	2017/18 Total £'000
	Amortised Cost £'000	Fair Value through Profit & Loss £'000	Amortised Cost £'000		
Interest expense	340	-	-	340	359
Losses from changes in fair value	-	-191	-	-191	0
Interest payable and similar charges	340	-191	0	149	359
Interest income	-	-	275	275	134
Dividend income	-	112	-	112	0
Interest and investment income	0	112	275	387	134
Net impact on surplus/deficit on provision of services	340	-79	275	536	493

Financial Instruments - Fair Values

Financial instruments, except those classified at amortised cost, are carried in the Balance Sheet at fair value. For most assets, including bonds, treasury bills and shares in money market funds and other pooled funds, the fair value is taken from the market price.

Financial instruments classified at amortised cost are carried in the Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows at 31 March 2019, using the following methods and assumptions:

- Loans borrowed by the Council have been valued by discounting the contractual cash flows over the whole life of the instrument at the appropriate market rate for local authority loans.
- The value of "Lender's Option Borrower's Option" (LOBO) loans have been increased by the value of the embedded options. Lenders' options to propose an increase to the interest rate on the loan have been valued according to a proprietary model for Bermudan cancellable swaps. Borrower's contingent options to accept the increased rate or repay the loan have been valued at zero, on the assumption that lenders will only exercise their options when market rates have risen above the contractual loan rate.
- The fair values of other long-term loans and investments have been discounted at the market rates for similar instruments with similar remaining terms to maturity on 31st March.
- The fair values of financial guarantees have been estimated based on the likelihood of the guarantees being called and the likely payments to be made.
- The fair values of finance lease assets and liabilities and of PFI scheme liabilities have been calculated by discounting the contractual cash flows (excluding service charge elements) at the appropriate AA-rated corporate bond yield.
- No early repayment or impairment is recognised for any financial instrument.
- The fair value of short-term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount given the low and stable interest rate environment.

WORCESTER CITY COUNCIL
NOTES TO THE CORE FINANCIAL STATEMENTS
For the year ended 31 March 2019

29 Financial Instruments (Fair Values Cont'd)

Fair values are shown in the table below, split by their level in the fair value hierarchy:

Level 1 – fair value is only derived from quoted prices in active markets for identical assets or liabilities, e.g. bond prices

Level 2 – fair value is calculated from inputs other than quoted prices that are observable for the asset or liability, e.g. interest rates or yields for similar instruments

Level 3 – fair value is determined using unobservable inputs, e.g. non-market data such as cash flow

	Fair Value Level	Balance Sheet 31.3.2019 £000s	Fair Value 31.3.2019 £000s	Balance Sheet 31.3.2018 £000s	Fair Value 31.3.2018 £000s
<i>Financial liabilities held at amortised cost:</i>					
Long-term loans from PWLB	2	2,320	2,924	2,360	2,949
Long-term LOBO loans	2	5,073	8,121	5,071	8,234
TOTAL		7,392	11,045	7,431	11,183
Liabilities for which fair value is not disclosed *		3,774		3,437	
TOTAL FINANCIAL LIABILITIES		11,166		10,868	
<i>Recorded on balance sheet as:</i>					
Short-term creditors		3,774		3,437	
Long-term borrowing		7,392		7,431	
TOTAL FINANCIAL LIABILITIES		11,166		10,868	

* The fair value of short-term financial liabilities held at amortised cost, including trade payables, is assumed to approximate to the carrying amount.

The fair value of financial liabilities held at amortised cost is higher than their balance sheet carrying amount because the authority's portfolio of loans includes a number of loans where the interest rate payable is higher than the current rates available for similar loans as at the Balance Sheet date.

	Fair Value Level	Balance Sheet 31.3.2019 £000s	Fair Value 31.3.2019 £000s	Balance Sheet 31.3.2018 £000s	Fair Value 31.3.2018 £000s
<i>Financial assets held at fair value:</i>					
Money market funds	1	2,800		4,600	
Bond, equity and property funds	1	2,809		0	
<i>Financial assets held at amortised cost:</i>					
Long-term bank deposits & repos	2	2,835	2,835	6,531	6,223
Long-term loans to local authorities	2	8,043	8,042	0	0
TOTAL		16,487	16,486	11,131	10,823
Assets for which fair value is not disclosed *		1,891		1,705	
TOTAL FINANCIAL ASSETS		18,378		12,836	
<i>Recorded on balance sheet as:</i>					
Long-term investments		2,809		0	
Short-term debtors		1,891		1,705	
Short-term investments		8,043		4,012	
Cash and cash equivalents		5,635		7,119	
TOTAL FINANCIAL ASSETS		18,378		12,836	

* The fair value of short-term financial assets held at amortised cost, including trade receivables, is assumed to approximate to the carrying amount.

The fair value of financial assets held at amortised cost is lower than their balance sheet carrying amount because the interest rate on similar investments is now higher than that obtained when the investment was originally made.

WORCESTER CITY COUNCIL
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29. Financial Instruments - Risks

Risk Management

The Council complies with CIPFA's Code of Practice on Treasury Management and Prudential Code for Capital Finance in Local Authorities, both revised in December 2017.

In line with the Treasury Management Code, the Council approves a Treasury Management Strategy before the commencement of each financial year. The Strategy sets out the parameters for the management of risks associated with financial instruments. The Council also produces Treasury Management Practices specifying the practical arrangements to be followed to manage these risks.

