# BIRMINGHAM CITY COUNCIL

## AUDIT COMMITTEE

**TUESDAY, 28 MARCH 2023 AT 14:00 HOURS**
**IN COMMITTEE ROOMS 3 & 4, COUNCIL HOUSE, VICTORIA SQUARE, BIRMINGHAM, B1 1BB**

## A G E N D A

1 **NOTICE OF RECORDING/WEBCAST**

The Chair to advise meeting to note that members of the press/public may record and take photographs except where there are confidential or exempt items.

2 **APOLOGIES**

To receive any apologies.

3 **DECLARATIONS OF INTERESTS**

Members are reminded they must declare all relevant pecuniary and other registerable interests arising from any business to be discussed at this meeting.

If a disclosable pecuniary interest is declared a Member must not participate in any discussion or vote on the matter and must not remain in the room unless they have been granted a dispensation.

If other registerable interests are declared a Member may speak on the matter only if members of the public are allowed to speak at the meeting but otherwise must not take part in any discussion or vote on the matter and must not remain in the room unless they have been granted a dispensation.

If it is a 'sensitive interest', Members do not have to disclose the nature of the interest, just that they have an interest.

Information on the Local Government Association's Model Councillor Code of Conduct is set out via http://bit.ly/3WtGQnN. This includes, at Appendix 1, an interests flowchart which provides a simple guide to declaring interests at meetings.

4 **EXEMPT INFORMATION – POSSIBLE EXCLUSION OF THE PRESS AND PUBLIC**

a) To consider whether any matter on the agenda contains exempt information within the meaning of Section 100I of the Local Government Act 1972, and where it is considered that the public interest in maintaining the exemption outweighs the public interest in disclosing the information, for the reasons outlined in the report.

b) If so, to formally pass the following resolution:-

**RESOLVED** – That, in accordance with Schedule 12A of the Local Government Act 1972 as amended by the Local Government (Access to information) (Variation order) 2006, the public be excluded from the meeting during consideration of those parts of the agenda designated as exempt on the grounds that it is likely, in view of the nature of the business to be transacted or the nature of the proceedings, that if members of the press and public were present there would be disclosure to them of exempt information.

**5 - 18** 5 **MINUTES - AUDIT COMMITTEE 31 JANUARY 2023 & 14 FEBRUARY 2023**

To confirm and sign the minutes of the last meeting of the Committee held 31 January 2023 and 14 February 2023.

14 February 2023 minutes - To follow

6 **ASSURANCE SESSION – THE DEPUTY LEADER'S PORTFOLIO**

(55 minutes allocated) (1405 – 1500)

Verbal discussion

The Deputy Leader with the Chief Executive, Director of Digital & Customer Services

**19 - 34** 7 **BIRMINGHAM AUDIT – INTERNAL AUDIT PLAN 2023/24**

(10 minutes allocated) (1500 – 1510)

Report of the Assistant Director Audit and Risk Management

**35 - 64** 8 **BCC ADOPTION OF ACCOUNTING POLICIES 2022/23**

(10 minutes allocated) (1510 – 1520)

Report of the Director of Council Management

**65 - 68** 9 **GROUP COMPANY GOVERNANCE - INFORMING THE AUDIT RISK ASSESSMENT**

(5 minutes allocated) (1520 – 1525)

Report of the Director of Council Management

**69 - 180** 10 **AUDIT FINDINGS REPORTS 2020/21 AND 2021/22**

(10 minutes allocated) (1525 – 1535)

Report of the External Auditors

**181 - 636** 11 **APPROVAL OF STATEMENT OF ACCOUNTS 2020/21 AND 2021/22**

(10 minutes allocated) (1535 – 1545)

Report of the Director of Council Management

**637 - 646** 12 **OMBUDSMAN PUBLIC INTEREST REPORT CONCERNING A COMPLAINT IN RELATION TO RESPITE SUPPORT FOR DISABLED CHILDREN**

(10 minutes allocated) (1545 – 1555)

Report of the Chief Executive of the Birmingham Children's Trust

**647 - 648** 13 **SCHEDULE OF OUTSTANDING MINUTES**

Information for noting.

14 **DATE OF THE NEXT MEETING**

The next meeting is scheduled to take place on Tuesday, 25 April 2023 at 1400 hours in Committee Room 6, Council House.

15 **OTHER URGENT BUSINESS**

To consider any items of business by reason of special circumstances (to be specified) that in the opinion of the Chair are matters of urgency.

16 **AUTHORITY TO CHAIR AND OFFICERS**

Chair to move:-

'In an urgent situation between meetings, the Chair jointly with the relevant Chief Officer has authority to act on behalf of the Committee'.

# BIRMINGHAM CITY COUNCIL

**AUDIT COMMITTEE**
**31 JANUARY 2023**

**MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD ON TUESDAY, 31 JANUARY 2023 AT 1400 HOURS IN COMMITTEE ROOM 6, COUNCIL HOUSE, VICTORIA SQUARE, BIRMINGHAM, B1 1BB**

**PRESENT:-**

Councillor Fred Grindrod in the Chair;

Councillors Meirion Jenkins, Amar Khan, Miranda Perks, and Paul Tilsley

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**NOTICE OF RECORDING/WEBCAST**

538 The Chair advised and the meeting noted that this meeting would be webcast for live or subsequent broadcast via the Council's You Tube site (www.youtube.com/channel/UCT2kT7ZRPFCXq6_5dnVnYlw) and that members of the press/public may record and take photographs except where there are confidential or exempt items.

**The business of the meeting and all discussions in relation to individual reports was available for public inspection via the web-stream.**

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**APOLOGIES**

539 Apologies were submitted on behalf of Councillors Shabrana Hussain, Bruce Lines and Shafique Shah for their inability to attend the meeting.

Councillor Tilsley notified the Chair he had to leave at 1500 hours.

The Chair noted the partial attendance at the meeting.

At this juncture, the City Solicitor and Monitoring Officer confirmed that the partial attendance would still be noted as a full attendance at the meeting.

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**DECLARATIONS OF INTEREST**

540 Members are reminded they must declare all relevant pecuniary and other registerable interests arising from any business to be discussed at this meeting.

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If other registerable interests are declared a Member may speak on the matter only if members of the public are allowed to speak at the meeting but otherwise must not take part in any discussion or vote on the matter and must not remain in the room unless they have been granted a dispensation.

If it is a 'sensitive interest', Members do not have to disclose the nature of the interest, just that they have an interest.

At this juncture, Councillor Tilsley declared a non-pecuniary interest as the non-executive director for Birmingham Airport.

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**EXEMPT INFORMATION – POSSIBLE EXCLUSION OF THE PRESS AND PUBLIC**

The Chair informed he had not been informed of any items under this section.

Upon consideration, it was:

541 **RESOLVED**

That in accordance with Schedule 12A of the Local Government Act 1972 as amended by the Local Government (Access to information) (Variation order) 2006, the public be excluded from the meeting during consideration of those parts of the agenda designated as exempt on the grounds that it is likely, in view of the nature of the business to be transacted or the nature of the proceedings, that if members of the press and public were present there would be disclosure to them of exempt information.

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**MINUTES – AUDIT COMMITTEE – 22 NOVEMBER AND MATTERS ARISING**

542 That the public minutes of the last meeting 22 November 2022 having been circulated, were agreed by the Committee.

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At this juncture, the Chair informed members the portfolio sessions would be swapped due to Cabinet Members prior engagements. On this basis, the discussion on Health & Social Care was discussed first.

**ASSURANCE SESSION - CABINET MEMBER HEALTH & SOCIAL CARE PORTFOLIO**

The Cabinet Member for Health & Social Care attended the meeting accompanied by Graeme Betts, Director of Adult Social Care.

The Cabinet Member for Health & Social Care shared a presentation via the screen.

(See document No.1)

The presentation gave an overview on various areas of the portfolio, consisting of Adults Social Care, Public Health, Healthy Communities and Birmingham & Solihull Integrated Care System.

Risks indicated on the Strategic Risk Register were highlighted, with a particular focus on;

- SR5.4 - Inability to fully meet social care requirements to include Safeguarding Adults,
- SR5.5 View of BCC by Regulator: ASC CQC Regulated Services; and
- SR7.2 Rising demand for services negatively impacts on the Council's priority outcomes

In response to the risks, mitigations and actions set out by the service areas were shared.

No concerns were raised for the portfolio/ service area in the 2020/21 Audit Findings Report, External Auditors Report and Improvement Recommendations.

Similarly, there were no Adult Social Care issues included on the Annual Governance Statement however, the Cabinet Member Health & Social Care highlighted issues that were of a priority on the Directorate Assurance Statement for 2021/2022 which the Directorate were currently working upon.

Two examples were referred to. These were;

1) **Day Opportunities**
2) **Transition - Preparation to Adulthood**

The Cabinet Member offered to provide Members with further details on any other issues on the Directorate Assurance Statement or any areas within Adult Social Care should this be required.

An outline of three other key areas that would be of interest to the Committee were highlighted. These were around;

1) Difficulties on Recruitment
2) Cost of Living Crisis
3) Winter Pressures

Adult Social Care continue to work with health providers and NHS to ensure services can function against the rising costs and pressures around the workforce. The unprecedented demand on the NHS was adding pressure to Adult Social Care Discharge Teams. Elected Members were informed of the demand and the current position on the winter pressures had been shared. Social Care have been provided with a one-off short-term additional grant to support discharges.

At 1430 hours, the Chair thanked the Cabinet Member Health & Social Care for her attendance and noted that she had to leave the meeting due to prior commitments.

Members of the Committee commented and asked questions which the Director of Adult Social Care responded to.

Key points made:

- **Kenrick Centre** – Members noted this required improvements and questioned what steps were in place to address issues raised by the Care Quality Commission (CQC). In response, it was noted an action plan was in place. Management were aware improvement was required therefore this was being monitored very closely. Homes would improve their performance and then dip down thus this was not usual across the board.

- **Assurance Sessions and the role of the Audit Committee** - Councillor Jenkins raised concerns around the Assurance Sessions and the role of the Audit Committee i.e., it was felt receiving presentations from the Cabinet Members about their portfolio was not the remit. In response, the Chair shared the Audit Committee had been reviewed by two external organisations who had confirmed this activity was in accordance with the Committee's remit.

  The Director of Council Management added presentations for Assurance Sessions were shared with the Committee to ensure Members had confidence that risks were being managed and governance was in place.

  The Assistant Director, Audit and Risk Management reminded members these sessions were developed 2 ½ years ago which outlined what principles should be covered i.e., Assurances Statements, External Auditors recommendations. Further discussions took place to decide who was accountable for this, and it was noted Cabinet Members jointly with the Chief Officers should be providing assurances to the committee.

  The Chair reiterated that any specific issues the members had linked to the portfolio discussions, this was welcomed for discussion providing it was linked to the risks associated with the portfolio so that members were confident the risk was being managed appropriately.

The Assistant Director, Audit and Risk Management commended the Adult Social Care Service area as the way risk was managed was praiseworthy as actions and mitigations were clearly identified.

It was noted, Councillor Jenkins was not satisfied with the setup of the Assurance Sessions and the presentations delivered. Councillor Tilsley referred to reports of individual Cabinet Members which was historically shared at City Council, this had since ceased. As a result, the Assurance Sessions was another way of holding Cabinet Members to account.

Jon Roberts, Grant Thornton (External Auditors) added the Assurance sessions were a very important part of the agenda especially due to the size and complexity of the Council. It was important to understand the governance challenges therefore supported the Assurance sessions. It was an area to keep under review to ensure the right level and analysis of assurance was obtained. The External Auditors encouraged and supported the continuation, approach of the Assurance Session.

Members of the Committee continued to comment and asked questions which the Director of Adult Social Care responded to.

Additional points made:

- **How to reflect good standards joint working across the Council, as risks within Adult Social Care was being managed well** – The Directorate had built a culture to respond to citizens needs quickly and resolve issues within a good timeframe. It was important to look at the best way the citizen and family achieve the best outcome and what support needs to be put into place to achieve this. This was a responsibility of the Council as a whole and less working in silo.

- **Safeguarding and how fully aware were employees across the Directorate** - Safeguarding was high across the Council's agenda therefore appropriate levels of training would take place for all, especially for new starters. It was important to embed the culture across the organisation i.e., place the citizens first to achieve better outcomes.

At 1447 hours, Councillor Khan left the meeting.

The Chair thanked the Director for Adult Social Care for his attendance and asked the Committee to note the updates given.

Upon consideration, it was:

543 **RESOLVED**:-

That the Audit Committee noted the presentation and updates received on the Cabinet Member for Health & Social Care Portfolio.

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**ASSURANCE SESSION - CABINET MEMBER SOCIAL JUSTICE, COMMUNITY, SAFTEY & EQUALITIES PORTFOLIO (PART 2)**

The Cabinet Member for Social Justice, Community Safety & Equalities attended the meeting accompanied by Darren Hockaday, Director of HR & Organisation Development and Waqar Ahmed, Assistant Director Community Safety & Resilience.

(See document No.2)

A presentation was shared via the screen which gave an overview on Community Safety (including Governance, Community Triggers, Domestic Homicide reviews and serious violence); Birmingham Community Safety Partnership Governance 22/23; areas of Domestic Abuse (including Governance, Domestic Abuse Prevention Strategy, Domestic Abuse Act (Part 4 duty, and Commissioning) and Domestic Abuse Governance.

An outline to the Local Partnership Delivery Partnership Map and the strategic thematic groups set out by the Birmingham Community Safety Partnership was summarised for members.

At 1449 hours, Councillor Jenkins left the meeting.

At this juncture, members of the Committee commented and asked questions which the Cabinet Member Social Justice, Community, Safety & Equalities and Officers responded to.

Key points made:

- **Birmingham Community Safety Partnership and local authorities' duties. How is this monitored?** – All partners including the local authorities had to consider tackling serious crimes. This would involve better local governance structures and an effective strategy that looked across the system. Services areas such as housing would be looked at (e.g. urgent accommodations when serious issues occurred) and specified roles for certain agencies. The Local Authority had the responsibility to ensure governance structures were in place (statutory duty to the local authority to work with partners and reduce crime to protect citizens from harm).

- **Birmingham Community Safety Partnership Executive Board** – Chaired by the Cabinet Member Social Justice, Community, Safety & Equalities and composed of a range of statutory partners such as the Police, Probation, Social Housing, Fire & Rescue, Birmingham Children's Trust and many more. The thematic groups were responsible for different areas of the operational work. Further details of the citywide and local work across the partnership were shared.

- **The meaning of Community Triggers** – This was when residents were not content with their antisocial behaviour issues therefore, they were able to alert the authorities to review the process. Residents were able to challenge responses around antisocial behaviour. This was a legal right in accordance with the 2014 Act.

- **Role of the elected members and confidence that the Local Partnership Delivery Partnership Map was understood** – This was a large geographical footprint and resource was an issue. More work to be undertaken to ensure all elected members were fully advised on processes they could use when encountering issues within their wards.

- **Facilitating better working between the partnership of West Midlands Police (WMP) and Birmingham City Council (inc. role of the elected member) and challenges** - The reduction in Command Units within WMP, boundaries within areas had changed and this caused tension for members as the boundaries between the two areas were not the same. At times, Councillors had to at times deal with two policing teams for an issues rather than one. As a result, the local authority would need to review how to work locally and WMP to look at their Neighbourhood offer. A co-ordinated approach was being piloted to oversee work across partners and wards.

  WMP had a new Chief Constable who would be reviewing the two Command Units. The Police & Crime Commissioner had provided reassurance that more police officers would be available across the board. Members would receive information to the various groups and utilise this in Ward Forums and plans. The Neighbourhood Action Co-ordinators would be the link between the different service areas.

At 1452 hours, Councillor Jenkins returned to the meeting.

At 1458 hours, Councillor Tilsley left the meeting.

At 1500 hours, Councillor Khan returned to the meeting.

At 1502 hours, the Independent Technical Advisor entered the meeting.

Furthermore, Members were provided an update from People Services which had recently moved into the portfolio area. People Service was a new structure consisting of 150 employees (originally 80 employees). Two out of three

Assistant Director posts had now been secured and there was a lot more stability within the service area.

Three main priorities for the service were shared. In addition, and overview on Everyone's Battle, Everyone's Business (EBEB) Action plan, Workforce Transition and Job Evaluation Programme details was outlined. Extensive detail was shared on the EBEB plan and the deliverables was discussed. The Workforce Transition – Overview of Programme Workstreams and the review of interims and consultants was being undertaken. A more flexible approach had been applied for recruitment i.e., via website, social media platforms and various communication paths to attract the right employees to the organisation.

Most of the agency staff originally recruited to BCC were now permanent staff as there was more of an attractive salary and remuneration.

Members of the Committee commented and asked questions which the Cabinet Member Social Justice, Community, Safety & Equalities and Officers responded to.

Key points made:

- **Number of employees in HR department and is this sufficient?** – 150 employees within the area – the ratios those on the payroll and within the service areas had been factored in including Schools HR. 80% of the employee relations had gone as there was a reduced number of employee and trade unions cases. There were only 12 cases were outstanding.

- **Reduce the timeframe for Job Evaluation as there were concerns risks of potential further equal pay** – Regular updates of Job Evaluation should be shared with the Committee.

- **Figures around Flexible Working, Policy and standards of hybrid homeworking (new ways of working)** – Details around flexibility working and data around this to be shared with members. It was noted, in relation to hybrid remotely working from, this was not monitored by the service area as this was part of the Councils New ways of Working and the expectation was all employees had to take onus and responsibility. Improvements to productivity should also be at the forefront.

At this juncture, the Chair informed Councillor Jenkins that the Committee we not confirmed to look at the employees' terms and conditions of a contract but to ensure the delivery of the programme was undertaken and holding the portfolio holders to account.

The City Solicitor and Monitoring Officer referred to comments made by Councillor Jenkins. The Audit Committee look at the value for money aspects however, it would question if the performance level of delivery of services had decreased and was not in accordance with the delivery framework. The Audit

Committee could not mandate or give a view on the working arrangement of staff in BCC.

The Chair encouraged Councillor Jenkins to discuss this matter further outside of the meeting with the City Solicitor and Monitoring Officer and the Director of Council Management.

The City Solicitor and Monitoring Officer agreed with earlier comments made by the External Auditors around holding Cabinet Members to account via the Assurance Sessions and asking key questions and give directions to any concerns.

- **Performance** – BCC was outcome based and employees join the organisation based on the competitiveness. Evidence indicates that when employees are offered flexibility, productivity increases.

- **Barriers on recruitment and morale of staff** – Ongoing work taking place on job adverts and how they are written i.e. not to just apply a standard job description. The language used in the adverts to be look at carefully and to ensure these were attractive to the market. Managers across the organisation to be educated managers on writing job adverts to ensure a diverse recruitment takes place. Any recruitment should be progressed fast and effectively to avoid loss of interest.

- **Management Training** – Within the next 18 months, a new leadership framework behaviours would be shared which would manage employee's performance and via assessments through recruitment process.

At 1551 hours, Councillor Jenkins left the meeting.

- **Assurance around the understanding of Everyone's Battle, Everyone's Business** – The Cabinet Member indicated there was still more work to be undertaken. The awareness for this was there and ongoing work was taking place. The constant message would encourage employees to remain within the organisation and provide them with confidence. Key work was taking place with Trade Unions to reinforce trust and confidence.

  An independent organisation had been commissioned to review the HR function with a specific reference to equality issues.
  The Director of Council Management agreed updates around the developments in People Services should be shared with Members. Disability was an areas that was having a key focus.

The Chair thanked the Cabinet Member Social Justice, Community, Safety & Equalities and Officers for their attendance and asked the Committee to note the updates given.

Upon consideration, it was:

544 **RESOLVED**:-

That the Audit Committee:

(i) Noted the presentation and updates received on the Cabinet Member for Social Justice, Community, Safety & Equalities Portfolio.

(ii) Requested for regular updates on the progress and developments around Job Evaluation to be shared with the Committee.

(iii) Further details around flexible working, policy, performance of hybrid homeworking (new ways of working) data to be shared with the Committee.

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545 At 1600 hours, the Audit Committee paused for a comfort break.

At 1607 hours, the Audit Committee recovered.

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Due to time constraints, the Chair decided item 9 – Risk Management update would be deferred to the 14 February 2023 meeting.

**EXTERNAL AUDITORS – AUDIT UPDATE 2020-2021 & 2021-2022**

A verbal update was provided by the External Auditors. Jon Roberts, Grant Thornton informed the Committee Nicola Coombe, Grant Thornton, had been undertaking the work around the Housing Benefits grant claim which had now been concluded.

Progress had been made on the audit of financial statements for both outstanding years. The nationwide Highways Infrastructure issue was delaying the audits for both years. The revised CIPFA code of practice had taken away the requirement for disclosure of gross cost and gross cumulative depreciation.

CIPFA had engaged with one of UK's highly Technical Specialist representative bodies to review the economic lives of the assets. Guidance had been provided which the External Auditors were working through with BCC Finance officers. Progress was being made on 2020- 2021 accounts as well as the previous year's accounts had not yet been signed.

The External Auditors were made aware of a potential issue around the Birmingham Children's Trust accounts consolidation into the BCC group accounts. This has been prioritised and reviewed.

No comments were raised by Members of the Committee.

Upon consideration, it was:

546 **RESOLVED**:-

That the Audit Committee noted the verbal update from the External Auditors

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**PUBLIC SECTOR INTERNAL AUDIT STANDARDS – EXTERNAL QUALITY ASSESSMENT**

The following report of the Assistant Director Audit and Risk Management was submitted: -

(See document No.3)

The Assistant Director, Audit & Risk Management, made introductory comments relating to the report. Members were informed every 5 years an external assessment (independent inspection) of the BCC Internal Audit function had to be undertaken. An outline to the criteria applied for the external assessment was shared.

The assessment was conducted by Manchester City Council Internal Audit Team, and they concluded that Birmingham Audit conforms and exceeds some the standards. The full report had been shared with members as part of the document pack.

The Assistant Director Audit and Risk Management was very pleased with the outcomes and thanked Manchester City Council as well as the other contributors for conducting the review.

The Chair echoed comments made and thanked Manchester City Council and the work undertaken. It was requested for the additional recommendations and implementation to be tracked and for this to be incorporated in the regular updates provided to the Committee.

On behalf of the Audit Committee, the Chair congratulated the Assistant Director Audit and Risk Management and her team for being assessed with a positive outcome and maintaining the standard for the Council.

Upon consideration, it was:

547 **RESOLVED**:-

That the Audit Committee noted the results of the external quality review completed by Manchester City Council on behalf of the Council together with the agreed improvement actions.

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## OMBUDSMAN PUBLIC INTEREST REPORT CONCERNING A COMPLAINT ABOUT ASSISTED WASTE COLLECTION COMPLAINTS

The following report of the Director of the City Operations Directorate was submitted: -

(See document No.4)

The Chair read an introductory statement regarding the Ombudsman public interest report.

The following points were made by the Director of Street Scene:-

- Several actions had been undertaken since the complaint. All information regarding collections had been transferred to an electronic system where a list of the collections automatically is indicated. There were no more issues regarding paper records as this was all electronic.
- The crews have electronic devices in the vehicles, and this had been in place since December 2022. This was being monitored daily as the driver had to check that the collection had been completed.
- Hire vehicles had a temporary solution (electronic device) and all residual and recycling vehicles/crew had hardwired tablets fitted in the vehicles.
- The driver of the vehicle is responsible for the performance, which was fed into the tablet device, The Assisted Service Managers in the depot (x3 per depot) were responsible for an area and take the reports and physically monitor against performance.
- Missed collections would be recorded via the contact centre (through My Brum account) and this information would be sent to the depot to correct.
- There were trackers fitted on the vehicles too.
- The accountability lied with the driver, depot teams and then to the Director of Street Scene.
- Several performance recommendations were identified. Some were recorded through the Deputy Leader's Performance Teams, and some was reported directly to the Chief Executive and the Leader.
- A Corporate Performance Framework was in place consisting of three different levels. All the key performance indicators go to the Corporate Performance Team which then report to Cabinet on a regular basis.
- In addition, this area is reported upon to the Leader on a weekly basis.
- 540,000 collections made per week and communications with members had to be more effective.
- Missed collections were regularly reported to Cabinet as well as Housing & Neighbourhoods Overview & Scrutiny.
- A series of depot visits were being arranged for elected members.

Upon consideration, it was:

548 **RESOLVED**:-

That the Audit Committee noted the Director of City Operation's response to the Local Government and Social Care Ombudsman's recommendations.

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**OMBUDSMAN PUBLIC INTEREST REPORT CONCERNING A COMPLAINT ABOUT TEMPORARY ACCOMMODATION (HOMELESSNESS)**

The following report of the Director of City Housing Directorate was submitted:-

(See document No.5)

The Chair read an introductory statement regarding the Ombudsman public interest report.

The following points were made by the Acting Head of Service Housing Solutions & Support Service;-

- This case had taken place over a significantly long time and the household need for the resident changed over the period.
- The actions recommended had been implemented however, negotiations were still taking place with the individual and representatives. Also, the suitability of the accommodation was also being explored hence the case was still live. The Chair requested for updates to be provided on the implementation of the recommendations.
- The Acting Head of Service Housing Solutions & Support Service was confident that the workforce had implemented the recommendations. A wide range of intervention and teamwork (Business Intelligence Reporting) was taking place.

Upon consideration, it was:

549 **RESOLVED**:-

That the Audit Committee notes the Director of City Housing's response to the Local Government and Social Care Ombudsman's recommendations.

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**SCHEDULE OF OUTSTANDING MINUTES**

The following Schedule of Outstanding Minutes was submitted:-

(See document No.6)
The Chair deferred updates to this item to the next meeting, 14 February 2023.

550 **RESOLVED**:-

That the Schedule of Outstanding minutes be deferred to the next meeting.

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**DATE OF THE NEXT MEETING**

551 The next meeting is scheduled to take place on Tuesday, 14 February 2023 at 1400 hours in the Committee Room 6, Council House, Birmingham.

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**OTHER URGENT BUSINESS**

552 The Chair noted that the Committee's Annual Report to City Council would be discussed at the February 2023, City Council meeting and requested for members of the committee to contribute to the debate.

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**AUTHORITY TO CHAIRMAN AND OFFICERS**

553 **RESOLVED**:-

That in an urgent situation between meetings the Chair, jointly with the relevant Chief Officer, has authority to act on behalf of the Committee.

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The meeting ended at 1636 hours.

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CHAIR

**BIRMINGHAM CITY COUNCIL**

**PUBLIC REPORT**

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|---|---|
| **Report to:** | **Audit Committee** |
| **Report of:** | **Assistant Director, Audit and Risk Management** |
| **Date of Meeting:** | **28th March 2023** |
| **Subject:** | **Birmingham Audit – Internal Audit Plan 2023/24** |
| **Wards Affected: All** | |

**1. Purpose of report.**

1.1 To gain approval of the 2023/24 baseline internal audit plan.

**2. Recommendations**

2.1 That members of the Audit Committee:

2.1.1 note the methodology and assumptions applied in developing the 2023/24 baseline internal audit plan;

2.1.2 consider the proposed audit coverage and identify any areas they wish to suggest for inclusion in the ongoing risking process; and

2.1.3 subject to any agreed adjustments, approve the proposed baseline plan.

**3. Summary of Key Issues**

3.1 The estimated number of audit days available for 2023/24 is 3990.

3.2 The audit plan is prepared using a risk-based methodology that enables the provision of an independent opinion on the adequacy and effectiveness of the systems of internal control and to contribute to the Council's assurance framework.

3.3 The plan is dynamic and will be reviewed and updated throughout the year, based on discussions, feedback received, and emerging issues and risk to ensure our work is appropriately targeted and enables the provision of an opinion on the effectiveness of key controls.

3.4 In line with recommendations arising from our external Public Sector Internal Audit Standards (PSIAS) compliance review the planning methodology has been further developed to establish clearer links to risk, assurance, and priorities.

3.5 The views and engagement of the Audit Committee are important to the internal audit planning process. Members are requested to consider the proposed internal audit coverage and identify any areas they wish to suggest for inclusion in the risking process.

3.6 Progress in delivering the audit plan, together with any key issues identified, will be reported to future Audit Committee meetings.

**4. Legal and Resource Implications**

4.1 The Internal Audit service is undertaken in accordance with the requirements of section 151 of the Local Government Act and the Accounts and Audit Regulations 2015. The work is carried out in compliance with Public Sector Internal Audit Standards and within the approved budget.

**5. Risk Management & Equality Analysis Issues**

5.1 Risk management forms an important part of the internal control framework that the Council has in place and is taken into account in setting the audit plan and work undertaken.

5.2 We have undertaken an equality analysis for all of our key policies and procedures and where appropriate have developed action plans to address any potential adverse impacts.

**6. Compliance Issues**

6.1 Decisions are consistent with relevant Council Policies, Plans or Strategies.

**Sarah Dunlavey**
**Assistant Director, Audit & Risk Management**

**Contact Officer: Sarah Dunlavey**
**Telephone No: 0121 675 8714**
**e-mail address: sarah.dunlavey@birmingham.gov.uk**

# Birmingham Audit – Internal Audit Plan 2023/24

**28th March 2022**

**Contents**

Birmingham City Council

# 1. Background

1.1 It is a statutory requirement for Local Authorities to have an internal audit function. Within the Council this function is delivered in house by Birmingham Audit.

1.2 Birmingham Audit provides a range of internal audit and counter fraud services. These include assurance reviews of the Council's financial and operational systems, IT / information governance reviews, corporate and social housing fraud investigations, fraud awareness, corporate governance and risk management reviews, and compliance reviews to check adherence to policies, procedures and systems. The legislative framework and professional standards / guidelines we are required to adhere to include:

- Accounts and Audit Regulations 2015;
- Fraud Act 2006;
- Social Housing Fraud (Power to Require Information) Regulations 2014;
- Council Tax Reduction Schemes (Detection of Fraud and Enforcement) Regulations 2013; and
- Public Sector Internal Audit Standards (PSIAS).

1.3 The annual audit plan is prepared using a risk-based methodology to enable the provision of an independent opinion on the adequacy and effectiveness of the systems of internal control (comprising of risk management, corporate governance, financial and operational controls) to be formed. In line with recommendations arising from our external PSIAS compliance review the planning methodology has been further developed to establish clearer links to risk, assurance, and priorities.

1.4 This methodology considers risks, first and second lines of defence, previous audit work, alternative sources of assurance, and the Council's strategic priorities. Whilst this methodology is still very much in its infancy it is anticipated that it will start to mature as we capture and record additional intelligence and link the assessment to the Council's assurance framework.

1.5 The plan is dynamic and will be revised and updated in line with changing risks and priorities throughout the year. Changes to the plan will be reported to Committee.

1.6 The independent audit opinion formed from the audit work completed feeds into the published Annual Governance Statement. The emphasis of internal audit provision remains reviewing the controls around the risks that may prevent the Council from meeting its objectives and detecting and preventing fraud. Within this, there is a need to ensure that legislative and regulatory requirements and professional standards are met.

## 2. Quality Assurance

2.1 In line with PSIAS a Quality Assurance and Improvement Plan (QAIP) is in place. This plan requires both internal and external assessments of internal audit to be undertaken to ensure compliance with standards, that the audit service is efficient, effective and continuously improving, and that the service adds value and assists the organisation in meeting its objectives.

2.2 During the year our PSIAS external quality assessment was completed and reported to Committee in January 2023. This external review confirmed that we ‘conform’ with the standards. Compliance with the standards is considered to provide a strong platform on which our ambitions can be realised, and a strategy and structure developed that enables the service to be even more proactive, risk focused, influential, and effective in supporting the assurance arrangements for the Council.

2.3 In additional to our PSIAS review, a surveillance visit was undertaken by our ISO27001:2013 (Information Security Standard) accreditation body. This surveillance visit confirmed that we continue to have robust information security management information systems in place.

2.4 Regular feedback is also sought from key contacts to help ensure the audit plan remains current and reflects emerging risks. Post Audit Evaluation questions are issued with all final reports to capture feedback on individual assignments.

## 3. Internal Audit Plan

3.1 The estimated number of productive days available for 2023/24 is 3990. This compares to 4416 in 2022/23. The principal factors contributing to this variation are:

- an increase in holidays (bank holidays and annual leave);
- a vacancy. Attempts to recruit to this vacancy have proven unsuccess, with campaigns falling to attract applications from candidates with sufficient skills and experience; and
- recognition of the management time spent coordinating work on application-based fraud which sits outside of this plan.

3.2 The short-term budget underspend created through this ongoing vacancy will be used to bring in top up resources to supplement existing internal resources, until the post can be filled on a permanent basis. It is anticipated that this additional resource will be used to undertake an independent review of risk management. This would eliminate any impairment in objectivity arising from operational responsibility for the delivery of risk management resting with the Assistant Director of Audit and Risk Management, as recommend in the recent PSIAS review. No additional days have currently been incorporated into the plan for this top up resource.

3.3 As part of our planning process, we have undertaken a risk mapping exercise across the organisation. This involves identifying the potential auditable areas and mapping associated risks, including management opinions, first and second lines of defence, previous audit work, alternative sources of assurance, and the Council's strategic priorities. In undertaking this mapping exercise, we have used our knowledge and experience of the organisation as well as liaising with key stakeholders including Audit Contact Officers, Directorate Management Teams, and Directors / Assistant Directors.

3.4 In addition to considering the Council's strategic priorities, the plan also considers the following key governance and risk factors:

| | | | |
|---|---|---|---|
| Risk Management | Business Planning | Partnerships / Commissioning | Policies and Procedures |
| Project Management | Budget Management | Internal Control | Anti-Fraud |
| Independent Assurance | Service Delivery / Performance | Human Resources | Information Governance |

3.5 The plan is structured to include a range of activities which contribute to the assurance framework and to the annual audit opinion. It is targeted to ensure sufficient coverage is maintained across key areas including financial systems, business processes, information technology, schools, and counter fraud, whilst maintain flexibility to support the Council with insightful advice and guidance.

3.6 The plan also reflects current service development priorities, these include increased emphasis on:

- management accountability and assurance frameworks and assurance mapping;
- the provision of insight, proactive, risk focused advice and guidance;
- data led and data driven assurance planning and delivery; and
- new ways of working including the use of technology and the further development of audit approaches.

3.7 The plan includes a small element of chargeable work / work for external clients. This principally relates to the provision of an internal audit service on behalf of Acivico and grant certification.

3.8 Whilst the baseline plan sets out the high priority work for the next 12 months with an element of contingency to ensure any ad hoc or unforeseen activity can easily be accommodated, the risk assessment will be continually reviewed and updated. Planned audit activities will be updated to reflect any emerging issues and risks. Changes to the plan will be reported to Audit Committee.

3.9 A summary of the 2023/24 audit plan, based on our current assessment of risk is detailed in Appendix A, previous year figures are provided for comparative purposes. However, elements of the plan have been categorised in line with the revised methodology. The areas of planned activity, and intended assurance coverage, are detailed in Appendix B.

3.10 The views and engagement of the Audit Committee are important to the internal audit planning process. Members are requested to consider the proposed internal audit coverage and identify any areas they wish to suggest for inclusion in the risking process.

3.11 Any significant updates to the plan will be reported to the Audit Committee. Progress in delivering the plan, together with any significant issues identified, will also be reported to Audit Committee. Audit report schedules, detailing the final reports issued during the month and their assurance and risk ratings, will be issued to Committee Members throughout the year. Members can request a copy of any report.

Appendix A

## Internal Audit Plan Summary

| | 21/22 | | 22/23 | | 23/24 | |
|---|---|---|---|---|---|---|
| | % | Days | % | Days | % | Days |
| **Number of Audit Days in Annual Plan** | **100%** | **4427** | **100%** | **4416** | **100%** | **3990** [1] |
| Main Financial Systems | 16% | 705 | 16% | 705 | 15% | 600 |
| Business Controls Assurance | 39% | 1711 | 39% | 1745 | 28% | 1115 |
| Investigations (Fraud and Irregularity) | 19% | 830 | 19% | 830 | 9% | 350 [2] |
| Fraud Awareness / Prevention | | | | | 5% | 200 |
| Proactive / Compliance | | | | | 4% | 150 |
| Schools (Non-Visits) | 1% | 42 | 1% | 27 | | |
| Schools (Visits) | 12% | 540 | 12% | 540 | 13% | 540 |
| Follow up Work | 4% | 175 | 4% | 175 | 4% | 175 |
| Ad-hoc Work / Contingency | 6% | 289 | 6% | 259 | | |
| Planning & Reporting | 3% | 130 | 3% | 130 | | |
| Partnering / Insight / Contingency | | | | | 12% | 470 |
| Risk Management Facilitation | | | | | 1% | 50 |
| City Initiatives / Information Requests | 0% | 5 | 0% | 5 | 1% | 20 |
| Data Analysis / Data Driven Assurance | | | | | 5% | 200 |
| Chargeable/ Work for External Clients | | | | | 3% | 120 |

[1] Excludes vacancy
[2] Excludes application fraud

Birmingham City Council

**Appendix B**

## Internal Audit - Baseline Plan 2023/24

| Activity | Days | Subtotal | Assurance |
|---|---|---|---|
| **Financial Assurance** | | | |
| Accounts Payable/Payment Activities | 50 | | Robust controls are in place for all payment activities |
| Accounts Receivable | 50 | | Monies owed for services rendered are received promptly and debts appropriately and timely progressed. |
| Annual Audit Letter | 5 | | Issues raised within the External Auditors Annual Audit Letter are monitored and actioned. |
| Asset Management - Fixed Assets | 50 | | Fixed assets are accounted for correctly. |
| Benefits Service | 50 | | Applications are validated in a timely manner and paid accordingly. Accounts are subject to regular review. |
| Corporate Payroll | 20 | | Pay is accurately calculated, accounted for, and received by staff on timely basis. |
| Compliance with HR Policies | 30 | | Human Resources policies and procedures are complied with and correctly reflected on payroll where appropriate. |
| Council Tax | 30 | | Council Tax payments, less valid deductions, are paid in a timely manner and prompt recovery of outstanding debts take place. All accounts are subject to regular review and monitoring. |
| NNDR | 30 | | Business Rate payments, less valid deductions, are paid in a timely manner and prompt recovery of outstanding debts takes place. All accounts are subject to regular review and monitoring |
| Financial Management - Control | 50 | | Robust financial controls are in place. |
| Treasury Management | 20 | | The Treasury Management Strategy and Policy is complied with and treasury processes appropriately controlled. |
| Procurement and Contracts | 140 | | Procurement and contract requirements are complied with. |
| Rent Collection & Charges | 25 | | Rent monies owed are collected and early intervention takes place for the recovery of debts. |

| Activity | Days | Subtotal | Assurance |
|---|---|---|---|
| Direct Payments | 20 | | Direct payments are correctly assessed and paid. |
| Oracle | 30 | | Adequate arrangements in place to ensure the effective and secure management of the Oracle Fusion system. |
| **Subtotal** | | **600** | |
| | | | |
| **Adults Social Care** | | | |
| Commissioning - Regulated Care | 15 | | Adequate arrangements are in place in respect of the care providers contract framework. |
| Discharge to Assess | 20 | | Effectiveness of discharge and assessment arrangements to support citizens when they leave hospital. |
| Day Centres | 15 | | Robust procedures are in place and have been implemented to ensure appropriate governance arrangements are in place for the management of Day Centres. |
| Disabled Facilities Grant (DFG) | 20 | | Disabled Facilities Grants are correctly awarded and robust arrangements in place to manage the completion of adaptions. |
| Refugee and migration | 20 | | Commissioning of services and contract management arrangements are robust. |
| Transition to Adulthood | 20 | | Effective arrangements are in place to support the transition of young people transitioning to adulthood. |
| Liberty Protection Standard/Deprivation of Liberty Safeguards | 15 | | Referrals for and assessments of Deprivation of Liberty Safeguards are being robustly and effectively completed. |
| Funeral Service and Property Service | 15 | | Management and financial arrangements in place for the Funeral Service and the Property Service are adequate and effective. |
| Assessment & Support Planning/Placements | 20 | | Robust procedures and arrangements are in place for the assessment of packages of care. |
| **Subtotal** | | **160** | |
| | | | |
| **Children and Families** | | | |
| Home to School Transport | 25 | | Robust controls are in place to manage the Home to School Service. |
| SEND Ofsted Improvement Plan | 10 | | The SEND Ofsted Improvement Plan is robustly monitored and managed. |

| Activity | Days | Subtotal | Assurance |
|---|---|---|---|
| Admissions and Appeals | 15 | | Admissions and appeals are carried out in accordance the Government Code of Practice. |
| Directorate Transformation Programme - Governance controls and delivery | 25 | | Strong governance controls are in place to manage, monitor and deliver the Directorate's Transformation Programme. |
| Responding to the Challenge of Improving Financial Management in Schools | 15 | | Local Authority controlled schools are robustly managing their budgets, and the Local Authority has controls assurance in place. |
| Safeguarding Corporate Overview | 30 | | Robust corporate safeguarding processes are in place. |
| SEND - Sufficiency Strategy | 15 | | There is a robust strategy to provide sustainable SEND services. |
| Elective Home Education | 10 | | Home Educated Children are safe and receive an appropriate education. |
| Directorate Commissioning & Contract Management | 20 | | Contract management within the Directorate is effective. |
| Family Hubs | 15 | | Robust controls over the management and delivery of the programme's expectations. |
| Contract Monitoring - Birmingham Children's Trust (BCT) | 20 | | Provide assurance that sufficient controls are in place to monitor and control the work of the BCT. |
| Early Years Health & Well-being | 15 | | The EYH&WB Contract is being robustly managed and delivering the services intended. |
| Children not in Education | 20 | | Children not in education are safe, accounted for and receive an education. |
| Directorate Complaint Processes | 15 | | Robust complaints processes are in place. |
| School Exclusions | 20 | | The Local Authority monitor school exclusions. |
| Directorate Business Intelligence Function | 15 | | The Business Intelligence function is delivering its service objectives. |
| Safeguarding & Development - BCSB | 20 | | Support the work of the BCSB and provide assurance over safeguarding arrangements. |
| School Visits | 540 | | Undertake a programme of school visits to provide assurance on finance and governance arrangements. |
| **Subtotal** | | **845** | |
| | | | |
| **City Housing** | | | |
| Tenancy Management Services | 20 | | Tenant Management arrangements are effective. |
| Homelessness | 35 | | Focus will be on Temporary Accommodation Finance Management and the arrangements for responding to Ombudsman Homelessness cases. |

| Activity | Days | Subtotal | Assurance |
|---|---|---|---|
| Stock Condition Data | 20 | | Appropriate arrangements have been established to assess the condition of the City's housing stock. |
| Response to City Housing Self-Assessment | 15 | | Self-assessment has been robustly completed, and for issues identified, appropriate action has been taken. |
| Repairs | 150 | | Support for ongoing Whistleblowing allegations and provide assurance over service delivery processes and procedures |
| **Subtotal** | | **240** | |
| | | | |
| **City Operations** | | | |
| Waste Management | 25 | | Arrangements and procedures for delivering an effective waste management service. |
| Enforcement - Litter and Fly Tipping | 10 | | Effectiveness of litter and fly tipping enforcement procedures. |
| **Subtotal** | **35** | **35** | |
| | | | |
| **Council Management** | | | |
| Acivico Contract Monitoring | 20 | | Contract monitoring is robust. |
| Accountable Body | 30 | | Discharge of accountable body responsibilities. |
| Ethics | 10 | | Robust of ethical arrangements to support an honest and fair organisation. |
| Risk Management | 10 | | Verify that the risk management framework is appropriate and being implemented across the organisation. |
| Governance | 20 | | Robustness of governance arrangements. |
| Self-Assessment – Annual Good Governance Statement (AGS) Process | 10 | | Appropriate arrangements are in place to produce a supportable AGS. |
| IT Policies | 20 | | The Council's IT policy framework is adequate and there is suitable programme in place to review and updated policies and monitor compliance. |
| IT Project Governance | 15 | | Robust IT project governance is in place to ensure that projects are delivered on time, within budget and to the required standards. |
| Information Governance | 20 | | Adequate security and controls are in place to ensure compliance with The General Data Protection Regulations (GDPR) obligations. |

| Activity | Days | Subtotal | Assurance |
|---|---|---|---|
| Digital Strategy | 20 | | The key themes of the strategy are being delivered in line with the stated outcomes of the ICTD Strategy implementation plan, and key milestones are being achieved. |
| IT Applications | 30 | | Adequate arrangements in place to ensure the effective and secure management of the applications. |
| Cyber Risks | 20 | | Adequate security and cyber security controls are in place. |
| IT / Digital Projects | 40 | | Effective project governance and management arrangements are in place to support the implementation of individual projects. |
| **Subtotal** | | **265** | |
| | | | |
| **Place, Prosperity and Sustainability** | | | |
| Enterprise Zones | 20 | | Adequate management arrangements in place for the EZ programme. |
| Clean Air Zone | 10 | | Adequate arrangements / strategies are in place to ensure the council / city will achieve net zero carbon by 2030. |
| Housing Development | 15 | | Verify that effective arrangements have been established to develop and improve housing across the city. |
| Planning Applications | 20 | | Planning applications are controlled and processes in line with statutory guidelines. |
| **Subtotal** | | **65** | |
| | | | |
| **Strategy, Equalities and Partnerships** | | | |
| Cost of Living programme | 15 | | Effective support arrangements are being implemented. |
| Public Health | 30 | | Delivery of NICE requirements.  Effectiveness of finance and operations. |
| **Subtotal** | | **45** | |
| | | | |
| **Fraud / Irregularities** | | | |
| Investigations | 350 | | Reactive fraud investigation |
| Awareness | 150 | | Targeted training and anti-fraud awareness |
| Proactive / compliance | 200 | | Proactive antifraud / compliance reviews |
| **Subtotal** | | **700** | |

| Activity | Days | Subtotal | Assurance |
|---|---|---|---|
| | | | |
| **Chargeable** | | | |
| Work for Acivico | 40 | | External work. |
| Grant Certification / chargeable work | 80 | | External work. |
| **Subtotal** | | **120** | |
| | | | |
| Risk Management Facilitation | 50 | | Facilitation of risk management and the strategic risk register. |
| Partnering / Insight / Contingency | 470 | | Partnering / insight / contingency |
| Follow up work | 175 | | Follow-ups |
| Data Analysis | 200 | | Data analysis / data driven assurance |
| City Initiatives / Information Requests | 20 | | Corporate initiative / responding to information requests |
| **Subtotal** | | **915** | |
| | | | |
| **Grand total** | | **3990** | |

**BIRMINGHAM CITY COUNCIL**

**PUBLIC REPORT**

| | |
|---|---|
| **Report to:** | **AUDIT COMMITTEE** |
| **Report of:** | **Director of Council Management** |
| **Date of Decision:** | **28 March 2023** |
| **Subject:** | **Adoption of Accounting Policies for 2022/23** |
| **Wards affected: All** | |

**1 Purpose**

1.1 To seek Members' approval to the adoption of accounting policies for the completion of the Council's accounts for 2022/23 and note the changes to infrastructure assets accounting in 2021/22.

1.2 To notify Members of the changes in accounting standards that will impact on the Council's Accounts in future years.

2 **Decisions recommended:**

That Audit Committee

2.1 Consider and adopt the accounting policies for the determination of the Council's accounts for 2022/23, and note the changes to infrastructure assets accounting in 2021/22

2.2 Note the implications for future years' accounts arising from the changes in Accounting Standards.

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## 3 Compliance Issues:

3.1 Are Decisions consistent with relevant Council Policies, Plans or Strategies?:

Yes

3.2 Relevant Ward and other Members/Officers etc. consulted on this matter:

The Chair of the Committee has been consulted.

3.3 Relevant legal powers, personnel, equalities and other relevant implications (if any):

Sections 3(3) and 3(4) of the Local Audit and Accountability Act 2014 require the Council to prepare financial accounts for each 12 month period ending 31 March.

3.4 Will decisions be carried out within existing finances and resources?

Yes

3.5 Main Risk Management and Equality Impact Assessment Issues (if any):

The Council is required to produce its annual accounts within statutory deadlines. The adoption of its accounting policies at an early stage will ensure that there are clear guidelines on recording accounting entries.

## 4 Relevant background/chronology of key events:

4.1 The Council is required to prepare its accounts with regard to: a) Relevant accounting standards; and b) The Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 published by the Chartered Institute of Public Finance Accountancy (the Code) which is updated annually.

4.2 Whilst accounting standards provide the framework for the preparation of accounts, they are subject to interpretation and judgement, for example, the period over which non-current assets are depreciated. The Council's accounting policies set out the Council's interpretation of the application of relevant accounting standards and form a consistent basis for recording activities.

4.3 In developing the accounting policies for the Council, the template provided in the CIPFA Code guidance 20022/23 has been used as a base position except where amendments to reflect local circumstances or to enhance the policies is more appropriate. The policies where there are some changes to the Guidance Model are as follows:

- Note xvii – Accounting for Schools – additional clarification has been added to set out the Council's approach to accounting for land and building assets associated with Voluntary Aided, Voluntary Controlled and Foundation Schools.

- Note xix – Cash and Cash Equivalents – the Council policy is to recognise cash and cash equivalents as those assets where the asset can be used or recovered immediately for use. All other deposits are accounted for as investments. This varies from the CIPFA guidance which describes cash equivalents as those investments that are highly liquid investments that mature in a period of no more than three months.

- Note xx - Provisions, Contingent Liabilities and Contingent Assets – sections have been added to cover the accounting arrangements for equal pay and onerous contracts given the significance of these disclosures to the Council. The paragraph for equal pay provisions has also been updated to reflect the change in legislation noted below.

- Note xxii. Council Tax and Business Rates – additional clarification has been added.

- Note xxvii – Council Acting as Agent - policy has been added for clarification

- xxx – Dedicated Schools Grant deficit balances – new policy has been added for clarification, see below for explanation regarding new legislation.

- .

4.4 The proposed accounting policies for consideration by Members are set out in Appendix 1 to this report. When the financial statements are produced, only those accounting policies that have an impact on the financial statements for the years under consideration will be included in the final document.

4.5 The only other alteration that may be made to them will be any possible streamlining, or simplification deemed possible upon review through the accounts production process. No changes will be made that materially affect the Council's accounting policy without noting to the Audit committee for approval.

## 5 New Accounting Standards

5.1 The following accounting standards will impact on the 2023/24 financial statements and will be referenced in the 2022/23 financial statements as "An Accounting Standard Issued but not yet Adopted".

- Definition of Accounting Estimates (Amendments to IAS 8) issued in February 2021.
- d) Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) issued in February 2021.
- e) Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12) issued in May 2021.

Where the above standards apply to the Council in a material way, they will be disclosed by way of a Note in the 2022/23 report

5.2 Mandatory implementation of IFRS 16 Leases in the Code and for local authority financial statements has been deferred until 1 April 2024. Local authorities are permitted to voluntarily implement the standard as of 1 April 2022 and 1 April 2023. The Council will not be implementing the IAS16 requirements early and is planning for 1 April 2024.

## 6 Accounting Implications

6.1 The potential implications for future years' accounts as a result of the implementation of the new accounting standards will be reported to Members as the standards are published and additional information becomes available.

## 7 Infrastructure Assets Issue

7.1 In CIPFA/LASAAC issued an Update to the Code and Specifications for Future Codes for Infrastructure Assets which includes from 1 April 2021 to 31 March 2025 a temporary relief not to report gross cost and accumulated depreciation for infrastructure assets.

7.2 Local authorities have generally adopted the network model for measuring depreciated historical cost. A typical model will operate by adding new expenditure to the brought forward balance and by deducting depreciation. Replaced parts are generally assumed to have been fully depreciated and their derecognition requires no adjustment to the carrying (or net) amount.

7.3 Paragraph 4.1.2.51 of the Code is (and has been) generally applied in such a way that the carrying amount of a replaced or restored part of the asset is derecognised at a zero amount where expenditure has taken place to renew or replace any part of an infrastructure asset. This fits the economic model because local authorities have not had sufficient resources to do anything other than undertake replacement or renewal expenditure when parts of infrastructure assets are worn out.

7.4 Statutory provisions have been issued which will allow local authorities to follow an accounting treatment which supports the assumption that derecognition of the carrying amount is zero though they also allow authorities to follow paragraph 4.1.2.51. The Council has elected to make use of the statutory provisions deeming the carrying amount of derecognised assets to be zero.

7.5 Additional Accounting Policies have been included to make clear the Council's accounting for infrastructure assets

## 8 Recommendations

8.1 It is recommended that Members:

a) adopt the accounting policies for 2021/22 as detailed in Appendix 1.

b) note the implications for future years of the introduction of new accounting standards

……………………………………………………………………………..

**Rebecca Hellard, Director of Council Management**

**Appendices**

Appendix 1 – Accounting Policies 2022/23

## Note 1
## Accounting Policies

### i. General Principles

The Statement of Accounts summarises the Council's transactions for the 2022/23 financial year and its position at the year-end of 31 March 2023. The Accounts and Audit Regulations 2015 require the Council to prepare an annual statement of accounts in accordance with proper accounting practices. These practices under Section 21 of the 2003 Act primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 (the Code) supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under Section 12 of the 2003 Act.

The accounting convention adopted in the statement of accounts is principally historical cost, modified by the revaluation of certain categorised non-current assets and financial instruments. Historical cost is deemed to be the carrying amount of an asset as at 1 April 2007 (that is, brought forward from 31 March 2007) or at the date of acquisition, whichever date is the later, and if applicable is adjusted for subsequent depreciation or impairment.

### ii. Accruals of Income and Expenditure

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

- Revenue from the provision of services is recognised when the Council can reliably measure the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council;
- Revenue from the sale of goods or provision of services satisfied over time is recognised if the Council can reasonably measure its progress towards complete satisfaction of the performance obligation;
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet, for example, fuel and transport parts;
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made;
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure based on the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract;
- When income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

### iii. Cash and Cash Equivalents

Cash and Cash Equivalents are represented by cash in hand and deposits with financial institutions, which must be repayable immediately without penalty on notice of not more than 24 hours. Any deposits with financial institutions that may be repaid after the immediate day are considered to be investments, not cash equivalents.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand, where there are pooling arrangements across the accounts with the same institution and form an integral part of the Council's cash management.

### iv. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

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

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

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

### v. Charges to Revenue for Non-Current Assets

Directorates and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:

- Depreciation attributable to the assets used by the relevant service;
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off;
- Amortisation of intangible non-current assets attributable to the service.

The Council is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance. An adjustment is, therefore, made to remove depreciation, amortisation and revaluation and impairment losses from the General Fund and Housing Revenue Account through Note 16, Adjustments Between Accounting Basis and Funding Basis under Regulations, and the Movement in Reserves Statement and to replace them by the statutory contribution from the General Fund to the Capital Adjustment Account.

### vi. Council Tax and Business Rates

Billing authorities are required by statute to maintain a separate fund (the Collection Fund) for the collection and distribution of amounts due in respect of Council Tax and Business Rates. The Collection Fund's key features relevant to the accounting for Council Tax and Business Rates in the core financial statements are:

- In its capacity as a Billing Authority the Council acts as an agent, collecting and distributing Council Tax on behalf of the major preceptors and as principal for itself;

- While the Council Tax and Business Rates income for the year credited to the Collection Fund is the accrued income for the year, regulations determine when it should be released from the Collection Fund and transferred to the Council's General Fund, or paid out from the Collection Fund to the major preceptors. The amount credited to the General Fund under statute is the Council's demand on the Fund for that year, plus/(less) the Council's share of any surplus/(deficit) on the Collection Fund for the previous year. This amount may be more or less than the accrued income for the year in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2022/23.

Comprehensive Income and Expenditure Statement

The Council Tax and Business Rates income included in the Comprehensive Income and Expenditure Statement is the Council's share of accrued income for the year. The difference between the income included in the Comprehensive Income and Expenditure Statement 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. In addition, that part of Business Rates retained as the cost of collection allowance under regulation is treated as the Council's income and appears in the Comprehensive and Income Expenditure Statement as are any costs added to Business Rates in respect of recovery action.

Balance Sheet

Since the collection of Council Tax and Business Rates are in substance agency arrangements, any year end balances relating to arrears, impairment allowances for doubtful debts, overpayment and prepayments are apportioned between the major preceptors and the Council by the creation of a debtor/creditor relationship. Similarly, the cash collected by the Council belongs proportionately to itself and the major preceptors. There will, therefore, be a debtor/creditor position between the Council and the major preceptors since the cash paid to the latter in the year will not be equal to their share of the total cash collected. If the net cash paid to the major preceptors in the year is more than their proportionate share of the cash collected the Council will recognise a debit adjustment for the amount overpaid. Conversely, if the cash paid to the major preceptors in the year is less than their proportionate share of the amount collected then the Council will recognise a credit adjustment for the amount underpaid.

Cash Flow Statement

The Council's Cash Flow Statement includes in 'Operating Activities' cash flows only its own share of the Council Tax and Business Rates collected during the year, and the amount included for precepts paid excludes amounts paid to the major preceptors. In addition, that part of Business Rates retained as the cost of collection allowance under regulation appears in the Council's Cash Flow Statement. The difference between the major preceptors' share of the cash collected and that paid to them as precepts and settlement of the previous year's surplus or deficit on the Collection Fund, is included as a net increase/decrease in cash and cash equivalents.

### vii. Employee Benefits

Benefits Payable During Employment

Short Term Benefits

Short term employee benefits are those due to be settled within 12 months of the year-end. They include benefits such as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits, for example cars for current employees, and 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 annual leave entitlements (or any other form of leave, for example time off in lieu) 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 wage and 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/Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that leave benefits are charged to revenue in the financial year in which the leave of absence occurs.

Other Long Term Benefits

Other long term employee benefits are benefits, other than post-employment and termination benefits, that are not expected to be settled in full before 12 months after the end of the annual reporting period for which employees have rendered the related service. Within local authorities the value of these benefits is not expected to be significant. Such long term benefits may include:

- Long term paid absence or sabbatical leave;
- Long term disability benefits;
- Bonuses;
- Deferred remuneration.

Long term benefits would be accounted for on a similar basis to post-employment benefits.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an employee's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the appropriate Directorate at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund and Housing Revenue Account balances to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards.

In the Movement in Reserves Statement, appropriations are required to and from the Pension Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post-Employment Benefits

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

- The Local Government Pension Scheme, administered by the West Midlands Pension Fund offices at Wolverhampton City Council;
- The Teachers' Pension Scheme administered by Capita Teachers' Pensions on behalf of the Department for Education;

  The NHS Pensions Scheme administered by NHS Pensions.

Each scheme provides defined benefits to members (retirement lump sums and pensions), earned during employment with the Council.

The arrangements for the Teachers' Pension Scheme and the NHS Pensions Scheme mean liabilities for these benefits cannot ordinarily be identified specifically to the Council. These schemes are, therefore, accounted for as if they were defined contribution schemes and no liability for future payments of benefits is recognised in the Balance Sheet.

The Local Government Pension Scheme

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

- The liabilities of the West Midlands Local Government Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – that is, an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of earnings for current employees;

- Liabilities are discounted to their value at current prices, using a discount rate of x.xx% based on the indicative rate of return on high quality corporate bond yields;

- The assets of the West Midlands Local Government Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:
  - quoted securities – current bid price;
  - unquoted securities – professional estimate;
  - unitised securities – current bid price;
  - property – market value.

- The change in the net pensions liability is analysed into the following elements:

  Service cost comprising:
  - current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the Directorates for which the employees worked;

- past service cost – the increase in liabilities arising from current year decisions (scheme amendment or curtailment) whose effect related to years of service earned in earlier years – debited to the (Surplus)/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement;
- net interest on the net defined benefit liability/(asset), that is the net interest expense for the Council – the change during the reporting period in the net defined benefit liability/(asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability/(asset) at the beginning of the period – taking into account any changes in the net defined benefit liability/(asset) during the period as a result of contribution and benefit payments.

Re-measurements comprising:

- the return on plan assets – excluding amounts included in net interest on the net defined benefit liability/(asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure;
- 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 – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- Contributions paid to the West Midlands Local Government Pension Fund - cash paid as employer's contributions to the pension fund; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund and Housing Revenue Account balances 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 transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners, and any 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 and Housing Revenue Account arising from the requirement to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

<u>Discretionary Benefits</u>

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

### viii. Events After the Reporting Period

Events after the Balance Sheet date are those material events, both favourable and adverse, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

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

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

### ix. Financial Instruments

<u>Financial Liabilities</u>

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

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

However, the Birmingham City Council 2030 bonds, issued in exchange for NEC loan stock in 2005 and the NEC Development 2027 bonds, were issued at a fair value in excess of the principal repayable. Interest is being charged on an amortised cost accounting basis, which writes the value down to zero at maturity.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement.

Where premia and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was repayable, or discount received when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

<u>Financial Assets</u>

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cash flow characteristics. There are three main classes of financial assets measured at:

- amortised cost
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI). The Council does not currently have any financial assets designated at FVOCI.

The Council's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (that is, where the cash flows do not take the form of a basic debt instrument).

Financial Assets Measured at Amortised Cost

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

However, the Council has made a number of loans at less than market rates (soft loans). When soft loans are made, a loss is recorded in the CIES (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal.

Interest is credited to the Financing and Investment Income and Expenditure line in the CIES at a marginally higher effective rate of interest than the rate receivable from the organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the CIES to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Any gains and losses that arise on derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

Expected Credit Loss Model

The Council recognises expected credit losses on all of its financial assets held at amortised cost (or where relevant FVOCI), either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the Council.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

Financial Assets Measured at Fair Value through Profit or Loss

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arise in the Surplus or Deficit on the Provision of Services.

Where it is possible to determine a fair value, measurement of the financial assets is based on the following techniques:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

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

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

Instruments Entered Into Before 1 April 2006

The Council has entered into a number of financial guarantees that are not required to be accounted for as financial instruments. These guarantees are reflected in the Statement of Accounts to the extent that provisions might be required, or a contingent liability note is needed under the policies set out in section xxii on Provisions, Contingent Liabilities and Contingent Assets.

**x. Government Grants and Contributions**

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

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

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

Monies advanced as grants and contributions for which conditions are unlikely to be satisfied are carried in the Balance Sheet as creditors. Where conditions are satisfied or expected to be satisfied, the grant or contribution is credited to the relevant Directorate (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

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

**xi. Business Improvement Districts**

In accordance with the provisions of the Business Improvement District Regulations (England) 2004 ballots of local businesses within specific areas of the City have resulted in the creation of distinct Business Improvement Districts. Business ratepayers in these areas pay a levy in addition to the Business Rate to fund a range of specified additional services which are provided by specific companies set up for the purpose.

In line with Code guidance the Council has determined that it acts as agent to the Business Improvement District authorities and therefore neither the proceeds of the levy nor the payment to the Business Improvement District Company are shown in the Council's accounts.

**xii. Community Infrastructure Levy**

The Council has elected to charge a Community Infrastructure Levy (CIL). The levy will be charged on new builds with appropriate planning consent. The Council charges for and collects the levy, which is a planning charge. The income from the levy will be used to fund infrastructure projects to support the development of the City.

CIL is received without outstanding conditions; it is, therefore, recognised at the commencement date of the chargeable development in the Comprehensive Income and Expenditure Statement in accordance with section xi. Government Grants and Contributions of this note. CIL charges will be largely used to fund capital expenditure although an element may be used to support infrastructure maintenance and a small proportion of the charges may be used to fund the costs of administration associated with the CIL.

**xiii. Heritage Assets**

Heritage assets are assets that have historical, artistic, scientific, technological, geographical or environmental qualities that are held in trust for future generations because of their cultural, environmental or historical associations and contribution to knowledge and culture. They include museums' and libraries' heritage collections, historic buildings and the historical environment, public works of art and civic regalia and plate.

Where assets of a heritage nature are used in the ongoing delivery of the Council's services, such as historically interesting buildings and parks and open space, they have not been categorised as heritage assets but remain as other land and buildings or as community assets within Property, Plant and Equipment.

For the Museum, Library and Civic Plate Collections, insurance valuations are used due to the unique nature, diversity and quantity of the assets, and lack of historical cost information. For other types of Heritage Assets, historical cost information is used where available when compiling the Balance Sheet. In some cases, neither reliable valuation information nor historical cost information is available, in which case the asset has been excluded from the Balance Sheet.

The Council considers that heritage assets will have indeterminate lives and a high residual value; and therefore does not consider it appropriate to charge depreciation on the assets. Any impairment or disposal of heritage assets is recognised and measured in accordance with the Council's relevant policies (see section xxi. Property, Plant and Equipment in this note).

**xiv. Intangible Assets**

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (for example, software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services.

Intangible assets are measured initially at cost and the depreciable amount is amortised over the useful life of the asset on a straight-line basis and charged to the relevant Directorate in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The 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.

**xv. Interests in Companies and Other Entities**

The Council has material interests in companies and other entities that have the nature of subsidiaries, associates and joint operations and proper accounting practices require it to prepare group accounts. In the Council's own single entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

**xvi. Investment Properties**

Investment properties are those that are held by the Council solely to earn rentals and/or for capital appreciation. An asset does not meet the definition of being an investment property if it is used in any way to facilitate the delivery of services, for the production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently carried at fair value, measured at highest and best use. Investment properties are not depreciated but are revalued annually based on market conditions at the year-end. Gains/losses on revaluation, or on disposal, are posted to Financing Income and Expenditure in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains/losses on disposal.

Rentals received in relation to investment properties are credited to Financing Investment Income in the Comprehensive Income and Expenditure Statement and result in a gain for the General Fund Balance. However, revaluation and disposal gains/losses are not permitted by statutory arrangements on the General Fund Balance and are therefore reversed out through the Movement in Reserves Statement and posted to the Capital Adjustment Account.

Whilst discharging its role the Council works to ensure that the stewardship of all property assets is such that they are managed in a way that is economic, efficient and effective. The Council has a site that meets the definition of 'Investment Properties'.

The Council has a number of lease arrangements with subsidiary companies that are not treated as investment properties in line with IAS 40, Investment Property.

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

**xvii. Joint Operations and Jointly Controlled Assets**

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

Jointly controlled assets are items of property, plant or equipment that are jointly controlled by the Council and other venturers, with the assets being used to obtain benefits for the venturers. The joint venture does not involve the establishment of a separate entity. The Council accounts for only its share of the jointly controlled assets, the liabilities and the expenses that it incurs on its own behalf or jointly with others in respect of its interest in the joint venture and income that it earns from the venture.

**Xiii. Leases**

Mandatory implementation of IFRS 16 Leases in the Code and for local authority financial statements has been deferred until 1 April 2024. Local authorities are permitted to voluntarily implement the standard as of 1 April 2022 and 1 April 2023. The Council will not be implementing the IAS16 requirements early and is planning for 1 April 2024.

Leases are classified as either finance or operating leases at the inception of the lease. Classification as a finance lease occurs where the terms of the lease transfer substantially all the risks and rewards incidental to the ownership of the asset from lessor to lessee and where the lease term is for the major part of the economic life of the asset in question, whether or not title is eventually transferred. Those leases not classified as finance leases are deemed to be operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

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

The Council as Lessee

Finance Leases

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

Lease payments are apportioned between:

- A charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability; and
- A finance charge – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Property, Plant and Equipment recognised under finance leases are accounted for using the policies generally applied to such assets (see section xxi above).

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

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the Directorate benefiting from use of the leased property, plant or equipment. Charges are made on a straight line basis over the life of the lease, even if this does not match the pattern of payments.

The Council as Lessor

Finance Leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet is written off to Other

Operating Expenditure in the Comprehensive Income and Expenditure Statement as part of the gain/loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain/loss on disposal, matched by a lease (long term debtor) asset in the Balance Sheet

Lease rentals receivable are apportioned between:

- A charge for the acquisition of the interest in the property – applied to write down the lease debtor; and
- Finance income - credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to impact the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve through the Movement in Reserves Statement. Where the amount due in relation to the lease asset is settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve through the Movement in Reserves Statement.

Operating Leases

Where the Council grants an operating lease for an asset, it is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight line basis over the life of the lease, even if this does not match the pattern of payments. Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

**xix. Overheads and Support Services**

The costs of overheads and support services are charged to Directorates in accordance with the Council's arrangements for accountability and performance.

**xx. Property, Plant and Equipment**

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

- the purchase price;
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The Council capitalises borrowing costs incurred whilst material assets are under construction. Material assets are considered to be those where total planned (multi-year) borrowing for a single asset (including land and building components) exceeds £20m, and where there is a 'substantial period of time' from the first capital expenditure financed from borrowing until the asset is ready to be brought into use. A substantial period of time is considered to mean in excess of two years. Both of these tests will be determined using estimated figures at the time of preparing the accounts in the first year of capitalisation. Should either test fail in subsequent financial years, the prior year's treatment will not be adjusted retrospectively.

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

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

- infrastructure assets, vehicles, plant, furniture and equipment (excluding Tyseley Energy Recovery Facility) – depreciated historical cost;
- community assets and assets under construction – historical cost;
- dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH);
- where cleared land has been designated for social housing use, that land is valued using the basis of EUV-SH;
- surplus assets – fair value; assessed in their highest and best use from a market participant's perspective;
- all other assets – current value, determined as the price that would be paid in its existing use.

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

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. Increases in asset valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

<u>Impairment</u>

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

Revaluation and impairment losses

Where revaluation and impairment losses are identified, and where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the reduction in value is charged against that balance until it is used up. Thereafter, or if there is no balance of revaluation gains, the loss is charged against the relevant Directorate in the Comprehensive Income and Expenditure Statement.

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

Useful Life

The Council estimates that assets, at new, have remaining useful lives within the parameters as detailed below:

- Council Dwellings – separated into the key components
  - Land – indefinite life;
  - Kitchens – 20 years;
  - Bathrooms – 40 years;
  - Doors/Windows/Rainwater, Soffits and Facias – 35 years;
  - Central Heating/Boilers – 15 to 30 years;
  - Roofs – 25 to 60 years;
  - Remaining components (Host) – 30 to 60 years;
- Buildings – up to 50 years;
- Vehicles, Plant, Furniture and Equipment – up to 50 years;
- Infrastructure – up to 40 years.

The useful life of each relevant asset is reviewed as part of the Council's five year cycle of revaluation by an appropriately qualified valuer.

Where a school is proposing to transfer to Academy School Trust status after the year end, the Council maintains the useful life of the school's assets on the basis of the last valuation undertaken.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets, including components, by the systematic straight line allocation of their depreciable amounts over their useful lives. Assets without a determinable finite useful life, and assets that are not yet available for use, are not depreciated. Depreciation is charged in the year of disposal but not charged in the year of purchase.

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

Componentisation

Where an asset is material (over £5m) and has major components whose cost is significant to the total cost of the asset, and which have markedly different useful lives, components are separately identified and depreciated. Also, additions are considered for components, whereby as components are added, any component being replaced is derecognised. Where the historical cost of the old component is not readily determinable, it has been estimated by comparing the remaining useful economic life of the component to the original useful economic life and the cost of the replacement component. A pro rata of both the depreciation and any applicable Revaluation Reserve is also derecognised.

Disposals and Non-Current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and carrying value less the cost of sale. Where there is a subsequent decrease to carrying value less the cost of sale, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in current value are recognised only up to the amount of any previous losses recognised in the Surplus/Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

Where assets are no longer used by a Directorate, these assets are offered to other Directorates for use. Those assets which are surplus are made available for sale and will be classified as Assets Held for Sale.

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

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet and the gain or loss on disposal is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account. Gains and losses on disposal of assets are not a charge against Council Tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance through the Movement in Reserves Statement.

Amounts, in excess of £10,000, received from a disposal are categorised as capital receipts. A proportion of receipts relating to housing disposals is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve. Receipts are appropriated to the Reserve from the General Fund Balance through the Movement in Reserves Statement.

**xxi. Service Concession Arrangements**

Service concession arrangements (formerly classed as PFI and similar contracts) are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the contractor. As the Council is deemed to control the services that are provided under the arrangement, and as ownership of the property, plant and equipment will pass to the Council at the end of the contracts for no additional charge, the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) is balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment. The Council includes the cost of establishing Special Purpose Vehicles in the calculation of the liabilities.

Non-current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council.

The amounts payable to the contractor each year are analysed into five elements:

- Fair value of the services procured during the year – debited to the relevant Directorate in the Comprehensive Income and Expenditure Statement;
- Finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- Contingent rent – inflationary increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- Payment towards liability – applied to write down the Balance Sheet liability towards the contractor;
- Lifecycle replacement costs – usually recognised as an addition to Property, Plant and Equipment when the relevant works are carried out in line with the operator's model spending profiles.

### xxii. Provisions, Contingent Liabilities and Contingent Assets

<u>Provisions</u>

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For example, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate Directorate in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties. Provisions are not discounted to their value at current prices unless material.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant Directorate.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (for example, from an insurance claim), this is only recognised as income for the relevant Directorate if it is virtually certain that reimbursement will be received if the Council settles the obligation.

Onerous Contracts

An onerous contract is a contract for the exchange of assets or service in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits or service potential expected to be received under it.

Onerous Contracts are accounted for under IAS 37 – Provisions, Contingent Liabilities and Contingent Assets. A provision will be recognised for the unavoidable costs.

Provision for Back Pay Arising from Equal Pay Claims

The Equal Pay Act 1970 was enacted at a time when it was not uncommon for employers to openly give different rates of pay to men and women performing the same job, or to reserve certain jobs for men and other (lower-paid) jobs for women. The Equality Act 2010 repealed and replaced the Equal Pay Act 1970 from 1 October 2010 and implemented the principle that men and women should receive equal pay for equal work in Great Britain.

The Council has received capitalisation directions to support an element of the provision made. However, statutory arrangements allow settlements to be financed from the General Fund and Housing Revenue Account in the year that the payments actually take place, not when the provision is established, for all claims made up to 1 April 2020. The additional provision made above the capitalisation directions given is, therefore, balanced by an Equal Pay Back Pay Account created from amounts credited to the General Fund Balance in the year that the provision was made or modified. The balance on the Equal Pay Back Pay Account will be debited back to the General Fund Balance through the Movement in Reserves Statement in future financial years as payments are made.

The ability to defer the reserves impact of new provisions ceased to be allowable from 1 April 2020. Liabilities, and changes in them, recognised before 1 April 2020 continue to be deferred until settlement. New Equal Pay liabilities recognised after 1 April 2020 are accounted for in line with Section 8 of the CIPFA code, and IAS37.

Contingent Liabilities

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

Contingent liabilities are not recognised in the Balance Sheet but disclosed in Note 31 to the accounts.

Contingent Assets

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

Contingent assets are not recognised in the Balance Sheet but disclosed in Note 31 to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

**xxiii. Reserves**

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

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, local taxation, retirement and employee benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies.

**xxiv. Revenue Expenditure Funded from Capital under Statute**

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

**xxv. Accounting for Schools**

Local authority maintained schools, in line with relevant accounting standards and the Code, are considered to be separate entities with the balance of control lying with the Council. As such the Council should consolidate the activities of schools into its group accounts. However, the Code requires that the income, expenditure, assets and liabilities of maintained schools be accounted for in local authority entity accounts rather than requiring the preparation of group accounts.

The Council has the following types of maintained schools under its control:

- Community schools;
- Voluntary Controlled schools;
- Voluntary Aided schools;
- Foundation schools.

Given the nature of the control of the entities and the control of the service potential from the non-current assets of the maintained schools, the Council has recognised buildings and other non-current assets on its Balance Sheet. The Council has recognised all land for Community Schools on its Balance Sheet and recognised that land for Voluntary Aided, Voluntary Controlled and Foundation Schools where it can be demonstrated that the Council has control over the land through restrictive covenants within site deeds or where there is reasonable evidence that restrictive covenants are in place.

Academies and Free Schools are not considered to be controlled by the Council and are not consolidated into the entity or group accounts.

**xxvi. Value Added Tax**

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

**xxvii. Fair Value Measurement**

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

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The Council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Council's financial statements are categorised with the fair value hierarchy as follows:

- 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 or liability, either directly or indirectly;
- Level 3 – unobservable inputs for the asset or liability.

**xxiii. Council Acting as Agent**

The Council does not include transactions that relate to its role in acting as an agent on behalf of other bodies. In such cases the Council is acting as an intermediary and does not have exposure to significant risks and rewards from the activities being undertaken.

**xxix. Dedicated Schools Grant Deficit Balances**

Where the Council has a deficit in respect of its schools budget for a financial year beginning on 1 April 2020, the Council does not charge to a revenue account an amount in respect of that deficit. Instead, it charges the amount of the deficit to an account established, charged and used solely for the purpose of recognising deficits in respect of its schools budget.

These financial statements continue to be produced under IFRS with the DSG being accounted for in the normal way (through the CIES). An accounting adjustment is made via the MiRS to move any DSG deficit balances on a time limited basis to an unusable reserve established for that purpose.

**xxx. Highways infrastructure assets**

Highways infrastructure assets include carriageways, footways and cycle tracks, structures (e.g. bridges), street lighting, street furniture, traffic management systems and land which together form a single integrated network.

Recognition

Expenditure on the acquisition or replacement of components of the network is capitalised on an accrual basis, provided that it is probable that the future economic benefits associated with the item will flow to the Council and the cost of the item can be measured reliably.

The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2022 SI 1232/2022 – These amendment regulations provide that where a local authority replaces a component of an infrastructure asset, the authority has a choice of how to identify the carrying amount to be derecognised in respect of that component (i.e. either a nil amount or to follow the Code). The Council has elected to make use of this statutory override.

Measurement

Highways infrastructure assets are generally measured at depreciated historical cost. However, this is a modified form of historical cost – opening balances for highways infrastructure assets were originally recorded in Balance Sheets at amounts of capital undischarged for sums borrowed as at 1 April 1994, which was deemed at that time to be historical cost. Where impairment losses are identified, they are accounted for by the carrying amount of the asset being written down to the recoverable amount.

Depreciation

Depreciation is provided on the parts of the highways network infrastructure assets that are subject to deterioration or depletion and by the systematic allocation of their depreciable amounts over their useful lives. Depreciation is charged on a straight-line basis. Annual depreciation is the depreciation amount allocated each year.
Useful lives of the various parts of the highways network are assessed by the Chief Highways Engineer using industry standards where applicable as follows:

| | |
|---|---|
| Carriageways | 25 years |
| Footways and cycle tracks | 20 years |

| | |
|---|---|
| Highways Drainage | 15 years |
| Street furniture | 30 years |
| Street lighting | 30 years |
| Structures (bridges, tunnels) | 120 years |
| Traffic management systems | 25 years |
| Other infrastructure assets | 10 years |

Disposals and derecognition

When a component of the network is disposed of or decommissioned, the carrying amount of the component in the Balance Sheet is written off to the ‘Other operating expenditure’ line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement, also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). The written-off amounts of disposals are not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are transferred to the capital adjustment account from the General Fund Balance in the Movement in Reserves Statement.

**Public Report**

# Birmingham City Council

# Report to Audit Committee

**28 March 2023**

| | |
|---|---|
| **Subject:** | Informing the Audit Risk Assessment |
| **Report of:** | Rebecca Hellard, , Director of Council Management |
| **Relevant Cabinet Member:** | Councillor Brigid Jones |
| **Relevant O &S Chair(s):** | Councillor Akhlaq Ahmed - Resources |
| **Report author:** | Alison Jarrett |

| | | |
|---|---|---|
| Are specific wards affected?<br>If yes, name(s) of ward(s): | ☐ Yes | ☒ No – All wards affected |
| Is this a key decision?<br>If relevant, add Forward Plan Reference: | ☐ Yes | ☒ No |
| Is the decision eligible for call-in? | ☒ Yes | ☐ No |
| Does the report contain confidential or exempt information?<br>If relevant, provide exempt information paragraph number or reason if confidential : | ☐ Yes | ☒ No |

## 1 Executive Summary

This report presents the Committee with the responses from the Council's group companies on a questionnaire on their Audit Risk Assessment. The report has been considered by Cabinet Committee Group Company Governance at their meeting on 21st March 2023 and their observations are included within the report.

## 2 Recommendations

2.1 Members are asked to consider the responses from the Council's group companies, the issues raised by Cabinet Committee Group Company Governance (CC-GCG) and note the process for group risk assessment.

## 3 Background

3.1 The Council has created a number of companies that fall within its sphere of control, either as wholly owned subsidiaries, associates where the Council has significant influence, Joint Ventures or other arrangements. The Council has to consider whether there are risks to the Council either through misuse of funds or misstatement of activities.

3.2 An exercise is carried out each year to determine the "Group Boundary", that is to define which subsidiaries, associates and joint ventures are consolidated with the Council's financial statements to produce Group Accounts. The larger entities within the overall Council group boundary have been asked to provide information through the completion of a questionnaire to allow Members to gain assurance that funds are being used efficiently and effectively and that information provided in respect of their financial statements may be relied on. The assurance statements have been broken down into three main areas:

- Company Environment – looking at the governance arrangements of the company
- The Identification, Mitigation and Reporting of Risk – looking at how the company manages risk
- Financial Statements – looking at factors that may impact on the company's financial health and financial statements.

The responses provided are attached as appendices to the private report.

3.3 Audit Committee is responsible for signing off the Council's financial statements, including relevant group accounts, in due course. As part of this sign off process, members of the Audit Committee will need to be confident that the information presented represents a 'true and fair view' of the financial position of the group and that the accounts are materially correct.

## 4 Options considered and Recommended Proposal

This report provides information to Members on governance and financial arrangements within group entities that will be considered for consolidation in the Council's group accounts.

## 5 Consultation

The company returns were presented to the CC-GCG at its meeting on 21 March 2023 and members were asked to consider the responses received and identify any issues that it would wish to raise with Audit Committee for their consideration and further review. That Committee did not raise any items of concern for the attention of Audit Committee.

## 6 Risk Management

6.1 This report sets out information on external organisations associated with the Council.

**7 Compliance Issues:**

**7.1 How are the recommended decisions consistent with the City Council's priorities, plans and strategies?**

The production of annual group accounts is a statutory requirement to consolidate entities that are controlled by the Council and which are material to its activities.

**7.2 Legal Implications**

a) Section 151 of the Local Government Act requires the Chief Finance Officer (as responsible officer) to ensure proper administration of the Council's financial affairs.

**7.3 Financial Implications**

a) The Council is required to produce group accounts where it controls external organisations where the level of activity is considered to be material to the entity.

**7.4 Procurement Implications**

a) There are no procurement implications directly arising from this report.

**7.5 Human Resources Implications**

a) There are no human resources implications directly arising from this report.

**7.6 Public Sector Equality Duty**

a) There are no equality duty or equality analysis issues relating to the proposals set out in this report.

**8 Background Documents**

None

9 **Appendices –** these are attached to the private report as they contain commercially confidential information

**Responses from**

A. Birmingham Airport Holdings Limited
B. Birmingham Airport Management Assurance
C. Birmingham Children's Trust C.I.C.
D. Birmingham City Propco
E. Finance Birmingham Limited
F. InReach Limited
G. InReach – KAIM
H. Paradise Circus Limited Partnership
I. Paradise Circus Limited Partnership – supplementary info
J. National Exhibition Centre Developments Limited
K. PETPS (Birmingham) Limited
L. PEPTS (Birmingham) Pension Funding Scottish Limited Partnership

Acivico Limited

# The Audit Findings for Birmingham City Council

**Year ended 31 March 2021**

28 March 2023

# Contents

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

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents have been discussed with management and will be discussed with the Audit Committee.

Jon Roberts
For Grant Thornton UK LLP
28 March 2023

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# 1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Birmingham City Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2021 for those charged with governance.

| Financial Statements | |
|---|---|
| Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:<br>• the group and Council's financial statements give a true and fair view of the financial position of the group and Council and the group and Council's income and expenditure for the year; and<br>• have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.<br>We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), and Narrative Report) is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. | Our audit work has been completed remotely, having commenced in June 2021. Our findings are summarised on pages 6 to 28. We have not identified any adjustments to the financial statements that have resulted in an adjustment to the Council's general fund. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.<br>Our work is now substantively complete, and at the time of writing this report there are no matters of which we are aware that would require modification of our audit opinion or material changes to the financial statements, subject to the resolution of the outstanding matters set out on page 6 of this report.<br>We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited.<br>Our anticipated audit report opinion will highlight the uncertainties that the Council has disclosed within the contingent liabilities note in relation to the volume and timing of any future equal pay claims and the determination of any settlements but will be unqualified. |

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# 1. Headlines

## Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

We completed our VFM work in March 2022, and issued our provisional Auditor's Annual Report at that time. An audit letter explaining the reasons for the delay in this report was presented to the Audit Committee on 30 September 2021. We expect to issue our finalised Auditor's Annual Report at the time that we sign the opinion on the financial statements. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified a number of risks of significant weaknesses in the following areas:

- The financial impact of the Commonwealth Games
- The contractual arrangements relating to the highways PFI scheme
- Waste service continuity and industrial relations
- The potential impact of a lack of stable leadership due to significant level of turnover of key staff and officers
- The governance arrangements in relation to required improvements in SEND services
- IT Audit findings and planned changes to the Council's general ledger
- The financial impact of equal pay claims
- Independent reports into issues related to the Home to School Transport Service

The latter four of these risks were identified after the issue of our Audit Plan.

Our work identified four Significant Weaknesses in relation to service delivery and assurance mechanisms for the Home to School Transport Service, the delivery and governance of SEND services, and system access issues in the Council's general ledger. In addition to four Key Recommendations in these areas, we raised a further twelve Improvement Recommendations across the areas that we considered. Further detail is set out on pages 27 and 28.

Management fully engaged with the new approach, and were proactive in providing the information and evidence that we required in a timely and structured manner. We presented our provisional Auditor's Annual Report to the May 2022 meeting of the Council's Audit Committee, following the conclusion of our work.

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# 1. Headlines

## Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- to certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties.

We expect to certify the completion of the audit upon the completion of our work on the Council's Whole of Government Accounts (WGA) return.

## Significant Matters

As set out on page 15 of this report, Grant Thornton's IT Audit team have completed a design and implementation review of IT General Controls (ITGC) for applications identified as relevant to the financial audit. A number of deficiencies and significant deficiencies were identified through this review, which have had to be factored into our substantive work and have led to extended testing being undertaken in a number of areas. These findings have been discussed with management, who have put in place an action plan to remediate the issues raised.

As set out on pages 16 and 17, additional work has been completed in relation to newly identified audit risks in relation to infrastructure assets. Accounting for infrastructure in local government has not historically been considered to be an area of particular audit risk, due to the nature of the assets involved, and the use of a historical cost basis of accounting. During 2022, concerns were raised nationally that some authorities were not applying component accounting requirements appropriately. The completion of our audit has therefore been delayed as a result of this national technical issue.

Due to the extended period of time over which the audit of the Council's 2020/21 financial statements has been completed, we have also had to consider the issues and findings arising from our audit of the 2021/22 financial statements, and whether these indicate potential areas of concern for 2020/21 where additional work may be required. Where necessary, this additional work has been completed, and any findings arising are included within this report.

We did not encounter any other significant difficulties or identify any other significant matters arising during our audit.

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# 2. Financial Statements

## Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management and will be discussed with the Audit Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

## Audit approach

Our audit approach was based on a thorough understanding of the group's business and is risk based, and in particular included:

- An evaluation of the group's internal controls environment, including its IT systems and controls;
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks; and
- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of the group's gross revenue expenditure to assess the significance of the component and to determine the planned audit response. We have had to alter our approach in relation to this work. In our Audit Plan, as communicated to you on 30 March 2021, we anticipated being able to rely on the work conducted by Crowe UK LLP in obtaining assurance over the figures for Birmingham Children's Trust used in the Council's group accounts in which was completed by Crowe UK LLP. This approach has been superseded as explained on page 22 and we are in the process of conducting specified procedures ourselves.

We also had to alter our Audit Plan to reflect significant risks in relation to elements of the Council's income and expenditure as a result of the impact of the COVID-19 pandemic. Further detail on these changes is set out on pages 13 and 14. We have also had to extend our substantive testing in a number of areas, as a result of the issues noted through our review of IT General Controls, as set out on page 15.

## Conclusion

Our audit of your financial statements is ongoing, and subject to outstanding queries being resolved we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 28 March 2023. These outstanding items include:

- Consideration of the impact of emerging equal pay issues on the Council's provision and contingent liability disclosures as well as the commentary in the Annual Governance Statement;
- Completion of specified audit procedures to gain assurance over material balances in the Council's group accounts;
- Receipt and review of management's representation letter; and
- Receipt and review of the final set of financial statements.

### Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff.

As highlighted in our audit plan presented to the Audit Committee in March 2021, the impact of the pandemic has meant that both your finance team and our audit team faced audit challenges again this year, including remote access of financial systems, and verifying the completeness and accuracy of information produced and provided remotely by the entity.

The finance team have been helpful in enabling us to gain the assurance that we require for our auditor's opinion on the financial statements.

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# 2. Financial Statements

## Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Our materiality levels for the audit remain the same as reported in our audit plan on 30 March 2021.

We considered revising our materiality levels on receipt of the draft financial statements, but determined that this would not be appropriate.

Despite the significant passage of time since the commencement of our audit, nothing has occurred since then that has caused us to revise these thresholds.

We detail in the table to the right our determination of materiality for Birmingham City Council

| | Group Amount | Council Amount |
|---|---|---|
| Materiality for the financial statements | £34,310k | £34,300k |
| Performance materiality | £22,300k | £22,295k |
| Trivial matters | £1,700k | £1,700k |

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# 2. Financial Statements - Significant risks

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

This section provides commentary on the significant audit risks communicated in the Audit Plan.

| Risks identified in our Audit Plan | Risk relates to | Commentary |
|---|---|---|
| Management override of controls<br>ISA (UK) 240<br>Under ISA (UK) 240 there is a non-rebuttable presumption that the risk of management override of controls is present in all entities.<br>The Council faces external scrutiny of their spending and this could potentially place management under undue pressure in terms of how they report performance.<br>We therefore identified management override of control, and in particular journals, management estimates, and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement. | Council (and Group) | We have:<br>• evaluated the design effectiveness of management controls over journals;<br>• analysed the journals listing and determined the criteria for selecting high risk unusual journals;<br>• identified unusual journals recorded during the year and after the accounts production stage for testing back to supporting evidence for appropriateness and corroboration;<br>• gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence; and<br>• evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.<br>We have not identified any changes to the Council's accounting policies, or to the estimation processes for material estimates in the financial statements.<br>As set out on page 15 of this report, Grant Thornton's IT Audit team has completed a design and implementation review of IT General Controls (ITGC) for applications identified as relevant to the financial audit. A number of deficiencies and significant deficiencies were identified through this review, in relation to security management and user access levels, which have been factored into our evaluation of the design effectiveness of management's controls over journals. As a result of these findings, additional focussed testing has been completed specifically considering those transactions that are impacted by these findings. We have raised recommendations in respect of several of these weaknesses in previous years, which have been followed up in Appendix B.<br>Our detailed testing of individual journal transactions identified as being unusual through our risk-based analysis has not identified any instances of fraudulent management override. We have, however, identified an instance of a junior member of staff being instructed to incorrectly code a low-value transaction at year-end for the purposes of efficiency during the Council's closedown period. We have been able to gain assurance, through analysis of low-value transactions that were posted to the general ledger during this period, that this approach to year-end adjustments does not give rise to a risk of material error in the financial statements.<br>In addition, no instances of management override have been identified through the work performed on the Council's material estimates and judgements. Additional detail on the work performed on the most significant estimates and judgements is included on the following pages of this report. |

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# 2. Financial Statements - Significant risks

| Risks identified in our Audit Plan | Risk relates to | Commentary |
|---|---|---|
| Valuation of land and buildings<br>The Council revalues its land and buildings on a rolling, five-yearly basis.<br>This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.<br>Management will need to ensure that the carrying value in the Council's (and group's) financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date.<br>We therefore identified valuation of land and buildings, specifically council dwellings, other land and buildings and surplus assets, as a significant risk of material misstatement, and a key audit matter. | Council (and Group) | We have:<br>• evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts, and the scope of their work;<br>• evaluated the competence, capabilities and objectivity of the valuation expert;<br>• written to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met;<br>• engaged our own valuer to assess the instructions issued by the Council to its valuer, the scope of the Council's valuers' work, the Council's valuers' reports and the assumptions that underpin the valuations;<br>• challenged the information and assumptions used by the valuer to assess the completeness and consistency with our understanding;<br>• tested that revaluations made during the year have been input correctly into the Council's asset register;<br>• tested the key inputs into revaluations back to supporting information to ensure that they have been performed based on accurate information; and<br>• evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different from current value at year end.<br><br><u>Findings</u><br>We have identified a formula error in the calculations supporting the Property, Plant and Equipment disclosure note, meaning that elements of the additions and reclassifications amounts are misstated between the two columns. This error is £13.9m, but is limited to the detail of the note with no impact on the balance sheet, and no impact on any of the totals within the disclosure note. The Council has corrected this in the revised financial statements.<br>In recent years management have amended the annual valuation process, moving the valuation date closer to the year end. As a result of this, the 192 assets revalued this year as part of the rolling programme were last valued at 1 April 2015 (as part of the 2015/16 financial year). This means that the Council has not complied with the Code, which requires that assets are valued within a 5-year period. This is only a compliance point, and has no impact on the asset valuations incorporated into the 2020/21 financial statements. This change in approach should improve the accuracy of the year-end financial position.<br><br><u>HRA valuations</u><br>A number of the Council's HRA dwellings (mainly in tower blocks) are included in the financial statements at a value that is below our expectation. These valuations are based on forecast cash flows for rental incomes and maintenance spend, discounted to present value (a Discounted Cash Flow [DCF] approach). |

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# 2. Financial Statements - Significant risks

| Risks identified in our Audit Plan | Risk relates to | Commentary |
|---|---|---|
| Valuation of land and buildings (continued) | | HRA valuations (continued)<br>We challenged the Council and their valuer on both the appropriateness of using this approach, which is extremely unusual. Management have been able to provide us with appropriate rationales for the decision to use the DCF approach, and we are satisfied that this is reasonable.<br>We also challenged management on the assumptions and inputs used to create the forecasts. Management were able to demonstrate that the assumed levels of rental income in these models were reasonable, but were unable to support the exact figures used. They were also not able to provide supporting information for the levels of maintenance spend assumed in the forecasts, or how that spend is phased over the period of the forecast.<br>As a result of our work, management and their valuer recreated the cash flow forecasts models for the 8 HRA dwelling archetypes valued using this approach, using inputs and assumptions that could be supported by the Council's financial records and financial plans. This resulted in an increase in the overall valuation of the Council's HRA dwellings of £42.4 million. This adjustment is included in Appendix C.<br><br>DRC valuations<br>The Council has a number of specialised assets that are valued on a Depreciated Replacement Cost (DRC) basis. The Council's valuer undertakes a desktop valuation exercise for 80% of DRC assets each year (with the other 20% being subject to a full revaluation). This desktop exercise has been completed using BCIS index movements, which we consider to be appropriate, however it has not considered the impact of increasing obsolescence on valuation of the indexed assets.<br>We challenged this, and management were able to demonstrate that the information was available to incorporate obsolescence into the desktop exercise. Incorporating this into the desktop valuation exercise resulted in a decrease in the overall valuation of the relevant assets of £35.2m.<br><br>Other valuations<br>The Council's property portfolio is large and complex, and a significant level of work is required to gain assurance over the reasonableness of the valuations included in the balance sheet. Our detailed testing of a sample of the Council's asset valuations, undertaken since we previously reported to the Audit Committee, has identified a number of errors and issues that have required further consideration, including: errors in the valuation calculations and omissions of elements of assets from the valuations; the use of incorrect information for key inputs such as land values, rental incomes or building characteristics; and the incorrect accounting treatment of valuation movements processed. Management has agreed to amend the financial statements for the errors that have been identified that are above our trivial threshold, but unadjusted misstatements remain in the financial statements, as detailed in Appendix C. |

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# 2. Financial Statements - Significant risks

| Risks identified in our Audit Plan | Risk relates to | Commentary |
|---|---|---|
| **Valuation of the pension fund net liability**<br>The pension fund net liability, as reflected in the balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.<br>The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation.<br>The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable.<br>The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation.<br>With regard to these assumptions we have therefore identified valuation of the Authority's pension fund net liability as a significant risk, one of the most significant assessed risks of material misstatement, and a key audit matter. | Council (and Group) | We have:<br>• updated our understanding of the processes and controls put in place by management to ensure that the pension fund net liability is not materially misstated and evaluate the design of the associated controls;<br>• evaluated the instructions issued by management to their management experts (the actuary) for this estimate and the scope of the actuary's work;<br>• assessed the competence, capabilities and objectivity of the actuary who carried out the pension fund valuation;<br>• assessed the accuracy and completeness of the information provided by the group to the actuary to estimate the liabilities; and<br>• tested the consistency of the pension fund asset and liability and disclosures in the notes to the financial statements with the actuarial reports from the actuary.<br>• undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and<br>• obtained assurances from the auditor of the West Midlands Pension Fund (WMPF) as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the WMPF and the fund assets valuation in the WMPF financial statements.<br>Our work on the liability is complete.<br>We note that the auditor of the WMPF identified an understatement in the valuation of the Fund's assets in the course of their audit procedures. The auditor reported a quantifiable understatement of level 3 investments of £76m, which was then extrapolated to a total of £90m. The Council's share of this total estimated £90m error is approximately £24.7m.<br>This issue arose as a result of a lag in the valuation process for the Fund's hard to value investments. This is a function of the Fund's reporting process and is not considered to be indicative of a control weakness at the Council. This is also not an unusual finding in pension fund audits, with the size of the variance this year being attributable to ongoing market volatility.<br>An adjustment has been made for quantifiable elements of this issue in the Council's financial statements, increasing the Council's share of the Pension Fund's assets by £20.9m and recognising the impact on the Council's Pension Reserve. There is no impact on the Council's General Fund balance. See Appendix C for further detail.<br>We have identified that a small element of the Council's liability has been mistakenly calculated assuming 12 months of payroll data when only 10 months was submitted. We have confirmed that the impact of this error on the financial statements is trivial.<br>We have requested that further detail is added to Note 4 of the financial statements disclosing the fact that the Pension Fund valuation at 31 March 2021 was prepared on a roll-forward basis, as is standard, but that this approach leads to inherent levels of uncertainty.<br>We have not identified any other issues in respect of the valuation of the pension fund net liability. |

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# 2. Financial Statements - Significant risks

| Risks identified in our Audit Plan | Risk relates to | Commentary |
|---|---|---|
| Valuation and completeness of the equal pay liability<br><br>Under ISA 540 (Auditing Accounting Estimates, including Fair Value Accounting Estimates and Related Disclosures) the auditor is required to make a judgement as to whether any accounting estimate with a high degree of estimation uncertainty gives rise to a significant risk.<br><br>We identified the valuation and completeness of the equal pay provision as a risk requiring special audit consideration, and a key audit matter. | Council (and Group) | We have:<br>• updated our understanding of the processes and controls put in place by management to estimate the equal pay provision;<br>• reviewed the assumptions on which the estimate was based;<br>• assessed the accuracy and completeness of the information used as the basis of estimating the liability, and reperformed the calculation of the estimate, on a sample basis where appropriate;<br>• confirmed that the estimate has been determined and recognised in accordance with accounting standards;<br>• determined how management have assessed the estimation uncertainty; and<br>• considered events or conditions that could have changed the basis of estimation, and the potential impact of any transactions or events after 31 March.<br><br>During our work we have identified that the draft financial statements disclosed the net of the movement of the provision reversed unused of £16.2m and the additional provision made of £17.7m, rather than identifying these movements separately. This has been amended and has no impact on the provision value as at 31 March 2021.<br><br>We also identified that the Council had removed the contingent liability in relation to equal pay from the draft financial statements. Following audit challenge this contingent liability has been reinstated in Note 32 of the draft financial statements. As in previous years, we will refer to this uncertainty in our audit report.<br><br>Following events in late 2021 in relation to equal pay claims, we requested that management documents its consideration of whether there is now new information in relation to the position at 31 March 2021 that means an adjustment is required in the provision made in the financial statements. Management has provided its assessment, supporting the view that no such amendment is required, and we are in the process of considering and challenging this stance. Management has proposed some additional wording for inclusion in Note 5 of the financial statements, disclosing an event after the reporting period.<br><br>Before concluding in respect of this risk we will need to consider events or conditions that could have changed the basis of estimation and the potential impact of any transactions or events after the balance sheet date up to the date of signing of the financial statements. |

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# 2. Financial Statements - Significant risks

The following significant audit risks were not communicated in the Audit Plan.

| Risks identified subsequent to our Plan | Risk relates to | Commentary |
| --- | --- | --- |
| Presumed risk of fraud in revenue recognition ISA (UK) 240<br><br>Under ISA (UK) 240 there is a rebuttable presumed risk of material misstatement due to the improper recognition of revenue.<br><br>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. | Council (and Group) | At the time of our audit planning, having considered the risk factors set out in ISA 240 and the nature of the revenue streams of Birmingham City Council, we determined that it was likely that the presumed risk of material misstatement due to the improper recognition of revenue could be rebutted.<br><br>The COVID-19 pandemic had a significant impact on the Council's financial performance, and although we remain satisfied that it is appropriate to rebut this presumed risk for the revenue of the Council during the year, we do not deem it appropriate to rebut this presumed risk for manually accrued income at the end of the financial year.<br><br>We have identified the completeness of accrued income transactions, and the completeness of the related debtor balances, as a significant risk. As a result of this, we extended our samples for the testing of transactions and receipts after the end of the financial year to reflect the heightened risk in this area.<br><br>During the audit it was identified that the Council had recognised both income and expenditure in relation to a highly material COVID-19 related grant which management now believe should have been excluded from the financial statements. For more detail on this, see Appendix C.<br><br>Our audit work in this area is complete, and we have not identified any other issues in respect of the Council's revenue recognition. |

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# 2. Financial Statements - Significant risks

| Risks identified subsequent to our Plan | Risk relates to | Commentary |
|---|---|---|
| Risk of fraud in to expenditure recognition<br>PAF Practice Note 10<br>In line with the Public Audit Forum Practice Note 10, in the public sector, auditors must also consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition (for instance by deferring expenditure to a later period).<br>As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk of material misstatements due to fraud related to revenue recognition. | Council (and Group) | Having considered the nature of the expenditure streams of Birmingham City Council, we did not consider this to be a significant risk for the Council at the time of our planning, however on the same basis as that set out above for revenue, we have identified the occurrence and accuracy of accrued expenditure transactions, and the existence and accuracy of the related creditor balances, as a significant risk.<br>We attempted to extend our samples for the testing of year-end manual creditor balances to reflect the heightened risk in this area. We were unable to reliably separate manually accrued expenditure from other creditor balances, and so we extended our sample testing across all accrued expenditure.<br>The adjustment relating to the COVID-19 related grant referred to above will also lead to a reduction in the Council's expenditure in-year.<br>Testing of a sample of items of expenditure recognised in-year has identified a small number of items that either related to financial years other than 2020/21, or had been double-counted in the accruals process at 31 March 2021.<br>The errors identified are clearly trivial on their own, but we were required to consider the potential impact if these errors were representative of the wider population. We have concluded that the potential impact of these issues, based on extrapolation, could be an overstatement of expenditure of £17.8 million. We have included this within the unadjusted misstatements in Appendix C, and have raised a recommendation in this area in Appendix A.<br>Issues were also noted in our consideration of the completeness of the Council's expenditure, with testing of transactions after the end of the financial year identifying items that should have been recorded in 2020/21 but were not. Again, these items were clearly trivial on their own, but an extrapolation of these items indicates that there could be £10.0 million omitted from the Council's 2020/21 expenditure. Again, this has been included within the unadjusted misstatements in Appendix C.<br>We have not identified any other issues in respect of the Council's expenditure recognition. |

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# 2. Financial Statements - New issues

This section provides commentary on new issues which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant deficiencies identified during the year.

| Issue | Commentary | |
|---|---|---|
| **IT control deficiencies**<br><br>To support the audit of the Council's financial statements for year ended 31 March 2021, Grant Thornton's IT Audit team have completed a design and implementation review of IT General Controls (ITGC) for applications identified as relevant to the financial audit.<br><br>The findings from this work inform our risk assessment and planning procedures, and determine whether, and how much, reliance can be placed on the operation of the Council's systems for the purposes of our substantive testing. | The work to support the audit of the 2020/21 financial year was undertaken in June and July 2021. A number of deficiencies and significant deficiencies have been identified through this review, relating to security management and individuals' access levels. One of these findings was new this year, as a result of additional checks performed, but the majority have been reported in previous years.<br><br>These findings have been discussed with management, who have put in place an action plan to remediate the issues raised. The detailed IT Audit findings and management responses have been presented to a previous meeting of the Audit Committee.<br><br>At the time of writing this report, no issues have been identified in the Council's financial statements as a result of inappropriate system access. | **Auditor view**<br><br>As a result of these findings, we have extended the substantive testing being undertaken as part of our substantive work in a number of areas.<br><br>No issues have been identified through our audit that are a result of these access issues, however it is our view that remediation is required.<br><br>**Management response**<br><br>The Council's approach to prior recommendations around access controls has been to put in place a series of detective controls – monitoring and reviewing for inappropriate system use.<br><br>The more thorough work done by the IT audit team this year has highlighted a number of specific access issues.<br><br>We note that no actual instances of inappropriate use of that access has been identified, but accept that moving to a preventative measure of reducing access to the minimum required as often as possible is a sensible precaution. Accordingly, we have already started work to remove this access from high risk accounts identified but will need time to unpick this in a controlled manner from any remaining accounts over the next few months. We will report to Audit Committee on our progress. |
| **Completeness of accruals**<br><br>We are aware that in order to focus attention on the more significant items of income and expenditure at the end of the financial year, finance staff were instructed to focus efforts on items over £5,000. | This guidance was not formally implemented as a change in accounting policy, and the Council has been unable to demonstrate that such a de minimis threshold would not cause a material misstatement if it were implemented across all transactions.<br><br>We have therefore completed specific testing on transactions after the year-end that were less than £5,000 to ensure that there is no indication that this instruction led to increased levels of omissions from the financial statements, and a potential material issue. | **Auditor view**<br><br>Our testing of the completeness of income and expenditure accruals has not identified unusual levels of omissions below this threshold, and we are satisfied that there is not a material misstatement of the 2020/21 financial statements as a result of this guidance.<br><br>We have raised a recommendation in relation to this area in Appendix A of this report.<br><br>**Management response**<br><br>Clarity will be provided to all finance officers to accrue for all amounts of expenditure and income that relates to the year of accounting. |

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# 2. Financial Statements - New issues

| Issue | Commentary |
|---|---|
| Valuations of Infrastructure Assets<br><br>The CIPFA Code of Practice on Local Authority Accounting states that Infrastructure assets shall be measured at depreciated historical cost. Historical cost is deemed to be the carrying amount of an asset as at 1 April 2007 (i.e. brought forward from 31 March 2007) or at the date of acquisition, whichever date is the later, and adjusted for subsequent depreciation or impairment.<br><br>The Council has material infrastructure assets and there could therefore be a potential risk of material misstatement related to this balance.<br><br>We identified a risk that the carrying value of infrastructure assets is not appropriate given the nature of how the assets are held on the balance sheet and monitored through the asset register. | Infrastructure assets include roads, highways, streetlighting, bridges and tunnels. In accordance with the CIPFA Code, Infrastructure assets are measured using the historical cost basis, and carried at depreciated historical cost. With respect to the financial statements, we identified two inherent risks in relation to infrastructure assets:<br>• The risk that the value of infrastructure assets is materially misstated as a result of applying an inappropriate Useful Economic Life (UEL) to components of infrastructure assets.<br>• The risk that the presentation of the PP&E note is materially misstated insofar as the gross cost and accumulated depreciation of Infrastructure assets is overstated. It will be overstated if management do not derecognise components of Infrastructure when they are replaced.<br><br>For the avoidance of any doubt, these two risks were not assessed as a significant risk at planning stage, but we have assessed that there is some risk of material misstatement that requires an audit response. CIPFA has consulted on adaptations to the Code and guidance on the application of UELs, which we have factored into our response.<br><br>In order to be able to conclude whether there is a risk of material misstatement our response is that we have:<br>• assessed the risks of material misstatement related to infrastructure assets<br>• updated our understanding of the process to explain the Council's current approach to capitalisation, derecognition and depreciation of infrastructure assets and how it complies with the Council's fixed asset register to confirm that the processes are being applied in practice.<br><br>We have been able to sample additions to infrastructure in the 2020/21 year to review the basis of asset life and conclude on whether this is reasonable and correctly factored into depreciation calculations but this becomes more difficult in respect of historic infrastructure assets because individual assets are not recorded separately on the Council's fixed asset register.<br><br>The Authority records its infrastructure assets by sub-category in its fixed asset register for each financial year, eg footways 2016/17, kerbs 2018/19. No supplementary data is available to further break down additions to a project or location level. There is currently no de-recognition of replaced components. As such it would appear that cost and depreciation would be overstated, if there was no statutory override to address the situation.<br><br>Audit firms, practitioners, DLUCH and CIPFA have been in consultation with regard to this national, sector-wide issue and a statutory instrument came into force as of 25 December, specifically in relation to local government's treatment of infrastructure assets.<br><br>These amendment regulations provide that where a local authority replaces a component of an infrastructure asset, the authority has a choice of how to identify the carrying amount to be derecognised in respect of that component (ie either a nil amount or to follow the Code). The English Regulations apply to statements of accounts for financial years beginning on or before 1st April 2024, and to those statements of accounts which have not already been certified by a local auditor.<br><br>Of particular note is the following: when preparing a statement of accounts to which this regulation applies, a local authority is not required to make any prior period adjustment to the balances of that statement of accounts in respect of infrastructure assets. ie the brought forward figure is considered to be correct. |

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# 2. Financial Statements - New issues

| Issue | Commentary |
| --- | --- |
| Valuations of Infrastructure Assets (continued) | Therefore while we can be content with the gross book value figure brought forward, and also content that any derecognition and replaced component has a relevant amount of £nil, what we needed to be assured over is the amount of depreciation applied in the year. This is driven by the components' useful economic lives and therefore we considered it appropriate for us to focus audit effort on that area in particular.<br>The Council revisited the economic lives applies to its infrastructure assets and based on information readily available from the highways team a revised set of useful economic life to each component (carriageways, footways and cycleways, structures, streety lights and traffic management) has been determined. We have reviewed the Council's updated approach in line with evidence provided by the highways team as well as consideration of CIPFA's bulletin CIPFA Bulletin 12 Accounting for infrastructure assets temporary solution.<br>The financial statements have been amended in this regard and a revision made to the Council's accounting policy to reflect the application of the statutory instrument. The impact of the application of these revised useful economic lives has been to reduce the depreciation charge in 2020/21 by £1.69m and in 2021/22 by £1.44m. The 2020/21 adjustment is trivial to the 2020/21 accounts as is the 2021/22 adjustment to the 2021/22 financial statements. However, in aggregate the difference in depreciation charge is greater than our trivial threshold for 2021/22 and the Council has elected to adjust for both years in the 2021/22 financial statements. We are satisfied with this treatment. |

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# 2. Financial Statements - Key judgements and estimates

This section provides commentary on key estimates and judgements in line with the enhanced requirements for auditors.

| Significant judgement or estimate | Summary of management's approach | Audit Comments | Assessment |
|---|---|---|---|
| Land and Building valuations<br><br>Draft: £2,506.9m<br><br>Final: £2,490.9m | Other land and buildings comprises £1,393.0m of specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings and surplus assets (£1,113.9m) are not specialised in nature and are required to be valued at existing use value (EUV) (or Fair Value for surplus assets) at year end.<br><br>The Council has engaged its internal valuer to complete the valuation of properties on a five yearly cyclical basis. 42% of total assets (by value) were revalued during 2020/21, as at 11 December 2020.<br><br>Management have considered the year-end value of non-valued properties, and the potential change in value of those assets that were valued prior to 31 March 2021. Management's assessment identified no material change to the properties' values.<br><br>The total year end valuation of other land and buildings and surplus assets in the draft financial statements was £2,506.9m, a net increase of £24.6m from 2019/20 (£2,482.3m). | We have:<br><br>• Deepened our risk assessment procedures including understanding processes and controls around the identification and determination of estimates. This included understanding methods, assumptions and data used.<br>• Confirmed that there have been no changes to the valuation method this year.<br>• Considered the source of the inherent risk associated with the accounting estimate.<br>• Analysed the method, data and assumptions used by management to derive the accounting estimate, and validated the sources of the information used by management. In particular, we are in the process of:<br>    • reperforming a sample of valuation calculations; and<br>    • testing the inputs into a sample of valuations to source documentation.<br>• Confirmed that we have no concerns over the competence, capabilities and objectivity of the valuation expert used by the Council and considered all evidence obtained during the audit, including both corroborative and contradictory audit evidence, when evaluating the appropriateness of accounting estimates.<br>• Considered whether there are any indications of management bias in determining the estimate and evaluated whether there is any evidence that contradicts management's assessment.<br>• Confirmed that disclosure of the estimate in the financial statements is considered adequate.<br><br>Our detailed testing of a sample of the Council's asset valuations identified a number of errors and issues that have required further consideration, including: errors in the valuation calculations and omissions of elements of assets from the valuations; the use of incorrect information for key inputs such as land values, rental incomes or building characteristics; the incorrect accounting treatment of valuation movements processed; and not considering obsolescence on DRC assets valued using a desktop exercise.<br><br>Management has agreed to amend the financial statements for the errors that have been identified that are above our trivial threshold, but unadjusted misstatements remain in the financial statements, as detailed in Appendix C. | Following the adjustments identified we consider management's process is appropriate and key assumptions are neither optimistic or cautious |

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# 2. Financial Statements - Key judgements and estimates

| Significant judgement or estimate | Summary of management's approach | Audit Comments | Assessment |
|---|---|---|---|
| Land and Building valuations<br>(continued) | | <u>Uncertainties noted in the Council's estimation process:</u><br>As noted, the Council utilises a rolling programme of revaluations to ensure that the financial statements are materially accurate, where a proportion of assets are valued each year. Consideration of market movements since the last valuation of assets not valued in 2020/21 indicates that these values could be misstated at the end of the financial year.<br>We have identified that the Council's assets that are part of this rolling programme but have not been revalued in 2020/21 could be overstated by £13.5m. Of this, those that are valued on a Depreciated Replacement Cost basis could be overstated by £20.5m and the Council's assets valued on the basis of Existing Use Value could be understated by £7.0m.<br>We do not consider this to be an error in the financial statements. The purpose of our work is to assess the reasonableness of the Council's estimate and to determine whether the estimate in the financial statements contains a material misstatement. Based on the work we have done we do not consider the estimate to be unreasonable or materially flawed. We are also satisfied that this uncertainty, when considered in the round with the unadjusted errors identified in the Council's land and building valuations as reported in Appendix C, does not indicate a material error in the financial statements.<br>No other areas of concern have been identified through our work. | |

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# 2. Financial Statements - Key judgements and estimates

| Significant judgement or estimate | Summary of management's approach | Audit Comments | Assessment |
|---|---|---|---|
| Council dwelling valuations<br><br>Draft: £2,568.0m<br><br>Final: £2,609.8m | The Council owns 59,710 dwellings and is required to revalue these properties in accordance with DCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties.<br><br>The Council has engaged their internal valuer to complete the valuation of these properties. In the draft financial statements, the year end valuation of Council dwellings was £2,568.0m, a net increase of £109.9m from 2019/20 (£2,458.1m).<br><br>From 2019/20, the Council has instructed its valuer to provide valuations at the beginning of each calendar year, and has confirmed that these were materially accurate as at 31 March 2021. | We have:<br>• Deepened our risk assessment procedures including understanding processes and controls around the identification and determination of estimates. This included understanding methods, assumptions and data used.<br>• Considered the source of the inherent risk associated with the accounting estimate.<br>• Analysed the method, data and assumptions used by management to derive the accounting estimate.<br>• Confirmed that we have no concerns over the competence, capabilities and objectivity of the valuation expert used by the Council, and considered whether there are any indications of management bias in determining the estimate and evaluated whether there is any evidence that contradicts management's assessment.<br>• Considered all evidence obtained during the audit, including both corroborative and contradictory audit evidence, when evaluating the appropriateness of accounting estimates. In particular we have:<br>  • challenged the basis of valuation for some of the Council's properties which were valued on a discounted cash flows basis rather than using market values; and<br>  • challenged the selection of beacon properties used for archetypes where these have changed since the prior year.<br>• Confirmed that disclosure of the estimate in the financial statements is considered adequate.<br><br>As set out on pages 9 and 10, the Council has 8 archetypes that are valued using a DCF approach, and the valuation of these assets has been revised following our audit challenge. This resulted in an increase in the overall valuation of the Council's HRA dwellings of £42.4 million. This adjustment is included in Appendix C. | Following the adjustments identified we consider management's process is appropriate and key assumptions are neither optimistic or cautious |

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# 2. Financial Statements - Key judgements and estimates

| Significant judgement or estimate | Summary of management's approach | Audit Comments | Assessment |
|---|---|---|---|
| Council dwelling valuations<br>(continued) | | Uncertainties noted in the Council's estimation process:<br>The Council valued its HRA properties as at 5 February 2021, instead of using a valuation date of 31 March 2021. Using data regarding market movements from the Land Registry we have estimated that due to the time between the valuation date and the year end these values could be understated at the end of the financial year by £22.1m.<br>Again, we do not consider this to be an error in the financial statements. The purpose of our work is to assess the reasonableness of the Council's estimate and to determine whether the estimate in the financial statements contains a material misstatement. Based on the work we have done we do not consider the estimate to be unreasonable or materially flawed. We are also satisfied that this uncertainty, when considered in the round with the unadjusted errors identified in the Council's land and building valuations as reported in Appendix C, does not indicate a material error in the financial statements.<br>No other areas of concern have been identified through our work on the Council's beacon methodology and the resulting valuations. | |

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# 2. Financial Statements - Key judgements and estimates

**Significant judgement or estimate**

Net Pension Liability

Draft: £3,206.1m

Final: £3,206.1m

**Summary of management's approach**

Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.

The Council's net pension liability at 31 March 2021 is £3,206.1m (PY £2,591.3m) comprising obligations under the West Midlands Pension Fund Local Government pension scheme.

The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from this scheme.

A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns.

**Audit Comments**

- We have no concerns over the competence, capabilities and objectivity of the actuary used by the Council.
- We have used the work of PwC, as auditors expert, to assess the actuary and assumptions made by the actuary. See below for consideration of key assumptions in the Birmingham City Council Pension Fund valuation:

| Assumption | Actuary Value | PwC range | Assessment |
|---|---|---|---|
| Discount rate | 2.00% | 1.95% - 2.05% | |
| Pension increase rate | 2.80% | 2.80% - 2.85% | |
| Salary growth | 3.80% | 3.80% - 3.85% | |
| Life expectancy<br>Males currently aged 45 / 65 | 45: 23.4<br>65: 21.6 | 21.9 – 24.4<br>20.5 – 23.1 | |
| Life expectancy<br>Females currently aged 45 / 65 | 45: 25.8<br>65: 23.9 | 24.8 – 26.4<br>23.3 – 25.0 | |

- No issues were noted with the completeness and accuracy of the underlying information used to determine the estimate.
- There have been no changes to the valuation method since the previous year, other than the updating of key assumptions above.
- We have confirmed that the Council's share of the pension scheme assets is in line with expectations.

As set out on page 11 of this report, the auditor of the WMPF identified an understatement in the valuation of the Fund's assets in the course of their audit procedures. The Council's share of the estimated error is approximately £24.7m, however this is not indicative of an issue in management's estimation process. An adjustment has been made for this issue in the Council's financial statements, as set out in Appendix C.

We have identified that an element of the Council's liability has been mistakenly calculated assuming 12 months of payroll data when only 10 months was submitted. We are satisfied that this won't be a material issue, but have yet to confirm the impact of this error.

**Assessment**

We consider management's process is appropriate and key assumptions are neither optimistic or cautious

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# 2. Financial Statements - Key judgements and estimates

| Significant judgement or estimate | Summary of management's approach | Audit Comments | Assessment |
|---|---|---|---|
| Grants Income Recognition and Presentation | The government has provided a range of new financial support packages to the Council and all local authorities throughout the COVID-19 pandemic, including funding to support the cost of services, and amounts to be paid out to support local businesses.<br><br>The Council has needed to consider the nature and terms of each of the various COVID-19 measures in order to determine the appropriate accounting treatment, including whether there was income or expenditure to be recognised in the Comprehensive Income and Expenditure Statement (CIES) for the year.<br><br>The main considerations made by management in forming their assessment were:<br><br>• Where funding is to be transferred to third parties, whether the Council was acting as a principal or agent, and therefore whether income should be credited to the CIES or whether the associated cash should be recognised as a creditor or debtor on the Balance Sheet<br><br>• Whether there were any conditions outstanding at year-end, and therefore whether the grant should be recognised as income or a receipt in advance<br><br>• Whether the grant was awarded to support expenditure on specific services or was in the form of an un-ringfenced government grant – and therefore whether associated income should be credited to the net cost of services or taxation and non-specific grant income within the CIES | Our work on the Council's grant income is complete, and only one issue has been noted. In the draft financial statements the Council had recognised both income and expenditure in relation to COVID-19 related grants which management now believe should have been excluded from the financial statements. We are satisfied that this revised assessment is reasonable. For more detail on this adjustment, see Appendix C.<br><br>In particular:<br><br>• Following the adjustment identified, we are satisfied that management have effectively evaluated whether the Council is acting as the principal or agent for each relevant scheme, which has determined whether any income is recognised.<br><br>• We have evaluated the underlying information used to determine whether there were conditions outstanding (as distinct from restrictions) at the year-end that would determine whether the grant should be recognised as a receipt in advance or income, and concluded that this treatment was appropriate.<br><br>• We have considered management's assessment, for grants received, of whether the grant is specific or non specific grant (or whether it is a capital grant) – which impacts on where the grant is presented in the CIES. We are satisfied that the presentation in the CIES is appropriate.<br><br>• Management's disclosure of the Council's accounting treatment for grant income is sufficient. | Following the adjustment identified we consider management's process is appropriate and key assumptions are neither optimistic or cautious |

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# 2. Financial Statements - Key findings arising from the group audit

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

| Component | Individually Significant? | Audit approach | Findings | Conclusion |
|---|---|---|---|---|
| Birmingham City Council | Yes | Full scope audit performed by Grant Thornton UK LLP | See detail of findings set out in section 2 of this report. | |
| Birmingham Children's Trust CIC | No | Specific procedures will be completed on these balances by Grant Thornton UK LLP<br><br>(approach changed since Audit Plan) | We did not identify any significant risks of misstatement of the group financial statements.<br><br>A change to our planned approach has arisen as we had originally anticipated using the work of the component auditor (Crowe UK LLP). We subsequently identified that the component auditor has been engaged to provide tax and financial statement preparation services to a significant component of the group, being the Birmingham Children's Trust. Supporting Ethical Provision A2.4 of the Financial Reporting Council's Ethical Standard requires that we ensure that the firm's independence is not compromised as a result of conditions or relationships that would compromise the independence of another firm whose work is used in the conduct of our audit engagement, having regard to the ethical requirements in the Ethical Standard that are relevant to the engagement. In practice, this means that the prohibitions on providing these (and other) types of non-audit service to public interest entities and their controlled undertakings also apply to this other firm and not just Grant Thornton.<br><br>Whilst Crowe UK LLP was content that it was able to provide the services, under the ethical rules applicable to its audit of the Children's Trust, we identified these services are prohibited under the more stringent Ethical Standard in place for the Group audit. There were no appropriate safeguards to mitigate the impact these prohibited services would have had on our independence, being prohibited regardless of materiality. Therefore we have had to carry out our own audit procedures for both the 2020/21 and 2021/22 years in respect of this component of the group, instead of using the work of the component auditor, to support our group audit opinion. | We are undertaking procedures on the material figures used in the consolidation for the purposes of group accounts, being those in relation to operating expenditure, staff costs, the net pension liability and journals (the latter of which is to mitigate against the presumed risk of management override).<br><br>This work is still underway as at the time of writing, though we have no findings to bring to your attention.<br><br>Birmingham Children's Trust has received an unqualified opinion from its auditors, and while we are unable to rely on their work, we have used the outcome of their audit as part of our risk assessment in considering which areas of focus may be required.<br><br>The audit team identified an error in the Council's consolidation process where the Trust's pension reserve had been incorrectly recorded as an unusable reserve in the group financial statements, when it should have been included in usable reserves. This has been amended in the group financial statements, and is included in Appendix C to this report. |

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# 2. Financial Statements - Key findings arising from the group audit

| Component | Individually Significant? | Audit approach | Findings | Conclusion |
|---|---|---|---|---|
| National Exhibition Centre (Developments) Plc | No | Specific procedures will be completed on these balances by Grant Thornton UK LLP | We did not identify any significant risks of misstatement of the group financial statements, however the company's loan stock is material to the group and the audit team have agreed this balance to supporting evidence. | No issues noted through work performed. |
| Other entities | No | Analytical review performed by Grant Thornton UK LLP | None | No issues noted through work performed. |

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# 2. Financial Statements - Other communication requirements

We set out here details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

| Issue | Commentary |
|---|---|
| Matters in relation to fraud | We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any incidents in the period and no issues have been identified during the course of our audit procedures. |
| Matters in relation to related parties | We are not aware of any related parties or related party transactions which have not been disclosed. |
| Matters in relation to laws and regulations | You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work. |
| Written representations | A letter of representation has been requested from the Council, including specific representations in respect of the Group. |
| Confirmation requests from third parties | We requested from management permission to send confirmation requests to the Council's bank and investment counterparties. This permission was granted and requests were sent. These requests were returned with positive confirmation. |
| Accounting practices | We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements. |
| Audit evidence and explanations / significant difficulties | All information and explanations requested from management were provided. |

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# 2. Financial Statements - Other communication requirements

**Our responsibility**

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

| Issue | Commentary |
|---|---|
| Going concern | In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.<br><br>Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:<br>• the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities<br>• for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report.<br><br>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:<br>• the nature of the Council and the environment in which it operates<br>• the Council's financial reporting framework<br>• the Council's system of internal control for identifying events or conditions relevant to going concern<br>• management's going concern assessment.<br><br>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:<br>• a material uncertainty related to going concern has not been identified<br>• management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. |

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# 2. Financial Statements - Other responsibilities under the Code

| Issue | Commentary |
|---|---|
| Other information | We are required to give an opinion on whether the other information published together with the audited financial statements including the Annual Governance Statement and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.<br>No inconsistencies have been identified. We note however, that the Annual Governance Statement will need to be updated to reflect any changes or emerging issues as it is required to comment upon events up to the date that the accounts are authorised for publishing. We plan to issue an unmodified opinion in this respect, subject to these updates. |
| Matters on which we report by exception | We are required to report on a number of matters by exception in a number of areas:<br>• if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit,<br>• if we have applied any of our statutory powers or duties.<br>• where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es.<br>We have nothing to report on these matters. |
| Specified procedures for Whole of Government Accounts | We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.<br>As the Council exceeds the specified group reporting threshold we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements.<br>This work is planned to be complete by the time we are in a position to issue our audit report. |
| Certification of the closure of the audit | We intend to certify the closure of the 2020/21 audit of Birmingham City Council in the audit report, once the following work is complete:<br>• issuance of our final Auditor's Annual Report on the Council's arrangements to secure value for money; and<br>• completion of required procedures on the Council's WGA return. |

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# 3. Value for Money arrangements

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

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

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

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria.
- Auditors undertaking sufficient analysis on the Council's VFM arrangements to arrive at far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

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

### Improving economy, efficiency and effectiveness

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

### Financial Sustainability

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

### Governance

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

## Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:

### Statutory recommendation

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

### Key recommendation

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

### Improvement recommendation

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

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# 3. Value for Money arrangements

We have completed all of our planned VFM work and are issued our provisional Auditor's Annual Report in March 2021, and presented this to the Audit Committee in May 2021. An audit letter explaining the reasons for the delay in this report was presented to the September 2021 meeting of the Audit Committee. We are intending to issue our finalised Auditor's Annual Report at the time that we issue our audit report. This is in advance of the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements (which is likely to be January 2022 in Birmingham's case).

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified the risks set out in the table below. The latter four of these risks were identified since the issue of our Audit Plan. This table also summarises our findings, as reported in our provisional Auditor's Annual Report.

| Risk identified | Linked to reporting criteria | Conclusion & recommendations |
|---|---|---|
| Financial impact of the Commonwealth Games | Financial sustainability<br>Governance<br>Improving economy, efficiency & effectiveness | No significant weaknesses in arrangements identified.<br>No recommendations made. |
| Contractual arrangements relating to the highways PFI scheme | Financial sustainability<br>Governance<br>Improving economy, efficiency & effectiveness | No significant weaknesses in arrangements identified.<br>Five improvement recommendations made. |
| Waste service continuity and industrial relations | Financial sustainability<br>Governance<br>Improving economy, efficiency & effectiveness | No significant weaknesses in arrangements identified.<br>One improvement recommendation made. |
| Potential impact of a lack of stable leadership due to significant level of turnover of key staff and officers | Financial sustainability<br>Governance<br>Improving economy, efficiency & effectiveness | No significant weaknesses in arrangements identified.<br>Two improvement recommendations made. |
| Arrangements in relation to required improvements in SEND services | Financial sustainability<br>Governance<br>Improving economy, efficiency & effectiveness | A significant weakness has been identified in relation to the delivery and governance of SEND services.<br>We have made one key recommendation and no improvement recommendations. |
| IT Audit findings and planned changes to the Council's general ledger | Financial sustainability<br>Governance<br>Improving economy, efficiency & effectiveness | A significant weakness has been identified in relation to system access.<br>We have made one key recommendation, and a further four improvement recommendations, of which three have already been actioned. |
| Financial impact of equal pay claims | Financial sustainability<br>Governance<br>Improving economy, efficiency & effectiveness | No significant weaknesses in arrangements identified.<br>No recommendations made. |
| Independent reports into issues related to the Home to School Transport Service | Financial sustainability<br>Governance<br>Improving economy, efficiency & effectiveness | Two significant weaknesses have been identified in relation to service delivery and assurance mechanisms.<br>We have made two key recommendations and no improvement recommendations. |

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# 4. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements.

A member of the Grant Thornton team who has assisted with our value for money work in respect of the Council's Highways PFI scheme previously worked for another accounting firm that acted as financial advisors to Birmingham City Council on its Highways PFI. We have considered whether this might represent a threat to our independence for the purposes of the VFM work, and are satisfied that any self-review threat is mitigated by the facts that: 10 years have passed since the individual's involvement in Birmingham's PFI arrangements; and the individual's work will be reviewed by more senior members of their team, and by the audit team. We have consulted with our Ethics team and they are satisfied that we have put in place adequate safeguards.

During the audits of the year ended 31 March 2021 and 31 March 2022, a non-Grant Thornton member firm in the UK has been engaged to provide tax and financial statement preparation services to a significant component of the group. Supporting Ethical Provision A2.4 of the Financial Reporting Council's Ethical Standard requires that we ensure that the firm's independence is not compromised as a result of conditions or relationships that would compromise the independence of another firm whose work is used in the conduct of our audit engagement, having regard to the ethical requirements in the Ethical Standard that are relevant to the engagement. In practice, this means that the prohibitions on providing these (and other) types of non-audit service to public interest entities and their controlled undertakings also apply to this other firm and not just Grant Thornton.

We identified these prohibited services through our group audit oversight. There were no appropriate safeguards to mitigate the impact these prohibited services would have had on our independence, being prohibited regardless of materiality. Therefore we have had to carry out our own audit procedures for both the 2020/21 and 2021/22 years in respect of this component of the group, instead of using the work of the component auditor, to support our group audit opinion.

We have received confirmation that PwC (as our actuarial expert) and Wilks Head & Eve LLP (as our valuation expert) are independent.

No breaches of regulations have been identified.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D.

## Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Transparency report 2020 (grantthornton.co.uk)

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# 4. Independence and ethics

### Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the group. The following non-audit services were identified which were charged from the beginning of the financial year to March 2023, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

| Service | Fees £ | Threats identified | Safeguards |
|---|---|---|---|
| Audit related | | | |
| Certification of 2019/20 Teachers' Pension return (October – November 2020) | 7,500 | For these three audit-related services, we consider that the following perceived threats may apply:<br>• Self-Interest (because these are recurring fees)<br>• Self Review<br>• Management | The level of recurring fees taken on their own are not significant in comparison to the scale fee for the audit of £241,909, or the confirmed final fee for the audit of £441,034 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, each is a fixed fee and there is no contingent element to any of them. These factors mitigate the perceived self-interest threat to an acceptable level.<br><br>Our team have no involvement in the preparation of the form which is certified, and do not expect material misstatements in the financial statements to arise from the performance of the certification work. Although related income and expenditure is included within the financial statements, the work required in respect of certification is separate from the work required to audit the financial statements, and is performed after the audit of the financial statements has been completed.<br><br>The scope of the work does not include making decisions on behalf of management or recommending or suggesting a particular course of action for management to follow. Our team perform these engagements in line with set instructions and reporting frameworks. Any amendments made as a result of our work are the responsibility of informed management. |
| Certification of 2019/20 Housing Benefits Subsidy claim (August 2020 – January 2021) | 27,500 | | |
| Certification of 2019/20 Housing capital receipts grant (January – April 2021) | 5,500 | | |
| Certification of 2020/21 Housing Benefits Subsidy claim (June 2021 – January 2022) | 22,500 | | |
| Certification of 2020/21 Teachers' Pension return (November 2021 – January 2022) | 7,500 | | |
| Certification of 2020/21 Housing capital receipts grant (January – February 2022) | 5,500 | | |
| Certification of 2021/22 Housing Benefits Subsidy claim (May 2022 – January 2023) | 22,500 | | |
| Certification of 2021/22 Teachers' Pension return (commenced June 2022) | 7,500 | | |
| Certification of 2021/22 Housing capital receipts grant (commenced March 2023) | 7,500 | | |

Table continues on the following page...

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# 4. Independence and ethics

| Service | Fees £ | Threats identified | Safeguards |
|---|---|---|---|
| Audit related (continued…) | | | |
| AMSCI reasonable assurance engagements (April 2021) | 15,000 | Self-Interest (because this is a recurring fee) | The level of recurring fees taken on their own is not considered a significant threat to independence as the fee for this work is £15,000 in comparison to the confirmed scale fee for the audit of £241,909 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level. |
| Homes England Compliance Checklist (August – September 2021) | 6,000 | Self-Interest (because this is a recurring fee) | The level of recurring fees taken on their own is not considered a significant threat to independence as the fee for this work is £6,000 in comparison to the confirmed scale fee for the audit of £241,909 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level. |
| BEIS grants assurance 2019/20 and 2020/21 (November – December 2021) | 20,000 | None | The level of recurring fees taken on their own is not considered a significant threat to independence as the fee for this work is £20,000 in comparison to the confirmed scale fee for the audit of £241,909 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level. |
| There were no non-audit related services | | | |

These services are consistent with the group's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit Committee. None of the services provided are subject to contingent fees.

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# Appendices

# A. Action plan – Audit of Financial Statements

**Controls**

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

We have identified recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2021/22 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

| Assessment | Issue and risk | Recommendations |
|---|---|---|
| Low | Our testing of management's calculation of the equal pay provision identified a number of errors resulting from manual inputs into the calculation.<br><br>We have gained sufficient assurance that these errors did not lead to a material misstatement of the estimate. | We recommend that the Council looks to reduce its reliance on manual processes, or where this is not possible ensure that sufficient reviews are in place to reduce the risk of errors.<br><br>Management response<br><br>Management recognise that a less manual process would be an improvement, and consideration will be given to this, however the impact will be immaterial as demonstrated by the audit testing. Management will review opportunities for automation in proportion to the greater accuracy achievable. |
| Medium | Our testing of a sample of the Council's revaluations of land and buildings assets identified instances of capital transactions which involved splitting or combining assets not being accounted for correctly due to limitations of the Council's fixed asset register.<br><br>We have gained sufficient assurance that the impact of these issues were trivial for the 2020/21 financial year, but this could be a bigger issue if there were more or larger assets involved. | We recommend that the Council implements a formal approach to correctly accounting for these types of transactions to avoid similar issues arising in future years.<br><br>Management response<br><br>Accounting for splitting or combining of assets will be reviewed and undertaken in lie with the requirements of the Accounting Code. |
| High | A number of the Council's HRA dwellings (mainly in tower blocks) are valued using a Discounted Cash Flow (DCF) approach. When we challenged the Council's initial valuations, management were unable to support the levels of maintenance spend assumed in the forecasts, or how that spend was phased over the period of the forecast.<br><br>As set out on page 10, this resulted in an increase in the overall valuation of the Council's HRA dwellings of £42.4 million. | We recommend that the Council ensures that in future years the inputs into the DCF models are reasonable and supportable.<br><br>Management response<br><br>This recommendation was actioned as part of the process of finalising the financial statements for 2021/22. |

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# A. Action plan – Audit of Financial Statements

**Controls**

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

| Assessment | Issue and risk | Recommendations |
|---|---|---|
| Medium | Of the errors identified in relation to the occurrence and completeness of expenditure in the Council's 2020/21 financial statements, the majority of issues related to information provided to the Council from schools.<br><br>We have gained sufficient assurance that these errors did not lead to a material misstatement of the financial statements, but there is scope for larger errors to arise due to incorrect or incomplete information being provided to the Council. | We recommend that the Council issues further guidance to schools on the information that they require, and implement a process to satisfy itself that the information received is accurate and complete.<br><br>Management response<br><br>Guidance and Training will be provided to schools on this matter as well as carrying out checks on material balances. |
| Medium | We are aware that in order to focus attention on the more significant items of income and expenditure at the end of the financial year, finance staff were instructed to focus efforts on items over £5,000.<br><br>This guidance was not formally implemented as a change in accounting policy, and the Council has been unable to demonstrate that such a de minimis threshold would not cause a material misstatement if it were implemented across all transactions.<br><br>Our testing of the completeness of income and expenditure accruals has not identified unusual levels of omissions below this threshold, and we are satisfied that there is not a material misstatement of the 2020/21 financial statements as a result of this guidance. | We recommend that the Council decides whether or not to implement a de minimis policy for year-end accruals, in order to avoid confusion on the part of finance staff. If such a policy is considered appropriate, it should be supported by a full assessment of the risk of material misstatement as a result of its implementation.<br><br>Management response<br><br>Clarity will be provided to all finance officers to accrue for all amounts of expenditure and income that relates to the year of accounting. |
| Medium | We identified that the valuer's terms of engagement for the HRA valuations had a section specifically in relation to the methodology to be used for the valuation of dwellings, but that the only methodology referenced in this was the beacon property method. This is the same in other related documents (instructions, valuation certificate) where no reference is made to DCF. | We recommend that the Council reviews the instructions and terms of engagement with the valuer to ensure that they properly reflect the work that is required. We consider that it would be appropriate to include reference to the option to use a DCF methodology and to explicitly state when this methodology should be used and why.<br><br>Management response<br><br>Reference and rationale for using DCF as a methodology will be stated in the valuer's terms of engagement |
| Medium | Through work performed prior to the statutory instrument coming in to force at the end of 2022, we identified that the Council's fixed asset records do not contain sufficient detail to enable them to assess the condition of individual assets, or determine enhancements made to individual assets.<br><br>We are satisfied that this would not lead to a material misstatement of the 2020/21 financial statements due to the statutory override, however this override is not a permanent solution. | We recommend that the Council reviews its records with a view to improving the information held on infrastructure assets.<br><br>Management response<br><br>The Council holds detailed condition information in records held by the service. |

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# A. Action plan – Audit of Financial Statements

**Controls**

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

| Assessment | Issue and risk | Recommendations |
|---|---|---|
| Medium | Our work in relation to the Council's Related Party Transactions disclosure (Note 47) identified several instances of interests that were not declared by members or officers, and that were subsequently not identified by the Council's procedures.<br><br>We are satisfied that this does not lead to a material risk of omission or misstatement in the financial statements, however the Council should be aware of all of its related parties to ensure that any transactions with such entities are treated appropriately. | We recommend that:<br>1. Additional checks are performed by the Council to confirm the completeness of the declarations received.<br>2. Declarations should be requested from all senior officers, even those in short-term posts.<br>3. Member declarations should be updated when a member's interests change, and at least annually.<br><br>Management response<br><br>Democratic services and Legal services will review the process for Member and Senior Officer declarations. |
| Low | We have identified instances of debtor and creditor codes containing historic and unmatched entries (ie entries where the debit doesn't exactly match the credit so both entries remain active in the system). We consider that the existence of these balances must make it difficult for the Council to properly monitor its debtors and creditors. | We recommend that an exercise is completed to review these historic balances and remove them where appropriate so that the Council's data can be used for its required purpose.<br><br>Management response<br><br>Balances will be reviewed as the Council prepares for migration to Oracle. A continuous review of the Balance Sheet will be implemented to ensure balances are verifiable and current. |
| Low | During the completion of our expenditure testing, we identified a transaction transferring costs between directorates on the face of the CIES, which related to the MRP charge on the Council's highways PFI assets. We have been able to gain a full understanding of the sequence of transactions that result in this adjustment in the CIES being required, and we are satisfied that the underlying accounting results in the correct treatment in the financial statements.<br><br>We consider that the basis for these transactions, which appears to be driven by management accounting and the Council's budget process, is overly complex. | We recommend that the Council reviews the accounting in question and considers whether there is a more straight-forward approach to achieve the same results.<br><br>Management response<br><br>The process for MRP calculation for this PFI will be documented and where needed streamlined to ensure it is easy to follow. |

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# B. Follow up of prior year recommendations

**Assessment**
✓ Action completed
**WIP** Action in progress
**X** Not yet addressed

We identified the following issues in the audit of Birmingham City Council's financial statements in 2019/20 and earlier years, which resulted in recommendations being reported in our 2019/20 Audit Findings report.

| Assessment | Issue and risk previously communicated | Update on actions taken to address the issue |
|---|---|---|
| WIP | Pensions data provided to the actuary<br>During our work to assess the accuracy and completeness of the information provided to the actuary in 2019/20, we identified that the data initially submitted for April 2019 did not agree to the Council's payroll records.<br>There is a risk that providing incorrect information to the actuary will impact on the actuarial valuation provided for the financial statements, and lead to a misstatement of the Council's liabilities.<br>This was later corrected by the Council in a subsequent data submission to the actuary.<br>We recommended that management put controls in place to ensure that data issues such as this are picked up prior to submission in future. | We have not identified any issues during our work on the 2020/21 year where submissions did not agree to payroll records.<br>However, we have identified that an element of the Council's liability has been mistakenly calculated assuming 12 months of payroll data when only 10 months was submitted. The impact of this error was below our clearly trivial threshold. |
| ✓ | Incorrect capitalisation of revenue expenditure funded by capital under statute (REFCUS)<br>Our testing of items within Property, Plant and Equipment during 2019/20 identified items of REFCUS spend that had been incorrectly included in Assets Under Construction in the draft financial statements.<br>While we gained assurance that this did not represent a material risk to the financial statements in for 2019/20, incorrect treatment of the Council's spend will have a knock-on impact on budget monitoring activity if it is inaccurate.<br>We recommended that management ensure processes are in place to differentiate between spend that can be capitalised and spend that is being treated as REFCUS. | Testing of a sample of the Council's capital additions and REFCUS transactions did not identify any similar issues this year. |
| ✓ | Incorrect capitalisation of revenue spend by schools<br>Our testing of items within Property, Plant and Equipment during 2019/20 identified items of revenue spend that had been incorrectly capitalised by schools in the draft financial statements.<br>While we gained assurance that this did not represent a material risk to the financial statements in for 2019/20, incorrect treatment of the Council's spend will have a knock-on impact on budget monitoring activity if it is inaccurate.<br>Management should ensure that processes are in place to ensure that the capital spend submitted by schools is reviewed for accuracy before it is incorporated into the Council's financial records. | Testing of a sample of the Council's capital additions and REFCUS transactions did not identify any similar issues this year. |

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# B. Follow up of prior year recommendations

**Assessment**

✓ Action completed

**WIP** Action in progress

**X** Not yet addressed

| Assessment | Issue and risk previously communicated | Update on actions taken to address the issue |
|---|---|---|
| ✓ | **Assets valued at below £50,000**<br>The Council's policy for the revaluation of property plant and equipment states that all assets valued at less than £50,000 will be included in the financial statements at £nil value. There is a risk that in aggregate, these assets could be significantly understating the Council's balance sheet.<br>Management should keep a high-level record of assets where this de minimis has been applied so that an assessment can be made as to whether there is a risk of material misstatement in the PPE balance in future years. | We have confirmed that for the valuations completed during 2020/21 this information has been retained. |
| WIP | **Intra-group consolidation adjustments**<br>After preparation of the financial statements, the finance team identified that they had treated VAT amounts incorrectly within the intra-group adjustments in the consolidation process. This led to material misstatement of the group financial statements.<br>Management should ensure that sufficient time is built into the closedown processes to enable a robust management and quality review to be completed prior to the financial statements being submitted for audit. | Testing of the Council's consolidation process identified a material error in the treatment of the Birmingham Children's Trust pension reserve. This is a reduction in the number of errors identified in the previous year, indicating that improvements have been made to the process. |
| WIP | **Open purchase orders in the general ledger**<br>During our work on the completeness of the Council's expenditure in the 2019/20 year, we have identified that there are a significant number of open purchase orders in the general ledger that relate to previous years. Some of these date back to prior to the implementation of the current ledger system. The volume of open orders on the system means that management cannot glean any useful information from this data for their monitoring purposes.<br>We recommended that management look to reduce the number of historic purchase orders still open in the general ledger system, in order to make this a useful report for their consideration of the completeness of expenditure within the financial year. | Progress has been made to reduce the number of historic purchase orders that are open in the general ledger, but there were still a significant number at 31 March 2021.<br>We recommend that the Council continues to review and cleanse these items. |
| ✓ | **Capital commitments**<br>Through performance of our testing, we have noted that the Council's capital commitments note had been prepared based on business cases and on estimated spend to date. While we were satisfied that this does not give rise to a risk of material error in the disclosure note in 2019/20, this disclosure should be prepared based on contracted amounts and actual expenditure against these at the end of the year. | Testing of the Council's capital commitments disclosure did not identify any similar issues in 2020/21. |
| X | **Heritage asset valuations**<br>The Council's Thinktank heritage asset has not been formally valued for a number of years; the figure used in the 2019/20 financial statements was based upon information compiled by the Council's insurance team. There is a risk that this valuation is not reflective of the asset's actual value. This asset is above our clearly trivial threshold but does not exceed our performance materiality. | No valuation has been performed this year. Management's assessment is that the insurance valuation used remains appropriate. |

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# B. Follow up of prior year recommendations

**Assessment**
✓ Action completed
**WIP** Action in progress
**X** Not yet addressed

| Assessment | Issue and risk previously communicated | Update on actions taken to address the issue |
|---|---|---|
| WIP | Under-accrual of expenditure<br>Our testing of the completeness of expenditure in 2018/19 identified several items which were paid after 31 March 2019 but should have been accrued into the 2018/19 financial year. The Council performed extended analysis covering payments made during the period to 22 August 2019 which identified £9.6m of invoices (inclusive of associated VAT) which relate to 2018/19 but were not accrued. As part of our testing in the 2019/20 year, we again identified transactions that had not been recorded in the correct year, and additional testing had to be performed..<br>In previous years, similar issues around the completeness of expenditure had been noted. The Council should investigate why these invoices were not appropriately accrued and implement additional controls to reduce the risk of such omissions in the future. | Testing of a sample of transactions after 31 March 2021 identified a small number of omitted items. Testing of expenditure in our 2021/22 audit also identified a small number of items which should have been recognised in 2020/21. While we have assurance that this does not lead to a material misstatement of the financial statements, there is still room for improvement in this area. |
| X | Errors noted in property valuations<br>In previous years' audits we identified errors in the work of the valuer relating to the valuation of secondary schools, and a valuation where expenditure was used instead of profit as the basis of the valuation.<br>Appropriate review should be included as part of the valuation process to ensure that any errors in valuation are identified and resolved. | Testing of a sample of the Council's valuations identified a number of issues again in 2020/21, several of which could have been picked up through review. |
| ✓ | Disposals omitted from the prior year<br>Our testing of disposals recorded in the 2018/19 and 2019/20 financial statements identified assets that should have been derecognised in the previous financial years. We were satisfied that in each instance these were isolated incidents, and there was no material risk to the accounts.<br>The Council should ensure there are appropriate controls in place to ensure all disposals are accounted for in the correct year. | Testing of a sample of the Council's disposals did not identify any similar issues in 2020/21. |
| X | Multiple accounts assigned to a single user<br>We identified a high number of users with multiple accounts within SAP. Whilst some of these are required for FireFighter ID purposes, it appears that some are unnecessary.<br>Management should consider which users need multiple accounts within SAP and remove access to those where this function is not required. | Although no actual instances of inappropriate use of that access have been identified, the Council feels that moving to a preventative measure of reducing access to the minimum required as often as possible is a sensible precaution. Accordingly, work has already started to remove this access from high risk accounts identified but will need time to unpick this in a controlled manner from any remaining accounts over the next few months. |

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# B. Follow up of prior year recommendations

**Assessment**

✓ Action completed

**WIP** Action in progress

**X** Not yet addressed

| Assessment | Issue and risk previously communicated | Update on actions taken to address the issue |
|---|---|---|
| X | General IT controls<br><br>As part of our review of IT controls, we identified an excessive number of users with inappropriate access to high risk T-codes within SAP. Our previous IT audit in 2018/19 identified 109 users with potentially inappropriate access out of 668 users tested due their higher risk nature.<br><br>The risk is that an excessive number of users have access to critical transactions at high level of authorisation, which we would normally expect to be restricted to system administrators.<br><br>Management should review all access and reassign the relevant transactions in accordance with business need and current job duties only. | Although no actual instances of inappropriate use of that access have been identified, the Council feels that moving to a preventative measure of reducing access to the minimum required as often as possible is a sensible precaution. Accordingly, work has already started to remove this access from high risk accounts identified but will need time to unpick this in a controlled manner from any remaining accounts over the next few months. |

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# C. Audit Adjustments

## We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

### Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2021.

| Detail | Comprehensive Income and Expenditure Statement £m | Statement of Financial Position £m |
|---|---|---|
| **COVID-19 Grant Income** | | |
| It has been identified that in the draft financial statements the Council has recognised both income and expenditure in relation to COVID-related grants which management now believe should have been excluded as the Council was acting as agent in these transactions. We have reviewed this assessment and consider it reasonable. The financial statements have been corrected as follows: | | |
| Dr Income | 217.7 | |
| Cr Expenditure | (217.7) | |
| During the preparation of the 2021/22 draft financial statements, the Council identified 4 grants that it had been treating as agency transactions but for which, on review, management determined that the Council was acting as principle. These grants had not formed part of our sample testing in 2020/21, but we have since reviewed this treatment and deem it appropriate. The financial statements have therefore been further adjusted as follows: | | |
| Dr Expenditure | 6.3 | |
| Cr Income | (6.3) | |
| **Error noted by the Pension Fund audit team** | | |
| We note that the auditor of the WMPF identified an understatement in the valuation of the Fund's assets in the course of their audit procedures. The auditor reported a 11m quantifiable understatement of level 3 investments of £76m, which was then extrapolated to a total potential error of £90m. | | |
| The Council's share of this total estimated £90m error is approximately £24.7m. An adjustment has been made for the Council's share of the quantifiable error, being £20.9m, as follows | | |
| Dr Net pension assets | | 20.9 |
| Cr Return on assets (within Other Comprehensive Income) | (20.9) | |
| This issue arose as a result of a lag in the valuation process for the Fund's hard to value investments. This is a function of the Fund's reporting process and is not considered to be indicative of a control weakness at the Council. This is also not an unusual finding in pension fund audits, with the size of the variance this year being attributable to ongoing market volatility. | | |

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# C. Audit Adjustments

## Impact of adjusted misstatements (continued)

| Detail | Comprehensive Income and Expenditure Statement £m | Statement of Financial Position £m |
|---|---|---|
| **Revaluation of the Council's land and buildings** | | |
| Our testing of the valuations performed on the Council's land and building assets has focussed on the highest value assets, and those assets where the movements between valuations was not in line with our expectations. There were 41 such assets in the financial statements, and our testing has identified issues with 15 of these. | | |
| Management has agreed to adjust for the non-trivial errors identified (non-trivial errors are included as unadjusted items on page 46): | | |
| Dr Property, Plant and Equipment | | 10.2 |
| Cr Movement taken to Revaluation Reserve (within Other Comprehensive Income) (TBC) | (10.2) | |
| **Unsupported valuation assumptions for HRA dwellings** | | |
| As set out on page 10, a number of the Council's HRA dwellings, mainly in tower blocks, are included in the financial statements at zero value. Following our challenge of the appropriateness of the use of this valuation methodology, and audit work performed on the appropriateness of the data and assumptions used for the inputs into the cash flow models for the 8 HRA dwelling archetypes valued using this approach, management and the Council's valuer have reperformed these valuations, resulting in an adjustment to the financial statements as follows: | | |
| Dr Property, Plant and Equipment | | 42.4 |
| Cr Movement taken to Revaluation Reserve (within Other Comprehensive Income) (TBC) | (42.4) | |
| **Obsolescence of assets valued using indices** | | |
| As set out on page 10, the Council values a proportion of its DRC assets using indices each year. We identified through our audit work that no consideration was given to the obsolescence of these assets (a key factor in a DRC valuation) as part of this indexation exercise. Following our challenge, management have been able to quantify the impact of obsolescence on these assets, resulting in an adjustment to the financial statements as follows: | | |
| Dr Movement taken to the Surplus/Deficit on Provision of Services (TBC) | 24.6 | |
| Dr Movement taken to Revaluation Reserve (within Other Comprehensive Income) (TBC) | 10.6 | |
| Cr Property, Plant and Equipment | | (35.2) |

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# C. Audit Adjustments

Impact of adjusted misstatements (continued)

| Detail | Comprehensive Income and Expenditure Statement £m | Statement of Financial Position £m |
|---|---|---|
| **Application of incorrect social housing factor to valuations** | | |
| Within other land and buildings, the Council has land assets which are valued on a social housing basis. These values have been reduced to 50%, when the social housing factor used for the Council's Dwellings is 40%. | | |
| This error has been adjusted as follows: | | |
| Dr Movement taken to the Surplus/Deficit on Provision of Services (TBC) | 0.5 | |
| Dr Movement taken to Revaluation Reserve (within Other Comprehensive Income) (TBC) | 3.5 | |
| Cr Property, Plant and Equipment | | (4.0) |
| **Asset that should have been transferred out of Assets Under Construction** | | |
| Testing of the balance of assets under construction at 31 March 2021 identified an asset, with a value of £19.6m, that was ready for use before the end of the financial year and therefore should have been transferred into the Council's operational property. As it should have been operational at year-end, it should also have been subject to valuation with the Council's other land and building assets. The Council have therefore valued this asset at 31 March 2021 in order to record this in the financial statements. | | |
| Processing the valuation has the following impact: | | |
| Dr Movement taken to the Surplus/Deficit on Provision of Services (TBC) | 5.3 | |
| Cr Movement taken to Revaluation Reserve (within Other Comprehensive Income) (TBC) | (1.4) | |
| Cr Property, Plant and Equipment | | (3.9) |
| **Assets misclassified between operational assets and assets held for sale** | | |
| It was identified that two assets had been transposed within the asset categories in the asset register, and hence on the Council's balance sheet. Correcting this has had the following impact on the financial statements: | | |
| Dr Assets Held for Sale | | 2.2 |
| Cr Property, Plant and Equipment | | (2.2) |
| Overall impact (Authority) | (£30.4m) | £30.4m |

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# C. Audit Adjustments

Impact of adjusted misstatements (continued)

| Detail | Comprehensive Income and Expenditure Statement £m | Statement of Financial Position £m |
|---|---|---|
| **Error in consolidation of Birmingham Children's Trust's financial statements** | | |
| The audit team identified an error in the Council's consolidation process where the Trust's pension reserve had been incorrectly recorded as an unusable reserve in the group financial statements, when it should have been included in usable reserves. This has been amended in the group financial statements, and is included in Appendix C to this report. The financial statements have been corrected as follows: | | |
| Dr Group Usable Reserves | | 151.7 |
| Cr Group Unusable Reserves | | (151.7) |
| Overall impact (Group) | (£30.4m) | £30.4m |

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# C. Audit Adjustments

## Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2020/21 audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below.

| Detail | Comprehensive Income and Expenditure Statement £m | Statement of Financial Position £m | Reason for not adjusting |
|---|---|---|---|
| **Extrapolated error noted by the Pension Fund audit team**<br>As set out on the previous page, the auditor of the WMPF reported an extrapolated understatement in the valuation of the Fund's assets of £90m. The Council has adjusted its accounts for its share of the quantifiable element of this error (being £76m), but has not adjusted for the extrapolated element.<br>If this further adjustment had been made, the Council's share would have been £3.8m: | | | This is an extrapolation of an error at the pension fund. |
| Dr Net pension assets | | 3.8 | |
| Cr Return on assets (within Other Comprehensive Income) | (3.8) | | |
| **Occurrence of expenditure**<br>Our testing of the Council's expenditure transactions was completed based on two separate populations – expenditure recorded in Q1-Q3, and expenditure recorded in Q4.<br>Testing of items in Q1-Q3 identified an issue in relation to expenditure that should have been recognised in 2019-20, per page 47.<br>We also tested 160 transactions from Q4. Of these, we identified one item which had been treated incorrectly, with £783 counted twice in the 2020/21 financial year, and £675 recognised in the 2020/21 financial year when it should have been recognised in the 2021/22 financial year. As there is no clear reason for this fail that would allow us to isolate this issue to any particular population, we have extrapolated it over the population of similar expenditure in Q4, giving a projected overstatement of current year expenditure as follows: | | | Non-material extrapolated error |
| Dr Creditors | | 5.9 | |
| Cr Expenditure | (5.9) | | |

Continued on next page

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# C. Audit Adjustments

Impact of unadjusted misstatements (continued)

| Detail | Comprehensive Income and Expenditure Statement £m | Statement of Financial Position £m | Reason for not adjusting |
|---|---|---|---|
| **Exclusion of land and buildings valued at less than £50,000** | | | Non-material extrapolated error |
| The Council has a policy of excluding assets with a value less than £50k from its financial statements. Following an audit recommendation in 2019/20, high level records of these valuations are now kept, but this was not the case prior to 2020/21. | | | |
| The Property, Plant and Equipment balance in the financial statements is therefore understated. The maximum potential understatement (if all such assets were valued at £50k in previous years) is £10.9m. Using the average value in 2020/21 as an estimate for the average value across these assets would give the following omission: | | | |
| Dr Property, Plant and Equipment | | 3.8 | |
| Cr Movement taken to Revaluation Reserve (within Other Comprehensive Income) | (3.8) | | |
| We are satisfied that the exclusion of these assets does not give rise to a material error in the financial statements, but feel it is appropriate to consider it here along with other differences in the Property, Plant and Equipment balance. | | | |
| **Revalued land and buildings** | | | Misstatements not material |
| As set out on page 41, our testing of the valuations of the Council's highest value assets, and those assets where the movements between valuations was not in line with our expectations identified issues with 15 of 41 such items. | | | |
| Management have only adjusted for the non-trivial errors identified, which reduces the under-valuation of assets to £2.1m: | | | |
| Dr Property, Plant and Equipment | | 2.1 | |
| Cr Movement taken to Revaluation Reserve (within Other Comprehensive Income) | (2.1) | | |
| We have also tested a sample of 25 of the remaining valuations, identifying issues with a further 7 of these, which indicate a potential understatement of the Council's Property, Plant and Equipment balance: | | | |
| Dr Property, Plant and Equipment | | 4.0 | |
| Cr Movement taken to the Surplus/Deficit on Provision of Services | (2.1) | | |
| Cr Movement taken to Revaluation Reserve (within Other Comprehensive Income) | (1.9) | | |

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# C. Audit Adjustments

Impact of unadjusted misstatements (continued)

| Detail | Comprehensive Income and Expenditure Statement £m | Statement of Financial Position £m | Reason for not adjusting |
|---|---|---|---|
| **Completeness of expenditure**<br>Our testing of cash transactions after 31 March 2021 identified 4 items which were omitted from the 2020/21 year in error. In total we tested 180 cash transactions from the months of April, May, June and July 2021. We have assessed these omitted items as follows:<br>• For three of the items (a credit note with a value of £5,832, an invoice with a value of £710, and an invoice for £42,562) there was no clear reason for the fail that would allow us to isolate the issue to any particular population, so we have extrapolated these errors over the population of similar expenditure-related cash receipts in the four months to July 2021. | | | Non-material extrapolated errors |
| Dr Expenditure | 5.7 | | |
| Cr Creditors | | (5.7) | |
| • For the remaining item (an invoice with a value of £2,275) the error was caused by incorrect information being provided to the Council by one of its schools, and not an issue within the Council's finance team. We therefore considered it appropriate to perform additional, focussed testing on a sample of similar items submitted by the Council's schools, to determine the potential prevalence of similar issues. The total population subject to this extended testing is £11.8m and therefore immaterial, and further testing of a sample of 5 items from this population resulted in a further 3 similar errors and a projected misstatement as follows: | | | |
| Dr Expenditure | 4.3 | | |
| Cr Creditors | | (4.3) | |
| **Adjusting event for the settlement of a legal case after the end of the reporting period**<br>The settlement of a legal claim is a specific example of an adjusting event within IAS 10 paragraph 9. This means that the Council's provisions at 31 March 2021 were understated, with an equal and opposite understatement in expenditure: | | | Management has confirmed that they agree with our conclusion that this meets the requirement of an adjusting event under IAS10, however do not propose amending the accounts as it is not considered to be material. |
| Dr Expenditure | 3.7 | | |
| Cr Provisions | | (3.7) | |

Continued on next page

# C. Audit Adjustments

Impact of unadjusted misstatements (continued)

| Detail | Comprehensive Income and Expenditure Statement £m | Statement of Financial Position £m | Reason for not adjusting |
|---|---|---|---|
| Depreciation of infrastructure<br>The Council has revisited and reviewed the useful economic lives (UELs) applied to infrastructure assets alongside CIPFA guidance in consultation with the BCC Highway Assets and PFI team and a revised set of proposed UELs going forward has been established. The impact of these revised UELs is to reduce the depreciation charge in both 2020/21 and 2021/22.<br>Management assessed that the impact on 2020/21 would be below £1.7m and trivial to the financial statements. They are therefore proposing not to adjust for this. Having reviewed the workings provided, we have determined the impact in 2020/21 to be greater, at £1.8m, and therefore above our clearly trivial threshold.<br>Processing this adjustment in 2020/21 would have the following impact: | | | Not material |
| Dr Property, Plant and Equipment (Infrastructure Assets) | | 1.8 | |
| Cr Depreciation Charge | (1.8) | | |
| Overall impact (Group) | (£7.7m) | £7.7m | |

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# C. Audit Adjustments

## Impact of unadjusted misstatements identified in the current year audit which relate to the prior year

The table below provides details of adjustments identified during the current year audit which would impact on the prior year and have not been adjusted.

| Detail | Comprehensive Income and Expenditure Statement £m | Statement of Financial Position £m | Reason for not adjusting |
|---|---|---|---|
| **Occurrence of expenditure**<br>Our testing of the Council's expenditure transactions was completed based on two separate populations – expenditure recorded in Q1-Q3, and expenditure recorded in Q4.<br>In total we tested 142 transactions from Q1-Q3. Of these, we identified one item of £17,024 which should have been recorded in 2019/20 and was not. As there is no clear reason for this fail that would allow us to isolate this issue to any particular population, we have extrapolated it over the population of similar expenditure in Q1-Q3, giving a projected overstatement of current year expenditure (and understatement of prior-year expenditure) as follows: | | | Non-material extrapolated prior period error |
| Dr Brought forward reserves | | 11.9 | |
| Cr 2020/21 Expenditure | (11.9) | | |
| **Revalued land and buildings**<br>As set out on page 41, our testing of valuations focussed on the Council's highest value assets, and those assets where the movements between valuations was not in line with our expectations identified issues with the prior year valuations of 4 of 41 such items, leading to a potential understatement of these assets at 31 March 2020 as follows: | | | Non-material prior period error |
| Dr Movement taken to Revaluation Reserve in 2020/21 | 10.7 | | |
| Cr Brought forward Revaluation Reserve | | (10.7) | |
| Overall impact (Group) | (£1.2m) | £1.2m | |

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# C. Audit Adjustments

## Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2019/20 financial statements

| Detail | Comprehensive Income and Expenditure Statement £m | Statement of Financial Position £m | Reason for not adjusting |
|---|---|---|---|
| **Incorrect capitalisation of spend**<br>Our testing of a sample of assets transferred out of Assets Under Construction and into operational categories of Property, Plant and Equipment identified assets that should never have been recorded as capital spend, as they should have been treated as either revenue expenditure or REFCUS.<br>We have revisited these items this year and reconsidered their potential impact. Based on information now available, we are satisfied that the potential impact of these errors on the prior year financial statements would have been trivial. | N/A | N/A | N/A |
| **Expenditure for which the Council was unable to provide supporting documentation**<br>During testing of a sample of the Council's expenditure transactions, we selected several items relating to the Council's use of purchase cards. Due to the pandemic, the Council has been unable to access the supporting documentation for these transactions, which is kept in its offices.<br>We have determined that the total value of similar transactions in the 2019/20 year was £11.5m, and so we do not consider that this gives rise to a risk of material misstatement in the financial statements.<br>As this was not necessarily an error in the financial statements, but instead was documentation that was inaccessible due to COVID-19, and as no similar issues have been identified through our testing of expenditure during the 2020/21 audit, we therefore consider it appropriate to exclude this issue from our consideration of the prior year misstatements. | N/A | N/A | N/A |

Continued on next page

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# C. Audit Adjustments

| Detail | Comprehensive Income and Expenditure Statement £m | Statement of Financial Position £m | Reason for not adjusting |
|---|---|---|---|
| **Unadjusted errors and uncertainties in the Council's Property, Plant and Equipment Valuations**<br>We identified potential differences between the carrying value and the current value of the Council's properties at 31 March 2020, as follows:<br>– Other Land and Building assets valued at 1 April 2019 instead of 31 March 2020. Available market data indicates that this may have led to an overstatement in the value of these assets of £8.6 million;<br>– Other Land and Buildings assets not valued in the 2019/20 year. Trends noted from assets that have been valued indicate that this may have led to an overstatement in the value of these assets of £5.2 million;<br>– Other Land and Buildings land assets valued on a social housing basis. These values have been reduced to 50%, when the social housing factor used for the Council's Dwellings is 40%. We have not been provided with an explanation for this difference, and so consider that this indicates that the valuations are overstated by £4.0 million. | | | These are not necessarily errors, but are uncertainties in the valuations at 31 March based on the use of indices, and resulting from the Council not valuing all assets at 31 March 2020. |
| Dr Gain/loss on revaluation of assets | 17.8 | | |
| Cr Property, plant and equipment | | (17.8) | |
| **Extrapolated error noted by the Pension Fund audit team**<br>The auditor of the West Midlands Pension Fund identified an unadjusted error of £33.0 million, being an extrapolation based on sample testing of Level 3 assets intended as an indicative value to aid members' understanding of the financial statements, as opposed to a precise proposed adjustment. The Council's share of the Pension Fund's asset is 27%, indicating that the valuation of the level 3 investments included in the net pension liability in the Authority's balance sheet is overstated by approximately £8.9 million. | | | This is an extrapolation of an error at the pension fund. |
| Dr Return on assets | 8.9 | | |
| Cr Net pension assets | | (8.9) | |
| **Overall impact of prior year unadjusted misstatements** | (£26.7m) | £26.7m | |

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# C. Audit Adjustments

## Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit, and whether these have been made in the final set of financial statements.

| Disclosure | Commentary | Adjusted? |
|---|---|---|
| Critical Judgements (Note 2) | Other than the disclosure in relation to the highways PFI arrangements, we do not consider that the items included in Note 2 meet the definition of critical judgements, and therefore these should not be included in this disclosure. | X |
| | Following the completion of our audit procedures on the Council's HRA dwelling valuations, we requested that management disclose their judgement that DCF is an appropriate valuation methodology for some of the Council's dwelling archetypes. | ✓ |
| Estimation Uncertainties (Note 4) | We have confirmed with the Council's valuer that there is not a material valuation uncertainty in the Council's asset valuations at 31 March 2021 and therefore requested that reference to this be removed. | ✓ |
| | We have also requested that additional narrative be added to this note relating to the actuary's approach to the valuation of the pension fund, and specifically the roll-forward approach and its inherent uncertainties. | ✓ |
| | We do not consider that the items included in Note 4 relating to heritage assets, PFI schemes, equal pay, and Covid-19 meet the definition of estimation uncertainties, and therefore these should not be included in this disclosure. | X |
| | Finally, we do not consider that the disclosure relating to the uncertainties within the valuation of the Council's land and buildings and HRA dwellings, or the actuarial valuation of the pension fund liability contain all of the necessary information to meet the requirements of IAS 1. | X |
| Events After the Reporting Period (Note 5) | Following events since the balance sheet date in relation to equal pay claims, management have proposed some additional wording for inclusion in Note 5 of the financial statements, disclosing an event after the reporting period. | ✓ |
| EFA and related note (Note 6 & 7) | The draft financial statements were prepared using an early version of the relevant working paper, leading to amendments being required to this disclosure. | ✓ |
| IFRS 15 (Note 14) | The Council has removed the disclosure of revenue that falls under IFRS 15, as they have demonstrated that the disclosure requirements of the standard are met elsewhere in the financial statements, and they do not believe that this disclosure adds any clarity for the reader of the accounts. We are satisfied that this assessment is reasonable. | ✓ |
| Unusable Reserves (Note 19) | The Pension Reserve disclosure has been adjusted to show the amount reversed out of the Surplus/Deficit on the Provision of Services as £246.0m and employer contributions as £147.3m to make this disclosure consistent with the figures disclosed in the Pension Liability disclosures in Note 21. | ✓ |

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# C. Audit Adjustments

| Disclosure | Commentary | Adjusted? |
|---|---|---|
| Property, Plant and Equipment<br>(Note 22) | While the net value of additions and reclassifications within Assets Under Construction (AUC) and Dwellings in the draft financial statements was correct at £213.5m, the split between additions and reclassifications was incorrect, due to a formula error in the Council's working paper.<br>AUC additions and reclassifications should be shown as £247.2m and -£33.7m respectively. Dwellings additions and reclassifications should be shown as £102.0m and £6.9m respectively.<br>This adjustment has been made in the revised financial statements, and has no impact on the net book value of the properties. | ✓ |
| Equal Pay Provision<br>(Note 31) | During our work we have identified that the draft financial statements disclosed the net of the movement of the provision reversed unused of £16.2m and the additional provision made of £17.7m, rather than identifying these movements separately. This has been amended and has no impact on the provision value as at 31 March 2021. | ✓ |
| Contingent Liabilities<br>(Note 32) | On review of the draft financial statements we identified that the Council had removed the contingent liability in relation to equal pay from the draft financial statements. Following audit challenge this contingent liability has been reinstated in Note 32 of the draft financial statements. As in previous years, we will refer to this uncertainty in our audit report. | ✓ |
| Financial Instruments<br>(Note 38) | Management have proposed a number of adjustments to the Financial Instruments disclosure note that they feel better reflect the requirements of the accounting standards and the Code.<br>We have requested some amendments to the amounts presented in these revised disclosures, and the narrative around them, to ensure that these are consistent with the audited figures from the prior year. | ✓ |
| Related Parties<br>(Note 47) | Note 47 includes information about relationships that do not meet the definition of related parties and so material information within this disclosure is obscured by unnecessary information.<br>In addition, while we have not identified any issues with the Council's treatment of income and expenditure under S75, the inclusion of this information within the related party disclosures obscures information that is required to be reported. | X<br>X |
| Group accounts | Several minor amendments have been agreed to the group financial statements to make these consistent with the underlying information and evidence.<br>In addition, we note that there are a number of immaterial disclosure notes in the group accounts that could be omitted. Management have not removed these, but will consider this going forward. | ✓<br>X |

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# D. Fees

## We confirm below our final fees charged for the audit and the provision of non-audit services.

| Audit fees | Proposed fee | Final fee |
|---|---|---|
| Council Audit | 365,909 | 441,034 |
| **Audit of subsidiary companies** | | |
| • Acivico Limited | 41,000 | 41,000 |
| • NEC (Developments) plc | 35,000 | 35,000 |
| Total audit fees (excluding VAT) | £441,909 | £517,034 |

The Council does not separately disclose group audit fees in the notes to the group accounts. The fees for the Council as a single entity reconcile to the financial statements as follows:

- **Fees disclosed per financial statements** £458k (rounded to £0.5m)
- *Less fee variation in relation to 2019/20* (£92k)
- **2020/21 fees per financial statements** £366k (per Audit Plan)
- *Plus additional fee variation in relation to 2020/21* £75k
- **Total 2021/22 financial statements audit fees** £441k (per table to left)

Note that the scale fee for the audit of Birmingham City Council is £241,909, and the audit fee set out above includes a fee variation which has received PSAA approval.

| Non-audit fees for other services | Proposed fee | Final fee |
|---|---|---|
| Audit Related Services: | | |
| • Certification of 2019/20 Housing Benefits Subsidy claim (August 2020 – January 2021) | £27,500 | £27,500 |
| • Certification of 2019/20 Teachers' Pension return (October - November 2020) | £7,500 | £7,500 |
| • Certification of 2019/20 housing capital receipts grant (January - April 2021) | £5,500 | £5,500 |
| • AMSCI reasonable assurance engagements (April 2021) | £15,000 | £15,000 |
| • Homes England Compliance Checklist 2020/21 (August - September 2021) | £6,000 | £6,000 |
| • Certification of 2020/21 Housing Benefits Subsidy claim (June 2021 – January 2022) | £22,500 | £22,500 |
| • BEIS grants assurance work for the 2019/20 and 2020/21 years (November – December 2021) | £22,000 | £20,000 |
| • Certification of 2020/21 Teachers' Pension return (November 2021 – January 2022) | £7,500 | £7,500 |
| • Certification of 2020/21 housing capital receipts grant (January – February 2022) | £5,500 | £5,500 |
| • Certification of 2021/22 Housing Benefits Subsidy claim (May 2022 – January 2023) | £22,500 | £22,500 |
| • Certification of 2021/22 Teachers' Pension return (commenced June 2022) | £7,500 | TBC |
| • Certification of 2021/22 housing capital receipts grant (commenced March 2023) | £7,500 | TBC |
| There were no non-audit related services | | |
| Total non-audit fees (excluding VAT) | £160,000 | TBC |

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This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

# The Audit Findings for Birmingham City Council

**Year ended 31 March 2022**

28 March 2023

# Contents


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

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents have been discussed with management and will be discussed with the Audit Committee.