The Treasury Management Strategy includes an Investment Strategy in compliance with the Ministry for Housing, Communities and Local Government Guidance on Local Government Investments. This Guidance emphasises that priority is to be given to security and liquidity, rather than yield. The Council's Treasury Management Strategy and its Treasury Management Practices seek to achieve a suitable balance between risk and return or cost.

The main risks covered are:

Credit Risk: The possibility that the counterparty to a financial asset will fail to meet its contractual obligations, causing a loss to the Council.

Liquidity Risk: The possibility that the Council might not have the cash available to make contracted payments on time.

Market Risk: The possibility that an unplanned financial loss will materialise because of changes in market variables such as interest rates or equity prices.

Credit Risk: Treasury Investments

The Council manages credit risk by ensuring that treasury investments are only placed with organisations of high credit quality as set out in the Treasury Management Strategy. These include commercial entities with a minimum long-term credit rating of A-, the UK government, other local authorities, and organisations without credit ratings upon which the Council has received independent investment advice. Recognising that credit ratings are imperfect predictors of default, the Council has regard to other measures including credit default swap and equity prices when selecting commercial entities for investment.

A limit of £3m of the total portfolio is placed on the amount of money that can be invested with a single counterparty (other than the UK government). For unsecured investments in banks, building societies and companies, a smaller limit of £2m applies. The Council also sets limits on investments in certain sectors. No more than £3m in total can be invested for a period longer than one year.

The table below summarises the credit risk exposures of the Council's treasury investment portfolio by credit rating and remaining time to maturity:

Credit Rating	31.3.2019		31.3.2018	
	Long-term £000s	Short-term £000s	Long-term £000s	Short-term £000s
AAA	0	0	0	0
AA+	0	0	0	0
AA	0	0	0	0
AA-	0	1,700	0	0
A+	0	1,900	0	4,700
A	0	0	0	1,500
A-	0	0	0	0
BBB+	0	0	0	0
Unrated local authorities	0	8,000	0	0
Unrated building societies	0	0	0	0
Unrated housing associations	0	0	0	0
Total	0	11,600	0	6,200
Credit risk not applicable *	3,000	2,800	0	4,600
Total Investments	3,000	14,400	0	10,800

* Credit risk is not applicable to shareholdings and pooled funds where the Council has no contractual right to receive any sum of money.

Loss allowances on treasury investments at 31 March 2019 (and 31 March 2018) were immaterial.

Credit risk also arises on credit exposure to the Council's customers. The Council does not generally allow credit for its trade debtors. The Council's approach to determining appropriate provisions for bad and doubtful debts is outlined in note 21.

WORCESTER CITY COUNCIL
NOTES TO THE CORE FINANCIAL STATEMENTS
For the year ended 31 March 2019

29. Financial Instruments (cont'd)

Liquidity risk

The Council has ready access to borrowing at favourable rates from the Public Works Loan Board and other local authorities, and at higher rates from banks and building societies. There is no perceived risk that the Council will be unable to raise finance to meet its commitments. It is however exposed to the risk that it will need to refinance a significant proportion of its borrowing at a time of unfavourably high interest rates.

The maturity analysis of financial instruments is as follows:

Time to maturity (years)	31.3.2019			31.3.2018		
	Liabilities £000s	Assets £000s	Net £000s	Liabilities £000s	Assets £000s	Net £000s
Not over 1	41	-14,400	-14,359	41	-10,800	-10,759
Over 1 but not over 2	73	0	73	41	0	41
Over 2 but not over 5	139	0	139	171	0	171
Over 5 but not over 10	41	0	41	81	0	81
Over 10 but not over 20	2,000	0	2,000	2,000	0	2,000
Over 20 but not over 40	0	0	0	0	0	0
Over 40	0	0	0	0	0	0
Uncertain date *	5,000	-3,000	2,000	5,000	0	5,000
Total	7,294	-17,400	-10,106	7,334	-10,800	-3,466

* The Council has £5m (2018: £5m) of "Lender's option, borrower's option" (LOBO) loans where the lender has the option to propose an increase in the rate payable; the Council will then have the option to accept the new rate or repay the loan without penalty. Due to current low interest rates, in the unlikely event that the lender exercises its option, the Council is likely to repay these loans. The maturity date is therefore uncertain.

Market risk: Interest Rate Risk

The Council is exposed to 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 authority. For instance, a rise in interest rates would have the following effects:

- borrowings at variable rates – the interest expense will rise
- borrowings at fixed rates – the fair value of the liabilities will fall
- investments at variable rates – the interest income will rise
- investments at fixed rates – the fair value of the assets will fall.

Investments measured at amortised cost and loans borrowed are not carried at fair value, so changes in their fair value will have no impact on the Comprehensive Income and Expenditure Statement. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services. Movements in the fair value of fixed rate investments measured at fair value will be reflected in Other Comprehensive Income or the Surplus or Deficit on the Provision of Services as appropriate.