[Key Audit Partner Signature to be added when final report issued]

Name: Jon Roberts
For Grant Thornton UK LLP
Date: 28 March 2023

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# 1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Birmingham City Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2022 for those charged with governance.

## Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the group and Council's financial statements give a true and fair view of the financial position of the group and Council and the group and Council's income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work has been conducted from June to date. Our interim findings are summarised on pages 5 to 30. It should be noted that our audit work is still in progress and that there are some areas of work where findings are still being concluded upon.

Five adjustments to the financial statements have been identified and are anticipated to be adjusted for, which are set out in Appendix C.

There are a further three misstatements identified which the Council does not propose adjusting. The Committee is required to consider the rationale for not adjusting these misstatements and approve the Council's approach.

We have also raised recommendations for management as a result of our audit work to date in Appendix A, as well as following up progress made in implementing recommendations made in prior years in Appendix B.

There are a number of matters still underway as at the time of writing but from the work done to date there are no matters of which we are aware that would require modification of our audit opinion subject to satisfactory resolution of the outstanding work, as set out on page 6.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

We anticipate that our audit report opinion will be unqualified, but we will be unable to certify the audit closed until our work on the whole of government accounts is complete and we have issued our Annual Auditor's Report (covering our work on the Council's value for money arrangements).

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# 1. Headlines

| Value for Money (VfM) arrangements | |
|---|---|
| Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.<br><br>Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:<br>- Improving economy, efficiency and effectiveness;<br>- Financial sustainability; and<br>- Governance | We have not yet completed all of our VfM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay was presented to the September Audit Committee in our Value for Money Plan. We expect to issue our Auditor's Annual Report for consideration in due course in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.<br><br>As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified risks of significant weakness as follows:<br>• Legacy of the Commonwealth Games<br>• Contractual arrangements relating to the highways PFI scheme<br>• Home to School Transport Service<br>• Housing demand<br>• SEND<br><br>Our work on these risks is underway and we are liaising with officers to gather evidence in support of the Council's arrangements in respect of the three criteria of financial sustainability, governance and improving economy, efficiency and effectiveness, as well as action taken in response to our recommendations from the 2020/21 Annual Auditor's Report, and in particular those in relation to IT and the implementation of the new Oracle system, given that it has a bearing on our financial statements audit, as well as forming part of our consideration of the Council's arrangements to ensure value for money.<br><br>We reported to you in our progress report of 28 September 2022 that we anticipated providing our Annual Auditor's Report no later than the end of February 2023. This has been delayed due to the ongoing financial statements audit , and a revised letter is included within this report. We have also received questions by a member of the public which we are considering as part of our VfM response. |
| **Statutory duties** | |
| The Local Audit and Accountability Act 2014 ('the Act') also requires us to:<br>• report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and<br>• to certify the closure of the audit. | We have not exercised any of our additional statutory powers or duties.<br><br>We expect to certify the completion of the audit upon the completion of our work on the Council's VfM arrangements, which will be reported in our Annual Auditor's report in due course. |
| **Significant Matters** | We have not encountered any significant difficulties or identified any significant matters arising during our audit from the work done to date. We do note however, that the implementation of the Council's new ledger, Oracle, has impacted the capacity of Council officers as they deal with audit queries while getting to grips with a new system. We appreciate the co-operation shown by officers in progressing the audit in spite of these challenges. |

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# 2. Financial Statements

## Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management and will be discussed with the Audit Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

## Audit approach

Our audit approach was based on a thorough understanding of the group's business and is risk based, and in particular included:

- An evaluation of the group's internal controls environment, including its IT systems and controls;
- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of the group's gross revenue expenditure to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that specified audit procedures for Birmingham Children's Trust CIC were required. We have had to alter our approach in relation to this work. In our audit plan, as communicated to you on 26 April 2022 we anticipated being able to rely on the work conducted by Crowe UK LLP in obtaining assurance over the figures for Birmingham Children's Trust used in the Council's group accounts in which was completed by Crowe UK LLP. This approach has been superseded as explained on pages 17 and 18 and we are in the process of conducting specified procedures ourselves.
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

## Conclusion

Our audit continues to be underway as at the time of writing with some outstanding queries yet to be resolved. The outstanding matters are listed overleaf and are as at the time of writing. We will update the Committee verbally of progress against these matters at the meeting on 28 March.

### Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff.

As highlighted in previous communications, the impact of the pandemic has meant that both your finance team and our audit team faced audit challenges again this year, including remote access of financial systems, and verifying the completeness and accuracy of information produced and provided remotely by the entity.

The finance team has been helpful in enabling us to gain the assurance that we require for our auditor's opinion on the financial statements.

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# 2. Financial Statements

**Status of the audit: the outstanding matters as at the time of writing are set out below.**

- receipt of responses from the Council's internal and external valuers on remaining queries in respect of three assets valued on an existing use basis and our consideration thereof
- completion of specified procedures required for the purposes of the group accounts
- consideration of the impact of emerging equal pay issues on the Council's provision and contingent liability disclosures as well as the commentary in the Annual Governance Statement
- final manager and engagement lead review of all of the above once completed

- final review of work on payments made and received across the year end

- receipt of the Council's WGA pack and completion of our procedures thereon (if required)
- receipt and review of the updated financial statements
- obtaining and reviewing the management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion

Status

- Significant area of the accounts attracting significant audit effort: high levels of judgement involved
- Less significant area of the accounts and audit: medium levels of judgement involved
- Low risk area of the accounts and audit: low levels of judgement involved

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# 2. Financial Statements

## Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels remain the same as reported in our audit plan.

We detail in the table below our determination of materiality for Birmingham City Council.

| | Group Amount | Council Amount | Qualitative factors considered |
|---|---|---|---|
| Materiality for the financial statements | £36.0m | £35.9m | We determined materiality for the audit of the group's financial statements as a whole to be £36m and £35.9m for the Council. This equates to approximately 1.1% of the group's and Council's gross operating expenses.<br><br>This benchmark is considered the most appropriate because we consider users of a council's financial statements to be most interested in how it has expended its revenue and other funding. |
| Performance materiality | £23.4m | £23.34m | We use a different level of materiality, performance materiality, to drive the extent of our testing. Our consideration of performance materiality is based upon a number of factors:<br>• We have not historically identified significant control deficiencies as a result of our audit work aside from those in relation to IT general controls, which we have designed specific audit responses to address<br>• Audits in recent years have identified material errors<br>• There has been some turnover in senior management and key reporting personnel within the finance function<br><br>On this basis we have reduced the performance materiality from a possible 75% (standard threshold) to 65%. |
| Trivial matters | £1.8m | £1.795m | We determined the threshold at which we will communicate misstatements to the Audit Committee to be £1.795m, which is approximately 5% of materiality. |

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# 2. Financial Statements - Significant risks

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

This section provides commentary on the significant audit risks communicated in the Audit Plan.

| Risks identified in our Audit Plan | Commentary |
|---|---|
| Management override of controls<br><br>Under ISA (UK) 240 there is a non-rebuttable presumption that the risk of management override of controls is present in all entities.<br><br>The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.<br><br>We therefore identified management override of control, and in particular journals, management estimates, and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement. | We have:<br>• evaluated the design effectiveness of management controls over journals<br>• analysed the journals listing and determine the criteria for selecting high risk unusual journals<br>• tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration<br>• gained an understanding of the accounting estimates and critical judgement applied and made by management and consider their reasonableness with regard to both corroborative and any contradictory evidence that may exist<br>• evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.<br><br>Findings<br><br>The Council processed journals comprising in excess of 3.7m transactions each containing multiple lines of data in respect of the year ending 31 March 2022, with a value in excess of £141 billion. Just 0.4% of these by number occur at year end but they make up nearly 18% of the value, with the majority linked to a handful of users. While we generally anticipate an increase in activity at year end, auditing standards specifically require us to consider year-end journals and therefore we consider them separately.<br><br>We designed our approach and created targeted tests to mitigate the following risks and control findings from previous years:<br>• our journals testing in 20/21 identified one instance of management override whereby a junior member of staff was instructed to incorrectly code a low-value transaction at year-end for the purposes of efficiency during the Council's closedown period.<br>• senior officers can initiate journals which are then posted by a colleague<br>• senior officers have access to the ledger, though historically they do not use this access to post journals<br>• as highlighted by our previous IT audit reports, there are a large number of users with multiple accounts and some users with unnecessarily high levels of access (firefighter and DEBUG accounts). Over 1 million journals have posted by such users comprising 3.1m transaction lines. We have analysed this data to identify those which we consider to be unusual and which warrant further work.<br><br>Additional focussed work was undertaken specifically considering those transactions that are impacted.<br><br>Our detailed testing of individual journal transactions identified as being unusual through our risk-based analysis, including the additional work referred to above, has not identified any findings to bring to your attention. |

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# 2. Financial Statements - Significant risks

| Risks identified in our Audit Plan | Commentary |
| --- | --- |
| Presumed risk of fraud in revenue recognition ISA (UK) 240<br><br>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.<br><br>Having considered the risk factors set out in ISA 240, and the nature of the revenue streams of Birmingham City Council, we have determined that the presumed risk of material misstatement due to the improper recognition of revenue can be rebutted, because:<br>• There is little incentive to manipulate revenue recognition<br>• Opportunities to manipulate revenue recognition are very limited; and<br>• The culture and ethical frameworks of public sector bodies, including Birmingham City Council, mean that all forms of fraud are seen as unacceptable.<br><br>Therefore we do not consider this to be a significant risk for the Council. | Notwithstanding that we have rebutted this risk, we have undertaken a significant level of work on the Council and Group's revenue streams, as they are material. We have:<br><br>Accounting policies and systems<br>• evaluated the Council's accounting policies for recognition of income and expenditure for its various income streams and compliance with the CIPFA Code<br>• updated our understanding of the Council's business processes associated with accounting for income<br><br>Fees, charges and other service income<br>• agreed, on a sample basis, income and year end receivables from other income to invoices and cash payment or other supporting evidence.<br><br>Taxation and non-specific grant income<br>• applied substantive analytical procedures to income for national non-domestic rates and council tax<br><br>Other grants<br>• sample tested items back to supporting information and subsequent receipt, considering accounting treatment where appropriate.<br><br>We also designed tests to address the risk that income has been understated, by not being recognised in the current financial year.<br><br>Findings<br><br>We have no findings to bring to your attention from the work done. |

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# 2. Financial Statements - Significant risks

| Risks identified in our Audit Plan | Commentary |
|---|---|
| **Risk of fraud related to expenditure recognition: Public Audit Forum (PAF) Practice Note 10**<br><br>In line with the Public Audit Forum Practice Note 10 (PN10), in the public sector, auditors must also consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition (for instance by deferring expenditure to a later period). As most public bodies are net spending bodies, then the risk of material misstatements due to fraud related to expenditure recognition may in some cases be greater than the risk of material misstatements due to fraud related to revenue recognition.<br><br>Having considered the nature of the expenditure streams of Birmingham City Council, and on the same basis as that set out above for revenue, we have determined that there is no significant risk of material misstatement arising from improper expenditure recognition. | Notwithstanding that we have rebutted this risk, we have undertaken a significant level of work on the Council's expenditure streams, as they are material. In addition to reviewing the accounting policies as highlighted above, we have:<br>• updated our understanding of the Council's business processes associated with accounting for expenditure<br>• agreed, on a sample basis, operating expenditure, housing benefit expenditure, agency costs and year end creditors to invoices and cash payment or other supporting evidence<br>• performed substantive analytical procedures on the Council's employee remuneration costs and depreciation<br><br>We also designed tests to address the risk that expenditure has been overstated, by not being recognised in the current financial year.<br><br>Findings<br><br>Testing of two sample items within creditors identified an error in the double entry used to record a wider transaction that included these two items. The journal was removing grant reimbursements and cash balances associated with the grant as the Council is acting as an agent, and therefore the entry was to remove these transactions on the grounds that they should not feature in the Council's financial statements. This is an appropriate conclusion to reach but the accounting entry to effect this was made incorrectly. The adjustment will decrease debtors by £4.6m with a corresponding increase to creditors.<br><br>We note that work in respect of this risk is not yet complete as there are queries that are yet to be resolved with the Council in respect of our cut-off testing (ensuring transactions have been accounted for in the correct accounting period by testing transactions occurring across the year end), due to a request from officers to delay this work, pending bedding in of the new ledger. As well as there being evidence for some queries outstanding, we have also identified errors in our testing of expenditure completeness where transactions relating to the 2021/22 financial year have not been accounted for in the same. The absolute value of these errors is £15k, which when projected across the population sampled, gives rise to a misstatement which is above our tolerable thresholds. We have therefore extended our testing in this regard, and are not in a position to conclude against this risk at the time of writing. |

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# 2. Financial Statements - Significant risks

| Risks identified in our Audit Plan | Commentary |
| --- | --- |
| Valuation of the pension fund net liability (IAS 19 estimate)<br><br>The Council and group's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.<br>The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.<br><br>The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation.<br><br>The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable.<br><br>The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. | We have:<br>• updated our understanding of the processes and controls put in place by management to ensure that the pension fund net liability is not materially misstated and evaluate the design of the associated controls<br>• evaluated the instructions issued by management to their management experts (the actuary) for this estimate and the scope of the actuary's work<br>• assessed the competence, capabilities and objectivity of the actuary who carried out the pension fund valuation<br>• assessed the accuracy and completeness of the information provided by the group to the actuary to estimate the liabilities<br>• tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial reports from the actuary<br>• undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report<br><u>Findings</u><br>The initial actuary report received from the Council's actuary did not show the split between the Local Government Pension Scheme (LGPS) and the Teacher's Pension scheme (TPS). The actuary's report states that unfunded obligations are £62.8m for LGPS and £50.1m for TPS: as both of these figures are considered material, we would expect the opening and closing balances and any material movements to be separately disclosed within the financial statements.<br>This was discussed with the Council and a revised report received from the actuary. The disclosure in the financial statements will be updated in this regard.<br>We have also obtained assurances from the auditor of the West Midlands Pension Fund as to the controls surrounding the validity and accuracy of membership data, contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund's financial statements.<br>The pension fund auditor identified through his work, that an incorrect rate of return was applied in the actuary's calculations which necessitated the re-running of the IAS19 report, and a revised actuarial report was made available in November 2022.<br>Further, we note that the auditor of the WMPF identified an understatement in the valuation of the Fund's assets in the course of their audit procedures. The auditor reported a quantifiable understatement of level 3 investments of £94m, which was then extrapolated to a total of £119m. The Council's share of this total estimated £119m error is approximately £32.4m.<br>This issue arose as a result of a lag in the valuation process for the Fund's hard to value investments. This is a function of the Fund's reporting process and is not considered to be indicative of a control weakness at the Council. This is also not an unusual finding in pension fund audits, with the size of the variance this year being attributable to ongoing market volatility.<br>An adjustment has been made for quantifiable elements of this issue in the Council's financial statements, increasing the Council's share of the Pension Fund's assets by £26.1m and recognising the impact on the Council's Pension Reserve. There is no impact on the Council's General Fund balance. A similar adjustment was made to the 2020/21 accounts of £20.9m. |

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# 2. Financial Statements - Significant risks

| Risks identified in our Audit Plan | Commentary |
|---|---|
| **Valuation of property plant and equipment: land and buildings**<br>The Council revalues its land and buildings on a rolling, five-yearly basis.<br>This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.<br>Management will need to ensure that the carrying value in the Council's and group's financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date.<br>Within the valuation of the Council's Other Land and Buildings, the valuer's estimation of the value has several key inputs, which the valuation is sensitive to. These include the build cost of relevant assets carried at depreciated historic cost and any judgements that have impacted this assessment and the condition of the current assets.<br>For assets valued at existing use value and fair value, the key inputs into the valuation are the yields used in the valuation, including estimated future income from the asset.<br>We have therefore identified that the accuracy of the key inputs driving the valuation of land and buildings as a significant risk, which was one of the most significant assessed risks of material misstatement. | We have:<br>• evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts, and the scope of their work<br>• evaluated the competence, capabilities and objectivity of the Council's internal valuer as the valuation expert<br>• written to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met<br>• challenged the information and assumptions used by the valuer to assess the completeness and consistency with our understanding<br>• engaged our own valuer to assess the instructions issued by the Council to their valuer, the scope of the Council's valuers' work, the Council's valuers' reports and the assumptions that underpin the valuations<br>• tested revaluations made during the year to see if they had been input correctly into the Council's asset register<br>• evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that theses are not materially different from current value at year end.<br><u>Findings</u><br>The Council's property portfolio is large and complex, and a significant level of work is required to gain assurance over the reasonableness of the valuations included in the balance sheet.<br>There are a number of queries that we have asked the valuer to gain assurance over the key assumptions being used to drive the valuations. We have the following issues to report:<br><u>Uncertainties – movement in assets valued at Existing Use Value (EUV)* between valuation date and balance sheet date</u><br>Management has assessed potential movement in the value of assets valued at existing use value (EUV) and not revalued in year and determined that there is the potential for a movement of £8.0m, which management does not consider to be material. We agree with the assessment and determination of this figure, which is based on assessing the movement of all relevant assets which have been valued and uplifting the non-valued assets by the same amount. However, we would also add to it a further potential movement which we have calculated to be £5.8m on the grounds that the valuation date is not at year end but on 19 February. This additional potential movement reflects increases in valuation which took place between the valuation date and year end.<br>Uncertainty in relation to potential movement in EUV assets not revalued in 21/22 has been assessed as a potential understatement of £13.8m. We do not consider this to be an error. The purpose of our work is to assess the reasonableness of the Council's estimate and to determine whether the estimate in the financial statements contains a material misstatement. Based on the work we have done we do not consider the estimate to be unreasonable or materially flawed. |

Definition of Existing Use Value per the Council's financial statements: *The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction, disregarding potential alternative uses and any other characteristics of the property that would cause its market value to differ from that needed to replace the remaining service potential at least cost.*

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# 2. Financial Statements - Significant risks

| Risks identified in our Audit Plan | Commentary |
|---|---|
| Valuation of property plant and equipment: land and buildings<br>continued | <u>Uncertainties – movement in value of other assets between valuation date and balance sheet date</u><br>The valuation date is as at 19 February and therefore we have assessed the potential movement in value to 31 March 2022 for those assets revalued as part of the rolling programme. We have applied market indices to reflect the 1.5 months between the valuation date and the year end and determined that there is a potential movement of £10.5m for other land and buildings and £2.9m for surplus assets. This is reported as an uncertainty and not an unadjusted misstatement as this informs our consideration of the reasonableness of an estimate, which we consider to be materially correct based on our analysis.<br><u>Uncertainties – final thoughts</u><br>Total uncertainty over the assets population given the above work is £27m which is not considered to be material. The net book value of the Council's other land and buildings and surplus assets as at 31 March 2022 is £2.6 bn and therefore the uncertainty represents just 1% of the total which is not considered to be significant.<br><u>Leases</u><br>The information from leases is documented in the Council's property management system and the Manhattan system. This is the source data that is provided to the valuer to provide information on tenancies' rents and duration. Management relies on the system to record lease information and we have undertaken specific testing on this data base to provide us with assurance over the accuracy and completeness of the system generated information provided to the valuer. We have no findings to report from this work.<br><u>Gross internal areas</u><br>For some of the Council's assets, the floor area is a key determinant used by the valuer in deriving a value. For three of our sampled assets, information in support of the floor area applied is outstanding. |

# 2. Financial Statements - Significant risks

| Risks identified in our Audit Plan | Commentary |
|---|---|
| **Valuation of property plant and equipment: council dwellings**<br><br>The Council contracts an expert to provide annual valuations of council dwellings based on guidance issued by the Ministry of Housing, Communicates and Local Government (now Department for Levelling Up, Housing and Communities). They are valued using a beacon approach, based on existing use value discounted by the relevant social housing factor for Birmingham. Dwellings are divided into asset groups (a collection of property with common characteristics) and further divided into archetype groups based on uniting characterises material to their valuation, such as numbers of bedrooms. A sample property, the "beacon" is selected which is considered to be representative of the archetype group and a detailed inspection carried out. The valuation of this asset is then applied to all assets within its archetype.<br><br>The key inputs into the valuation are the social housing factor, consideration of market movements and the determination of the beacons.<br><br>For 8 of these archetypes the Council has determined that the beacon approach is not appropriate and have valued these dwellings on the basis of discounted cash flows.<br><br>We therefore have identified that the accuracy of the key inputs driving the valuation of Council Dwellings is a significant risk, which was one of the most significant assessed risks of material misstatement. | We have:<br>• evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts, and the scope of their work<br>• evaluated the competence, capabilities and objectivity of the valuation expert<br>• written to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met<br>• challenged the information and assumptions used by the valuer to assess the completeness and consistency with our understanding<br>• engaged our own valuer to assess the instructions issued by the Council to their valuer, the scope of the Council's valuer's work, the Council's valuer's reports and the assumptions that underpin the valuations<br>• tested revaluations made during the year to see if they had been input correctly into the Council's asset register<br>• evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that theses are not materially different from current value at year end.<br><br>Findings<br><br>Archetypes valued on a discounted cash flow basis<br><br>A number of the Council's HRA dwellings (mainly in tower blocks) are included in the financial statements at a value which is based on forecast cash flows for rental incomes and maintenance spend; giving a total value of £151m. Management has responded well to findings from the previous audit, and has been able to demonstrate that the assumed levels of rental income are reasonable and that other assumptions used to build the valuation models are reasonable. These relate to management costs, bad debt, void rent, discount rate, inflation rate, annual maintenance costs, and term of the discounted cash flow.<br><br>We have no findings to report from our work on the archetypes valued on a discounted cash flow basis.<br><br>Uncertainties – movement in value of Council dwellings valuation date and balance sheet date<br><br>The valuer has conducted a full revaluation of non-DCF Council Dwellings and has undertaken inspections of beacon properties to ensure that the beacons selected are fully representative of the archetype. Management work with the valuer to inform them of any events that have occurred that may affect property valuations. As with other land and buildings, the valuation date for Council dwellings is 19 February and therefore we consider where there is a the potential for material movement between the valuation date and the balance sheet date. The valuer has concluded that the timeframe between these dates is a short enough timeframe such that a material difference is unlikely. Assessments and sources of evidence were considered from market evidence and in particular the Land Registry UK House price index, which showed a 0.5% increase from February 2022 to March 2022: applying this uplift to the value of Council Dwellings of £2,986.2m gives a potential increase of £14.931m. This is reported as an uncertainty and not an unadjusted misstatement as this informs our consideration of the reasonableness of an estimate, which we consider to be materially correct based on our analysis. |

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# 2. Financial Statements - Significant risks

| Risks identified in our Audit Plan | Commentary |
| --- | --- |
| **Valuation and completeness of the equal pay liability**<br>Under ISA (UK) 540 (Auditing Accounting Estimates, including Fair Value Accounting estimates and Related Disclosures) the auditor is required to make a judgement as to whether any accounting estimate with a high degree of estimation uncertainty gives rise to a significant risk.<br>We identified the valuation and completeness of the equal pay provision as a risk requiring special audit consideration, and a key audit matter. | We have:<br>• updated our understanding of the processes and controls put in place by management to estimate the equal pay provision<br>• reviewed the assumptions on which the estimate is based<br>• assessed the accuracy and completeness of the information used as the bass of estimating the liability, and reperform the calculation of the estimate, on a sample basis where appropriate<br>• confirmed that the estimate has been determined and recognised in accordance with accounting standards<br>• determined how management have assessed the estimation uncertainty<br>Findings<br>Our testing of individual calculations identified a number of errors resulting from manual inputs into the calculations, including:<br>• the use of an estimated interest rate when an actual rate was available<br>• use of an average differential<br>• limitations in the data to determine grade changes in year<br>• formulae error within the calculation working papers<br>• application of a flat 24% tax rate to claims despite HMRC evidence stating that Lunchtime Supervisor roles should have 10%.<br>These issues have been evaluated and are considered to be trivial both individually and in aggregate and therefore no adjustments are proposed. However, we consider that improvements can be made to the preparation of the calculation and have made a recommendation on that basis.<br>Before concluding in respect of this risk we will need to consider events or conditions that could have changed the basis of estimation and the potential impact of any transactions or events after the balance sheet date up to the date of signing of the financial statements. |

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# 2. Financial Statements - other risks

| Risks identified in our Audit Plan | Commentary |
| --- | --- |
| **Operating expenses**<br>Non-pay expenses on other goods and services also represents a significant percentage of the Council's operating expenses.<br>Management uses judgement to estimate accruals of un-invoiced costs. During the course of the three previous audits, there have been instances of expenditure not being accrued for which has led to further testing being conducted to ensure that no material misstatement existed.<br>We therefore identified completeness of non-pay expenses as a risk requiring particular audit attention, but not a significant risk. | We have:<br>• evaluated the Council's accounting policies for recognition of non-pay expenditure streams for appropriateness<br>• gained an understanding of the Council's system for accounting for non-pay expenditure<br>• tested a sample of balances included within trade and other payables<br>• tested a sample of payments immediately prior to and after the year end to ensure that appropriate cut-off has been applied, and therefore that the expenditure has been recognised in the correct period.<br>• tested a sample of expenditure to ensure it has been recorded accurately and is recognised in the appropriate financial accounting period.<br>Findings<br>Our findings in respect of this area have already been reported on page 10. We have no further findings to report here. |
| **Oracle system implementation**<br>The Council implemented a new ledger by moving from SAP to Oracle Fusion from 7 April 2022. Given the date of implementation, clearly this will predominantly impact the financial statements in respect of the year ending 31 March 2023 but there is also a specific impact on the audit for the year ending 31 March 2022:<br>Management is ensuring that the new ledger can be appropriately mapped to the SAP ledger in order to provide us with assurance over the completeness of expenditure/payables and revenue/debtors, as the transaction listings we will be testing to determine that they have been accounted for in the correct period will come from the new ledger.<br>Additionally, the implementation of a new ledger is a significant change and therefore is likely to lead to workforce pressure around year end that may impact on the 2021/22 financial statements preparation.<br>We have therefore identified this as a risk requiring particular audit attention, but not a significant risk. | Our IT Audit team have reviewed the implementation strategy, and liaised with the finance team, as the third party provider and finance team have undertaken their reviews and reconciliations to ensure all relevant data has transferred completely and accurately.<br>We have proposed, in response to our SAP findings, that we deploy our automated Oracle tool (Fastpath) so that we can get an understanding of the security in relation to privileged access in Oracle. Management requested that this be postponed to the new year, once Oracle had been further embedded. We made further requests in December, January and February for this work to be undertaken, as it is critical that this work is undertaken prior to the 2022/23 year-end so it can be used to inform our 2022/23 audit. This work is now underway. The delays in responding and difficulties encountered in engaging with the Council's IT staff fall within our remit for considering the Council's arrangements for value for money and therefore will be commented upon further in our Annual Auditor's Report.<br>As noted earlier in this report we were asked to defer our cut-off testing pending bedding in of the new ledger and the ability of staff to generate the appropriate reports for us to sample from. This work is underway as at the time of writing, as reported on page 10. |

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# 2. Financial Statements - Other risks

| Risks identified in our Audit Plan | Commentary |
|---|---|
| Infrastructure assets<br><br>The CIPFA Code of Practice on Local Authority Accounting prescribes the accounting treatment and disclosure requirements for infrastructure assets. The Code requires infrastructure to be reported in the Balance Sheet at depreciated historical cost, that is historic cost less accumulated depreciation and impairment. The Code requires a reconciliation of gross carrying amounts and accumulated depreciation and impairment from the beginning to the end of the reporting period. These requirements of the Code derive from IAS 16 Property, Plant and Equipment.<br><br>The Council has material infrastructure assets and there could therefore be a potential risk of material misstatement related to this balance. We will address this matter as part of concluding our 2020-21 audit of the Council, which will then determine the audit impact for 2021-22. | Infrastructure assets includes roads, highways, streetlighting and coastal assets. In accordance with the CIPFA Code, Infrastructure assets are measured using the historical cost basis, and carried at depreciated historical cost. With respect to the financial statements, there are two risks which we plan to address:<br><br>1. The risk that the value of infrastructure assets is materially misstated as a result of applying an inappropriate Useful Economic Life (UEL) to components of infrastructure assets.<br>2. The risk that the presentation of the PP&E note is materially misstated insofar as the gross cost and accumulated depreciation of Infrastructure assets is overstated. It will be overstated if management do not derecognise components of Infrastructure when they are replaced.<br><br>For the avoidance of any doubt, these two risks were not assessed as a significant risk at planning stage, but we have assessed that there is some risk of material misstatement that requires an audit response. CIPFA has consulted on adaptations to the Code and guidance on the application of UELs, which we have factored into our response.<br><br>In order to be able to conclude whether there is a risk of material misstatement our response is that we have:<br><br>• assessed the risks of material misstatement related to infrastructure assets<br>• updated our understanding of the process to explain the Council's current approach to capitalisation, derecognition and depreciation of infrastructure assets and how it complies with the Council's fixed asset register to confirm that the processes are being applied in practice.<br><br><u>Findings</u><br><br>We are able to sample additions to infrastructure in the current year to review the basis of asset life and conclude on whether this is reasonable and correctly factored into depreciation calculations but this becomes more difficult in respect of historic infrastructure assets because individual infrastructure assets are not recorded separately on the Council's fixed asset register.<br><br>The Authority records its infrastructure assets by sub-category in its fixed asset register for each financial year, eg footways 2016/17, kerbs 2018/19. No supplementary data is available to further break down additions to a project or location level.<br><br>There is currently no de-recognition of replaced components: as such it would appear that cost and depreciation would be overstated, if there was no statutory override to address the situation.<br><br>Audit firms, practitioners, DLUCH and CIPFA have been in consultation with regard to this national, sector-side issue and a statutory instrument came into force as of 25 December, specifically in relation to local government's treatment of infrastructure assets.<br><br>These amendment regulations provide that where a local authority replaces a component of an infrastructure asset, the authority has a choice of how to identify the carrying amount to be derecognised in respect of that component (ie either a nil amount or to follow the Code). |

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# 2. Financial Statements - Other risks

| Risks identified in our Audit Plan | Commentary |
|---|---|
| Infrastructure assets<br>Continued | The English Regulations apply to statements of accounts for financial years beginning on or before 1st April 2024, and to those statements of accounts which have not already been certified by a local auditor. Of particular note is the following:<br>• when preparing a statement of accounts to which this regulation applies, a local authority is not required to make any prior period adjustment to the balances of that statement of accounts in respect of infrastructure assets. ie the brought forward figure is considered to be correct.<br>Therefore, based on the statutory override, while we can be content with the gross book value figure brought forward, and also content that any derecognition and replaced component has a relevant amount of £nil, what we needed to be assured over is the amount of depreciation applied in the year. This is driven by the components' useful economic lives and therefore we considered it appropriate for us to focus audit effort on that area in particular.<br>The Council revisited the economic lives applies to its infrastructure assets and based on information readily available from the highways team a revised set of useful economic life to each component (carriageways, footways and cycleways, structures, streety lights and traffic management) has been determined<br>We have reviewed the Council's updated approach in line with evidence provided by the highways team as well as consideration of CIPFA's bulletin *CIPFA Bulletin 12 Accounting for infrastructure assets temporary solution.*<br>The financial statements have been amended in this regard and a revision made to the Council's accounting policy to reflect the application of the statutory instrument. The impact of the application of these revised useful economic lives has been to reduce the depreciation charge in 2020/21 by £1.69m and in 2021/22 by £1.44m. The 2020/21 adjustment is trivial to the 2020/21 accounts as is the 21/22 adjustment to the 2021./22 financial statements. However, in aggregate the difference in depreciation charge is greater than our trivial threshold for 2021/22 and the Council has elected to adjust for both years in the 2021/22 financial statements. We are satisfied with this treatment. |

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# 2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

| Significant judgement or estimate | Summary of management's approach | Audit Comments | Assessment |
|---|---|---|---|
| Land and Building valuations – £2,439.6m | As noted in the financial statements, the Council recognises the value of almost 1,350 other land and buildings assets. The valuation approach for other land and buildings is to obtain valuations on the basis of a five year rolling programme, which is supplemented by annual reviews, to reflect significant changes in market value. This results in only a sample of assets being revalued each year. For asset classes that use a DRC valuation (typically specialised assets such as schools), the Council's valuer applies an appropriate index to those properties that don't have a full, detailed valuation performed, to obtain an estimated valuation.<br><br>A small subset of assets are not valued. The Council considers the extent to which applying the percentage movement in assets that have been valued, would impact those that have not been valued, to ensure that it is not material. | We have:<br>• performed an assessment of management's expert, if used<br>• considered the completeness and accuracy of the underlying information used to determine the estimate<br>• noted that the valuation methods applied are consistent with prior year<br>• considered the consistency of the estimate in how it is applied<br>• reviewed the accounting treatment and appropriateness of the disclosure of the estimate in the financial statements.<br>We identified 56 assets to test with a total value of £513m. These were on the basis of:<br>• 3 assets due to their large value<br>• 6 assets due to changes in assumptions applied compared to the prior year<br>• 28 assets, the year-on-year movement in value for which, was not considered to be in line with expectations, based on information provided by our auditor's expert<br>• 13 assets, the year-on-year movement in value for which, was considered to be in line with expectations, based on information provided by our auditor's expert<br>• 6 assets considered to be otherwise unusual, (eg where valuation basis does not appear to be consistent with the asset description, or where an asset has a closing value, but no opening value, yet does not appear as a capital addition).<br>Findings<br>• One asset was overstated by £171k due to incorrect site area being used.<br>• One asset was overstated by £605k as a building value was applied when it shouldn't have been (as should only have been land).<br>• One asset was overstated by £194k due to an error in the obsolescence calculation<br>• One asset had been understated by £20k as the 80% obsolescence cap had not been applied<br>• One asset was determined to be overstated by £15k due to a difference of 8sqm in gross internal area between valuation and evidence provided. | We consider management's process to be appropriate. |

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# 2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

| Significant judgement or estimate | Summary of management's approach | Audit Comments | Assessment |
|---|---|---|---|
| Land and Building valuations – £2,439.6m | Continued | • One asset was understated by £240k due to incorrect pupil numbers being used in the building's modern equivalent asset calculation.<br>• One asset was overstated by £158k due to incorrect floor area being used.<br>• Overstatement of £193k in an asset's land value due to incorrect site area being used and an overstatement of £240k to the same asset's building value due to an incorrect floor area being used.<br>These are all considered to be trivial both individually and in aggregate, (with a net total overstatement of £1.3m) but are noted here to demonstrate that errors continue to be found in the course of our audit of this balance. The recommendation raised in prior year relating to the quality assurance over this process therefore remains extant.<br>There are some uncertainties we have reported on pages 12 and 13, but at £27m, they are not considered to be material. The net book value of the Council's other land and buildings and surplus assets as at 31 March 2022 is £2.6 bn and therefore the uncertainty represents just 1% of the total which is not considered to be significant. | |

**Assessment**

- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

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# 2. Financial Statements - key judgements and estimates

| Significant judgement or estimate | Summary of management's approach | Audit Comments | Assessment |
|---|---|---|---|
| Land and Buildings – Council Dwellings - £2,986.2m | Council dwellings are subject to a full revaluation every five years, with a desktop review in intervening years. The majority of assets are valued using a beacon approach, where a value is undertaken for the housing stock portfolio based on properties that are a representative sample of the Council's properties across the city. The beacon value is derived from sales of similar, ex Council or comparable properties, suitably adjusted by taking into account information from the land registry and other relevant sources, before being applied to the wider population of properties. In this instance, all beacon properties were revalued at the valuation date. This methodology applies to approximately 48,000 of the Council's Council Dwellings.<br><br>The Council instructs BPS (Birmingham Property Services, internal valuation team) to undertake the dwellings valuation and then this is outsourced to external valuer Sure Surveyors Ltd, however Azmat Mir (internal valuer) remains the signatory on the valuation report.<br><br>A discounted cashflow approach is applied to the remaining approximate 11,000 Council Dwellings. | We have:<br>• performed an assessment of management's expert, if used<br>• considered the completeness and accuracy of the underlying information used to determine the estimate<br>• noted that the valuation methods applied (both in respect of the beacon methodology and the discounted cashflow) are consistent with prior year<br>• considered the consistency of the estimate in application of the beacon approach to information made available by our auditors' expert<br>• reviewed the accounting treatment and appropriateness of the disclosure of the estimate in the financial statements.<br><br>We have no findings to report to you from the work conducted, other than those reported to you on page 14. Bearing in mind our comments there in relation to the estimation process, we consider the process applied to be appropriate. | We consider management's process to be appropriate. |

**Assessment**

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

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# 2. Financial Statements - key judgements and estimates

| Significant judgement or estimate | Summary of management's approach | Audit Comments | Assessment |
|---|---|---|---|
| Investment Property Valuation - £15.720m | The Council uses its internal value to complete the valuation of properties as at 31 March 2022. 100% of total assets were revalued during 2021/22.<br>The total year end valuation of investment property was £15.720m, a net increase of £10.552m from 2020/21 (£5.168m). | The Council holds only one investment property asset, which is not material to the financial statements, but as the value had more than tripled in value between the prior year and current year it was selected for detailed testing.<br>We have:<br>• reviewed the Council's accounting of the revaluation and confirmed its appropriateness<br>• Assessed management's expert, if used<br>• considered the completeness and accuracy of the underlying information used to determine the estimate<br>• Considered the adequacy of the disclosure in the Council's financial statements<br>We have reviewed the assumptions driving the valuation. The key driver in the increased valuation was due to the previous valuation being undertaken using agricultural land values with a small amount of hope value for an alternative use. In 21/22 the valuer considered the potential site coverage for an employment use and allowed 30% of the uplift from the agricultural land value to reflect planning risk. Based on our review of the methodology and assumptions in the valuation, including consideration of the Solihull Local Plan review (in which area this asset is placed), we are satisfied that this increase in value is reasonable.<br>We have considered any potential movement between the valuation date of 19 February and the balance sheet date of 31 March and are satisfied any potential movement is below our trivial threshold and does not require to be reported. | We consider management's process to be appropriate. |

**Assessment**

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

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# 2. Financial Statements - key judgements and estimates

**Significant judgement or estimate:** Net pension liability

**Summary of management's approach**

As noted in the financial statements, The Council, and the Council's actuary, follow an agreed and accepted process for completing the valuation, which is consistent across the sector. That is to complete a full, detailed valuation every three years, and then in the intervening years, complete a "roll-forward". This approach means that between full valuations, there is inherently a larger degree of uncertainty in the result. The estimate for the Local Government Pension Scheme liability has been performed by a qualified actuary and is based on the latest actuarial valuation and transaction information from 2021/22.

Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.

**Audit Comments**

- We have no concerns over the competence, capabilities and objectivity of the actuary used by the Council, Hymans Robertson LLP.
- We have used the work of PwC, as auditors expert, to assess the actuary and assumptions made by the actuary. See below for consideration of key assumptions in the West Midlands Pension Fund valuation as it applies to Birmingham City Council.

| Assumption | Actuary Value | PwC range | Assessment |
|---|---|---|---|
| Discount rate | 2.7% | 2.7%-2.75% | |
| Pension increase rate | 3.2% | 3.15%-3.30% | |
| Salary growth | 4.2% | 3.15%-43% | |
| Life expectancy – Males currently aged 45 / 65 | 22.9/21.6 | 21.4-24.3/20.1-22.7 | |
| Life expectancy – Females currently aged 45 / 65 | 25.4/23.4 | 24.8-26.7/22.9-24.9 | |

- No issues were noted with the completeness and accuracy of the underlying information used to determine the estimate.
- There have been no changes to the valuation method since the previous year, other than the updating of key assumptions above.
- We are content with the adequacy of the disclosure of the estimate in the financial statements.
- Upon receipt of the revised actuarial report we reviewed the reasonableness of the Council's share of the pension assets and challenged the actuary as to why the share of assets in their report was different to that calculated by ourselves and also expected by the pension fund auditor. Responses were eventually received to our satisfaction and there are no issues to report from our work.

**Assessment**

We consider management's process is appropriate

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# 2. Financial Statements – Key findings arising from the group audit

| Component | Component auditor | Findings | Conclusion |
| --- | --- | --- | --- |
| Birmingham City Council | Grant Thornton UK LLP | See detail of findings set out in section 2 of this report. | |
| Birmingham Children's Trust CIC | Crowe UK LLP | We did not identify any significant risks of misstatement of the group financial statements.<br><br>A change to our planned approach has arisen as we had originally anticipated using the work of the component auditor. We subsequently identified that the component auditor has been engaged to provide tax and financial statement preparation services to a significant component of the group, being the Birmingham Children's Trust. Supporting Ethical Provision A2.4 of the Financial Reporting Council's Ethical Standard requires that we ensure that the firm's independence is not compromised as a result of conditions or relationships that would compromise the independence of another firm whose work is used in the conduct of our audit engagement, having regard to the ethical requirements in the Ethical Standard that are relevant to the engagement. In practice, this means that the prohibitions on providing these (and other) types of non-audit service to public interest entities and their controlled undertakings also apply to this other firm and not just Grant Thornton.<br><br>Whilst Crowe UK LLP was content that it was able to provide the services, under the ethical rules applicable to its audit of the Children's Trust, we identified these services are prohibited under the more stringent Ethical Standard in place for the Group audit. There were no appropriate safeguards to mitigate the impact these prohibited services would have had on our independence, being prohibited regardless of materiality. Therefore we have had to carry out our own audit procedures for both the 2020/21 and 2021/22 years in respect of this component of the group, instead of using the work of the component auditor, to support our group audit opinion. | We are undertaking procedures on the material figures used in the consolidation for the purposes of group accounts, being those in relation to operating expenditure, staff costs, the net pension liability and journals (the latter of which is to mitigate against the presumed risk of management override.)<br><br>This work is still underway as at the time of writing, though we have no findings to bring to your attention.<br><br>Birmingham Children's Trust has received an unqualified opinion from its auditors, and while we are unable to rely on their work, we have used the outcome of their audit as part of our risk assessment in considering which areas of focus may be required. |

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# 2. Financial Statements – Key findings arising from the group audit

| Component | Component auditor | Findings | Conclusion |
|---|---|---|---|
| National Exhibition Centre (Developments) Plc | Specific procedures will be completed on these balances by Grant Thornton UK LLP | We did not identify any significant risks of misstatement of the group financial statements, however the company's loan stock is material to the group and the audit team have agreed this balance to supporting evidence. | We have no issues to report. |
| Other entities | Analytical review performed by Grant Thornton UK LLP | None. | We have no issues to report. |

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# 2. Financial statements – other issues

This section provides commentary on other issues and risks which were identified during the course of the audit and a summary of any significant deficiencies identified during the year.

| Issue | Commentary | Auditor view |
|---|---|---|
| IT control deficiencies<br>To support the audit of the Council's financial statements for year ended 31 March 2021, Grant Thornton's IT Audit team have completed a design and implementation review of IT General Controls (ITGC) for applications identified as relevant to the financial audit.<br>This work was followed up as part of the audit for the year ended 31 March 2022.<br>The findings from this work inform our risk assessment and planning procedures, and determine whether, and how much, reliance can be placed on the operation of the Council's systems for the purposes of our substantive testing. | Findings identified are consistent with prior years, in that there are deficiencies relating to security management and individuals' access levels.<br>An updated report has been provided to management for their consideration specifically in relation to the IT audit work conducted. When management responses are received, these recommendations will be include in the final Audit Findings Report.<br>At the time of writing this report, no issues have been identified in the Council's financial statements as a result of inappropriate system access, though we note that work is still underway in this regard as at the time of writing. | As a result of these findings, we have extended the substantive testing being undertaken as part of our substantive work in a number of areas.<br>No issues have been identified impacting our our financial statements audit as a result of these access issues.<br>We also have observations regarding the VfM arrangements of the Council's IT arrangements that we will report to you shortly in our Auditor's Annual Report |

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# 2. Financial Statements - other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

| Issue | Commentary |
|---|---|
| Matters in relation to fraud | We have previously discussed the risk of fraud with the Audit Committee have not been made aware of any incidents in the period other than those which are reported to Committee from the local counter fraud services. Furthermore no other issues have been identified during the course of our audit procedures. |
| Matters in relation to related parties | We are not aware of any related parties or related party transactions which have not been disclosed. |
| Matters in relation to laws and regulations | You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work. |
| Written representations | A letter of representation will be requested from the Council on completion of our work. The wording of this letter will be provided to the Committee as a separate agenda item. |
| Confirmation requests from third parties | We requested from management permission to send confirmation requests to those institutions with which it banks, borrows from and invests with.<br>These requests were returned with positive confirmation. |
| Accounting practices | We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements from the work done to date, but we have noted the more significant amendments to the disclosures identified in Appendix C. |
| Audit evidence and explanations/ significant difficulties | The level of work required of us in relation to the valuation of Property, Plant and Equipment in particular has led to a significant amount of time and effort on the part of both the side of the audit team and the council's finance team in order to provide us with relevant assurances. The Council can expect the level of scrutiny to continue and we have already begun discussions in respect of the 2022/23 financial statements to make the process more efficient, so that we can avoid incurring significantly additional audit time and effort. |

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# 2. Financial Statements - other communication requirements

## Our responsibility

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

| Issue | Commentary |
|---|---|
| Going concern | In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.<br><br>Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:<br>• the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities<br>• for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report.<br><br>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:<br>• the nature of the Council and the environment in which it operates<br>• the Council's financial reporting framework<br>• the Council's system of internal control for identifying events or conditions relevant to going concern<br>• management's going concern assessment.<br><br>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:<br>• a material uncertainty related to going concern has not been identified<br>• management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. |

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# 2. Financial Statements - other responsibilities under the Code

| Issue | Commentary |
| --- | --- |
| Other information | We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.<br>No inconsistencies have been identified.<br>We note however, that the Annual Governance Statement will need to be updated to reflect any changes or emerging issues as it is required to comment upon events up to the date that the accounts are authorised for publishing.<br>We plan to issue an unmodified opinion in this respect, subject to these updates. |
| Matters on which we report by exception | We are required to report on a number of matters by exception in a number of areas:<br>• if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit,<br>• if we have applied any of our statutory powers or duties.<br>• where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es.<br>We have nothing to report on these matters. |
| Specified procedures for Whole of Government Accounts | We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.<br>As the Council exceeds the expected group reporting threshold of £2 billion we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements.<br>We will complete the WGA work on completion of the financial statements audit. |
| Certification of the closure of the audit | A certificate to confirm closure of the audit will not be given until our value for money is complete as well as our work on WGA, in addition to our opinion on the Council's financial statements. |

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# 3. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

During the audits of the year ended 31 March 2021 and 31 March 2022, a non-Grant Thornton member firm in the UK has been engaged to provide tax and financial statement preparation services to a significant component of the group. Supporting Ethical Provision A2.4 of the Financial Reporting Council's Ethical Standard requires that we ensure that the firm's independence is not compromised as a result of conditions or relationships that would compromise the independence of another firm whose work is used in the conduct of our audit engagement, having regard to the ethical requirements in the Ethical Standard that are relevant to the engagement. In practice, this means that the prohibitions on providing these (and other) types of non-audit service to public interest entities and their controlled undertakings also apply to this other firm and not just Grant Thornton.

We identified these prohibited services through our group audit oversight. There were no appropriate safeguards to mitigate the impact these prohibited services would have had on our independence, being prohibited regardless of materiality. Therefore we have had to carry out our own audit procedures for both the 2020/21 and 2021/22 years in respect of this component of the group, instead of using the work of the component auditor, to support our group audit opinion

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D.

### Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Transparency report 2020 (grantthornton.co.uk)

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# 3. Independence and ethics

| Service | Fees £ | Threats | Safeguards |
|---|---|---|---|
| Audit related | | | |
| Certification of 2020/21 Teachers' Pension Return (November 2021 – January 2022) | 7,500 | For these six audit-related services, we consider that the following perceived threats may apply:<br>• Self-interest (because these are recurring fees)<br>• Self review<br>• Management | The level of these recurring fees taken on their own are not significant in comparison to the confirmed scale fee for the audit of £252,309 (AuditorDirectoryforWebsite2021-2022 3-February-2022.xlsx (live.com))and in particular relative to Grant Thornton UK LLP's turnover overall. Further, each is a fixed fee and there is no contingent element to any of them. These factors mitigate the perceived self-interest threat to an acceptable level.<br>Our team have no involvement in the preparation of the relevant form which is certified, and we do not expect material misstatements in the financial statements to arise from the performance of the certification work. Although related income and expenditure is included within the financial statements, the work required in respect of certification is separate from the work required to audit the financial statements.<br>The scope of the work does not include making decisions on behalf of management or recommending or suggesting a particular course of action for management to follow. Our team perform these engagement sin line with set instructions and reporting frameworks. Any amendments made as a result of our work are the responsibility of informed management. |
| Certification of 2021/22 Teachers' Pension Return (ongoing) | 7,500 | | |
| Certification of 2020/21 Housing Benefits subsidy (June 2021 – January 2022) | 22,500 | | |
| Certification of 2021/22 Housing Benefits subsidy (June 2022 – January 2023) | 22,500 | | |
| Certification of 2020/21 Housing capital receipts (January – February 2022) | 5,500 | | |
| Certification of 2021/22 Housing Capital Receipts (commencing March 2023) | 7,500 | | |

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# 3. Independence and ethics

| Service | Fees £ | Threats | Safeguards |
|---|---|---|---|
| Audit related (continued…) | | | |
| AMSCI reasonable assurance engagements<br>(April 2021) | 15,000 | Self-interest (because these are recurring fees) | The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £15,000 in comparison to the confirmed scale fee and in particular to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to any of them. These factors mitigate the perceived self-interest threat to an acceptable level. |
| Homes England Compliance Checklist<br>(August – September 2021) | 6,000 | Self-Interest (because this is a recurring fee) | The level of recurring fees taken on their own is not considered a significant threat to independence as the fee for this work is £6,000 in comparison to the confirmed scale fee for the audit of £252,309 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level. |
| BEIS grants assurance 2019/20 and 2020/21<br>(November – December 2021) | 20,000 | None | The level of recurring fees taken on their own is not considered a significant threat to independence as the fee for this work is £20,000 in comparison to the confirmed scale fee for the audit of £252,309 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level. |
| There were no non-audit related services. | | | |

These services are consistent with the group's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit Committee. None of the services provided are subject to contingent fees.

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# Appendices

# A. Action plan – Audit of Financial Statements

We have identified two recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2022/23 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

| Assessment | Issue and risk | Recommendations |
|---|---|---|
| Medium ● | Assets Under Construction<br><br>We have identified several failing items as part of our sample testing of Assets Under Construction but are satisfied from projecting the error rate across the population that the potential for error is less than trivial and therefore does not require reporting in and of itself.<br><br>However, some of the responses received as part of our testing were indicative of assets under construction being identified as such because a project had been started/commenced and not necessarily because there was an actual asset under construction to account for. We therefore consider that there is the potential for greater error in future, dependant on the values involved if the process is not improved. | We recommend a full review be undertaken (something which the finance team is already planning for 2022/23) of asset under construction balances to ensure they have bene classified and accounted for appropriately. Further that the policy and protocol for this be revisited and consideration given to expensing early costs rather than capitalising if the criteria for capitalisation cannot be fully evidenced.<br><br>Management response<br><br>Clear guidance and protocols for AUC accounting will be produced and a review of the AUC balances will take place to ensure they are correctly classified and accounted for. |

**Controls**

- ● High – Significant effect on financial statements
- ● Medium – Limited Effect on financial statements
- ● Low – Best practice

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# A. Action plan – Audit of Financial Statements

| Assessment | Issue and risk | Recommendations |
|---|---|---|
| Low ● | **Exit Packages**<br>The costs of exit packages are amounts payable as a result of either the Council's decision to terminate an employee's employment before the normal retirement date, or an employee's decision to accept voluntary redundancy in exchange for those benefits.<br>We identified two instances from our sample testing whereby the disclosure in Note 44 was based on estimates to be paid, rather than actuals paid. The error is trivial and would not affect the disclosures within the financial statements. | We recommend that redundancy payments made after the initial redundancy payment should be reviewed to allow consideration for any adjustments in payments to be recorded in the event of under or overpayments having occurred.<br>**Management response**<br>Consideration will be given to undertaking an identification of any adjustments made in the following accounting year. |

**Controls**

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

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# B. Follow up of prior year recommendations

We identified the following issues in the audit of Birmingham City Council's 2020/21 financial statements, which resulted in 4 recommendations being reported in our 2020/21 Audit Findings report along with 13 recommendations rolled forward from prior periods. We have followed up on the implementation of the 4 new recommendations as well as those from earlier audits which were reported as still to be implemented in our 2020/21 Audit Findings report.

| Assessment | Issue and risk previously communicated | Update on actions taken to address the issue |
|---|---|---|
| x | Equal Pay Provision<br>Our testing of management's calculation of the equal pay provision identified a number of errors resulting from manual inputs into the calculation.<br>We have gained sufficient assurance that these errors did not lead to a material misstatement of the estimate. | We recommended that the Council looks to reduce its reliance on manual processes, or where this is not possible ensure that sufficient reviews are in place to reduce the risk of errors.<br>Management responded that a less manual process would be an improvement, and consideration will be given to this, however the impact will be immaterial as demonstrated by the audit testing. Management will review opportunities for automation In proportion to the greater accuracy achievable.<br>Findings have recurred in the current year audit and therefore we have rolled forward our recommendation. |
| ✓ | Accounting for revaluations<br>Our testing of a sample of the Council's revaluations of land and buildings assets identified instances of capital transactions which involved splitting or combining assets not being accounted for correctly due to limitations of the Council's fixed asset register.<br>We gained sufficient assurance that the impact of these issues were trivial for the 2020/21 financial year, but this could be a bigger issue if there were more or larger assets involved. | We recommended that the Council implement a formal approach to correctly accounting for these types of transactions to avoid similar issues arising in future years.<br>We have not identified any instances of this finding recurring and therefore consider the recommendation to be addressed. |

**Assessment**

✓ Action completed

X Not yet addressed

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# B. Follow up of prior year recommendations

| Assessment | Issue and risk previously communicated | Update on actions taken to address the issue |
|---|---|---|
| ✓ | Assumptions used in the discounted cash flow forecast used to value dwellings<br>A number of the Council's HRA dwellings (mainly in tower blocks) are valued using a Discounted Cash Flow (DCF) approach. When we challenged the Council's initial valuations, management were unable to support the levels of maintenance spend assumed in the forecasts, or how that spend was phased over the period of the forecast. This resulted in an increase in the overall valuation of the Council's HRA dwellings of £42.4 million. | We recommended that the Council ensures that in future years the inputs into the DCF models are reasonable and supportable.<br>This finding is considered to have been addressed. |
| x | Occurrence and completeness of expenditure<br>Of the errors identified in relation to the occurrence and completeness of expenditure in the Council's 2020/21 financial statements, the majority of issues related to information provided to the Council from schools.<br>We have gained sufficient assurance that these errors did not lead to a material misstatement of the financial statements, but there is scope for larger errors to arise due to incorrect or incomplete information being provided to the Council. | We recommended that the Council issue further guidance to schools on the information that they require, and implement a process to satisfy itself that the information received is accurate and complete.<br>This finding has recurred and therefore we have rolled forward our recommendation for continued consideration. |
| ✓ | Accruals policy<br>We are aware that in order to focus attention on the more significant items of income and expenditure at the end of the financial year, finance staff were instructed to focus efforts on items over £5,000.<br>This guidance was not formally implemented as a change in accounting policy, and the Council has been unable to demonstrate that such a de minimis threshold would not cause a material misstatement if it were implemented across all transactions.<br>Our testing of the completeness of income and expenditure accruals has not identified unusual levels of omissions below this threshold, and we are satisfied that there is not a material misstatement of the 2020/21 financial statements as a result of this guidance. | We recommended that the Council decide whether or not to implement a de minimis policy for year-end accruals, in order to avoid confusion on the part of finance staff. If such a policy is considered appropriate, it should be supported by a full assessment of the risk of material misstatement as a result of its implementation.<br>A de minimis policy has not been applied and therefore the recommendation is considered closed, but if in future the Council apply such a policy, we would expect the above assessment to be undertaken. |

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# B. Follow up of prior year recommendations

| Assessment | Issue and risk previously communicated | Update on actions taken to address the issue |
|---|---|---|
| ✓ | **Terms of engagement with HRA valuer**<br>We identified that the valuer's terms of engagement for the HRA valuations had a section specifically in relation to the methodology to be used for the valuation of dwellings, but that the only methodology referenced in this was the beacon property method. This is the same in other related documents (instructions, valuation certificate) where no reference is made to discounted cashflow (DCF). | We recommended that the Council reviews the instructions and terms of engagement with the valuer to ensure that they properly reflect the work that is required. We considered that it would be appropriate to include reference to the option to use a DCF methodology and to explicitly state when this methodology should be used and why.<br>This has been addressed and we consider the recommendation to be closed. |
| WIP | **Infrastructure**<br>Through work performed prior to the statutory instrument coming in to force at the end of 2022, we identified that the Council's fixed asset records do not contain sufficient detail to enable them to assess the condition of individual assets, or determine enhancements made to individual assets. We were satisfied that this would not lead to a material misstatement of the 2020/21 financial statements due to the statutory override, however this override is not a permanent solution. | We recommended that the Council reviews its records with a view to improving the information held on infrastructure assets.<br>As this is a live issue that has only recently concluded, the mitigation of this risk is a work in progress, which we will follow up as part of our 2022/23 audit. |
| x | **Related party transactions**<br>Our work in relation to the Council's Related Party Transactions disclosure identified several instances of interests that were not declared by members or officers, and that were subsequently not identified by the Council's procedures. We are satisfied that this does not lead to a material risk of omission or misstatement in the financial statements, however the Council should be aware of all of its related parties to ensure that any transactions with such entities are treated appropriately. | We recommended that:<br>1. Additional checks are performed by the Council to confirm the completeness of the declarations received.<br>2. Declarations should be requested from all senior officers, even those in short-term posts.<br>3. Member declarations should be updated when a member's interests change, and at least annually.<br>We have identified similar findings in the current year audit, and therefore have rolled forward this recommendation. |
| WIP | **Historic balances in debtors and creditors listings**<br>We have identified instances of debtor and creditor codes containing historic and unmatched entries (ie entries where the debit doesn't exactly match the credit so both entries remain active in the system). We consider that the existence of these balances must make it difficult for the Council to properly monitor its debtors and creditors. | We recommended that an exercise is completed to review these historic balances and remove them where appropriate so that the Council's data can be used for its required purpose.<br>There still appears to be instances of unmatched entries and therefore we consider this recommendation to be a work in progress for the Council to consider as it continues to implement and bed in its new ledger. |

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# B. Follow up of prior year recommendations

| Assessment | Issue and risk previously communicated | Update on actions taken to address the issue |
|---|---|---|
| ✓ | MRP in relation to highways PFI assets<br>During the completion of our expenditure testing, we identified a transaction transferring costs between directorates on the face of the CIES, which related to the MRP charge on the Council's highways PFI assets. We have been able to gain a full understanding of the sequence of transactions that result in this adjustment in the CIES being required, and we are satisfied that the underlying accounting results in the correct treatment in the financial statements. We consider that the basis for these transactions, which appears to be driven by management accounting and the Council's budget process, is overly complex. | We recommended that the Council reviews the accounting in question and considers whether there is a more straight-forward approach to achieve the same results.<br>This finding has not recurred in the current year and therefore we consider this recommendation to be closed. |
| ✓ | Pensions data provided to the actuary<br>During our work to assess the accuracy and completeness of the information provided to the actuary in 2019/20, we identified that the data initially submitted for April 2019 did not agree to the Council's payroll records.<br>There is a risk that providing incorrect information to the actuary will impact on the actuarial valuation provided for the financial statements, and lead to a misstatement of the Council's liabilities.<br>This was later corrected by the Council in a subsequent data submission to the actuary. We did not identify any recurring issues in 2020/21 but did identify that an element of the Council's liability had been mistakenly calculated assuming 12 months of payroll data when only 10 months was submitted. | The same error has not recurred but we did identify that March 2020 figures were used in the pension return submission rather than March 2021 figures. The impact of this error was below our clearly trivial threshold. Recommendation considered closed, given that the impact was trivial. |
| ✓ | Intra-group consolidation adjustments<br>After preparation of the financial statements, the finance team identified in 2019/20 that they had treated VAT amounts incorrectly within the intra-group adjustments in the consolidation process. This led to material misstatement of the group financial statements.<br>We recommended in our 2019/20 audit that management should ensure that sufficient time is built into the closedown processes to enable a robust management and quality review to be completed prior to the financial statements being submitted for audit. | Testing of the Council's consolidation process in 2020/21 identified a material error in the treatment of the Birmingham Children's Trust pension reserve. This is a reduction in the number of errors identified in the previous year, indicating that improvements have been made to the process.<br>In 2021/22 an amendment has been made to the financial statements to correct erroneous double counting in short term debtors and creditors. At £1.5m the amount is trivial, but management have stated that they will make the adjustment. Given the continued direction of travel as part of the consolidation process, leading to one trivial amendment, we consider this recommendation to be closed. |

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# B. Follow up of prior year recommendations

| Assessment | Issue and risk previously communicated | Update on actions taken to address the issue |
|---|---|---|
| X | Heritage asset valuations<br>The Council's Thinktank heritage asset has not been formally valued for a number of years; the figure used in the 2019/20 financial statements was based upon information compiled by the Council's insurance team. There is a risk that this valuation is not reflective of the asset's actual value. This asset is above our clearly trivial threshold but does not exceed our performance materiality. | No valuation was performed in 2020/21 or 2021/22. Management's assessment is that the insurance valuation used remains appropriate. |
| superseded | Open purchase orders in the general ledger<br>During our work on the completeness of the Council's expenditure in the 2019/20 year, we have identified that there are a significant number of open purchase orders in the general ledger that relate to previous years. Some of these date back to prior to the implementation of the current ledger system. The volume of open orders on the system means that management cannot glean any useful information from this data for their monitoring purposes.<br>We recommended that management look to reduce the number of historic purchase orders still open in the general ledger system, in order to make this a useful report for their consideration of the completeness of expenditure within the financial year. | We noted in the prior year that progress has been made to reduce the number of historic purchase orders that are open in the general ledger, but there were still a significant number at 31 March 2021.<br>Given the move to Oracle we consider that this recommendation has been superseded. |
| X | Under-accrual of expenditure<br>Our testing of the completeness of expenditure in 2018/19 identified several items which were paid after 31 March 2019 but should have been accrued into the 2018/19 financial year. The Council performed extended analysis covering payments made during the period to 22 August 2019 which identified £9.6m of invoices (inclusive of associated VAT) which relate to 2018/19 but were not accrued. As part of our testing in the 2019/20 year, we again identified transactions that had not been recorded in the correct year, and additional testing had to be performed..<br>In previous years, similar issues around the completeness of expenditure had been noted. The Council should investigate why these invoices were not appropriately accrued and implement additional controls to reduce the risk of such omissions in the future. | Testing of a sample of transactions after 31 March 2021 identified a small number of omitted items. There is still room for improvement in this area.<br>Testing of a sample of transactions after 31 March 2022 identified a small number of omitted items, specifically in relation to schools. Therefore this recommendation is considered extant. |

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# B. Follow up of prior year recommendations

| Assessment | Issue and risk previously communicated | Update on actions taken to address the issue |
|---|---|---|
| X | Errors noted in property valuations<br>In previous years' audits we identified errors in the work of the valuer relating to the valuation of secondary schools, and a valuation where expenditure was used instead of profit as the basis of the valuation.<br>Appropriate review should be included as part of the valuation process to ensure that any errors in valuation are identified and resolved. | The quality assurance process has significantly improved, such that we are finding far fewer errors than previously. However, there is still significant audit time and effort spent gathering evidence in support of the key assumptions that the valuer applies, and we would therefore recommend keeping this open, so that the upkeep of evidence in support of the valuation process continues to be improved. |
| X | Multiple accounts assigned to a single user<br>We identified a high number of users with multiple accounts within SAP. Whilst some of these are required for FireFighter ID purposes, it appears that some are unnecessary.<br>Management should consider which users need multiple accounts within SAP and remove access to those where this function is not required. | We reported in the prior year, that although no actual instances of inappropriate use of that access have been identified, the Council feels that moving to a preventative measure of reducing access to the minimum required as often as possible is a sensible precaution. Accordingly, work has already started to remove this access from high risk accounts identified but will need time to unpick this in a controlled manner from any remaining accounts over the next few months.<br>It remains the case that no actual instances of inappropriate use of that access have bee identified in respect of the current year audit, but we recommend keeping this action open, such that it can be considered in the future year as part of our review of Oracle. |
| X | General IT controls<br>As part of our review of IT controls, we identified an excessive number of users with inappropriate access. The risk is that an excessive number of users have access to critical transactions at high level of authorisation, which we would normally expect to be restricted to system administrators.<br>Management should review all access and reassign the relevant transactions in accordance with business need and current job duties only. | We reported in the prior year, that although no actual instances of inappropriate use of that access have been identified, the Council feels that moving to a preventative measure of reducing access to the minimum required as often as possible is a sensible precaution. Accordingly, work has already started to remove this access from high risk accounts identified but will need time to unpick this in a controlled manner from any remaining accounts over the next few months.<br>It remains the case that no actual instances of inappropriate use of that access have bee identified in respect of the current year audit, but we recommend keeping this action open, such that it can be considered in the future year as part of our review of Oracle. |

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# C. Audit Adjustments

## We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

### Impact of adjusted misstatements

Adjusted misstatements identified from the work done to date are set out below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2022.

| Detail | Comprehensive Income and Expenditure Statement £m | Statement of Financial Position £m | Impact on total net expenditure £m |
|---|---|---|---|
| **Creditors journal misposting error**<br>Testing of two sample items within creditors identified an error in the double entry used to record a wider transaction that included these two items. The journal was removing grant reimbursements and cash balances associated with the grant as the Council is acting as an agent, and therefore the entry was to remove these transactions on the grounds that they should not feature in the Council's financial statements. This is an appropriate conclusion to reach but the accounting entry to effect this was made incorrectly.<br><br>The adjustment will decrease debtors by £4.6m with a corresponding decrease to creditors. | - | DR creditors 4.6<br>CR debtors (4.6) | - |
| **Consolidation of intercompany transactions with Acivico - GROUP ACCOUNTS**<br>We have identified that the reduction in Group ST Debtors/Creditors is understated by £1.5m due to double counting in the consolidation exercise. This is below our trivial level and therefore would not usually be reported, but management have stated that this adjustment is being made therefore it is noted here for completeness. There is a nil impact on the SoFP. | | - | - |
| **Error noted by the Pension Fund audit team – known time lagged error**<br>We note that the auditor of the WMPF identified an understatement in the valuation of the Fund's assets in the course of their audit procedures. The auditor reported a £94m quantifiable understatement of level 3 investments, which was then extrapolated to a total potential error of £119m. An adjustment has been made for the Council's share of the quantifiable error, being £26.1m. | CR return on assets (within OCI) (26.1) | DR net pension assets 26.1 | (26.1) |

# C. Audit Adjustments

| Detail | Comprehensive Income and Expenditure Statement £m | Statement of Financial Position £m | Impact on total net expenditure £m |
|---|---|---|---|
| Revised actuarial report for rate of return issue<br>A revised actuarial report was issued in November 2022, which corrected an error in the rate of return used in the original actuarial report. | CR return on assets (within OCI) (31.7) | DR net pension assets 31.7 | (31.7) |
| Infrastructure<br>The Council has revisited and reviewed the useful economic lives (UELs) applied to infrastructure assets alongside CIPFA guidance in consultation with the BCC Highway Assets and PFI team and a revised set of proposed UELs going forward has been established. The impact of these revised UELs is to reduce the depreciation charge applicable to 2020/21 and 2021/22 by £3.1m. We have reviewed the calculations and determined the impact to be £3.3m but are satisfied that this difference is trivial. The Council has elected to adjust for both years in respect of the year ended 31 March 2022. | CR depreciation 3.1 | DR infrastructure assets 3.1 | 3.1 |
| Overall impact | (£54.7) | £54.7 | (£54.7) |

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# C. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

### Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit.

| Disclosure omission/misstatement | Adjusted? |
|---|---|
| Note 20 (Defined Benefit Pension Schemes) is to be split out into the different schemes; LGPS funded; LGPS unfunded and Teachers' Pensions in line with the revised actuary report. | TBC |
| Note 22 PPE<br>Issue identified in relation to AUC transfers in year to REFCUS. In year REFCUS spend will be reversed and schools processed as disposals when transferred to academies. This relates to one school whereby Turves Green was incorrectly classified within AUC opening balances because the asset was ready for use in 2020/21 and therefore should not be within AUC opening balances. | TBC |
| Note 22 - Capital Commitments<br>Per the CIPFA Guidance Notes, this note should contain a 'Similar commitments as at 31 March 2021' line for the major commitments - this is £862m. | TBC |
| Note 25 Short Term investments<br>Management have identified that £74m of DMO investment is incorrectly classified as Money Market Funds. This will be reclassified within the note to 'Other' | TBC |
| Note 30 Provisions<br>Equal Pay provision movements need to be shown gross rather than net. | TBC |
| Note 37: Financial Instruments<br>During the testing of the 'Fin Liabilities' of Financial Instruments, we noticed that the 'Long-term loans from PWLB' contains both long term and short term balances therefore the description was inconsistent. The reference to 'long-term' is to be removed. | TBC |
| Note 37: Financial Instruments<br>Investments in subsidiaries, associates and joint ventures - Per Code para 7.1.2.25, excluded from the scope of IFRS9, and so should not be in this note. To be reclassified to Investments that are not financial instruments. | TBC |

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# C. Audit Adjustments

| Disclosure omission/misstatement | Adjusted? |
|---|---|
| Note 37: Financial Instruments<br>The Council will amend the accounts to include the following disclosure "As part of the Highways PFI settlement arrangements with Birmingham Highways Limited (BHL), the Council's overpayment claim against BHL was converted into a loan agreement of £64m at an interest rate of 8% per annum. It is expected that the value of the loan will only be recognised towards the end of the Highways PFI contract in June 2035 and will be dependent on the successful restructuring of the project, the continuance of the PFI contract and the successful performance of the contract over the remaining term." | TBC |
| Note 37: Financial Instruments<br>Shares in companies - long term & Loans to organisations for service purposes :<br>The audit team challenged why this is disclosed as Level 3 as it was not clear why Level 3 would be appropriate. Management's response is that there is no observable market for these assets and the valuation been derived from the Council own data adjusted for other reasonably available information and on that basis, it is believed that level 3 better reflects the valuation technique used in measuring the fair value of these assets.<br><br>We have reviewed the workings for the fair value of these assets and confirm that the Council have completed a discounted cash flow using publicly available discount rates. We disagree however, that this would be level 3 in the hierarchy and consider that level 2 would be the correct designation. The Council is not amending the financial statements in this regard. | X |
| Note 38: Financial Instruments<br>There is a disclosure error within Note 38 in the draft accounts. It states 'All trade and other payables are due to be paid in less than one year' although there is £0.5m sat in LT creditors on the balance sheet. Amendment to be made to add the phrase "except for £0.5m LT creditors". | TBC |
| **Cash flow statement** misstatements due to formula errors and figures not being updated from PY.<br>**Note 34** - Purchase of property, plant and equipment, investment property and intangible assets will be amended by £57.9m to £409.5m.<br>**Note 35** - Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts by £39.4m to £70.7m<br>**Note 36** - Increase/(Decrease) in Creditors will be amended by £18.5m to £40.6m | TBC |
| Group<br>Note G4 - No material differences to Council note, therefore not required.<br>Note G7 and G8 - No material difference between Council and group short term debtors and creditors balances and disclosure notes, therefore the group note should be removed.<br>Note G10 - No material differences to Council note, therefore not required.<br>Notes G12 G13 G14 - No material differences to Council notes, therefore not required.<br><br>Management are electing to retain these notes, even though they are not required, as they contend that it helps the reader more fully understand the group's position. | X |
| Note 31<br>Contingent Liabilities and Contingent Assets<br>Pt. 4 i.e., disclosure pertaining to Municipal Mutual Insurance (MMI)-Amount (£2.3m) not material. hence, overly disclosed. | TBC |

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# C. Audit Adjustments

| Disclosure omission/misstatement | Adjusted? |
|---|---|
| Disclosure to explain restructure<br>As well as the relevant columns being flagged as having been "restated" (which has been done in this case), narrative needs to be included to explain:<br><br>a) the nature of the reclassification<br>b) the amount of each item or class of items that is reclassified, and<br>c) the reason for the reclassification. | TBC |
| Note G5<br>FV disclosure. Level 2 should be £34.3m, and Level 3 should be £8.2m. | TBC |
| Note G18<br>Acivico - Life expectancy for current pensioners should read 21.2 instead of 21.6, and 23.6 instead of 23.4.<br>Acivico - CPI increase disclosure is not included in the actuary report - BCC have agreed to remove this.<br>Acivico - Sensitivity analysis on effect of 0.1% increase in discount rate is not included in Acivico's audited accounts. This will be removed from the note. | TBC |
| *Note G21*<br>Bullet 5 of BAH in the 20/21 accounts has been removed in the 21/22 accounts inadvertently. This will be added back into the 21/22 accounts. | TBC |

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# C. Audit Adjustments

### Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2021/22 audit which have not been made within the final set of financial statements. The Committee is required to approve management's proposed treatment of all items recorded within the table below.

| Detail | Comprehensive Income and Expenditure Statement £m | Statement of Financial Position £m | Impact on total net expenditure £m | Reason for not adjusting |
|---|---|---|---|---|
| Extrapolated error noted by the Pension Fund audit team<br>As set out on the previous page, the auditor of the WMPF reported an extrapolated understatement in the valuation of the Fund's assets of £119m. The Council has adjusted its accounts for its share of the quantifiable element of this error but has not adjusted for the extrapolated element.<br>If this further adjustment had been made, the Council's share would have been £6.8m | CR return on assets (6.8) | DR net pension assets 6.8 | (6.8) | This is not a factual error but is an extrapolation of an error at the pension fund. |
| PBSE - Adjusting event for settlement of legal case post year end<br>Settlement of legal case resulting in adjusting event under IAS10 as the settlement of a legal claim is a specific example of an adjusting event within IAS 10 paragraph 9. This means that provisions is understated by £3.7m, with an equal and opposite overstatement in opening reserves. | | DR opening reserves 3.7<br>CR Provisions 3.7 | | Management has confirmed that they agree with our conclusion that this meets the requirement of an adjusting event under IAS10, however do not propose amending the accounts as it is not considered to be material. |

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# C. Audit Adjustments

## Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2021/22 audit which have not been made within the final set of financial statements. The Committee is required to approve management's proposed treatment of all items recorded within the table below.

| Detail | CIES £m | SoFP £m | Impact on total net expenditure £m | Reason for not adjusting |
|---|---|---|---|---|
| **Application of incorrect social housing factor to valuations**<br>Within other land and buildings, the Council has a land asset which is valued on a social housing basis. This value has been reduced to 50%, when the social housing factor used for the Council's Dwellings is 40%. This has led to the value of the asset being overstated by £2.7m. (This error also occurred in 2020/21). | DR reval reserve 2.7 | CR PPE (2.7) | 2.7 | |
| Overall impact | 4.1 | 0.4 | 4.1 | Not material |

# C. Audit Adjustments

### Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the 2020/21 audit which have not been made within the final set of financial statements, along with our consideration of the impact on the 2021/22 financial statements.

| Detail | CIES £m | SOFP £m | Reason for not adjusting |
|---|---|---|---|
| The auditor of the West Midlands Pension Fund reported an extrapolated understatement in the valuation of the Fund's assets of £90m. The Council adjusted its accounts for its share of the quantifiable element of this error (being £76m), but did not adjusted for the extrapolated element. | (3.8) | 3.8 | This is an extrapolation of an error at the pension fund. And has been superseded by a similar extrapolation in the current year. We are content that there is no material impact on the current year. |
| We identified errors in our expenditure occurrence testing, which could not be isolated to a particular population. They were therefore assumed to be representative of the population, and when extrapolated, gave a projected misstatement of £5.9m, ie a potential overstatement in expenditure. | (5.9) | 5.9 | Non-material extrapolated error, which is wholly offset by the item below. |
| We identified errors in our expenditure completeness testing identified errors which gave rise to projected misstatement of £10.0m indicating a potential understatement in expenditure. | 10.0 | (10.0) | Non-material extrapolated error, which wholly offsets the error above. This would have the effect of reducing the opening creditors balance by £4.1m which would therefore have decreased the closing creditors balance by £4.1m. This is not considered to be material and there are no other errors in the current year relating to creditors that suggest the issue is more widespread. The errors we've identified from our testing so far in 2021/22 expenditure testing is for expenditure that should have been recognised in 2021/22 but wasn't and therefore is inconsistent with this error. They are therefore considered separately and we are content that there is no material impact on the current year. |

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# C. Audit Adjustments

| Detail | CIES £m | SOFP £m | Reason for not adjusting |
|---|---|---|---|
| The settlement of a legal claim is a specific example of an adjusting event within IAS 10 paragraph 9. This means that the Council's provisions at 31 March 2021 were understated, with an equal and opposite understatement in expenditure. | 3.7 | (3.7) | Management has confirmed that they agree with our conclusion that this meets the requirement of an adjusting event under IAS10, however do not propose amending the accounts as it is not considered to be material. This has been carried forward as an unadjusted misstatement into the current year. |
| The Council has a policy of excluding assets with a value less than £50k from its financial statements. Following an audit recommendation in 2019/20, high level records of these valuations are now kept, but this was not the case prior to 2020/21. The maximum potential understatement (if all such assets were valued at £50k in previous years) is £10.9m. Using the average value in 2020/21 as an estimate for the average value across these assets would give an estimated omission of £3.8m. | (3.8) | 3.8 | Non-material extrapolated error. |
| Our testing of the valuations of the Council's highest value assets, and those assets where the movements between valuations was not in line with our expectations identified issues with 15 of 41 such items. We identified a potential understatement of the Council's property, plant and equipment, of £6.1m. | (6.1) | 6.1 | Not considered to be material. |
| Overall impact (Group) | (£5.9m) | £5.9m | Not material |

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# D. Fees

## We confirm below our final fees charged for the audit and provision of non-audit services.

| Audit fees | Proposed fee | Final proposed fee |
|---|---|---|
| Council Audit | 365,909 | 401,534* |
| Audit of subsidiary companies | | |
| • NEC (Developments) plc | 35,750 | 35,750 |
| Total audit fees (excluding VAT) | £441,909 | £437,284 |

* see pages 49 and 50 for how our proposed fee has been determined.

The Council does not separately disclose group audit fees in the notes to the group accounts. The fees for the Council as a single entity reconcile to the financial statements as follows:

- **Fees disclosed per financial statements** £402k (rounded to £0.4m)

Note that the scale fee for the audit of Birmingham City Council is £241,909, and the audit fee set out above includes a fee variation which is subject to PSAA approval.

| Non-audit fees for other services | Proposed fee | Final fee |
|---|---|---|
| Audit Related Services: | | |
| • Certification of 2020/21 Teachers' Pension return (November 2021 – January 2022) | £7,500 | £7,500 |
| • Certification of 2021/22 Teachers' Pension return (commenced June 2022) | £7,500 | £TBC |
| • Certification of 2020/21 Housing Benefits Subsidy claim (June 2021 – January 2022) | £22,500 | £22,500 |
| • Certification of 2021/22 Housing Benefits Subsidy claim (June 2022 – January 2023) | £22,500 | £22,500 |
| • Certification of 2020/21 housing capital receipts grant (January - February 2022) | £5,500 | £7,500 |
| • Certification of 2021/22 housing capital receipts grant (to commence March 2023) | £7,500 | £TBC |
| • AMSCI reasonable assurance engagements (April 2021) | £15,000 | £15,000 |
| • Homes England Compliance Checklist (August – September 2021) | £6,000 | £6,000 |
| • BEIS grants assurance work for the 2019/20 and 2020/21 years (November – December 2021) | £22,000 | £20,000 |
| There were no non-audit related services | | |
| Total non-audit fees (excluding VAT) | £116,000 | TBC |

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# D. Fees

| Audit fees | | Proposed fee | Rationale for Fee |
|---|---|---|---|
| Council Audit scale fee | | £241,909 | As published by PSAA (https://www.psaa.co.uk/wp-content/uploads/2022/12/Auditor-Directory-for-website-2021-2022-as-at-07-February-2023.xlsx) |
| Ongoing increases to scale fee identified in 2019/20 and continuing to apply in 2020/21 and 2021/22 | | | |
| Raising the bar/regulatory factors | £16,250 | | Reflects the need for additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity. |
| Enhanced audit procedures for Property, Plant and Equipment | £11,250 | | Reflects the increased volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin PPE valuations. In addition we have engaged our own audit expert – Wilks Head & Eve LLP. |
| Enhanced audit procedures for Pensions | £5,625 | | Reflects the increased granularity, depth and scope of coverage of our work. |
| Enhanced Audit Report requirements | £5,000 | | The Authority meets the definition of a Public Interest Entity. |
| Total fees relating to ongoing changes in requirements | | £38,125 | |
| Issues arising in 2020/21 and continuing to apply in 202122 | | | |
| Increased audit requirements of revised ISAs | £26,000 | | New ISA requirements from 2020/21 audits in relation to the work that we complete to gain assurance over management' estimates and journal entries. |
| Equal Pay provision | £7,500 | | The audit work relating to the Council's provision for ongoing Equal Pay claims is complex, errors were identified during our substantive work which required follow-up and resolution, and along with a post balance sheet event. |
| IT General Controls | £30,000 | | Following the work of our internal IT Audit team, we identified a number of deficiencies and significant deficiencies in the Council's ITGCs. Factoring these findings into our audit work has increased sample sizes across the audit. |
| Total fees relating to ongoing 2020/21 issues | | £63,500 | |

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| Audit fees | Proposed fee | Rationale for Fee |
|---|---|---|
| Issues arising in 2021/22 | | |
| Equal Pay Provision | £4,000 | Consideration of new emerging issues in relation to the Equal Pay provision and impact on both the 2020/21 and 2021/22 accounts |
| Expenditure | £9,000 | Errors were noted relating to the both the occurrence and completeness of expenditure which led to extended testing, follow up and resolution. |
| Group audit work | £5,000 | Completion of specified audit procedures on the Council's material subsidiary which was originally anticipated to be achieved through reliance on component auditor, but it was identified that ethical restrictions precluded us from doing so. This work is required both in relation to 2020/21 and 2021/22 audits. |
| Additional work on Value for Money (VfM) under new NAO Code | £40,000 | Due to the scale and complexity of the operations of the Council, the level of work required under the new arrangements is significant. In addition, the audit team identified five risks of significant weaknesses in arrangements which required additional follow-up procedures across a wide variety of areas, and which involved input from various subject matter experts within Grant Thornton. |
| Total audit fees (excluding VAT) | £401,534 | (2020/21 final fee for comparison was £441,034) |

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# E. Audit letter in respect of delayed VfM work

Dear Councillor Grindrod,

The original expectation under the approach to VfM arrangements work set out in the 2020 Code of Audit Practice was that auditors would follow an annual cycle of work, with more timely reporting on VfM arrangements, including issuing their commentary on VfM arrangements for local government by 30 September each year at the latest.

Unfortunately, due to the on-going challenges impacting on the local audit market, including the need to meet regulatory and other professional requirements, we have been unable to complete our work as quickly as would normally be expected. The National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation.

We reported to you in previously that we anticipated completing our audit work on the financial statements by the end of November and therefore would be issuing our Auditor's Annual Report (AAR), including our commentary on arrangements to secure value for money, no later than 28 February 2023. However, as the work on financial statements has been delayed for reasons explained in our Audit Findings Report, the AAR has also been delayed. It will be issued in due course and at any rate, no later than 3 months subsequent to the date that the financial statements are signed.

For the purposes of compliance with the 2020 Code, this letter constitutes the required audit letter explaining the reasons for delay.

Yours faithfully

Jon Roberts

Partner

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Item 11

**BIRMINGHAM CITY COUNCIL**

**PUBLIC REPORT**

| | |
|---|---|
| **Report to:** | **AUDIT COMMITTEE** |
| **Report of:** | **Director of Council Management** |
| **Date of Decision:** | **28 March 2023** |
| **Subject:** | **APPROVAL OF STATEMENT OF ACCOUNTS 2020/21 & 2021/22** |
| **Wards affected: All** | |

**1 Purpose**

1.1 To brief the Committee on the legislative requirements for the approval and publication of the audited Statement of Accounts 2020/21 & 2021/22 and seek its approval to the Statement of Accounts or the years 2020/21 and 2021/222. This item follows the report of the external auditors on their findings from their audit work of the above-mentioned Statements of Accounts.

1.2 The statutory requirements for local authority accounting are set out in the Local Audit and Accountability Act 2014, supported by the Accounts and Audit Regulations 2015 (SI 2015 No 234) or 'the 2015 Regulations'.

1.3 As a result of the Covid pandemic the Accounts and Audit (Amendment) Regulations 2021 (SI 2021 No 263) have amended the 2015 Regulations for the 2020/21 and 2021/22 financial year, deferring publication dates and making other consequential changes.

**2 Decisions recommended:**

Members are recommended to:

2.1 Note the Audit Findings Report from Grant Thornton and accept the recommendations of that report;

2.2 Approve the Letter of Representation for the year ending 31 March 2021 from the Chief Finance Officer;

2.3 Approve the Letter of Representation for the year ending 31 March 2022 from the Chief Finance Officer;

2.4 Approve the Statement of Accounts for 2020/21 subject to external audit clearance of any outstanding issues and any resultant changes.

2.5 Approve the Statement of Accounts for 2021/22 subject to external audit clearance of any outstanding issues and any resultant changes.

**Contact Officer:** Rebecca Hellard

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**Contact Officer:** Mohammed Sajid
**Telephone No:** 0121 303 3313
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## 3 Compliance Issues:

3.1 Are Decisions consistent with relevant Council Policies, Plans or Strategies?
The publication of the Statement of Accounts is a legislative and statutory requirement.

3.2 Relevant Ward and other Members/Officers etc. consulted on this matter:
The Chair of the Committee has been consulted.

3.3 Relevant legal powers, personnel, equalities and other relevant implications (if any):
The statutory requirements for local authority accounting are set out in the Local Audit and Accountability Act 2014, supported by the Accounts and Audit Regulations 2015 (SI 2015 No 234, amended by SI 2021 No 263) or 'the 2015 Regulations'.

3.4 Will decisions be carried out within existing finances and resources?
Yes

3.5 Main Risk Management and Equality Impact Assessment Issues (if any):
None.

## 4 Approval of the Statement of Accounts

4.1 Regulation 9(2) requires Members to approve the audited Statement of Accounts that is to be published, either by meeting as a whole or through a committee. At Birmingham City Council this is the Audit Committee. Specifically, members have a duty to:

- consider the Statement of Accounts;
- approve the Statement by a resolution; and
- ensure that the Statement is signed and dated by a person presiding at the meeting

4.2 Audit Committee received a briefing on the unaudited Statement of Accounts 2020/21 in June and July 2021, whilst the unaudited Statement of Accounts were presented in September and November 2022.

4.3 The unaudited Statement of Accounts 2020/21 have had a number of changes, and these are listed in the Audit Findings Report 2020/21 on pages 42-44. None of these changes affected the available resources to the Council reported in the unaudited Statement of Accounts. The main changes relate to the reclassification of a grant from principal to agency arrangement, adjustment for the error identified in the Pension Funds accounts and a number of minor Property, Plant & Equipment adjustments.