WORCESTER CITY COUNCIL
NOTES TO THE CORE FINANCIAL STATEMENTS
For the year ended 31 March 2019

29. Financial Instruments (cont'd)

If all interest rates had been 1% higher (with all other variables held constant) the financial

	31.3.2019 £000s	31.3.2018 £000s
Increase in interest receivable on variable rate investments	-131	-90
Impact on Surplus or Deficit on the Provision of Services	-131	-90
Decrease in fair value of loans and investments at amortised cost *	12	12
Decrease in fair value of fixed rate borrowing *	-1,466	-1,518

*No impact on Comprehensive Income and Expenditure.

The approximate impact of a 1% fall in interest rates would be as above but with the movements being reversed.

The Council has £5m (2018: £5m) of "Lender's option, borrower's option" (LOBO) loans with dates half yearly where the lender has the option to propose an increase in the rate payable; the Council will then have the option to accept the new rate or repay the loan without penalty. In the current low interest rate environment, the likelihood of the lender increasing the rate is low; however, the likelihood will increase in later years should market interest rates rise.

Market Risks: Price Risk

The market prices of the Council's fixed rate bond investments and its units in pooled bond funds are governed by prevailing interest rates and the price risk associated with these instruments is managed alongside interest rate risk.

The Council's investment in a pooled property fund is subject to the risk of falling commercial property prices. This risk is limited by the Council's maximum exposure to property investments of £5m. A 5% fall in commercial property prices at 31st March 2019 would result in a £0.14m (2018: not applicable) charge to the Surplus or Deficit on the Provision of Services which is then transferred to the Pooled Investment Funds Adjustment Account.

Market Risks: Foreign Exchange Risk

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

Transition to IFRS9 Financial Instruments

The Council adopted the IFRS9 Financial Instruments accounting standard with effect from 1 April 2018. The main changes include the reclassification and remeasurement of financial assets and the earlier recognition of the impairment of financial assets.

Financial assets previously classified as loans and receivables in 2017/18 are now reflected as amortised cost or fair value through profit and loss. A review of impairment allowances has not given rise to an adjustment of previously reported figures.

WORCESTER CITY COUNCIL
NOTES TO THE CORE FINANCIAL STATEMENTS
For the year ended 31 March 2019

30. Capital expenditure and financing

	2018/19	2017/18
	£000's	£000's
Capital expenditure adding to non-current asset valuation		
Land and buildings	706	443
Community/Infrastructure	22	18
Vehicles, plant and equipment	1,431	1,269
Work in progress	869	383
Additions to fixed assets	3,028	2,111
Additions - Donated Assets	540	
Capital expenditure not adding to fixed asset valuation		
Revenue expenditure funded from capital under statute*	1,045	1,399
Total Capital expenditure	4,613	3,511
Financed by:		
Usable capital receipts	1,365	880
Grants and other contributions	1,647	791
Section 106 funds	317	573
Earmarked reserves	1,029	983
Direct Revenue Financing	87	191
Borrowing (not immediately financed)**	169	93
Total capital financing	4,613	3,511

*Revenue expenditure funded from capital under statute covers items that would not normally be treated as capital spend under the usual rules of accounting, but are set as 'capital' by law. This is usually items that create an asset which is not owned by the Council - for example, when the Council makes a Disabled Facilities Grant payment to a householder, or when the Council works in partnership with another local authority to improve community facilities owned by several authorities.

** 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 movement is analysed below:

	2018/19	2017/18
	£000's	£000's
Opening Capital Financing Requirement	11,502	12,881
Capital Investment	4,613	3,511
Immediate financing of Capital expenditure	(4,444)	(3,418)
Minimum revenue provision (reduces underlying need to borrow)	(440)	(472)
LAMS (long term borrowing) repayment	0	(1,000)
Closing Capital Financing Requirement	11,230	11,502

Notes to the Cashflow Statement

WORCESTER CITY COUNCIL
NOTES TO THE CORE FINANCIAL STATEMENTS
For the year ended 31 March 2019

31. Cash Flow Statement - operating activities

The cash flows from operating activities include:

	2018/19 £000's	2017/18 £000's
Interest received	(387)	(134)
Interest paid	340	359
	<u>(46)</u>	<u>224</u>

32. Cash Flow Statement - investing activities

The cash flows for investing activities come from:

	2018/19 £000's	2017/18 £000's
Purchase of property, plant and equipment (Disposal)/Purchase of short-term investments	3,568	2,112
Proceeds from the sale of Property, Plant and Equipment and of Investment Property	7,000	(4,700)
Capital grants/Contributions received	(1,020)	(591)
Net cash flows from investing activities	<u>(2,264)</u>	<u>(845)</u>
	<u>7,284</u>	<u>(4,024)</u>

33. Cash Flow Statement - financing activities

The cash flows for financing activities come from:

	2018/19 £000's	2017/18 £000's
Receipts from short & long term borrowing	-	-
Other receipts from financing activities	(1,991)	(1,198)
Repayments of short and long-term borrowing	40	1,032
Other payments for financing activities	-	-
Net cash flow from financing activities	<u>(1,951)</u>	<u>(166)</u>

WORCESTER CITY COUNCIL
NOTES TO THE CORE FINANCIAL STATEMENTS
For the year ended 31 March 2019

34. Cash Flow Statement – Adjustments for Non Cash Movements

The adjustments for non cash movements within the net deficit on the provision of services include the following items:

	2018/19	2017/18
	£000's	£000's
Depreciation	(2,471)	(2,129)
Impairment and downward valuation	(287)	(746)
(Increase) in creditors	(2,509)	(343)
Increase/ (decrease) in debtors	(2,149)	4,345
Increase in stock	45	(1)
Items relating to retirement benefits	(659)	(588)
Movements in the value of investment properties	(360)	1,619
Movements in the value of pooled investments	(191)	-
Adjustment to provisions	(660)	(533)
	<u>(9,241)</u>	<u>1,624</u>

Other Notes

35. Related party transactions

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

Central Government

Central government has effective control over the general operations of the Council. It is responsible for providing the statutory framework within which the Council operates. It provides some of its funding in the form of grants and it prescribes the terms of many of the transactions that the council has with other parties (e.g. housing benefits). Grants received from government departments are detailed in Note 6.