4.4 The external auditors have made a number of recommendations on pages 35-37 which the Council has provided Management responses to

4.5 There are a number of items the external auditors have identified which the Council has chosen not to adjust for as they are considered either immaterial to the Statement of Accounts or cannot be calculated with any degree of accuracy. These are listed on pages 45-48 of the Audit Findings Report.

4.6 The unaudited Statement of Accounts 2021/22 have also had a number of changes, and these are listed in the Audit Findings Report 2021/22 on pages 42-43. None of these changes affected the available resources to the Council reported in the unaudited Statement of Accounts. The adjustments relate to a reclassification between Debtors and Creditors, a change in the Pension Fund net liability due to better valuation information since the year end and a minor change to Infrastructure depreciation as a result of revised Useful Economic Lives.

4.7 The external auditors have made a number of recommendations on pages 34-35 to which the Council has provided Management responses.

4.8 The latest Statement of Accounts are attached. They reflect the changes made as a result of the Audit Finding Reports and will be reviewed by the External Auditors at the end of their audit work.

4.9 There are a number of items the external auditors have identified which the Council has chosen not to adjust for as they are considered either immaterial to the Statement of Accounts or cannot be calculated with any degree of accuracy. These are listed on pages 47-50 of the Audit Findings Report 2021/22.

4.10 At the time of writing there are a small number of items outstanding for the Auditors to complete. These may result in further adjustments to the Statements of Account. If these are significant these will be reported back to the Committee.

4.11 Regulation 6(4) requires that members approve the Annual Governance Statement at some time before they approve the Statement of Accounts. The attached 2020/21 and 2021/22 Annual Governance Statements have been approved by this Committee on 29 June 2021 and 28 September 2022. These have now been audited and also updated for relevant subsequent events since they were written.

4.12 Under regulation 9(3) the Responsible Financial Officer must re-confirm their view that the Statement of Accounts presents a true and fair view before it is given member approval. The Director of Council Management has re-confirmed that the Statement of Accounts 2020/21 and 2021/22 present a true and fair view of the Council’s financial position.

4.13 A Letter of Representation is required to be sent to the external auditor by the Director of Council Management, in their role as Section 151 Officer. This advises the auditor of any material matters which have occurred since the draft Statement of Accounts was signed and which might impact on the accounts and the audit. The letter is attached as Appendix 2 & 4.

## 5 <u>Post Audit</u>

5.1 After Members have approved the Statement of Accounts, regulation 10 sets out the requirements for publication, which requires publication of the Statement of Accounts together with any certificate or opinion entered by the local auditor.

5.2 Regulation 10(3) requires that Statement of Accounts, Annual Governance Statement and Narrative Statement remain available for public access for at least five years after the date of publication

5.3 Regulation 16(1) requires publishing a statement as soon as reasonably practicable after the conclusion of the audit to confirm matters such as the audit has concluded and the right of electors to inspect and make copies of the Statement of Accounts, auditor's certificate of completion and auditor's opinion.

**Signature:**

……………………………………
**Rebecca Hellard, Director of Council Management**

**Attachments:**
Appendix 1: Updated unaudited Annual Statement of Accounts 2020-21
Appendix 2: Letter of Representation 2020-21 to the External Auditor
Appendix 3: Updated unaudited Annual Statement of Accounts 2021-22
Appendix 4: Letter of Representation 2021-22 to the External Auditor

# Unaudited Draft Statement of Accounts 2020/21

## Index

## NARRATIVE REPORT

### Organisational overview and external environment

External environment

Birmingham lies at the heart of the West Midlands with a population of 1.25 million that is forecast to increase by 7.7% to 2032. Birmingham's population is the most diverse of any major city outside London and it is also a young city with a relatively high proportion of young people and a lower proportion of working age and older people. This represents a huge potential for accelerated growth, fairer distribution of wealth and opportunities for innovation across all spheres of life.

Since 2012, the Council has put £3.49bn capital spend into the city, improving roads, schools, housing, leisure facilities and culture, arts and heritage. Despite the Covid pandemic, major projects such as HS2, the £700m Paradise development and Smithfield have continued ensuring the City's economy can thrive and helping to establish Birmingham as a world-class city.

However, Birmingham faces a number of key challenges that will drive its need to spend, including:

- Being ranked the 7th most deprived local authority in England and the most deprived in the West Midlands with 43% of its population living in the 10% most deprived areas;
- Structural inequalities that exist across the city and hold many communities back. The Council has recently published "Everyone's Battle, Everyone's Business", which is a call to action for the Council and the city to challenge these inequalities and celebrate the city's diversity and dynamism.
- The City is growing rapidly, increasing the pressure on the housing supply, and the need for affordable housing in particular.
- Tackling the breadth of issues caused by the pandemic, which has highlighted a number of inequalities in our communities, including those in low income households, and those without the ability to work from home.
- The need to reform services, so that the Council recognises and responds to the root cause of deprivation, poverty and inequality while embracing all of the City's many strengths.
- The City's ambition to tackle climate change, to improve air quality and the natural environment but also to stimulate job creation and growth.

Finally, two significant areas of focus for the Council are the preparations for, and delivery of the 2022 Commonwealth Games, and embracing the opportunities for the city that the completion of HS2 in late 2026 will bring. Both represent huge opportunities for the city.

The impact of Covid

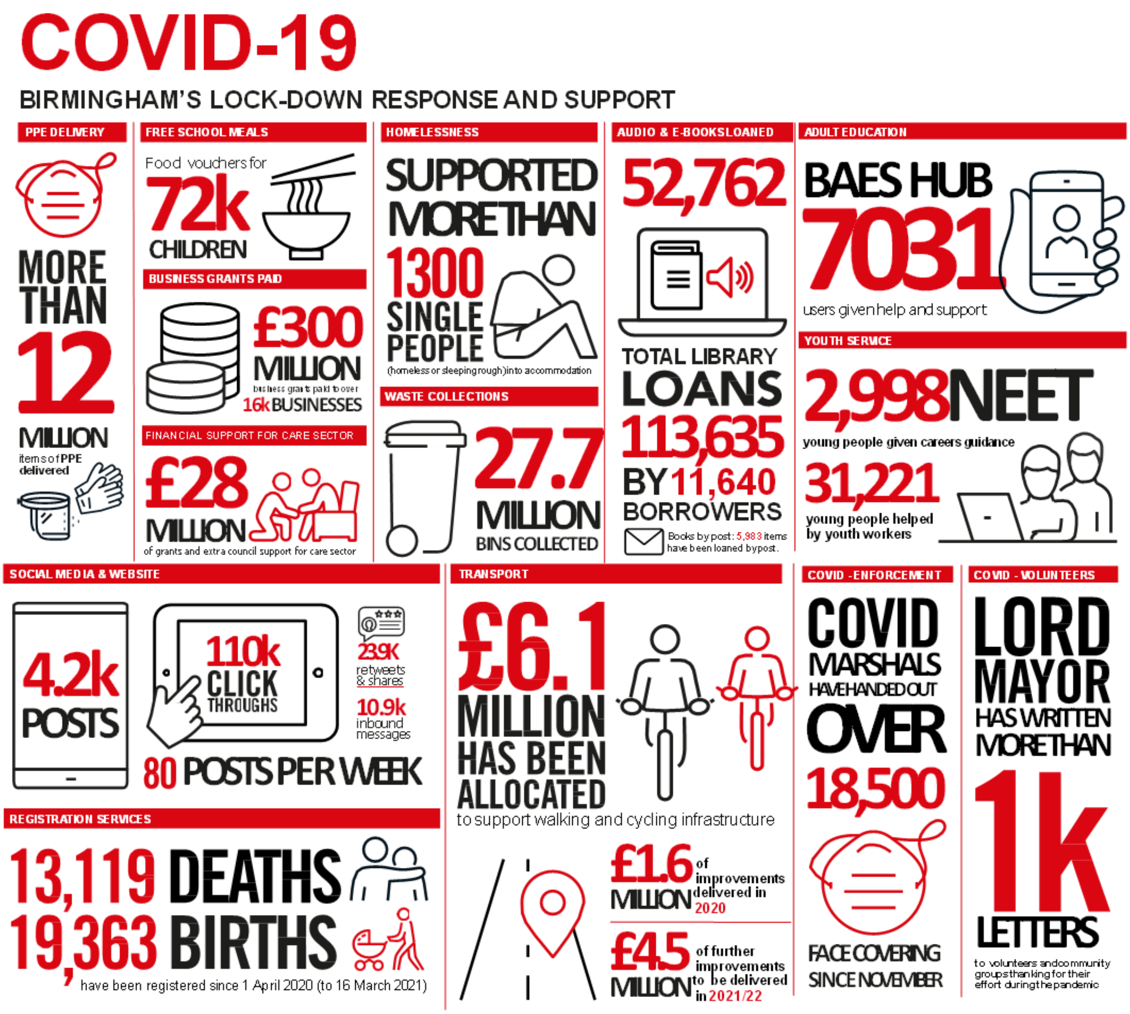
Clearly, the impact of the Covid Pandemic has been significant, for the Council, and everyone it serves and works with.

The Council has worked hard throughout the year to mitigate and reduce that impact where possible, although having to accept that there will still be those the Council serves who have suffered hardship and loss in these tough times.

The Council has focused its response to the pandemic in the following areas:

- Health and Wellbeing
- Education and Skills
- Communities, including Housing and Bereavement Services
- Street Scene and Parks, including Waste Management
- Transport
- Business Support
- Council Tax Support and Covid Hardship Fund

The infographic below gives a brief overview of some of the activity that the Council has delivered.



The Council received £149.2m of general support from the Government in relation to Covid in 2020/21 – split between un-ringfenced grant and income compensation. In order to provide an accurate picture of the total financial cost of the pandemic, an exercise was undertaken at the end of the year to identify the indirect costs of the Covid pandemic. Those indirect costs are made up of the proportion of staff time that was diverted to managing pandemic issues. Those costs total £48.9m and will be funded from the Government Grant.

The summary below sets out the Covid financial position in 2020/21:

| **Outturn financial position** | **£m** |
|---|---|
| | |
| Directorate Covid spend | 78.8 |
| Corporate budgets overspend | 4.1 |
| Indirect Covid costs | 48.9 |
| **Total impact of Covid** | **131.8** |
| | |
| Covid grants | 128.5 |
| Income compensation | 20.7 |
| **Total Covid income** | **149.2** |

The net surplus of £17.4m will be held as a contribution to a Covid reserve and used during the course of 2021/22 and beyond against additional impact of Covid that is forecast.

In addition to the costs and income shown above, the Council used £220m of direct grant funding in relation to activities to respond to Covid and provide vital support to those it serves, and benefitted from a further £178.8m of Section 31 grant compensation for Business Rates relief.

While the above represents the direct financial impact of Covid on the Council's results, the uncertainty that the pandemic produces across the range of services that the Council offers, and to those the Council provides to, means that there is also an indirect impact on our financial statements. That uncertainty results in the Council having to include, in a number of areas, estimates relating to some key areas of financial performance. A summary of these can be found in Note 4.

As at 31 March 2021, these values have been determined using the best estimates available at the time but these may be subject to change in hindsight. Where estimates have been used, the judgements made and the basis of any estimate have been disclosed in the notes to these financial statements.

<u>Organisational over-view - key facts</u>

The political composition of the Council is:

| **Party** | **Councillors** |
|---|---|
| Labour | 65 |
| Conservative | 27 |
| Liberal Democrats | 8 |
| Green | 1 |
| Total Councillors | 101 |

Organisation of the Council's management team and the services it provides

The Council management team is responsible for managing the activities of the Council staff and for advising Councillors on the potential implications of political decisions. By law, senior Council staff are not allowed to participate in any party political activity and are expected to advise and help all Councillors irrespective of their political affiliation.

The Chief Executive is the senior officer who leads and takes responsibility for the work of the paid staff of the Council. The role of Chief Executive is a full time appointment.

The Leader, together with the Cabinet, takes all of the significant decisions within the Council (excluding planning and licensing issues) through their Cabinet meetings or individual decision-making process.

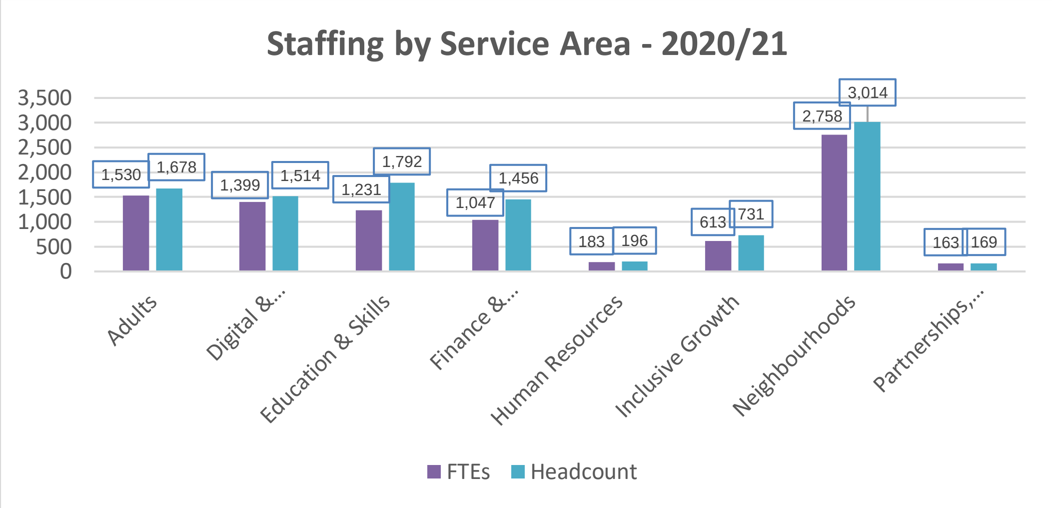
The Council's services are delivered through directorates, designed to deliver those services as efficiently as possible. The current structure is as follows:

| Directorate | Purpose |
|---|---|
| Inclusive Growth | International and domestic investment including tourism and visitor economy. Economic growth including development and housing programmes. Transport and connectivity including major transport strategies and air quality. Planning and property services. Highways and infrastructure |
| Adult Social Care | Services to support adults including integration of health and social care services, information and advice, and prevention, recovery and re-enablement services. Safeguarding of adults including multiagency arrangements. Assessment of eligibility for services. |
| Education and Skills | Education of children and young people, special educational needs, and early years provision. Children's services and safeguarding. Skills and employability, youth engagement, employment opportunities, and libraries. |
| Neighbourhoods | Waste strategy and services, cleaner neighbourhoods, and housing services, including graffiti removal, dog warden services, Council housing support, and recycling. Arts, culture and sports, including museums, galleries, arts, sporting events and leisure facilities. Parks and allotments. Bereavement services. |
| Other central services | All central services including Finance and Governance, Human Resources, Partnerships, Insight and Prevention, and Digital and Customer Services. |

On 19 January 2021, Cabinet approved a revised structure, which will be implemented during the course of 2021. The structure outlined above is how the Council has been delivering services for the significant majority of 2020/21.

Our Staffing

In supporting the delivery of services, the Council employed, as at 31 March 2021, 24,082 staff (31 March 2020: 25,628) which equated to 18,566 full time equivalents (fte) (31 March 2020: 19,441). If schools' staff are excluded, the Council employed 10,550 staff (31 March 2020: 10,870) which equated to 8,925 fte (31 March 2020: 8,941 fte). The chart below shows the Council's staffing, excluding school staff, by service area for 31 March 2021:




<u>Financial resources to support the Council</u>

The Council's revenue and capital budgets were allocated between eight Directorates with other budgets being managed corporately. The Council's net budget for 2020/21 was £852.9m.

Details of the forecast net expenditure and resources available to the Council for 2021/22 and 2022/23 can be found in the published 2021-2025 Financial Plan.

<u>Our purpose</u>

The Council aims to be a city of growth, where every child, citizen and place matters – and the Council wants to make a positive difference, every day, to people's lives. This underpins everything the Council does, whether it is setting our priorities, making decisions or delivering services.

<u>The Council's strategy and objectives</u>

The Council has identified three priority areas which it believes are fundamental to tackling the critical challenges of creating a more equal and inclusive city whilst managing the demand on Council services to a more affordable level. These are:

***Shifting our focus from crisis to prevention –*** The Council needs to increase our efforts to help support individuals and families at the early stages of an issue, or crisis in their lives, before it results in a more substantial statutory need. This will be about joining up, integrating and reforming services using data and insight to link solutions that exist, often in the community already, with those areas of need. The Council will continue to work on localisation and the development of hubs where the Council can work closely with users, the community and the voluntary sector.

***Increasing the pace and scale of growth for those that need it most, while delivering on climate change objectives*** – The pandemic has inevitably led to a slowing of economic growth. The Council will focus on infrastructure, our landholdings and access to low cost finance while leveraging the opportunities from HS2 and the Commonwealth Games to build back up the pace of growth in the city. The Council will do so while simultaneously focussing on its commitment to tackle climate change. Over the next 18 months, the Council will bring forward proposals to build wider funding and delivery partnerships for the exploration and implementation of climate change and carbon reduction activity in the city.

***Delivering new ways of working*** – The pandemic has given rise to a significant shift in some of the Council's working arrangements and the Council needs to take forward and make permanent those that have delivered benefits to our staff, our residents and our services. The Council intends that 80-85% of our workforce will continue to work in an agile way, which will continue to improve equalities and talent management, while also opening up our accommodation for collaboration, new ways of working and in carefully considered ways, allow for the development of community spaces, new homes and financial returns for the Council. Reforming the way we work will provide the financial breathing space to continue to improve our vital front line services.

**Governance arrangements**

Details of the Council's governance arrangements can be found in our Annual Governance Statement, which is provided with these financial statements.

**The Council's operational model, the activities of our key services, our financial performance and resource allocation**

This section considers the key inputs, operational activities of the Council's services and the associated costs of delivery of the outputs and outcomes associated with those services.

It also considers individually significant items of financial interest or focus for the Council.

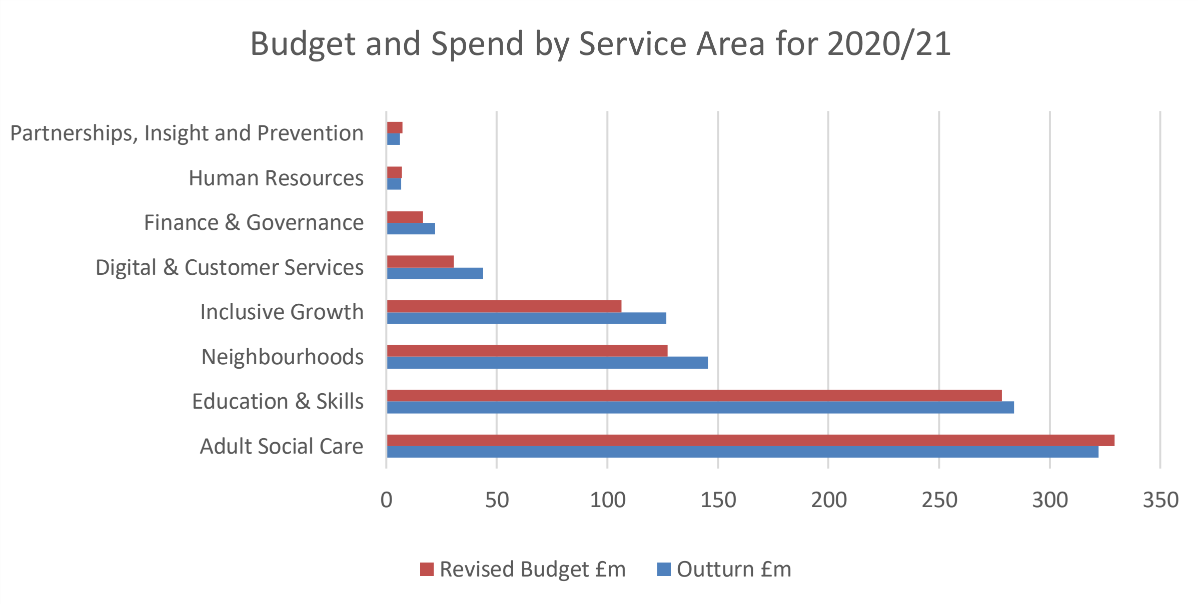
**Financial Performance 2020/21**

Revenue Expenditure

The Council's revenue and capital budgets were allocated between eight Directorates with other budgets being managed corporately. Spending against these budgets was carefully monitored throughout the year and reported to Cabinet regularly. The year-end outturn position was reported to Cabinet on 29 June 2021.

The Council's net budget for 2020/21 was £852.9m. The General Fund revenue outturn position for 2020/21 shows a balanced position after transferring £17.5m of Covid Grant to an earmarked Covid Reserve to meet forecast Covid pressures in 2021/22 and transferring an underspend of £78.6m to a Budget Smoothing Reserve (£36.9m), a City Clean Up Reserve (£12.1m), the Delivery Plan reserve (£8.1m), a Community Recovery Plan Reserve (£10.0m), General Policy Contingency Reserve(£5.0m), the Council House Refurbishment Reserve (£2.5m), the Major Events Reserve (£2.0m), and a SEND and Inspection Reserve (£2.0m).

The chart below shows the budget and spend by Directorate for 2020/21 as reported to Cabinet:




## Capital Expenditure

The capital programme final outturn spend position for the 2020/21 financial year is £501.3m. This is £382.9m below the planned expenditure of £884.2m as shown in the table below:

| | Annual Total, £m |
|---|---|
| **2020/21 Original Budget** | **710.1** |
| Change in budget | 174.1 |
| **2020/21 Revised Budget** | **884.2** |
| Less: Cumulative Slippage | (386.8) |
| Less: Forecast/actual (under) / overspends | 3.9 |
| **= Outturn (Expenditure in year)** | **501.3** |

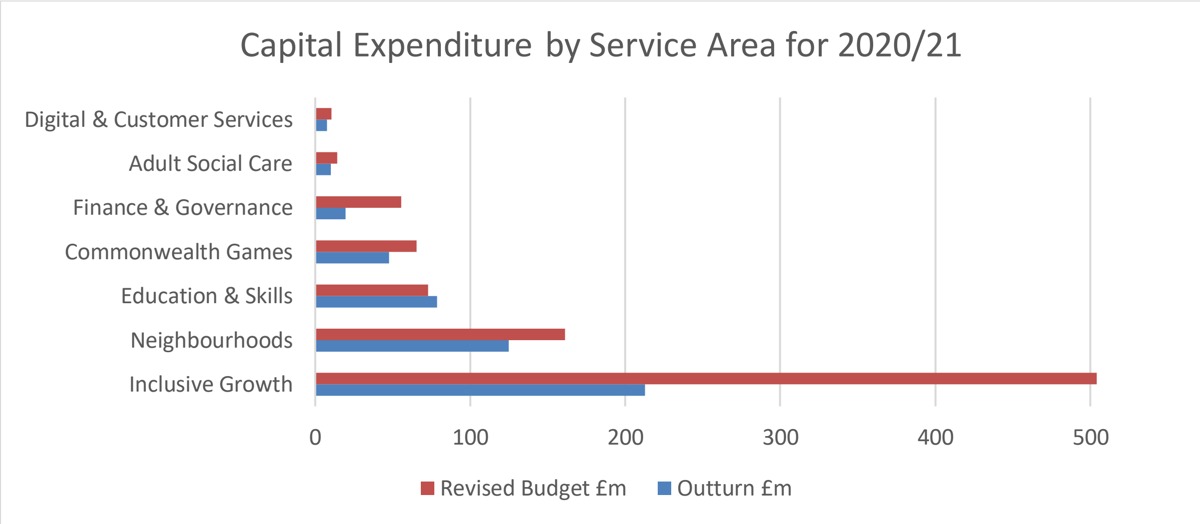
The city Council analyses the capital programme budget variations between:

- Changes in the timing of budgeted expenditure - where the expenditure is still required but takes place later than planned this is called slippage and shown in brackets, and acceleration if earlier than planned; and
- Underspends (shown in brackets) or overspends, which represent a decrease or increase in the total capital cost of a project, which may be over several years.

The 2020/21 Capital programme has full year slippage of £386.8m along with a net overspend of £3.9m as shown in the table above. Total Capital programme spend in 2020/21 was £501.3m.

It is important to note that no financial resources will be lost as a result of the slippage. The resources and planned expenditure will be “rolled forward” into future years. Details of this slippage are given in the Council’s Capital Outturn report for 2020/21, which can be found on the Council’s website.

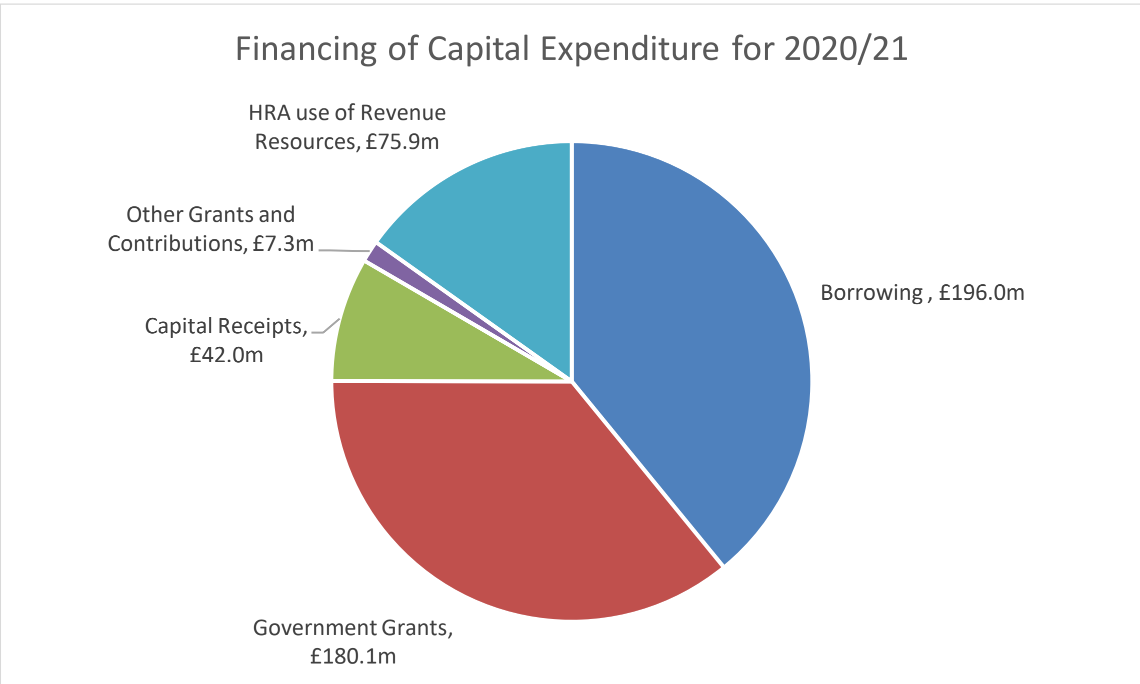
Total expenditure on Directorate capital schemes in 2020/21 by service area is shown in the graph below:




## Capital Financing

The financing arrangements in respect of capital expenditure in 2020/21 were reported to Cabinet on 29 June 2021.

Details of the final capital financing arrangements are summarised below:



Council Borrowings

As at 31 March 2021, the Council's total loan debt net of treasury investments stood at £3,162.3m, compared to net loan debt of £2,998.3m as at 31 March 2020.

The Council's treasury investments held at 31 March 2021 were £193.2m. This was higher than originally planned due to receipt of Covid grants in advance from the Government. The Council also held investments of £93.6m as an accountable body.

Treasury management costs totalled £255.5m gross, and £131.4m after recharges to other services. This was £0.1m below the budget of £131.5m.

The Council also maintained a significant short term loan debt portfolio during the year, taking advantage of historically low short term interest rates. Total debt remained within the Council's authorised limit.

Further details of the Council's financial liabilities are given in the notes to these financial statements. Full details regarding the financing of capital expenditure and the acquisition and disposal of non-current assets are also provided.

Service Concession Arrangements and Similar Contracts

The Council has entered into a number of Service Concession Arrangements, formerly classed as Private Finance Initiatives and similar contracts across Schools, Waste Management and Highways Services to deliver improvements in infrastructure and future service delivery. Further details can be found in Note 41 of these financial statements.

Pension Liabilities

For the Local Government Pension Scheme there is currently a net pension liability that is reviewed periodically by the West Midlands Metropolitan Authorities Pension Fund Actuary. The Council's share of the total pension shortfall is £3,185.2m at 31 March 2021 (31 March 2020: £2,591.3m). Whilst the figure is substantial it should be noted that:

- Pension liabilities are based on the requirements of IAS 19, Employee Benefits, which use a discount rate based on high quality corporate bonds, 2.00% as at 31 March 2021.

- It is not an immediate deficit that has to be met now. The sum is the current assessment taking a long term view of the future liabilities for existing pensioners and current employees who are accruing pension entitlement and of future expected investment performance;

- There is a 15 year recovery plan which has been built into the Council's financial plans;

- It is not unique to the Council as this is in common with the national position for pension funds. Details of the pension liability and assets are set out in Notes 19 and 20 to these financial statements.

Nevertheless, addressing the pension deficit represents a significant financial issue for the Council.

Provisions

The Council provides for costs in line with relevant accounting standards – further details can be found in Note 30 to these financial statements. The key provisions to note include those in relation to Equal pay legislation, and the Council's requirement to provide for the liability in association with business rate appeals.

Reserves

The Council maintains two types of reserves:

- Usable reserves – where the Council sets aside specific amounts for future policy purposes, to cover contingencies or where resources have been provided for specific purposes but have not yet been spent.

- Unusable reserves, which are not available to support the provision of services and include:

    - Unrealised gains and losses, particularly in relation to changes in valuation of non-current assets;
    - Adjustment accounts that absorb the difference between the outcome of applying proper accounting practices and the requirements of statutory arrangements for funding expenditure.

The level of reserves held at the year-end are set out below.

| | **31 March 2020** | **31 March 2021** |
|---|---|---|
| | **£m** | **£m** |
| **Usable Reserves** | 1,057.1 | 1,446.9 |
| **Unusable Reserves** | (1,067.9) | (1,841.1) |
| **Total Reserves** | **(10.8)** | **(394.2)** |

Details of usable and unusable reserves is set out in Notes 17 and 18

The Council operates a policy of not using reserves unless they have been set aside for specific purposes and not using reserves to mitigate the requirement to make savings or meet on-going budget pressures, except in exceptional circumstances.

The main use of reserves relates to grant reserves where funding has been received prior to the requirement to spend the resource. The Council also has earmarked reserves where it has made a decision to set money aside to fund specific costs when they occur in later years.

The Council anticipated a net contribution of £18.4m to reserves in setting the 2020/21 budget and Cabinet subsequently approved the use of £1.1m of the Library of Birmingham Cyclical Maintenance Reserve in September 2020.

There was a net £28.2m of budgeted contributions to reserves that have not been made in 2020/21 due to Clean Air Zone income being delayed.

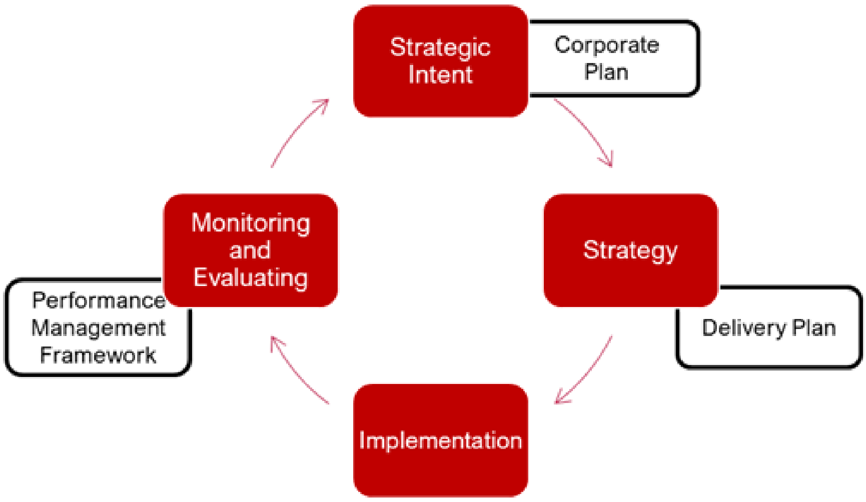
The total net contribution to reserves is £409.8m, significantly higher than budgeted. The largest contribution of which is £178.7m of Section 31 funding received from the Government to compensate for Business Rates relief in 2020/21 that will impact the Council in 2021/22.

In overall terms reserves will increase from £666.8m at 31 March 2020 to £1,076.6m at 31 March 2021.

Key performance indicators

The Council Plan 2018 to 2022 sets out the Council's vision for 'A city of growth where every child, citizen and place matters'. A refreshed performance framework, represents a step forward in the Council's improvement journey with regard to performance management and includes indicators that more effectively enable the Council to measure the right things. Key performance measures have been developed so the Council can be clear on how it will know it is on track against our six outcomes. These are set out in the Council Plan 2018-22 Update, which can be found on the Council's website.

The diagram below provides a visualisation of key strategic components and how they are used by the Council to plan and monitor performance.




Each quarter, a performance report is submitted to Cabinet to inform of performance against our key performance measures and targets, including our achievements and those areas where the Council needs to improve on. This is undertaken in the following way:

1. Each Directorate provides performance information (data and commentary) relating to the KPIs in their remit to the Central Performance Team.
2. These are then collated, quality assured and formally reported on by Cabinet Member Portfolio, along with overarching portfolio-level narratives.

The latest reports can be found within Cabinet papers, with the Q3 2021 report on the Council's website.

**Risks and opportunities**

A detailed breakdown of the risks to the delivery of the Financial Plan 2021-25 can be found in Appendix E of the Plan, along with a list of budget pressures that can be found in Appendix F.

The pervasive risk to the delivery of our plan remains the uncertainty around the various potential impacts from the Covid pandemic, but as can be seen from the comprehensive assessment the Council has performed in arriving at our financial plan, there are a considerable number of specific risks, and associated interventions that the Council is managing to mitigate them, and ensure continued strong delivery of our services.

Birmingham is, and always has been a resilient city. The strengths and assets that made this an attractive place to live, work and invest before Covid have not gone away, and in many cases, are as important as ever. Some of the key opportunities, and reasons to remain optimistic are:

- HS2 is still happening, bringing jobs and opportunities to the city;
- Some of the UK's largest public and private sector organisations are proud to call the city home;
- The levelling up agenda should see a continued pipeline of, and migration of new businesses, opportunities and people to the city;
- The Council have fantastic universities that are producing a strong pipeline of local talent; and
- Next year the Council will host the 2022 Commonwealth Games – a huge event that will put Birmingham on the global stage.

The Council will make these strengths work for the people of Birmingham, building more homes, creating more jobs and ensuring the benefits are felt in every street, neighbourhood and community.

**Outlook**

The Financial Plan

The Council's Financial Plan 2020 - 2024 was set in the context of national policies and funding, pressures on services arising from demographic changes and increasing and changing needs, working with partners and the Council's own priorities and objectives. By March 2020, the Covid pandemic had impacted the UK and across the world. Government and public sector financial plans have been significantly changed and the outlook remains uncertain. It is in this context that the Council has set out its financial plan for 2021-2025.

In responding to the Covid pandemic the Council promptly put in place weekly monitoring and reporting on financial impacts, and quantified financial risks – A process that the Local Government Association held up as an example to others.

Through rigorous and diligent financial management, coupled with the additional funding provided by the Government the Council has spent within our budget in 2020-21.

The Council undertook a mid-year update to the Medium Term Financial Plan at the end of September and reported the findings in November to both Cabinet and the Overview and Scrutiny Resources, alongside delivery plan proposals.

The Local Government Settlement announced in December 2020 only provided funding for 2020-21 and as such there is significant uncertainty over the level of resources available to the Council beyond 2021-22.

Given the significant pressure on Social Care services reflected in the budget proposals the Council will increase Council tax in line with the announcement by Government in the Local Government Settlement. Council tax will therefore increase by 4.99% in 2021-22.

The Council will continue to invest through its capital programme in priorities such as retaining and improving Council owned assets, including its buildings and roads, and facilitating growth in the Birmingham economy.

As a result of the continued uncertainty in outlook, the Financial Plan 2021-2025 should be considered a provisional plan to set out a path through 2021-22 and 2022-23 with the expectation that further work on the delivery plan will yield opportunities to address the future financial sustainability of the Council.

<u>Medium term financial outlook</u>

Significant uncertainty remains over the Council's resources beyond 2021-22. There are a number of Government policy announcements and decisions that are expected in the near future that create significant uncertainty over forecasting the level of resources that the Council needs over the medium term, they include:

- The Comprehensive Spending Review;
- The Local Government Fair Funding Review;
- An announcement by Government on the local retention of Business Rates; and
- Brexit;

The Council has recognised the need for the effective management of savings programmes and has implemented a clear process for decision-making and monitoring delivery. There is active engagement by both Members and senior officers, including monthly meetings co-chaired by the Cabinet Member for Finance and Resources and the Chief Finance Officer, as well as formal revenue budget monitoring reports considered by Cabinet. Additionally, the Council has instilled strict project discipline and a robust approach to tracking and monitoring delivery of the savings programme through the Project Management Office (PMO).

This approach has led to significant improvements in the delivery of its savings in recent years, as shown in the table below:

| Year | Planned savings £m | Delivered savings £m | % |
|---|---|---|---|
| 2016/17 | 88.2 | 32.4 | 37% |
| 2017/18 | 70.9 | 48.3 | 68% |
| 2018/19 | 52.9 | 42.8 | 81% |
| 2019/20 | 46.2 | 38.7 | 84% |
| 2020/21 | 22.1 | 16.0 | 72% |

Covid has had an impact on the ability to deliver some of the savings planned for 2021-22 onwards, but the financial plan 2021-25 reflects a realistic position for the savings programme going forwards.

**Basis of preparation and presentation**

The Council's Financial Statements for 2020/21 have been prepared on the basis of the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (the Code).

Where the Council has exercised any judgement in the preparation of these financial statements details of those judgements are set out in Note 2, Critical Judgements in Applying Accounting Policies. Where estimates have been used in the determination of any material figures, an explanation of the estimation technique and the impact of variances from the estimate are set out in Note 4, Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty.

The pages which follow contain the Council's Financial Statements for the year ended 31 March 2021, with comparative figures for the previous financial year, and comprise:

***The Core Financial Statements***

***The Comprehensive Income and Expenditure Statement (CIES)*** – provides the in-year cost of providing services in accordance with generally accepted accounting practices, rather than the amount reported monthly to the Cabinet which is based on an agreed budget to be funded from taxation, grants or from rents for Council dwellings.

In line with proper accounting practices under the Code the CIES incorporates transactions relating to:

- movements in the value of Property, Plant & Equipment and other non-current assets,
- the impact of updates in the valuation of pension liabilities under defined benefit arrangements
- changes in provisions set aside for the future, for example, for the costs of Equal Pay.

The CIES shows a surplus on the Provision of Services of £134.7m, with the impact of the items detailed above being less than the reductions in the cost of services as a result of savings plans implemented by the Council. The factors highlighted above do not impact on Council Tax or housing rents as they are reversed out through the Movement in Reserves Statement.

Supporting the CIES is the Expenditure and Funding Analysis (EFA) (Note 6), which shows the basis of the Council's annual expenditure and how it is funded from resources compared to how the resources are consumed and earned in line with generally accepted accounting practices. The EFA also shows how expenditure is allocated by the Council between directorates.

***Movement in Reserves Statement (MiRS)*** – provides a reconciliation of the movement in year on the different reserves of the Council. The MiRS shows how the movements in the Council's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to Council Tax or housing rents for the year.

***Balance Sheet*** **–** shows the value of assets and liabilities recognised by the Council as at 31 March 2021 and the level of reserves, split between usable and unusable.

The Council's net liabilities at 31 March 2021 have increased from £10.8m to £394.2m, mainly as a result of:

- A significant increase in the net liability associated with the Council's defined benefit pension schemes. Changes to actuarial assumptions have resulted in an increase in the net liability of £594.0m.
- An increase in the Council's short term borrowing and short term creditors, which combined increased the Council's net liability by £134.7m; and
- This has been partially offset by an increase in the value of the Council's long term assets, principally its Property, which has seen an increase in value of £358.0m.

Cash Flow Statement – shows how the Council generates and uses cash during the year and the impact this has on the balances of cash and cash equivalents. Cash flows are classified into operating, investing and financing activities.

Supplementary Statements

Notes to the Accounts – additional detail supporting the information provided in the core financial statements is provided in the Notes to the Accounts.

Housing Revenue Account – records the financial position of the Council's statutory obligation to account separately for the costs of its housing provision.

Collection Fund – a statutory account that records the transactions in respect of the collection and distribution of Business Rates and Council Tax for which the Council acts as agent.

### *Group Accounts*

The Council operates through a variety of undertakings, through either majority shareholding or sole membership of companies with the current ability to appoint the majority of directors (subsidiary undertakings) or in partnership with other organisations (associate undertakings and joint ventures). To provide a full picture of the activities of the Council, Group Accounts have been prepared which include those organisations where the interest and level of activity is considered material. The Group Accounts consolidate the Council's accounts with those of:

Subsidiaries
Acivico Limited
Birmingham Children's Trust Community Interest Company
Birmingham City Propco Limited
InReach (Birmingham) Limited
National Exhibition Centre (Developments) Plc
PETPS (Birmingham) Limited
PETPS (Birmingham) Pension Funding Scottish Limited Partnership

Associate
Birmingham Airport Holdings Limited

Joint Venture
Paradise Circus Limited Partnership

The Council also operates through or in conjunction with a number of organisations where the level of activity is not considered material to the overall Group Accounts. Details of these organisations are set out in Note 46, Related Parties.

### *Accountable Body Roles*

In addition to the activities reflected in the Council's CIES and Balance Sheet, the Council also acts as an agent for 27 organisations with gross expenditure of approximately £163.1m, the most significant being the Greater Birmingham and Solihull Local Enterprise Partnership. Further details are contained in Note 47.

**Statement of Responsibilities for the Statement of Accounts**

**The Council's Responsibilities**

The Council is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In Birmingham City Council this is the Director of Council Management who also has the role of Section 151 officer;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- 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 the United Kingdom (the Code). In preparing this Statement of Accounts, the Section 151 Officer has:

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

The Section 151 Officer has also:

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

**Certification of Accounts**

I certify that the draft Statement of Accounts presents a true and fair view of the financial position of Birmingham City Council as at 31 March 2021 and of its income and expenditure for the year ended 31 March 2021.

…………………………………………………………………………………….

**Rebecca Hellard, Director of Council Management and Section 151 Officer**
**28 March 2023**

**Approval of Accounts**

In accordance with the Accounts and Audit Regulations 2015, I certify that the Statement of Accounts was approved by the Audit Committee on 28 March 2023.

…………………………………………………………..

**Councillor Fred Grindrod,**
**Chair of Audit Committee**
**Date**

# CORE FINANCIAL STATEMENTS 2020/21

## Comprehensive Income and Expenditure Statement

This Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation

| 2019/20 Gross Expenditure | 2019/20 Gross Income | 2019/20 Net Expenditure | | Note | 2020/21 Gross Expenditure | 2020/21 Gross Income | 2020/21 Net Expenditure |
|---|---|---|---|---|---|---|---|
| £m | £m | £m | **Continuing Operations** | | £m | £m | £m |
| 461.3 | (121.4) | 339.9 | Adult Social Care | | 441.8 | (209.8) | 232.0 |
| 1,166.1 | (808.7) | 357.4 | Education and Skills | | 1,107.1 | (811.5) | 295.6 |
| 207.1 | (74.1) | 133.0 | Neighbourhoods | | 201.4 | (72.9) | 128.5 |
| 121.3 | (89.0) | 32.3 | Inclusive Growth | | 152.0 | (68.5) | 83.5 |
| 8.0 | (2.0) | 6.0 | Human Resources | | 6.4 | (0.8) | 5.6 |
| 564.5 | (528.9) | 35.6 | Digital & Customer Services | | 598.5 | (560.6) | 37.9 |
| 97.6 | (92.0) | 5.6 | Partnerships, Insight and Prevention | | 118.2 | (139.8) | (21.6) |
| 11.7 | (14.4) | (2.7) | Finance & Governance | | 27.5 | (5.0) | 22.5 |
| 19.4 | (71.6) | (52.2) | Centrally Managed | | 174.7 | (74.9) | 99.8 |
| 11.8 | | 11.8 | Superannuation - Extraordinary Items | | - | - | - |
| 195.0 | (278.2) | (83.2) | Housing Revenue Account | | 188.4 | (282.2) | (93.8) |
| **2,863.8** | **(2,080.3)** | **783.5** | **Total Cost Of Services** | | **3,016.0** | **(2,226.0)** | **790.0** |
| 146.2 | - | 146.2 | Other Operating Expenditure | 10 | 83.0 | - | 83.0 |
| 314.1 | (68.3) | 245.8 | Financing and Investment Income and Expenditure | 11 | 281.3 | (42.8) | 238.5 |
| 13.9 | (1,272.8) | (1,258.9) | Taxation and Non-Specific Grant Income | 12 | 258.1 | (1,499.9) | (1,241.8) |
| | | **(83.4)** | **(Surplus) / Deficit on Provision of Services** | | | | **(130.3)** |
| | | (38.7) | (Surplus) / deficit on revaluation of Property, Plant and Equipment assets | 21,22,23 | | | (223.3) |
| | | (137.6) | Remeasurement of the net defined benefit liability | 20 | | | 740.2 |
| | | **(176.3)** | **Other Comprehensive (Income) / Expenditure** | | | | **516.9** |
| | | **(259.7)** | **Total Comprehensive (Income) / Expenditure** | | | | **386.6** |

## Movement in Reserves Statement

This Statement shows the movement in the year in the different reserves held by the Council, analysed into 'usable reserves' (that is, those that can be applied to fund expenditure or reduce local taxation) and other reserves.

| | Total General Fund Balance | Total HRA Reserves | Capital Receipts | Major Repairs Reserve | Capital Grants Unapplied Account | **Total Usable Reserves** | Unusable Reserves | **Total Council Reserves** |
|---|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m | £m |
| **Balance at 31 March 2019** | **560.1** | **5.4** | **240.3** | **24.9** | **106.7** | **937.4** | **(1,207.9)** | **(270.5)** |
| Surplus/(Deficit) on the provision of services | 41.1 | 42.3 | - | - | - | 83.4 | - | 83.4 |
| Other Comprehensive Income and Expenditure | - | - | - | - | - | - | 176.3 | 176.3 |
| **Total Comprehensive Income and Expenditure** | **41.1** | **42.3** | **-** | **-** | **-** | **83.4** | **176.3** | **259.7** |
| Adjustments between accounting basis and funding basis under regulations (Note 16) | 55.6 | (37.7) | (17.0) | (0.5) | 35.9 | 36.3 | (36.3) | **-** |
| **Increase/(Decrease) in 2019/20** | **96.7** | **4.6** | **(17.0)** | **(0.5)** | **35.9** | **119.7** | **140.0** | **259.7** |
| **Balance at 31 March 2020** | **656.8** | **10.0** | **223.3** | **24.4** | **142.6** | **1,057.1** | **(1,067.9)** | **(10.8)** |
| **Movement in Reserves during 2020/21** | | | | | | | | |
| Surplus/(Deficit) on the provision of services | 81.5 | 48.8 | - | - | - | 130.3 | - | 130.3 |
| Other Comprehensive Income and Expenditure | - | - | - | - | - | - | (516.9) | (516.9) |
| **Total Comprehensive Income and Expenditure** | **81.5** | **48.8** | **-** | **-** | **-** | **130.3** | **(516.9)** | **(386.6)** |
| Adjustments between accounting basis and funding basis under regulations (Note 16) | 324.0 | (44.5) | 30.1 | - | (50.2) | 259.6 | (259.6) | (0.0) |
| **Increase/(Decrease) in 2020/21** | **405.5** | **4.3** | **30.1** | **-** | **(50.2)** | **389.8** | **(776.5)** | **(386.6)** |
| **Balance at 31 March 2021** | **1,062.3** | **14.3** | **253.4** | **24.4** | **92.4** | **1,446.9** | **(1,844.4)** | **(397.5)** |

**Balance Sheet**

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council.

| 31 March 2020 £m | | Note | 31 March 2021 £m |
|---|---|---|---|
| 5,839.7 | Property, Plant and Equipment | 21 | 6,209.6 |
| 249.9 | Heritage Assets | 22 | 249.9 |
| 13.2 | Investment Property | | 5.2 |
| 7.1 | Intangible Assets | 23 | 4.2 |
| 37.3 | Long Term Investments | 37 | 37.8 |
| 114.5 | Long Term Debtors | 24 | 107.5 |
| **6,261.7** | **Total Long Term Assets** | | **6,614.2** |
| | | | |
| 228.3 | Short Term Investments | 25 | 172.3 |
| 16.7 | Assets Held for Sale | 26 | 49.1 |
| 1.8 | Inventories | | 1.8 |
| 384.9 | Short Term Debtors | 27 | 400.9 |
| 62.0 | Cash and Cash Equivalents | 28 | 54.3 |
| **693.7** | **Total Current Assets** | | **678.4** |
| | | | |
| (0.7) | Cash and Cash Equivalents | 28 | - |
| (406.5) | Short Term Borrowing | 32 | (490.5) |
| (380.8) | Short Term Creditors | 29 | (431.6) |
| (175.0) | Short Term Provisions | 30 | (176.0) |
| **(963.0)** | **Total Current Liabilities** | | **(1,098.1)** |
| | | | |
| (0.7) | Long Term Creditors | | (0.6) |
| (13.8) | Long Term Provisions | 30 | (7.7) |
| (2,969.5) | Long Term Borrowing | 32 | (2,989.4) |
| (427.9) | Other Long Term Liabilities | 37 | (409.1) |
| (2,591.3) | Net liability on defined benefit pension scheme | 20 | (3,185.2) |
| **(6,003.2)** | **Total Long Term Liabilities** | | **(6,592.0)** |
| | | | |
| **(10.8)** | **Net Assets/(Liabilities)** | | **(397.5)** |
| | | | |
| | **Usable Reserves** | 17 | |
| 141.7 | Unearmarked Reserves | | 197.7 |
| 193.1 | Earmarked Reserves | | 450.1 |
| 277.3 | Grant Reserves | | 335.5 |
| (8.5) | Unearmarked Non-Schools DSG | | 3.6 |
| 87.5 | Ringfenced Reserves | | 114.0 |
| 366.0 | Capital Reserves | | 346.0 |
| **1,057.1** | **Total Usable Reserves** | | **1,446.9** |
| | | | |
| (1,067.9) | Unusable Reserves | 18 | (1,844.4) |
| **(10.8)** | **Total Reserves** | | **(397.5)** |

**Cash Flow Statement**

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period.

| 2019/20 £m | | Note | 2020/21 £m |
|---|---|---|---|
| 83.4 | Net Surplus/(Deficit) on the provision of services | | 130.3 |
| 523.3 | Adjustments to net Surplus/Deficit on the provision of services for non-cash movements | 36 | 116.0 |
| (299.2) | Adjustments for items included in the net Surplus/(Deficit) on the provision of services that are investing and financing activities | 36 | (209.1) |
| **307.5** | **Net cash flows from Operating Activities** | | **37.2** |
| (427.1) | Investing Activities | 34 | (244.0) |
| 149.9 | Financing Activities | 35 | 199.8 |
| **30.3** | **Net increase/(decrease) in cash and cash equivalents** | | **(7.0)** |
| 31.0 | Cash and cash equivalents at the beginning of the reporting period | | 61.3 |
| **61.3** | **Cash and cash equivalents at the end of the reporting period** | **28** | **54.3** |

## Note 1
## Accounting Policies

### i. General Principles

The Statement of Accounts summarises the Council's transactions for the 2020/21 financial year and its position at the year-end of 31 March 2021. The Accounts and Audit Regulations 2015 as amended by the Accounts and Audit (Amendment) Regulations 2021 require the Council to prepare an annual statement of accounts in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (the Code) supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the statement of accounts is principally historical cost, modified by the revaluation of certain categorised non-current assets and financial instruments. Historical cost is deemed to be the carrying amount of an asset as at 1 April 2007 (that is, brought forward from 31 March 2007) or at the date of acquisition, whichever date is the later, and if applicable is adjusted for subsequent depreciation or impairment.

### ii. Accruals of Income and Expenditure

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

- Revenue from the provision of services is recognised when the Council can reliably measure the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council;
- Revenue from the sale of goods or provision of services satisfied over time is recognised if the Council can reasonably measure its progress towards complete satisfaction of the performance obligation;
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet, for example, fuel and transport parts;
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made;
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract;
- When income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

### iii. Fair Value Measurement

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

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The Council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Council's financial statements are categorised with the fair value hierarchy as follows:

- 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 or liability, either directly or indirectly;
- Level 3 – unobservable inputs for the asset or liability.

### iv. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

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

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

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

### v. Employee Benefits

Benefits Payable During Employment

Short Term Benefits

Short term employee benefits are those due to be settled within 12 months of the year-end. They include benefits such as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits, for example cars for current employees, and 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 annual leave entitlements (or any other form of leave, for example time off in lieu) 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 wage and 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/Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that leave benefits are charged to revenue in the financial year in which the leave of absence occurs.

Other Long Term Benefits

Other long term employee benefits are benefits, other than post-employment and termination benefits, that are not expected to be settled in full before 12 months after the end of the annual reporting period for which employees have rendered the related service. Within local authorities the value of these benefits are not expected to be significant. Such long term benefits may include:

- Long term paid absence or sabbatical leave;
- Long term disability benefits;
- Bonuses;
- Deferred remuneration.

Long term benefits would be accounted for on a similar basis to post-employment benefits.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an employee's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the appropriate Directorate at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund and Housing Revenue Account balances to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards.

In the Movement in Reserves Statement, appropriations are required to and from the Pension Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post-Employment Benefits

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

- The Local Government Pension Scheme, administered by the West Midlands Pension Fund offices at Wolverhampton City Council;
- The Teachers' Pension Scheme administered by Capita Teachers' Pensions on behalf of the Department for Education;
- The NHS Pensions Scheme, administered by NHS Pensions.

Each scheme provides defined benefits to members (retirement lump sums and pensions), earned during employment with the Council.

The arrangements for the Teachers' Pension Scheme and the NHS Pensions Scheme mean liabilities for these benefits cannot ordinarily be identified specifically to the Council. These schemes are, therefore, accounted for as if they were defined contribution schemes and no liability for future payments of benefits is recognised in the Balance Sheet.

The Local Government Pension Scheme

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

- The liabilities of the West Midlands Local Government Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – that is, an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of earnings for current employees;

- Liabilities are discounted to their value at current prices, using a discount rate of 2.00% based on the indicative rate of return on high quality corporate bond yields;

- The assets of the West Midlands Local Government Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:
    - quoted securities – current bid price;
    - unquoted securities – professional estimate;
    - unitised securities – current bid price;
    - property – market value.

- The change in the net pensions liability is analysed into the following elements:

  Service cost comprising:

    - current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the Directorates for which the employees worked;

- past service cost – the increase in liabilities arising from current year decisions whose effect related to years of service earned in earlier years – debited to the (Surplus)/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement;
- net interest on the net defined benefit liability/(asset), that is the net interest expense for the Council – the change during the reporting period in the net defined benefit liability/(asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability/(asset) at the beginning of the period – taking into account any changes in the net defined benefit liability/(asset) during the period as a result of contribution and benefit payments.

Re-measurements comprising:

- the return on plan assets – excluding amounts included in net interest on the net defined benefit liability/(asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure;
- 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 – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.

Contributions paid to the West Midlands Local Government Pension Fund:

- cash paid as employer's contributions to the pension fund; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund and Housing Revenue Account balances 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 transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners, and any 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 and Housing Revenue Account arising from the requirement to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

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

### vi. Revenue Expenditure Funded from Capital under Statute

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

### vii. Charges to Revenue for Non-Current Assets

Directorates and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:

- Depreciation attributable to the assets used by the relevant service;
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off;
- Amortisation of intangible non-current assets attributable to the service.

The Council is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance. An adjustment is, therefore, made to remove depreciation, amortisation and revaluation and impairment losses from the General Fund and Housing Revenue Account through Note 16, Adjustments Between Accounting Basis and Funding Basis under Regulations, and the Movement in Reserves Statement and to replace them by the statutory contribution from the General Fund or Housing Revenue Account Balance to the Capital Adjustment Account.

### viii. Government Grants and Contributions

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

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

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution are satisfied.

Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset in the form of the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions are unlikely to be satisfied are carried in the Balance Sheet as creditors. Where conditions are satisfied or expected to be satisfied, the grant or contribution is credited to the relevant Directorate (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

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

### ix. Overheads and Support Services

The costs of overheads and support services are charged to Directorates in accordance with the Council's arrangements for accountability and performance.

### x. Property, Plant and Equipment

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

- the purchase price;
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The Council capitalises borrowing costs incurred whilst material assets are under construction. Material assets are considered to be those where total planned (multi-year) borrowing for a single asset (including land and building components) exceeds £20m, and where there is a 'substantial period of time' from the first capital expenditure financed from borrowing until the asset is ready to be brought into use. A substantial period of time is considered to mean in excess of two years. Both of these tests will be determined using estimated figures at the time of preparing the accounts in the first year of capitalisation. Should either test fail in subsequent financial years, the prior year's treatment will not be adjusted retrospectively.

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

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

- infrastructure assets, vehicles, plant, furniture and equipment (excluding Tyseley Energy Recovery Facility) – depreciated historical cost;
- community assets and assets under construction – historical cost;
- dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH);
- where cleared land has been designated for social housing use, that land is valued using the basis of EUV-SH;
- surplus assets – fair value; assessed in their highest and best use
- all other assets – current value, determined as the price that would be received to sell an asset in its existing use. Where there is no market based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value.

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. Increases in asset valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment

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

Where revaluation and impairment losses are identified, and where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the reduction in value is charged against that balance until it is used up. Thereafter, or if there is no balance of revaluation gains, the loss is charged against the relevant Directorate in the Comprehensive Income and Expenditure Statement.

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

Useful Life

The Council estimates that assets, at new, have remaining useful lives within the parameters as detailed below:

- Council Dwellings – separated into the key components
  - Land – indefinite life;
  - Kitchens – 20 years;
  - Bathrooms – 40 years;
  - Doors/Windows/Rainwater, Soffits and Facias – 35 years;
  - Central Heating/Boilers – 15 to 30 years;
  - Roofs – 25 to 60 years;
  - Remaining components (Host) – 30 to 60 years;
- Buildings – up to 50 years;
- Vehicles, Plant, Furniture and Equipment – up to 50 years;
- Infrastructure – up to 40 years.

The useful life of each relevant asset is reviewed as part of the Council's five year cycle of revaluation by an appropriately qualified valuer.

Where a school is proposing to transfer to Academy School Trust status after the year end, the Council maintains the useful life of the school's assets on the basis of the last valuation undertaken.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets, including components, by the systematic straight line allocation of their depreciable amounts over their useful lives. Assets without a determinable finite useful life, and assets that are not yet available for use, are not depreciated. Depreciation is charged in the year of disposal but not charged in the year of purchase.

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

Componentisation

Where an asset is material (over £5m) and has major components whose cost is significant to the total cost of the asset, and which have markedly different useful lives, components are separately identified and depreciated. Also, additions are considered for components, whereby as components are added, any component being replaced is derecognised. Where the historical cost of the old component is not readily determinable, it has been estimated by comparing the remaining useful economic life of the component to the original useful economic life and the cost of the replacement component. A pro rata of both the depreciation and any applicable Revaluation Reserve is also derecognised.

Disposals and Non-Current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and carrying value less the cost of sale. Where there is a subsequent decrease to carrying value less the cost of sale, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in current value are recognised only up to the amount of any previous losses recognised in the Surplus/Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

Where assets are no longer used by a Directorate, these assets are offered to other Directorates for use. Those assets which are surplus are made available for sale and will be classified as Assets Held for Sale.

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

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet and the gain or loss on disposal is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account. Gains and losses on disposal of assets are not a charge against Council Tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance through the Movement in Reserves Statement.

Amounts, in excess of £10,000, received from a disposal are categorised as capital receipts. A proportion of receipts relating to housing disposals is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve. Receipts are appropriated to the Reserve from the General Fund Balance through the Movement in Reserves Statement.

**xi. Heritage Assets**

Heritage assets are assets that have historical, artistic, scientific, technological, geographical or environmental qualities that are held in trust for future generations because of their cultural, environmental or historical associations and contribution to knowledge and culture. They include museums' and libraries' heritage collections, historic buildings and the historical environment, public works of art and civic regalia and plate.

Where assets of a heritage nature are used in the ongoing delivery of the Council's services, such as historically interesting buildings and parks and open space, they have not been categorised as heritage assets but remain as other land and buildings or as community assets within Property, Plant and Equipment.

For the Museum, Library and Civic Plate Collections, insurance valuations are used due to the unique nature, diversity and quantity of the assets, and lack of historical cost information. For other types of Heritage Assets, historical cost information is used where available when compiling the Balance Sheet. In some cases, neither reliable valuation information nor historical cost information is available, in which case the asset has been excluded from the Balance Sheet.

The Council considers that heritage assets will have indeterminate lives and a high residual value; and therefore does not consider it appropriate to charge depreciation on the assets. Any impairment or disposal of heritage assets is recognised and measured in accordance with the Council’s relevant policies (see section x. Property, Plant and Equipment in this note).

**xii. Intangible Assets**

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (for example, software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council’s goods or services.

Intangible assets are measured initially at cost and the depreciable amount is amortised over the useful life of the asset on a straight-line basis and charged to the relevant Directorate in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The 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.

**xiii. Investment Properties**

Investment properties are those that are held by the Council solely to earn rentals and/or for capital appreciation. An asset does not meet the definition of being an investment property if it is used in any way to facilitate the delivery of services, for the production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently carried at fair value, measured at highest and best use. Investment properties are not depreciated but are revalued annually based on market conditions at the year-end. Gains/losses on revaluation, or on disposal, are posted to Financing Income and Expenditure in the Comprehensive Income and Expenditure Statement.

Rentals received in relation to investment properties are credited to Financing Investment Income in the Comprehensive Income and Expenditure Statement and result in a gain for the General Fund Balance. However, revaluation and disposal gains/losses are not permitted by statutory arrangements on the General Fund Balance and are therefore reversed out through the Movement in Reserves Statement and posted to the Capital Adjustment Account.

Whilst discharging its role the Council works to ensure that the stewardship of all property assets is such that they are managed in a way that is economic, efficient and effective. The Council has a site that meets the definition of 'Investment Properties'.

The Council has a number of lease arrangements with subsidiary companies that are not treated as investment properties in line with IAS 40, Investment Property.

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

### xiv. Service Concession Arrangements

Service concession arrangements (formerly classed as PFI and similar contracts) are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the contractor. As the Council is deemed to control the services that are provided under the arrangement, and as ownership of the property, plant and equipment will pass to the Council at the end of the contracts for no additional charge, the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) is balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment. The Council includes the cost of establishing Special Purpose Vehicles in the calculation of the liabilities.

Non-current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council.

The amounts payable to the contractor each year are analysed into five elements:

- Fair value of the services procured during the year – debited to the relevant Directorate in the Comprehensive Income and Expenditure Statement;
- Finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- Contingent rent – inflationary increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- Payment towards liability – applied to write down the Balance Sheet liability towards the contractor;
- Lifecycle replacement costs – usually recognised as an addition to Property, Plant and Equipment when the relevant works are carried out in line with the operator's model spending profiles.

### xv. Leases

Leases are classified as either finance or operating leases at the inception of the lease. Classification as a finance lease occurs where the terms of the lease transfer substantially all the risks and rewards incidental to the ownership of the asset from lessor to lessee and where the lease term is for the major part of the economic life of the asset in question, whether or not title is eventually transferred. Those leases not classified as finance leases are deemed to be operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

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

The Council as Lessee

Finance Leases

Property, plant or equipment held under a finance lease is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premia paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred. Property, Plant and Equipment recognised under finance leases are accounted for using the policies generally applied to such assets (see section x above).

Lease payments are apportioned between:

- A charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability; and
- A finance charge – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

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

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the Directorate benefiting from use of the leased property, plant or equipment. Charges are made on a straight line basis over the life of the lease, even if this does not match the pattern of payments.

The Council as Lessor

Finance Leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet is written off to Other Operating Expenditure in the Comprehensive Income and Expenditure Statement as part of the gain/loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain/loss on disposal, matched by a lease (long term debtor) asset in the Balance Sheet

Lease rentals receivable are apportioned between:

- A charge for the acquisition of the interest in the property – applied to write down the lease debtor; and
- Finance income - credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to impact the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve through the Movement in Reserves Statement. Where the amount due in relation to the lease asset is settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve through the Movement in Reserves Statement.

Operating Leases

Where the Council grants an operating lease for an asset, it is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight line basis over the life of the lease, even if this does not match the pattern of payments. Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

### xvi. Interests in Companies and Other Entities

The Council has material interests in companies and other entities that have the nature of subsidiaries, associates and joint operations and proper accounting practices require it to prepare group accounts. In the Council's own single entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

### xvii. Accounting for Schools

Local authority maintained schools, in line with relevant accounting standards and the Code, are considered to be separate entities with the balance of control lying with the Council. As such the Council should consolidate the activities of schools into its group accounts. However, the Code requires that the income, expenditure, assets and liabilities of maintained schools be accounted for in local authority entity accounts rather than requiring the preparation of group accounts.

The Council has the following types of maintained schools under its control:

- Community schools;
- Voluntary Controlled schools;
- Voluntary Aided schools;
- Foundation schools.

Given the nature of the control of the entities and the control of the service potential from the non-current assets of the maintained schools, the Council has recognised buildings and other non-current assets on its Balance Sheet. The Council has recognised all land for Community Schools on its Balance Sheet and recognised that land for Voluntary Aided, Voluntary Controlled and Foundation Schools where it can be demonstrated that the Council has control over the land through restrictive covenants within site deeds or where there is reasonable evidence that restrictive covenants are in place.

Academies and Free Schools are not considered to be controlled by the Council and are not consolidated into the entity or group accounts.

### xviii. Financial Instruments

Financial Liabilities

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

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

However, the Birmingham City Council 2030 bonds, issued in exchange for NEC loan stock in 2005 and the NEC Development 2027 bonds, were issued at a fair value in excess of the principal repayable. Interest is being charged on an amortised cost accounting basis, which writes the value down to zero at maturity.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement.

Where premia and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was repayable or discount received when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cash flow characteristics. There are three main classes of financial assets measured at:

- amortised cost
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI). The Council does not currently have any financial assets designated at FVOCI.

The Council's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (that is, where the cash flows do not take the form of a basic debt instrument).

Financial Assets Measured at Amortised Cost

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

However, the Council has made a number of loans at less than market rates (soft loans). When soft loans are made, a loss is recorded in the CIES (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal.

Interest is credited to the Financing and Investment Income and Expenditure line in the CIES at a marginally higher effective rate of interest than the rate receivable from the organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the CIES to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Any gains and losses that arise on derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

Expected Credit Loss Model

The Council recognises expected credit losses on all of its financial assets held at amortised cost (or where relevant FVOCI), either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the Council.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

Financial Assets Measured at Fair Value through Profit or Loss

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

Where it is possible to determine a fair value, measurement of the financial assets is based on the following techniques:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

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

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

Instruments Entered Into Before 1 April 2006

The Council has entered into a number of financial guarantees that are not required to be accounted for as financial instruments. These guarantees are reflected in the Statement of Accounts to the extent that provisions might be required or a contingent liability note is needed under the policies set out in the section on Provisions, Contingent Liabilities and Contingent Assets.

**xix. Cash and Cash Equivalents**

Cash and Cash Equivalents are represented by cash in hand and deposits with financial institutions, which must be repayable immediately without penalty on notice of not more than 24 hours. Any deposits with financial institutions that may be repaid after the immediate day are considered to be investments, not cash equivalents.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand, where there are pooling arrangements across the accounts with the same institution, and form an integral part of the Council’s cash management.

## xx. Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For example, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate Directorate in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties. Provisions are not discounted to their value at current prices unless material.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant Directorate.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (for example, from an insurance claim), this is only recognised as income for the relevant Directorate if it is virtually certain that reimbursement will be received if the Council settles the obligation.

Onerous Contracts

An onerous contract is a contract for the exchange of assets or service in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits or service potential expected to be received under it.

Onerous Contracts are accounted for under IAS 37 – Provisions, Contingent Liabilities and Contingent Assets. A provision will be recognised for the unavoidable costs.

Provision for Back Pay Arising from Equal Pay Claims

The Equal Pay Act 1970 was enacted at a time when it was not uncommon for employers to openly give different rates of pay to men and women performing the same job, or to reserve certain jobs for men and other (lower-paid) jobs for women. The Equality Act 2010 repealed and replaced the Equal Pay Act 1970 from 1 October 2010 and implemented in Great Britain the principle that men and women should receive equal pay for equal work.

The Council has received capitalisation directions to support an element of the provision made. However, statutory arrangements allow settlements to be financed from the General Fund and Housing Revenue Account in the year that the payments actually take place, not when the provision is established, for all claims made up to 1 April 2020. The additional provision made above the capitalisation directions given is, therefore, balanced by an Equal Pay Back Pay Account created from amounts credited to the General Fund Balance in the year that the provision was made or modified. The balance on the Equal Pay Back Pay Account will be debited back to the General Fund Balance through the Movement in Reserves Statement in future financial years as payments are made.

The ability to defer the reserves impact of new provisions ceased to be allowable from 1 April 2020. Liabilities, and changes in them, recognised before 1 April 2020 continue to be deferred until settlement. New Equal Pay liabilities recognised after 1 April 2020 are accounted for in line with Section 8 of the CIPFA code, and IAS37.

Contingent Liabilities

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

Contingent liabilities are not recognised in the Balance Sheet but disclosed in Note 31 to the accounts.

Contingent Assets

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

Contingent assets are not recognised in the Balance Sheet but disclosed in Note 31 to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

**xxi. Reserves**

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

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, local taxation, retirement and employee benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies.

**xxii. Council Tax and Business Rates**

Billing authorities are required by statute to maintain a separate fund (the Collection Fund) for the collection and distribution of amounts due in respect of Council Tax and Business Rates. The Collection Fund's key features relevant to the accounting for Council Tax and Business Rates in the core financial statements are:

- In its capacity as a Billing Authority the Council acts as an agent, collecting and distributing Council Tax on behalf of the major preceptors and as principal for itself;

- While the Council Tax and Business Rates income for the year credited to the Collection Fund is the accrued income for the year, regulations determine when it should be released from the Collection Fund and transferred to the Council's General Fund, or paid out from the Collection Fund to the major preceptors. The amount credited to the General Fund under statute is the Council's demand on the Fund for that year, plus/(less) the Council's share of any surplus/(deficit) on the Collection Fund for the previous year. This amount may be more or less than the accrued income for the year in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

Comprehensive Income and Expenditure Statement

The Council Tax and Business Rates income included in the Comprehensive Income and Expenditure Statement is the Council's share of accrued income for the year. The difference between the income included in the Comprehensive Income and Expenditure Statement 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. In addition, that part of Business Rates retained as the cost of collection allowance under regulation is treated as the Council's income and appears in the Comprehensive and Income Expenditure Statement as are any costs added to Business Rates in respect of recovery action.

Balance Sheet

Since the collection of Council Tax and Business Rates are in substance agency arrangements, any year end balances relating to arrears, impairment allowances for doubtful debts, overpayment and prepayments are apportioned between the major preceptors and the Council by the creation of a debtor/creditor relationship. Similarly, the cash collected by the Council belongs proportionately to itself and the major preceptors. There will, therefore, be a debtor/creditor position between the Council and the major preceptors since the cash paid to the latter in the year will not be equal to their share of the total cash collected. If the net cash paid to the major preceptors in the year is more than their proportionate share of the cash collected the Council will recognise a debit adjustment for the amount overpaid. Conversely, if the cash paid to the major preceptors in the year is less than their proportionate share of the amount collected then the Council will recognise a credit adjustment for the amount underpaid.

Cash Flow Statement

The Council's Cash Flow Statement includes in 'Operating Activities' cash flows only its own share of the Council Tax and Business Rates collected during the year, and the amount included for precepts paid excludes amounts paid to the major preceptors. In addition that part of Business Rates retained as the cost of collection allowance under regulation appears in the Council's Cash Flow Statement. The difference between the major preceptors' share of the cash collected and that paid to them as precepts and settlement of the previous year's surplus or deficit on the Collection Fund, is included as a net increase/decrease in cash and cash equivalents.

**xxiii. Business Improvement Districts**

In accordance with the provisions of the Business Improvement District Regulations (England) 2004 ballots of local businesses within specific areas of the City have resulted in the creation of distinct Business Improvement Districts. Business ratepayers in these areas pay a levy in addition to the Business Rate to fund a range of specified additional services which are provided by specific companies set up for the purpose.

In line with Code guidance the Council has determined that it acts as agent to the Business Improvement District authorities and therefore neither the proceeds of the levy nor the payment to the Business Improvement District Company are shown in the Council's accounts.

### xxiv. Community Infrastructure Levy

The Council has elected to charge a Community Infrastructure Levy (CIL). The levy will be charged on new builds with appropriate planning consent. The Council charges for and collects the levy, which is a planning charge. The income from the levy will be used to fund infrastructure projects to support the development of the City.

CIL is received without outstanding conditions; it is, therefore, recognised at the commencement date of the chargeable development in the Comprehensive Income and Expenditure Statement in accordance with section viii. Government Grants and Contributions of this note. CIL charges will be largely used to fund capital expenditure although an element may be used to support infrastructure maintenance and a small proportion of the charges may be used to fund the costs of administration associated with the CIL.

### xxv. Events After the Reporting Period

Events after the Balance Sheet date are those material events, both favourable and adverse, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

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

Events taking place after the date of Audit Committee adoption of the accounts are not reflected in the Statement of Accounts.

### xxvi. Joint Operations and Jointly Controlled Assets

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

Jointly controlled assets are items of property, plant or equipment that are jointly controlled by the Council and other venturers, with the assets being used to obtain benefits for the venturers. The joint venture does not involve the establishment of a separate entity. The Council accounts for only its share of the jointly controlled assets, the liabilities and the expenses that it incurs on its own behalf or jointly with others in respect of its interest in the joint venture and income that it earns from the venture.

**xxvii. Council Acting as Agent**

The Council does not include transactions that relate to its role in acting as an agent on behalf of other bodies. In such cases the Council is acting as an intermediary and does not have exposure to significant risks and rewards from the activities being undertaken.

**xxviii. Value Added Tax**

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

**xxix. Foreign Currency Translation**

Where the Council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effected. Where amounts in foreign currency are outstanding at the year-end, they are reconverted at the spot exchange rate at 31 March. Resulting gains or losses are recognised in the Financing Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

**xxx. Dedicated Schools Grant Deficit Balances**

Where the Council has a deficit in respect of its schools budget for a financial year beginning on 1 April 2020, the Council does not charge to a revenue account an amount in respect of that deficit. Instead, it charges the amount of the deficit to an account established, charged and used solely for the purpose of recognising deficits in respect of its schools budget

These financial statements continue to be produced under IFRS with the DSG being accounted for in the normal way (through the CIES). An accounting adjustment is made via the MiRS to move any DSG deficit balances on a time limited basis to an unusable reserve established for that purpose.

**Note 2**
**Critical Judgements in Applying Accounting Policies**

In applying the accounting policies set out in Note 1, the Council has had to make certain judgements in respect of complex transactions or those transactions involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

**Going Concern**

Local Authorities are required by the Code of Practice on Local Authority Accounting 2020/21 to prepare their accounts on the going concern basis, that is that the functions of the Council will continue in operational existence for the foreseeable future, as it can only be discontinued as a result of statutory prescription.

The Council continues to face financial challenges as a result of the ongoing reduction in central government support and the need to fund budget pressures, while also operating in an environment where the continued impact of, and costs related to the Covid pandemic are uncertain.

It is in this context that the Council has set out its Financial Plan for 2021-2025.

Through rigorous and diligent financial management, coupled with the additional funding provided by the Government the Council have spent within our budget in 2020-21. The Council undertook a mid-year update to the Medium Term Financial Plan at the end of September and reported the findings in November to both Cabinet and the Overview and Scrutiny Resources, alongside delivery plan proposals.

The local Government settlement announced in December 2020 only provided funding for 2020-21 and as such there is significant uncertainty over the level of resources available to the Council beyond 2021-22.

As a result of the continued uncertainty in outlook, the Financial Plan 2021-2025 should be considered a provisional plan to set out a path through 2021-22 and 2022-23 with the expectation that further work on the delivery plan will yield opportunities to address the future financial sustainability of the Council.

The Council has successfully delivered significant savings plans previously and has appropriate contingency plans in place to provide protection against any timing differences in the generation of capital receipts or any shortfall in the delivery of savings plans. As such the Council has identified that it has sufficient General Fund Balances and can redesignate earmarked reserves to meet any shortfall. On this basis, the Council considers that it can continue to meet its liabilities as they fall due, supporting the preparation of the financial statements on a going concern basis irrespective of the statutory requirements.

**Schools**

The Council has assessed the legal framework underlying each type of school and determined the treatment of non-current assets within the financial statements on the basis of whether it owns or has some responsibility for, control over or benefit from the service potential of the premises and land occupied. The Council has considered its accounting arrangements for each school, on a case by case basis, under the terms of:

- IAS 16, Property, Plant and Equipment
- IAS 17, Leases
- IFRIC 4, Determining Whether an Arrangement Contains a Lease; and

- LAAP Bulletin 101, Accounting for Non-Current Assets Used by Local Authority Maintained Schools

The Council has determined that, within its Balance Sheet, for:

- Community Schools - all land and buildings should be recognised;
- Voluntary Controlled, Voluntary Aided and Foundation Schools - all buildings should be recognised and that land should be recognised where the Council can demonstrate that it has control over the asset through restrictive covenants within site deeds or there is reasonable evidence that restrictive covenants are in place;
- Academy Schools - no non-current assets should be recognised as they maintain their own financial records.

Local authority maintained schools, as independent entities, have responsibility for the management of their own resources. However, as their transactions are consolidated into the Council's financial statements, the Council has reviewed their activity to ensure consistency of accounting treatment. The Council has identified activity incurred as revenue expenditure by local authority maintained schools, which under the Council's policies would be considered to be capital expenditure. The Council has, therefore, treated expenditure which it can reasonably identify as being capital in nature as capital expenditure financed from revenue, which is then depreciated over an average useful economic life. Where it is not clear whether expenditure incurred relates specifically to capital, it has been left as revenue expenditure.

Whilst the Council is required to report the transactions of local authority maintained schools within its entity financial statements, it has not included details of employees of Voluntary Aided and Foundation Trust schools in Note 43, Officers' Remuneration, as they are employed by the relevant governing body.

The table below shows the number and type of schools within Birmingham at 31 March 2021.

| Type of School | Nursery | Primary | Secondary | All Through | Alternative | Special | Pupil Referral Unit | Total |
|---|---|---|---|---|---|---|---|---|
| **Community** | 27 | 107 | 9 | | | 11 | 1 | **155** |
| **Voluntary Controlled** | | 4 | | | | | | **4** |
| **Voluntary Aided** | | 49 | 4 | | | | | **53** |
| **Foundation Trust** | | 9 | 5 | | | 9 | | **23** |
| **Academy** | | 124 | 52 | 5 | | 7 | | **188** |
| **Free School** | | 2 | 9 | 2 | 6 | | | **19** |
| **Total** | **27** | **295** | **79** | **7** | **6** | **27** | **1** | **442** |

Where a school proposes to transfer to Academy Status, the Council will continue to retain any asset subject to transfer on the basis of its last revaluation, which maintains both the asset value and the anticipated useful life until the date of transfer. The Council has taken the view that any asset transferring will continue, on the basis of the permitted use within the lease agreements, to be used for the provision of education services, thus supporting the Council's statutory obligation for the provision of education. On transfer to an Academy, assets are derecognised in the Council's financial statements for nil consideration.

**Service Concession Arrangements – Highways PFI**

On entering into the Highways PFI contract, the contractor's operational model of planned spend formed the basis of identifying levels of investment in the highways infrastructure, lifecycle and service costs from the unitary charge payable. This model would be used to identify capital additions and associated liabilities that were reflected on the Council's Balance Sheet.

As part of the settlement agreement with Birmingham Highways Limited (BHL) on 29 June 2019, the subcontractor, Amey LG Limited exited the contract on 31 March 2020 and a new interim sub-contractor, Kier Highways Ltd, was appointed by BHL from 1 April 2020. However, the contract with BHL remains in place with the associated risk transfer from a PFI arrangement. Assumptions within the original contract model have continued to be used with the model updated to reflect actual lifecycle costs incurred during the year.

An exercise is currently underway to procure a new subcontractor to deliver the remainder of the contract to 2035.

The model will be amended each year to reflect the up to date contract performance.

**Leases**

Leases are categorised between operating and finance leases according to management judgement on the basis of relevant accounting standards, with the premise that long term land leases, typically greater than 110 years, and long term building leases, typically greater than 50 years, are accounted for on the basis of finance leases.

**The Better Care Fund (including the improved Better Care Fund)**

The Better Care Fund was announced in June 2013 with the intention to drive the transformation of local services and was to be operated through pooled budget arrangements between the Council and local Clinical Commissioning Groups. Specific resources were earmarked for the Better Care Fund by NHS England in its allocation to Clinical Commissioning Groups. The remainder of the fund was made up of the Social Care Capital Grant and the Disabled Facilities Grant which were paid to local authorities.

In accounting for the pooled resources, in agreement with the Clinical Commissioning Groups:

- Activity where funding was received and expended under the control of Clinical Commissioning Groups has been accounted for in their accounts
- Activity where funding was received and expended under the control of the Council has been accounted for in its accounts
- Activity where funding was under joint control has been accounted for on the basis of the share for each organisation.

Further details on the Better Care Fund are provided in Note 46, Related Parties.

**The Council acting as Agent**

The Council acts as agent for a range of funding resources. In its role as agent, transactions relating to agency activity are not included in the Council's financial statements. Three of the largest areas where the Council acts as agent are:

- Growing Places Fund

- Regional Growth Fund - Advanced Manufacturing Supply Chain Initiative
- Covid grant funding (see Note 47)

The resources for the Growing Places and Regional Growth Funds are under the control of the Greater Birmingham and Solihull Local Enterprise Partnership with decisions taken by impartial and independent Investment Boards and Committees. All governance processes are overseen by the Council.

Whilst the Council has received the funding, it is on the basis of an Accountable Body to ensure that resources are spent in compliance with the grant offer letters. Decisions in respect of the use of funds are not in the hands of the Council. The Council can only obtain use of the resources as a recipient of the normal resource allocation process.

Given the basis of control, the Council has determined that it acts as agent rather than principal for these resources which are, therefore, not included in the Council's financial statements.

Details of the Council's role as agent for external resources are included in Note 47 to these financial statements.

**Early Payment to the Local Government Pension Scheme**

The Council made a payment of £369.2m on 27 April 2020 to the Local Government Pension Scheme being the estimated sum due for the three year period 1 April 2020 to 31 March 2023 in respect of employer contributions. The Council has determined that the application of Section 30 of The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, as amended, requires the Council to charge to its revenue accounts the amount payable for the financial year for retirement benefit payments and contributions to the pension fund as set out in the actuary's certificate following the triennial valuation of 31 March 2019, namely 21.3% of pensionable pay plus £48.2m which was calculated to total £124.2m for 2020/21.

**Equal Pay**

The Council has continued to receive equal pay claims up to the sign off of these financial statements and has, as a result, made provision in its accounts for these potential future liabilities. The Council has continued to negotiate with claimants' representatives and settles where it is recognised that a claim would be successful. These accounts include the expected costs of settlement for claims received and all negotiations agreed as at 31 March 2021.

In England and Wales, the ability to defer the reserves impact of new provisions ceased to be allowable from 1 April 2020. These regulations previously gave discretion to a local authority not to charge to revenue a provision for back pay arising from unequal pay claims until the cash settlement took place. The Council had taken advantage of this, and the full extent of the equal pay provision recognised in prior years had all been offset against capital receipts. Liabilities recognised before 1 April 2020 will continue to be deferred until the equal back pay payment is actually made, whether or not this date is on or after 1 April 2020, in line with regulations

However, this approach is not applicable for new equal pay liabilities recognised after 1 April 2020 and provision of these claims has been made in accordance with Section 8.2 of the code, recognised and impacting on the General Fund.

## Note 3
## Accounting Standards That Have Been Issued but Have Not Yet Been Adopted

The Council is required to disclose information relating to the impact of the accounting change on the financial statements as a result of the adoption by the Code of a new or amended standard that has been issued, but is not required to be adopted by the Council for the 2020/21 accounting period.

There are no changes in accounting requirements for 2021/22 that are anticipated to have a material impact on the Council's financial performance or position. However, below are listed a number of relevant items of note:

### IFRS 16 Leases

The International Financial Reporting Standard 16 (IFRS 16 Leases) was issued by the International Accounting Board in January 2016 with an effective implementation date for bodies outside the public sector of 1 January 2019. The implementation of this standard has been delayed for public sector bodies until 1 April 2022 and thus has no impact on either the current or 2021/22 Statement of Accounts.

The Council has begun to assess the likely impact of the adoption of IFRS16, however, since it requires the assets to be valued, in line with our valuation approach, this has not yet been done. As such, it is impracticable to disclose the likely financial impact of the adoption of IFRS16 at this time.

### Definition of a Business: Amendments to IFRS3 Business combinations

IFRS3 has been amended to clarify the definition of a business. The Council does not currently expect the impact of this change to have a material impact on the financial performance or position of the Council.

### Interest rate Benchmark reform, phases 1 and 2: Amendments to various standards

These amendments relate to the replacement of Inter-Bank Offer Rates (IBORs), and associated impact on an organisations financial reporting, specifically in relation to hedge accounting. The Council currently does not expect to enter into any such transactions, and as such, these changes are not expected to have a material impact on the financial performance or position of the Council.

There are no other changes in accounting requirements for 2021/22 that are anticipated to have a material impact on the Council's financial performance or position.

## Note 4
## Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, balances cannot be determined with certainty, and actual results could be materially different if the assumptions and estimates were to change.

The Council is exposed to a degree of estimation uncertainty related to interest rate risk in its financial instruments, principally its borrowing and investments. More information on this can be found at Note 37.

IAS 1 requires the Council to disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

In respect of those assets and liabilities, the notes shall include details of:

(a) their nature, and
(b) their carrying amount as at the end of the reporting period.

While there are a number of areas of uncertainty that the Council manages, those that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities in the next financial year are as follows:

- Valuation of certain parts of the Council's Plant, Property and Equipment balances, specifically relating to the Council's dwellings, and other land and buildings; and
- The net defined benefit pension liability.