Members

Members of the Council have direct control over the Council's financial and operating policies. The Council maintains a register of interests for Councillors which is regularly updated and available for public inspection.

Some Council members are also members of Worcestershire County Council, St Peter's and Warndon Parish Councils, West Mercia Police & Crime Panel and Hereford and Worcester Fire and Rescue Authority. The Council collects and distributes precepts on behalf of these bodies.

The Council also has member representatives on various outside bodies, such as St Richard's Hospice, Worcester Racecourse, and Citizens Advice Bureau.

Members also represent the Council on the Joint Museum Committee and Worcestershire Regulatory Shared Service Joint Committee. There are usually only one or two Member representatives on each outside body. Six Members of the Council are also Trustees of the Hopmarket Charity.

WORCESTER CITY COUNCIL
NOTES TO THE CORE FINANCIAL STATEMENTS
For the year ended 31 March 2019

35. Related party transactions (cont'd)

Entities Controlled or Significantly Influenced by the Council

In 2018/19 the following transactions were made relation to shared services agreement and partnership contributions.

The Council is a partner in the South Worcestershire Shared Services Joint Committee and the Worcestershire Regulatory Shared Service Joint Committee. Both of these partnerships are jointly controlled operations.

Place Partnership Ltd is a single asset management company co-owned by Worcestershire County Council, Hereford & Worcester Fire Authority, Redditch Borough Council, Warwickshire Police, West Mercia Police and Worcester City Council. Each party has equal shares and equal voting rights. Any profits made by Place Partnership Ltd would be distributed equally to members. Any loss distribution would be limited by shareholding. Place Partnership has been classified as a Joint Operation for the purpose of financial reporting, because there is joint control, and the activity of the arrangement is primarily to provide services to the parties within their boundary. In 2018/19, the operating cost for Worcester City Council was £1.436m and this is reflected in the Comprehensive Income and Expenditure Statement. Place Partnership Ltd has not been fully consolidated into Worcester City Council's accounts as a Joint Operation because any difference to the costs already reflected is not deemed to be material.

Worcester City Council provides On Street Parking Services within the City on behalf of Worcestershire County Council, which results in a net payment to the County of parking fees and fines less the cost of providing the service.

The Joint Museum Shared Partnership was previously hosted by Worcestershire County Council. From 1 April 2018 the partnership is hosted by Worcester City Council and Worcestershire County Council paid a contribution of £196k to the partnership.

The Worcestershire Internal Audit Shared Service is hosted by Worcester City Council.

WORCESTER CITY COUNCIL
NOTES TO THE CORE FINANCIAL STATEMENTS
For the year ended 31 March 2019

35. Related party transactions (cont'd)

Service	Wychavon District Council £'000	Place Partnership Ltd £'000	Worcestershire County Council £'000	Malvern Hills District Council £'000	Bromsgrove District Council £'000	Redditch Borough Council £'000	HWFRS £'000	Total Services £'000
Revs and Bens Shared Service	1,442							1,442
Property Services		1,436						1,436
Fleet Maintenance Contract & Fuel			536					536
Worcestershire Regulatory Shared Service					530			530
ICT Shared Service	500							500
Worcestershire HUB			438					438
Financial system administration and transaction processing				171				171
Payroll Service	46							46
On Street Parking Services			80					80
Building Control Shared Service				57				57
Procurement Service	32							32
Emergency Planning			15					15
Joint Museums Shared Service			(196)					(196)
Worcestershire Internal Audit Shared Service	(68)	(10)	(2)	(50)	(54)	(85)	(30)	(299)
Totals Partner Contributions	1,952	1,426	872	179	475	(85)	(30)	4,789

36. Contingent Assets and Liabilities

Contingent assets or liabilities are possible benefits or obligations arising from past events and which depend on uncertain future events not wholly within the control of the Council.

At 31 March 2018 the Council had the following contingent liabilities:

- On 30 September 1992, the Council's then insurer, Municipal Mutual Insurance (MMI), announced that it had ceased taking new business or issuing renewals and placed a moratorium on claims payments. On 6 October 1992 MMI resumed the full payment of claims. MMI subsequently fell into insolvency and was placed into administration. A Scheme of Arrangement has now been triggered. This means a levy on all former customers of a proportion of claims paid on the Council's behalf. Based upon information provided by the administrators potential liabilities may occur in future but the timing and the amounts can not be defined. The Council has to date paid two amounts - £81,702 in January 2014 and £54,468 in April 2016 totalling £136,170. This may not be the final sum and the Council may receive a refund or be required to pay a further amount. No provision has been made for either a refund or a payment during 2018/19.
- As a result of changes to the funding of local government, and specifically the introduction of the National Non Domestic Rates (NNDR) Retention Scheme from 1 April 2013, councils assumed part of the liability for refunding rate payers who successfully appeal against the rateable value of their properties on the rating list. Under the revised regulations the Council is required to make a provision for its share of this liability. These accounts include a provision of £2.682m, set aside to cover the Council's share of the total estimated unpaid liability related to the settlement of all appeals and checks/challenges received up to 31 March 2019. This estimate has been based on experience from current and historic rateable value appeals lodged and the impact of associated settlements, using information provided by the Valuations Office Agency (VOA). Whilst the provision reflects the forecast impact of appeals received to date, there remains uncertainty regarding the volume and timing of future appeals.
- The Council has four personal injury compensation claims outstanding, three of these are in relation to the public (Public Liability) and one in relation to an employee (Employer's Liability). The claims are currently at differing stages and position on liability has yet to be established in three cases as the claims are under investigation. The remaining claim has a court hearing set for December 2019. Our insurance company's maximum estimated liability for these four claims totals £146,000. However the Council's insurance policy has an excess level of £10,000 per claim; therefore the maximum liability to the Council would be £40,000.

36. Contingent Assets and Liabilities continued

- The site of the former swimming pool at Sansome Walk that is owned by the City Council has been earmarked for housing development and a sale agreed, providing the site has been cleared. It has been included in the Council's assets at a nominal valuation on the basis that the proceeds will cover the cost of demolition. However the nature of the building is such that an accurate demolition cost will not be known until work has begun. Whilst the disposal proceeds will contribute towards the cost of demolition, this may not be sufficient to cover the full cost.

At 31 March 2019 the Council had the following contingent asset.

- In recognition of the significant cost of demolishing the former swimming pool (noted above), the Council has been offered a grant of £750,000 from the OPE land release fund which is receivable in two stages in 2018/19 and 2019/20. There was a receipt of £150,000 in 2018/19. This grant is contingent on the site being made available for housing by 2020. It will be used as a contribution towards the demolition costs of the building.

WORCESTER CITY COUNCIL
NOTES TO THE CORE FINANCIAL STATEMENTS
For the year ended 31 March 2019

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

	Uncertainties	Effect if actual results differ from assumptions
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to rise, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Pension Fund with expert advice about the assumptions to be applied.	The effects on the net pensions liability of changes in individual assumptions can be measured and are outlined in note 26
Impairment Allowances	The council has balances due relating to sundry debtors and housing benefit. In total these are £3.2m. An impairment allowance is made depending on the age of the individual debts and at 31 March 2019 the allowance is £0.9m	The recoverability of the debts could differ to the assumptions made for the provision resulting in a charge or gain to the council's income and expenditure.
Non-current assets - depreciation	Non-current assets held on the Balance Sheet have an estimated useful life. This is based on a professional judgement by the Valuer.	Depreciation is applied on a straight line basis over the useful life of the asset. Variations to the useful life will alter the amount of depreciation charged to the Comprehensive Income and Expenditure Statement. The impact of this is minimised by a review of the useful life of an asset being undertaken at each valuation.
Provision for backdated appeals - business rates	Localised business rates requires billing authorities to account for the estimated effect of business rate valuation appeals including any back-dating. A provision for the costs of refunds has been made in the Collection Fund, based on the information available to date about the likely number and success of appeals.	If refunds are greater than the provision made in the Collection Fund then there will be a further loss to the Council; if refunds are less than the provision then the Council will receive more than provided for.

38. Critical Judgements in applying Accounting Policies

In applying the accounting policies set out in the Statement of Accounting Policies, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

The Council anticipates that the pressures on public expenditure will continue to be severe. These pressures will be mitigated by further service area and corporate savings, and a limited use of reserves. An assessment of the ongoing pressures and means of mitigation has been made by way of the Council's Medium Term Financial Planning process which has assessed the period to 31 March 2024. As a consequence, the Council is of the view that the level of uncertainty is not significant enough in terms of its anticipated impact to warrant an impairment of assets due to reduced levels of service provision, or a need to close facilities.

The Council revalues its property assets regularly and assesses each year whether or not there is anything that could have a material impact of the value of an asset. Where there is a potential material impact the assets are revalued. All revaluations are undertaken by the Council's RICS qualified valuer with specialist advice as appropriate. Investment properties are revalued annually and an impairment review is also undertaken annually. When assets are revalued their useful lives are re-assessed. During 2018/19 a number of assets were valued and the revised values are incorporated within the accounts.

The Council has identified components within long-term assets as being an individual component such as a boiler, air conditioning unit or lift with a value in excess of 20% of the total value of the asset or £100,000 (whichever is higher). Any components meeting this criteria will be accounted for in accordance with the requirements for component accounting. There are currently no components separately identified.

Investment properties have been assessed using the identifiable criteria under the international accounting standards as being held for rental income or for capital appreciation. Properties have been assessed using this criteria, which is subject to interpretation, to determine if there is an operational reason for holding the property such as regeneration.

The Council has considered in line with accounting standards and the Code of Practice on group accounts all significant relationships with companies and other entities. There are no material interests and no group accounts. Refer to Note 35 for arrangements the Council has with related parties.