These are dealt with separately below:

***Plant, Property and Equipment***

The Council recognises a variety of land and buildings in its balance sheet, and applies a range of valuation methodologies, in line with the adopted accounting policies and required standards, to arrive at a valuation for the portfolio at each balance sheet date. A number of these approaches include specific estimates, and uncertainties. The areas for which a risk of material uncertainty is noted are included in the table(s) below - note that where a part of the balance is not included in a table, it is not considered to have a material uncertainty associated with it:

**Council Dwellings – HRA (31 March 2021 £2,609.8m)**

There are two approaches applied to the valuation of these assets, as set out in the following tables:

*Valuation approach number 1:*

| | |
|---|---|
| Approach to valuation | Council dwellings are subject to a full revaluation every five years, following MHCLG guidance, with a desktop review in intervening years. The majority of assets are valued using a beacon approach, where a value is undertaken for the housing stock portfolio based on properties that are a representative sample of the Council's properties across the city. The beacon value is derived from sales of similar, ex Council or comparable properties, suitably adjusted by taking into account information from the land registry and other relevant sources, before being applied to the wider population of properties. In this instance, all beacon properties were revalued at the valuation date. |
| Nature of uncertainty | The Council recognises the value of nearly 60,000 properties in total. Of these properties, approximately 49,000 use this beacon valuation approach, which is the agreed, recommended approach where such large numbers of properties require a valuation. With such a large population of properties being valued, then there is naturally a degree of estimation uncertainty. A relatively small movement in the beacon values would, once extrapolated, result in a significant change in the overall value of the estate. |
| Amount recorded in the financial statements at 31 March 2021 | £2,538.51m |
| Sensitivity | Should the property market value change over the 12 months following the balance sheet date, the beacon values would likely change as a result, and the overall valuation for these properties could change significantly. Land registry data suggests that in the period from March 2021 to December 21 property prices in Birmingham rose by 3.9%. A 3.9% movement in the beacon valuations, applied as a general movement across all beacons, extrapolated across the full population would give rise to an increase in the valuation of these properties of £99m. |

*Valuation approach number 2:*

| | |
|---|---|
| Approach to valuation | In certain cases, there is a lack of reliable market pricing and an absence of an owner occupied market – this means that an alternative approach to valuation is required to that set out above. As noted in the guidance (Stock valuation guidance for resource accounting 2016), it is possible to generate an equivalent capital value for such assets in the absence of a reliable market for sales, and historically, the Council has adopted an approach that calculates the discounted cashflow (DCF) of these properties, to arrive at the valuation.<br><br>There are just over 11,000 properties that are valued using DCF, of which, the majority are high rise blocks. |

| | |
|---|---|
| Nature of uncertainty | The DCF model is required to estimate the cash inflow and outflow, of the relevant properties over a period of 30 years, applying an appropriate discount rate.<br><br>While the majority of the assumptions that are required to be included in such complex models can be easily substantiated (discount rates, levels of income, numbers of units), one key area of uncertainty relates to maintenance spend.<br><br>The Council is committed to maintaining these properties, which in many cases are in older buildings. The cost of maintaining them though is subject to a wide number of factors, including the state of repair, the current and expected future costs of maintenance, which are inherently uncertain, the anticipated level of budget that the Council has, that may introduce a cap on spend, and any significant, unexpected areas of spend, which includes the recent investment the Council has made to cladding and fire protection. |
| Amount recorded in the financial statements at 31 March 2021 | £71.3m |
| Sensitivity | In order to determine the range of potential values that these properties may be valued at, an external report from a valuer was obtained that provides for the maximum, unconstrained maintenance spend that may be required to the estate.<br><br>When applied to the DCF models, this maximum maintenance spend produces a minimum valuation of £3.7m.<br><br>Separately, if current, short term known and budgeted maintenance spend is taken as a minimum commitment, extrapolated over 30 years and also applied to the DCF models, this results in a maximum valuation of £53.5m.<br><br>The standard requires disclosure of the potential impact of events over the 12 months since the balance sheet date on the uncertainty. While it is unlikely that there is a single event in a 12 month period that will affect a 30 year cashflow model, the most likely outcome, given wider economic challenges, is that the council will maintain a short term, minimum committed spend while appropriately managing its overall responsibilities to the population it serves in all other areas. As such, the specific uncertainty the Council is required to disclose relates to the application of the minimum committed spend across the 30 year model, which would result in an increase in the value of these properties in the accounts from £28.9m to £53.5m. |

**Other land and buildings (31 March 2021 £2,376.3m)**

The Council recognises the value of a significant number of other land and buildings (c1,500 properties). The valuation approach for other land and buildings is to obtain valuations on the basis of a five year rolling programme, which is supplemented by annual reviews, to reflect significant changes in market value. This results in only a sample of assets being revalued each year. For asset classes that use a DRC valuation, the Council's valuer applies an appropriate index to those properties that don't have a full, detailed valuation performed, to obtain an estimated valuation.

A small subset of assets are not valued. The Council considers the extent to which applying the % movement in assets that have been valued, would impact those that have not been valued, to ensure that it is not material. Although this does introduce uncertainty to this component of the valuation, the Council does not believe it to be material and therefore has not included it in the table below.

The areas of this approach that give rise to a material uncertainty are as follows:

*DRC assets, forming part of the five year cycle of valuations that have had indexation applied, rather than a detailed valuation performed*

| | |
|---|---|
| Approach to valuation | These assets form part of the rolling five year cycle of valuations but are not in the current year population to receive a specific valuation. The Council's valuer applies the BCIS index to these assets, to arrive at an estimated, market driven change in the valuation based on building costs. Note that the indexation applied to assets excludes land, as the Council does not believe it appropriate to apply an index to the value of land. |
| Nature of uncertainty | A market based index is applied to achieve an overall movement in the asset value as a desktop exercise. Based on market movements in building costs, and therefore the index, and individual specific valuations of properties in this population, the 31 March 2022 Statement of Accounts may result in a change in the valuation recorded for these properties at that point.<br><br>Note that the properties in this population are reviewed, and where specific valuation events occur, then they are included in the in year rolling programme of valuations and excluded from this approach. This helps to reduce the estimation uncertainty included in this approach. |
| Amount recorded in the financial statements at 31 March 2021 | £885.5m |
| Sensitivity | Indexation is applied to these assets, as a proxy for the changes in likely building costs to replace them.<br><br>As such, any indexation applied to the value of the assets will change them, during the year to 31 March 2022.<br><br>The average, weighted indexation applied to these assets over the last four years is 1.7%. If this average approximates the index that will be applied in the year to 31 March 2022, these assets will increase in value by £14.8m. |

| | |
|---|---|
| | However, based on a number of macro economic factors outside the Council's control, it is anticipated that building costs will increase above this rate in 2022. As a proxy for overall market rises in costs, the ONS published CPI for the 12 months to January 2022 is 5.5%.<br><br>If 5.5% is applied as the index for the year to 31 March 2022, then the asset value will increase by £48.7m. |

***Net defined benefit pension liability***

The Council has a number of employees who are members of Pension schemes. One such scheme, the Local Government Pension Scheme (LGPS) is a defined benefit scheme, which can give rise to significant liabilities for the Council.

The liabilities are presented net in the Council's balance sheet, having considered both the total assets, and the potential return from them, and all liabilities associated with scheme members. Given the duration of the liabilities, and the complexity of both determining scheme returns, and expected future liabilities, the calculation of the Council's net liability is performed by a qualified actuary.

| | |
|---|---|
| Approach to valuation | The Council, and the Council's actuary, follow an agreed and accepted process for completing the valuation, which is consistent across the sector. That is to complete a full, detailed valuation every three years, and then in the intervening years, complete a "roll forward". This approach means that between full valuations, there is inherently a larger degree of uncertainty in the result. The estimate for the Local Government Pension Scheme liability has been performed by a qualified actuary and is based on the latest actuarial valuation and transaction information from 2020/21, which results in a net pension liability of £3,185m (2019/20 £2,591m).<br><br>The Pension Fund liability is calculated triennially by the appointed actuary with annual updates in the intervening years. The Fund liabilities at 31 March 2021 are based on a roll-forward of the last triennial valuation at 31 March 2019. The methodology used in the intervening years follows generally agreed guidelines and is in accordance with IAS 19. These assumptions are summarised in Note 20. |
| Nature of uncertainty | The actual valuation results could be significantly different to those in Note 20 were the key assumptions to vary – given the nature of a roll forward approach, where certain key inputs are updated, rather than formally reassessed, there is a larger inherent degree of uncertainty in any year (such as this one) for which a roll forward approach is applied. Due to the complexity of the calculation, it is impracticable to disclose the full nature and extent of the change in these assumptions in the next twelve months, however a sensitivity analysis is provided in full in Note 20 which indicates the potential scale and impact of certain key assumptions. |

| | |
|---|---|
| Amount recorded in the financial statements at 31 March 2021 | £3,185m |
| Sensitivity | See Note 20 for further details.<br><br>However, this note and the sensitivity analysis included deals predominantly with the overall calculation itself, and not the uncertainty that relates specifically to the roll forward approach. While the standard requires the Council to disclosure this specific uncertainty, given the complexity of the calculation, have concluded that it is impracticable to quantify it. |

## Note 5
## Events After the Reporting Period

The draft Statement of Accounts was authorised for issue by the Chief Finance Officer and Section 151 Officer on 30 June 2021. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2021, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

*Transfer of Academy Schools*

Academy Schools are not accounted for within the Council's financial statements. Where a school transfers to Academy status, it is deemed to be disposed of within the financial statements for nil consideration. Between 1 April 2021 and 30 June 2021, 7 schools have transferred to Academy School Trust status with a carrying value of £29.0m at 31 March 2021. To date 5 schools, with assets having a net book value of £26.3m at 31 March 2021, have confirmed their proposals to transfer to Academy School Trust status during 2021/22.

*Highways Maintenance and Management PFI*

Cabinet on the 8 June 2021 agreed to enter into a commercial agreement to extend the restructuring period.

The initial settlement provided a period of up to 15 months to 29 June 2021 to enable the Council and Birmingham Highways Ltd (BHL) to seek to restructure the contract for its remaining duration until June 2035, this has now been extended to 2023.

The restructuring would require approval by all project stakeholders and requires:

- The Council and BHL to agree revisions to the contract;
- The proposed future contract to meet pre-specified criteria for the lending banks and the Council (or to waive those criteria); and
- Continuation of the Council's PFI grant funding being approved.

Work is underway now with all parties to complete this restructuring with the preferred option retaining the PFI grant which currently remains subject to DfT approval.

*Equal Pay*

As described in Notes 30 and 31, the Council has provided for settlements with regards to historic equal pay claims and included contingent liability disclosure recognising the uncertainty surrounding future payments. During November 2021, settlement was agreed with a group of individuals included in the provision. During December 2021, further offers were made, and settlements are expected during early 2022. Although such settlements represent an "adjusting event" under IAS 10 paragraph 9, these settlements do not affect the provision recorded at 31 March 2021. The Council will continue to evaluate its exposure to equal pay claims and adjust the provision where necessary.

*Chief Executive*

On 14 June 2021, Deborah Cadman OBE took up the role of Interim Chief Executive.

*Director of Council Management and Section 151 Officer*

In September 2021 Rebecca Hellard was appointed as Director of Council Management and Section 151 Officer.

*Assistant Chief Executive*

Jonathan Tew, Assistant Chief Executive left the Council in July 2021.
*Other Events*

There were no other significant events after the reporting period.

## Note 6
## Expenditure and Funding Analysis

The Expenditure and Funding Analysis shows how the Council allocates expenditure 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.

| 2020/21 | Net Expenditure Reported to Cabinet | Adjustment to arrive at the Net Amount Chargeable to the General Fund and HRA Balances (Note 7) | **Net Expenditure Chargeable to the General Fund and HRA Balances** | Adjustments between Funding and Accounting Basis (Note 7) | Net Expenditure in the Comprehensive Income and Expenditure Statement |
|---|---|---|---|---|---|
| | £m | £m | **£m** | £m | £m |
| Adult Social Care | 322.1 | (86.7) | **235.4** | (3.4) | 232.0 |
| Education and Skills | 284.0 | (62.9) | **221.1** | 74.5 | 295.6 |
| Neighbourhoods | 145.5 | (11.7) | **133.8** | (5.3) | 128.5 |
| Inclusive Growth | 126.6 | (73.7) | **52.9** | 30.6 | 83.5 |
| Human Resources | 6.7 | 0.1 | **6.8** | (1.2) | 5.6 |
| Digital & Customer Services | 43.9 | (1.2) | **42.7** | (4.8) | 37.9 |
| Partnerships, Insight & Prevention | 6.1 | (26.6) | **(20.5)** | (1.1) | (21.6) |
| Finance & Governance | 22.0 | (17.4) | **4.6** | 17.9 | 22.5 |
| Centrally Managed | (104.0) | (37.9) | **(141.9)** | 241.7 | 99.8 |
| Housing Revenue Account | - | (49.3) | **(49.3)** | (44.5) | (93.8) |
| **Net Cost of Services** | **852.9** | **(367.3)** | **485.6** | **304.4** | **790.0** |
| Other Income and Expenditure | (852.9) | (42.5) | **(895.4)** | (24.9) | (920.3) |
| **(Surplus)/ Deficit** | **0.0** | **(409.8)** | **(409.8)** | **279.5** | **(130.3)** |
| Opening General Fund and HRA Balance | | | **666.8** | | |
| Surplus/ (Deficit) for the Year | | | **409.8** | | |
| Closing General Fund and HRA Balance | | | **1,076.6** | | |

| 2019/20 | Net Expenditure Reported to Cabinet | Adjustment to arrive at the Net Amount Chargeable to the General Fund and HRA Balances (Note 7) | **Net Expenditure Chargeable to the General Fund and HRA Balances** | Adjustments between Funding and Accounting Basis (Note 7) | Net Expenditure in the Comprehensive Income and Expenditure Statement |
|---|---|---|---|---|---|
| | £m | £m | **£m** | £m | £m |
| Adult Social Care | 318.7 | 11.0 | **329.7** | 10.2 | **339.9** |
| Education and Skills | 275.1 | (3.7) | **271.4** | 86.0 | **357.4** |
| Neighbourhoods | 127.7 | (4.7) | **123.0** | 10.0 | **133.0** |
| Inclusive Growth | 98.7 | (86.6) | **12.1** | 20.2 | **32.3** |
| Human Resources | 6.3 | (0.1) | **6.2** | (0.2) | **6.0** |
| Digital & Customer Services | 31.4 | 1.5 | **32.9** | 2.7 | **35.6** |
| Partnerships, Insight & Prevention | 6.6 | (0.8) | **5.8** | (0.2) | **5.6** |
| Finance & Governance | 24.6 | (33.3) | **(8.7)** | 6.0 | **(2.7)** |
| Centrally Managed | (37.5) | 16.0 | **(21.5)** | (30.7) | **(52.2)** |
| Superannuation adjustment | - | - | **-** | 11.8 | **11.8** |
| Housing Revenue Account | - | (45.5) | **(45.5)** | (37.7) | **(83.2)** |
| **Net Cost of Services** | **851.6** | **(146.2)** | **705.4** | **78.1** | **783.5** |
| Other Income and Expenditure | (851.6) | 44.9 | **(806.7)** | (60.2) | **(866.9)** |
| **(Surplus)/Deficit** | **-** | **(101.3)** | **(101.3)** | **17.9** | **(83.4)** |
| Opening General Fund and HRA Balance | | | **565.5** | | |
| Surplus/(Deficit) for the Year | | | 101.3 | | |
| Closing General Fund and HRA Balance | | | **666.8** | | |

## Note 7
## Note to the Expenditure and Funding Analysis

This analysis provides detail of the main adjustments from the Net Expenditure Chargeable to the General Fund and HRA balances to the Comprehensive Income and Expenditure Statement.

| 2020/21 | Depreciation reported at Directorate level | Reserve Appropriations | Other Adjustments (Note (a)) | **Total to arrive at amount charged to the General Fund and HRA** | Adjustments for Capital Purposes | Net Change for the Pensions Adjustment | Other Adjustments (Note (b)) | **Total Adjustment Between Funding and Accounting Basis** |
|---|---|---|---|---|---|---|---|---|
| | £m | £m | £m | **£m** | £m | £m | £m | **£m** |
| Adult Social Care | (1.6) | (11.9) | (73.2) | **(86.7)** | 7.1 | (10.5) | 0.0 | **(3.4)** |
| Education and Skills | (67.0) | (39.2) | 43.3 | **(62.9)** | 104.1 | (31.1) | 1.5 | **74.5** |
| Neighbourhoods | (10.6) | (5.8) | 4.6 | **(11.8)** | 12.4 | (17.7) | 0.0 | **(5.3)** |
| Inclusive Growth | (22.5) | 0.9 | (52.1) | **(73.7)** | 35.4 | (4.8) | 0.0 | **30.6** |
| Human Resources | 0.0 | (0.1) | 0.2 | **0.1** | 0.0 | (1.2) | 0.0 | **(1.2)** |
| Digital & Customer Services | (0.3) | (10.8) | 9.9 | **(1.2)** | 4.2 | (9.0) | 0.0 | **(4.8)** |
| Partnerships, Insight & Prevention | 0.0 | (26.4) | (0.2) | **(26.6)** | 0.0 | (1.2) | 0.1 | **(1.1)** |
| Finance & Governance | (0.7) | (2.5) | (14.2) | **(17.4)** | 24.0 | (6.5) | 0.4 | **17.9** |
| Centrally Managed | (2.6) | (309.7) | 274.4 | **(37.9)** | 16.0 | 118.3 | 107.4 | **241.7** |
| Housing Revenue Account | (53.9) | (4.3) | 8.9 | **(49.3)** | 75.3 | (1.4) | (118.4) | **(44.5)** |
| **Net Cost of Services** | (159.2) | (409.8) | 201.6 | **(367.3)** | 278.5 | 34.9 | (9.0) | **304.4** |
| Other Income and Expenditure | 159.2 | 0.0 | (201.6) | **(42.5)** | (64.5) | 63.8 | (24.2) | **(24.9)** |
| Surplus or Deficit | 0.0 | (409.8) | 0.0 | **(409.8)** | 214.0 | 98.7 | (33.2) | **279.5** |

| **2019/20** | Depreciation reported at Directorate Level | Reserve Appropriation | Other Adjustments (Note (a)) | Total to arrive at amount charged to the General Fund and HRA | Adjustments for Capital Purposes | Net Change for the Pensions Adjustment | Other Adjustments (Note (b)) | Total Adjustment Between Funding and Accounting Basis |
|---|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m | £m |
| Adult Social Care | (3.6) | 17.2 | (2.6) | **11.0** | 12.3 | (2.1) | - | **10.2** |
| Education and Skills | (77.9) | (8.5) | 82.7 | **(3.7)** | 89.1 | (6.5) | 3.4 | **86.0** |
| Neighbourhoods | (18.3) | (1.3) | 14.9 | **(4.7)** | 13.6 | (2.6) | (1.0) | **10.0** |
| Inclusive Growth | (37.6) | (26.5) | (22.5) | **(86.6)** | 27.1 | (0.9) | (6.0) | **20.2** |
| Human Resources | - | (0.4) | 0.3 | **(0.1)** | - | (0.2) | - | **(0.2)** |
| Digital & Customer Services | (2.7) | (0.9) | 5.1 | **1.5** | 4.4 | (1.7) | - | **2.7** |
| Partnerships, Insight & Prevention | - | (0.8) | - | **(0.8)** | - | (0.2) | - | **(0.2)** |
| Finance & Governance | (1.5) | (3.0) | (28.8) | **(33.3)** | 7.6 | (1.4) | (0.2) | **6.0** |
| Centrally Managed | (0.1) | (75.5) | 91.6 | **16.0** | 69.5 | (3.2) | (97.0) | **(30.7)** |
| Superannuation adjustment | - | | - | **-** | | 11.8 | | **11.8** |
| Housing Revenue Account | (54.3) | (1.6) | 10.4 | **(45.5)** | 91.1 | 2.7 | (131.5) | **(37.7)** |
| **Net Cost of Services** | **(196.0)** | **(101.3)** | **151.1** | **(146.2)** | **314.7** | **(4.3)** | **(232.3)** | **78.1** |
| Other Income and Expenditure | 196.0 | - | (151.1) | **44.9** | (101.5) | 57.1 | (15.8) | **(60.2)** |
| **(Surplus)/Deficit** | **-** | **(101.3)** | **-** | **(101.3)** | **213.2** | **52.8** | **(248.1)** | **17.9** |

Notes

(a) – includes levies, PFI grants and interest receipts and payments that are reported as part of Outturn but not included in Net Cost of Services within the CIES

(b) – includes employee benefits accruals, the difference between amounts charged to the CIES for equal pay claims and the cost of settlements chargeable in year in accordance with statutory requirements; timing differences between what is chargeable under statutory regulation for Council Tax and Business Rates that were forecast to be received at the start of the year and the income recognised under generally accepted accounting practice.

**Note 8**
**Expenditure and Funding Analysis by Nature of Activity**

This analysis provides detail of the expenditure and income of the Council on a subjective basis.

| 2019/20 £m | | 2020/21 £m |
|---|---|---|
| | **Expenditure** | |
| 890.5 | Employee Benefits Expenses | 941.7 |
| 1,826.1 | Other Service Expenses | 2,207.0 |
| 194.5 | Depreciation, Amortisation and Impairment | 159.1 |
| 256.8 | Interest Payments | 233.6 |
| 28.7 | Movements in the value of financial assets | 24.8 |
| 49.9 | Precepts and Levies | 49.8 |
| 6.2 | Payments to Housing Capital Receipts Pool | 6.4 |
| 85.3 | Loss on Disposal of Non Current Assets | 16.0 |
| **3,338.0** | **Total Expenditure** | **3,638.4** |
| | **Income** | |
| (594.1) | Fees and Charges and Other Service Income | (524.6) |
| (793.3) | Income from Council Tax and Business rates | (821.3) |
| 0.0 | Movements in the value of financial assets | (2.2) |
| (1,996.7) | Government Grants and Contributions | (2,400.8) |
| (37.3) | Interest and Investment Income | (19.8) |
| **(3,421.4)** | **Total Income** | **(3,768.7)** |
| **(83.4)** | **(Surplus)/Deficit on Provision of services** | **(130.3)** |

**Note 9**
**Material Items of Income and Expense**

As noted in the narrative report, the Covid pandemic has had a significant impact on the operation and financial performance of the Council – including material streams of both income, and expense. The financial impact of Covid has been recorded in a number of places in these financial statements, most significantly in the following areas:

- The Narrative Report;
- Note 2 – referencing that for some of the grant monies received, the Council is acting as an agent;
- Note 4 – referencing the uncertainty that Covid has caused in several of the key assumptions made in these financial statements;
- Note 14 – being those grants received in relation to Covid where the Council acts as principal;
- Note 47 – being those grants received where the Council acts as an agent;

Separately, given the significance of it to the Council, it has been regularly reported on by the Council in a number of separate publicly available reports.

As such, although it is an area of material income, and expense in the Council's financial performance, the comprehensive nature of the wider reporting, in addition to the disclosure in these financial statements, means that the Council have not separately highlighted the aggregate impact of Covid in the CIES.

**Note 10**
**Other Operating Expenditure**

Other Operating Expenditure disclosed in the Comprehensive Income and Expenditure Statement is detailed below.

| 2019/20 | | 2020/21 |
|---|---|---|
| £m | | £m |
| 1.9 | Parish Council Precepts | 1.9 |
| 4.8 | Enterprise Zone Growth Payment | 11.0 |
| 45.0 | Integrated Transport Authority Levy | 44.9 |
| 0.3 | Environment Agency Levy | 0.3 |
| 2.7 | Apprenticeship Levy | 2.7 |
| 6.2 | Payments re: Housing Capital Receipt Pool | 6.4 |
| 85.3 | (Gains)/Losses on the Disposal of non-current assets | 15.8 |
| **146.2** | **Total** | **83.0** |

The Loss on the disposal of non-current assets recognises the difference between the payment for the sale of a non-current asset and the carrying value of that asset within the accounts, which may not be the same as the market value or the historical cost of that asset.

**Note 11**
**Financing and Investment Income and Expenditure**

Financing and Investment Income and Expenditure disclosed in the Comprehensive Income and Expenditure Statement (CIES) is detailed below.

| 2019/20 | | | | 2020/21 | | |
|---|---|---|---|---|---|---|
| Gross Expenditure £m | Income £m | Net £m | | Gross Expenditure £m | Income £m | Net £m |
| 196.0 | - | 196.0 | Interest Payable and similar charges | 164.6 | - | 164.6 |
| 60.8 | - | 60.8 | Net Interest on the Net Defined Benefit Liability | 61.0 | - | 61.0 |
| - | - | - | Administration Expenses - Pensions | 2.9 | - | 2.9 |
| - | (31.4) | (31.4) | Interest Receivable and similar income | - | (18.9) | (18.9) |
| - | (0.5) | (0.5) | Income and expenditure in relation to investment properties and changes in their fair value | 8.0 | - | 8.0 |
| 24.6 | - | 24.6 | (Gains)/Losses on financial assets at amortised cost | 23.2 | - | 23.2 |
| 4.1 | - | 4.1 | (Gains)/Losses on financial assets at fair value through profit and loss | 1.6 | - | 1.6 |
| - | - | - | (Gains)/Losses on the Disposal of Financial Instruments | - | (2.2) | (2.2) |
| 28.6 | (31.0) | (2.4) | (Surplus)/Deficit on trading operations not consolidated within Service Expenditure Analysis in Comprehensive Income and Expenditure Statement | 20.0 | (20.8) | (0.8) |
| - | (5.4) | (5.4) | Other investment income and expenditure | - | (0.9) | (0.9) |
| **314.1** | **(68.3)** | **245.8** | **Total** | **281.3** | **(42.8)** | **238.5** |

**Note 12**
**Taxation and Non Specific Grant Income and Expenditure**

Taxation and Non Specific Grant Income and Expenditure disclosed in the Comprehensive Income and Expenditure Statement comprises the following:

| 2019/20 Gross Expenditure £m | 2019/20 Gross Income £m | 2019/20 Net £m | | 2020/21 Gross Expenditure £m | 2020/21 Gross Income £m | 2020/21 Net £m |
|---|---|---|---|---|---|---|
| - | (349.3) | (349.3) | Council Tax - Collection Fund | - | (367.6) | (367.6) |
| - | (441.9) | (441.9) | Business Rates - Collection Fund | - | (452.3) | (452.3) |
| 0.9 | - | 0.9 | Share of Collection Fund - Council Tax | 17.7 | - | 17.7 |
| 13.0 | (2.2) | 10.8 | Share of Collection Fund - Business Rates | 240.4 | (1.3) | 239.1 |
| - | (253.6) | (253.6) | Non Ring Fenced Government Grants | - | (558.3) | (558.3) |
| - | (225.9) | (225.9) | Capital Grants and Contributions | - | (120.4) | (120.4) |
| - | 0.1 | 0.1 | Capital Grants Repaid | - | - | - |
| **13.9** | **(1,272.8)** | **(1,258.9)** | **Total** | **258.1** | **(1,499.9)** | **(1,241.8)** |

Further information on grant income received is provided in Note 14.

**Note 13**
**Trading Operations**

Trading operations are those activities where the service is required to operate in a commercial environment and balance their budget by generating income from other parts of the Council or other organisations.

The internal trading expenditure and income is incorporated within the relevant service line in the Comprehensive Income and Expenditure Statement. External trading income and expenditure is identified in Note 11, Financing and Investment Income and Expenditure. Details of units with significant trading activity are as follows.

| 2019/20 | | | | 2020/21 | | |
|---|---|---|---|---|---|---|
| Turnover £m | Expenditure £m | (Surplus) / Deficit £m | **Trading activity** | Turnover £m | Expenditure £m | (Surplus) / Deficit £m |
| (30.4) | 27.7 | (2.7) | Cityserve (Direct Services) | (17.0) | 16.2 | (0.8) |
| (10.0) | 9.3 | (0.7) | Trade Refuse | (7.8) | 7.4 | (0.4) |
| (13.7) | 13.6 | (0.1) | Birmingham Parks and Nurseries | (14.0) | 12.4 | (1.6) |
| (1.1) | 1.2 | 0.1 | Pest Control | (0.9) | 1.1 | 0.2 |
| (1.6) | 1.7 | 0.1 | Procurement | (0.6) | 1.1 | 0.5 |
| (3.2) | 2.6 | (0.6) | Schools' Human Resources | (2.7) | 2.1 | (0.6) |
| (1.8) | 1.6 | (0.2) | Central Payroll | (1.7) | 1.5 | (0.2) |
| (5.9) | 5.7 | (0.2) | Other Trading Activities | (5.1) | 5.4 | 0.3 |
| **(67.7)** | **63.4** | **(4.3)** | | **(49.8)** | **47.2** | **(2.6)** |
| | | | Allocation of Surplus/Deficit on Trading Operations | | | |
| (36.7) | 34.8 | (1.9) | - consolidated in CIES | (29.0) | 27.2 | (1.8) |
| (31.0) | 28.6 | (2.4) | - consolidated in Note 11, Financing and Investment Income and Expenditure | (20.8) | 20.0 | (0.8) |
| **(67.7)** | **63.4** | **(4.3)** | | **(49.8)** | **47.2** | **(2.6)** |

<u>Details of Trading Activities</u>

**Cityserve**
During 2020/21, Cityserve's primary role in supplying school meals to around 200 of Birmingham's primary, secondary and special schools was affected by the Covid pandemic. The nature of the virus and the resultant impact this had on schools across the country, meant that Cityserve needed to adopt an agile and supportive function to the Council's emergency response to this national health emergency.

Education Catering became a somewhat fragmented service, where schools moved between an ever-changing requirement of being open, closed and somewhere between, accommodating only children of key workers and vulnerable children. Cityserve staff were asked to both cater for attending pupils, along with providing for vulnerable children who were confined to their respective homes during national lockdowns

The scale of the disruption to Cityserve's 2020/21 trading account was significant.

The reaction to Cityserve's civic response from the schools, colleagues, parents and children, as well as the Council has been outstanding. This has provided Cityserve with the confidence that, as Birmingham's only municipal provider of school meals, the service is highly valued and has a sustainable future despite the adversity of the fiscal and social health landscape that surrounds it.

The Covid pandemic continues to threaten and dislocate the school meal industry, however, for Cityserve there are signs of a robust return to pre-pandemic levels of consumption. Cityserve will take the learning from this challenging period and use it to adapt to a "new-normal" emerging in the wake of both the economic and social aftermath of Covid.

**Trade Refuse**
Trade Refuse offers a competitive waste management service to businesses and provides Containers and Skips, Prepaid Sacks, Hire of Equipment and Special Collections.

**Birmingham Parks and Nurseries**
Birmingham Parks and Nurseries is responsible for the maintenance of all of the Council's parks and open spaces, as well as the floral displays that have helped to promote the city over the years. In addition, it looks after all of the 'green' maintenance of Council estates, highway verges, traffic islands, schools, residential care homes, cemeteries and crematoria, playing fields, allotments and children's outdoor playgrounds.

**Pest Control**
The Pest Control service provides treatment to commercial and domestic properties for rats, mice, insect control including wasps, fleas and ants and control of squirrels and pigeons. Rat pest control services are free for domestic users.

**Procurement Services**
In addition to providing the Council's in-house procurement service, schools may choose to subscribe to utilise the procurement service and are charged for work undertaken.

**Schools' Human Resources**
Schools have a choice to make in deciding who will support them with a Human Resources function. The Schools' Human Resources team has won competitive contracts to provide a range of schools with this function.

**Payroll Services**
In addition to providing the Council's payroll service, SLAs or contracts are in place to provide payroll & pensions services to schools, academies and other external bodies.

**Other**
Other trading activities include Shelforce, Civic Catering, Birmingham City Laboratories and Schools' Management. Shelforce is part of the Council's employment support services to registered disabled people and through the direct employment of registered disabled people in the manufacture of PVCu windows and doors.

**Note 14**
**Grant Income**

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

| 2019/20 | | 2020/21 |
|---|---|---|
| £m | | £m |
| | **Credited to Taxation and Non Specific Grant Income** | |
| 54.4 | Business Rates Top Up Grant | 55.3 |
| 7.6 | New Homes Bonus Grant | 7.2 |
| 18.2 | Schools PFI Grant | 18.2 |
| 50.3 | Highways Management and Maintenance PFI Grant | 50.3 |
| 38.7 | Covid Local Authority Support Grant | 89.8 |
| 6.1 | Troubled Families Grant | 4.8 |
| 4.6 | Housing Benefit Administration Grant | 5.4 |
| 4.3 | Discretionary Housing Payment | 5.0 |
| 32.3 | Small Business Rate Relief Grant | 34.2 |
| 21.3 | Business Rates S31 Grant | 23.0 |
| 9.6 | Adult Social Care Support Grant | 36.7 |
| - | Additional Business Rates Relief Grant | 183.5 |
| - | Covid Hardship Fund | 17.4 |
| - | Local Tax Income Guarantee Grant | 23.5 |
| 6.2 | Other | 4.0 |
| **253.6** | **Revenue Grants credited to Taxation and Non Specific Grant Income** | **558.3** |
| | **Credited to Cost of Services** | |
| 10.6 | Adult Education | 10.2 |
| 491.3 | Housing Benefit Subsidy | 526.8 |
| 636.2 | Dedicated Schools Grant | 644.9 |
| 9.3 | Education Funding Agency | 7.5 |
| 44.4 | Pupil Premium Grant | 42.7 |
| 4.0 | Illegal Money Lending | 4.2 |
| 9.4 | Universal Infants Free School Meals Grant | 9.4 |
| 10.5 | NHS Trusts and Clinical Commissioning Group contributions | 7.8 |
| 88.4 | Public Health Grant | 92.2 |
| 103.3 | Better Care Fund (including improved Better Care Fund) | 126.2 |
| 4.1 | Independent Living Fund Grant | 4.1 |
| 3.6 | Youth Promise | 2.8 |
| 5.8 | Asylum Seekers | 5.1 |
| 4.7 | Flexible Homeless Support | 4.7 |
| 4.1 | Enterprise Zone - Projects | 4.8 |
| 3.6 | Primary PE and Sport Grant | 3.5 |
| 10.2 | NO2 Plan Clean Air Zone | - |
| 9.5 | Teachers' Pensions Grant | 16.9 |
| 4.9 | Teachers' Pay Grant | 5.5 |
| 3.2 | Vulnerable Persons Resettlement Grant | 2.6 |
| - | Business Support Grant | 9.6 |
| - | Test and Trace | 39.4 |
| - | Additional Restrictions Grant (ARG) | 33.0 |
| - | Sales, Fees, and Charges Support Grant | 20.7 |
| - | Infection Control Grant | 4.2 |

| 2019/20 | | 2020/21 |
|---|---|---|
| £m | | £m |
| - | Winter Grant | 6.2 |
| - | Local Restrictions Support Grant (Open) | 5.2 |
| - | Track & Trace Self Isolation Payments & Administration | 3.7 |
| - | Asymptomatic Testing | 3.8 |
| | Covid-19 Catch-Up Premium | 4.1 |
| - | Reimbursement of Covid related transport costs | 3.1 |
| 42.8 | Grants and contributions of less than £3m | 50.5 |
| **1,503.9** | **Total Revenue Grants Credited to Cost of Services** | **1,705.4** |
| **1,757.5** | **Total Revenue Grants** | **2,263.6** |

| 2019/20 | | 2020/21 |
|---|---|---|
| £m | | £m |
| | **Capital Grants** | |
| 70.1 | Education and Skills Funding Agency | 28.4 |
| 82.2 | Commonwealth Games - MHCLG | 33.1 |
| 4.8 | Commonwealth Games - West Midlands Combined Authority | 4.6 |
| 6.9 | Department of Health and Social Care - Better Care Fund | 8.4 |
| 5.2 | Integrated Transport Block | 5.1 |
| - | Homes & Communities Agency | 2.4 |
| 41.9 | Department for Transport | 2.1 |
| 6.9 | Local Growth Fund | 29.6 |
| 7.9 | Other Grants and Contributions | 6.7 |
| **225.9** | **Capital Grants credited to Taxation and Non Specific Grant Income** | **120.4** |
| | **Capital Grants funding Revenue Expenditure under Statute credited to Cost of Services** | |
| - | Local Growth Fund | 2.2 |
| - | Department for Transport - Hydrogen Buses | 3.8 |
| 4.5 | Department of Health and Social Care - Better Care Fund | 4.5 |
| 2.1 | Local Growth Fund – Unlocking Housing Sites | 3.3 |
| 6.7 | Other Grants and Contributions | 3.0 |
| **13.3** | **Total Capital Grants funding Revenue Expenditure Under Statute** | **16.8** |
| **239.2** | **Total Capital Grants Received** | **137.2** |

All Capital Grants received are either non-conditional or the conditions have been met, therefore there are no entries to the Capital Grants Receipts in Advance Account for 2020/21. The Capital Grants received have been credited to the Taxation and Non Specific Grant Income line on the Comprehensive Income and Expenditure Statement except where the grant is used to finance Revenue Expenditure funded from Capital under Statute (REFCUS) where the grant is credited to the service line in the Comprehensive Income and Expenditure Statement.

**Note 15**
**Dedicated Schools Grant**

The Council's expenditure on schools is funded primarily by grant monies provided by the Education and Skills Funding Agency, the Dedicated Schools Grant (DSG). DSG is ringfenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance and Early Years (England) Regulations 2018. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2020/21 are as follows:

| | Central Expenditure | Individual Schools Budget | Total |
|---|---|---|---|
| | £m | £m | £m |
| Final DSG for 2020/21 before Academy Recoupment | 188.3 | 1,049.6 | 1,237.9 |
| Academy figure recouped for 2020/21 | - | (589.3) | (589.3) |
| **Total DSG after Academy recoupment for 2020/21** | **188.3** | **460.3** | **648.6** |
| Plus: Brought forward from 2019/20 | (8.5) | - | (8.5) |
| Less: Carry forward to 2021/22 agreed in advance | - | - | - |
| **Agreed initial budgeted distribution in 2020/21** | **179.8** | **460.3** | **640.1** |
| In year adjustments | - | - | - |
| **Final budgeted distribution for 2020/21** | **179.8** | **460.3** | **640.1** |
| Less: Actual Central Expenditure | (176.2) | - | (176.2) |
| Less: Actual ISB deployed to schools | - | (460.3) | (460.3) |
| **Carry forward to 2021/22** | **3.6** | **-** | **3.6** |

The year end net surplus of £3.6m is composed of 4 elements:

- All spending has been impacted by the Covid pandemic and therefore larger underspends have been incurred than in previous years.

- A net deficit of £3.6m on the High Needs Block relating to i) a continued £9m deficit and ii) a £5.4m surplus on the High Needs Block. The deficit was driven by the previous year's demographic impact of increased numbers of placements with Special Educational Needs and Disabilities requiring high cost provision (compounded by increases in the costs of provision particularly where the placements are in the independent sector). The service has obtained Schools Forum agreement to repay the deficit back at £5m a year, in 2020-21 £5m was paid back with the remainder being repaid in 2022-23.

- A surplus of £5.5m on the Schools Block funding is primarily composed of lower than anticipated commitments against prescribed centrally managed DSG budgets, specifically the pupil growth fund and falling pupils fund.

- A surplus of £0.7m on the Central Schools Services Block funding is primarily composed of lower than anticipated commitments against prescribed centrally managed DSG budgets.

- A surplus of £1.0m on the Early Years block is primarily due to lower take up of places, including additional funding for working parents.

**Note 16**
**Adjustments Between Accounting Basis and Funding Basis Under Regulations**

This note 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.

The following sets out a description of the reserves that the adjustments are made against.

<u>General Fund Balance</u>
The General Fund is the statutory fund into which all the receipts of the Council are required to be paid and out of which all liabilities of the Council are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund Balance, which is not necessarily in accordance with proper accounting practice. The General Fund Balance therefore summarises the resources that the Council is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the Council is required to recover) at the end of the financial year. However, the balance is not available to be applied to fund Housing Revenue Account (HRA) services.

<u>Housing Revenue Account Balance</u>
The HRA Balance reflects the statutory obligation to maintain a revenue account for local authority Council housing provision in accordance with Part VI of the Local Government and Housing Act 1989. It contains the balance of income and expenditure as defined by the 1989 Act that is available to fund future expenditure in connection with the Council's landlord function or, where in deficit, that is required to be recovered from tenants in future years.

<u>Major Repairs Reserve</u>
The Council is required to maintain the Major Repairs Reserve (MRR), which controls an element of the capital resources limited to being used on capital expenditure on HRA assets or the financing of historical capital expenditure by the HRA. The balance on the reserve shows the resources that have yet to be applied at the year-end.

<u>Capital Receipts Reserve</u>
The Capital Receipts Reserve holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year-end.

## Capital Grants Unapplied

The Capital Grants Unapplied Account (Reserve) holds the grants and contributions received towards capital projects for which the Council has met or is expected to meet the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and/or the financial year in which this can take place.

| 2020/21 | General Fund Balance | Housing Revenue Account | Capital Receipts Reserve | Major Repairs Reserve | Capital Grants Unapplied |
|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m |
| **Adjustments to Revenue Resources** | | | | | |
| Adjustments by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements: | | | | | |
| Pension costs (transferred to/from the Pensions Reserve) | 100.1 | (1.4) | - | - | - |
| Financial Instruments (transferred to/from the Financial Instrument Adjustments Account) | (0.1) | - | - | - | - |
| Council Tax and Business Rates (adjustment to the Collection Fund adjustment account) | 247.4 | - | - | - | - |
| Holiday Pay (transferred to/from the Accumulated Absences Reserve) | 2.8 | - | - | - | - |
| Equal Pay settlements (transferred to/from the Unequal Pay Backpay Account) | (2.7) | (0.0) | - | - | - |
| Reversal of entries included in the Surplus/Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account) | 139.8 | 75.3 | - | - | 42.6 |
| **Total Adjustments to Revenue Resources** | **487.2** | **73.9** | **-** | **-** | **42.6** |
| **Adjustments between Revenue and Capital Resources** | | | | | |
| Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve | (33.1) | (31.7) | 64.8 | - | - |
| Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve) | 1.5 | - | (1.5) | - | - |
| Contribution to the costs of Equal Pay (funded by the Capital Receipts Reserve) | 0.8 | - | (0.8) | - | - |
| Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve) | 6.4 | - | (6.4) | - | - |
| Posting of HRA resources from revenue to the Major Repairs Reserve | - | (53.3) | - | 53.3 | - |
| Provision for the repayment of debt (transfer to the Capital Adjustment Account) | (137.7) | (10.7) | - | - | - |
| Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account) | (1.1) | (22.6) | - | - | - |
| **Total Adjustments between Revenue and Capital Resources** | **(163.2)** | **(118.3)** | **56.1** | **53.3** | **-** |
| **Adjustments to Capital Resources** | | | | | |
| Use of the Capital Receipts Reserve to finance capital expenditure | - | - | (42.0) | - | - |
| Use of the Capital Receipts Reserve to repay debt | - | - | (13.8) | - | - |
| Use of the Major Repairs Reserve to finance capital expenditure | - | - | - | (53.3) | - |
| Application of capital grants to finance capital expenditure | - | - | - | - | (92.7) |
| Cash payments in relation to deferred capital receipts | - | - | 17.4 | - | - |
| Other | - | - | 12.4 | - | - |
| **Total Adjustments to Capital Resources** | **-** | **-** | **(26.0)** | **(53.3)** | **(92.7)** |
| **Total Adjustments** | **324.0** | **(44.4)** | **30.1** | **-** | **(50.1)** |

| 2019/20 | General Fund Balance | Housing Revenue Account | Capital Receipts Reserve | Major Repairs Reserve | Capital Grants Unapplied |
|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m |
| **Adjustments to Revenue Resources** | | | | | |
| Adjustments by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements: | | | | | |
| Pension costs (transferred to/from the Pensions Reserve) | 50.1 | 2.7 | - | - | - |
| Financial Instruments (transferred to/from the Financial Instrument Adjustments Account) | 18.7 | - | - | - | - |
| Council Tax and Business Rates (adjustment to the Collection Fund adjustment account) | 24.6 | - | - | - | - |
| Holiday Pay (transferred to/from the Accumulated Absences Reserve) | 2.8 | - | - | - | - |
| Equal pay settlements (transferred to/from the Unequal Pay Backpay Account) | (20.0) | (1.3) | - | - | - |
| Reversal of entries included in the Surplus/Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account) | 126.3 | 91.1 | - | - | 111.0 |
| **Total Adjustments to Revenue Resources** | **202.5** | **92.5** | **-** | **-** | **111.0** |
| **Adjustments between Revenue and Capital Resources** | | | | | |
| Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve | (27.2) | (49.9) | 64.6 | - | - |
| Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve) | 1.0 | - | (1.0) | - | - |
| Contribution to the costs of Equal Pay (funded by the Capital Receipts Reserve) | 18.3 | - | (18.3) | - | - |
| Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve) | 6.2 | - | (6.2) | - | - |
| Posting of HRA resources from revenue to the Major Repairs Reserve | - | (53.8) | - | 53.8 | - |
| Provision for the repayment of debt (transfer to the Capital Adjustment Account) | (145.2) | (18.2) | - | - | - |
| Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account) | - | (8.3) | - | - | - |
| **Total Adjustments between Revenue and Capital Resources** | **(146.9)** | **(130.2)** | **39.1** | **53.8** | **-** |
| **Adjustments to Capital Resources** | | | | | |
| Use of the Capital Receipts Reserve to finance capital expenditure | - | - | (61.5) | - | - |
| Use of the Capital Receipts Reserve to repay debt | - | - | (1.9) | - | - |
| Use of the Major Repairs Reserve to finance capital expenditure | - | - | - | (54.2) | - |
| Application of capital grants to finance capital expenditure | - | - | - | - | (75.1) |
| Cash payments in relation to deferred capital receipts | - | - | 7.2 | - | - |
| Other | - | - | 0.1 | - | - |
| **Total Adjustments to Capital Resources** | **-** | **-** | **(56.1)** | **(54.2)** | **(75.1)** |
| **Total Adjustments** | **55.6** | **(37.7)** | **(17.0)** | **(0.5)** | **35.9** |

**Note 17**
**Usable Reserves**

Details of the major reserves held by the Council are set out below. Further information on the movements in reserves is shown in the Movement in Reserves Statement and Note 16.

The Reserves have been split into the following major categories:

- Unearmarked Reserves – Reserves that the Council can use for any purpose within the General Fund

- Earmarked Reserves – Reserves that the Council has set aside to meet specific future liabilities

- Grant Reserves – Reserves arising as a result of revenue grants received by the Council for specific projects that haven't been fully utilised by 31 March 2021 but will be used to offset expenditure incurred in subsequent years

- Ringfenced Reserves – Reserves that are required to be used for specific activities undertaken by the Council. These are mainly for schools or for the Housing Revenue Account and cannot be used to support general Council activity

- Unearmarked Non-Schools DSG – See Note 15

- Capital Reserves – Reserves that have been set aside to finance capital schemes. These reserves cannot be used to support revenue expenditure without the consent of the Secretary of State.

| **Usable Reserves** | Balance at 31 March 2020 | Transfers out 2020/21 | Transfers In 2020/21 | Balance at 31 March 2021 |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| **Unearmarked Reserves** | | | | |
| General Fund Balances | 32.3 | 0 | 6.0 | 38.3 |
| Organisation Transition Reserve | 24.5 | (13.9) | 59.5 | 70.1 |
| Financial Resilience Reserve | 84.9 | (15.7) | 20.1 | 89.3 |
| **Total Unearmarked Reserves** | **141.7** | **(29.6)** | **85.6** | **197.7** |
| **Earmarked Reserves** | | | | |
| Insurance Fund | 9.4 | (0.2) | 1.1 | 10.3 |
| Sums set aside to finance Capital Expenditure | 49.6 | (59.9) | 15.0 | 4.7 |
| Housing Benefit Subsidy Reserve | 4.2 | - | 5.9 | 10.1 |
| Cyclical Maintenance Reserve | 13.8 | (1.1) | 4.1 | 16.8 |
| Equipment Renewal Reserve | 6.1 | (3.2) | 1.2 | 4.1 |
| Management Capacity for Change | 3.5 | (1.6) | 16.1 | 18.0 |
| Business Rates | 21.3 | (2.8) | 1.8 | 20.3 |
| Covid Support | 38.7 | (38.7) | 17.5 | 17.5 |
| Education PFI | 3.4 | - | 0.4 | 3.8 |
| City Clean Up Reserve | - | - | 12.1 | 12.1 |
| Budget Smoothing Reserve | - | - | 34.7 | 34.7 |
| Community Recovery Plan Reserve | - | - | 10.0 | 10.0 |
| Funding Council Tax Hardship Payments | - | - | 7.2 | 7.2 |
| General Policy Contingency Reserve | - | - | 5.5 | 5.5 |
| Income Compensation re Collection Fund | - | - | 23.5 | 23.5 |
| Capital Receipts Flexibility Reserve | - | - | 11.9 | 11.9 |
| Support to the Business Plan | - | - | 178.7 | 178.7 |
| Commonwealth Games Reserve | 11.3 | - | - | 11.3 |
| Policy Contingency Enhanced Operations Commonwealth Games | 9.1 | - | - | 9.1 |
| Other Earmarked Reserves | 22.7 | (7.5) | 25.3 | 40.5 |
| **Total Reserves Earmarked by the Council** | **193.1** | **(115.0)** | **372.0** | **450.1** |

| | | | | |
|---|---|---|---|---|
| **Revenue Grant Reserves** | | | | |
| Section 256 Grant from the NHS | 1.1 | - | - | 1.1 |
| Public Health | 5.1 | - | 9.3 | 14.4 |
| Better Care Fund | 5.9 | (5.9) | 15.5 | 15.5 |
| Highways PFI Grant | 194.4 | (27.0) | 29.0 | 196.4 |
| Section 106 Grants - General Fund | 27.7 | (3.2) | 1.6 | 26.1 |
| Section 106 Grants - Housing Revenue Account | 1.5 | | 1.6 | 3.1 |
| Community Infrastructure Levy | 13.8 | (0.3) | 1.3 | 14.8 |
| National Business Rate Levy | 0.8 | (0.5) | - | 0.3 |
| Self Isolation Payments Grant | - | - | 2.7 | 2.7 |
| Additional Restrictions Support Grant Reserve | - | - | 9.0 | 9.0 |
| Public Health Test and Trace | - | - | 15.7 | 15.7 |
| Clean Air Zone Grant Reserve | 9.7 | (1.2) | - | 8.5 |
| Other Grant Reserves | 17.3 | (7.5) | 18.0 | 27.8 |
| **Total Revenue Grant Reserves** | **277.3** | **(45.6)** | **103.7** | **335.4** |
| | | | | |
| **Unearmarked Non-Schools DSG** | | | | |
| Unearmarked Non-Schools DSG | (8.5) | - | 12.1 | 3.6 |
| **Total Unearmarked Non-Schools DSG** | **(8.5)** | **-** | **12.1** | **3.6** |
| | | | | |
| **Ringfenced Reserves** | | | | |
| Schools' Balances | 54.6 | - | 23.9 | 78.5 |
| Housing Revenue Account | 8.5 | - | 2.7 | 11.2 |
| HRA Major Repairs Reserve | 24.4 | (53.3) | 53.3 | 24.4 |
| **Total Ringfenced Reserves** | **87.5** | **(53.3)** | **79.9** | **114.1** |
| | | | | |
| **Capital Reserves** | | | | |
| Capital Receipts Reserve | 223.4 | (64.5) | 94.6 | 253.5 |
| Capital Grants Unapplied | 142.6 | (92.7) | 42.6 | 92.5 |
| **Total Capital Reserves** | **366.0** | **(157.2)** | **137.2** | **346.0** |
| | | | | |
| **Total Usable Reserves** | **1,057.1** | **(400.7)** | **790.5** | **1,446.9** |

Details of the major usable reserves as at 31 March 2021 are set out below.

Unearmarked Reserves comprising:

General Fund Balances - reflects the accumulated surpluses of income over expenditure from previous years and any resources set aside as general contingency against adverse future events.

Invest to Save Reserve - the reserve incorporates the Organisation Transition Reserve and is used to make funding available to assist in making changes to the way services are provided and ultimately reduce costs in the long term. Usage of this fund will require repayment in the future through a planned repayment profile linked to specific savings proposals.

Financial Resilience Reserve (FRR) – created in 2017/18 to provide contingency funding in case the Council faces financial difficulties in the future.

Earmarked Reserves comprising:

Insurance Fund – the Council is sufficiently large to be able to self-insure against all bar the most catastrophic business risks. A budget is held to cover insurance losses in-year and the Insurance Fund exists to act as a buffer should losses exceed budgeted expectations in any given financial year. The fund increases in those years where losses incurred do not exceed the budget and decreases where losses incurred exceed the budget.

Sums set aside to finance Capital Expenditure – has arisen from revenue contributions set aside to fund budgeted capital expenditure, Equal Pay settlements and associated costs in line with the Council's Capital Financing and Equal Pay funding plans.

Housing Benefit Subsidy – has been earmarked as a contingency reserve should there be any adjustments to funding arising from the audit of grant claims.

Cyclical Maintenance – has been earmarked to fund major maintenance work on the Council's assets including the Library of Birmingham.

Equipment Renewal – has been earmarked to fund equipment renewal for bus lane enforcement.

Management Capacity for Change – the net underspend identified on central accounts has been set aside for future year contingencies.

Business Rates – An overall reserve for Business Rates related activities, including:

- A contingency in case there is a requirement to make a payment under the Council's "no detriment" agreement with the other West Midlands Business Rates Retention Pilot authorities.

- To address the timing difference between grant received and when the Council has assumed it will be required.

Covid Support – reflects the remaining balance of Government funding received in the 2020/21 financial year to offset the additional costs incurred by the Council as a result of the Covid pandemic.

Education PFI – reflects the sum set aside to meet the profiled schedule of future years payments.

City Clean Up Reserve – funding to provide resources for activity to help clean up the city.

Budget Smoothing Reserve – earmarked resources to provide flexibility in addressing the structural budget gap over the medium term.

Community Recovery Plan Reserve – resources earmarked to help communities recover from the effects of Covid.

Funding Council Tax Hardship Payments – earmarked resources from Government to be utilised to fund shortfalls in the Collection Fund relating to hardship fund reductions in Council Tax payments.

General Policy Contingency Reserve – earmarked funding to top up the contingency budget in 2021/22.

Income Compensation re Collection Fund - funding from Government to compensate for exceptional Collection Fund losses due to Covid.

Capital Receipts Flexibility Reserve – resource from the use of capital receipts flexibility to support the budget in future years.

Support to the Business Plan – earmarked funding to compensate for Business Rates refunds announced by the Government

Commonwealth Games Reserve – earmarked to deliver a successful Commonwealth Games

Policy Contingency Enhanced Operations Commonwealth Games - earmarked to deliver a successful Commonwealth Games

Other Earmarked Reserves – there are a large number of small value reserves which cover a wide range of services that have been set aside to support future years' service delivery. The reserves cover a wide range of areas and include, for example, resources earmarked for special educational needs reform, a local innovations fund, highways initiatives, subvention for major events including the Commonwealth Games, replacement IT systems and repairs and maintenance for specific service chargeable buildings in support of the Financial Plan.

Revenue Grant reserves comprising:

Grant Reserves – relate to the unused element of grant support for which the conditions of the grant are expected to be met or for which there are no conditions of grant. The reserves will be used to meet future years' expenditure for the service for which the grant was awarded.

In addition to the resources set aside in the Council's budget to meet the costs of the Highways PFI scheme, grant support is also received on an equal annual basis over the life of the contract. There was expected to be a budget surplus in the early years of the contract as the unitary charge payable to the contractor would increase during the initial core investment period until all milestones had been completed. The excess of available resources together with any deductions from unitary charge payments as a result of poor performance against the contract have been set aside in the Highways PFI reserve and will be used in the later period of the contract where the unitary charge payable is expected to exceed the budgeted resources and grant support. The reserve is expected to be fully utilised by the end of the contract.

Ringfenced reserves comprising:

Schools' Balances - are the net cumulative balances held by the local authority maintained schools which, under national school funding regulations, the schools are entitled to retain for unexpected commitments and/or for planned school curriculum/infrastructure improvements and investment. Within the total Schools' Balances there are 28 (2019/20: 40) local authority maintained schools with deficit balances totalling £6.3m (2019/20: £9.2m) and a deficit balance on the Non-Schools Dedicated Schools Grant of £9.1m (2019/20: £14.1m). The deficit balance of £9.1m is a reduction of £5.0m from 2019/20 due to a deficit recovery plan repayment agreed by Schools Forum to clear the deficit over a period of three years.

Housing Revenue Account (HRA) – the HRA is a statutory account, ringfenced from the rest of Council funds, so that rents charged to tenants in respect of dwellings cannot be subsidised from Council Tax. Similarly, rents collected from HRA tenants cannot be used to subsidise the General Fund. The balances on the HRA reflect the accumulated surpluses of income over expenditure.

HRA Major Repairs Reserve – the Council is required by The Accounts and Audit Regulations 2015 maintain the Major Repairs Reserve. The reserve controls an element of the capital resources required to be used on HRA assets or for capital financing purposes.

Capital reserves comprising:

Capital Receipts Reserve – reflects the income received from the disposal of capital assets prior to being used to fund future capital expenditure or for the redemption of debt. Capital receipts cannot be used to fund revenue expenditure except where allowed by statue, for example to meet costs of Equal Pay.

Capital Grants Unapplied – reflect the unused element of capital grants or capital contributions awarded to the Council, for which the conditions of the grant support are expected to be met or for which there are no conditions. The reserve will be used to meet future years' capital expenditure.

## Note 18
## Unusable Reserves

The following table shows the value of reserve balances that have come about as a result of accounting adjustments and are not therefore available to spend.

| 31 March 2020 £m | | 31 March 2021 £m |
|---|---|---|
| 1,955.6 | Revaluation Reserve | 2,117.2 |
| (223.1) | Capital Adjustment Account | (57.4) |
| (67.0) | Financial Instruments Adjustment Account | (66.9) |
| (2,591.3) | Pensions Reserve | (3,430.2) |
| 42.4 | Deferred Capital Receipts Reserve | 25.0 |
| (14.6) | Collection Fund Adjustment Account | (262.1) |
| (153.2) | Equal Pay Back Pay Account | (150.4) |
| (16.7) | Accumulated Absences Account | (19.6) |
| **(1,067.9)** | **Total Unusable Reserves** | **(1,844.4)** |

Revaluation Reserve

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

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

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.

| 2019/20 £m | 2019/20 £m | | 2020/21 £m | 2020/21 £m |
|---|---|---|---|---|
| | **1,996.9** | **Balance at 1 April** | | **1,955.6** |
| 359.7 | | Upward revaluation of assets | 423.8 | |
| (321.0) | | Downward revaluation of assets and impairment losses not charged to the Surplus/(Deficit) on the Provision of Services | (200.5) | |
| | 38.7 | Surplus/(Deficit) on revaluation of non-current assets not posted to the Surplus/(Deficit) on the Provision of Services | | 223.4 |
| (36.4) | | Difference between fair value depreciation and historical cost depreciation | (32.4) | |
| (43.6) | | Accumulated gains on assets sold or scrapped | (29.4) | |
| | (80.0) | Amount written off to the Capital Adjustment Account | | (61.8) |
| | **1,955.6** | **Balance at 31 March** | | **2,117.2** |

## 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 when 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 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.

Note 16 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

| 2019/20 | | | 2020/21 | |
|---|---|---|---|---|
| £m | £m | | £m | £m |
| | **(339.7)** | **Balance at 1 April** | | **(223.1)** |
| | | Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement (CIES): | | |
| (127.5) | | Charges for depreciation and impairment of non current assets | (120.2) | |
| (63.6) | | Revaluation losses on Property, Plant and Equipment | (35.7) | |
| (3.2) | | Amortisation and impairment of intangible assets | (2.9) | |
| 0.5 | | Changes in the Fair Value of Investment Properties | (8.0) | |
| (4.1) | | Changes in the Fair Value of Financial Instruments | (1.0) | |
| 0.2 | | Impairment of Capital Debtors/Grants | (0.1) | |
| (96.8) | | Revenue expenditure funded from capital under statute | (106.8) | |
| (161.4) | | Amounts of non current assets written off on disposal or sale as part of the gain/(loss) on disposal to the CIES | (77.7) | |
| | (455.9) | | | (352.2) |
| | 80.0 | Adjusting amounts written out of the Revaluation Reserve | | 61.8 |
| | (375.9) | Net written out amount of the cost of non-current assets consumed in the year | | (290.4) |
| | | Capital financing applied in the year: | | |
| 61.5 | | Use of the Capital Receipts Reserve to finance new capital expenditure | 42.0 | |
| 54.2 | | Use of the Major Repairs Reserve to finance new capital expenditure | 53.3 | |
| 128.2 | | Capital grants and contributions credited to the CIES that have been applied to capital financing | 94.7 | |
| 75.1 | | Application of grants to capital financing from the Capital Grants Unapplied Account | 92.7 | |
| 1.9 | | Application of capital receipts to repay debt | 13.8 | |
| 163.4 | | Provision for the financing of capital investment charged against the General Fund and HRA balances | 148.4 | |
| 8.3 | | Capital expenditure charged against the General Fund and HRA balances | 23.7 | |
| | 492.6 | | | 468.6 |
| | (0.1) | Repayment of long term debtors | | (12.3) |
| | **(223.1)** | **Balance at 31 March** | | **(57.4)** |

## Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains in accordance with statutory provisions. The Council uses this account to manage premia paid and discounts received on the early redemption of loans and the recognised losses on loans advanced at less than a commercial interest rate. These values are debited or credited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, these values are posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on Council Tax. For premia and discounts, this period is the unexpired term that was outstanding on the loans when they were redeemed.

In the 2020/21 financial year, the Council have not agreed early repayment of long term loans with the lenders (2019/20 the Council agreed early repayment of three long term loans with the lenders, at a total premium of £18.0m).

| 2019/20 | | | 2020/21 | |
|---|---|---|---|---|
| £m | £m | | £m | £m |
| | **(48.1)** | **Balance at 1 April** | | **(67.0)** |
| (18.0) | | Premia incurred in the year and charged to the Comprehensive Income and Expenditure Statement | - | |
| (0.9) | | Proportion of premia incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements | 0.1 | |
| | (18.9) | Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements | | 0.1 |
| | **(67.0)** | **Balance at 31 March** | | **(66.9)** |

## Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post-employment benefits in the Comprehensive Income 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 pension funds 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 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.

Generally, the Pensions Reserve will match exactly the Pension Liabilities recorded on the Balance Sheet at the end of each year. However, the Council made an advance payment of £369.2m in April 2020 to cover its estimated contributions for the three-year period to 31 March 2023. However, as indicated above, the Council is only required to account for the amount payable in year. The difference of £245.0m at 31 March 2021 between the Pensions Reserve and the Pension Liabilities reflects the anticipated contributions in 2021/22 and 2022/23.

| 2019/20 £m | | 2020/21 £m |
|---|---|---|
| **(2,676.2)** | **Balance at 1 April** | **(2,591.3)** |
| 137.6 | Remeasurement of the net defined benefit liability | (740.2) |
| (206.6) | Reversal of items relating to retirement benefits debited or credited to the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement | (246.0) |
| 153.9 | Employer's pensions contributions and direct payments to retirees payable in the year | 147.3 |
| **(2,591.3)** | **Balance at 31 March** | **(3,430.2)** |

Deferred Capital Receipts Reserve

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the Council does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

| 2019/20 £m | | 2020/21 £m |
|---|---|---|
| **37.7** | **Balance at 1 April** | **42.4** |
| (0.5) | Transfer of deferred sale proceeds credited to the General Fund under capital finance regulations | - |
| 12.5 | Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | - |
| (7.3) | Transfer to the Capital Receipts Reserve upon receipt of cash | (17.4) |
| **42.4** | **Balance at 31 March** | **25.0** |

## Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of Council Tax and Business Rates income in the Comprehensive Income and Expenditure Statement as it falls due from Council Tax and Business Rates payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

| 2019/20 £m | | 2020/21 £m |
|---|---|---|
| **10.0** | **Balance at 1 April** | **(14.6)** |
| (24.6) | Amount by which Council Tax/Business Rates income credited to the Comprehensive Income and Expenditure Statement is different from Council Tax/Business Rates income calculated for the year in accordance with statutory requirements | (247.5) |
| **(14.6)** | **Balance at 31 March** | **(262.1)** |

## Equal Pay Back Pay Account

The Equal Pay Back Pay Account compensates for the differences between the rate at which the Council provides for the potential costs of back pay settlements in relation to Equal Pay cases and the ability under statutory provisions to defer the impact on the General Fund Balance until such time as cash might be paid out to claimants.

| 2019/20 £m | | 2020/21 £m |
|---|---|---|
| **(174.5)** | **Balance at 1 April** | **(153.2)** |
| 2.0 | (Increase)/reduction in provision for back pay in relation to Equal Pay cases | 1.9 |
| 19.3 | Cash settlements paid in the year | 0.9 |
| 21.3 | Amount by which amounts charged for Equal Pay claims to the Comprehensive Income and Expenditure Statement are different from the cost of settlements chargeable in the year in accordance with statutory requirements | 2.8 |
| **(153.2)** | **Balance at 31 March** | **(150.4)** |

Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

| 2019/20 £m | | 2020/21 £m |
|---|---|---|
| **(14.0)** | **Balance at 1 April** | **(16.7)** |
| - | Settlement or cancellation of accrual made at the end of the preceding year | - |
| (2.7) | Amounts accrued at the end of the current year | (2.8) |
| (2.7) | 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 | (2.8) |
| **(16.7)** | **Balance at 31 March** | **(19.5)** |

**Note 19**
**Pension Schemes Accounted for as Defined Contribution Schemes**

Teachers' Pension Scheme

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education. The scheme provides teachers with specified benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The scheme is a multi-employer defined benefit scheme. The scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. Valuations of the notional fund are undertaken every four years.

The scheme has in excess of 3,782 participating employers and consequently the Council is not able to identify its share of the underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2020/21, the Council paid £46.7m (2019/20: £41.3m) to the Teachers' Pensions Scheme in respect of teachers' retirement benefits, representing 23.68% (16.48% from 1 April 2019 and 23.68% from 1 September 2019) of pensionable pay. The contributions due to be paid in the 2021/22 financial year are estimated to be £46.7m on the basis of employer contributions of 23.68%.

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and detailed in Note 20.

The Council is not liable to the scheme for any other entities' obligations under the plan.

<u>NHS Pension Scheme</u>

Staff who joined the Council on 1 April 2014 upon the transfer of Public Health responsibilities from the National Health Service were members of the NHS Pension Scheme. The scheme provides its members with specified benefits upon their retirement and the Council has taken responsibility for making contributions based on a percentage of members' pensionable salaries.

The scheme is a multi-employer defined benefit scheme covering NHS employers, GP practices and other bodies allowed under the direction of the Secretary of State in England and Wales. The scheme is unfunded and is not designed to be run in a way that would enable member organisations to identify their share of the underlying assets and liabilities. Actuarial valuations of the scheme are undertaken every four years with a valuation of the scheme liability carried out on an annual basis by the scheme actuary through an update of the result of the full actuarial valuation. For the purposes of this Statement of Accounts, the scheme is accounted for on the same basis as a defined contribution scheme.

In 2020/21, the Council paid £0.69m (2019/20: £0.84m) to the NHS Pension Scheme in respect of employees' retirement benefits, representing 14.38% (2019/20: 14.38%) of pensionable pay. There were no contributions remaining payable at the year end. The contributions due to be paid in the 2021/22 financial year are estimated to be £0.69m on the basis of an employer contribution rate of 14.68%.

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the NHS Pension Scheme. These costs are accounted for on a defined benefit basis and detailed in Note 20.

The Council is not liable to the scheme for any other entities' obligations under the plan.

**Note 20**
**Defined Benefit Pension Schemes**

<u>Participation in Pension Schemes</u>

As part of the terms and conditions of employment of its officers, the Council makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments, which needs to be disclosed at the time that employees earn their future entitlement.

The Council participates in two post-employment schemes accounted for as defined benefit schemes:

- The Local Government Pension Scheme, administered locally by the West Midlands Pension Fund offices at Wolverhampton City Council – this is a funded defined benefit career average salary scheme for benefits accrued since 1 April 2014, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets. Benefits accrued to 31 March 2014 are based on final salary. An employer's future service contribution rate of 21.3% was set for the Council for 2020/21 (2019/20: 18.3%).

- Arrangements for the award of discretionary post-retirement benefits upon early retirement – this is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pensions liabilities, and cash has to be generated to meet actual pension payments as they eventually fall due.

The pension scheme is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the scheme is the responsibility of the pensions committee of Wolverhampton City Council. Policy is determined in accordance with the Pensions Fund Regulations.

The principal risks to the Council of the scheme are:

- the longevity assumptions
- statutory changes to the scheme
- structural changes to the scheme (for example, large-scale withdrawals)
- changes to inflation
- bond yields, and
- the performance of the equity investments held by the scheme.

These risks are mitigated, to a certain extent, by the statutory requirements to charge to the General Fund and the Housing Revenue Account the amounts required by statute as described in the accounting policies note.

Transactions relating to Post-employment benefits

The Council recognises the cost of retirement benefits in the reported Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge the Council is required to make 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 and Housing Revenue Account via the Movement in Reserves Statement.

The table below shows the transactions that have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year. The major change from 2019/20 to 2020/21 in the table relate to a £614.8m movement in the net liabilities, driven by -

- £1.7bn increase in obligations as a result of lower discount rates, and
- £1.0bn increase in asset returns, largely as a result of improved returns on equity

| | Local Government Pension Scheme | | Discretionary Benefits Arrangements | |
|---|---|---|---|---|
| | 2019/20 | 2020/21 | 2019/20 | 2020/21 |
| | £m | £m | £m | £m |
| Comprehensive Income and Expenditure Statement | | | | |
| Cost of Services: | | | | |
| current service cost | 131.3 | 159.9 | | |
| past service costs, including curtailments | 19.4 | 13.2 | | |
| effect of settlements | (7.6) | 9.0 | | |
| administration expenses | 2.7 | 2.9 | | |
| Financing and investment income and expenditure: | | | | |
| Net interest expense | 59.5 | 59.7 | 1.3 | 1.3 |
| **Total post-employment benefit charged to the (Surplus)/Deficit on the provision of services** | **205.3** | **244.7** | **1.3** | **1.3** |
| **Movement in Reserves Statement** | | | | |
| Reversal of net charges made to the Surplus/Deficit on the provision of services for post-employment benefits in accordance with the Code | (180.4) | (101.9) | 3.5 | 3.2 |
| Release from pension reserve re prepayment | 124.2 | - | | |
| **Net charge against the General Fund Balance for pensions in the year comprising:** | | | | |
| **employer's contributions payable to scheme** | **149.1** | **142.8** | | |
| **retirement benefits payable to retirees** | | | **4.8** | **4.5** |

| | £m | £m | £m | £m |
|---|---|---|---|---|
| Comprehensive Income and Expenditure Statement | | | | |
| Total post-employment benefit charged to the (Surplus)/Deficit on the provision of services | 205.3 | 244.7 | 1.3 | 1.3 |
| Other post-employment benefit charged to the Comprehensive Income and Expenditure Statement | | | | |
| remeasurements (liabilities and assets) | (139.2) | 742.6 | 1.6 | (2.4) |
| **Total Post-Employment Benefits charged to the Comprehensive Income and Expenditure Statement** | 66.1 | 987.3 | 2.9 | (1.1) |

| | 2016/17 £m | 2017/18 £m | 2018/19 £m | 2019/20 £m | 2020/21 £m |
|---|---|---|---|---|---|
| **Present Value of Liabilities** | | | | | |
| - Local Government Pension Scheme | (6,863.0) | (6,919.7) | (6,706.6) | (6,552.9) | (8,247.1) |
| - Unfunded Teachers' Scheme | (64.2) | (68.5) | (62.2) | (60.4) | (54.8) |
| **Total Present Value of Liabilities** | **(6,927.2)** | **(6,988.2)** | **(6,768.8)** | **(6,613.3)** | **(8,301.9)** |
| Fair Value of Assets in the Local Government Pension Scheme | 4,056.6 | 4,400.3 | 4,216.8 | 4,022.0 | 5,116.7 |
| **Surplus/(Deficit) in the scheme** | | | | | |
| - Local Government Pension Scheme | (2,806.4) | (2,519.4) | (2,489.7) | (2,530.9) | (3,130.4) |
| - Unfunded Teachers' Scheme | (64.2) | (68.5) | (62.2) | (60.4) | (54.8) |
| **Net Liability arising from defined benefit obligation** | **(2,870.6)** | **(2,587.9)** | **(2,552.0)** | **(2,591.3)** | **(3,185.2)** |

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 plans is as follows:

| | Local Government Pension Scheme | | | | Unfunded Teachers' Pension Scheme | | **Total** | |
|---|---|---|---|---|---|---|---|---|
| | Funded | | Unfunded | | | | | |
| | 2019/20 £m | 2020/21 £m | 2019/20 £m | 2020/21 £m | 2019/20 £m | 2020/21 £m | **2019/20 £m** | **2020/21 £m** |
| Benefit Obligation at 1 April | 6,647.4 | 6,485.9 | 59.2 | 67.0 | 62.2 | 60.4 | **6,768.8** | **6,613.3** |
| Current Service Cost | 131.3 | 159.9 | | | | | **131.3** | **159.9** |
| Interest on Pension Liabilities | 157.4 | 136.8 | 1.4 | 1.2 | 1.3 | 1.3 | **160.1** | **139.3** |
| Member Contributions | 22.3 | 22.0 | | | | | **22.3** | **22.0** |
| Actuarial (gains)/losses arising from changes in financial assumptions | (641.8) | (87.8) | (2.8) | (1.0) | (3.5) | (0.8) | **(648.0)** | **(89.6)** |
| Actuarial (gains)/losses arising from changes in demographic assumptions | 195.9 | 1,659.1 | 2.9 | 7.0 | 5.0 | 5.4 | **203.8** | **1,671.5** |
| Experience (gains)/losses on liabilities | 166.6 | (86.0) | 11.9 | (0.9) | | (7.0) | **178.5** | **(93.9)** |
| Past Service Cost/ Curtailments | 19.4 | 13.2 | | | | | **19.4** | **13.2** |
| Settlements | (12.0) | 76.3 | | | | | **(12.0)** | **76.3** |
| Unfunded Pension Payments | | | (5.5) | (5.3) | | (4.5) | **(5.5)** | **(9.8)** |
| Benefits/Transfers paid | (200.5) | (200.3) | | | (4.6) | | **(205.1)** | **(200.3)** |
| **Benefit Obligation at 31 March** | **6,485.9** | **8,179.1** | **67.0** | **68.0** | **60.4** | **54.8** | **6,613.3** | **8,301.9** |

## Reconciliation of the Movements in the Fair Value of Scheme Assets

| | Local Government Pension Scheme | | | | Unfunded Teachers' Pension Scheme | | **Total** | |
|---|---|---|---|---|---|---|---|---|
| | Funded | | Unfunded | | | | | |
| | 2019/20 £m | 2020/21 £m | 2019/20 £m | 2020/21 £m | 2019/20 £m | 2020/21 £m | **2019/20 £m** | **2020/21 £m** |
| Fair Value of Assets at 1 April | 4,216.8 | 4,022.0 | - | - | | | **4,216.8** | **4,022.0** |
| Interest on Plan Assets | 99.3 | 78.3 | - | - | | | **99.3** | **78.3** |
| Remeasurements (assets) | (269.5) | 747.9 | - | - | | | **(269.5)** | **747.9** |
| Other actuarial gains/losses | 141.4 | - | - | - | | | **141.4** | **-** |
| Administration expenses | (2.7) | (2.9) | - | - | | | **(2.7)** | **(2.9)** |
| Settlements | (4.5) | 67.3 | - | - | | | **(4.5)** | **67.3** |
| Employer contributions | 19.4 | 382.3 | 5.5 | 5.4 | 4.8 | 4.5 | **29.7** | **392.2** |
| Member contributions | 22.3 | 22.0 | | - | | | **22.3** | **22.0** |
| Benefits/transfers paid | (200.5) | (200.3) | (5.5) | (5.4) | (4.8) | (4.5) | **(210.8)** | **(210.2)** |
| **Fair Value of Assets at 31 March** | **4,022.0** | **5116.6** | **-** | **-** | **-** | **-** | **4,022.0** | **5,116.6** |

## Local Government Pension Scheme assets

An analysis of the Local Government Pension Scheme assets is set out below.

| | 2019/20 | | 2020/21 | |
|---|---|---|---|---|
| | Total | Percentage of Total | Total | Percentage of Total |
| | £m | % | £m | % |
| **Equity** | 1,958.3 | 49% | 3090.1 | 60% |
| **Gilts** | - | - | 424.1 | 8% |
| **Bonds** | 893.1 | 22% | 323.2 | 6% |
| **Property** | 358.2 | 9% | 382.4 | 8% |
| **Other** | 701.0 | 17% | 647.7 | 13% |
| **Cash** | 132.4 | 3% | 249.1 | 5% |
| **Forward Currency Contract** | (21.0) | - | **-** | **-** |
| **Total Assets** | **4,022.0** | **100.0%** | **5,116.6** | **100%** |

Basis for estimating assets and liabilities

Liabilities for both the Local Government Pension Scheme and the unfunded Teachers' Pension Scheme have been assessed by Barnett Waddingham Limited, an independent firm of actuaries. The assessment has been on an actuarial basis using the projected unit credit method, an estimate of the pensions that will have to be paid in future years dependent on assumptions about mortality rates, salary levels etc. The estimates for the Local Government Pension Scheme have been based on the latest full valuation of the scheme as at 31 March 2019. The principal assumptions used by the actuary have been:

| Assumptions | Local Government Pension Scheme | | Discretionary Benefits | |
|---|---|---|---|---|
| | 2019/20 | 2020/21 | 2019/20 | 2020/21 |
| Mortality assumptions: | | | | |
| Longevity at 65 for current pensioners: | | | | |
| Men (years) | 21.9 | 21.6 | 21.9 | 21.6 |
| Women (years) | 24.1 | 23.9 | 24.1 | 23.9 |
| Longevity at 65 for future pensioners retiring in 20 years: | | | | |
| Men (years) | 23.8 | 23.4 | n/a | n/a |
| Women (years) | 26.0 | 25.8 | n/a | n/a |
| Rate of CPI inflation | 1.9% | 2.8% | 1.95% | 2.8% |
| Rate of increase in salaries | 2.9% | 3.8% | n/a | n/a |
| Rate of increase in pensions | 1.9% | 2.8% | 1.95% | 2.8% |
| Rate for discounting of scheme liabilities | 2.35% | 2.0% | 2.25% | 1.7% |

The duration of the Council's past service liability duration is estimated to be 20 years based on the membership data used for the most recent full valuation undertaken as at 31 March 2019.

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 to 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, it is unlikely that isolated changes 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, that is, on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analyses below did not change from those used in the previous period.

| | Impact on the Defined Benefit Obligation in the Scheme | | |
|---|---|---|---|
| | Change in assumption | Impact on Council Liability | Impact on Council Deficit |
| | £m | % | % |
| Longevity assumptions (increase by 1 year) | 417.6 | 5.0% | 13.0% |
| Pension increase assumptions (increase by 0.1%) | 145.6 | 1.8% | 4.5% |
| Salary increase assumption (increase by 0.1%) | 13.9 | 0.2% | 0.4% |
| Discount scheme liability assumptions (increase by 0.1%) | (158.5) | (1.9%) | (4.9%) |

Impact on the Council's Cash Flows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 16 years. Funding levels are monitored on an annual basis. The next triennial valuation will be carried out as at 31 March 2022 and will set contributions for the period for 1 April 2023 to 31 March 2026.

The Council has made a one-off contribution of £369.2m to the scheme in 2020/21 to cover the anticipated contributions for the three year period from 1 April 2020 to 31 March 2023 on the basis of the equivalent employer's contribution rates plus additional payments to fund the pension deficit in respect of past service costs. Set out below are the contribution rates for the period to 31 March 2023.

| Financial Year | Employer's Future Service Contribution Rate | Past Service Cost Deficit Payment |
|---|---|---|
| | % | £m |
| 2021/22 | 21.3 | 49.9 |
| 2022/23 | 21.3 | 51.8 |

## Note 21
## Property, Plant and Equipment

The following tables analyse movements in the carrying values of non-current assets during the year.

| | Council dwellings | Other land and buildings | Vehicles, plant, furniture & equipment | Infrastructure assets | Community assets | Surplus assets | Assets under construction | Total Property, Plant and Equipment | PFI / Service Concession assets Included in Property, Plant and Equipment |
|---|---|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| **Cost or Valuation** | | | | | | | | | |
| **At 1 April 2020** | **2,458.1** | **2,339.3** | **129.2** | **-** | **79.3** | **170.8** | **258.6** | **6,131.1** | **814.9** |
| Additions | 102.1 | 29.3 | 11.9 | - | 0.8 | 0.2 | 247.2 | **412.6** | 44.2 |
| Assets reclassified between categories | 6.9 | 22.6 | 1.4 | - | 0.7 | - | (53.3) | **-** | |
| Assets reclassified (to)/from Held for Sale | - | (2.7) | - | - | - | (42.8) | - | **(45.5)** | |
| Revaluation increases/ (decreases) recognised in the Revaluation Reserve | 65.6 | 54.7 | - | - | - | 5.2 | - | **125.7** | (2.6) |
| Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services | - | (27.9) | - | - | - | 0.2 | | **(27.7)** | (0.3) |
| Derecognition - Disposals | (22.9) | (39.7) | (16.7) | - | - | (3.4) | - | **(86.1)** | (4.3) |
| Derecognition - other | - | - | - | - | - | - | - | **-** | |
| Other movements in cost or valuation | | 0.7 | | | | (0.7) | | **-** | |
| **At 31 March 2021** | **2,609.8** | **2,376.3** | **125.8** | **-** | **80.8** | **129.5** | **452.5** | **6,510.2** | **851.9** |
| **Accumulated Depreciation and Impairment** | | | | | | | | | |
| **At 1 April 2020** | **-** | **(25.5)** | **(51.2)** | **-** | **-** | **-** | **-** | **(291.4)** | **(215.3)** |
| Depreciation charge | (53.3) | (49.6) | (13.9) | - | - | (0.8) | - | **(143.1)** | (29.7) |
| Depreciation written out to the Revaluation Reserve | 52.9 | 44.5 | - | - | - | 0.3 | - | **97.7** | 3.1 |
| Depreciation written out to the Surplus/Deficit on the Provision of Services | - | 14.8 | - | - | - | - | | **14.8** | 0.2 |
| Derecognition - Disposals | 0.4 | 1.3 | 16.3 | - | - | - | | **21.2** | 3.8 |
| Assets reclassified (to)/from Held for Sale | - | - | - | - | - | 0.3 | - | **0.3** | |
| Other movements in depreciation and impairment | - | (0.2) | | | - | 0.2 | | **-** | |
| **At 31 March 2021** | **-** | **(14.9)** | **(48.8)** | **-** | **-** | **-** | **-** | **(300.6)** | **(237.9)** |
| **Net Book Value** | | | | | | | | | |
| **At 31 March 2021** | **2,609.8** | **2,361.4** | **77.0** | **-** | **80.8** | **129.5** | **452.7** | **6,209.6** | **614.0** |
| **At 31 March 2020** | **2,458.1** | **2,313.8** | **78.0** | **-** | **79.3** | **170.8** | **258.6** | **5,839.7** | **599.6** |

## Movements in Balances: 2019/20

| | Council dwellings £m | Other land and buildings £m | Vehicles, plant, furniture & equipment £m | Infrastructure assets £m | Community assets £m | Surplus assets £m | Assets under construction £m | Total Property, Plant and Equipment £m | PFI / Service Concession assets Included in Property, Plant and Equipment £m |
|---|---|---|---|---|---|---|---|---|---|
| **Cost or Valuation** | | | | | | | | | |
| **At 1 April 2019** | **2,445.0** | **2,385.4** | **162.8** | **-** | **63.4** | **172.7** | **200.0** | **6,090.2** | **843.7** |
| Additions | 102.1 | 78.7 | 10.3 | - | 4.0 | 0.8 | 136.8 | **346.8** | 36.4 |
| Donations | - | - | - | - | - | - | - | **-** | |
| Assets reclassified between categories | 8.3 | 19.1 | 0.1 | - | 11.9 | 16.5 | (78.2) | **(1.5)** | |
| Assets reclassified (to)/from Held for Sale | - | (3.2) | - | - | - | 5.3 | - | **2.1** | |
| Revaluation increases/ (decreases) recognised in the Revaluation Reserve | (61.4) | 32.2 | (6.4) | - | - | (23.8) | - | **(59.4)** | (2.7) |
| Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services | - | (47.4) | (16.0) | - | - | (0.7) | - | **(64.1)** | - |
| Other Movements | | - | | | | | | | (61.9) |
| Derecognition - Disposals | (35.9) | (125.5) | (21.6) | - | - | - | - | **(183.0)** | (0.6) |
| **At 31 March 2020** | **2,458.1** | **2,339.3** | **129.2** | **-** | **79.3** | **170.8** | **258.6** | **6,131.1** | **814.9** |
| | | | | | | | | | |
| **Accumulated Depreciation and Impairment** | | | | | | | | | |
| **At 1 April 2019** | **-** | **(28.9)** | **(70.6)** | **-** | **-** | **-** | **-** | **(288.9)** | **(201.6)** |
| Depreciation charge | (53.8) | (53.3) | (15.0) | - | - | (0.4) | - | **(147.8)** | (31.7) |
| Depreciation written out to the Revaluation Reserve | 53.1 | 39.1 | 3.4 | - | - | 2.4 | - | **98.0** | 3.1 |
| Depreciation written out to the Surplus/Deficit on the Provision of Services | - | 12.1 | 8.6 | - | - | 0.4 | - | **21.1** | 0.2 |
| Revaluation (losses)/reversals recognised in the Revaluation Reserve | - | - | - | - | - | - | - | **-** | |
| Impairment (losses)/reversals recognised in the Surplus/Deficit on the Provision of Services | - | - | - | - | - | - | - | **-** | |
| Derecognition - Disposals | 0.7 | 2.6 | 22.4 | - | - | - | - | **25.7** | - |
| Assets reclassified (to)/from Held for Sale | - | 0.7 | - | - | - | (0.2) | - | **0.5** | |
| Other movements in depreciation and impairment | - | 2.2 | - | - | - | (2.2) | - | **-** | **14.7** |
| **At 31 March 2020** | **-** | **(25.5)** | **(51.2)** | **-** | **-** | **-** | **-** | **(291.4)** | **(215.3)** |
| | | | | | | | | | |
| **Net Book Value** | | | | | | | | | |
| **At 31 March 2020** | **2,458.1** | **2,313.8** | **78.0** | **-** | **79.3** | **170.8** | **258.6** | **5,839.7** | **599.6** |
| **At 31 March 2019** | **2,445.0** | **2,356.5** | **92.2** | **-** | **63.4** | **172.7** | **200.0** | **5,801.3** | **642.1** |

## Revaluations

The Royal Institution of Chartered Surveyors (RICS) created a forum to consider the impact of the Covid pandemic on potential material uncertainty on asset valuations. The latest update recommends that material uncertainty remains for only a limited number of assets, namely those with trading potential such as hospitality assets. At the valuation date, property markets are functioning again, providing sufficient evidence to support opinions of value.

Operational Land and Buildings (other than Housing)
The Council carries out valuations of its property assets over a five year cycle and reviews those assets that are not in the valuation cycle for the year to ensure that carrying values remain materially correct at the Balance Sheet date. Azmat Mir, Member of the Royal Institution of Chartered Surveyors (MRICS), Head of Property Consultancy and other similarly qualified staff within the Council's Property Services section carried out the valuations. A Valuation Certificate was issued on 21 June 2021 in accordance with the Appraisal and Valuation Standards of the Royal Institution of Chartered Surveyors.

The effective date of the current year's valuation was 11 December 2020, with a review of any significant changes to assets to ensure that any material changes in asset values at the Balance Sheet date were identified. The review concluded that, for assets valued at Depreciated Replacement Cost (DRC), there had been a marginal overall increase in building costs from valuation date to 31 March 2021.