Place Partnership Ltd is considered to be a joint operation and a going concern. On that basis the Council is required to reflect its operational share of transactions in these accounts (4.7%). The 4.7% share of Place Partnership's accounts is not materially different from the costs already reflected therefore no adjustment has been made.

The Council has not consolidated the Hopmarket Charity accounts under IAS27 Consolidated and separate financial statements as these balances are not material to the accounts as a whole.

The Council has made a provision for business rates appeals, based on various factors including the outcomes of previous appeals & indicative information from the valuation office.

39. Events after the Balance Sheet date

From 1 April 2019, the Council has ended its contract with Place Partnership Ltd and has established its own in-house Property Service. The Council forecasts this will generate a saving of £175k p.a. and provide a service that will be more adaptable to the Council's needs.

During 2018/19 the Council approved the setting up of a £30m Development Fund for the acquisition of investment properties. On 11 April 2019 the Council purchased the freehold of a commercial property in Worcester. The property is currently used as offices and is occupied by a tenant from the public sector.

40. Accounting standards issued but not yet adopted

At the balance sheet date the following new standards and amendments to existing standards have been published but not yet adopted by the Code of Practice of Local

IFRS16 Leases

This will require local authorities that are lessees to recognise most leases on their balance sheets as right of use assets with corresponding lease liabilities. There are provisions for low-value and short-term leases. CIPFA/LASAAC have deferred implementation of IFRS16 for local government to 1 April 2020.

IAS 40 Investment Property: Transfers of Investment Property

This provides further explanation of the instances in which a property can be reclassified as investment property. This will have no impact on the Council as it already complies.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

Clarifies the treatment of payments in a foreign currency made in advance of obtaining or delivering services or goods. The Council does not have any transactions within the scope of the amendment.

IFRIC 23 Uncertainty over Income Tax Treatments

Provides additional guidance on income tax where there is uncertainty. This is not expected to have any impact on the Council's accounts.

IFRS 9 Financial Instruments:prepayment features with negative compensation

Amends IFRS 9 to make clear that amortised cost should be used where prepayments are substantially lower than the unpaid principal and interest. The Council has no loans to which this will apply.

Collection Fund Statement and Explanatory Notes

WORCESTER CITY COUNCIL
COLLECTION FUND
For the year ended 31 March 2019

	2018/19	2018/19	2018/19
Reporting Year 2018/19	Business	Council	
Note	Rates	Tax	Total
	£000's	£000's	£000's
Income			
1 Council Tax Payers	-	(53,469)	(53,469)
2 Income from Business Ratepayers	(41,791)	-	(41,791)
	<u>(41,791)</u>	<u>(53,469)</u>	<u>(95,260)</u>
Expenditure			
Precepts, demands and shares of surplus/deficits			
Central Government	19,439		19,439
Billing authority (Worcester City Council)	15,551	5,758	21,309
County Council	3,499	38,662	42,161
Parishes	-	140	140
Police Authority	-	6,285	6,285
Fire Authority	389	2,612	3,001
	<u>38,877</u>	<u>53,458</u>	<u>92,335</u>
Charges to Collection Fund			
Less:			
Losses in collection			
	-	-	-
4 Increase (decrease) in bad debt provision	336	(65)	271
6 Increase in provision for appeals	1,650	-	1,650
Allowance for Cost of Collection	133	-	133
	<u>2,119</u>	<u>(65)</u>	<u>2,054</u>
Deficit or (surplus) for the year	(795)	(76)	(871)
Deficit (surplus) b/fwd at 1 April 2018	305	(959)	(654)
Deficit (surplus) c/fwd at 31 March 2019	<u>(490)</u>	<u>(1,035)</u>	<u>(1,525)</u>

The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates.

Business Rates are also known as Non-Domestic Rates (NDR) or National Non-Domestic Rates (NNDR).

The notes on the following pages explain some of the detail behind the figures above.

WORCESTER CITY COUNCIL
COLLECTION FUND
For the year ended 31 March 2019

	2017/18 Business Rates £000's	2017/18 Council Tax £000's	2017/18 Total £000's
Previous Year 2017/18			
Note			
Income			
1 Council Tax Payers	-	(50,679)	(50,679)
2 Income from Business Ratepayers Transitional Protection Payments	(40,287)	-	(40,287)
	<u>(40,287)</u>	<u>(50,679)</u>	<u>(90,967)</u>
Expenditure			
Precepts, demands and shares			
Central Government	19,563		19,563
Billing authority (Worcester City Council)	15,650	5,558	21,208
County Council	3,521	36,624	40,145
Parishes	-	136	136
Police Authority	-	6,014	6,014
Fire Authority	391	2,522	2,913
	<u>39,125</u>	<u>50,853</u>	<u>89,978</u>
Charges to Collection Fund			
Less:			
Losses in collection	-	-	-
4 Increase (decrease) in bad debt provision	225	(8)	216
6 Increase in provision for appeals	1,333	-	1,333
Allowance for Cost of Collection	133	-	133
	<u>1,690</u>	<u>(8)</u>	<u>1,682</u>
Deficit or (surplus) for the year	529	165	693
Deficit (surplus) b/fwd at 1st April 2017	(223)	(1,124)	(1,347)
Deficit (surplus) c/fwd at 31 March 2018	<u>305</u>	<u>(959)</u>	<u>(654)</u>

1. Council Tax Base: basic principles

The Council Tax is a tax set by local councils according to the value of residential properties.

Each local authority that issues Council Tax bills by law has to set a Council Tax Base every year. The Tax Base is the number of chargeable dwellings in the local area, assessed into one of eight bands according to the estimated or actual property value as at 1st April 1991. As each band is charged a proportion of the Band D charge for Council Tax, the total Tax Base is reported as a single number allowing for the different proportions and for discounts such as 'single persons'.

The Local Government Act 2012 replaced the national Council Tax Benefit scheme with local Council Tax Support (CTS) schemes intended to help people on low incomes. This new Council Tax reduction scheme has increased the 'discounts' taken off the Tax Base and so reduced the total Tax Base from 2013/14 onwards by around 4,000 Band D equivalents.

WORCESTER CITY COUNCIL
COLLECTION FUND
For the year ended 31 March 2019

1. Council Tax Base: basic principles (cont'd)

The basic amount of Council Tax for a Band D property (**£1,671.83** in 2018/19, £1,599.68 in 2017/18) is multiplied by the proportion specified by legislation for the particular band to give an individual amount due. The taxbase for 2018/19 was calculated as follows:

Tax Band	Number of properties	Adjusted number of properties after discounts, new & deleted dwellings	Band D ratio	Band D equivalent taxbase 2018/19 £	Basic amount of Council Tax per Band £
A disabled	6	5.0	5/9	2.8	928.79
A	8,521	4,697.4	6/9	3,131.6	1,114.55
B	15,199	11,439.7	7/9	8,897.6	1,300.31
C	11,522	9,591.6	8/9	8,525.9	1,486.07
D	5,483	4,903.8	9/9	4,903.8	1,671.83
E	3,332	3,099.9	11/9	3,788.7	2,043.35
F	1,435	1,358.9	13/9	1,962.8	2,414.87
G	408	374.8	15/9	624.7	2,786.38
H	7	4.5	18/9	9.0	3,343.66
Total	45,911	35,476		31,847	
Less assumed bad debt rate: 1.0%					-318
Council Tax Base				31,528.5	

2. Business Rates

NNDR is organised on a national basis with a Government specified rate of 48.0p for the 2018/19 financial year (46.6p 2017/18). Subject to the effects of reliefs and provisions, local businesses pay rates calculated by multiplying their rateable value by that amount.

Following the localisation of business rates, the Council is responsible for collecting rates due from the ratepayers in its area. The Council then pays amounts over to the major preceptors – Central Government, Worcestershire County Council and Hereford & Worcester Fire & Rescue Service, in accordance with a payment schedule determined at the start of each financial year. The Council is also a member of the Worcestershire Business Rates Pool, meaning that levy and safety net payments are calculated on a pooled rather than individual authority basis.

The income shown in the Collection Fund statement is the income reported to Central Government in the City Council's "NNDR3" return: the 'precepts, demands and shares' are those paid out and reported to Central Government in the City Council's "NNDR1" return.

The Business Rates income (after reliefs) of **£41.791m** (£40.287m for 2017/2018) was based on an average rateable value for the Council's area. The rateable value was **£105,996,971** at 31 March 2019 (£105,207,476 at 31 March 2018).

WORCESTER CITY COUNCIL
COLLECTION FUND
For the year ended 31 March 2019

3. Collection Fund surpluses and deficits

Council Tax

The surplus on the Fund of £1.035 million at 31 March 2019 in respect of Council Tax transactions will be distributed in subsequent financial years to Worcestershire County Council, West Mercia Police Authority, Hereford & Worcester Fire and Rescue Authority and the City Council in proportion to the value of the respective precepts and demands made by the Councils on the Collection Fund. The allocations are as follows:

	2018/19 £000's Share of Surplus	2017/18 £000's Share of Surplus	% Share
Worcestershire County Council	(748)	(692)	72
West Mercia Police Authority	(123)	(113)	12
Hereford and Worcester Fire and Rescue Authority	(50)	(47)	5
Worcester City Council	(114)	(107)	11
	<u>(1,035)</u>	<u>(959)</u>	<u>100</u>

NNDR

Until 2013 all balances in relation to NNDR were attributable to Central Government. Following the localisation of business rates, balances are attributable to Central Government, preceptors and Worcester City Council in accordance with statutory proportions. The total surplus on the fund in respect of business rates at 31 March 2019 is £0.490 m (31 March 2018 £0.305 m deficit)

	2018/19 £000's Share of Surplus	2017/18 £000's Share of Deficit	% Share
Worcestershire County Council	(44)	27	9
Central Government	(245)	153	50
Hereford and Worcester Fire and Rescue Authority	(5)	3	1
Worcester City Council	(196)	122	40
	<u>(490)</u>	<u>305</u>	<u>100</u>

WORCESTER CITY COUNCIL
COLLECTION FUND
For the year ended 31 March 2019

4. Allowance for Impairment of Debts and Write Offs

The Provision for Bad Debts and Write Offs as at 31 March is as follows:

Council Tax

	2018/19	2017/18
	£000's	£000's
Brought forward at 1 April	480	481
Write offs to provision in the year*	59	7
Contributions/(reductions) to provision during year	(65)	(8)
Net Increase/(Decrease) in provision	(6)	(1)
Carried forward at 31 March	<u>474</u>	<u>480</u>