A review was undertaken to assess the impact of the movement in building costs on the value of those assets not subject to revaluation in 2020/21. As a result, a desktop exercise was undertaken to update those values in the Balance Sheet, reflecting a more up to date value as at 31 March 2021, resulting in a relatively small increase in relevant asset values.

Housing
The Council's housing stock was valued as at 5 February 2021 by Azmat Mir MRICS, and similarly qualified staff within the Council's Property Services section in line with the Ministry of Housing, Communities and Local Government's Guidance on Stock Valuation for Resource Accounting published in November 2016. The basis of the valuation for the housing stock element is in accordance with the Royal Institution of Chartered Surveyors using the Existing Use Value – Social Housing basis, which takes open market value for the underlying dwellings and applies a multiplier to reflect the reduced value as a result of the use for social housing for 2020/21 of 40% (2019/20: 40%). A review was undertaken to consider any material movement between 5 February and 31 March 2021 and advised accordingly.

HRA dwellings have seen a net increase in value of £151.7m since 31 March 2020. Details are included in Notes H1 and H3 of the Supplementary Statements.

Surplus Assets
A small number of assets have been deemed surplus to the requirement of the Council but do not yet meet the criteria to be classified as Assets Held for Sale. As such they are classified as surplus assets and revalued during 2020/21 at fair value, assessing the assets in their highest and best use, using Level 2 inputs. The reduction in value reflects the reclassification of previously identified surplus assets to Assets held for Sale, with disposal expected in 2021/22.

| Recurring Fair Value Measurements | Input Level in Fair Value Hierarchy | Valuation technique used to measure Fair Value | 31 March 2020 Fair Value £m | 31 March 2021 Fair Value £m |
|---|---|---|---|---|
| Highest and Best Use | Level 2 | The fair value of surplus properties has been measured using a market approach, which takes into account quoted prices for similar assets in active markets, existing lease terms and rentals, research into market evidence including market yields, the covenant strength for existing tenants, and data and market knowledge gained in managing the Council's Property Portfolio. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs is significant, leading to the properties being categorised as Level 2 on the fair value hierarchy. | 170.8 | 131.7 |

An analysis of the gross carrying value, by class of asset, broken down by the basis and date of valuation is set out on the following table.

| | Council dwellings | Other land and buildings | Vehicles, plant, furniture & equipment | Infrastructure assets | Community assets | Surplus assets | Assets under construction | **Total Property, Plant and Equipment** |
|---|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m | **£m** |
| Carried at Historical Cost | | | | | 80.8 | | 452.7 | **552.9** |
| Carried at Depreciated Historical Cost | | | 97.8 | 735.4 | | | | **833.2** |
| Valued at current value as at: | | | | | | | | |
| 31 March 2021 | 2,609.8 | 1,754.9 | | | | 129.5 | | **4,481.1** |
| 31 March 2020 | | 141.9 | 28.0 | | | | | **169.9** |
| 31 March 2019 | | 217.7 | | | | | | **217.7** |
| 31 March 2018 | | 127.4 | | | | | | **127.4** |
| 31 March 2017 | | 134.4 | | | | | | **134.4** |
| **Total cost or valuation** | **2,609.8** | **2,376.3** | **125.8** | **735.4** | **80.8** | **129.5** | **452.7** | **6,510.2** |

## Capital Commitments

At 31 March 2021, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2021/22 and future years. The commitments are:

| | £m |
|---|---|
| PFI Lifecycle Costs | 481.5 |
| Perry Barr Residential Scheme | 159.2 |
| CWG's Alexander Stadium | 35.3 |
| HRA Investment & Improvements | 67.0 |
| HRA New Build | 27.8 |
| Paradise Circus Enterprise Zone | 28.8 |
| Other Capital Commitments | 62.4 |

## Capitalisation of Borrowing Costs

The Council has adopted an accounting policy, detailed in Note1 - section x., of capitalising borrowing costs in relation to qualifying assets. In 2020/21 the amount of borrowing costs capitalised during the period was £7.6m (2019/20: £4.0m). The interest does not relate to a specific loan and was calculated using the Council’s average borrowing rate in the year expenditure was incurred. This was 4.16% in 2020/21 (2019/20: 4.45%). For 2020/21, interest capitalised by scheme was as follows:

| | £m |
|---|---|
| Enterprise Zone | 4.7 |
| Perry Barr Residential Scheme | 2.9 |

## Infrastructure Assets

In accordance with the temporary relief offered by the Update to the Code on infrastructure assets [Local Government Circular 09/2022 Statutory Override Accounting for Infrastructure Assets for Scottish Local Authorities] this note does not include disclosure of gross cost and accumulated depreciation for infrastructure assets because historical reporting practices and resultant information deficits mean that this would not faithfully represent the asset position to the users of the financial statements. The authority has chosen not to disclose this information as the previously reported practices and resultant information deficits mean that gross cost and accumulated depreciation are not measured accurately and would not provide the basis for the users of the financial statements to take economic or other decisions relating to infrastructure assets.

| | 2019/20 | 2020/21 |
|---|---|---|
| Net Book Value (modified historical cost) | £m | £m |
| at 1 April | 471.5 | 481.1 |
| Additions | 14.1 | 21.1 |
| Depreciation | (25.3) | (25.4) |
| Other movements in cost | 20.8 | 21.7 |
| **Net Book Value at 31 March** | **481.1** | **498.5** |

**Note 22**
**Heritage Assets**

The Council has significant collections of assets that contribute towards the rich and diverse heritage of the city, reflecting two thousand years of historic development, across Museums, Historic Buildings, Public Art, Libraries and Civic collections.

Where historical cost information is available, the Council has used this when compiling the Balance Sheet; otherwise insurance valuations, reviewed annually, have been used, where applicable. Where there is evidence of a movement in valuations as a result of material acquisitions or disposals, or a significant movement in comparable market values, a revaluation will be considered.

Heritage Assets held by the Council:

| | **Museum Collections** | **Historic Buildings** | **Public Art** | **Libraries and Archive collections** | **Civic Regalia and Plate** | **Total Assets** |
|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m |
| **01 April 2019** | | | | | | |
| - At Cost | 1.8 | 11.1 | 0.5 | - | - | 13.4 |
| - At Valuation | 216.2 | - | - | 18.4 | 1.8 | 236.4 |
| Additions | 0.2 | - | - | - | - | 0.2 |
| Revaluations | 0.1 | - | - | - | - | 0.1 |
| Impairment losses /(reversals) recognised in the Surplus or Deficit on the Provision of Services | (0.2) | - | - | - | - | (0.2) |
| **31 March 2020** | **218.1** | **11.1** | **0.5** | **18.4** | **1.8** | **249.9** |
| *- At Cost* | *1.8* | *11.1* | *0.5* | *-* | | *13.4* |
| *- At Valuation* | *216.3* | *-* | *-* | *18.4* | *1.8* | *236.5* |
| **31 March 2020** | ***218.1*** | ***11.1*** | ***0.5*** | ***18.4*** | ***1.8*** | ***249.9*** |
| | | | | | | |
| **01 April 2020** | | | | | | |
| - At Cost | 1.8 | 11.1 | 0.5 | - | - | 13.4 |
| - At Valuation | 216.3 | - | - | 18.4 | 1.8 | 236.5 |
| **31 March 2021** | **218.1** | **11.1** | **0.5** | **18.4** | **1.8** | **249.9** |
| *- At Cost* | *1.8* | *11.1* | *0.5* | *-* | | *13.4* |
| *- At Valuation* | *216.3* | *-* | *-* | *18.4* | *1.8* | *236.5* |
| **31 March 2021** | ***218.1*** | ***11.1*** | ***0.5*** | ***18.4*** | ***1.8*** | ***249.9*** |

## Museum Collections

The Council holds collections of artworks, ceramics, jewellery and items of archaeological and scientific significance.  The vast majority of the Museum's Loan collection is held within the Birmingham Museum and Art Gallery, which holds one of the finest collections of art, history and science in the UK and the best collection of Pre-Raphaelite works in the world. There are significant exhibits and artwork comprising the Permanent Collection on display in community museums, for example Aston Hall and Soho House, together with items held in storage at the Museum's Collection Centre. The value of the collection has been adjusted to reflect updated insurance valuations.  In addition, there is a collection of Boulton silverware, a set of 24 pieces in silver jointly owned by the Council and the Birmingham Assay Office.

## Historic Buildings and the Historical Environment

The Council either owns or holds on trust in excess of 150 listed buildings and structures, with Grade I and Grade II properties being the most significant. These include Aston Hall, a Grade I listed Jacobean manor house completed in 1635, Blakesley Hall, an Elizabethan timber house built by a local merchant in 1590 and Soho House, home of Birmingham industrialist and entrepreneur Matthew Boulton, all of which are included as Heritage Assets.

## Public Art

The Council owns over 80 pieces of public art, including statues, sculpture and fountains, some of which are listed structures. Victoria Square fountain and the King Edward VII statue are included in the Balance Sheet as reliable information is available for these works of art.

## Libraries and Archive Collections

The Library of Birmingham is unique amongst UK public libraries for the range and depth of the collections it houses. The library houses a large photography collection and the Council also holds over 6,000 archive collections including major collections of national importance, such as those relating to the industrial innovators James Watt and Matthew Boulton. There are significant collections of early and fine printing, incorporating over 8,000 books printed before 1701, and an extensive collection of literature and rare books, including Audubon's 19th Century work, The Birds of America, and one of the world's most comprehensive Shakespeare collections.

## Civic Regalia and Plate

The Council owns in excess of 230 items of civic regalia and plate, kept either on display, in storage or used on ceremonial and other formal occasions. There is a large variety of items within the collection, the main ones being the Mayoral Chains of Office and Mace, which was cast in silver, in the late 19th Century, by Elkington and Co.

The Council has developed a Heritage Strategy, which provides a framework and context for how it preserves, manages, interprets and promotes the Council's Heritage Assets, and how they are taken forward during the 21st Century. This is supported by a more detailed collecting policy within the Museums service, which informs the Council's policy on acquisition, management and disposal, together with Documentation and Conservation policies, which detail how the service manages and cares for the collections. These are all available on the Council's website, or via the relevant service area. Both Libraries and Museums use database systems to manage their collections.

Access to heritage assets is provided through permanent displays of historical material, temporary exhibitions and events, publications, catalogues and digital and web-based resources. In addition the Museum’s Collection Centre schedules occasional open days allowing public access to some of the Museum’s stored historical artefacts. For the wider historical environment guided tours, printed leaflets and publications, heritage trails and interpretive panels are effective in enabling intellectual access.

Birmingham Museums Trust exists to promote heritage within Birmingham, with the aims of advancing education through the operation, maintenance, development and promotion of museums, galleries and libraries in Birmingham. The Council continues to retain ownership of the buildings and collections.

**Note 23**
**Intangible Assets**

The Council accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant, Furniture and Equipment.

The carrying amount of intangible assets is amortised on a straight-line basis over a five year period, which is deemed to be the period that intangible assets are expected to be of use to the Council.

The movement on intangible asset balances during the year is as follows:

| | 2019/20 | | | 2020/21 | | |
|---|---|---|---|---|---|---|
| | Internally Generated Assets £m | Other Assets £m | Total £m | Internally Generated Assets £m | Other Assets £m | Total £m |
| Balance at start of year: | | | | | | |
| - Gross carrying amounts | - | 42.1 | 42.1 | - | 13.1 | 13.1 |
| - Accumulated amortisation | - | (34.6) | (34.6) | - | (6.0) | (6.0) |
| **Net carrying amount at start of year** | **-** | **7.5** | **7.5** | **-** | **7.1** | **7.1** |
| Additions: | | | | | | |
| - Internal development | - | 1.4 | 1.4 | - | - | - |
| Assets reclassified between asset categories | - | 1.5 | 1.5 | - | - | - |
| Other disposals | - | (31.8) | (31.8) | - | (4.1) | (4.1) |
| Amortisation for the period | - | (3.2) | (3.2) | - | (2.9) | (2.9) |
| Amortisation written out for disposals/transfers | - | 31.8 | 31.8 | - | 4.1 | 4.1 |
| Other changes | - | (0.1) | (0.1) | - | - | - |
| Net carrying amount at end of year | - | 7.1 | 7.1 | - | 4.2 | 4.2 |
| Comprising: | | | | | | |
| Gross carrying amounts | - | 13.1 | 13.1 | - | 9.0 | 9.0 |
| Accumulated amortisation | - | (6.0) | (6.0) | - | (4.8) | (4.8) |
| **Net carrying amount at end of year** | **-** | **7.1** | **7.1** | **-** | **4.2** | **4.2** |

**Note 24**
**Long Term Debtors**

The table below shows amounts owed to the Council that are due for payment more than 12 months after the Balance Sheet date. Covid has had a significant impact on the economy, the extent of which may not be known for some time. An estimate has been made on the collectability of outstanding debt and a further explanation is set out in Note 4, Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty The outstanding balances have been split by type of debt.

| 31 March 2020 £m | | 31 March 2021 £m |
|---|---|---|
| 88.3 | External Loans | 80.3 |
| 0.2 | Employee Loans | 0.8 |
| 0.3 | Mortgages: former Council House Tenants | 0.3 |
| 25.7 | Other Debtors | 26.1 |
| **114.5** | **Total** | **107.5** |

**Note 25**
**Short Term Investments**

Details of the amounts invested by the Council that are due for repayment within 12 months of the Balance Sheet date are detailed below.

| 31 March 2020 £m | | 31 March 2021 £m |
|---|---|---|
| 22.5 | Money Market Funds | 171.0 |
| 1.8 | Financial Institutions | 1.3 |
| 204.0 | Other Investments | - |
| **228.3** | **Total** | **172.3** |

**Note 26**
**Assets Held for Sale**

The table below details the value of assets whose carrying amount will be recovered principally through a sale transaction rather than through their continuing use.

| | Current | |
|---|---|---|
| | 2019/20 | 2020/21 |
| | £m | £m |
| **Balance outstanding at start of year** | **23.4** | **16.7** |
| Assets newly classified as held for sale: | | |
| - Property, Plant and Equipment | 9.4 | 45.2 |
| Assets declassified as held for sale: | | |
| - Property, Plant and Equipment | (12.2) | - |
| - Assets sold | (4.1) | (12.8) |
| Other Movements | 0.2 | - |
| **Balance outstanding at year end** | **16.7** | **49.1** |

At 31 March 2021, nine assets have been newly classified as held for sale, with the expectation that disposal will occur at some point within the next 12 months.

Assets carried within the Council's financial statements are valued using either Depreciated Replacement Cost (DRC) in the case of specialist assets or the value to the Council of the asset in existing use. The value of capital receipts may differ from the carrying value of the assets and is heavily dependent on how much the market is willing to pay for a particular asset at any one time and this can fluctuate. The potential difference in values cannot be quantified as those assets which may be disposed of may change and a 'fair' market valuation cannot be quantified with any accuracy. Given the size of the assets on the Council's Balance Sheet the sale of a small percentage of these could still result in a material difference.

**Note 27**
**Short Term Debtors**

The table below shows the amounts owed to the Council at the end of the year that are due for payment within 12 months. An allowance has been made, within the overall level of debt due, to reflect an element of non-recovery.

The amounts owed have been analysed by type of debtor to allow an assessment of the risk of non-recovery.

| 31 March 2020 £m | | 31 March 2021 £m |
|---|---|---|
| 110.2 | Central government bodies | 131.5 |
| 29.3 | Other local authorities | 39.0 |
| 7.4 | NHS bodies | 7.9 |
| 3.5 | Public corporations and trading funds | 6.1 |
| 234.5 | Other entities and individuals | 216.4 |
| **384.9** | **Total** | **400.9** |

**Note 28**
**Cash and Cash Equivalents**

The balance of Cash and Cash Equivalents is made up of the elements detailed below.

| 31 March 2020 £m | | 31 March 2021 £m |
|---|---|---|
| 2.8 | Cash held by the Council | 4.5 |
| 59.2 | Bank current accounts | 49.8 |
| (0.7) | Bank Overdrafts | (0.0) |
| **61.3** | **Total** | **54.3** |

**Note 29**
**Short Term Creditors**

The table below shows amounts owed by the Council at the end of the year that are due for payment within 12 months. The amounts due have been analysed by type of creditor.

| 31 March 2020 £m | | 31 March 2021 £m |
|---|---|---|
| (83.5) | Central government bodies | (102.3) |
| (7.2) | Other local authorities | (10.4) |
| (3.5) | NHS bodies | (2.9) |
| (50.5) | Public corporations and trading funds | (45.3) |
| (236.1) | Other entities and individuals | (270.7) |
| **(380.8)** | **Total** | **(431.6)** |

**Note 30**
**Provisions**

The following table shows the value of the Council's liabilities that will probably result in a transfer of economic benefits in line with the Accounting Policy for Provisions.

| Balance at 1 April 2019 | | Balance at 1 April 2020 | Additional provisions made in 2020/21 | Amounts used in 2020/21 | Transfer between current and non-current provision | Unused amounts reversed in 2020/21 | Unwinding of discounting in 2020/21 | Balance at 31 March 2021 |
|---|---|---|---|---|---|---|---|---|
| £m | | £m | £m | £m | £m | £m | £m | £m |
| | **Short Term** | | | | | | | |
| 174.5 | Equal Pay | 153.2 | 17.7 | (0.9) | - | (16.2) | - | **153.8** |
| 13.7 | Business Rates Appeals | 11.4 | 9.1 | (6.4) | - | - | - | **14.1** |
| 1.4 | Pension Guarantees | 1.3 | - | - | - | (1.3) | - | **-** |
| 15.8 | Other Provisions | 9.1 | 0.2 | - | - | (1.2) | - | **8.1** |
| **205.4** | **Total** | **175.0** | **27.0** | **(7.3)** | **-** | **(18.7)** | **-** | **176.0** |
| | **Long Term** | | | | | | | |
| - | Equal Pay | - | - | - | - | - | - | **-** |
| 7.4 | Business Rates Appeals | 6.2 | 4.9 | (3.4) | - | - | - | **7.7** |
| 8.5 | Pension Guarantees | 7.6 | - | - | - | (7.6) | - | **-** |
| - | Other Provisions | - | - | - | - | - | - | **-** |
| **15.9** | **Total** | **13.8** | **4.9** | **(3.4)** | **-** | **(7.6)** | **-** | **7.7** |

Equal Pay

The Equal Pay Act 1970 was enacted at a time when it was not uncommon for employers to openly give different rates of pay to men and women performing the same job, or to reserve certain jobs for men and other (lower-paid) jobs for women. The Equality Act 2010 repealed and replaced the Equal Pay Act 1970 from 1 October 2010 and implemented in Great Britain the principle that men and women should receive equal pay for equal work.

The Council has set aside a provision of £153.8m (2019/20: £153.2m) in respect of its estimate of liability for Equal Pay. The provision reflects the assessed position as at 31 March 2021.

The Secretary of State for Communities and Local Government issued regulations allowing Local Authorities to use capital receipts received on or after 1 April 2013 to meet back payments associated with issued and valid equal pay claims. The Council has included both the capital and revenue impacts of equal pay claims in the Council’s Financial Plan 2021 - 2025.

Business Rates Appeals

As a result of the change in the funding of Local Government in 2013/14, local authorities have assumed part of the liability for refunding Business Rates payers who have successfully appealed against the rateable value of their properties in the rating list. This liability includes amounts that were collected in respect of both the current year and prior years.

The Council, as Billing Authority, is required to make a provision for this liability on behalf of the major preceptors and itself. From 1 April 2017 the Council is part of a 100% Local Business Rates Retention Pilot. Under the pilot the Council retains 99% of the Business Rates it collects including 99% of any amounts due to be collected in future. The other 1% is retained by the West Midlands Fire and Rescue Authority (WMFRA). Prior to 1 April 2017 the Council's share was 49% with 1% due to the WMFRA and the other 50% being due to Central Government. Under the pilot the Council has assumed responsibility to pay for 99% of backdated appeals, even those prior to 1 April 2017. However, the Council has also been allowed to take the Government's 50% share of the provision set aside for backdated appeals prior to 1 April 2017.

These accounts include a provision of £21.8m representing 99% of the total provision (2019/20: £17.6m representing 99% of the total provision) set aside to cover the Council's share of the total estimated unpaid liability relating to the settlement of all appeals received up to 31 March 2021. The remaining 1% share of the liability is attributable to the WMFRA.

The Council has assessed the likely cost of settling appeals, based upon the history of appeals settled to date and details of those appeals that are still outstanding. The information used in this modelling has been provided by the Valuations Office Agency (VOA).

Other Provisions

Details of the major items included in other provisions are:

Subsidiaries

As part of the relationship with its subsidiary companies, the Council may have to provide a guarantee that it will support a company to enable it to continue meeting its liabilities as they fall due. The Council continues to review the likelihood of any call on the guarantees that it has given to determine whether it needs to set aside resources to meet any future liabilities. The Council has set aside a provision of £4.1m in 2020/21 (2019/20: £4.1m).

Equal Pay Legal Costs

The Council has set aside a provision for legal costs associated with the handling or defending of Equal Pay claims. The provision will be used when legal fees are agreed for each case and may be subject to assessment; the timing of which is uncertain.

**Note 31**
**Contingent Liabilities and Contingent Assets**

Contingent Liabilities

These relate to pending legal or contractual claims not included in the accounts and guarantees given by the Council for repayment of loans taken out by certain associated companies. The Council currently has the following contingent liabilities:

1. The Council's final Housing Benefit claim for 2020/21 is still being considered by the Department for Work and Pensions. There may be clawback of subsidy from the Council which would reduce the level of benefit income shown and reduce the General Fund balance carried forward.

2. The Council is facing a number of compensation claims from former employees for employment related and current health issues, from people who attended Council schools and from other service users. Currently the validity of any outstanding claims is being assessed.

3. The Council enters into a number of arrangements with external partners for the delivery of services or as part of infrastructure developments within the city. There are occasions where the Council faces claims from external partners where it is believed that specific outcomes have not been delivered. Currently the validity of any outstanding claims is being assessed.

4. The Council received insurance services from Municipal Mutual Insurance (MMI). Due to financial difficulties, MMI ceased trading in October 1993 and entered into a solvent run off. MMI entered into a Scheme of Arrangement with its creditors, namely the Councils which were owed claim settlements. The Scheme of Arrangement stated that MMI would be able to claw back any claim settlements paid on behalf of its creditors after 1 October 1993 if a solvent run off was not likely to be achieved.

   Following a decision of the Supreme Court in March 2012 regarding Employers' Liability Policy Trigger Litigation, MMI's liability in respect of asbestos related claims has increased substantially. As a result, the Scheme of Arrangement was enacted in 2012/13 and an Administrator was appointed.

   At present, the Administrator has announced a levy of 25% on claims paid since 1 October 1993 and the Council has incurred costs of £0.7m to cover its share together with a share, based on population, of the claims paid in respect of the former West Midlands County Council. The maximum remaining liability faced by the Council, less the payments already made, is £2.3m.

5. Under the Equality Act 2010, employees are entitled to equal pay for work of equal value. The Council has received a number of claims under the Equality Act and, as a result, has set aside a provision of £153.8m (31 March 2020: £153.2m) which incorporates all claims received and negotiations agreed by 31 March 2021.

   Whilst the provision reflects the forecast impact of claims made to date, there remain a number of uncertainties regarding any additional liabilities that the Council may face. There are uncertainties surrounding the volume and timing of any future claims and the determination of any settlements.

<u>Contingent Assets</u>

At 31 March 2021 the Council has identified the following material contingent assets.

1. When disposing of non-current assets which may be the subject of further development by the purchaser, the Council may include clauses within the disposal agreement that require the purchaser to make additional payments to the Council depending on the outcome of the development. The Council does not recognise such potential additional consideration at the time of disposal as its receipt and amount is too uncertain. The Council has included such clauses in the agreement for the disposal of a number of developments and anticipates generating additional capital receipts in future years.

   Due to the commercially sensitive nature of the agreements, detailed information on further anticipated receipts has not been disclosed.

**Note 32**
**Council Borrowing**

A breakdown of the Council's borrowings is summarised below:

| 2019/20 Long Term £m | 2019/20 Short Term £m | | 2020/21 Long Term £m | 2020/21 Short Term £m |
|---|---|---|---|---|
| (30.4) | (42.1) | Lender's Option Borrower's Option (LOBO) loans | (30.4) | (42.1) |
| (469.6) | (7.9) | Local Bonds | (462.0) | (8.2) |
| (2,454.1) | (61.5) | Public Works Loan Board | (2,459.2) | (49.0) |
| (15.4) | (295.0) | Other Borrowing (mainly Other Local Authorities) | (37.8) | (391.2) |
| **(2,969.5)** | **(406.5)** | **Total** | **(2,989.4)** | **(490.5)** |

**Note 33**
**Cash Flow Statement - Operating Activities**

The cash flows from operating activities include the following items:

| 2019/20 £m | | 2020/21 £m |
|---|---|---|
| (31.4) | Interest received | (18.9) |
| 196.0 | Interest paid | 164.6 |
| (5.4) | Dividends received | (0.9) |
| **159.2** | | **144.8** |

**Note 34**
**Cash Flow Statement - Investing Activities**

The cash flows from investing activities include the following:

| 2019/20 £m | | 2020/21 £m |
|---|---|---|
| (334.9) | Purchase of property, plant and equipment, investment property and intangible assets | (391.0) |
| (2,087.2) | Purchase of short-term and long-term investments | (5,237.9) |
| 71.9 | Proceeds from the sale of property, plant and equipment, investment property and intangible assets | 82.3 |
| 1,923.1 | Proceeds from short-term and long-term investments | 5,302.6 |
| **(427.1)** | **Net cash flows from investing activities** | **(244.0)** |

**Note 35**
**Cash Flow Statement - Financing Activities**

The cash flows from financing activities include the following:

| 2019/20 £m | | 2020/21 £m |
|---|---|---|
| 225.9 | Other receipts from financing activities | 120.4 |
| 1,851.2 | Cash receipts of short-term and long-term borrowing | 1,147.1 |
| (23.0) | Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-Balance Sheet PFI contracts | (31.3) |
| (1,905.7) | Repayments of short-term and long-term borrowing | (1,043.0) |
| 1.5 | Other payments for financing activities | 6.6 |
| **149.9** | **Net cash flows from financing activities** | **199.8** |

**Note 36**
**Cash Flow Statement – Other Adjustments**

The cash flow adjustments to the net surplus/deficit on the provision of services include:

| 2019/20 £m | | 2020/21 £m |
|---|---|---|
| 147.9 | Depreciation/Impairment charge | 143.1 |
| 3.2 | Amortisation of Intangible Assets | 2.9 |
| 3.9 | Derecognition of Available for Sale Assets | (0.5) |
| 42.7 | Revaluation of Non-Current Assets | 20.9 |
| 161.4 | Derecognition of Non-Current Assets | 77.4 |
| (48.0) | (Increase)/Decrease in Debtors | (17.7) |
| 68.2 | Increase/(Decrease) in Creditors | 41.4 |
| (0.4) | (Increase)/Decrease in Inventories | (0.2) |
| (32.5) | Increase/(Decrease) in Provisions | (5.0) |
| 176.9 | Pensions Liability | (146.3) |
| **523.3** | **Net Cash Flow - Other Adjustments** | **116.0** |

The cash flow adjustments included in the net surplus/deficit on the provision of services that are investing or financing activities include:

| 2019/20 £m | | 2020/21 £m |
|---|---|---|
| (225.9) | Capital Grants | (120.4) |
| (71.9) | Capital Receipts | (82.3) |
| (1.4) | Council Tax and Business Rates Adjustments | (6.4) |
| **(299.2)** | | **(209.1)** |

**Note 37**
**Financial Instruments**

**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.

All 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
- bonds issued
- long-term LOBO loans
- loans from other local authorities
- Private Finance Initiative contracts
- lease payables
- transferred debt
- trade payables for goods and services received
- overdraft with banks

**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 two 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:
  - loans to organisations made for service purposes
  - bank current and deposit accounts
  - cash in hand
  - trade receivables for goods and services provided

- Fair value through profit and loss (all other financial assets) comprising:
  - money market funds
  - equity investments in companies
  - loans to organisations where the cash flows are not solely payments of principal and interest

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

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

| | Long Term | | Short Term | |
|---|---|---|---|---|
| | 31 March 2020 £m | 31 March 2021 £m | 31 March 2020 £m | 31 March 2021 £m |
| **Investments** | | | | |
| Fair Value through Profit or Loss | 3.1 | 2.1 | - | 172.3 |
| Amortised Cost | - | - | 228.3 | - |
| Investments in subsidiaries, associates and joint ventures | 34.2 | 35.7 | - | - |
| **Total** | **37.3** | **37.8** | **228.3** | **172.3** |
| Investments that are not financial instruments | - | - | - | - |
| **Total investments** | **37.3** | **37.8** | **228.3** | **172.3** |
| **Debtors** | | | | |
| Fair Value through Profit or Loss | 0.0 | 3.4 | - | - |
| Amortised Cost | 90.4 | 80.0 | 254.4 | 262.0 |
| **Total** | **90.4** | **83.4** | **254.4** | **262.0** |
| Debtors that are not financial instruments | 24.1 | 24.1 | 130.5 | 138.9 |
| **Total debtors** | **114.5** | **107.5** | **384.9** | **400.9** |
| **Cash** | | | | |
| Cash in Hand | | | 62.0 | 54.3 |
| **Total cash: asset** | | | 62.0 | 54.3 |
| Cash Overdrawn | | | (0.7) | (0.0) |
| **Total cash: liability** | | | (0.7) | (0.0) |
| **Borrowings** | | | | |
| Amortised Cost | (2,969.5) | (2,989.4) | (406.5) | (490.5) |
| **Total borrowings** | **(2,969.5)** | **(2,989.4)** | **(406.5)** | **(490.5)** |
| **Other Long Term Liabilities** | | | | |
| PFI and finance lease liabilities | (382.2) | (369.2) | | |
| **Total** | (382.2) | (369.2) | | |
| Transferred Debt and Other Liabilities | (45.7) | (39.9) | | |
| **Total long term liabilities** | **(427.9)** | **(409.1)** | | |
| **Creditors** | | | | |
| Amortised Cost | (0.7) | (0.6) | (243.6) | (265.5) |
| **Total** | (0.7) | (0.6) | (243.6) | (265.5) |
| Creditors that are not financial instruments | - | - | (137.2) | (166.1) |
| **Total creditors** | **(0.7)** | **(0.6)** | **(380.8)** | **(431.6)** |

Material Soft Loans Made by the Council

The Council has made the following material soft loans:

Warwickshire County Cricket Club was granted a loan of £20m in 2009 to support the major ground refurbishment undertaken. The loan is deemed to be a material soft loan and is carried in the accounts at £17.5m, paying a fixed interest rate of 5%. During the development phase of the project, interest was rolled up in the loan. In 2016/17, Warwickshire County Cricket Club exercised its right, under the terms of the loan agreement, to defer interest and principal repayment for two quarters from March 2013 and extend the loan maturity to make these payments. The club applied for a further 18 month interest and principal deferral, which was granted by the Council. All interest on the deferred payments is rolled up and the term of the loan has been extended to 2045.

West Midlands Growth Company (formerly Marketing Birmingham) received a loan of £1.1m in 2012 to support the creation of the Birmingham Business Hub at Baskerville House. The loan is deemed to be a material soft loan and is carried in the accounts at £0.1m, pays an interest rate of 2.2% and matures in 2022.

On the creation of Birmingham Children's Trust CIC it was offered loan facilities to ensure that it had sufficient cash resources to operate efficiently given that the company was a company limited by guarantee and had no equity. The Council advanced a loan of £4m in April 2018 at an interest rate of 2.41% and a further loan of £6m in April 2019 at an interest rate of 1.87%. The loans are due to be repaid as a single repayment in March 2028 but the Trust has the right to repay at an earlier date. The loan is deemed to be a material soft loan and is carried in the accounts at £7.7m

The treatment of soft loans in the financial statements is as follows:

| | 2019/20<br>£m | 2020/21<br>£m |
|---|---|---|
| **Opening balance at 1 April** | **17.7** | **25.3** |
| Adjustment to Opening Balance | - | - |
| Nominal value of new loans | 10.0 | - |
| Fair value adjustment of new loan | (2.5) | - |
| Loans repaid | - | (0.2) |
| Movement in Expected Credit Loss per IFRS9 | 0.1 | (0.1) |
| (Increase)/Reduction in discount | - | 0.3 |
| **Closing Balance at 31 March** | **25.3** | **25.3** |
| Nominal value at 31 March | 32.2 | 32.0 |

Valuation Assumptions

The interest rate at which the fair value of soft loans has been made at recognition is arrived at by taking the Council's prevailing cost of borrowing and adding an allowance for the risk that the loan might not be repaid.

As with all loans made by the Council, reviews of the repayment schedule is undertaken with the borrowing counterparties, particularly in the light of the impact of Covid to determine whether the level of risk has increased sufficiently to make any changes to the assessment the carrying value of the loans.

Income, Expenses, Gains and Losses

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments are shown in the following table. The losses on financial instruments recognise that some debts will not be recovered and includes an allowance for an increase as a result of the difficulties arising from the spread of Covid.

| | 2019/20 | | 2020/21 | |
|---|---|---|---|---|
| | Surplus/Deficit on the Provision of Services | Other Comprehensive Income and Expenditure | Surplus/Deficit on the Provision of Services | Other Comprehensive Income and Expenditure |
| | £m | £m | £m | £m |
| **Net (Gains)/Losses on financial instruments:** | | | | |
| • financial assets measured at fair value through profit/loss | 4.1 | - | 1.6 | - |
| financial assets measured at amortised costs | 24.6 | - | 23.2 | - |
| **Net (Gains)/Losses on financial instruments** | **28.7** | **-** | **24.8** | **-** |
| **Income/Expenditure in (Surplus)/Deficit on the Provision of Services** | | | | |
| Interest Receivable from financial assets measured at amortised costs | (31.4) | - | (18.9) | - |
| Other investment income and expenditure | (5.4) | - | (0.9) | - |
| Interest Expense | 196.0 | - | 164.6 | - |
| **Net Income/Expenditure in (Surplus)/Deficit on the Provision of Services** | 159.2 | - | 144.8 | - |
| **Net (Gain)/Loss for the year** | **187.9** | **-** | **169.6** | **-** |

Fair Value of Financial Instruments

The fair value of a financial instrument is the price that would be received when selling an asset, or the price that would be paid when transferring a liability, to another market participant in an arms'-length transaction. Where liabilities are held as an asset by another party, such as the Council's borrowing, the fair value is estimated from the holder's perspective.

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

Financial instruments classified at amortised cost are carried in the Balance Sheet at their amortised cost. Their fair values disclosed below have been estimated by calculating the net present value of the remaining contractual cash flows at 31 March 2021, 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.
- Discount rates for "Lender's Option Borrower's Option" (LOBO) loans have been reduced to reflect the value of the embedded options. The size of the reduction has been calculated using proprietary software.
- 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 31 March.
- 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 PWLB's new annuity loan certainty rates.
- 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 interest rate environment.

Fair values are shown in the tables 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 that are observable for the asset or liability, other than quoted prices, 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 forecasts or estimated creditworthiness

Details of the impact of fair value assessments on specific categories of financial liabilities are set out below.

| **Financial Liabilities** | **Input level in Fair Value Hierarchy** | **Valuation inputs and assumptions used to measure Fair Value** | **31 March 2020** | | **31 March 2021** | |
|---|---|---|---|---|---|---|
| | | | Carrying Amount £m | Fair Value £m | Carrying Amount £m | Fair Value £m |
| ***Financial Liabilities held at amortised cost:*** | | | | | | |
| PWLB | Level 2 | PWLB new maturity loan certainty rate | 2,515.6 | 3,203.8 | 2,508.1 | 3,378.3 |
| Bonds issued (BIRCTY 9.675% 21/04/2030) | Level 2 | Market rate for similar instruments | 307.8 | 391.8 | 302.0 | 380.2 |
| Bonds issued (NECD 7.5625% 30/09/2027) | Level 1 | Quoted price from Bloomberg | 82.2 | 103.4 | 82.2 | 97.9 |
| LOBO loans | Level 2 | Market rate for similar instruments | 72.5 | 129.6 | 72.5 | 140.3 |
| Other long-term loans | Level 2 | Market rate for similar instruments | 105.2 | 122.8 | 137.0 | 156.9 |
| Lease payables and PFI Liabilities | Level 2 | PWLB new annuity loan certainty rate | 395.3 | 619.8 | 383.2 | 586.3 |
| Transferred debt | Level 2 | Market rate for similar instruments | 39.4 | 43.6 | 34.7 | 38.5 |
| Other long-term liabilities/creditors | N/A | Fair value is approximated at their carrying amount | 11.4 | 11.4 | 11.5 | 11.5 |
| Short term loans (mainly from other local authorities) | | | 292.4 | 292.4 | 378.0 | 378.0 |
| Short term trade creditors | | | 225.3 | 225.3 | 245.9 | 245.9 |
| **Total** | | | **4,047.1** | **5,143.9** | **4,155.1** | **5,413.8** |

**The Transferred Debt information is provided by Dudley Metropolitan Borough Council, who have responsibility for the West Midlands County Council Debt Administration Fund. The fair values were provided to them by their Treasury Advisors.*

The fair value of financial liabilities held at amortised cost is higher than their Balance Sheet carrying amount because the Council'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.

**PWLB Loans**

The difference between the carrying amount and the fair value measures the additional interest that the Council will pay over the remaining terms of the loans under the agreements with the PWLB, against what would be paid if the loans were at prevailing market rates. However, the Council has a continuing ability to borrow at concessionary rates from the PWLB rather than from the markets. If the Council were to repay the loans to the PWLB, the

PWLB would raise a penalty charge for early redemption in addition to charging a premium for the additional interest that will not now be paid. The exit price for the PWLB loans including the penalty charge would be £3,910.7m.

Details of the impact of fair value assessments on specific categories of assets are set out below.

| **Financial Assets** | **Input level in Fair Value Hierarchy** | **Valuation inputs and assumptions used to measure Fair Value** | **31 March 2020** | | **31 March 2021** | |
|---|---|---|---|---|---|---|
| | | | Carrying Amount £m | Fair Value £m | Carrying Amount £m | Fair Value £m |
| **Financial assets held at fair value:** | | | | | | |
| Money Market Funds - short term | Level 1 | Market price | 22.5 | 22.5 | 172.3 | 172.3 |
| Shares in companies - long term | Level 3 | With significant unobservable inputs | 3.1 | 3.1 | 2.1 | 2.1 |
| Loans to organisations for service purposes - long term | | | 0.0 | 0.0 | 3.4 | 3.4 |
| **Financial assets held at amortised cost:** | | | | | | |
| Deposits (DMADF and other local authorities) - short term | N/A | Fair value is approximated at their carrying amount | 205.8 | 205.8 | - | - |
| Loans to organisations for service purposes | Level 3 | With significant unobservable inputs | 90.4 | 98.6 | 79.4 | 83.9 |
| Long term asset/long term debtors | N/A | Fair value is approximated at their carrying amount | 0.0 | 0.0 | 2.7 | 2.7 |
| Short term debtors | | | 254.4 | 254.4 | 262.0 | 262.0 |
| Cash/bank deposits - short term | | | 62.0 | 62.0 | 54.3 | 54.3 |
| **Total** | | | **638.1** | **646.4** | **576.2** | **580.7** |

*In 2019/20 input level 2 as valuation technique was used to measure fair value of Shares in companies - long term and Loans to organisations for service purposes - long term. This has been changed to level 3 in the current period to better reflect the valuation technique used in measuring the fair value of these assets. Similarly, Money Market Funds - short term was at input level 2 in fair value hierarchy but has been changed to level 1 in the current period.*

*Cash/bank deposits was not included in the table above in 2019/20. For completeness, it has been included in the current period with prior year comparative numbers. The inclusion of Cash/bank deposits in the table above does not have any impact to other part of the Statement of Accounts.*

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

**Note 38**
**Nature and Extent of Risks Arising from Financial Instruments**

The Council's activities expose it to a variety of risks relating to its financial instruments, including:

- Credit risk – the possibility that other parties might fail to pay amounts due to the Council;
- Liquidity risk – the possibility that the Council may not have funds available to meet its payment commitments;
- Market risk – the possibility of financial loss due to changes in interest rates and market prices.

These risks are mainly managed by a central Treasury Management team in accordance with policies and approvals set by the Council in its annual Budget Report, Treasury Management Strategy, and Treasury Management Practices in particular. The Council complies with CIPFA's Code of Practice for Treasury Management in the Public Services and the Prudential Code for Capital Finance in Local Authorities, both of which regulate the use of financial instruments and establish a treasury risk management framework.

Credit Risk
Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers.

This risk is measured and managed primarily through the investment policies and strategy in the approved Budget, which requires that deposits are made in accordance with approved credit criteria and limits, including minimum credit ratings as follows:

| 'Specified' short term loan investments (all in Sterling) | Minimum Short term rating* | Minimum Long term rating* | Maximum investment per counterparty |
|---|---|---|---|
| Banks (including overseas banks) and Building Societies | F1+ /A1+ /P1 | AA- /AA- /Aa3 | £25m |
| | F1+ /A1+ /P1 | A- / A- /A3 | £20m |
| | F1 /A1 /P1 | A- / A- /A3 | £15m |
| | F2 /A2 /P2 | BBB+ /BBB+ /Baa1 | £10m |
| Sterling commercial paper and corporate bonds | F1+ /A1+ /P1 | A- / A- /A3 | £15m |
| Sterling Money Market Funds (short term and Enhanced) | AAA (with rating indicating lowest level of volatility where applicable) | | £40m |
| Local authorities | n/a | n/a | £25m |
| UK Government and supranational bonds | n/a | n/a | None |
| UK Nationalised Banks and Government controlled agencies | n/a | n/a | £25m |
| Secured investments including repo and covered bonds | Lending limits determined as for banks (above) using the rating of the collateral or individual investment | | |

* Fitch / S&P / and Moody's rating Agencies respectively. Institutions must be rated by at least two of the Agencies, and the lowest rating will be taken into account.

This risk is minimised through the Treasury Management Policy, which requires that deposits are not made with financial institutions unless they meet minimum credit ratings from the three major credit ratings agencies. The Treasury Management Policy also imposes a maximum sum to be invested with a financial institution located within each rating category and country. The Treasury Management Policy is contained within the Council's approved Financial Plan.

The Council will not invest more than £400m in long term investments as follows:

- Government stocks (or "Gilts") and other supranational bonds, with a maturity of less than five years.
- Corporate Bonds, Certificates of Deposit (CD) or Commercial Paper (CP) with a maturity of less than three years, subject to a long term credit rating of not less than AA (in addition to the restrictions in the table above). CD or CP shall not exceed 20% of long-term investments (i.e. those maturing in one year or more).

The Council also uses information from a variety of other sources in reaching a view about the suitability of particular investments.

The Council also makes a variety of investments in support of its service objectives. These investments are not subject to the above credit quality requirements, but are individually appraised and approved in relation to their support for service outcomes as well as their financial consequences and risks.

The Council's maximum exposure to credit risk, in relation to its investments in financial institutions, cannot be assessed generally, as the risk of any institution failing to make due payments will be specific to each individual institution. In relation to the Council's outstanding treasury deposits with financial institutions, local authorities and other institutions, no such deposits have defaulted in the year or are impaired. A risk of recoverability applies to all deposits, but there was no evidence at 31 March 2021 that this was likely to crystallise.

The Council does not hold collateral as security on its treasury deposits.

Liquidity Risk

Liquidity risk arises from the need to borrow to finance capital expenditure, loan maturities and other payments. The Council has a comprehensive cash flow management system that measures liquidity and seeks to ensure that cash is available as needed. The Council has ready access to loans from the Public Works Loan Board (PWLB) in accordance with the PWLB circulars currently in force, and there is no significant risk that it will be unable to raise finance to meet its commitments. The Council sets limits on the proportion of its fixed rate borrowing maturing in specified periods. The maturity analysis of financial liabilities is as follows:

| | 31 March 2020<br>£m | 31 March 2021<br>£m |
|---|---|---|
| Less than 1 year* | (788.0) | (756.0) |
| Between 1 and 2 years | (72.0) | (120.1) |
| Between 2 and 5 years | (287.8) | (281.6) |
| Between 5 and 20 years | (1,628.3) | (1,617.1) |
| Between 20 and 40 years | (1,250.0) | (1,280.3) |
| Over 40 years | (160.0) | (100.1) |
| **Total** | **(4,186.1)** | **(4,155.2)** |

All trade and other payables are due to be paid in less than 1 year.

LOBO loans

The LOBO maturity profile assumes that the lender will not exercise their option until maturity. The LOBOs are of fixed rates, ranging between 3.8% and 11.5%. Of the total amount, £30m have a break clause of every 5 years, £30m have a break clause twice a year and £11.1m have a break clause any day at one month's notice. However, in the current low interest rate environment, it is unlikely that the lender will exercise their option to request early repayment of these LOBOs.

Market Risk

Interest rate risk

The Council is exposed to significant risk in relation to interest rate movements on its borrowing and investments.

The Council is exposed to changes in interest rates as a result of most of its borrowings being at long-term fixed rates and investment being short-term or at variable rates of interest. Consequently, falls in interest rates will have an adverse impact on the Council's finances.

For instance, a rise in interest rates would have the following effects:

- Borrowings at variable rates – the interest expense charged to the Surplus/(Deficit) on the Provision of Services will rise
- Borrowings at fixed rates – the fair value of the liabilities for borrowings will fall
- Investments at variable rates – the interest income credited to the Surplus/(Deficit) on the Provision of Services will rise
- Investments at fixed rates – the fair value of the assets will fall.

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus/(Deficit) on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus/(Deficit) on the Provision of Services and affect the General Fund Balance. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in Other Comprehensive Income and Expenditure.

These risks are measured and managed in accordance with the Council's Treasury Management Strategy, including the setting and monitoring of risk limits on the level of variable rate instruments and on the amount of borrowing maturing in future years.

At 31 March 2021, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

| | £m |
|---|---|
| Increase in interest payable on variable rate borrowings | 3.8 |
| Increase in interest receivable on variable rate investments | (1.9) |
| Impact on Surplus/(Deficit) on the Provision of Services | 1.9 |
| Share of overall impact charged to the HRA | 1.4 |
| Decrease in fair value of fixed rate investment assets | 5.0 |
| Decrease in fair value of fixed rate borrowing liabilities (no impact on the Surplus/(Deficit) on the Provision of Services or Other Comprehensive Income and Expenditure) | (534.6) |

The impact of a 1% fall in interest rates would be as above but with the movements being reversed. The above sensitivities have been prepared and based on loan debt and loan investments outstanding at 31 March 2021.

Price Risk

The Council's holdings of shares are all unquoted shares held primarily to support service objectives rather than as financial investments. The financial value of these shares will vary according to general market conditions and the particular circumstances of the share issuers. Active prices for these investments are not available. Any temporary fluctuations in the market value of such investments would have no significant impact on the Council's finances.

**Note 39**
**Capital Expenditure and Capital Financing**

The Council's capital expenditure on an accruals basis, analysed between types of asset, is summarised below. This also includes revenue expenditure funded from capital under statute.

| | 31 March 2020 | 31 March 2021 |
|---|---|---|
| | £m | £m |
| **Opening Capital Financing Requirement** | **4,549.1** | **4,501.9** |
| **Capital Investment** | | |
| Property, Plant and Equipment | 345.2 | 412.5 |
| Heritage Assets | 0.2 | - |
| Intangible Assets | 2.9 | - |
| Revenue Expenditure funded from Capital under Statute | 68.6 | 86.8 |
| Secretary of State Direction - Flexible use of Capital Receipts - see note | 28.2 | 20.1 |
| Long Term Loans | 0.1 | 1.9 |
| Increase in Share Equity | 0.2 | 1.5 |
| **Sources of Finance** | | |
| Capital Receipts | (61.5) | (42.0) |
| Government Grants and other Contributions | (203.3) | (187.4) |
| Sums set aside from Revenue: | | |
| - Direct Revenue Contributions | (8.3) | (23.7) |
| - Use of Major Repairs Reserve | (54.2) | (53.3) |
| - Revenue Provision for Debt Redemption | (163.4) | (148.4) |
| - Capital Receipts set aside for debt redemption | (1.9) | (13.8) |
| **Closing Capital Financing Requirement** | **4,501.9** | **4,556.1** |
| **Explanation of Movements in Year** | | |
| Movement in underlying need to borrow | (59.7) | 33.7 |
| Assets acquired under finance leases | 1.4 | 19.8 |
| Assets acquired under PFI contracts | 11.1 | 0.7 |
| Increase/(decrease) in Capital Financing Requirement | **(47.2)** | **54.2** |
| **Movement in Year** | **(47.2)** | **54.2** |

Note:
The Secretary of State direction relates to the permission given to local authorities to use capital receipts generated between 1 April 2016 and 31 March 2020 to finance the revenue costs of transformation that deliver savings to the public sector.

**Note 40**
**Leases**

The Council has a significant number of leases, as summarised below.

**Council as the lessee**

**Finance leases**
The Council has acquired a number of buildings and other assets under finance leases. The assets acquired under these leases are carried in the Balance Sheet at the following net amounts.

| 31 March 2020 £m | | 31 March 2021 £m |
|---|---|---|
| 26.6 | Other Land and Buildings | 30.0 |
| 3.3 | Vehicles, Plant, Furniture & Equipment | 3.0 |
| **29.9** | **Total** | **33.0** |

The Council is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the property acquired by the Council and finance costs that will be payable by the Council in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

| 31 March 2020 £m | | 31 March 2021 £m |
|---|---|---|
| | Finance lease liabilities (net present value of minimum lease payments): | |
| 1.3 | - current (not later than 1 year) | 1.1 |
| 1.2 | - non-current (later than 1 year) | 1.2 |
| 1.9 | Finance costs payable in future years | 1.9 |
| **4.4** | **Minimum Lease Payments** | **4.2** |

The minimum lease payments will be payable over the following periods:

| | Minimum lease payments | | Finance lease liabilities | |
|---|---|---|---|---|
| | 31 March 2020 £m | 31 March 2021 £m | 31 March 2020 £m | 31 March 2021 £m |
| Not later than 1 year | 1.4 | 1.2 | 1.3 | 1.1 |
| Later than 1 year and not later than 5 years | 1.1 | 1.1 | 1.0 | 1.0 |
| Later than 5 years | 1.9 | 1.9 | 0.2 | 0.2 |
| **Total** | **4.4** | **4.2** | **2.5** | **2.3** |

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2020/21 contingent rents of £nil were payable (2019/20: £nil).

The Council has not sublet any of the assets held under these finance leases.

**Operating leases**

The Council has acquired a number of administrative buildings under operating leases. The future minimum lease payments due under non-cancellable leases where the length of lease was greater than 1 year at inception are:

| 31 March 2020 £m | | 31 March 2021 £m |
|---|---|---|
| 0.3 | Not later than 1 year | 0.3 |
| 0.5 | Later than 1 year and not later than 5 years | 0.5 |
| 1.3 | Later than 5 years | 1.2 |
| **2.1** | **Total** | **2.0** |

The Council has not sublet any of the assets held under these operating leases.

The expenditure charged to the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

| 31 March 2020 £m | | 31 March 2021 £m |
|---|---|---|
| 0.2 | Minimum lease payments | 0.2 |
| 0.1 | Contingent rents | 0.1 |
| **0.3** | **Total** | **0.3** |

## Council as the lessor

**Finance leases**

The Council has leased out property to a number of parties on finance leases. The Council has a gross investment in the lease, made up of the minimum lease payments expected to be received over the remaining term and the residual value anticipated for the property when the lease comes to an end. The minimum lease payments comprise settlement of the long-term debtor for the interest in the property acquired by the lessee, and finance income that will be earned by the Council in future years whilst the debtor remains outstanding. The gross investment is made up of the following amounts:

| 31 March 2020 £m | | 31 March 2021 £m |
|---|---|---|
| | Finance lease debtor (net present value of minimum lease payments): | |
| 0.2 | - current (not later than 1 year) | 0.0 |
| 24.1 | - non-current (later than 1 year) | 24.1 |
| 204.7 | Unearned finance income | 203.5 |
| (28.2) | Less – Unguaranteed residual value of property | (28.3) |
| **200.8** | **Gross investment in the lease** | **199.3** |

The gross investment in the lease and the minimum lease payments will be received over the following periods:

| | Finance Lease debtor | | Minimum Lease payments | |
|---|---|---|---|---|
| | 31 March 2020 | 31 March 2021 | 31 March 2020 | 31 March 2021 |
| | £m | £m | £m | £m |
| Not later than 1 year | 0.2 | 0.0 | 1.8 | 1.6 |
| Later than 1 year and not later than 5 years | 0.1 | 0.1 | 6.3 | 6.3 |
| Later than 5 years | 24.0 | 24.0 | 192.7 | 191.4 |
| **Total** | **24.3** | **24.1** | **200.8** | **199.3** |

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2020/21 £1.5m contingent rents were receivable by the Council (2019/20 £1.4m).

**Operating leases**
The Council has leased out property to a number of parties as operating leases.

The future minimum lease payments receivable under non-cancellable leases where the length of lease was greater than 1 year at inception are:

| 31 March 2020 £m | | 31 March 2021 £m |
|---|---|---|
| 9.5 | Not later than 1 year | 9.5 |
| 27.9 | Later than 1 year and not later than 5 years | 27.9 |
| 66.5 | Later than 5 years | 64.1 |
| **103.9** | **Total** | **101.5** |

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2020/21 £3.1m contingent rents were receivable by the Council (2019/20 £2.5m).

**Leases - contingent rent**
Contingent rents are determined from the comparison of the property lease rental system to the accounts leasing system.

**Note 41**
**Service Concession Arrangements**

The Council has entered into a number of Service Concession arrangements, formerly classed as Private Finance Initiative (PFI), through which assets are constructed or refurbished and services are provided under long-term contracts with private sector firms. The main contracts cover Schools and Highways Management and Maintenance.

The main terms of the material arrangements are as follows:

- Schools. There are four separate arrangements in place for the rebuild / refurbishment and management of a total of 26 schools within Birmingham. These arrangements are of varying duration and service providers: 10 schools from 2001/02 (for 32 years), 11 schools from 2004/05 (for 35 years), four schools from 2011/12 (for 25 years) and a single secondary school from 2013/14 ending 2038/39. The service provider is paid a Unitary Charge monthly for the duration of the contracts, with indexation applied annually as per the terms of each contract. Within each contract the Council retains both the schools' assets and the liability for future contract commitments in the Balance Sheet, with the exception of when schools gain Academy status. There are a number of PFI managed schools that have gained Academy status, a total of eight schools to date across the four separate school PFI contracts. Whilst the assets no longer belong to the Council and are thus removed from the Balance Sheet, the ongoing liability remains as a Council responsibility.

- Birmingham Highways Management and Maintenance Public Finance Initiative (PFI). This contract provides for the management and maintenance of all public highway and other contractually designated areas within the Birmingham boundary by the contractor; Birmingham Highways Limited (BHL) . The original contract commenced on 7 June 2010, with a contract period of 25 years and was originally designed so that the initial five year period was for capital improvement to the highways network followed by a 20 year period during which the improved highway condition was maintained.

- These financial statements are based on a continuance of the current contract arrangements.

Indexation is applied annually on 1 April by reference to movements in the Retail Price Index. Deductions can be levied for non-performance of the contractual deliverables as specified within the contract. As the size and scale of the highway network varies, the contract provides for these changes to be accrued into the network maintained by the Service Provider, Birmingham Highways Limited, attracting an increase/decrease in payments made as appropriate.

The Council continues to have full use of the roads and roadside furniture during the period of the arrangement, at the end of which all rights revert to the Council. There are no early terminations or period clauses within the PFI arrangement.

Following poor performance and subsequent legal action, a settlement agreement was reached which addressed the dispute between the Council and the contractor. As a result, the original subcontractor, Amey Plc, exited the contract on 31 March 2020 and a new interim sub-contractor; Kier Highways Ltd was appointed by BHL from 1 April 2020 for an initial period of 15 months, in order to develop a way forward with the contract. An extension to the arrangement with Kier is currently being negotiated, with an expected restructuring completion date of August 2023. Cabinet has been advised of progress and the Council's options for maximising investment in the network, which have been submitted to the Department for Transport (DfT) for consideration.

On the basis of a transfer of responsibilities under the contract to a new provider, these financial statements are based on a continuance of the current contract arrangements.

| Payments Remaining as at 31 March 2021 | Interest | Repayment of Liability | Payment for Services | Total |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| Within 1 year | 30.0 | 12.9 | 43.7 | 86.6 |
| Between 2 and 5 years | 107.4 | 72.8 | 192.1 | 372.3 |
| Between 6 and 10 years | 97.1 | 123.0 | 279.6 | 499.7 |
| Between 11 and 15 years | 41.1 | 147.1 | 260.1 | 448.3 |
| Between 16 and 20 years | 3.2 | 25.2 | 27.3 | 55.7 |
| | **278.8** | **381.0** | **802.8** | **1,462.6** |

Although the payments made to the contractor are described as unitary payments, they have been calculated to compensate the contractor for the fair value of the services they provide, the capital expenditure incurred and interest payable whilst the capital expenditure remains to be reimbursed. The movement in the liabilities to repay the contractors for capital expenditure incurred is as follows:

| 2019/20 | | 2020/21 |
|---|---|---|
| £m | | £m |
| 404.3 | Liability outstanding at the start of the year | 392.4 |
| (23.0) | Repayment of liability | (31.9) |
| 11.1 | Lifecycle and further capital expenditure | 20.5 |
| **392.4** | **Liability outstanding at the year end** | **381.0** |

**Service Concessions - contingent rent**
Contingent rents in respect of service concession arrangements total £1.5m (£11.3m 2019/20).

## Note 42
## Members' Allowances

Allowances paid to Members of the Council in 2020/21 totalled £2.3m (2019/20: £2.3m). These figures include Members' allowances and expenses. Further information can be found on the Council's website.

**Note 43**
**Officers' Remuneration**

The remuneration paid to or receivable by the Council's senior employees is detailed in the table below.

| | | Salary, fees and allowances | Compensation for loss of office | Expense allowances | Pension contributions | Total |
|---|---|---|---|---|---|---|
| | | £ | £ | £ | £ | £ |
| Professor Graeme Betts, Acting Chief Executive and Director, Adult Social Care (1) | 2019/20 | 166,167 | - | - | - | 166,167 |
| | 2020/21 | 173,060 | - | - | - | 173,060 |
| Interim Chief Executive (2) | 2019/20 | N/A | N/A | N/A | N/A | N/A |
| | 2020/21 | N/A | N/A | N/A | N/A | N/A |
| Assistant Chief Executive | 2019/20 | 116,451 | - | - | 21,311 | 137,762 |
| | 2020/21 | 119,368 | - | - | 25,425 | 144,793 |
| Interim Director for Finance and Governance (3) | 2019/20 | N/A | N/A | N/A | N/A | N/A |
| | 2020/21 | N/A | N/A | N/A | N/A | N/A |
| Programme Director, Commonwealth Games 2022 (4) | 2019/20 | N/A | N/A | N/A | N/A | N/A |
| | 2020/21 | N/A | N/A | N/A | N/A | N/A |
| Acting Director, Inclusive Growth (5) | 2019/20 | 55,266 | - | 315 | 10,114 | 65,695 |
| | 2020/21 | 139,068 | - | 315 | 29,621 | 169,004 |
| Director, Digital and Customer Services (6) | 2019/20 | 77,250 | - | - | 14,137 | 91,387 |
| | 2020/21 | 105,833 | - | - | 22,542 | 128,375 |
| Director, Place (7) | 2019/20 | 152,035 | - | - | 27,822 | 179,857 |
| | 2020/21 | 31,661 | 197,000 | - | 5,397 | 234,058 |
| Director, Human Resources | 2019/20 | 105,222 | - | - | 19,256 | 124,478 |
| | 2020/21 | 108,116 | - | - | 23,029 | 131,145 |
| Acting Director, Neighbourhoods | 2019/20 | 135,346 | - | - | 24,768 | 160,114 |
| | 2020/21 | 139,068 | - | - | 29,621 | 168,689 |
| Director, Public Health | 2019/20 | 101,192 | - | 17,434 | 18,518 | 137,144 |
| | 2020/21 | 103,975 | - | - | 22,147 | 126,122 |
| Director, Education and Skills (8) | 2019/20 | 142,800 | - | - | 26,132 | 168,932 |
| | 2020/21 | 142,532 | 16,884 | - | 26,044 | 185,460 |
| Acting Director, Adult Social Care (9) | 2019/20 | - | - | - | - | - |
| | 2020/21 | 27,290 | - | - | 5,813 | 33,103 |
| Acting Director, Education and Skills (10) | 2019/20 | N/A | N/A | N/A | N/A | N/A |
| | 2020/21 | N/A | N/A | N/A | N/A | N/A |

Notes:

(1) Professor Graeme Betts, Director Adult Social Care took responsibility for the post of Acting Chief Executive on 1 April 2020 until 17 May 2020 and then again from 7 March 2021.

(2) The Interim Chief Executive took up post with effect from 18 May 2020 until 6 March 2021. The role holder was seconded to the Council from Barking & Dagenham London Borough Council. Payments due to Barking and Dagenham London Borough Council in respect of the arrangement were £244,867 in 2020/21. This amount is not the amount that would have been received by the postholder.

(3) The Interim Director for Finance and Governance (& Section 151 Officer) was employed through a third party, the costs of which were £316,750 in 2020/21 (2019/20: £155,841 commencing from 2 October 2019). This amount is not the amount that would have been received by the postholder.

(4) The Programme Director, Commonwealth Games 2022 took up the role on 11 May 2020 and was employed through a third party, the costs of which were £261,600 in 2020/21. This amount is not the amount that would have been received by the postholder.

(5) The Acting Director, Inclusive Growth took up the role on 4 November 2019. The expenses incurred relate to reimbursement of expenditure incurred.

(6) The Director, Digital and Customer Services took up the role on 1 July 2019.

(7) The Director, Place took early retirement and left the Council on 31 May 2020.

(8) The Director, Education and Skills left the Council on 31 January 2021.

(9) The Acting Director, Adult Social Care took up the role on 01 April 2020 until 17 May 2020 and then again from 7 March 2021.

(10) The Chief Executive of Birmingham Children's Trust took up the additional role of Acting Director for Education and Skills from 1 February 2021, the costs of which were £6,600, in 2020/21.

Coverage of statutory posts during periods of annual leave or sickness absence was by officers within the relevant teams under delegated responsibilities.

Other Council employees receiving more than £50,000 remuneration for the year (excluding employer's pension contributions) were paid the amounts detailed in the table below. Staff within Voluntary Aided and Foundation schools are employed by the governing body of the school and have therefore been excluded from the table below.

| 2019/20 | | | | 2020/21 | | |
|---|---|---|---|---|---|---|
| Teaching Staff & Staff in Schools | Other Council Employees | **Total** | Remuneration band | Teaching Staff & Staff in Schools | Other Council Employees | **Total** |
| No | No | **No** | | No | No | **No** |
| 151 | 166 | **317** | £50,000 - £54,999 | 173 | 140 | **313** |
| 104 | 75 | **179** | £55,000 - £59,999 | 102 | 129 | **231** |
| 78 | 41 | **119** | £60,000 - £64,999 | 61 | 31 | **92** |
| 52 | 22 | **74** | £65,000 - £69,999 | 68 | 40 | **108** |
| 25 | 28 | **53** | £70,000 - £74,999 | 38 | 22 | **60** |
| 23 | 8 | **31** | £75,000 - £79,999 | 18 | 17 | **35** |
| 14 | 8 | **22** | £80,000 - £84,999 | 13 | 3 | **16** |
| 6 | 6 | **12** | £85,000 - £89,999 | 14 | 8 | **22** |
| 6 | 4 | **10** | £90,000 - £94,999 | 7 | 5 | **12** |
| 3 | 2 | **5** | £95,000 - £99,999 | 4 | 2 | **6** |
| 4 | 6 | **10** | £100,000 - £104,999 | 2 | 8 | **10** |
| - | - | **-** | £105,000 - £109,999 | - | 3 | **3** |
| 1 | 1 | **2** | £110,000 - £114,999 | 1 | - | **1** |
| - | - | **-** | £115,000 - £119,999 | - | - | **-** |
| 1 | 1 | **2** | £120,000 + | 1 | 1 | **2** |
| **468** | **368** | **836** | | **502** | **409** | **911** |

Remuneration includes salary, allowances, bonuses and compensation for loss of employment.

The figures for both years include those employees with planned termination payments, 9 in 2020/21 (37 in 2019/20). Excluding employees in receipt of planned termination payments, 400 employees in 2020/21 (331 in 2019/20) received remuneration of £50,000 or more.

The number of Teaching Staff and Staff in Schools reflect those staff employed by the Council and has been affected by the conversion of a number of schools to Academy Status. Academy schools are independent of the Council and their employees are therefore excluded from the Council's financial statements.

The number of staff in Voluntary Aided and Foundation Schools, with a remuneration of more than £50,000 per annum, was 235 in 2020/21 (2019/20: 192).

## Note 44
## Exit Packages

The costs of exit packages are amounts payable as a result of either the Council's decision to terminate an employee's employment before the normal retirement date, or an employee's decision to accept voluntary redundancy in exchange for those benefits. The following table provides information on the number of exit packages payable by the Council for the year, with total cost per band and total cost of both compulsory and other redundancies.

| 2019/20 | | | | | | Value of individual package £000 | 2020/21 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Compulsory | | Voluntary | | **Total** | | | Compulsory | | Voluntary | | **Total** | |
| No. | £m | No. | £m | **No.** | **£m** | | No. | £m | No. | £m | **No.** | **£m** |
| - | - | 4 | 1.3 | **4** | **1.3** | £250+ | - | - | - | - | **-** | **-** |
| - | - | 1 | 0.2 | **1** | **0.2** | £200 - £250 | 1 | 0.2 | 1 | 0.2 | **2** | **0.4** |
| - | - | 14 | 2.3 | **14** | **2.3** | £150 - £200 | - | - | - | - | - | - |
| - | - | 16 | 1.9 | **16** | **1.9** | £100 - £150 | 2 | 0.2 | 2 | 0.3 | **4** | **0.5** |
| - | - | 5 | 0.5 | **5** | **0.5** | £80 - £100 | 2 | 0.2 | - | - | **2** | **0.2** |
| 4 | 0.3 | 8 | 0.5 | **12** | **0.8** | £60 - £80 | 2 | 0.1 | 1 | 0.1 | **3** | **0.2** |
| 4 | 0.2 | 18 | 0.9 | **22** | **1.1** | £40 - £60 | 2 | 0.1 | 1 | 0.1 | **3** | **0.2** |
| 11 | 0.3 | 25 | 0.7 | **36** | **1.0** | £20 - £40 | 6 | 0.2 | 11 | 0.3 | **17** | **0.5** |
| 77 | 0.5 | 206 | 1.6 | **283** | **2.1** | less than £20 | 51 | 0.4 | 57 | 0.2 | **108** | **0.6** |
| **96** | **1.3** | **297** | **9.9** | **393** | **11.2** | **Total** | **66** | **1.4** | **73** | **1.2** | **139** | **2.6** |

In addition to the costs of exit packages identified above, the Council incurred costs of £0.018m in 20/21 (£0.065m in 19/20) relating to the provision of transitional support and training to employees whose further employment was considered to be at risk.

*Exit packages include the costs of compulsory and voluntary redundancy, pension fund strain payments and other departure costs.

## Note 45
## Auditor Remuneration

The Council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and for non-audit services provided by the Council's external auditors.

| 2019/20 £m | | 2020/21 £m |
|---|---|---|
| 0.2 | Fees payable to Grant Thornton UK LLP with regard to external audit services carried out by the appointed auditor for the year | 0.5 |
| 0.1 | Fees payable to Grant Thornton UK LLP for the certification of grant claims and returns for the year | 0.0 |
| **0.3** | **Total** | **0.5** |

**Note 46**
**Related Parties**

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, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (for example, Council Tax bills, Business Rates, Housing Benefits). Grants received from Government departments are set out in Note 14. Grant receipts outstanding at 31 March 2021 are included in the balances within Note 27.

**Members**
Members of the Council have direct control over the Council's financial and operational policies. The total of Members' allowances paid in 2020/21 is shown in Note 42.

**Officers**
There were no transactions between Senior Officers of the Council and the Council and its related parties, other than the receipt of emoluments due as employees of the Council and payments of Council Tax due as appropriate.

**School Governors**
All school governors and staff should complete the school's Register of Business Interests. This register should be kept up-to-date and be freely available for inspection by governors, staff and parents.

**Other Public Bodies**

Aligned Budgets

The Council is party to an aligned commissioning agreement with the Clinical Commissioning Groups (CCGs) covering the Birmingham area, namely, Birmingham & Solihull CCG and Sandwell and West Birmingham CCG. Under this arrangement the strategic commissioning of Mental Health (MH) services is overseen by the Mental Health System Strategic Board. The Adults with Learning Disabilities (LD) Integrated Commissioning Board performs the same function for LD services. Each Board has representation from the Council and NHS bodies, and reviews the expenditure plans for the services but there is no arrangement in place to pool the Council and NHS budgets for the services. The objective of the arrangement is to improve services for users through closer working and co-operation in the commissioning of services and have been established pursuant to Section 75 of the NHS Act 2006 and related Regulations with the Council hosting the Learning Disability element and the combined CCGs hosting Mental Health

Services provision. The table below summarises the financial activity relating to the BCC hosted Learning Disability element for the year.

| | 2019/20 £m | 2020/21 £m |
|---|---|---|
| Funding provided to the pooled budget | | |
| Birmingham City Council | 109.0 | 109.2 |
| Combined Clinical Commissioning Groups | 53.3 | 71.6 |
| | **162.3** | **180.8** |
| Expenditure met from the pooled budget | | |
| Birmingham City Council | 109.0 | 109.2 |
| Combined Clinical Commissioning Groups | 53.3 | 71.6 |
| | **162.3** | **180.8** |
| **Net surplus arising from the pooled budget during the year** | **-** | **-** |

The Better Care Fund (including the improved Better Care Fund)

The Better Care Fund (BCF) was announced in June 2013 with the intention of driving the transformation of local care services and is operated through pooled budget arrangements between the Council and local Clinical Commissioning Groups (CCGs). Specific resources were earmarked for the BCF by NHS England in its allocation to CCGs. The remainder of the fund was made up of the Social Care Capital Grant and the Disabled Facilities Grant which were paid to local authorities. No new money was made available at the time to the health and care system but the BCF provided an opportunity for joint working between local authorities and health organisations to deliver better outcomes for service users. The funding the Council receives through the BCF replaces the Section 256 transfer from the NHS that had been made in previous years.

As part of the Government's response to the Covid pandemic the Hospital Discharge Service Operating Model was established and provided funding, via the NHS, to help cover the cost of post-discharge recovery and support services, rehabilitation and reablement for up to 6 weeks following discharge from hospital. From September 2020 this was replaced with the Discharge to Assess Pathways model up to 31 March 2021, and in total £13.8m was received by the Local Authority to support these clients.

In addition to this further Local Authority and CCG funding to support Health and Social Care system improvements were also included in 2020/21 totalling £16.7m.

The improved Better Care Fund (iBCF) was introduced in 2016/17. It was implemented through two statements, the first – iBCF1 in November 2016 and the second - iBCF2 in Spring 2017. This Section 31 Grant is received by local authorities and is included in the BCF Pool. iBCF Funding received in 2020/21 remained at £60.3m and included the Winter Pressures Grant Funding of £5.6m.

The Council endorsed the principle of a BCF joint pooled budget for Older Adult Social Care and Health integrated provision between the Council and local CCGs, namely Birmingham & Solihull CCG and Sandwell and West Birmingham CCG. Joint proposals were developed during 2014/15 for implementation from 1 April 2015, which included the Council acting as host for the BCF.

In 2020/21 funding of £116.3m (2019/20: £92.6m) was earmarked for the BCF by the Department of Health via the CCGs as detailed in the table below. The Council's contribution was made up of the Disabled Facilities Grant, iBCF Grant (including Winter Pressure Grant), together with £6.7m of addition support to the wider Health and Social Care System.

| | 2019/20 | 2020/21 |
|---|---|---|
| Contribution to the BCF Pooled Fund | £m | £m |
| Birmingham & Solihull CCG | 80.5 | 103.1 |
| Sandwell and West Birmingham CCG | 12.1 | 13.2 |
| **NHS Contribution** | **92.6** | **116.3** |
| Birmingham City Council | 13.6 | 21.1 |
| iBCF Section 31 Grant | 60.3 | 65.9 |
| **Total BCF Pooled Fund** | **166.5** | **203.3** |

The BCF is used to fund various schemes as identified in the agreed joint plan. The management arrangements for the individual projects depend on the services being provided and include:

- Sole control of the activities by CCGs;
- Sole control of the activities by the Council;
- Joint control of the activities with CCGs or the Council acting as host;
- Lead commissioning by CCGs or the Council on behalf of the other organisations.

Details of the specific projects are set out below.

| Service Provision | Budgeted Activity | | Nature of Arrangement |
|---|---|---|---|
| | 2019/20 | 2020/21 | |
| | £m | £m | |
| Bed Based Additional Provision | 1.6 | 1.5 | Lead Commissioning – Council |
| Social Care Based Additional Provision | 1.6 | 1.7 | Sole Control – Council |
| Reablement – Kenrick Centre | 1.6 | 1.7 | Sole Control – Council |
| Care Act | 3.2 | 3.4 | Lead Commissioning – Council |
| Carers Strategy | 1.3 | 1.4 | Joint Control |
| Eligibility Criteria | 21.6 | 22.8 | Sole Control – Council |
| Management of Programme | 0.1 | 0.1 | Joint Control |
| Community Services | 48.8 | 50.9 | Sole Control – CCGs |
| Reablement – Rapid Assessment, Interface and Discharge | 1.7 | 1.8 | Sole Control – CCGs |
| Planned Community/Intermediate Care | 0.4 | 0.0 | Sole Control – CCGs |
| Outpatient Antimicrobial Therapy – University Hospitals Birmingham NHSFT | 0.0 | 0.1 | Sole Control – CCGs |
| Dementia | 2.7 | 2.9 | Sole Control – CCGs |
| Assertive Outreach | 0.3 | 0.3 | Sole Control – CCGs |
| Enhanced Assessment Bed Support | 0.5 | 0.0 | Sole Control – CCGs |
| Equipment Contracts | 5.5 | 5.5 | Lead Commissioning – Council |
| Disabled Facilities Grant and Capital | 11.4 | 12.9 | Sole Control – Council |
| Health & Social Care System Improvements | 3.9 | 16.8 | Joint Control |
| Hospital Discharge Service | 0.0 | 13.6 | Sole Control – Council |
| | **106.2** | **137.4** | |
| | | | |
| Balance of funding | | | |
| iBCF (including Winter Pressures in 2020/21) | 60.3 | 65.9 | Sole Control – Council |
| **Total BCF** | **166.5** | **203.3** | |

## Other Related Parties

During 2020/21 payments, to the value of £439.3m, inclusive of VAT, were payable to related parties of which £21.6m remained outstanding at 31 March 2021. Additionally, £54.1m inclusive of VAT, was receivable during 2020/21 from companies in which the Council had a related party interest, of which £35.9m remained outstanding at 31 March 2021. The majority of the value of expenditure is in relation to companies where elected members are acting in their official capacity within the Group.

Other balances at 31 March 2021 are: assets of £37.8m of investments and £85.4m of loans (of which £76.5m is repayable after 31 March 2022); liabilities of £82.2m of funding guarantee (NEC Developments Plc), £32m held as cash invested by Birmingham Children's Trust and £4.9m of borrowings (of which £2.5m is repayable after 31 March 2022).

Entities Controlled or Significantly Influenced by the Council

The Council maintains involvement with a number of associated and subsidiary companies where the assets and liabilities of these companies are not included in the Council's core financial statements. Group accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

**The subsidiaries that have been consolidated into the group financial statements are listed below:**

| | Exp. £m | Income £m | Loans Council as Grantor Granted £m | Loans Council as Grantor Repaid £m | Council Assets at year end £m | Council Liabilities at year end £m |
|---|---|---|---|---|---|---|
| Acivico Limited | 23.2 | 0.2 | 4.2 | 0.4 | 5.6 | 4.7 |
| Birmingham Children's Trust CIC | 210.2 | 14.9 | - | - | 14.0 | 36.2 |
| Birmingham City Propco Limited | - | 0.1 | - | - | 20.3 | - |
| InReach (Birmingham) Limited | - | - | 0.8 | 1.4 | 14.0 | - |
| National Exhibition Centre (Developments) Plc | 5.6 | - | - | - | - | 82.3 |
| PETPS (Birmingham) Limited | - | - | - | - | - | - |
| PETPS (Birmingham) Pension Funding Scottish Limited Partnership | 2.5 | - | - | - | - | 4.9 |

Separate to the numbers in the table above: The Council has made a provision of £4.1m in its accounts for potential reimbursement right support to its subsidiaries; During 2020/21 the Council made a £1.5m equity investment in Acivico Limited.

**The associate and joint venture that have been consolidated into the group financial statements are listed below:**

| | Expenditure £m | Income £m | Council Assets at year end £m | Council Liabilities at year end £m |
|---|---|---|---|---|
| Birmingham Airport Holdings Limited (BAH) | - | 0.1 | 0.6 | - |
| Paradise Circus Limited Partnership | 16.7 | 0.5 | 0.3 | - |

The Council also has relationships with a number of other companies and third party organisations where the assets and liabilities of the Council's holding is not material to the Group Accounts or where the Council has representation and influence on the board of the organisation but has no claim on the assets and liabilities of the organisation. Details of the organisation and its relationship to the Council are set out in the tables below.

Organisations where the Council has 100% share ownership of the company, but the level of activity is not material to the Council's Group Accounts, are detailed below. Those organisations highlighted with an asterisk had transactions with the Council in excess of £0.1m in 2020/21.

| | |
|---|---|
| Birmingham Business Support Centre Limited | Fields Millennium Green Trust (Kings Norton) |
| Birmingham Charities Limited | Finance Birmingham Limited* |
| Birmingham Curzon Regeneration Company Limited | Forward Homes (Birmingham) Limited |
| Birmingham Endeavour Limited | Frontier Development Holding Limited |
| Birmingham Municipal Housing Limited | Gallery 37 Foundation |
| Birmingham Museums Trust* | Greater Birmingham and West Midlands Brussels Office* |
| Birmingham Venture Capital Limited* | NEC Pension Trustee Company Limited* |
| Birmingham Wheels Ltd | NEC Pension Trustee Company No.2 Limited |
| Creative Advantage West Midlands Limited | Performances (Birmingham) Limited* |

Entities where the Council has some influence

Organisations, including associated subsidiaries, where the Council is a minority shareholder of the company and the level of activity is not material to the Council's Group Accounts are detailed below. Those organisations highlighted with an asterisk had transactions with the Council in excess of £0.1m in 2020/21.

| | |
|---|---|
| Ascarii Limited | Frontier Development Capital Limited |
| Ascension Ventures | Goodfish Limited |
| Auctus | Icknield Port Loop LLP |
| Big Button | Inceptum Development Limited |
| Birmingham LEP Company (also known as Birmingham Lend Lease Partnership) | Info-Ctrl Limited |
| Birmingham Schools SPC Phase 1A Limited* | Learning Labs Limited |
| Birmingham Schools SPC Phase 1B Limited* | Midlands Industrial Association Ltd |
| Birmingham Wholesale Market Company Limited* | Mutt Motorcycles Limited |
| Bridge Street Management Ltd | Natural HR Limited |
| Central Technology Belt | Obillex Limited |
| Crowd Technologies | Opinsta Limited |
| CSR City Limited | Owned It |
| Droplet Online | Pure Business Services Limited |
| Ex Cathedra | Stockfield Community Association |
| Eyoto Group Limited | UK Municipal Bonds Agency Plc |
| Foodient T/A Whisk | Veolia Environmental Services Birmingham Ltd* |
| Formatzone Limited | Vision Technologies |
| Friends of Rectory Park | West Midlands Growth Company Limited* |
| | Wetakestock Limited |

The Council also has representation on the board of a number of organisations but has no associated shareholding or entitlement to returns from the organisation. Details of the relevant companies are detailed below. Those organisations highlighted with an asterisk had transactions with the Council in excess of £0.1m in 2020/21.

| | |
|---|---|
| Acocks Green Primary School Academy* | Harborne Parish Lands Charity |
| Active Wellbeing Society Limited* | King Edward VI Academy Trust* |
| Bartley Green School Academy* | Leigh Trust* |
| Birmingham Asian Resource Centre | Midlands Arts Centre |
| Birmingham Citizens Advice Bureau Service Ltd | Millennium Point Property Ltd* |
| Birmingham Disability Resource Centre* | Millennium Point Trust |
| Birmingham Opera Company | Rowheath Pavilion |
| Birmingham Organising Committee for the 2022 Commonwealth Games Limited* | Sikh Council UK |
| Birmingham Repertory Theatre* | St Barnabas School (Academy) |
| Birmingham Royal Ballet* | St. Basil's* |
| Birmingham Settlement Ltd* | St. Michael's Primary School Academy |
| Birmingham Voluntary Service Council* | St. Paul's Community Development Trust |
| Bournville Village Trust* | Warwickshire County Cricket Club* |
| Canal & River Trust* | Waverley School Academy* |
| Castle Vale Neighbourhood Partnership Board | West Midlands Ambulance Service |
| City of Birmingham Symphony Orchestra* | West Midlands Combined Authority* |
| Clifton Road Youth Centre | West Midlands Fire and Rescue Authority |

Cottesbrooke Infant and Nursery School Academy*
Dance Xchange
Greater Birmingham and Solihull LEP Ltd.
Gurdwara Baba Deep Singh Ji Shaheed
Wilson Stuart School Academy*
Witton Lodge Community Association Ltd*
Yenton Primary School (Academy)*

Business Improvement Districts (BID) are business led partnerships, created to deliver additional services to local businesses. A BID covers a defined area in which a levy is charged on all business rate payers, which is then used to develop projects that will benefit business within the area. The Council has representation on BID boards within the Birmingham area as detailed below. Those organisations highlighted with an asterisk had transactions with the Council in excess of £0.1m in 2020/21.

Acocks Green Village BID
Colmore Business District BID
Erdington Town Centre Partnership
Harborne Village BID Limited
Jewellery Quarter Development Trust CIC*
Kings Heath BID
Northfield Town Centre BID
Retail Birmingham Limited*
Soho Road BID
Southside BID
Sutton Coldfield Town Centre BID
Westside Partnership Limited

Tenant Management Organisations (TMO) – The Council, whilst not having shareholding, entitlement to returns, nor board representation, does still hold significant influence over these bodies. Those highlighted with an asterisk had transactions with the Council in excess of £0.1m in 2020/21.

Bloomsbury Estate Management Board*
Four Towers TMO*
Holly Rise Housing Co-operative
Manor Close Residents' Management Organisation*
Roman Way Estate Community Interest Company*

Other Related Parties

In addition to the companies where the Council has influence through its share ownership or representation on the board, set out above, the Council has had transactions of over £0.1m within 2020/21 with the following organisations which fall within the definition of related parties:

Ashley Community Housing (ACH)
Barking & Dagenham London Borough Council
Birmingham and Solihull Mental Health Trust
Birmingham and Solihull Women's Aid
Birmingham Community Healthcare NHSFT
Birmingham Women's and Children's NHSFT
Birmingham YMCA
Black Country Housing Group Limited
Kingstanding Regeneration Trust
National Centre for Conductive Education (NICE)
Norton Hall Children and Family Centre
Penderels Trust Limited
Sandwell and West Birmingham Hospitals NHST
Sandwell College
Sir Josiah Mason Trust
South and City College (Birmingham) Limited
St. Anne's Hostel
Thompsons Solicitors
University Hospital Birmingham Foundation Trust
Yardley Great Trust

The value of transactions for other, non-consolidated, related parties, individually less than £0.1m within 2020/21 was net expenditure of £0.1m (£0.8m expenditure and £0.7m income).

**Note 47**
**The Council Acting as Agent**

The Council acts as an intermediary in its role as agent for a number of external bodies. The Council processes transactions through its financial ledger but does not include them in its financial statements as there is no exposure to significant risk or reward associated with the transactions. Details of the major activities where the Council acts as agent are detailed below:

| **Agency Role** | **No** | **Level of Reserve** £m | **Gross Expenditure** £m |
|---|---|---|---|
| Accountable Body | 27 | 157.3 | 163.1 |
| Provision of External Payrolls | 107 | | 276.9 |
| Arrangements supporting Housing activities | 1 | 2.5 | 2.0 |
| Reporting of Trust activities | 17 | 26.6 | 0.3 |
| Subsidiary Companies | 5 | 22.4 | 0.1 |
| Other transactions | 10 | 0.6 | 0.2 |

In addition to these regular activities the Covid grants where the Council is acting as agent are shown in the table below;

Covid Grants Received where the Council is Acting as Agent

| **Name of Grant** | **£ m** |
|---|---|
| Infection Control Grant | 14.3 |
| Rapid Testing Grant | 1.9 |
| Workforce Capacity Fund | 2.8 |
| Covid Business Improvement Districts | 0.2 |
| Local Restrictions Support Grant (Closed) Addendum | 13.3 |
| Christmas Support Payment (CSP) for Wet Led Pubs | 0.2 |
| Local Restrictions Support Grant (Closed) 2 December | 1.5 |
| T4 (Pro Rata) Local Restrictions Support Grant (Closed) | 5.4 |
| National Lockdown (Local Restrictions Support Grant (Closed)) | 17.9 |
| National Lockdown One Off | 35.6 |
| Test and Trace Self Isolation Payments (Main Scheme Only) | 0.9 |
| Business Support Grant | 216.8 |
| Local Restrictions Support Grant (Closed) Addendum Sector | 18.5 |
| **Total Covid Agent Grants** | **329.3** |

External Payrolls

The Council provides payroll services to external organisations, including Academy Schools and Colleges of Further Education, using capacity within its payroll system. Whilst the cost of providing the service is charged to the external organisation and forms part of the CIES, the payroll records for the external organisations do not form part of the Council's financial statements.

Accountable Body Role

The Council acts as accountable body for a number of external activities, including the Greater Birmingham & Solihull Local Enterprise Partnership (the LEP), Local Enterprise Zones and the England Illegal Money Lending Team.

The Council records and reports the financial activities of the bodies for which it is accountable and may receive directly the funds allocated to the activities and incur expenditure as directed by the external party. The Council may also receive funds in its own right from the arrangement to support eligible projects, which will form part of the Council's financial statements.

Greater Birmingham & Solihull Local Enterprise Partnership

Resources have been made available through a number of Government sources, including the Regional Growth Fund where the Council has been identified as the accountable body. In its role as accountable body, under the terms and conditions of the funding arrangements, the Council has no entitlement to:

- retain any interest generated as a result of the provision of state funds;
- use the state funds in any way other than as provided for in the offer letter.

The Council acts as accountable body for the resources provided on behalf of the LEP. The Council may receive direct funding to support eligible projects as determined by the LEP's independent investment boards and committees.

Enterprise Zones

The Council provides accountancy support, collecting Business Rate contributions through its role as agent for the Collection Fund and making payments on its behalf against LEP approved projects as contained in the Enterprise Zone Investment Programme.

England Illegal Money Lending Team

The England Illegal Money Lending Team seizes and holds cash from third parties temporarily as part of its accountable body activities on behalf of the Courts.