* where this figure is positive it represents debts written back

NNDR

	2018/19	2017/18
	£000's	£000's
Brought forward at 1 April	294	294
Write offs to provision in the year	(294)	(225)
Contributions to provision during year	294	225
Net Increase/Decrease in provision	0	0
Carried forward at 31 March	<u>294</u>	<u>294</u>

5. Write Offs

The total amounts of Council Tax and Business Rates written off during the year were as follows:

	2018/19	2017/18
	£000's	£000's
Council Tax*	(59)	(7)
NNDR	<u>336</u>	<u>225</u>
	<u>277</u>	<u>218</u>

The Council's Financial Regulation 11.10 allows for the writing off of debts deemed irrecoverable. Although written out of the accounts, the debts are still due in law and recovery action will continue. * Where this figure is negative it represents debts written back.

WORCESTER CITY COUNCIL
COLLECTION FUND
For the year ended 31 March 2019

6. NNDR - Provision for Appeals

The Collection Fund account also provides for provision for appeals and other changes to rateable values set by the Valuation Office Agency (VAO) not settled as at 31 March 2019.

	2018/19	2017/18
	£000's	£000's
Brought forward at 1 April	5,055	3,723
Changes in list Charged to Provision	(289)	(721)
Contributions to provision during year	1,938	2,053
Net (Decrease)/Increase in provision	1,650	1,333
Carried forward at 31 March	<u>6,705</u>	<u>5,055</u>

The City Council's share of this balance is **£2.682 million** (40%) and is shown in the Balance Sheet and note 24 to the Core Statements

WORCESTER CITY COUNCIL ACCOUNTING DEFINITIONS

The Code of Practice on Local Authority Accounting 2018/19 uses some technical terms that all readers may not be familiar with. Some of these are:

Cash comprises cash on hand and demand deposits.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash flows are inflows and outflows of cash and cash equivalents.

Financing activities are activities that result in changes in the size and composition of the principal, received from or repaid to external providers of finance.

Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.

Material. Omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor.

Notes contain information in addition to that presented in the Movement in Reserves Statement, Comprehensive Income and Expenditure Statement, Balance Sheet and Cash Flow Statement. Notes provide narrative descriptions or disaggregations of items presented in those statements and information about items that do not qualify for recognition in those statements.

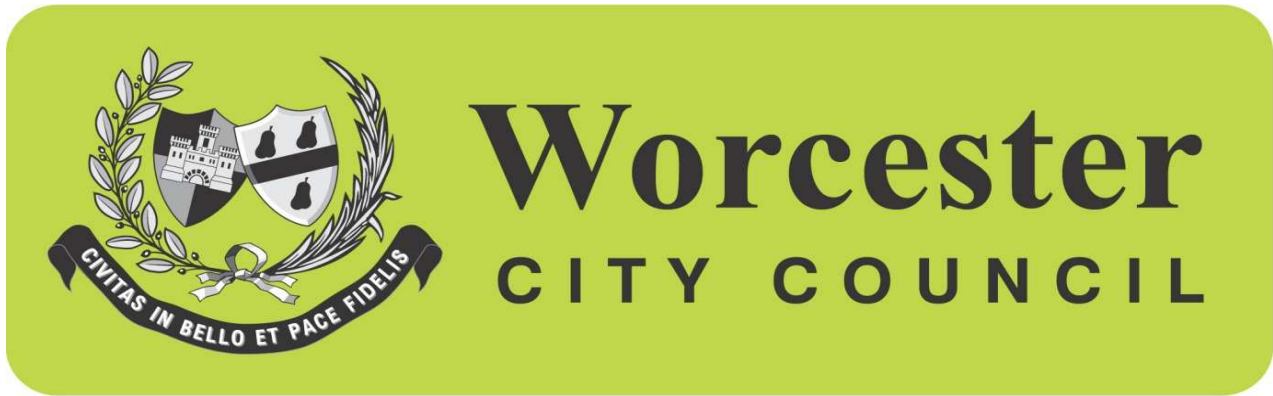
Other Comprehensive Income and Expenditure comprises items of expense and income (including reclassification adjustments) that are not recognised in the Surplus or Deficit on the Provision of Services as required or permitted by the Code. Examples include changes in revaluation surplus; actuarial gains and losses on defined benefit plans; and gains and losses on remeasuring available-for-sale financial assets.

Operating activities are the activities of the authority that are not investing or financing activities.

Reclassification adjustments are amounts reclassified to Surplus or Deficit on the Provision of Services in the current period that were recognised in Other Comprehensive Income and Expenditure in the current or previous periods.

Surplus or Deficit on the Provision of Services is the total of income less expenses, excluding the components of Other Comprehensive Income and Expenditure.

Total Comprehensive Income and Expenditure comprises all components of Surplus or Deficit on the Provision of Services and of Other Comprehensive Income and Expenditure.



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Statement of Accounts 2018/19

I confirm that the Statement of Accounts issued on 30 May 2019 is at this date unaudited and may be subject to change.

Signed on behalf of Worcester City Council

A handwritten signature in blue ink, appearing to read 'Shane Flynn', is written over a dotted line.

**Shane Flynn, Corporate Director Finance and Resources
Section 151 Officer**