Housing Activities

For a number of mixed tenure housing developments on Council owned land, the Council receives payment for any market sales prior to distribution between the Council and the developer.

Trusts

The Council provides administrative and accountancy support to a number of trusts and some of those are transacted through the Council's bank accounts. Included within this group are activities related to the collection of rent and management of properties on behalf of Housing Trusts and Community Associations.

Subsidiary Companies

Following the disposal of the Council's interests in NEC Group Limited, NEC (Developments) Plc has a minimal number of transactions going through it in respect of its loan stock. The company is consolidated into the Council's Group Accounts. The Council provided guarantees to the Trustees of the Fund and the Scheme to meet the current and future funding obligations that may arise in respect of the liabilities. In 2017/18, the Council set up an arrangement through PETPS (Birmingham) Capital, PETPS (Birmingham) General Partner Limited and their joint partnership, PETPS (Birmingham) Pension Funding Scottish Limited Partnership that will enable the Council to spread the implications of the guarantee across the anticipated deficit recovery period.

Other

The Council provides accountancy support to:

- a number of National and Regional bodies, collecting contributions and making payments on their behalf
- service users who require support in managing their resources.

**Note 48**
**Trust Funds**

The Council administers a number of trust funds which have been established from donations and bequests made to it to meet a variety of objectives and purposes. The total funds held at 31 March 2021 was £31.4m (2019/20: £29.7m). The trust funds do not represent assets of the Council and have not been included in the Consolidated Balance Sheet. The major trust funds are detailed below.

| | Balance at 31 March 2020 | Income | Expenditure | Balance at 31 March 2021 |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| **Council acting as Sole Trustee** | | | | |
| Birmingham Municipal Charity - general charitable objectives | 0.7 | 0.0 | 0.0 | 0.7 |
| Charles Baker Trust – for the elderly and disabled | 0.3 | 0.0 | 0.0 | 0.3 |
| Cropwood Estate – management of the estate | 14.9 | 0.1 | 0.0 | 15.0 |
| Elford Trust – healthy recreation for Birmingham citizens | 4.2 | 0.3 | 0.0 | 4.5 |
| Harriet Louisa Loxton Charity – for the aged and infirm | 1.7 | 0.2 | 0.0 | 1.9 |
| Highbury Trust – for the benefit of the citizens of Birmingham | 2.0 | 0.1 | 0.0 | 2.1 |
| Other | 0.2 | 0.1 | 0.1 | 0.2 |
| **Total Council acting as Sole Trustee** | **24.0** | **0.8** | **0.1** | **24.7** |
| **Council acting as Custodian** | | | | |
| Alderson – to let dwelling houses to ex-servicemen and other persons in need | 0.5 | 0.1 | 0.0 | 0.6 |
| Bodenham Trust – for children with special educational needs | 0.7 | 0.1 | 0.1 | 0.7 |
| Clara Martineau Trust – for children with special educational needs | 4.2 | 0.9 | 0.0 | 5.1 |
| Moseley Road Friends Institute – provision and maintenance | 0.2 | 0.0 | 0.0 | 0.2 |
| Other | 0.1 | 0.1 | 0.1 | 0.1 |
| **Total Council acting as Custodian** | **5.7** | **1.2** | **0.2** | **6.7** |
| **Total Trust Balances** | **29.7** | **2.0** | **0.3** | **31.4** |

Analysis of the assets of the main funds:

| | Restricted Funds at 31 March 2021 £m | Unrestricted Funds at 31 March 2021 £m | **Total Funds at 31 March 2021 £m** |
|---|---|---|---|
| **Council acting as Sole Trustee** | | | |
| Birmingham Municipal Charity - general charitable objectives | 0.7 | - | **0.7** |
| Charles Baker Trust – for the elderly and disabled | 0.2 | 0.1 | **0.3** |
| Cropwood Estate – management of the estate | 0.7 | 14.3 | **15.0** |
| Elford Trust – healthy recreation for Birmingham citizens | 4.1 | 0.4 | **4.5** |
| Harriet Louisa Loxton Charity – for the aged and infirm | 1.7 | 0.2 | **1.9** |
| Highbury Trust – for the benefit of the citizens of Birmingham | 1.8 | 0.3 | **2.1** |
| Other | 0.1 | 0.1 | **0.2** |
| **Total Council acting as Sole Trustee** | **9.3** | **15.4** | **24.7** |
| **Council acting as Custodian** | | | |
| Alderson – to let dwelling houses to ex-servicemen and other persons in need | - | 0.6 | **0.6** |
| Bodenham Trust – for children with special educational needs | 0.7 | - | **0.7** |
| Clara Martineau Trust – for children with special educational needs | 4.8 | 0.3 | **5.1** |
| Moseley Road Friends Institute – provision and maintenance | 0.2 | - | **0.2** |
| Other | - | 0.1 | 0.1 |
| **Total Council acting as Custodian** | **5.7** | **1.0** | **6.7** |
| **Total Assets** | **15.0** | **16.4** | **31.4** |

# SUPPLEMENTARY FINANCIAL STATEMENTS 2020/21

## Housing Revenue Account - Income and Expenditure Statement

The Housing Revenue Account (HRA) reflects a statutory obligation to maintain a revenue account for local Council housing provision in accordance with Part 6 of the Local Government and Housing Act 1989. The Account is required to be self-financing and cannot subsidise or be subsidised by the General Fund. The HRA Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. The Council charges rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the Movement on the HRA Statement.

| 2019/20 £m | | Note | 2020/21 £m |
|---|---|---|---|
| | **Income** | | |
| (249.7) | Dwellings rents | | (253.5) |
| (9.3) | Non-dwellings rents | | (8.6) |
| (19.2) | Charges for services and facilities | | (20.1) |
| **(278.2)** | **Total Income** | | **(282.2)** |
| | **Expenditure** | | |
| 55.7 | Repairs and maintenance | | 58.4 |
| 80.0 | Supervision and management | | 71.5 |
| 5.0 | Rent, rates, taxes and other charges | | 4.6 |
| 54.0 | Depreciation and impairment charge | H3 & H6 | 53.6 |
| 0.3 | Debt management costs | | 0.3 |
| **195.0** | **Total Expenditure** | | **188.4** |
| **(83.2)** | **Net Expenditure/(Income) of HRA Services as included in the whole authority Comprehensive Income and Expenditure Statement and Net (Income) / Cost of HRA Services** | | **(93.8)** |

| | | |
|---|---|---|
| | **HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement:** | |
| 4.3 | Change in fair value of financial instruments | 4.7 |
| 48.9 | Interest payable and similar charges | 46.7 |
| 0.7 | Amortisation of premia and discounts | 0.7 |
| (0.9) | HRA interest and investment income | (0.6) |
| (13.7) | (Gains)/ Losses on the disposal of HRA non-current assets | (8.8) |
| 3.7 | Pensions interest cost and expected return on pensions assets | 3.6 |
| (2.1) | Capital Grants and Contributions Receivable | (1.3) |
| **(42.3)** | **(Surplus)/Deficit for the Year on HRA Services** | **(48.8)** |

**Movement on the Housing Revenue Account Statement**

| 2019/20 £m | | 2020/21 £m |
|---|---|---|
| (42.3) | (Surplus)/Deficit for the year on the HRA Income and Expenditure Account | (48.8) |
| 37.7 | Adjustments between accounting basis and funding basis under statute (Note 16) | 44.5 |
| **(4.6)** | Net (increase) / decrease before transfers to / (from) reserves | **(4.3)** |
| 1.5 | Transfers to / (from) reserves | 1.6 |
| **(3.1)** | (Increase) / decrease for the year on HRA Balance | **(2.7)** |
| (5.4) | HRA Balance Brought Forward | (8.5) |
| **(8.5)** | HRA Balance Carried Forward | **(11.2)** |

| | | |
|---|---|---|
| | **Total HRA Reserve** | |
| (8.5) | HRA Balance | (11.2) |
| (1.5) | HRA Earmarked Reserve | (3.1) |
| **(10.0)** | **Total HRA Reserve** | **(14.3)** |

## Notes to the Housing Revenue Account

### H1. Housing Stock

The types of properties (including Shared Ownership properties) owned by the Council at 31 March comprise:

| 31 March 2020 | | 31 March 2021 |
|---|---|---|
| 3,706 | 1 bedroom bungalows | 3,702 |
| 14,853 | 1 bedroom flats | 14,785 |
| 59 | 1 bedroom houses | 56 |
| 295 | 2 bedroom bungalows | 293 |
| 10,490 | 2 bedroom flats | 10,426 |
| 8,327 | 2 bedroom houses | 8,275 |
| 30 | 3 or more bedroom bungalows | 30 |
| 3,860 | 3 or more bedroom flats | 3,769 |
| 18,565 | 3 or more bedroom houses | 18,374 |
| **60,185** | **Total housing stock** | **59,710** |

The change in the property numbers is analysed below:

| 2019/20 | | 2020/21 |
|---|---|---|
| 60,836 | Stock at 1 April | 60,185 |
| (694) | Sales | (418) |
| (88) | Demolitions / transfers | (160) |
| 131 | Acquisitions | 103 |
| **60,185** | **Stock at 31 March** | **59,710** |

The Balance Sheet values of HRA non-current assets are as follows:

| 31 March 2020 | | 31 March 2021 |
|---|---|---|
| £m | | £m |
| 2,458.1 | Council dwellings/garages | 2,609.8 |
| 14.9 | Assets under construction | 12.1 |
| 54.7 | Other land and buildings | 56.1 |
| **2,527.7** | **Total operational assets** | **2,678.0** |
| 12.9 | Non-operational assets | 10.9 |
| **2,540.6** | **Total** | **2,688.9** |

The housing stock, land and other property within the HRA are valued in line with the MHCLG Guidance on Stock Valuation for Resource Accounting published in November 2016. The basis of the valuation for the housing stock element is in accordance with the Royal Institution of Chartered Surveyors using the Existing Use Value - Social Housing basis, which takes open market value for the underlying dwellings and applies a discount factor to reflect the reduced value as a result of use for social housing for 2020/21 of 40%. The change reflects properties lost through sales, demolitions, acquisitions, and revaluation of Beacon Values and depreciation. £106.1m was spent on HRA dwellings during the year.

As at 31 March 2021, the Council also owned 189 dwellings (31 March 2020: 126) that were occupied by trespassers following the death or departure of the tenant of that property. These properties are, therefore, not available for social housing. These properties are not considered to have a value whilst they are occupied in this way, but if they were to become available for social housing, their value, on the basis of an Existing Use Value – Social Housing (EUV-SH) would be £8.2m (31 March 2020: £5.1m).

The value of Council dwellings is broken down into components as follows:

| 31 March 2020 | ` | 31 March 2021 |
|---|---|---|
| £m | | £m |
| 608.1 | Land | 632.9 |
| 16.4 | Kitchens | 16.5 |
| 21.4 | Bathrooms | 21.7 |
| 29.9 | Windows | 43.6 |
| 47.4 | Heating | 49.7 |
| 11.9 | Roofs | 11.8 |
| 1,723.0 | Remaining Structure | 1,833.6 |
| **2,458.1** | **Total** | **2,609.8** |

**H2. Value of Dwellings on Vacant Possession**

(a) The vacant possession value of dwellings within the Council's HRA, valued in accordance with the Guidance, as at 31 March 2021 is £6,205m.

(b) The difference between the above figure and the figure of £2,609.8m in the Balance Sheet notionally represents diminution in the value of assets caused by their being let at social housing rents, according to the MHCLG's stock valuation model as explained in Supplementary Note H1.

**H3. Revaluations and Impairment Charges**

Revaluations and impairment charges reflect an increase or reduction in the value of property due to the economic environment or an event that has occurred to the assets. This could include a decline in demand, obsolescence, and commitments to make significant changes to housing. There has been no identified impairment in HRA asset values in 2020/21 (2019/20: £nil). The net value of HRA dwellings has increased by £151.7m to £2,609.8m.

### H4. Major Repairs Reserve

A transfer is made to the Major Repairs Reserve each year of a value equivalent to the amount charged to the HRA for depreciation of dwellings based on the componentised valuation of the dwellings and individual component residual lives, to make provision for ongoing elemental renewal over the longer term.

The main movements on the Major Repairs Reserve are set out below

| 2019/20 £m | | 2020/21 £m |
|---|---|---|
| 24.9 | Balance on Major Repairs Reserve at 1 April | 24.4 |
| 53.7 | Amount transferred to Major Repairs Reserve during the year | 53.3 |
| (54.2) | Charge to the Major Repairs Reserve during the financial year in respect of capital expenditure on the land, houses and other property within the Council's HRA | (53.3) |
| **24.4** | **Balance on Major Repairs Reserve at 31 March** | **24.4** |

### H5. Capital Expenditure on HRA Assets

Expenditure on HRA assets was funded from the following sources:

| 2019/20 £m | | 2020/21 £m |
|---|---|---|
| 33.4 | Usable Capital Receipts (Right to Buy/Land) | 21.9 |
| 54.2 | Major Repairs Reserve | 53.3 |
| 4.8 | HRA Revenue contributions | 22.6 |
| 8.5 | Prudential Borrowing | 7.0 |
| 5.7 | Other resources | 1.3 |
| **106.6** | | **106.1** |

The total capital receipts from disposals of land, houses and other property within the HRA during the financial year was £31.7m (land £5.3m, houses £26.4m). The value for 2019/20 was £49.8m (land £7.1m and houses £42.7m). The Government operates a capital receipts pooling framework and of these amounts £6.4m was paid to Central Government (2019/20: £6.2m).

### H6. Depreciation Charges

The total charge for depreciation for the houses and other property within the Council's HRA is £53.6m (2019/20: £54.0m). The depreciation charge is calculated by reference to an assessment of the remaining useful life of the key components of each individual dwelling valued on a depreciated replacement cost basis.

## H7. Contribution from Pension Reserve

The Comprehensive Income and Expenditure Statement includes pension costs calculated in accordance with International Accounting Standard 19 as described in detail in Note 20 to the Financial Statements. To ensure that these costs do not affect the level of HRA balances and Council House rents, an appropriation is made from the Pensions Reserve so that the movement in balances only reflects the actual employer's pension contribution.

## H8. Rent Arrears

Rent arrears from current tenants at 31 March 2021 totalled £16.9m (2019/20: £13.7m). Other arrears including Housing Benefit overpayments, leaseholder major works and miscellaneous services totalled £24.5m at 31 March 2021 (2019/20: £24.9m).

A provision for bad debts has been made to meet possible future write offs of rent and other services/leaseholder/benefit overpayments. The provision was £36.7m at 31 March 2021 (2019/20: £32.8m) and has been calculated based on value/aged analysis in accordance with Government guidelines.

| 31 March 2020 | | 31 March 2021 |
|---|---|---|
| £m | | £m |
| 13.7 | Current tenants | 16.9 |
| 12.8 | Housing benefit overpayment | 11.9 |
| 12.1 | Other debt (services/leaseholders) | 12.6 |
| **38.6** | **Total arrears** | **41.4** |
| 32.8 | Provision for bad debts | 36.7 |

## Collection Fund Income and Expenditure Account

The Collection Fund Income and Expenditure Account reflects the statutory requirement for the Council to maintain a separate Collection Fund for Council Tax and Business Rates or National Non Domestic Rates (NNDR). The statement shows transactions in relation to the collection of income from tax payers and the distribution to major preceptors and the Council itself, as principal. The resulting balance is apportioned between the Council and major preceptors.

| 2019/20 | | | | 2020/21 | | |
|---|---|---|---|---|---|---|
| **Council Tax** | **NNDR** | **Total** | | **Council Tax** | **NNDR** | **Total** |
| **£m** | **£m** | **£m** | **Income** | **£m** | **£m** | **£m** |
| (415.3) | | (415.3) | Collectable Council Tax | (431.6) | | (431.6) |
| **(415.3)** | | **(415.3)** | | **(431.6)** | | **(431.6)** |
| | (461.5) | (461.5) | Collectable Business Rates | | (282.2) | (282.2) |
| | 0.9 | 0.9 | Transitional Payment Payable to Government | | 4.3 | 4.3 |
| | **(460.6)** | **(460.6)** | | | **(277.9)** | **(277.9)** |
| | **(1.6)** | **(1.6)** | **Enterprise Zone Deficit Repayable to the Collection Fund** | | **(10.0)** | **(10.0)** |
| | | | **Apportionment of Prior Year Deficit:** | | | |
| - | - | - | Birmingham City Council | - | (0.6) | (0.6) |
| | - | - | Central Government | | 0.6 | 0.6 |
| - | - | - | West Midlands Fire & Rescue Authority | - | - | - |
| - | | - | West Midlands Police and Crime Comm. | - | | - |
| **-** | **-** | **-** | **Total Apportionment of Prior Year Deficit** | **-** | **-** | **-** |
| **(415.3)** | **(462.2)** | **(877.5)** | **TOTAL INCOME** | **(431.6)** | **(287.9)** | **(719.5)** |

| 2019/20 | | | | 2020/21 | | |
|---|---|---|---|---|---|---|
| **Council Tax** | **NNDR** | **Total** | | **Council Tax** | **NNDR** | **Total** |
| **£m** | **£m** | **£m** | **Expenditure** | **£m** | **£m** | **£m** |
| | | | **Precepts Demands & Shares Incl Prior Years Surplus:** | | | |
| 347.4 | 453.7 | 801.1 | Birmingham City Council | 371.8 | 436.0 | 807.8 |
| 0.0 | | 0.0 | New Frankley in Birmingham Parish Council | 0.0 | | 0.0 |
| 1.9 | | 1.9 | Sutton Coldfield Town Council | 1.9 | | 1.9 |
| | - | - | Central Government | | - | - |
| 15.2 | 4.5 | 19.7 | West Midlands Fire & Rescue Authority | 16.0 | 4.3 | 20.3 |
| 38.4 | | 38.4 | West Midlands Police and Crime Comm. | 42.1 | | 42.1 |
| | | | **Charges:** | | | |
| 13.4 | 15.6 | 29.0 | Increase/(Decrease) in Provision for Bad and Doubtful Debts | 27.3 | 27.9 | 55.2 |
| | 11.1 | 11.1 | Increase/(Decrease) in Provision for Appeals | | 34.5 | 34.5 |
| | 1.8 | 1.8 | Cost of Collection | | 1.8 | 1.8 |
| **416.3** | **486.7** | **903.0** | **TOTAL EXPENDITURE** | **459.1** | **504.5** | **963.6** |
| **1.0** | **24.5** | **25.5** | **(Surplus)/Deficit for the year** | **27.5** | **216.6** | **244.1** |
| **(4.9)** | **(7.5)** | **(12.4)** | **(Surplus)/Deficit brought forward** | **(3.9)** | **17.0** | **13.1** |
| **(3.9)** | **17.0** | **13.1** | **(Surplus)/Deficit carried forward** | **23.6** | **233.6** | **257.2** |

## Notes to the Collection Fund
## C1. Contributions from Council Tax Payers

The Council's tax base at January 2020 (the number of chargeable dwellings in each valuation band net of discounts) converted to an equivalent number of Band D dwellings was calculated as follows:

| Band | Number of Properties | Ratio | Band D equivalent dwellings |
|---|---|---|---|
| AR | 167 | 5/9 | 93 |
| A | 88,582 | 6/9 | 59,055 |
| B | 90,480 | 7/9 | 70,373 |
| C | 61,865 | 8/9 | 54,991 |
| D | 32,608 | 1 | 32,608 |
| E | 18,394 | 11/9 | 22,482 |
| F | 8,258 | 13/9 | 11,928 |
| G | 5,486 | 15/9 | 9,143 |
| H | 794 | 18/9 | 1,588 |
| **Total** | **306,634** | | **262,261** |
| Less adjustment for collection rate | | | (7,607) |
| | | | **254,654** |

The level of Council Tax is calculated at the beginning of the year and is calculated so as to ensure that the Council has enough money to pay for the services it provides. The amount of tax paid by local residents is based on how much it is estimated that the property they live in would have been worth in 1991. There are nine property valuation bands, AR to H.

The total required by the Collection Fund is divided by the Council Tax base. The Tax base represents the number of properties in the city, expressed as equivalent Band D properties. The level of Council Tax paid for a Band D property is the total income required divided by the Council Tax base, subject to any discounts to which a Council Tax payer may be entitled. The amount is adjusted for discounts and exemptions that particular residents in the city are entitled to.

The figures for the New Frankley in Birmingham Parish are:

| Band | Number of Properties | Ratio | Band D equivalent dwellings |
|---|---|---|---|
| AR | 1 | 5/9 | 1 |
| A | 710 | 6/9 | 473 |
| B | 1,028 | 7/9 | 800 |
| C | 86 | 8/9 | 76 |
| D | 54 | 1 | 54 |
| E | 1 | 11/9 | 1 |
| F | 0 | 13/9 | 0 |
| G | 0 | 15/9 | 0 |
| H | 1 | 18/9 | 2 |
| **Total** | **1,881** | | **1,407** |
| Less adjustment for collection rate | | | (41) |
| | | | **1,366** |

The figures for Sutton Coldfield Town Council are:

| Band | Number of Properties | Ratio | Band D equivalent dwellings |
|---|---|---|---|
| AR | 1 | 5/9 | 1 |
| A | 1,706 | 6/9 | 1,137 |
| B | 3,994 | 7/9 | 3,106 |
| C | 6,240 | 8/9 | 5,547 |
| D | 8,362 | 1 | 8,362 |
| E | 7,897 | 11/9 | 9,652 |
| F | 3,878 | 13/9 | 5,602 |
| G | 2,444 | 15/9 | 4,073 |
| H | 364 | 18/9 | 728 |
| **Total** | **34,886** | | **38,208** |
| Less adjustment for collection rate | | | (1,107) |
| | | | **37,101** |

**C2. Business Rate Payers**

The Council collects Business Rates (NNDR) receipts for its area, which are based on local rateable values multiplied by a uniform rate which is set by the Government (49.9p for 2020/21: 49.1p for 2019/20). The total non-domestic rateable value at 31 March 2021 was £1,133.91m (31 March 2020: £1,141.58m).

Since 1 April 2017, the Council is included in a 100% Local Business Rates Retention pilot. The amount raised each year, less certain reliefs and adjustments, is distributed on the following basis:

- 99% - Birmingham City Council
- 1% - The West Midlands Fire and Rescue Authority.

Previously Business Rates was distributed on the following basis:

- 50% - Central Government
- 49% - Birmingham City Council
- 1% - The West Midlands Fire and Rescue Authority.

**C3. Precept Payments**

The preceptors on the Council Tax element of the Collection Fund are the City Council, New Frankley in Birmingham Parish Council, Sutton Coldfield Town Council, the West Midlands Fire and Rescue Authority and the West Midlands Police and Crime Commissioner.

The preceptors on the NNDR element of the Collection Fund are the City Council and the West Midlands Fire and Rescue Authority.

### C4. Debtors Outstanding but not Impaired

Balances outstanding for both Council Tax and Business Rates including amounts net of an allowance for impairment are apportioned between the Council and its major preceptors as follows:

**Analysis of Council Tax debtors past due but not impaired**

| | 2019/20 | | | 2020/21 | | |
|---|---|---|---|---|---|---|
| | BCC £m | Fire £m | Police £m | BCC £m | Fire £m | Police £m |
| Council Tax Arrears | 95.8 | 4.1 | 10.8 | 117.5 | 4.9 | 13.7 |
| Impairment Allowance for doubtful debts | (31.0) | (1.3) | (3.5) | (52.5) | (2.2) | (6.1) |
| Amounts Past Due but not Impaired | 64.8 | 2.8 | 7.3 | 65.0 | 2.7 | 7.6 |
| Represented by Amounts: | | | | | | |
| Less than 1 Year | 24.0 | 1.0 | 2.7 | 29.8 | 1.2 | 3.5 |
| 1-2 Years | 11.0 | 0.5 | 1.3 | 14.5 | 0.6 | 1.7 |
| 2-6 Years | 23.3 | 1.0 | 2.6 | 20.1 | 0.8 | 2.3 |
| Over 6 Years | 6.5 | 0.3 | 0.7 | 0.6 | 0.0 | 0.1 |
| TOTAL | 64.8 | 2.8 | 7.3 | 65.0 | 2.7 | 7.6 |

**Analysis of Business Rates debtors past due but not impaired**

| | 2019/20 | | | 2020/21 | | |
|---|---|---|---|---|---|---|
| | BCC £m | Fire £m | MHCLG £m | BCC £m | Fire £m | MHCLG £m |
| Business Ratepayer Arrears | 95.4 | 1.0 | 0.0 | 126.7 | 1.3 | 0.0 |
| Impairment Allowance for doubtful debts | (47.1) | (0.5) | 0.0 | (71.9) | (0.7) | 0.0 |
| Amounts Past Due but not Impaired | 48.3 | 0.5 | 0.0 | 54.8 | 0.6 | 0.0 |
| Represented by Amounts: | | | | | | |
| Less than 1 Year | 29.3 | 0.3 | 0.0 | 28.7 | 0.3 | 0.0 |
| 1-2 Years | 8.8 | 0.1 | 0.0 | 13.5 | 0.2 | 0.0 |
| 2-6 Years | 10.2 | 0.1 | 0.0 | 12.6 | 0.1 | 0.0 |
| Over 6 Years | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| TOTAL | 48.3 | 0.5 | 0.0 | 54.8 | 0.6 | 0.0 |

Birmingham City Council

# Statement of GROUP Accounts 2020/21

## NARRATIVE REPORT

### Introduction

In common with many other local authorities, the Council uses different forms of service delivery, where this is appropriate. In some cases, it has created separate companies with its partners to deliver those services. The use of separate companies means that the Council's single entity financial statements on their own do not fully reflect the assets and liabilities or income and expenditure associated with all of its activities. The Group Accounts more fully reflect the overall financial picture of the Council's activities.

This section presents the statutory financial statements for Birmingham City Council Group (the Group) for the period from 1 April 2020 to 31 March 2021. The financial statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (The Code) published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The aim of the Group Accounts is to provide the reader with an overall view of the material economic activities of the Council.

These Group Accounts have been prepared using uniform accounting policies for like transactions and other events in similar circumstances. The accounting policies of its subsidiaries, associates and joint ventures have been aligned with the policies of the Council, for the purposes of Group Accounts, where materially different. Such adjustments as are necessary to align the Group Accounting Policies are made as consolidation adjustments.

This narrative report provides a summary of the Group's financial position and details of material items that have impacted on the accounts during the year.

The financial statements contain a number of technical accounting terms and concepts. A glossary of the major accounting terms has been provided at the end of the financial statements to help the reader's understanding.

The pages which follow contain the Group's Financial Statements for the year ended 31 March 2021, with comparative figures for the previous financial year.

### Consolidation of Subsidiaries, Associate Companies and Joint Ventures

The Council operates through a variety of undertakings, either exercising full control of an organisation (subsidiary undertakings) or in partnership with other organisations (associate undertakings or joint ventures). To provide a full picture of the activities of the Council, Group Accounts have been prepared which include those organisations where the interest and the level of activity is considered material to the Group as a whole.

There have been no changes to the Group structure within the financial year 2020/21.

The entities consolidated into the Council's Group Accounts are:

Subsidiaries
Acivico Limited
Birmingham Children's Trust CIC
Birmingham City Propco Limited
InReach (Birmingham) Limited
National Exhibition Centre (Developments) Plc
PETPS (Birmingham) Limited
PETPS (Birmingham) Pension Funding Scottish Limited Partnership

Associate
Birmingham Airport Holdings Limited

Joint Venture
Paradise Circus Limited Partnership

Further detail regarding the Council's relationship with the above companies is given in notes G21 and G22

The Council maintains involvement with a number of other related entities where the assets and liabilities of the companies are not included in these Group Financial Statements, either on the basis of materiality or that the Council does not exercise control or has no significant influence over the operation of the entity. Further details are set out in Note 46, Related Parties to the Council entity accounts.

**Covid**

The Covid pandemic has been a major issue during 2020/21. Details of the impact on the Council can been found in the Narrative Report.

There has been a direct impact of the Covid pandemic on asset values within certain companies and details of the performance are set out in more detail in the following notes.

The Airport has been significantly impacted by the Covid pandemic, with a loss for 2020/21 of £66.5m compared to a profit for 2019/20 of £16.4m.

The Council will continue to monitor the performance of its companies. The Council has given no additional letters of comfort to its companies as a result of Covid.

**The Main Financial Statements**

The following statements consolidate the accounts of the Council with those of its subsidiaries, associate and joint venture. Transactions between the Council and its Group entities are eliminated on consolidation. Details of the inter-company transactions are set out in Note 46, Related Parties, to the entity accounts.

The Group Comprehensive Income and Expenditure Statement (GCIES) – provides the accounting cost in year recognised by the Group, in a specified format, in accordance with generally accepted accounting practices. Details of the net surplus/ (deficit) on the provision of services is detailed below.

| | 2019/20 | | 2020/21 | |
|---|---|---|---|---|
| | Entity £m | Group £m | Entity £m | Group £m |
| Surplus/(Deficit) on Provision of Services | 83.4 | 70.3 | 130.3 | 97.7 |

The 2020/21 GCIES shows a positive movement of £41.3m from £70.3m to £111.6m in the movement on the net Surplus/(Deficit) on Provision of Services compared to 2019/20 as shown in the table above. Details of the major movements are set out in the Narrative Report in the Council entity accounts.

Group Movement in Reserves Statement (GMiRS) – provides a reconciliation of the movement in year on the different reserves held and how the balance of resources generated or used in the year reconciles to the Council's statutory requirements for raising Council Tax.

Group Balance Sheet – shows the value of assets and liabilities recognised by the Group at 31 March 2021 and the level of reserves, split into usable and unusable.

| | 2019/20 | | 2020/21 | |
|---|---|---|---|---|
| | Entity £m | Group £m | Entity £m | Group £m |
| Long Term Assets | 6,261.7 | 6,265.2 | 6,614.2 | 6,602.1 |
| Current Assets | 693.7 | 687.3 | 678.4 | 677.3 |
| Current Liabilities | (963.0) | (951.3) | (1,098.1) | (1,091.7) |
| Long Term Liabilities | (6,003.2) | (6,063.9) | (6,592.0) | (6,755.9) |
| **Net Assets/(Liabilities)** | **(10.8)** | **(62.7)** | **(397.5)** | **(568.2)** |
| Represented by: | | | | |
| Usable Reserves | 1,057.1 | 989.2 | 1,446.9 | 1,412.5 |
| Unusable Reserves | (1,067.9) | (1,051.9) | (1,844.4) | (1,980.7) |
| **Total Reserves** | **(10.8)** | **(62.7)** | **(397.5)** | **(568.2)** |

The net Group liability has increased to £568.2m in 2020/21 from £62.7m in 2019/20, a movement of £505.5. This is mainly due to an increase in the pension liabilities in the Council's Accounts, Acivico Ltd Accounts and Birmingham Children's Trust Community Interest Company Accounts. Further details on this can be found in Note 20 of the Entity Accounts and Note G19 of the Group Accounts.

The difference in the level of usable reserves attributable to Group entities has increased from £989.2m in 2019/20 to £1,412.5m in 2020/21, a movement of £423.3m. This is mainly due to movements in the Council reserves, details of which can be found in Note 17 of the Entity Accounts.

Group Cash Flow Statement – shows how the Group generates and uses cash during the year and the impact this has on the balances of cash and cash equivalents.

## Group Comprehensive Income and Expenditure Statement

This statement shows the income and expenditure recognised by the Group during the reporting period.

| 2019/20 Gross Expenditure | 2019/20 Gross Income | 2019/20 Net Expenditure | | Note | 2020/21 Gross Expenditure | 2020/21 Gross Income | 2020/21 Net Expenditure |
|---|---|---|---|---|---|---|---|
| | | | **Continuing Operations** | | | | |
| £m | £m | £m | | | £m | £m | £m |
| 461.3 | (121.4) | 339.9 | Adult Social Care | | 441.8 | (209.8) | 232.0 |
| 1,161.9 | (796.3) | 365.6 | Education and Skills | | 1,110.0 | (799.7) | 310.3 |
| 207.6 | (75.0) | 132.6 | Neighbourhoods | | 201.7 | (73.8) | 127.9 |
| 121.1 | (86.0) | 35.1 | Inclusive Growth | | 146.9 | (62.3) | 84.6 |
| 8.0 | (2.0) | 6.0 | Human Resources | | 6.4 | (0.8) | 5.6 |
| 564.5 | (528.9) | 35.6 | Digital & Customer Services | | 598.5 | (560.6) | 37.9 |
| 97.6 | (92.0) | 5.6 | Partnership Insights & Prevention | | 118.2 | (139.8) | (21.6) |
| 11.7 | (14.4) | (2.7) | Finance & Governance | | 27.5 | (5.0) | 22.5 |
| 19.4 | (71.6) | (52.2) | Centrally Managed | | 174.8 | (74.9) | 99.9 |
| 11.8 | - | 11.8 | Superannuation – Extraordinary items | | 0.0 | 0.0 | 0.0 |
| 195.0 | (278.2) | (83.2) | Housing Revenue Account | | 188.4 | (282.2) | (93.8) |
| **2,859.9** | **(2,065.8)** | **794.1** | **Total Cost of Services** | | **3,014.2** | **(2,208.9)** | **805.3** |
| 146.2 | **-** | 146.2 | Other Operating Expenditure | | 83.0 | 0.0 | 83.0 |
| 313.6 | (65.3) | 248.3 | Financing and Investment Income and Expenditure | G4 | 283.7 | (41.8) | 241.9 |
| 13.9 | (1,272.8) | (1,258.9) | Taxation and Non-Specific Grant Income | | 258.1 | (1,499.9) | (1,241.8) |
| | | **(70.3)** | **(Surplus)/Deficit on Provision of Services** | | | | **(111.6)** |
| | | (2.9) | Share of the (surplus)/deficit on the Provision of Services of Associates | | | | 16.3 |
| | | 1.8 | Tax Expense/(credit) of Subsidiaries | | | | - |
| | | 1.2 | Tax Expense/(credit) of Associates | | | | (2.4) |
| | | **(70.2)** | **Group (Surplus)/Deficit** | | | | **(97.7)** |
| | | | **Items that will not be reclassified to the (Surplus)/Deficit on the Provision of Services** | | | | |
| | | (38.7) | (Surplus) / deficit on revaluation of Property, Plant and Equipment assets | G5 | | | (223.3) |
| | | (2.3) | Changes in non-current assets charged to the revaluation reserve | | | | 0.5 |
| | | (178.5) | Remeasurement of the net defined benefit liability | G19 | | | 825.6 |
| | | 5.4 | Share of Other Comprehensive Income and Expenditure of Associates and Joint Ventures | | | | - |
| | | **(214.1)** | | | | | **602.8** |
| | | | **Items that may be reclassified to the (Surplus)/Deficit on the Provision of Services** | | | | |
| | | - | (Surplus) / deficit on revaluation of financial assets | | | | 0.5 |
| | | **-** | | | | | **0.5** |
| | | **(214.1)** | **Other Comprehensive (Income) / Expenditure** | | | | **603.3** |
| | | **(284.3)** | **Total Comprehensive (Income) / Expenditure** | | | | **505.6** |

## Group Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held, analysed into 'usable reserves' (that is, those that can be applied to fund expenditure or reduce local taxation) and other reserves.

| | General Fund Balance | Housing Revenue Account | Capital Receipts | Major Repairs Reserve | Capital Grants Unapplied Account | **Total Usable Reserves** | Unusable Reserves | **Total Council Reserves** | Council's Share of Reserves of Subsidiaries, Associates and Joint Ventures | **Total Group Reserves** |
|---|---|---|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | **£m** | £m | **£m** | £m | **£m** |
| **Balance at 1 April 2019** | **560.1** | **5.4** | **240.3** | **24.9** | **106.7** | **937.4** | **(1,207.9)** | **(270.5)** | **(76.5)** | **(347.0)** |
| **Movement in Reserves during 2019/20** | | | | | | | | | | |
| Surplus/(Deficit) on the provision of services | 243.7 | 42.3 | | | | **286.0** | | **286.0** | (215.18) | **70.2** |
| Other Comprehensive Income and Expenditure | | | | | | **-** | 176.3 | **176.3** | 37.8 | **214.1** |
| **Total Comprehensive Income and Expenditure** | **243.7** | **42.3** | **-** | **-** | **-** | **286.0** | **176.3** | **462.3** | **(178.0)** | **284.3** |
| Adjustments between Group Accounts and Council Accounts | (202.6) | | | | | (202.6) | | (202.6) | 202.6 | - |
| Changes in Group Reserves accounted for through equity (G22) | | | | | | | | | - | - |
| **Net Increase/(Decrease) before Transfers** | **41.1** | **42.3** | **-** | **-** | **-** | **83.4** | **176.3** | **259.7** | **24.6** | **284.3** |
| Adjustments between accounting basis and funding basis under regulations (Note 16) | 55.6 | (37.7) | (17.0) | (0.5) | 35.9 | **36.3** | (36.3) | **-** | | **-** |
| **Increase/(Decrease) in 2019/20** | **96.7** | **4.6** | **(17.0)** | **(0.5)** | **35.9** | **119.7** | **140.0** | **259.7** | **24.6** | **284.3** |
| **Balance at 31 March 2020** | **656.8** | **10.0** | **223.3** | **24.4** | **142.6** | **1,057.1** | **(1,067.9)** | **(10.8)** | **(51.9)** | **(62.7)** |
| **Movement in Reserves during 2020/21** | | | | | | | | | | |
| Surplus/(Deficit) on the provision of services | 305.0 | 48.8 | | | | 353.8 | | 353.8 | (256.1) | 97.7 |
| Other Comprehensive Income and Expenditure | | | | | | 0.0 | (516.9) | (516.9) | (86.4) | (603.3) |
| **Total Comprehensive Income and Expenditure** | 305.0 | 48.8 | 0.0 | 0.0 | 0.0 | 353.8 | (516.9) | (163.1) | (342.5) | (505.6) |
| Adjustments between Group Accounts and Council Accounts | (223.5) | | | | | (223.5) | | (223.5) | 223.5 | - |
| Changes in Group Reserves accounted for through equity (G22) | | | | | | | | | | 0.0 |
| **Net Increase/(Decrease) before Transfers** | 81.5 | 48.8 | 0.0 | 0.0 | 0.0 | 130.3 | (516.9) | (386.6) | (119.0) | (505.6) |
| Adjustments between accounting basis and funding basis under regulations (Note 16) | 324.0 | (44.5) | 30.1 | 0.0 | (50.2) | 259.4 | (259.4) | - | | - |
| **Increase/(Decrease) in 2020/21** | 405.5 | 4.3 | 30.1 | 0.0 | (50.2) | 389.7 | (776.3) | (386.6) | (119.0) | (505.6) |
| **Balance at 31 March 2021** | **1,062.4** | **14.3** | **253.4** | **24.4** | **92.4** | **1,446.9** | **(1,844.2)** | **(397.3)** | **(170.9)** | **(568.2)** |

## Group Balance Sheet

The Group Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Group.

| 31 March 2020 £m | | Note | 31 March 2021 £m |
|---|---|---|---|
| 5,841.5 | Property, Plant and Equipment | G5 | 6,209.7 |
| 249.9 | Heritage Assets | | 249.9 |
| 45.4 | Investment Properties | G6 | 36.9 |
| 12.7 | Intangible Assets | | 9.3 |
| 3.2 | Long Term Investments | | 5.9 |
| 90.3 | Long Term Debtors | | 82.8 |
| 22.2 | Investments in Associates and Joint Ventures | G22 | 7.6 |
| **6,265.2** | **Total Long Term Assets** | | **6,602.1** |
| | | | |
| 228.3 | Short Term Investments | | 172.3 |
| 16.7 | Assets Held for Sale | | 49.1 |
| 1.8 | Inventories | | 1.8 |
| 376.6 | Short Term Debtors | G8 | 397.9 |
| 63.9 | Cash and Cash Equivalents | | 56.2 |
| **687.3** | **Total Current Assets** | | **677.3** |
| | | | |
| (1.7) | Cash and Cash Equivalents | | - |
| (385.0) | Short Term Borrowing | | (458.5) |
| (392.4) | Short Term Creditors | G9 | (457.1) |
| (172.2) | Provisions | | (176.1) |
| **(951.3)** | **Total Current Liabilities** | | **(1,091.7)** |
| | | | |
| (73.7) | Long Term Creditors | | (73.6) |
| (13.8) | Provisions | | (5.4) |
| (2,878.8) | Long Term Borrowing | | (2,902.1) |
| (427.9) | Other Long-Term Liabilities | | (409.1) |
| (2,669.7) | Net Liability on Defined Benefit Pension Scheme | G19 | (3,365.7) |
| **(6,063.9)** | **Total Long-Term Liabilities** | | **(6,755.9)** |
| | | | |
| **(62.7)** | **Net Assets/(Liabilities)** | | **(568.2)** |
| | | | |
| 989.2 | Usable Reserves | G10 | 1,412.5 |
| (1,051.9) | Unusable Reserves | G11 | (1,980.7) |
| **(62.7)** | **Total Reserves** | | **(568.2)** |

## Group Cash Flow Statement

The Group Cash Flow Statement shows the changes in cash and cash equivalents of the Group during the reporting period.

| 2019/20 | | Note | 2020/21 |
|---|---|---|---|
| £m | | | £m |
| 70.2 | Net Surplus/(Deficit) on Continuing Operations | | 97.7 |
| **70.2** | **Net Surplus/(Deficit) on the provision of services** | | **97.7** |
| 519.4 | Adjustments to net Surplus/(Deficit) on the provision of services for non-cash movements | G15 | 158.9 |
| (299.1) | Adjustments for items included in the net Surplus/(Deficit) on the provision of services that are investing and financing activities | G15 | (209.1) |
| **290.5** | **Net cash flows from Operating Activities** | | **47.5** |
| (421.1) | Investing Activities | G13 | (256.7) |
| 159.5 | Financing Activities | G14 | 203.2 |
| **28.9** | **Net increase/(decrease) in cash and cash equivalents** | | **(6.0)** |
| 33.3 | Cash and cash equivalents at the beginning of the reporting period | | 62.2 |
| **62.2** | **Cash and cash equivalents at the end of the reporting period** | | **56.2** |

## NOTES TO THE GROUP ACCOUNTS

### Note G1
### Accounting Policies

The Group Financial Statements summarise the Council's and its Group's transactions for the 2020/21 financial year. The Group Financial Statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, supported by International Financial Reporting Standards (IFRS).

Members within the Group have been classified as either subsidiaries, associates or joint ventures with details included in respect of the classification within Notes G21 and G22. Subsidiaries have been consolidated into the Group Financial Statements on a line by line basis, with associates and joint ventures consolidated under the equity method.

Investments in subsidiaries and associates in the Council's entity accounts are carried at cost rather than fair value less any provision for losses unless there is evidence of impairment.

Notes to the Group Financial Statements have been presented where the figures are materially different from those of the Council entity accounts. Where there are no material differences, the Notes to the Council entity accounts provide the required disclosures.

Accounting policies of the individual members of the Group have been aligned to the Council's accounting policies.

The accounting policies applied to the Group Financial Statements are consistent with those set out in Note 1 to the Council entity accounts, with additional policies specific to the Group set out below.

### Disposal of a Subsidiary Company

When a subsidiary company is disposed of, the assets and liabilities of the subsidiary are derecognised at their carrying value at the time of disposal and the value of any consideration received is recognised. The transactions plus any resulting differences are identified in the Profit/Loss on disposal of a subsidiary and form part of the Surplus/Deficit on Provision of Services within the Group Comprehensive Income and Expenditure Statement.

### Defined Contribution Pension Schemes

The NEC Limited Group funded two defined benefit schemes, which ceased to provide future service accrual with effect from 30 June 2010 and operated two contributory benefit schemes comprising a Stakeholder Scheme to which only members contribute, and a Group Personal Pension Plan where the company matched member contributions to an agreed maximum. The schemes transferred to PETPS (Birmingham) Limited on 1 May 2015 on the Council's disposal of NEC Ltd. Further information may be found in Note G19.

### Defined Benefit Pension Scheme

Acivico Limited and Birmingham Children's Trust CIC participate in the Local Government Pension Scheme (LGPS). The scheme is a funded defined benefit scheme based upon career average salary for benefits accrued since 1 April 2014 and on final pensionable salary for benefits accrued to 31 March 2014. Further information may be found within the Council's entity accounting policies and Note G19.

## Note G2
## Critical Judgements in Applying Accounting Policies

In addition to the Critical Judgements, set out in Note 2 of the entity accounts, the Council has considered the following judgement in respect of the application of its accounting policies.

The Council has created a number of companies that are limited by guarantee that are also charitable companies. In such cases the Council is sole member on creation of the company.

The Trustees of a charity have the responsibility for determining the policies and the activities of the company in line with the specific remit of the charity. Where the Council is sole member of the charitable company, it also has, through the Articles of Association, the right to appoint Directors or Trustees to sit on the company board. Whilst the Council has the right to appoint Directors, this right is limited to appointing a minority of Directors such that they have less than 20% of the voting rights. The charitable company board is responsible for the day to day management and for setting the direction of the company. Trustees of charities must always act in the best interest of the charity and not in the interests of the body that appointed them.

Whilst the Council is sole member of charitable companies and whilst it may pass resolutions to impact on the operation of the companies, to date it has not done so. There are also financial barriers to the Council exercising any form of control as this may jeopardise the charitable nature of the organisations which would lead to financial detriment.

On the basis of the above factors, the Council considers that it does not have the current ability to direct the relevant activities of charitable companies given its minority level of representation, the Trustees must act independently of the Council in the best interest of the charity and should the Council exercise any rights through its role as sole member, it is considered that this would have an adverse financial impact. Therefore, the Council does not consider that it should consolidate any charitable companies into the Council's Group Accounts.

## Note G3
## Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

Information on pension valuations has been provided by actuaries supporting the relevant funds based on the best information available at the time of producing the reports. Details of the pension funds and their sensitivity to changes in determinants of the funds' assets and obligations are set out in Note 20 in the Council entity accounts and Note G19 of the Group Financial Statements

Other assumptions made about the future and other major sources of estimation and uncertainty are provided in Note 4 to the Council entity accounts.

## Note G4
## Financing and Investment Income and Expenditure

Financing and Investment Income and Expenditure disclosed in the Group CIES are detailed below.

| 2019/20 | | | | 2020/21 | | |
|---|---|---|---|---|---|---|
| Gross Expenditure | Gross Income | Net | | Gross Expenditure | Gross Income | Net |
| £m | £m | £m | | £m | £m | £m |
| 196.3 | - | 196.3 | Interest Payable and similar charges | 164.9 | - | 164.9 |
| 62.8 | - | 62.8 | Net interest on the net defined benefit liability | 62.5 | - | 62.5 |
| - | - | - | Admin Expenses – Pensions | 2.9 | - | 2.9 |
| 21.5 | - | 21.5 | (Gain)/Loss on financial assets at amortised cost | 23.2 | - | 23.2 |
| 4.4 | - | 4.4 | (Gain)/Loss on financial assets at Fair Value through Profit & Loss | 1.9 | - | 1.9 |
| - | - | - | (Gain)/Loss on the Disposal of Financial Instruments | - | (2.2) | (2.2) |
| - | (28.3) | (28.3) | Interest Receivable and similar income | - | (17.9) | (17.9) |
| - | (0.5) | (0.5) | Changes in the Fair Value of Investment Properties | 8.3 | - | 8.3 |
| 28.6 | (31.0) | (2.4) | (Surplus)/Deficit on trading operations not consolidated within Service Expenditure Analysis in Comprehensive Income and Expenditure Statement | 20.0 | (20.8) | (0.8) |
| - | (5.5) | (5.5) | Other investment income and expenditure | 0.0 | (0.9) | (0.9) |
| **313.6** | **(65.3)** | **248.3** | **Sub Total** | **283.7** | **(41.8)** | **241.9** |

# Note G5
# Property, Plant and Equipment

Details of the Group Property, Plant and Equipment are set out below.

Movement in Balances 2020/21

| | Council Dwellings £m | Other land and buildings £m | Vehicles, plant, furniture & equipment £m | Infrastructure assets £m | Community assets £m | Surplus assets £m | Assets under construction £m | **Total Property, Plant and Equipment £m** | Service Concession Assets included in Property, Plant & Equipment £m |
|---|---|---|---|---|---|---|---|---|---|
| **Cost or Valuation** | | | | | | | | | |
| **At 1 April 2020** | **2,458.1** | **2,339.3** | **131.9** | **695.8** | **79.3** | **170.8** | **258.6** | **6,133.8** | **814.9** |
| Additions | 102.1 | 29.3 | 11.8 | 21.1 | 0.8 | 0.2 | 247.2 | 412.5 | 44.2 |
| Assets reclassified between categories | 6.9 | 22.6 | 1.4 | 21.7 | 0.7 | (0.0) | (53.3) | - | - |
| Revaluation increases/(decreases) recognised in the Revaluation Reserve | 65.6 | 54.9 | - | - | - | 5.2 | - | 125.7 | (2.6) |
| Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services | - | (27.9) | - | - | - | 0.2 | - | (27.7) | (0.3) |
| Derecognition - Disposals | (22.9) | (39.9) | (16.7) | (3.2) | - | (3.4) | - | (86.1) | (4.3) |
| Derecognition - Other | - | - | - | - | - | - | - | - | - |
| Assets reclassified (to)/from Held for Sale | - | (2.7) | - | - | - | (42.8) | - | (45.5) | - |
| Other movements in Cost or Valuation | - | 0.7 | - | - | - | (0.7) | - | - | - |
| **At 31 March 2021** | 2,609.8 | 2,376.3 | 128.4 | 735.4 | 80.8 | 129.5 | 452.5 | 6,512.7 | **851.9** |
| **Accumulated Depreciation and Impairment** | | | | | | | | | |
| **At 1 April 2020** | **-** | **(25.5)** | **(52.3)** | **(214.7)** | **-** | **-** | **-** | **(292.5)** | **(215.3)** |
| Depreciation charge | (53.3) | (49.7) | (14.0) | (25.4) | - | (0.8) | - | (143.2) | (29.7) |
| Depreciation written out to the Revaluation Reserve | 52.9 | 44.5 | - | - | - | 0.3 | - | 97.7 | 3.1 |
| Depreciation written out to the Surplus/Deficit on the Provision of Services | - | 14.8 | - | - | - | - | - | 14.8 | 0.2 |
| Impairment losses/(reversals) recognised in the Revaluation Reserve | - | - | - | - | - | - | - | - | 3.8 |
| Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services | - | - | (1.3) | - | - | - | - | (1.3) | - |
| Derecognition - Disposals | 0.4 | 1.3 | 16.3 | 3.2 | - | - | - | 21.2 | - |
| Derecognition - Other | - | - | - | - | - | - | - | - | - |
| Assets reclassified to/(from) Held for Sale | - | - | - | - | - | 0.3 | - | 0.3 | - |
| Other movements in Depreciation and Impairment | - | (0.2) | - | - | - | 0.2 | -- | - | - |
| **At 31 March 2021** | - | (14.8) | (51.3) | (236.9) | - | - | - | (303.0) | (237.9) |
| **Net Book Value** | | | | | | | | | |
| **At 31 March 2021** | **2,609.8** | **2,361.5** | **77.1** | **498.5** | **80.8** | **129.5** | **452.5** | **6,209.7** | **614.0** |
| **At 31 March 2020** | **2,458.1** | **2,313.8** | **79.8** | **481.1** | **79.3** | **170.8** | **258.6** | **5,841.5** | **599.6** |

Movement in Balances 2019/20

| | Council Dwellings £m | Other land and buildings £m | Vehicles, plant, furniture & equipment £m | Infrastructure assets £m | Community assets £m | Surplus assets £m | Assets under construction £m | **Total Property, Plant and Equipment £m** | Service Concession Assets included in Property, Plant & Equipment £m |
|---|---|---|---|---|---|---|---|---|---|
| **Cost or Valuation** | | | | | | | | | |
| **At 1 April 2019** | **2,445.0** | **2,386.7** | **165.6** | **660.9** | **63.4** | **172.7** | **200.0** | **6,094.3** | **843.7** |
| Additions | 102.1 | 78.7 | 10.4 | 14.1 | 4.0 | 0.8 | 136.8 | **346.9** | 36.4 |
| Assets reclassified between categories | 8.3 | 17.8 | 0.1 | 20.8 | 11.9 | 16.5 | (78.2) | **(2.8)** | - |
| Revaluation increases/(decreases) recognised in the Revaluation Reserve | (61.4) | 32.1 | (6.4) | - | - | (23.8) | - | **(59.5)** | (2.7) |
| Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services | - | (47.4) | (16.0) | - | - | (0.7) | - | **(64.1)** | (61.9) |
| Derecognition - Disposals | (35.9) | (125.4) | (21.8) | - | - | - | - | **(183.1)** | (0.6) |
| Derecognition - Other | - | - | - | - | - | - | - | **-** | - |
| Assets reclassified (to)/from Held for Sale | - | (3.2) | - | - | - | 5.3 | - | **2.1** | - |
| Other movements in Cost or Valuation | - | - | - | - | - | - | - | **-** | - |
| **At 31 March 2020** | **2,458.1** | **2,339.3** | **131.9** | **695.8** | **79.3** | **170.8** | **258.6** | **6,133.8** | **814.9** |
| **Accumulated Depreciation and Impairment** | | | | | | | | | |
| **At 1 April 2019** | **-** | **(28.9)** | **(71.3)** | **(189.4)** | **-** | **-** | **-** | **(289.6)** | **(201.6)** |
| Depreciation charge | (53.8) | (53.3) | (15.3) | (25.3) | - | (0.4) | - | **(148.1)** | (31.7) |
| Depreciation written out to the Revaluation Reserve | 53.1 | 39.1 | 3.4 | - | - | 2.4 | - | **98.0** | 3.1 |
| Depreciation written out to the Surplus/Deficit on the Provision of Services | - | 12.1 | 8.6 | - | - | 0.4 | - | **21.1** | 0.2 |
| Impairment losses/(reversals) recognised in the Revaluation Reserve | - | - | - | - | - | - | - | **-** | - |
| Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services | - | - | - | - | - | - | - | **-** | - |
| Derecognition - Disposals | 0.7 | 2.6 | 22.5 | - | - | - | - | **25.8** | - |
| Derecognition - Other | - | - | - | - | - | - | - | **-** | - |
| Assets reclassified to/(from) Held for Sale | - | 0.7 | - | - | - | (0.2) | - | **0.5** | - |
| Other movements in Depreciation and Impairment | - | 2.2 | - | - | - | (2.2) | - | **-** | 14.6 |
| **At 31 March 2020** | **-** | **(25.5)** | **(52.1)** | **(214.7)** | **-** | **-** | **-** | **(292.3)** | **(215.3)** |
| **Net Book Value** | | | | | | | | | |
| **At 31 March 2020** | **2,458.1** | **2,313.8** | **79.8** | **481.1** | **79.3** | **170.8** | **258.6** | **5,841.5** | **599.6** |
| **At 31 March 2019** | **2,445.0** | **2,357.8** | **94.3** | **471.5** | **63.4** | **172.7** | **200.0** | **5,804.7** | **693.5** |

Further details on the Council's policies for fixed asset revaluations and depreciation are provided in Note 1 to the Council entity accounts.

**Note G6**
**Investment Properties**

The Council, Birmingham City Propco Limited and InReach Limited have non-current assets that meet the criteria for treatment as investment properties. Details of the financial impact of Investment Properties are set out below.

| | 2019/20 £m | 2020/21 £m |
|---|---|---|
| **Cost or Valuation** | | |
| **At 1 April** | **44.6** | **45.4** |
| Assets reclassified between categories | - | - |
| Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services | 0.8 | (8.5) |
| **At 31 March** | **45.4** | **36.9** |

| Recurring Fair Value Measurement | Input Level in Fair Value Hierarchy | Valuation Technique used to measure Fair Value | Fair Value 31 March 2020 | Fair Value 31 March 2021 |
|---|---|---|---|---|
| | | | £m | £m |
| Highest and Best Use | Level 2 | The fair value has been measured using a market approach, taking into account quoted prices for similar assets in active markets and data and market knowledge. | 37.5 | 31.7 |
| Highest and Best Use | Level 3 | The fair value has been measured using a market approach taking into account yields from rental compared to similar assets. | 7.9 | 5.2 |

The fair value of the Council's Group Investment Properties is measured annually at each reporting date. Valuations are carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors (RICS). The valuations were undertaken by appropriately qualified valuers as detailed below:

- For the Council, Azmat Mir MRICS, Head of Property Consultancy within the Council's Property Services section
- For InReach (Birmingham) Limited, David Farrow MRICS and Annie Stanford MRICS of Savills (UK) Limited
- For Birmingham City Propco Limited, James Williamson MRICS and Ian Elliot MRICS of Avison Young (UK) Ltd

## Note G7
## Financial Instruments

This note sets out the differences from the information contained in Note 37 of the Council entity accounts to enable the reader to determine, more clearly, the impact of group company transactions.

Debtors and Cash
Debtors and cash consolidated as part of the Group Financial Statements are classified as loans and receivables. Further information on Group debtors is provided in Note G8.

Creditors
Short term creditors consolidated as part of the Group Financial Statements are classified as financial liabilities at amortised cost. Further information on Group creditors is provided in Note G9.

Long term creditors consolidated as part of the Group Financial Statements relate to debt issued by NEC (Developments) Plc on the London Stock Exchange. The following long-term creditors are brought into the Group Financial Statements upon group consolidation.

| | Long-term | |
|---|---|---|
| | 31 March 2020 | 31 March 2021 |
| | £m | £m |
| **Creditors** | | |
| NEC 7.56% Loan Stock – maturity 30 September 2027 | (73.0) | (73.0) |

The fair value of the loan stock is based on the Market Value as quoted by Bloomberg on 31 March 2021.

| Financial Liabilities | Input level in Fair Value Hierarchy | Valuation inputs and assumptions used to measure Fair Value | 31 March 2020 | | 31 March 2021 | |
|---|---|---|---|---|---|---|
| | | | Carrying Amount £m | Fair Value £m | Carrying Amount £m | Fair Value £m |
| NEC Loan Stock | Level 1 | Stock Market valuation | 73.0 | 103.1 | 73.0 | 97.9 |

Within the Council entity accounts, the guarantee given to NEC Developments (NECD) for the repayment of the Loan Stock is treated as borrowing and as a reimbursement right within NECD. The guarantee was determined at fair value on the disposal of the NEC in 2015 and is accounted for using the Effective Interest Rate method.

Long Term Borrowing
The reduction in long term borrowing at 31 March 2021 between the Council entity accounts, £2,989.4m and the group accounts, £2,902.1m, is largely represented by the borrowing recognised by the Council associated with group entities, namely NECD and PETPS SLP. These transactions are eliminated on consolidation.

Income, Expense, Gains and Losses
These amounts in the Group Financial Statements are not considered materially different from those in the Council entity accounts.

Fair Values of Assets and Liabilities
The amounts consolidated as part of the Group Financial Statements are not considered significantly different from the carrying amounts.

Nature and extent of risks arising from financial instruments
The nature and extent of risks from financial instruments arising in the Group Financial Statements are not considered materially different from those in the Council entity accounts.

**Note G8**
**Short Term Debtors**

The table below shows amounts owed to the Council's Group undertakings at the end of the year that are due within 12 months. These balances have been split by type of organisation to reflect the potential relative risks that the Council faces. In determining the level of debtors, an additional assessment has been made of the likelihood of recoverability in light of the impact of Covid on the economy. The actual level of recovery will continue to be monitored to ensure that the recovery rate is as high as practicable.

| 31 March 2020 £m | | 31 March 2021 £m |
|---|---|---|
| 110.2 | Central government bodies | 131.5 |
| 29.3 | Other local authorities | 39.0 |
| 7.4 | NHS bodies | 7.9 |
| 3.5 | Public corporations and trading funds | 6.1 |
| 226.2 | Other entities and individuals | 213.4 |
| **376.6** | **Total** | **397.9** |

**Note G9**
**Short Term Creditors**

The table below shows amounts owed by the Council's Group undertakings at the end of the year that are due within 12 months, split by type of organisation.

| 31 March 2020 £m | | 31 March 2021 £m |
|---|---|---|
| (83.5) | Central government bodies | (102.3) |
| (7.2) | Other local authorities | (10.4) |
| (3.5) | NHS bodies | (2.9) |
| (50.5) | Public corporations and trading funds | (45.3) |
| (247.7) | Other entities and individuals | (296.2) |
| **(392.4)** | **Total** | **(457.1)** |

**Note G10**
**Usable Reserves**

Details of the Group's usable reserves are set out below.

| 31 March 2020 £m | | 31 March 2021 £m |
|---|---|---|
| 656.8 | General Fund Balances | 1,062.3 |
| 10.0 | Housing Revenue Account (HRA) | 14.3 |
| 223.3 | Capital Receipts Reserve | 253.4 |
| 24.4 | Major Repairs Reserve | 24.4 |
| 142.6 | Capital Grants Unapplied | 92.4 |
| (72.7) | Company Profit & Loss | (39.1) |
| 4.8 | Merger Reserve | 4.8 |
| **989.2** | **Total** | **1,412.5** |

Details of General Fund Balances are set out in Note 17 of the entity accounts.

**Note G11**
**Unusable Reserves**

The following table shows the value of Group reserve balances that have come about as a result of accounting adjustments and are not therefore available to spend.

| 31 March 2020 £m | | 31 March 2021 £m |
|---|---|---|
| 1,965.3 | Revaluation Reserve | 2,126.5 |
| (220.0) | Capital Adjustment Account | (54.3) |
| (64.3) | Financial Instruments Adjustment Account | (64.7) |
| 42.4 | Deferred Capital Receipts | 25.0 |
| (2,591.3) | Pensions Reserve | (3,581.7) |
| (14.6) | Collection Fund Adjustment Account | (262.1) |
| (153.2) | Equal Pay Back Pay Account | (150.4) |
| (16.8) | Accumulated Absences Account | (19.6) |
| 0.6 | Called up Share Capital | 0.6 |
| **(1,051.9)** | **Total** | **(1,980.7)** |

Further analysis is provided below for unusable reserves which are materially different from the balances included in the Council entity accounts.

## Revaluation Reserve

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

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

For amounts arising in the Council entity accounts, 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.

| 2019/20 £m | | 2020/21 £m |
|---|---|---|
| **2,004.3** | **Balance at 1 April** | **1,965.3** |
| | **Revaluations not posted to (Surplus)/Deficit on the Provision of Services** | |
| 359.7 | Council: Upward revaluation of assets | 423.8 |
| (321.0) | Council: Downward revaluation of assets | (200.5) |
| **38.7** | **Council: Surplus/(Deficit) on revaluation of non-current assets not posted to the (Surplus)/Deficit on the Provision of Services** | **223.3** |
| | **Amounts written off to the Capital Adjustment Account** | |
| (36.4) | Council: Difference between fair value depreciation and historical cost depreciation | (32.4) |
| (43.6) | Council: Accumulated gains on assets sold or scrapped | (29.4) |
| **(80.0)** | **Council: Amount written off to the Capital Adjustment Account** | **(61.8)** |
| | **Group Movements** | |
| 2.3 | Other movements in reserve in Group entities | (0.4) |
| **2.3** | **Total Group Movements** | **(0.4)** |
| **1,965.3** | **Balance at 31 March** | **2,126.5** |

The Council is allowed under statute to reverse out the financial impact from its Comprehensive Income and Expenditure Statement where it has impaired or revalued equity in a company or where it has given a ‘soft’ loan to another organisation. The impact of adjustments form part of the unusable reserves.

In consolidating group accounts, inter-company transactions are eliminated. However, where the Council has either revalued assets or has given a soft loan to a group entity then the carrying values in the two organisations would be different. For consolidation, the entries in the Council Financial Statements, reducing the carrying value of assets, would need to be reversed prior to elimination. Details of the impacts are detailed below.

**Capital Adjustment Account**

| 31 March 2020<br>£m | | 31 March 2021<br>£m |
|---|---|---|
| **(223.1)** | **Carrying Value in Council Financial Statements** | **(57.4)** |
| 3.1 | Reversal of downward revaluation of equity | 3.1 |
| **(220.0)** | **Revised Value in Group Financial Statements** | **(54.3)** |

**Financial Instruments Adjustment Account**

| 31 March 2020<br>£m | | 31 March 2021<br>£m |
|---|---|---|
| **(67.0)** | **Carrying Value in Council Financial Statements** | **(66.9)** |
| 2.7 | Reversal of impact of ‘soft’ loan given to group entity | 2.2 |
| **(64.3)** | **Revised Value in Group Financial Statements** | **(64.7)** |

**Note G12**
**Cash Flow Statement - Operating Activities**

The cash flows from operating activities include the items set out below.

| 2019/20<br>£m | | 2020/21<br>£m |
|---|---|---|
| (28.3) | Interest Received | (17.9) |
| 196.3 | Interest Paid | 164.9 |
| (5.5) | Dividends Received | (0.9) |

**Note G13**
**Cash Flow Statement - Investing Activities**

The cash flows from investing activities are set out below.

| 2019/20 £m | | 2020/21 £m |
|---|---|---|
| (334.8) | Purchase of property, plant and equipment, investment property and intangible assets | (391.0) |
| (2,081.1) | Purchase of short-term and long-term investments | (5,250.6) |
| 71.8 | Proceeds from the sale of property, plant and equipment, investment property and intangible assets | 82.3 |
| 1,923.0 | Proceeds from short-term and long-term investments | 5,302.6 |
| **(421.1)** | **Net cash flows from investing activities** | **(256.7)** |

**Note G14**
**Cash Flow Statement - Financing Activities**

The cash flows from financing activities are set out below.

| 2019/20 £m | | 2020/21 £m |
|---|---|---|
| 225.9 | Other receipts from financing activities | 120.4 |
| 1,627.7 | Cash Receipts from short-term and long-term borrowing | 1,147.1 |
| (23.0) | Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-Balance Sheet PFI contracts | (31.3) |
| (1,672.6) | Repayments of short-term and long-term borrowing | (1,039.6) |
| 1.5 | Other payments for financing activities | 6.6 |
| **159.5** | **Net cash flows from financing activities** | **203.2** |

## Note G15
## Cash Flow Statement – Other Adjustments

The cash flow adjustments to the net surplus/deficit on the provision of services are set out below.

| 2019/20 £m | | 2020/21 £m |
|---|---|---|
| 148.2 | Depreciation/Impairment charge | 145.9 |
| 4.5 | Amortisation of Intangible Assets | 2.9 |
| 157.6 | Derecognition of Non-Current Assets | 77.2 |
| 0.8 | (Increase)/Decrease in Investments | - |
| 7.6 | (Increase)/Decrease in Associate & Joint Venture | 14.6 |
| 36.1 | Revaluation of Non-Current Assets | 20.9 |
| (6.7) | (Increase)/Decrease in Assets Held for Sale | (0.5) |
| (45.3) | (Increase)/Decrease in Debtors | (22.4) |
| 54.5 | Increase/(Decrease) in Creditors | 55.4 |
| (0.4) | (Increase)/Decrease in Inventories | (0.2) |
| (27.3) | Increase/(Decrease) in Provisions | (4.5) |
| 191.7 | Pensions Liability | (129.3) |
| (1.9) | Other Non-Cash Movements | (1.1) |
| **519.4** | | **158.9** |

The cash flow adjustments included in the net surplus/deficit on the provision of services that are investing or financing activities include:

| 2019/20 £m | | 2020/21 £m |
|---|---|---|
| (225.9) | Capital Grants | (120.4) |
| (71.8) | Capital Receipts | (82.3) |
| (1.4) | Council Tax and Business Rates Adjustments | (6.4) |
| **(299.1)** | | **(209.1)** |

**Note G16**
**Expenditure and Funding by Nature of Activity**

Detail of the Council's Expenditure and Funding by Nature of Activity is provided in Note 8 to the entity accounts.

| 2019/20 | | 2020/21 |
|---|---|---|
| £m | Expenditure | £m |
| 975.9 | Employee Benefits Expenses | 1,019.1 |
| 1,739.5 | Other Service Expenses | 2,126.5 |
| 194.5 | Depreciation, Amortisation and Impairment | 160.9 |
| 259.4 | Interest Payments | 235.7 |
| 22.9 | Movement in the valuation of financial assets | 24.6 |
| 49.9 | Precepts and Levies | 49.8 |
| 6.2 | Payments to Housing Capital Receipts Pool | 6.4 |
| 85.3 | Loss on Disposal of Non-Current Assets | 16.0 |
| **3,333.6** | **Total Expenditure** | **3,639.0** |
| | Income | |
| (579.6) | Fees, Charges and Other Services Income | (507.5) |
| (793.3) | Income from Council Tax and Business Rates | (821.3) |
| (1,996.7) | Government Grants and Contributions | (2,400.8) |
| - | Movement in Value of Financial Assets | (2.2) |
| (34.3) | Interest and Investment Income | (18.8) |
| **(3,403.9)** | **Total Income** | **(3,750.6)** |
| **(70.3)** | **(Surplus)/Deficit on Provision of Services** | **(111.6)** |

**Note G17**
**Related Parties**

Details of the Council's material transactions with related parties are provided in Note 46 to the Council entity accounts. Details of the subsidiary companies of group entities are detailed in the relevant Notes G21 and G22 of these group financial statements.

In addition to the related parties detailed within Note 46 to the Council entity accounts, Birmingham Airport Holdings Limited transacts business with the shareholding West Midlands District Councils with Solihull MBC acting as the lead authority. Transactions would be undertaken in a number of areas and include business rates, planning applications and building control services. All of these transactions are carried out on an arms-length basis at full commercial rate.

Birmingham Airport Limited entered into a lease arrangement with Solihull MBC, on behalf of all the Districts, which has been treated as a finance lease in its accounts by the company. The total amount payable in the year under the arrangement was £0.8m with an amount due at the year-end of £4.7m.

During the year 2020/21 Birmingham Children's Trust was invoiced £1m for services during the year provided by Progress Children's Trust. There was nil owed to Progress Children's Trust at 31 March 2021 (nil 2020)

**Note G18**
**Leases**

## Group as the lessee

Details of the Council's finance and operating leases are included in Note 40 to the Council entity accounts.

## Group as the lessor

Within the Group there are leases between Group entities and also leases from Group entities to external organisations. Details of the Council's finance leases are provided in Note 41 to the Council entity accounts. This note sets out the impact of intra-Group leases and leases of Group entities to external organisations.

### Leases by Group entities to External Organisations

Finance leases

Details of the Council's finance leases are provided in Note 40 to the Council entity accounts.

The Council created Birmingham City Propco Limited in 2017/18 to provide a vehicle for commercial investment. The company purchased the leasehold interests of the Council in respect of the Crowne Plaza NEC and Hilton Metropole NEC Hotels. Details of the leases are set out below.

| 31 March 2020 £m | | 31 March 2021 £m |
|---|---|---|
| | Finance lease debtor (net present value of minimum lease payments): | |
| 0.1 | - Current | 0.1 |
| 20.1 | - Non-current | 19.9 |
| 45.1 | Unearned finance income | 44.1 |
| **65.3** | **Gross investment in the lease** | **64.1** |

The gross investment in the lease and the minimum lease payments will be received over the following periods:

| | Finance lease debtor | | Minimum lease payments | |
|---|---|---|---|---|
| | 31 March 2020 £m | 31 March 2021 £m | 31 March 2020 £m | 31 March 2021 £m |
| Not later than one year | 0.1 | 0.1 | 1.1 | 1.1 |
| Later than one year and not later than five years | 0.2 | 0.2 | 4.1 | 4.0 |
| Later than five years | 19.8 | 19.7 | 60.1 | 59.0 |
| **Total** | **20.1** | **20.0** | **65.3** | **64.1** |

Operating Leases

The future minimum lease payments receivable under non-cancellable leases where the length of lease was greater than 1 year at inception are:

| 31 March 2020 | | 31 March 2021 |
|---|---|---|
| £m | | £m |
| 0.4 | Not later than one year | 0.4 |
| 1.7 | Later than one year and not later than five years | 1.7 |
| 25.9 | Later than five years | 25.2 |
| **28.0** | **Gross investment in the lease** | **27.3** |

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews.

**Note G19**
**Defined Benefit and Defined Contribution Pension Schemes**

Details of the Council's involvement in the Teachers' Pensions Scheme and Local Government Pension Scheme are provided in Notes 19 and 20 to the Council entity accounts.

Acivico Limited Group
The Company's subsidiary companies participate in the West Midlands Pension Fund, a Local Government Pension Scheme.

A ruling was made regarding age discrimination arising from public sector pension scheme transition arrangements put in place when moving from final salary to average salary scheme arrangements. Court of Appeal judgements were made in cases affecting judges' pensions (the McCloud Judgement) and firefighter pensions. Allowance has been made for the potential impact in the results reported.

The information disclosed below is in respect of the whole of the plans for which the Company is either the sponsoring employer or has been allocated a share of cost under an agreed group policy throughout the periods shown.

| | 2019/20 | 2020/21 |
|---|---|---|
| | £m | £m |
| Present value of funded defined benefit obligations | (70.8) | (89.2) |
| Fair value of plan assets | 71.9 | 83.1 |
| Adjustment for pension surplus in Acivico (Building Consultancy) | (1.7) | (0.5) |
| **Net (Liability)/Asset** | **(0.6)** | **(6.6)** |

Movements in the present value of defined benefit obligation:

| | 2019/20 £m | 2020/21 £m |
|---|---|---|
| Balance at beginning of period | 89.4 | 70.8 |
| Current service cost | 1.3 | 1.3 |
| Interest cost | 1.9 | 1.6 |
| Actuarial (gains)/losses | (11.5) | 17.2 |
| Contributions by members | 0.3 | 0.2 |
| Liabilities Extinguished on Settlement | (9.9) | - |
| Past Service cost including Curtailments | 1.0 | - |
| Benefits paid | (1.7) | (1.9) |
| **31 March** | **70.8** | **89.2** |

Movements in the fair value of plan assets:

| | 2019/20 £m | 2020/21 £m |
|---|---|---|
| Balance at beginning of period | 79.3 | 71.9 |
| Interest on assets | 1.8 | 1.7 |
| Actuarial (losses)/gains | (2.7) | 12.0 |
| Settlements | (6.2) | - |
| Contributions | 1.5 | 0.4 |
| Benefits paid | (1.7) | (1.9) |
| **31 March** | **71.9** | **84.1** |

Expense recognised in the profit and loss account:

| | 2019/20 £m | 2020/21 £m |
|---|---|---|
| **Operating Costs:** | | |
| Current Service Cost | (1.4) | 1.3 |
| Included in Operating Cost | (1.4) | 1.3 |
| **Financing Costs:** | | |
| Interest cost on pension scheme liabilities | 1.9 | 1.6 |
| Interest income on plan assets | (1.8) | (1.6) |
| Net interest cost | 0.1 | - |
| **Total income statement expense/(income)** | **(1.3)** | **1.3** |

Other Comprehensive Income

The amounts recognised in Acivico's Other Comprehensive Income and consolidated into the Group Consolidated Other Comprehensive Income are as follows:

| | 2019/20 £m | 2020/21 £m |
|---|---|---|
| Actuarial (gain)/loss on liabilities | (11.5) | 17.2 |
| Actuarial (gain)/loss on plan assets | 2.7 | 12.0 |
| **Remeasurement (gain)/loss recognised during the period** | **(8.8)** | **29.2** |

The fair value of the plan assets and the return on those assets were as follows:

| | 2019/20 Fair Value | | 2020/21 Fair Value | |
|---|---|---|---|---|
| | £m | % | £m | % |
| Equities | 42.4 | 59 | 49.5 | 59 |
| Government Bonds | 7.1 | 10 | 8.4 | 10 |
| Other Bonds | 2.8 | 4 | 3.3 | 4 |
| Property | 5.7 | 8 | 6.1 | 7 |
| Cash/Liquidity | 3.7 | 5 | 5.0 | 6 |
| Other | 10.2 | 14 | 11.8 | 14 |
| **Total** | **71.9** | **100** | **84.1** | **100** |

Principal actuarial assumptions (expressed as weighted averages) at the year-end were as follows:

| | 2019/20 | 2020/21 |
|---|---|---|
| | % | % |
| Discount rate | 2.35 | 2.0 |
| Future salary increases | 2.9 | 3.8 |
| Future pension increases | 1.9 | 2.8 |
| CPI increases | 1.9 | 1.9 |

In valuing the liabilities of the pension fund at 31 March 2021, mortality assumptions have been made as indicated below.

The life expectancy for members as at the Balance Sheet date:

| | 31 March 2020 | 31 March 2021 |
|---|---|---|
| Male: member aged 65 (current life expectancy) | 21.9 | 21.6 |
| Female: member aged 65 (current life expectancy) | 24.1 | 23.4 |
| Male: member aged 45 (life expectancy at age 65) | 23.8 | 23.9 |
| Female: member aged 45 (life expectancy at age 65) | 26.0 | 25.8 |

The valuation of the defined benefit obligation is sensitive to the assumption adopted for the discount rate. The effect of a 0.1% increase in the discount rate is set out below

| | £m |
|---|---|
| Effect on service cost | (0.4) |
| Effect on defined benefit obligation | (1.8) |

Birmingham Children's Trust CIC

Birmingham Children's Trust CIC participates in the West Midlands Pension Fund, a Local Government Pension Scheme. The scheme is a defined benefit scheme, which pays out pensions at retirement based on length of service and final pay for service earned up to 31 March 2014 and on a career salary average for service earned from 1 April 2014.

The information disclosed below is in respect of the whole of the plans for which the Company is either the sponsoring employer or has been allocated a share of cost under an agreed group policy throughout the periods shown.

| | 2019/20 £m | 2020/21 £m |
|---|---|---|
| Present value of funded defined benefit obligations | (252.2) | (375.8) |
| Fair value of plan assets | 179.6 | 224.1 |
| **Net (Liability)/Asset** | **(72.6)** | **(151.7)** |

Movements in the present value of defined benefit obligation:

| | 2019/20 £m | 2020/21 £m |
|---|---|---|
| Balance at beginning of period | 258.7 | 252.2 |
| Current service cost | 21.3 | 17.3 |
| Interest cost | 6.5 | 5.9 |
| Past Service Cost | 4.3 | - |
| Change in financial assumptions | (37.0) | 105.1 |
| Change in demographic assumptions | 7.0 | (3.2) |
| Contributions by scheme members | 3.4 | 3.4 |
| Experience/(gain) on defined benefit obligation | (10.9) | (2.0) |
| Benefits paid | (1.1) | (2.9) |
| **31 March** | **252.2** | **375.8** |

Movements in the fair value of plan assets:

| | 2019/20 £m | 2020/21 £m |
|---|---|---|
| Balance at beginning of period | 182.4 | 179.6 |
| Return on assets (less interest) | (13.1) | 31.1 |
| Other actuarial losses | (8.3) | - |
| Interest on assets | 4.6 | 4.3 |
| Administrative expenses | (0.1) | (0.1) |
| Settlement prices received/(paid) | 11.8 | - |
| Contributions paid by employer | - | 8.7 |
| Contributions by scheme members | 3.4 | 3.4 |
| Benefits paid | (1.1) | (2.9) |
| **31 March** | **179.6** | **224.1** |

Expense recognised in the profit and loss account:

| | 2019/20 £m | 2020/21 £m |
|---|---|---|
| **Operating Costs:** | | |
| Current Service Cost | 9.5 | 17.3 |
| Administrative Expenses | 0.1 | 0.1 |
| Included in Operating Cost | 9.6 | 17.4 |
| | | |
| **Financing Costs:** | | |
| Interest cost on pension scheme liabilities | 6.5 | 5.9 |
| Interest income on plan assets | (4.6) | (4.3) |
| Net interest cost | 1.9 | 1.6 |
| | | |
| **Total Income Statement expense** | **11.5** | **19.0** |

Other Comprehensive Income

The amounts recognised in the Trust's Other Comprehensive Income and consolidated into the Group Consolidated Other Comprehensive Income are as follows:

| | 2019/20 £m | 2020/21 £m |
|---|---|---|
| Return on plan assets in excess of interest income | (13.1) | 31.1 |
| Actuarial gain/(loss) on liabilities due to changes in financial assumptions | 37.0 | (105.1) |
| Actuarial gain/(loss) on liabilities due to changes in demographic assumptions | (7.0) | 3.2 |
| Other actuarial losses on assets | (8.3) | - |
| Experience gain on defined benefit obligation | 10.9 | 2.0 |
| **Remeasurement gain/(loss) recognised during the period** | **19.4** | **(68.8)** |

The fair value of the plan assets and the return on those assets are as follows:

| | 2019/20 Fair Value | | 2020/21 Fair Value | |
|---|---|---|---|---|
| | £m | % | £m | % |
| Equities | 102.2 | 57 | 132.0 | 59 |
| Gilts | 20.9 | 12 | 22.3 | 10 |
| Other Bonds | 7.5 | 4 | 8.6 | 4 |
| Property | 16.0 | 9 | 16.2 | 7 |
| Cash/Liquidity | 6.4 | 4 | 13.4 | 6 |
| Other | 26.6 | 14 | 31.6 | 14 |
| **Total** | **179.6** | **100** | **224.1** | **100** |

Principal actuarial assumptions (expressed as weighted averages) at the year-end are as follows:

| | 2019/20 | 2020/21 |
|---|---|---|
| | % | % |
| Discount rate | 2.35 | 2.05 |
| Future salary increases | 2.8 | 3.85 |
| Future pension increases | 1.8 | 2.85 |
| CPI increases | 1.8 | 2.85 |

In valuing the liabilities of the pension fund at 31 March 2021, mortality assumptions have been made as indicated below.

The life expectancy for members as at the Balance Sheet date:

| | 31 March 2020 | 31 March 2021 |
|---|---|---|
| Male: member aged 65 (current life expectancy) | 21.9 | 21.6 |
| Female: member aged 65 (current life expectancy) | 24.1 | 23.9 |
| Male: member aged 45 (life expectancy at age 65) | 23.8 | 23.4 |
| Female: member aged 45 (life expectancy at age 65) | 26.0 | 25.8 |

The valuation of the defined benefit obligation and the impact on current service cost are sensitive to a number of factors. Details of the impact of changes to relevant factors are set out below.

| | Impact of Change | |
|---|---|---|
| | Defined Benefit Obligation | Current Service Cost |
| | £m | £m |
| An increase in the discount rate of 0.1% | (9.3) | (0.9) |
| An increase in long term salary estimate of 0.1% | 1.6 | - |
| An increase in the rate of pension increases of 0.1% | 7.9 | 0.9 |
| An increase in anticipated life expectancy of 1 year | 15.0 | 1.2 |

PETPS (Birmingham) Limited

Following completion of the sale of the NEC Group by the Council on 1 May 2015, NEC Limited was replaced as principal employer by PETPS (Birmingham) Limited (PETPS), a wholly owned subsidiary of the Council, which assumed the ongoing funding obligation of the NEC Limited Pension Fund (the Fund) and the NEC Executive Pension Scheme (the Scheme) with the agreement of the pension trustees. The Fund and the Scheme had ceased to provide future service accrual with effect from 30 June 2010.

The Fund and the Scheme are defined benefit schemes, operating under UK trust law, which pay out pensions at retirement based on service and final pay. The trustee boards of the Fund and the Scheme are independent of the Council and are responsible for setting certain policies (for example, investment and contribution policies).

Under guarantees provided, the Council is responsible for meeting the current and future contingent funding obligations. The Fund and the Scheme therefore expose the Council to actuarial risks, such as longevity, currency, interest rate and market (investment) risk.

The assets of the Fund and the Scheme are held separately from those of PETPS and the Council. On the advice of an independent qualified actuary, contribution payments are made to the Fund and the Scheme by the Council to ensure that the assets are sufficient to cover future liabilities. Assets of the Fund and the Scheme are measured using fair market values.

The most recently completed formal actuarial valuations of the Fund and the Scheme were at 5 April 2019. The funding requirements are based on the Statements of Funding Principles of the Fund and the Scheme. The funding is based on a separate actuarial valuation for funding purposes, for which assumptions may differ from the assumptions set out in these disclosures. The defined benefit obligations are measured using the projected unit credit method and discounted at the rate of return on high quality corporate bonds of equivalent term.

The retirement benefit obligations in respect of the defined benefit schemes as calculated in accordance with IAS 19 (revised 2011) are disclosed below. Comparative figures for 2019/20 for the Fund and the Scheme have been provided.

Balance Sheet

The following amounts have been recognised in PETPS' Balance Sheet and so consolidated into the Group Balance Sheet.

| | 31 March 2020 £m | 31 March 2021 £m |
|---|---|---|
| Present value of funded obligations | (194.0) | (221.6) |
| Fair value of plan assets | 190.7 | 200.0 |
| Deficit for funded plans | (3.3) | (21.6) |
| Unrecognised asset due to the asset ceiling | - | - |
| **Retirement Benefit Obligation** | **(3.3)** | **(21.6)** |

Income Statement

The amounts recognised in PETPS' Income Statement and consolidated into the Group Consolidated Income and Expenditure Statement are as follows:

| | 2019/20 £m | 2020/21 £m |
|---|---|---|
| **Operating Costs:** | | |
| Administration Expenses | 0.9 | 0.6 |
| Past Service Cost | - | - |
| Included in Operating Cost | 0.9 | 0.6 |
| | | |
| **Financing Costs:** | | |
| Interest cost on pension scheme liabilities | 4.9 | 4.2 |
| Interest income on plan assets | (4.6) | (4.2) |
| Net interest cost | 0.3 | 0.0 |
| | | |
| **Total income statement expense** | **1.2** | **0.6** |

Other Comprehensive Income

The amounts recognised in PETPS' Other Comprehensive Income and consolidated into the Group Consolidated Other Comprehensive Income are as follows.

| | 2019/20 £m | 2020/21 £m |
|---|---|---|
| Return on plan assets in excess of interest income | (1.7) | 9.5 |
| Actuarial gain/(loss) on liabilities due to changes in financial assumptions | 9.5 | (30.7) |
| Actuarial gain/(loss) on liabilities due to changes in demographic assumptions | (3.0) | 0.3 |
| Actuarial gain/(loss) on liabilities due to experience | 5.6 | 0.1 |
| **Remeasurement gain/(loss) recognised during the period** | **10.4** | **(20.8)** |

Reconciliation of Liabilities and Assets

Movements in the retirement benefit obligations are as follows:

| | 2019/20 £m | 2020/21 £m |
|---|---|---|
| Beginning of Period | (206.8) | (194.0) |
| Past Service Cost | - | - |
| Interest Cost | (4.9) | (4.2) |
| Actuarial gain/(loss) on liabilities due to changes in financial assumptions | 9.5 | (30.7) |
| Actuarial gain/(loss) on liabilities due to changes in demographic assumptions | (3.0) | 0.3 |
| Actuarial gain/(loss) on liabilities due to experience | 5.6 | 0.1 |
| Benefits Paid | 5.6 | 6.9 |
| **Present value of obligation at 31 March** | **(194.0)** | **(221.6)** |

Movements in the fair value of plan assets are as follows:

| | 2019/20 £m | 2020/21 £m |
|---|---|---|
| Beginning of Period | 190.2 | 190.7 |
| Interest income on plan assets | 4.5 | 4.2 |
| Return on plan assets in excess of interest income | (1.7) | 9.4 |
| Contributions by employer | 4.2 | 3.2 |
| Administration expenses paid | (0.9) | (0.6) |
| Benefits paid | (5.6) | (6.9) |
| **Fair value of plan assets at 31 March** | **190.7** | **200.0** |

Plan Assets

The major categories of plan assets are as follows:

| | 31 March 2020 | | 31 March 2021 | |
|---|---|---|---|---|
| | £m | % | £m | % |
| Equities, GTAA and Hedge Funds | 70.2 | 37 | 65.7 | 33 |
| Bonds and Cash | 96.9 | 51 | 111.1 | 55 |
| Property | 17.2 | 9 | 17.1 | 9 |
| Gilts | 6.4 | 3 | 6.1 | 3 |
| | **190.7** | **100** | **200.0** | **100** |

Assumptions

The principal assumptions made by the actuary were:

| | 31 March 2020 % | 31 March 2021 % |
|---|---|---|
| Discount rate – Fund/Scheme | 2.20/2.25 | 2.00/1.95 |
| RPI Inflation rate | 2.55/2.70 | 3.25/3.40 |
| CPI Inflation rate | 1.85/1.90 | 2.80/2.85 |
| Future Pension increases | | |
| - pension accrued prior to 5 April 2005 | 2.55/2.70 | 3.15/3.30 |
| - pension accrued after 5 April 2005 | 1.95/2.05 | 2.20/2.25 |

The base mortality assumptions for the Fund and the Scheme are based on the SAPS tables (S3 series) (2020: SAPS tables (S3 series)). Future improvements are based on the CMI 2020 projection (2020: CMI 2019 projection) with a long-term rate of improvement of 1.25% p.a. (2020: 1.25% p.a.).

The life expectancy for members as at the Balance Sheet date:

| | 31 March 2020 Years | | 31 March 2021 Years | |
|---|---|---|---|---|
| | Fund | Scheme | Fund | Scheme |
| Male: member aged 65 (current life expectancy) | 22.0 | 23.4 | 22.0 | 22.0 |
| Female: member aged 65 (current life expectancy) | 25.1 | 26.3 | 25.2 | 25.1 |
| Male: member aged 45 (life expectancy at age 65) | 22.8 | 24.7 | 22.7 | 22.8 |
| Female: member aged 45 (life expectancy at age 65) | 26.5 | 27.7 | 26.5 | 26.5 |

Sensitivity Analysis

An increase of 0.25% in the discount rate would decrease the retirement benefit obligations by £9.9m
An increase of 0.25% in the inflation rate would increase the retirement benefit obligations by £8.6m
An increase of one year to life expectancy would increase the retirement benefit obligations by £10.0m

The duration of the NEC Limited Pension liabilities is around 22 years, and the duration of the NEC Executive Pension Scheme liabilities is around 14 years.

Expected Contributions for 2021/22

The contribution schedule in force sets out contributions of £2.5m that will be paid into the Fund in the 2021/22 financial year. The contribution into the Fund will be paid from the Asset Backed Funding arrangement that was put in place in 2017. No contributions are expected to be paid to the Scheme in the 2021/22 financial year.

## Note G20
## Adjustments between Group Accounts and Council Accounts

The following adjustments are made in the Group's Movement in Reserves Statement in order to reconcile the General Fund Balance back to its Council position prior to funding basis adjustments being made.

| | General Fund Balance £m | Housing Revenue Account (HRA) £m | Capital Receipts Reserve £m | Major Repairs Reserve £m | Capital Grants Unapplied £m | **Total Usable Reserves** £m | Unusable Reserves £m | **Total Council Reserves** £m | Council' s Share of Reserves of Subsidiaries, Associates and Joint Ventures £m | **Total Group Reserves** £m |
|---|---|---|---|---|---|---|---|---|---|---|
| 2019/20 | | | | | | | | | | |
| Provision of goods and services to subsidiaries | 19.1 | | | | | 19.1 | | 19.1 | (19.1) | - |
| Purchases of goods and services from subsidiaries | (221.7) | | | | | (221.7) | | (221.7) | 221.7 | - |
| **Total adjustments between Group accounts and Council accounts** | **(202.6)** | **-** | **-** | **-** | **-** | **(202.6)** | **-** | **(202.6)** | **202.6** | **-** |
| 2020/21 | | | | | | | | | | |
| Provision of goods and services to subsidiaries | 15.6 | | | | | 15.6 | | 15.6 | (15.6) | - |
| Purchases of goods and services from subsidiaries | (239.1) | | | | | (239.1) | | (239.1) | 239.1 | - |
| **Total adjustments between Group accounts and Council accounts** | **(223.5)** | **-** | **-** | **-** | **-** | **(223.5)** | **-** | **(223.5)** | **223.5** | **-** |

**Note G21**
**Subsidiary Companies**

### I. Acivico Limited

Acivico Limited is a registered company, which is wholly owned by the Council. The company was launched in April 2012, with three special purpose vehicles: one holding company and two trading companies. The two trading companies, Acivico (Design Construction and Facilities Management) Limited and Acivico (Building Consultancy) Limited, have been operational since April 2012 and provide a range of statutory and non-statutory services on behalf of and to the Council and to other public and private sector clients. The Council has held the £1 issued ordinary share (100%) for the whole of the reporting period covered by these financial statements.

The Council issued a letter of assurance to the company, in June 2021, to ensure that it was able to meet its liabilities as they fell due. The Council also purchased £1.5m of shares in Acivico during 2020/21.

The year-end of the company is 31 March and for the purposes of consolidation the accounts for the period to 31 March 2021 have been used, as amended for alignment of accounting policies and the guarantee given by the Council.

| | 2019/20<br>£m | 2020/21<br>£m |
|---|---|---|
| Total Comprehensive Income for the Year | 6.4 | (4.8) |
| Net Assets/(Liabilities) at the year-end | (1.3) | (9.5) |

There was no qualification to the audit opinion on the last audited accounts of the group. Information regarding transactions during the year and balances held at the year-end between the Council and Acivico Limited Group can be found within Note 46 of the Council entity accounts.

### II. Birmingham Children's Trust CIC

Birmingham Children's Trust CIC was incorporated on 17 May 2017 and became independently operational on 1 April 2018. The Council is sole member of the company. However, as the company is an asset locked entity, the Council has no entitlement to any assets of the company. For the purposes of consolidation, the Council has used the Trust's draft accounts for 2020/21, as amended for alignment of accounting policies. Details of the outturn, before elimination of intra-group transactions, are set out below.

| | 2019/20 £m | 2020/21 £m |
|---|---|---|
| **Comprehensive Income and Expenditure** | | |
| Turnover | 212.4 | 213.5 |
| Operating Expenses | (223.4) | (228.3) |
| **Operating Profit/(Loss)** | **(11.0)** | **(14.8)** |
| Interest Receivable | 0.2 | - |
| Interest Payable | (1.9) | (1.8) |
| **Profit/(Loss) for the Year** | **(12.7)** | **(16.6)** |
| Other Comprehensive Income | | |
| Actuarial Gain/(Loss) on defined benefit scheme | 19.4 | (60.1) |
| **Total Comprehensive Income for the Year** | **6.7** | **(76.7)** |
| **Balance Sheet** | | |
| Intangible Asset | 5.3 | 4.6 |
| **Total Non-Current Assets** | **5.3** | **4.6** |
| Debtors | 13.7 | 6.4 |
| Short Term Investments | 21.5 | 32.0 |
| Cash and Cash Equivalents | - | (0.8) |
| **Total Current Assets** | **35.2** | **37.6** |
| Cash Overdrawn | (1.0) | - |
| Creditors due within one year | (20.5) | (20.9) |
| **Total Current Liabilities** | **(21.5)** | **(20.9)** |
| Long Term Borrowing | (10.0) | (10.0) |
| Pension Liabilities | (72.6) | (151.7) |
| **Total Long-Term Liabilities** | **(82.6)** | **(161.7)** |
| **Total Assets/(Liabilities)** | **(63.6)** | **(140.4)** |
| Reserves | (63.6) | (140.4) |
| **Total Reserves** | **(63.6)** | **(140.4)** |

There was no qualification to the audit opinion on the last audited accounts of the Trust. Information regarding transactions during the year and balances held at the year-end between the Council and Birmingham Children's Trust Community Interest Company can be found within Note 46 of the Council entity accounts.

**III. The National Exhibition Centre (Developments) Plc**

The company was set up to provide an additional 30,000 square metres of exhibition space in four halls. The building was financed by a loan stock issue of £73 million, at 7.5625%, by the company and is guaranteed by the Council and which is due for repayment in 2027.

The Council has held all 1,000 issued ordinary shares of £1 each and all 100,000 £1 preference shares throughout the reporting period covered by these financial statements.

The position at the year end is detailed below.

| | 2019/20 | 2020/21 |
|---|---|---|
| | £m | £m |
| Profit/(Loss) for the year | (1.0) | (1.0) |
| Net Assets/(Liabilities) at the year-end | 6.9 | 6.0 |

The year end of the company is 31 March 2021. For the purposes of consolidation these accounts have been used. There was no qualification to the audit opinion on the last audited accounts of the company.

The Council continues to retain ownership of NEC (Developments) Plc.

**IV. PETPS (Birmingham) Limited**

PETPS (Birmingham) Limited, a company limited by guarantee, was incorporated on 14 November 2014. The company is a wholly owned subsidiary of the Council.

Following completion of the sale of the National Exhibition Centre Limited Group (NEC Limited) on 1 May 2015, PETPS (Birmingham) Limited replaced NEC Limited as the principal employer and assumed the ongoing funding obligation of two defined benefit pension schemes with the agreement of the pension trustees.

| | 2019/20 | 2020/21 |
|---|---|---|
| | £m | £m |
| Profit/(Loss) for the year | - | - |
| Net Assets/(Liabilities) at the year-end | - | - |

The year-end of the company is 31 March 2021 and for the purposes of consolidation these accounts have been used. There was no qualification to the audit opinion on the last audited accounts of the group.

Information regarding transactions during the year and balances held at the year-end between the Council and PETPS (Birmingham) Limited can be found within Note 46 of the Council entity accounts.

### V. PETPS (Birmingham) Pension Funding Scottish Limited Partnership

PETPS (Birmingham) Pension Funding Scottish Limited Partnership (SLP) was formed by PETPS (Birmingham) Capital Limited (PETPS Capital) and PETPS (Birmingham) General Partner Limited (PETPS General), which are both wholly owned subsidiaries of the Council.

The arrangement was created in 2017/18 to enable the Council to manage the funding implications of its guarantee in respect of the pensions from the NEC Group Limited following its disposal. The Council has invested equity in PETPS Capital which it has subsequently invested in SLP. The rights of the investment in SLP have been assigned to the NEC Pension Fund Trustees whilst the pension fund is in deficit. At 31 March 2021, the level of investment in SLP that is currently assigned to the NEC Pension Fund Trustees was £4.9m (31 March 2020: £7.3m).

At 31 March 2021, there were nominal balances in PETPS Capital and PETPS General with the major transactions in SLP.

| | 2019/20<br>£m | 2020/21<br>£m |
|---|---|---|
| Profit/(Loss) for the year | - | - |
| Net Assets/(Liabilities) at the year-end | - | - |

The year-end of the company is 31 March 2021 and for the purposes of consolidation these accounts have been used. Advantage has been taken of the exemption not to produce partnership accounts under regulation 7 of The Partnerships (Accounts) Regulations 2008 as the financial information for the partnership has been consolidated into these group accounts.

Information regarding transactions during the year and balances held at the year-end between the Council and PETPS (Birmingham) Pension Funding Scottish Limited Partnership can be found within Note 46 of the Council entity accounts.

### VI. InReach (Birmingham) Limited

The Council set up InReach (Birmingham) Limited, a wholly owned subsidiary of the Council, in 2015/16 to facilitate the development of new private rented homes for market rent.

Throughout the whole of the reporting period considered in these financial statements, the Council has held 100% of the £2,000,100 share capital of the company.

| | 2019/20<br>£m | 2020/21<br>£m |
|---|---|---|
| Operating Profit/(Loss) for the year | 0.4 | 0.6 |
| Change in value of Investment Property | - | (0.3) |
| Interest Payable | (0.7) | (0.7) |
| Tax | (1.8) | - |
| Total Comprehensive Income for the Year | (2.1) | (0.4) |
| Net Assets/(Liabilities) at the year-end | 8.7 | 8.3 |

The year end of the company is 31 March and for the purposes of consolidation the draft accounts for the 12 month period ending 31 March 2021 have been used. There was no qualification to the audit opinion on the last audited accounts of the group.

**VII. Birmingham City Propco Limited**

The Council set up Birmingham City Propco Limited, a wholly owned subsidiary of the Council, in 2017/18 to provide a vehicle for commercial investment. The initial transactions of the company were to purchase the leasehold interests of the Council in respect of the Crowne Plaza NEC and Hilton Metropole NEC Hotels, which were completed on 15 March 2018.

| | 2019/20 | 2020/21 |
|---|---|---|
| | £m | £m |
| Profit/(Loss) for the year | (2.6) | - |
| Net Assets/(Liabilities) at the year-end | 6.4 | 8.1 |

The year end of the company is 31 March and for the purposes of consolidation the draft accounts for the 12 month period ending 31 March 2021 have been used. There was no qualification to the audit opinion on the last audited accounts of the group.

Information regarding transactions during the year and balances held at the year-end between the Council and Birmingham City Propco Limited can be found within Note 46 of the Council entity accounts.

**Note G22**
**Associate and Joint Venture**

The associate that has been consolidated into the Group Financial Statements is listed below.

**I. Birmingham Airport Holdings Limited**

The seven West Midlands District Councils together own 49% of Birmingham Airport Holdings Limited (BAH) (the Council holds 18.68% of the total shareholding). The remaining shares of the company are held by Airport Group Investments Limited, 48.25%, and 2.75% is held for the benefit of employees. The Shareholders' Agreement provides for the District Councils to cast their 49% vote in all circumstances in one consolidated block. The vote of 75% of ordinary shareholders is required for certain major decisions of the company.

The seven West Midland Districts together own all £15.4m of BAH's 6.31% preference shares (the Council owns £5.9m) which are cumulative and redeemable.

The BAH Group Accounts incorporate:
- Birmingham Airport Limited;
- Birmingham Airport Air Traffic Limited;
- Birmingham Airport Developments Limited;
- Birmingham Airport (Finance) Plc;
- Birmingham Airport Operations Limited;
- Birmingham Airport Services Limited;
- BHX Fire and Rescue Limited;
- BHX (Scotland) Limited;
- BHX Limited Partnership;
- Euro-Hub (Birmingham) Limited; and
- First Castle Developments Limited.

The principal activity of the group is the operation and management of Birmingham Airport and the provision of facilities and services associated with those operations.

The year-end of the company is 31 March 2021. For the purposes of consolidation these accounts have been used. There was no qualification to the audit opinion on the last audited accounts of the group.

BAH is accounted for as an associate for the following reasons:

- The Shareholders' Agreement provides for the Districts to cast their 49% vote in all circumstances in one consolidated block. As the Council holds 18.68% within this 49% it is considered that the Council has greater power to influence the voting of the block;

- Between 1 April 2019 and 5 November 2019, 4 of the 16 Directors were Council officers or councillors and from 6 November 2019 to 31 March 2021 this was amended to 3 of the 15 Directors.

Following adjustments to the financial information to align accounting policies with those of the Council, in accordance with the principal of equity accounting under the Code, the summarised financial information for the associate for the year ended 31 March is detailed below:

| 31 March 2020 £m | | 31 March 2021 £m |
|---|---|---|
| 496.7 | Non-Current Assets | 481.7 |
| 239.6 | Current Assets | 88.3 |
| (176.7) | Current Liabilities | (50.9) |
| (440.8) | Non-Current Liabilities | (478.6) |
| 118.8 | Net Assets | 40.5 |
| **22.2** | **Council Interest in Net Assets @ 18.68%** | **7.6** |
| **171.1** | **Revenue** | **27.0** |
| 16.4 | Post-Tax Profit/(Loss) | (66.5) |
| 24.6 | Other Comprehensive Income/(Expenditure) | (12.1) |
| - | Adj. for difference in Balance Sheet between draft and final accounts 2019/20 | 0.3 |
| 41.0 | Total Comprehensive Income/(Expenditure) | (78.3) |
| (29.1) | Less Dividends paid | - |
| **11.9** | **Change in Net Assets** | **(78.3)** |
| **7.7** | **Council Interest in Total Comprehensive Income/(Expenditure) @ 18.68%** | **(14.6)** |

The carrying value of the Council's interest in this entity is £7.6m (2019/20: £22.2m), which is included within Investments in Associates and Joint Ventures in the Group Balance Sheet.

Birmingham Airport Holdings Limited at 31 March 2021 has disclosed the following contingent liabilities within its financial statements:

- On 3 December 2013 the company along with other group members of Birmingham Airport Holdings Limited, provided guarantees in support of £75 million private placement senior notes issued by Birmingham Airport (Finance) plc. Series A senior notes of £30 million are for a period of ten years maturing on 3 December 2023 and carry a fixed interest rate of 4.472 per cent per annum. Series B senior notes of £45m are for a period of 15 years maturing on 3 December 2028 and carry a fixed interest rate of 4.557% per annum;

- On 30 March 2016 the company along with other group members of Birmingham Airport Holdings Limited, provided guarantees in support of £76 million private placement senior notes issued by Birmingham Airport (Finance) plc. The notes are for a period of twenty five years maturing on 30 March 2041 and carry a fixed interest rate of 3.8 per cent per annum

- On 24 January 2019, the company, along with other group members of Birmingham Airport Holdings Limited, provided guarantees in support of £90 million private placement senior notes issued by Birmingham Airport (Finance) plc on 24 January

2019. The senior notes are for a period of 30 years maturing 24 January 2049 and carry a fixed interest rate of 3.21 per cent per annum.

- On 23 January 2020, the company, along with other group members of Birmingham Airport Holdings Limited, provided guarantees in support of £85 million private placement senior notes issued by Birmingham Airport (Finance) plc on 24 January 2020. The senior notes are for a period of 30 years maturing 24 January 2050 and carry a fixed interest rate of 2.44 per cent per annum.

- On 21 May 2020, the company, along with other group members of Birmingham Airport Holding Limited, provided guarantees in support of £45 million private placement senior notes issued by Birmingham Airport (Finance) PLC on 21 May 2020. The senior notes are for a period of 30 years maturing 21 May 2050 and carry a fixed interest rate of 2.94 per cent per annum.

- On 16 January 2019, the company along with other group members of Birmingham Airport Holding Limited, provided a guarantees to Royal Bank of Scotland plc in support of a £25 million banking facility made available to Birmingham Airport Holdings Limited. The facility is for a period of five years with an expiry date of 16 January 2024, with an option to extend by 2 further 12 month periods. At the date of signing these financial statements, the total amount of the facility has been drawn down.

- The company, in its role as parent company to the group, has provided a statutory guarantee to certain subsidiaries for all outstanding liabilities as at 31 March 2021. This guarantee allows the subsidiary companies to take the audit exemption form obtaining a signed statutory audit opinion under section 479A of the Companies Act 2006. The subsidiaries provided with the guarantee were:

    - Birmingham Airport Air Traffic Limited;
    - Birmingham Airport Developments Limited;
    - Birmingham Airport Operations Limited;
    - Birmingham Airport Services Limited;
    - BHX Fire and Rescue Limited;
    - Euro-Hub (Birmingham) Limited; and
    - First Castle Developments Limited.

The joint venture that has been consolidated into the Group Financial Statements is listed below.

### II. Paradise Circus Limited Partnership

Paradise Circus Limited Partnership (the partnership) is a joint venture arrangement between the Council, BriTel Funds Trustees Limited (BriTel) and Paradise Circus General Partner Limited, which is itself formed through a partnership of the Council and BriTel. The Council and BriTel share control of the joint venture on a 50/50 basis.

The partnership is facilitating the development of the area known as Paradise Circus, supporting delivery against one of the Council's strategic aims of making Birmingham an entrepreneurial city to learn, work and invest in. The entity was incorporated on 11 September 2013, with operational activity commencing in January 2015.

The year-end of the company was 30 June 2020. For the purposes of consolidation these accounts have been used and supplemented by management accounts information for the nine month period to 31 March 2021. There was no qualification on the audit opinion for the last audited accounts of the company.

Following adjustments to the financial information to align accounting policies with those of the Council, in accordance with the principles of equity accounting under the Code, the summarised financial information for the joint venture for the year ended 31 March is as follows:

| 31 March 2020 £m | | 31 March 2021 £m |
|---|---|---|
| 20.3 | Non-Current Assets | 23.1 |
| 14.3 | Current Assets | 16.5 |
| (5.6) | Current Liabilities | (6.0) |
| (41.9) | Non-Current Liabilities | (49.6) |
| (12.9) | Net Assets/(Liabilities) | (16.0) |
| **(6.5)** | **Council Interest in Net Liabilities @ 50%** | **(8.0)** |
| **19.3** | **Revenue** | **12.6** |
| (2.6) | Post-Tax Profit/(Loss) | (3.0) |
| - | Other Comprehensive Income/(Expenditure) | - |
| (2.6) | Total Comprehensive Income/(Expenditure) | (3.0) |
| **(1.3)** | **Council Interest in Total Comprehensive Income/(Expenditure) @ 50%** | **(1.5)** |

The carrying value of the Council's interest in this entity is a net deficit of £8.0m (2019/20: £6.5m deficit), which is included within the current liabilities in the Group Balance Sheet.

# Annual Governance Statement 2020/21

## Annual Governance Statement 2020/21

### 1 Scope of responsibility

1.1. Birmingham City Council (the Council) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency, and effectiveness.

1.2. In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and including arrangements for the management of risk.

1.3. The Council has approved and adopted a code of corporate governance which is consistent with the principles of the *Delivering Good Governance in Local Government: Framework* (CIPFA/Solace 2016). This statement explains how the Council has complied with the framework and also meets the requirements of *The Accounts and Audit Regulations 2015*, Regulation 6(1)(a), which requires an authority to conduct a review at least once a year of the effectiveness of its system of internal control and include a statement reporting on the review with any published Statement of Accounts and, Regulation 6(1)(b), which requires all relevant bodies to prepare an Annual Governance Statement (AGS).

1.4. This governance statement provides assurance over the governance arrangements that have been in place for 2020/21 and it also identifies significant changes that have arisen as a result of the Covid 19 pandemic.

1.5. The Covid 19 pandemic has meant that the Council has made significant changes to governance arrangements since activating its emergency plan on 18 March 2020. As a result of this, emergency Covid 19 decisions have been made in accordance with the Emergency Plan and in line with the Council's Constitution, therefore, normal reporting and decision-making rules have changed and do not apply. The Council's Emergency Plan and the Constitution adopts the Strategic / Tactical / Operational Command and Control structure, which is a nationally adopted framework by all emergency response organisations. The command and control structure ensures a joined-up approach to emergencies at various scales and provides Officers with wide delegations to make decisions at pace as the Council responds to the developing situation. The Council has been dealing with the need to continually respond to the crisis as it develops, and although there was an intention to publish key decisions taken during the emergency response, it was not reasonably practicable to publish all decisions taken at the time. The Council has now published a log of the decisions taken during the emergency response and a Covid 19 decision log will be published as required, to reflect new decisions and information throughout the pandemic and beyond.

1.6. The Strategic / Tactical/ Operational Command and Control structure used as part of the emergency response to Covid, was stood down on 2 August 2021.

## 2 The purpose of the governance framework

2.1. The Council is committed to good governance and to improving governance on a continuous basis through a process of evaluation and review.

2.2. Good governance for the Council is ensuring it is doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner and the Council seeks to achieve its objectives while acting in the public interest, at all times.

2.3. The governance framework comprises the systems, processes, culture and values by which the Council directs and controls its activities and through which it accounts to, engages with and leads its communities. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of high quality services and value for money.

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

2.5. The governance framework has been in place at the Council for the year ended 31 March 2021 and up to the date of approval of the Statement of Accounts, subject to changes highlighted relating to the Covid 19 pandemic.

## 3 The governance framework

3.1. The key elements of the systems and processes that comprise the Council's governance arrangements include the following:

<u>The Council's vision and priorities for Birmingham</u>

3.2. The Council has a clear vision for Birmingham, to create 'a city of growth where every child, citizen and place matters' and a set of outcomes and priorities to underpin this vision. The Council's aim is to transform and modernise services in response to changing demand from a growing population and to support this, the Council will focus resources on six clear priorities:

- **An entrepreneurial city to learn, work and invest in.**
- **An aspirational city to grow up in**
- **A fulfilling city to age well in**
- **A great city to live in.**
- **A city whose residents gain the maximum benefit from hosting the 2022 Commonwealth Games.**
- **A city that takes a leading role in tackling climate change.**

3.3. The Council's vision and priorities in terms of the contribution to strategic outcomes are set out in the Council Delivery Plan 2020-2022 (the Plan). The Plan is available on the Council's website.

3.4. The Plan sets out the work programme for full delivery by May 2022 with a continued focus on the six priority outcomes identified above. The Council will focus on understanding where the city should be over the next 10-20 years. Working in partnership with others, the Council will develop comprehensive proposals for change to maximise the opportunities to tackle inequality and address both longstanding and new challenges facing the city.

3.5. The Plan will also focus on specific deliverables and commitments the Council needs to achieve over the next 18 months by Portfolio Holder such as ensuring the city is ready for and benefits from the Birmingham 2022 Commonwealth Games and supporting the city to respond and then recover from the Covid 19 pandemic.

3.6. Longer term, three priority areas have been identified in the Plan which the Council believes are fundamental to tackling the critical challenges of creating a more equal and inclusive city whilst managing demand on Council services to a more affordable level. The three areas are:

- **Shifting focus from crisis to prevention**
- **Increasing the pace and scale of growth, for those that need it most, while delivering the Council's climate change objectives and**
- **Delivering new ways of working**

3.7. Regular monitoring and reporting through a robust governance structure against these measures ensure that weaknesses in performance are identified at an early stage and effective action to bring performance in line with targets is undertaken.

3.8. Alongside the Delivery Plan, the corporate priorities are supported by more detailed Directorate and Service Plans which are also regularly monitored and reviewed with a golden thread through to appraisals.

3.9. In response to the Covid 19 pandemic, the Council developed a 12 point plan to meet the needs of the city, residents and communities. Based within the framework of the Council's vision and priorities the 12 points are:

- To preserve life and protect vulnerable groups and maintain the viability of the city is our fundamental purpose during the coming days, weeks and months.
- Ensure the response is scalable, proportionate and flexible, working closely with our NHS, education, business and community providers.
- Contribute to effective containment measures as appropriate to limit the spread of infection, and work with citizens and communities to help them to take the appropriate actions.
- Ensure continued delivery of the council's critical services, focusing most on those services which support and protect the most vulnerable in society.
- Maintain council services to an appropriate level and prioritise services to maintain those which are critical to life and the protection of vulnerable groups.

- Engage with and support NHS and Public Health response systems/campaigns including media and communications, working across all the networks of the city to ensure information reaches all our communities.

- Provision and sharing of advice; warning and information internally and to public and local businesses to support the immediate and long-term resilience of the city.

- Maintain good working relationships with partners to ensure supply chain continuity, especially for those resources that underpin the safety and security of Birmingham and its citizens.

- Ensure that all roles and areas of responsibility are predetermined and formally agreed so there is clarity internally and with partners during these uncertain times.

- Monitor the impact of the outbreak on the community and our services to respond in a timely manner and plan recovery to ensure that Birmingham remains looking forward.

- Work with partners across our voluntary, community and faith communities to mobilise the spirit of Birmingham to respond to the challenges facing us.

- Work across political parties to collaborate in the best interests of the city; we recognise that the challenges ahead require us all to work together to support citizens and the city to weather the coming challenges and emerge as a city moving forward.

3.10. The Council ensures the economical, effective and efficient use of resources and secures continuous improvement in the way in which its functions are exercised, by having regard to a combination of economy, efficiency and effectiveness as required by the Best Value duty. Achievement of value for money is a key part of the Council's long term financial strategy.

3.11. The Council set a Financial Plan for 2020-2024 that was driven by the Delivery Plan and invested in services and set out savings plans that would deliver a balanced budget over this period. By March 2020 the impact of the Covid 19 pandemic was felt in the UK and across the world. As a result, Government and public sector financial plans have been significantly changed and the outlook remains uncertain.

3.12. In responding to the Covid 19 pandemic in 2020, the Council promptly put in place weekly monitoring and reporting of financial impacts and quantified financial risks, a process that the Local Government Association held up as an example to others. The Council lobbied and engaged with Government directly over the need for sufficient funding for the impact of Covid 19. Through rigorous and diligent financial management coupled with additional funding provided by the Government, the Council has achieved spend within its budget for 2020/21.

3.13. The Council undertook a mid-year update to its Medium Term Financial Plan at the end of September and reported findings in November to both Cabinet and Overview & Scrutiny Resources, alongside its Delivery Plan proposals. An updated Medium Term Financial Plan was incorporate into the Financial Plan 2021 – 2025 approved by Council in February 2021 alongside the presentation of the balanced budget proposals for 2021/22. To improve financial resilience the Financial Plan 2021 -2025 increased the Financial Resilience Reserve and increased General Balances to represent 4.5% of the net budget requirement.

3.14. Given the significant impact the Covid 19 pandemic has had on the Council, a fundamental review of the savings programme took place during the year, supported by the monthly Star Chamber process and Directorate Management Team budget challenge sessions. The review identified that some savings had to be rephased due to changing circumstances, some had to be replaced with an alternative saving and others had to be removed from the programme since they were no longer considered to be deliverable. Through this rigorous challenge the Council has ensured deliverability of a savings programme for the future.

3.15. The Council's planning framework is set in the context of the wider city leadership and governance, such as the West Midlands Combined Authority's (WMCA) Strategic Economic Plan (developed by the local enterprise partnerships in conjunction with the WMCA) and the Birmingham and Solihull Sustainability and Transformation Plan (to deliver better health and care for local people).

3.16. The Mayor heads the WMCA. The WMCA uses devolved powers from central government to allow the Council, along with its regional counterparts, to drive economic growth, investment and the reform of public services. There will be continued innovative ways of delivering local services and for people to engage in their local community, such as through the local council for Sutton Coldfield.

3.17. The Council has a strong public, third sector, and business engagement role. Through City Board, the Council has embarked on a city vision plan for Birmingham (2020-2035) which will bring about a change in partnership activity and the relationship with citizens, provide sector leaders with shared objectives based on the UN Sustainable Development Goals and represent a strong statement of collective leadership. The Council has a Community Cohesion Strategy and there is an established partnership toolkit setting out the governance and internal control arrangements which must be in place when the Council enters into partnership working. This includes arrangements for the roles of Members and Officers, and the implementation and monitoring of objectives and key targets.

3.18. From 1 September 2019 the Local Enterprise Partnership (LEP) transferred its revenue operations and full executive team to GBSLEP Limited. The Council remains the accountable body for capital funds and some revenue funding awards and retains its place on the LEP Board in respect to its s151 role over public funds. Working with partners, the Council plays a strategic role for the Greater Birmingham area, working with the Greater Birmingham and Solihull Local Enterprise Partnership (LEP) and where applicable, jointly and in consultation with the West Midlands Combined Authority (WMCA). As Accountable Body and partner to the LEP, the Council develops collaborative solutions to common problems, and facilitates coherent programmes with regional and national partners to deliver an economic strategy for the city and region. LEP projects are delivered within the LEP Assurance Framework, approved by the Council's governance processes as Accountable Body, managed and monitored through Programme Delivery Board and thematic "Pillar Boards", with regular reporting to the LEP Board.

3.19. The Cabinet Committee - Group Company Governance's role is to ensure that the Council's strategic objectives are met across the group of companies which either the Council owns or has an interest in, and to support the development of the group in line with the Council's regulations and ambitions. The Committee works to improve the level of Council oversight of the activities of those companies that it either wholly owns, or in which it has an interest or a relationship through nominees through for example, holding entity boards to account for their performance and reviewing business plans and strategies of the entities where applicable.

3.20. The Council's Constitution which is reviewed annually by the Monitoring Officer with amendments agreed at the Annual General Meeting, is available on the Council's website. Any in-year changes are agreed by Cabinet and/or the Council Business Management Committee (CBMC).

3.21. The Council facilitates policy and decision–making via an Executive Structure. There were ten members of Cabinet for the 2020/21 financial year:

- The Leader with responsibilities for Strategic Policies, Structure and Governance of the Council, Financial Strategy, Communications, Policy and Partnerships, Major Projects, Commonwealth Games, Sports and Events Development, Economic Growth and Jobs and Commissioning

- Deputy Leader with responsibilities for Business Change, Efficiency and Improvement, Revenues and Benefits, Customer Services, Emergency Planning, ICT and Legal.

Eight other Cabinet Members have the following portfolios:

- Cabinet Member – Children's Wellbeing (changed to Cabinet Member – Vulnerable Children and Families, August 2021);

- Cabinet Member – Street Scene and Parks

- Cabinet Member – Health and Social Care;

- Cabinet Member – Homes and Neighbourhoods;

- Cabinet Member – Finance and Resources;

- Cabinet Member – Social Inclusion, Community Safety and Equalities;

- Cabinet Member – Transportation and Environment;

- Cabinet Member – Education, Skills and Culture.

3.22. The Constitution sets out the terms of reference or function for each of the Committees and signposts to a schedule of matters reserved for decision by Full Council.

3.23. CBMC has responsibility for the planning and preparation of the agenda, papers and other arrangements for Council meetings and provides the forum for non-executive, non-scrutiny and non-regulatory matters.

3.24. CBMC oversees the Council's relationship with the Independent Remuneration Panel which is chaired by an independent person. CBMC submits recommendations to the Council on the operation and membership of the Panel and amendments to the Councillors' Allowances Scheme.

3.25. CBMC also discharges the Council's functions in relation to parishes and parish councils, considers terms and conditions of employment and any recommendations from Audit Committee relating to the discharge of the Council's duty under the Accounts and Audit Regulations 2015.

3.26. The purpose of the Audit Committee is to support the Council's Corporate Governance responsibilities and to provide independent assurance to the Council in relation to internal control, risk management and governance. The role of the Audit Committee includes active involvement in the review of financial systems and procedures, close liaison with external audit and responsibility for the approval of the Annual Accounts and to review and make recommendations to the executive regarding the effectiveness of internal audit on the Council's arrangements for deterring, preventing, detecting and investigating fraud .

Roles, Values and Standards of Conduct and Behaviour of Members and Officers

3.27. The Constitution sets out the respective roles and responsibilities of the Cabinet and other Members and Officers and how these are put into practice.

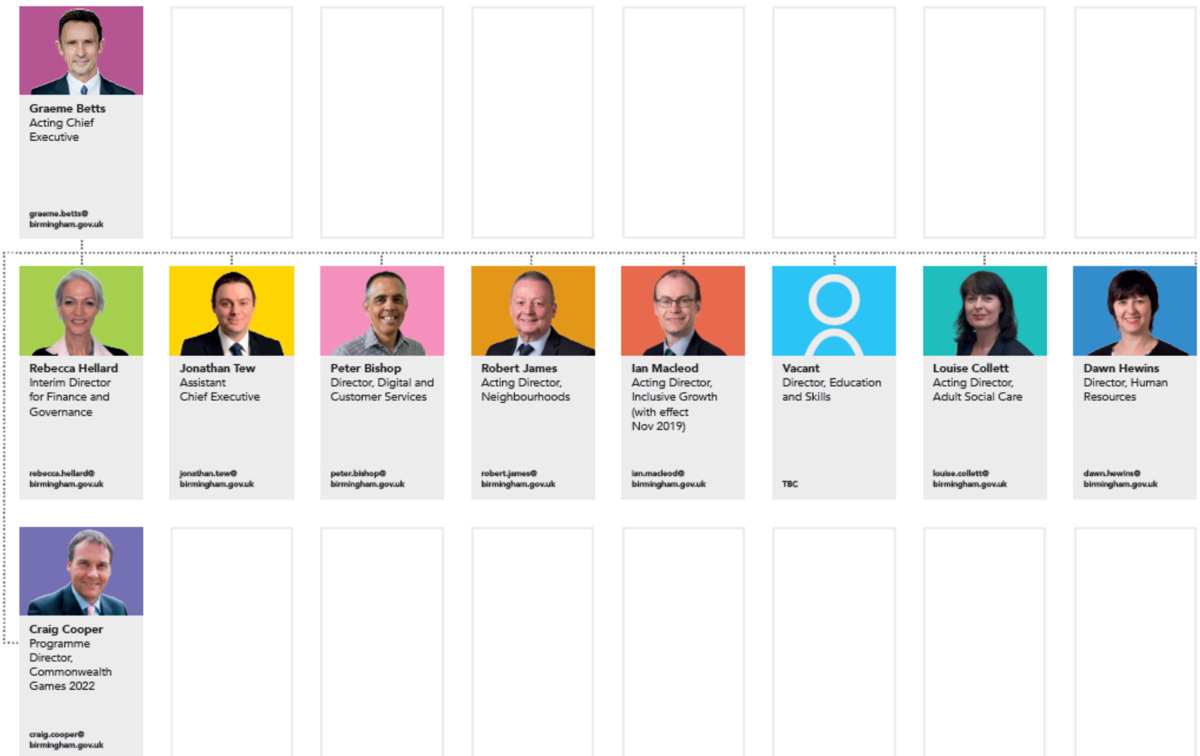
3.28. The Constitution also includes a Scheme of Delegation to Officers which sets out the powers of Corporate Directors.

3.29. The Council has Codes of Conduct for both Members and Officers which set out the standards of conduct and personal behaviour expected and the conduct of work between members and officers. In particular, the Council has clear arrangements for declaration of interests and registering of gifts and hospitality offered and received.

Management Structure

3.30. During 2020/21, the Council operated through eight Directorates, Adult Social Care and Health, Education and Skills, Inclusive Growth, Finance and Governance, Neighbourhoods, Digital and Customer Services, Partnerships, Insight and Prevention, and Human Resources.

3.31. The Council's management structure as at 31 March 2021 was as per the diagram below:




3.32. In addition, the following key changes occurred:

- Chris Naylor became Interim Chief Executive 18 May 2020 to 6 March 2021.

- Graeme Betts took up the role of Acting Chief Executive prior to and after, Chris Naylor's secondment from London Borough Council of Barking & Dagenham.
- Louise Collett became Acting Director of Adult Social Care during the period Graeme Betts took up the role of Acting Chief Executive
- Jacqui Kennedy, Director of Neighbourhoods, announced her early retirement on 3 June 2020
- Craig Cooper was appointed Programme Director Commonwealth Games on 11 May 2020.
- Tim O'Neill, Director Education and Skills left the Council on 31 January 2021.
- Deborah Cadman was appointed as Interim Chief Executive from 14 June 2021.
- Jonathan Tew, Assistant Chief Executive left the Council on 31 August 2021.
- In line with the structure outlined in the 'Investing in our Future' Report, Rob James was appointed Managing Director City Operations and Julie Griffin appointed Managing Director of City Housing in April 2021.
- Rebecca Hellard was appointed Director of Council Management on a permanent basis from 1st November 2021.
- Darren Hockaday was appointed as Interim HR Director from 4 October 2021.

Financial Management Arrangements

3.33. The Council's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2016). The role of the Chief Finance Officer (CFO)/Section 151 Officer includes being:

- A key member of Council Management Team (CMT), helping it to develop and implement strategy and to resource and deliver the Council's strategic objectives sustainably and in the public interest;
- Actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and alignment with the Council's financial strategy;
- Leading the promotion and delivery of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively;
- To deliver these responsibilities, the CFO leads and directs a finance function that is resourced to be fit for purpose; and is professionally qualified and suitably experienced.

3.34. In October 2019 the CIPFA Financial Management Code 2019 (FM Code) was introduced. The FM Code provides guidance for good and sustainable financial management and compliance will provide assurance that resources are being managed effectively. Compliance with the FM Code helps to strengthen the framework that surrounds financial decision making. Complying with the standards set out in the FM Code is the collective responsibility of elected members, the chief finance officer and member of the Council Management Team.

3.35. 2021/22 is the first year of compliance with the FM Code. As recommended by CIPFA, the Council has undertaken a self-assessment against the FM Code standards. The Council assessment is that its financial management, procedures and practices are generally in a good place. A position further endorsed by CIPFA's recent Financial Management Capability Review with CIPFA commenting that "Birmingham can now demonstrate strong compliance with the Code".

Scrutiny, Accountability and Risk Management

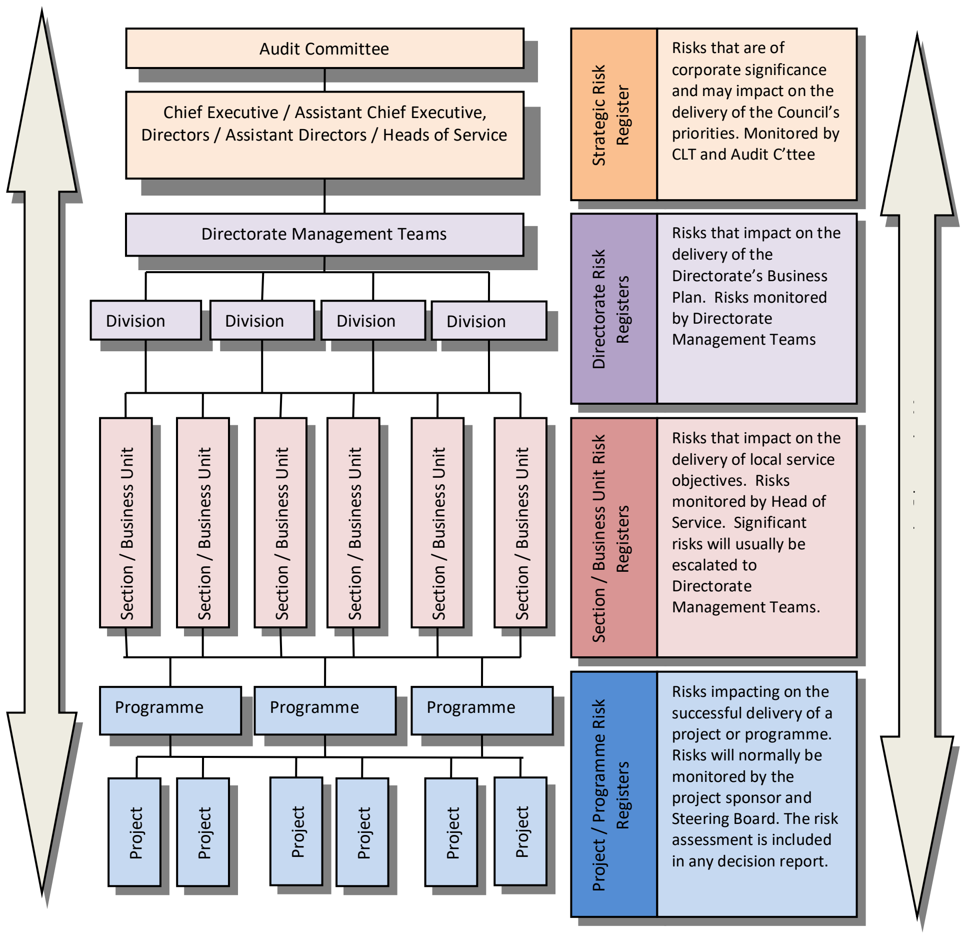
3.36. The Overview & Scrutiny Committees cover all Cabinet Member portfolios and the Districts collectively. All Executive decisions can be called in for Scrutiny to ensure that they are soundly based and consistent with Council policy.

3.37. The Council has a procedure for handling complaints, compliments, and comments that monitors formal contact with members of the public. Such enquiries are actively tracked through the process and independently reviewed and where appropriate, actions taken to improve service delivery.

3.38. The Council ensures compliance with established policies, procedures, laws, and regulations - including risk management. For transparency, all reports to Cabinet and Cabinet Members are required to include governance information relating to: Council policy, internal and external consultation, financial and legal implications and Public Sector Equalities Duty. All reports are required to be cleared by senior finance and legal officers.

3.39. A Revised Risk Management Framework was reported to Audit Committee on 28 January 2020. The framework set out the processes for identifying, categorising, monitoring, reporting and mitigating risk at all levels, formalising processes already in place.

3.40. The schematic diagram below illustrates how risk was managed during 2020/21:



3.41. The Council's Strategic Risk Register continues to be reviewed and updated on a regular basis. The Strategic Risk Register is reported to CLT on a monthly basis so that they can monitor and challenge progress against actions and identify any new risks to the Council. Additionally, the Strategic Risk Register is reported to the Audit Committee three times per year so that it can satisfy itself and gain assurance that the Risk Management Framework has been consistently applied and risks appropriately managed. Key operational risks are captured within business plans at directorate and divisional level and monitored by Directorate Management Teams.

3.42. Independent assessments of the effectiveness of Audit Committee and of the Total Impact of Internal Audit were undertaken independently by PWC LLP in 2020. Audit Committee Members have expressed a wish to enhance their effectiveness by drawing upon wider sources of assurance; specifically, that of management and where appropriate, cabinet members and producing an annual report on the work it has undertaken. Internal Audit's Total Impact review will be supplemented by a Peer Review in 2021 to enhance its overall contribution to the Council. The Council has well-established protocols for working with external audit. The Council's external auditors have responsibilities under the Code of Audit Practice to review compliance with policies, procedures, laws and regulations within their remit.

Progressive Assurance Model

3.43. In March 2019 Cabinet considered the stock-take report of the Council's improvement journey and endorsed an outline plan of improvement areas for 2019-20 whilst also agreeing to report, voluntarily, to the Secretary of State in autumn 2019 and spring 2020.

3.44. Cabinet endorsed the adoption of an innovative new model of "progressive assurance." This model entailed the formation of a quarterly Strategic Programme Board (SPB) and the engagement of specialist Non-Executive Advisors (NEAs) (aligned to specific risk and professional areas of focus) to support the Council Management Team for twelve months from July 2019 to July 2020. It built on analysis of assurance and improvement models across a range of different sectors and sought to embed an innovative and novel model with wider applicability and learning for Local Government.

3.45. Two reports to Cabinet during the 2019-20 financial year were a testament to the excellent and constructive analysis of the NEAs and the model was regarded by MHCLG and peers as a very significant step forward for the Council's improvement agenda. A final NEA report to Cabinet was considered in July 2020.

3.46. The 'Investing in the Future' Cabinet Report and delivery plan is guiding the overall direction of the Council's improvement journey. The Council is adopting a refreshed approach to improvement, accountability and performance with effectiveness monitored through regular reporting to Cabinet, Scrutiny and CLT Performance Group on the overall position of delivery plan indicators. Through the Corporate Delivery Oversight Group and the Corporate Delivery Board, there is specific oversight of major improvement and service transformation programmes.

External Audit

3.47. At Audit Committee on 25 November 2020, the external auditor issued the Audit Findings Report (AFR) on the audit of the 2019/20 financial statements based on work completed at that date. Upon completion of the audit, a final AFR was reported to Audit Committee on 26 January 2021. The AFR included no Statutory 24 recommendations but qualified two value for money conclusions in respect of two separate singular incidents:

- the financial Implications of the Commonwealth Games and
- the contractual arrangements relating to Highways PFI scheme.

Member Development

3.48. The Members' Development Strategy 2018-2022 aims to provide a member development programme that ensures all councillors have the opportunity to gain the knowledge and skills to fulfil their role as 21st Century Councillors; make a positive difference every day to the people of Birmingham; provide strategic leadership and work together with officers in the transformation and delivery of Council services.

3.49. Councillors are at the heart of the Council and the organisation supports the member development strategy. It is overseen by CLT and the Member Development Steering Group; coordinated through the Members' Development Team, consisting of officers from Legal and Governance. This collaborative approach ensures ownership of the strategy by the Council as a whole.

3.50. In addition to the Members' Development Programme, all Councillors have access to e-learning through the City Council iLearn portal and are regularly kept up to date on training and development via the City Councillor bulletin circulated by email. This gives details of legislation, training opportunities and other issues of importance to Members.

3.51. During the Covid 19 pandemic and the increased requirement for more agile and online working, the main focus of the Members' Development Programme for 2020/21 has been to provide briefing/training sessions through Microsoft Teams to facilitate this. There has been encouragement of online learning opportunities and assisting in learning the skills required in participating and managing meetings remotely. Provision of information for both internal and Local Government Association training opportunities for:

- Role Specific Training, ensuring members have the knowledge and understanding of legal and governance requirements to carry out role on regulatory and scrutiny committees
- On-going Member Development, to provide on-going development opportunities for members related to current and potential future roles and responsibilities.

Workforce

3.52. The Council's workforce has experienced many changes and challenges as the workforce is modernised. The Council's workforce strategy 2018-2022 was agreed by Cabinet in 2018 and refreshed in February 2020. The Council's workforce vision is to have a workforce that reflects the lived experience of people and is representative of the communities it serves, to be an employer of choice, with a high performing, agile and diverse workforce, capable of delivering innovative services.

3.53. Having a flexible, skilled and mobile workforce is critical to the Council responding effectively to increasing demands placed on front line services and support functions and to the delivery of a long-term sustainable organisation. The workforce adapted to working from home for all but essential front line services and the Council is now looking at new ways of working for the future.

3.54. During 2020/21, the 'My Appraisal' review process continued, enabling a consistent means of assessing and rewarding performance. 'My Appraisal' is specifically designed to ensure that employees are supported to implement the Council's core values:

- We put citizens first
- We are true to our word
- We act courageously
- We achieve excellence

Engagement with the community and other stakeholders

3.55. The Council has seen, during the pandemic, how effective a coordinated voluntary, community, faith and social enterprise response can be in supporting individuals and neighbourhoods cope with the challenges presented. The Council has worked closely with the sector, strengthening relationships and developing an understanding of how the Council can effectively serve communities and create greater trust.

3.56. The Council has started work with the sector and other partners on initiatives including the Birmingham Recovery Framework which focuses on six key recovery themes. It emphasises the need for an inclusive economic recovery built on collaborative public services, stronger community capacity and citizen resilience with a more significant focus on localised working in neighbourhoods.

3.57. In response to the Covid 19 pandemic, the Council adopted an on-line approach to consultation during the year. The Council Financial Plan 2021 to 2025 consultation process included an on-line meeting led by the Council's Leader with the business community.

3.58. The Council's Scrutiny function regularly engages with key partners and other interested groups and individuals in order to assess the impact and suitability of the Council's activity. The Scrutiny Committees make an annual report to Full Council.

3.59. Clear channels of communication are in place with service users, citizens and stakeholders although due to the Covid 19 pandemic this has been online throughout the 2020/21 financial year. The Council holds meetings in public wherever possible and safe to do so, although all meetings have been held virtually this year, with many formal meetings webcast. Directorates have extensive programmes of consultation and engagement activity for specific services.

## 4 Review of effectiveness

4.1. The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the CLT which has responsibility for the development and maintenance of the governance environment, Birmingham Audit's annual report, and by comments made by the external auditors and other review agencies and inspectorates.

4.2. The Council continues to assess how its overall corporate governance responsibilities are discharged. In particular, the Council has adopted the *'Delivering Good Governance in Local Government: Framework'* (2016 CIPFA/Solace) and continues to learn from experiences and makes necessary changes to improve its local code of governance.

4.3. The Council has a well-developed methodology for annual governance review which is reviewed and updated each year. The process requires each Directorate and significant areas of service delivery / business units within a Directorate to produce an Assurance Statement highlighting significant governance issues, and details of what action(s) are being taken to mitigate any risks.

4.4. The Council's review of the effectiveness of the system of internal control is informed by:

- Directorate assurance based on management information, performance information, officer assurance statements and Scrutiny reports;
- The work undertaken by Birmingham Audit during the year;
- The work undertaken by the external auditor reported in their annual audit letter and statutory recommendations; and
- Other work undertaken by independent inspection bodies.

4.5. The arrangements for the provision of internal audit are contained within the Council's Financial Regulations which are included within the Constitution. The Chief Finance Officer is responsible for ensuring that there is an adequate and effective system of internal audit of the Council's accounting and other systems of internal control as required by the Accounts and Audit Regulations 2015. The internal audit provision operates in accordance with the Public Sector Internal Audit Standards.

4.6. The Birmingham Audit plan was compiled based on professional judgement and a risk model to 'score' all potential 'auditable' areas. To meet the standards required there was a need to ensure sufficient coverage of the adequacy and effectiveness of systems of internal control in relation to financial control, risk management, corporate governance and an element for proactive and reactive fraud work, although due to the Covid 19 pandemic there was a reprioritisation of the original plan to ensure our assurance resources were targeted at significant systems and risks.

4.7. The resulting work-plan, (reprioritised on a Must/Should/Could basis) was discussed and agreed with the Directors and Audit Committee and shared with the Council's external auditor. Birmingham Audit reports include an assessment of the adequacy of internal control and prioritised action plans to address any identified weaknesses and include a risk rating for the Council and the Service Area. These are submitted to Members, Corporate Directors and service managers as appropriate.

4.8. From the work undertaken by Birmingham Audit during 2020/21 and the outcomes from applying the model for formulating the end of year opinion the following assurance was able to be given: *"Based on the audit work undertaken I am able to provide a reasonable assurance for the core systems of internal controls evaluated. As in any large organisation, our work did identify some significant issues that* *required action.* All significant issues identified were reported to the appropriate Director during the year.

4.9. In response to the Covid 19 pandemic, the Council developed a 12 point plan to meet the needs of the city, residents and communities 2020/21 as identified in paragraph 3.9 above. New areas of activity as part of the national response to the Covid 19 pandemic included food deliveries to shielded residents, distribution of small business grants and the Retail, Hospitality and Leisure Fund, vouchers for families in receipt of free school meals, provision of accommodation to the homeless and distribution of personal protective equipment to care settings.

4.10. The funding and logistical consequences of delivering the Council's response has been and will continue to be, closely monitored.

4.11. All significant issues have also been brought to the attention of the Audit Committee, and where appropriate to CLT. The more significant of these are set out in the section entitled '**Significant governance issues 2020/21'** below.

4.12. The internal audit function is monitored and reviewed regularly by Audit Committee. The Committee reviews management progress in implementing recommendations made in significant, high risk audit reports and against issues raised in the AGS through the Corporate Risk Register.

4.13. The Council's Overview and Scrutiny Committees received reports on key control issues throughout 2020/21 including the impact of Covid 19, the impact of Brexit on the City, the Commonwealth Games and Action Plans on Air Quality and Climate Emergency.

4.14. The Vision and Priorities Council Plan and organisational health targets were monitored through the Council Plan Measures by CLT, the Deputy Leader and Cabinet. Directorate and Business Unit business plans contain a variety of performance indicators and targets, which are regularly reviewed.

4.15. The Monitoring Officer advises that there were 45 concerns raised and considered under the Council's Whistleblowing & Serious Misconduct policy in the 2020/21 financial year, a reduction of 28 in comparison to 2019/20.

## 5 Review of 2019/20 governance issues

5.1. The significant 2019/20 governance issues were considered by Audit Committee in June 2020, agreed as part of the Statement of Accounts in November 2020 and reviewed as part of the Corporate Risk Register updates in the 2020/21 financial year. In addition, this Committee received reports relating to Final Accounts, Fraud, Treasury Risk Management Arrangements, Retrospective Purchase Orders and Audit Findings Report Updates.

5.2. The review of the impact of the Covid 19 pandemic across services featured heavily in Overview and Scrutiny schedules. Areas reviewed included the Covid 19 Governance Arrangements by Co-Ordinating Overview and Scrutiny Committee, the Covid 19 impact on Public Health by the Health and Social Care Overview and Scrutiny Committee and the impact of Covid 19 on the City's Economy and Supporting the Economic Recovery of the City by the Economy and Skills Overview and Scrutiny Committee.

5.3. Education and Children's Social Care Overview and Scrutiny Committee received reports on the Annual review of the Children's Trust, Birmingham Safeguarding

Children's Partnership and Special Educational Needs and Disability (SEND) Written Statement of Action. This O&S Committee also considered Covid 19 pandemic issues such as SEND's response to Covid 19 and the Covid 19 Impact on Schools and Preparations to Return to Schools.

5.4. Housing and Neighbourhoods Overview and Scrutiny Committee reviewed progress of Fire Safety in High Rise Buildings and received the annual report on Birmingham's Community Safety Partnership. The impact of the Covid 19 pandemic was reported on areas such as Homelessness, Parks, Bereavement Services and the Commonwealth Games Village.

5.5. The impact of the Covid 19 pandemic on the City was regularly considered by Cabinet. Cabinet also received and reviewed Revenue Budget Monitoring reports and quarterly Capital Budget Monitoring reports throughout the year.

## 6 Significant governance issues 2020/21

6.1. The matters shown in this section have either been identified as having a significant or high likelihood in the Strategic Risk Register or have been highlighted as corporate issues in the annual assurance process. The Council actively addresses these matters and identifies areas where further improvements need to be made. In particular:

| Issue No | Governance Issue | Mitigation Action / Proposed Action |
|---|---|---|
| 1 | **Covid 19 Pandemic impact on services**<br><br>The Covid 19 pandemic had a massive impact on Council services, both in terms of day to day running and long-term planning.<br><br>The impact and response were also complex - some services operated remotely, others were closed and new responsibilities such as testing and food parcels were introduced as a response to community needs. | Strategic Cell (Gold Command) is supported by Tactical Cell and a number of thematic cells to manage the Council's emergency response.<br><br>New legislation enabled democratic decision-making to resume remotely, with meetings web cast on a priority basis.<br><br>City Council received reports in June and September 2020 and February 2021, detailing the Council's response to the pandemic |
| 2 | **Covid 19 Pandemic impact on Financial Resilience**<br><br>The pandemic created financial uncertainty throughout 2020/21 and many income streams were impacted.<br><br>Uncertainty will extend into 2021/22. | Government has provided some direct funding and other supportive financial measures to lessen the impact on local government. This includes providing Birmingham with £128.5m unringfenced grant funding in 2020/21 to offset costs incurred in that year and a further £43.8m for 2021/22 which has been fully applied |

| Issue No | Governance Issue | Mitigation Action / Proposed Action |
|---|---|---|
| | | in setting the 2021/22 budget, approved by Council in February 2021. The, government's income compensation scheme, which compensates councils for lost fees, charges and sales, introduced in 2020/21 continues to June 2021, using the 2020/21 income budgets as the baseline for the compensation.<br>Any balance of un-ringfenced funding from 2020/21will be transferred to reserves to manage 2021/22 Covid spend and risks.<br><br>Weekly monitoring of the financial impact of Covid has continued in the new financial year. |
| 3 | **Major Projects and Delivery Plan**<br><br>The Council is involved in an ambitious programme of delivery including a range of major projects which include partnership working arrangements and sometimes complex legal agreements.<br><br>Several services have highlighted issues of attracting and retaining high quality staff. | Cabinet gave approval to the creation of a fit for purpose Corporate Programme Management Office (CPMO) so that the Council can be assured and have confidence that major change projects deliver as intended, to budget and on time. The purpose of the CPMO is to support the establishment, resourcing, delivery, assurance, monitoring and reporting of programmes that will deliver the Council's Corporate Delivery Plan and wider priority programmes. |
| 4 | **Homelessness**<br><br>The implementation of the Homelessness Reduction Act from 1 April 2018 has seen an increase in households approaching the homelessness service.<br><br>The Council has refurbished and opened two buildings for the use of temporary accommodation. Reduced B&B from a peak of 690 in May 2018 to 573 in B&B on 28th January 2021. | Temporary accommodation and dispersed (TADs). To alleviate the pressures in B&B expansion of TADs has led to delivery of 1817 units as at January 2021.<br><br>A procurement exercise will commence throughout the summer of 2021, to ensure we have an adequate supply of temporary accommodation over the coming years, this will also give us flexibility to hand back/lease more properties as demand dictates. |
| 5 | **Asset Condition and Sufficiency**<br><br>Many operational assets are in very poor condition following years of budget restrictions and lack of investment. | The Council approved a Property Strategy 2018/19 – 2023/24 to better join up decision making, realignment of assets and enable strategic development. |

| Issue No | Governance Issue | Mitigation Action / Proposed Action |
|---|---|---|
| | There is an aging schools' estate with some assets that are beyond repair.<br><br>The demand for secondary school places is beginning a period of sustained growth, requiring a large number of additional places to meet our statutory duty for sufficiency. | Condition surveys of the maintained estate have been commissioned. The outcome will be to produce a priority list of schools where buildings and blocks need to be replaced completely.<br><br>Officer and stakeholder boards for major scheme management and reporting to Capital Board or Cabinet as appropriate are in place to provide assurance on individual programmes. |
| 6 | **Commonwealth Games**<br><br>Hosting the Commonwealth Games in 2022 brings with it significant delivery expectations (in terms of capital project management and delivery of legacy benefits) for the Council as well as significant financial commitments. | The Council is alive to the delivery, financial and reputational risks associated with the Games and has active risk management and programme management arrangements in place to ensure prompt and timely resolution of issues. The Council is working closely with strategic and regional partners. |
| 7 | **Commissioning and Contract Management**<br><br>Intelligent Client Functions are not robust enough, leading to a number of contracts underperforming or developing risks to service provision.<br><br>The pandemic has impacted on the Council's suppliers' capacity and the market's appetite for bidding in uncertain outlook. | Early identification of issues or problems, ensuring the contracts and output specifications are delivered to required standards and deliver continuous improvement – tailored to each contract as necessary.<br><br>On-going identification of mitigating actions to reduce the level of risk. |
| 8 | **Birmingham SEND Inspection** – Inadequate provision and Written Statement of Action required<br><br>Joint CQC and Ofsted inspection of Birmingham SEND provision raised significant concerns requiring the CCG and Council to provide a joint response in the form of a Written Statement of Action.<br><br>This, in conjunction with the implementation of the SEND two-year improvement programme is | Monthly board meetings for inclusion take place with the CCG, Trust and the education and skills directorate, alongside quarterly review meetings with the DfE is closely monitoring progress and ensuring the authority is on track to make the expected progress and deliver the important improvement agenda. |

| Issue No | Governance Issue | Mitigation Action / Proposed Action |
|---|---|---|
| | making the necessary and important improvements for the current local offer for children and young people addressing the issues raised in the OFSTED and CQC inspection.<br><br>The results of the May review identified that of the 13 significant weaknesses identified at the initial inspection, insufficient progress had been made on 12. | A revisit was announced by Ofsted in May 2021. As a result of the revisit, the Department for Education (DfE) has appointed a Commissioner to hold the Local Area to account to deliver the required improvements. The Council will work closely with the Commissioner on the improvements that are required.<br><br>The Council will work closely with its Parent Carer Forum as the next steps are planned and intends to address the fundamental weaknesses in the system that have been identified whilst building upon those showing promise, including joint commissioning, the better quality of more recent Education Health and Care Plans and the work the Council is doing with mainstream and special schools. |

6.2. These matters are monitored through the Strategic Risk Register, CLT and Directorate Service and operational plans as required. During the year the Audit Committee monitors progress against the issues identified in this statement.

6.3. We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed ………………………
Councillor Ian Ward
Leader of the Council

Signed ………………………….
Deborah Cadman
Interim Chief Executive

**Addendum: Annual Governance Statement 2020/21 - Update**

7 **Background**

7.1. The Annual Governance Statement (AGS) reports the governance framework in place at the Council for the year ended 31 March 2021.

7.2. There is a requirement to update the AGS up to the date of approval of the Statement of Accounts. The information in this addendum reflects the changes in the Council's governance arrangements.

8 **Changes in the Governance Framework**

Covid 10 Governance Arrangements

8.1. The Covid 19 pandemic meant that the Council made significant changes to governance arrangements upon activating its Emergency Plan. As a result, emergency Covid 19 decisions were made in accordance with the Emergency Plan and therefore, in line with the Council's Constitution, normal reporting and decision-making rules changed and did not apply.

8.2. The Council adopted its Emergency Plan on 18 March 2020 and the plan was deactivated on 2 August 2021, after which, the Council reverted to its usual governance arrangements.

The Executive Structure

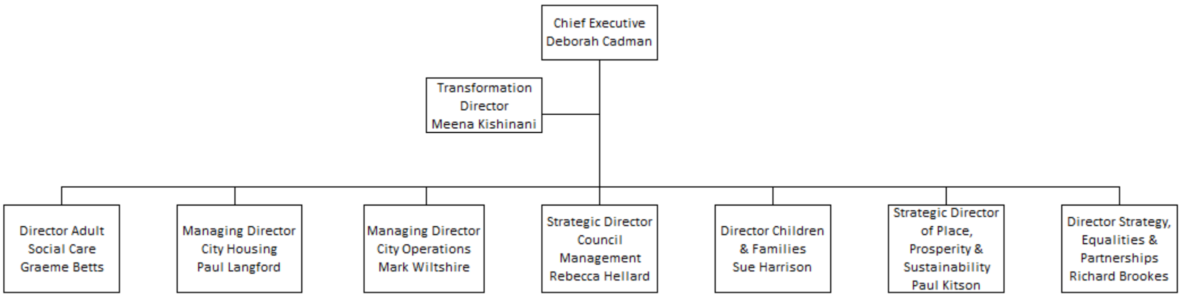
8.3. Following the local elections in May 2022, the Council's Executive Structure changed. There continue to be ten members of Cabinet including the Leader and Deputy Leader.

Eight other Cabinet Members have the following portfolios:

- Cabinet Member – Children, Young People and Families
- Cabinet Member – Digital, Culture, Heritage and Tourism
- Cabinet Member – Environment
- Cabinet Member – Finance and Resources
- Cabinet Member – Health and Social Care
- Cabinet Member – Housing and Homelessness
- Cabinet Member – Social Justice, Community Safety and Equalities
- Cabinet Member – Transportation

Management Structure

8.4. The Council now operates through seven Directorates, Adult Social Care, Children and Families, City Housing, City Operations, Council Management, Place, Prosperity and Sustainability and Strategy, Equalities and Partnerships. The current management structure is as per the diagram below:


Chief Executive
Deborah Cadman
Transformation Director
Meena Kishinani
Director Adult Social Care
Graeme Betts
Managing Director City Housing
Paul Langford
Managing Director City Operations
Mark Wiltshire
Strategic Director Council Management
Rebecca Hellard
Director Children & Families
Sue Harrison
Strategic Director of Place, Prosperity & Sustainability
Paul Kitson
Director Strategy, Equalities & Partnerships
Richard Brookes

## Glossary

**Academy School**
A school that chooses to opt out of Local Authority control and receive its funding from the Education Funding Agency directly.

**Accounting Policies**
The rules and practices adopted by the Council that determine how the transactions and events are reflected in the Accounts.

**Accruals**
Income and expenditure are recognised as they are earned or incurred, not as money is received or paid (see Debtors and Creditors).

**Amortised Cost**
Some financial assets and liabilities are carried at amortised cost, where part of their carrying amount in the Balance Sheet will be either written down or written up via the Comprehensive Income and Expenditure Statement over the term of the instrument.

**Annual Governance Statement**
The Annual Governance Statement is a statutory document that explains the processes and procedures in place to enable the Council to carry out its functions effectively.

**Balance Sheet**
The Balance Sheet shows the value, as at the Balance Sheet date, of the assets, liabilities and other balances recognised by the Council.

**Balances**
The total level of funds an authority has accumulated over the years, available to support expenditure within the year.

**Beacon Properties**
In valuing the Housing Stock the Council's properties are grouped into types of a similar nature. A sample from each type, known as beacon properties, are valued with the results being multiplied up to give a total value for each type.

**Business Rates**
A local tax paid by businesses to their local authority, based on the value of their premises as assessed by the Government Valuation Office Agency (VOA).

**Capital Charge**
A charge to service revenue accounts to reflect the cost of non-current assets used in the provision of services.

**Capital Expenditure**
Expenditure on the acquisition of a non-current asset, or expenditure which adds to, and not merely maintains, the value of an existing non-current asset. The Government has also enacted regulations which result in certain other types of spending being treated as capital expenditure.

**Capital Financing Requirement (CFR)**
A measure of an authority's cumulative need to borrow to finance capital expenditure, or to meet the costs of other long-term liabilities.

**Capital Receipt**
Cash received from the disposal of land and other non-current assets, and from the repayment of grants and loans of a capital nature made by the Council.

**Cash Flow Statement**
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 being from operating, investing or 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 (that is borrowing) to the Council.

**CIPFA/SOLACE Framework**
The CIPFA/SOLACE Framework helps local authorities to develop and maintain their own codes of governance and discharge their accountability for the proper conduct of public business.

**Collection Fund**
A separate account administered by the Council collecting receipts from Council Tax and Business Rates and paying it on to the General Fund and other public authorities.

**Community Assets**
Assets that the local authority intends to hold in perpetuity, that have no determinable useful life and that may have restrictions on their disposal. Examples of community assets are parks and historic buildings.

**Comprehensive Income and Expenditure Statement (CIES)**
This Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation.

**Consistency**
The concept that the accounting treatment of like items within an accounting period and from one period to the next is the same.

**Creditors**
Amounts owed by the Council for work done, goods received or services rendered or taxation owed, but for which payment has not been made by the end of the year.

**Current Value**
Current Value is a measurement base which reflects the economic environment prevailing for the service or function that an asset supports when valuing the asset. The Current Value measurement bases include Existing Use Value, Depreciated Replacement Cost and Fair Value (see below).

**Debtors**
Amounts owed to the Council for work done, goods received, services rendered or taxation due but not received by the end of the year.

**Deferred Capital Receipts**
Income that is still due following disposal of a non-current asset.

**Defined Benefit Pension Scheme**
Pension schemes in which the benefits received by the participants are independent of the contributions paid and are not directly related to the investments of the scheme.

**Defined Contribution Pension Scheme**
Pension schemes or other retirement benefit schemes in which the employer pays regular fixed contributions as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

**Depreciated Replacement Cost**
A method of valuation which provides the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and obsolescence.

**Depreciation**
The measure of the wearing out, consumption or other reduction in the useful economic life of a non-current asset.

**Earmarked Reserve**
A reserve which has been set aside for a specific purpose.

**Effective Interest Rate**
The rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument.

**Emoluments**
Payments received in cash and benefits for employment.

**Events After the Reporting Period**
Those events, both favourable and adverse, that occur between the Balance Sheet date and the date on which the Statement of Accounts is signed by the Responsible Financial Officer.

**Existing Use Value**
The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction, disregarding potential alternative uses and any other characteristics of the property that would cause its market value to differ from that needed to replace the remaining service potential at least cost.

**Expenditure and Funding Analysis**
The Expenditure and Funding Analysis shows how the Council allocates between the Council's Directorates, expenditure for decision making purposes. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

**Fair Value**
Fair Value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

**Fees and Charges**
Income arising from the provision of services, for example, the use of car parks.

**Finance Lease**
A lease that transfers substantially all of the risks and rewards of ownership of a non-current asset to the lessee. The payments usually cover the full cost of the asset together with a return for the cost of finance.

**Financial Instruments**
Financial Instruments are financial assets that can be traded. They can also be seen as packages of capital that may be traded. Most types of Financial Instruments provide an efficient flow and transfer of capital throughout all the world's investors. These assets can be cash, a contractual right to deliver or receive cash or another type of Financial Instrument, or evidence of one's ownership of an entity.

**General Fund**
The account which records income and expenditure for all the services of the Council except for the Housing Revenue Account and the Collection Fund, the net costs of which is met by Council Tax, Business Rates and Government grants.

**Government Grants**
Financial assistance from Government or other external bodies as a contribution towards the costs of services. Some grants may be accompanied by strict conditions relating to how the money can be spent. These are referred to as ring-fenced grants.

**Heritage Assets**
Assets that the Council intends to hold for the purpose of informing or educating the public about their heritage and which are not held for their investment value. Examples include collections of antiques in museums.

**Housing Revenue Account (HRA)**
A separate account detailing the expenditure and income arising from the provision of Council housing. Local authorities are required to maintain this separately from the General Fund.

**Impairment**
A diminution in value of a fixed asset resulting from, for example, obsolescence or physical damage. To comply with accounting standards the Council undertakes annual reviews of its assets to identify any assets which have been impaired.

**Infrastructure Assets**
These are inalienable assets, the value of which is recognised only by continued use of the asset created. Examples of such assets are highways and footpaths.

**Intangible Assets**
An intangible (non-physical) item may be defined as an asset when access to the future economic benefits it represents is controlled by the reporting entity.

**International Financial Reporting Standards**
International Financial Reporting Standards (IFRS) are a set of accounting standards developed by an independent, not for profit organisation called the International Accounting Standards Board (IASB). These are the standards which local authorities adhere to as interpreted for the public sector by the Chartered Institute of Public Finance and Accountancy (CIPFA).

**Investment Properties**
Interest in land and/or buildings in respect of which construction work and development have been completed, or which is held for its investment potential with rental income being negotiated at arm's length.

**Investments – long term**
A long-term investment is an investment that is intended to be held for use on a continuing basis in the activities of the Council. Investments should be so classified only where an intention to hold the investment for the long term can clearly be demonstrated or where there are restrictions as to the investor's ability to dispose of the investment.

**Investments - short term**
A short-term investment is an investment that will mature to cash within a one-year time period and is considered liquid. An asset is liquid if the owner can readily access it.

**Lender Option Borrower Option (LOBO)**
A LOBO is a type of loan instrument where borrowing is undertaken, initially at a fixed rate of interest. Periodically, at specific points, the lender has the option to alter the interest rate charged. Should the lender exercise the option to alter the interest rate, the borrower then has the option to continue with the loan instrument at the new rate or alternatively to terminate the agreement and pay back the sum borrowed with no other penalty.

**Liabilities**
Amounts due to individuals or organisations, at the Balance Sheet date, which will have to be paid at some time in the future. Current liabilities are payable within one year of the Balance Sheet date.

**Long Term Creditors**
These creditors represent existing liabilities to be settled beyond 12 months of the Balance Sheet date.

**Long Term Debtors**
These debtors represent income still to be received beyond 12 months of the Balance Sheet date, for example on the sale of an asset or granting of a loan.

**Market Value**
The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

**Materiality**
An item is material if its omission, non-disclosure or mis-statement in the financial statements could be expected to lead to a distortion of the view given by the financial statements.

**Minimum Revenue Provision (MRP)**
Minimum Revenue Provision is a charge to the revenue account in relation to capital expenditure financed from borrowing or credit arrangements. The Council is required by law to make an annual determination of MRP that it considers to be prudent.

**Movement in Reserves Statement (MiRS)**
This Statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (that is, those that can be applied to fund expenditure or reduce local taxation) and other reserves.

**Net Book Value**
The amount at which non-current assets are included in the Balance Sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation.

**Operating Lease**
A lease other than a finance lease.

**Operational Assets**
Non-current assets held, occupied, used or consumed in the direct delivery of services for which the Council has a statutory duty or discretionary power to provide.

**Precept**
Amounts levied on the Council by other Councils or public bodies (Police and Crime Commissioners, Fire and Rescue Authorities and Parish Councils), which the Council collects on their behalf.

**Prior Period Adjustments**
Those material adjustments applicable to prior years, arising from changes in accounting policies or from the correction of fundamental errors. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

**Property, Plant and Equipment**
Tangible assets that yield benefits to the Council and the services it provides for a period of more than one year. Examples include land, buildings and vehicles.

**Provisions**
Contributions to provisions are amounts charged to the revenue account during the year for costs, resulting from a past event and with uncertain timing of payment and where a reliable estimate of the cost involved can be made.

**Related Parties**
There is a detailed definition of related parties in FRS8, Related Party Disclosures. For the Council's purposes, related parties are deemed to include the elected Members of the Council and their partners; the Chief Officers of the Council and the companies in which the Council has an interest.

**Reserves**
Reserves are reported in two categories.

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

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

**Revenue Expenditure**

Expenditure on the day-to-day running costs of services e.g. employees, premises, supplies and services.

**Revenue Expenditure Funded from Capital under Statute (REFCUS)**
Expenditure incurred during the year that is treated as capital expenditure under statutory provision but does not result in a non-current asset owned by the Council. Examples of these are expenditure on items such as improvement grants.

**Right to Buy (RTB) Capital Receipts**
Capital receipts generated from the sale of Council housing under the national scheme available to existing tenants. These receipts can only be used in ways determined by the Government, for example to pay for further capital expenditure on Council housing.

**Service Concession Agreements**
A form of contract involving an external company providing services for a fixed period, using facilities that they have inherited/provided/constructed.

**Soft Loan**
Loans at nil or below prevailing interest rates are often referred to as soft loans.

**Top-up Grant**
Additional grant which the Government provides to reflect the difference between Business Rates income that the Council can generate and the amount which the Government has calculated it needs to spend on services.

**Voluntary Revenue Provision (VRP)**
Voluntary Revenue Provision is a charge to the revenue account in relation to capital expenditure financed from borrowing or credit arrangements that the Council chooses to make over and above Minimum Revenue Provision.

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BIRMINGHAM CITY COUNCIL

**Our ref:**

Grant Thornton UK LLP
17th Floor
103 Colmore Row
Birmingham
B3 3AG

22 March 2023

**Birmingham City Council : Financial Statements for the year ended 31 March 2021**

Dear Sir(s),

This representation letter is provided in connection with the audit of the financial statements of Birmingham City Council and its subsidiary undertakings, as listed in note 46 of the Council's financial statements, for the year ended 31 March 2021 for the purpose of expressing an opinion as to whether the group and Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

**Financial Statements**

i. We have fulfilled our responsibilities for the preparation of the group and Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

Birmingham City Council,
The Council House,
Victoria Square,
Birmingham B1 1BB

Email: Rebecca.hellard@birmingham.gov.uk



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Birmingham City Council

ii. We have complied with the requirements of all statutory directions affecting the group and Council and these matters have been appropriately reflected and disclosed in the financial statements.

iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the group and Council financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

iv. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Such accounting estimates include valuation of property, plant and equipment, valuation of council dwellings, valuation of the equal pay provision and valuation of the net pension liability. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. During the year we revisited and reviewed the useful economic lives (UELs) applied to infrastructure assets alongside CIPFA guidance in consultation with the BCC Highway Assets and PFI team and a revised set of proposed UELs going forward has been established. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.

vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

vii. Except as disclosed in the group and Council financial statements:

   a. there are no unrecorded liabilities, actual or contingent

   b. none of the assets of the [group and ]Council has been assigned, pledged or mortgaged

   c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The group and Council financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

xi. We have considered the unadjusted misstatements schedule included in your Audit Findings Report and attached. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Council and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.

xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

xiii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

- xiv. The prior period adjustment disclosed in Note 37 to the financial statements is accurate and complete. There are no other prior period errors to bring to your attention.
- xv. We have updated our going concern assessment and cashflow forecasts. We continue to believe that the group and Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that :
    - a. the nature of the group and Council means that, notwithstanding any intention to liquidate the group and Council or cease its operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements
    - b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and
    - c. the group and Council's system of internal control has not identified any events or conditions relevant to going concern.

    We believe that no further disclosures relating to the group and Council's ability to continue as a going concern need to be made in the financial statements
- xvi. We have considered whether accounting transactions have complied with the requirements of the Local Government Housing Act 1989 in respect of the Housing Revenue Account ring-fence.
- xvii. The group and Council has complied with all aspects of ring-fenced grants that could have a material effect on the group and Council's financial statements in the event of non-compliance.

**Information Provided**

- xviii. We have provided you with:
    - a. access to all information of which we are aware that is relevant to the preparation of the group and Council's financial statements such as records, documentation and other matters;
    - b. additional information that you have requested from us for the purpose of your audit; and
    - c. access to persons within the Council via remote arrangements, in compliance with the nationally specified social distancing requirements established by the government in response to the Covid-19 pandemic. from whom you determined it necessary to obtain audit evidence.
- xix. We have communicated to you all deficiencies in internal control of which management is aware.
- xx. All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xxi. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- xxii. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the group and Council, and involves:
    - a. management;
    - b. employees who have significant roles in internal control; or
    - c. others where the fraud could have a material effect on the financial statements.
- xxiii. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.
- xxiv. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xxv. We have disclosed to you the identity of the group and Council's related parties and all the related party relationships and transactions of which we are aware.

xxvi. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

xxvii. We have disclosed to you all information relating to emerging Equal Pay issues and confirm that related disclosures in the financial statements (which include but are not restricted to contingent liabilities, provisions and Annual Governance Statement) are complete and accurate and we have considered the requirement of IAS10 and confirm that any post balance sheet events (either adjusting or non-adjusting) have been disclosed where necessary.

**Annual Governance Statement**

xxviii. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

**Narrative Report**

xxix. The disclosures within the Narrative Report fairly reflect our understanding of the group and Council's financial and operating performance over the period covered by the financial statements.

**Approval**

The approval of this letter of representation was minuted by the Council's Audit Committee at its meeting on 28 March 2023.

Yours faithfully

Name……………………….…

Position………………………….

Date…………………………….

Name……………………….…

Position………………………….

Date…………………………….

Signed on behalf of the Council

**Impact of unadjusted misstatements**

| Detail | CIES £m | SoFP £m | Reason for not adjusting |
|---|---|---|---|
| **Extrapolated error noted by the Pension Fund audit team**<br>As set out on the previous page, the auditor of the WMPF reported an extrapolated understatement in the valuation of the Fund's assets of £90m. The Council has adjusted its accounts for its share of the quantifiable element of this error (being £76m), but has not adjusted for the extrapolated element.<br>If this further adjustment had been made, the Council's share would have been £3.8m: | | | This is an extrapolation of an error at the pension fund. |
| Dr Net pension assets | | 3.8 | |
| Cr Return on assets (within Other Comprehensive Income) | (3.8) | | |
| **Occurrence of expenditure**<br>Our testing of the Council's expenditure transactions was completed based on two separate populations – expenditure recorded in Q1-Q3, and expenditure recorded in Q4.<br>Testing of items in Q1-Q3 identified an issue in relation to expenditure that should have been recognised in 2019-20.<br>We also tested 160 transactions from Q4. Of these, we identified one item which had been treated incorrectly, with £783 counted twice in the 2020/21 financial year, and £675 recognised in the 2020/21 financial year when it should have been recognised in the 2021/22 financial year. As there is no clear reason for this fail that would allow us to isolate this issue to any particular population, we have extrapolated it over the population of similar expenditure in Q4, giving a projected overstatement of current year expenditure as follows: | | | Non-material extrapolated error |
| Dr Creditors | | 5.9 | |
| Cr Expenditure | (5.9) | | |

| Detail | CIES £m | SoFP £m | Reason for not adjusting |
|---|---|---|---|
| **Exclusion of land and buildings valued at less than £50,000**<br>The Council has a policy of excluding assets with a value less than £50k from its financial statements. Following an audit recommendation in 2019/20, high level records of these valuations are now kept, but this was not the case prior to 2020/21.<br>The Property, Plant and Equipment balance in the financial statements is therefore understated. The maximum potential understatement (if all such assets were valued at £50k in previous years) is £10.9m. Using the average value in 2020/21 as an estimate for the average value across these assets would give the following omission: | | | Non-material extrapolated error |
| Dr Property, Plant and Equipment | | 3.8 | |
| Cr Movement taken to Revaluation Reserve (within Other Comprehensive Income) | (3.8) | | |
| We are satisfied that the exclusion of these assets does not give rise to a material error in the financial statements, but feel it is appropriate to consider it here along with other differences in the Property, Plant and Equipment balance. | | | |
| **Revalued land and buildings**<br>Our testing of the valuations of the Council's highest value assets, and those assets where the movements between valuations was not in line with our expectations identified issues with 15 of 41 such items.<br>Management have only adjusted for the non-trivial errors identified, which reduces the under-valuation of assets to £2.1m: | | | Misstatements not material |
| Dr Property, Plant and Equipment | | 2.1 | |
| Cr Movement taken to Revaluation Reserve (within Other Comprehensive Income) | (2.1) | | |
| We have also tested a sample of 25 of the remaining valuations, identifying issues with a further 7 of these, which indicate a potential understatement of the Council's Property, Plant and Equipment balance: | | | |
| Dr Property, Plant and Equipment | | 4.0 | |
| Cr Movement taken to the Surplus/Deficit on Provision of Services | (2.1) | | |
| Cr Movement taken to Revaluation Reserve (within Other Comprehensive Income) | (1.9) | | |

| Detail | CIES £m | SoFP £m | Reason for not adjusting |
|---|---|---|---|
| **Completeness of expenditure**<br>Our testing of cash transactions after 31 March 2021 identified 4 items which were omitted from the 2020/21 year in error. In total we tested 180 cash transactions from the months of April, May, June and July 2021. We have assessed these omitted items as follows:<br>For three of the items (a credit note with a value of £5,832, an invoice with a value of £710, and an invoice for £42,562) there was no clear reason for the fail that would allow us to isolate the issue to any particular population, so we have extrapolated these errors over the population of similar expenditure-related cash receipts in the four months to July 2021. | | | Non-material extrapolated errors |
| Dr Expenditure | 5.7 | | |
| Cr Creditors | | (5.7) | |
| For the remaining item (an invoice with a value of £2,275) the error was caused by incorrect information being provided to the Council by one of its schools, and not an issue within the Council's finance team. We therefore considered it appropriate to perform additional, focussed testing on a sample of similar items submitted by the Council's schools, to determine the potential prevalence of similar issues. The total population subject to this extended testing is £11.8m and therefore immaterial, and further testing of a sample of 5 items from this population resulted in a further 3 similar errors and a projected misstatement as follows: | | | |
| Dr Expenditure | 4.3 | | |
| Cr Creditors | | (4.3) | |
| **Adjusting event for the settlement of a legal case after the end of the reporting period**<br>The settlement of a legal claim is a specific example of an adjusting event within IAS 10 paragraph 9. This means that the Council's provisions at 31 March 2021 were understated, with an equal and opposite understatement in expenditure: | | | Management has confirmed that they agree with our conclusion that this meets the requirement of an adjusting event under IAS10, however do not propose amending the accounts as it is not considered to be material. |
| Dr Expenditure | 3.7 | | |
| Cr Provisions | | (3.7) | |

| Detail | CIES £m | SoFP £m | Reason for not adjusting |
| --- | --- | --- | --- |
| **Depreciation of infrastructure** | | | Not material |
| The Council has revisited and reviewed the useful economic lives (UELs) applied to infrastructure assets alongside CIPFA guidance in consultation with the BCC Highway Assets and PFI team and a revised set of proposed UELs going forward has been established. The impact of these revised UELs is to reduce the depreciation charge in both 2020/21 and 2021/22. | | | |
| Management assessed that the impact on 2020/21 would be below £1.7m and trivial to the financial statements. They are therefore proposing not to adjust for this. Having reviewed the workings provided, we have determined the impact in 2020/21 to be greater, at £1.8m, and therefore above our clearly trivial threshold. | | | |
| Processing this adjustment in 2020/21 would have the following impact: | | | |
| Dr Property, Plant and Equipment (Infrastructure Assets) | | 1.8 | |
| Cr Depreciation Charge | (1.8) | | |
| **Overall impact (Group)** | (£7.7m) | £7.7m | |

Item 11



# Draft Statement of Accounts 2021/22

## Index

# NARRATIVE REPORT

## Organisational overview and external environment

External environment

Birmingham lies at the heart of the West Midlands with a population of 1.145m (2021 census). This is an increase of 6.7% since 2011. Birmingham's population is the most diverse of any major city outside London and it is also a young city with a relatively high proportion of young people. Nearly 45% of its population is under the age of 30. This represents a huge potential for accelerated growth, fairer distribution of wealth and opportunities for innovation across all spheres of life.

The 2021/22 financial year was another challenging year for the City Council with services continuing to operate within a global pandemic, the ongoing impact of Brexit on the costs of goods especially in the construction industry and the impact from the unrest in Ukraine. Despite these challenges and alongside another one-year funding settlement for local government we have managed to live within our means and spend within budget as well as being able to transfer monies to the Financial Resilience Reserve to manage financial risk.

Despite the pandemic, major projects such as HS2, the £700 million Paradise Development and Smithfield have continued. These landmark projects will in turn create opportunities for further investment and job creation and HS2 has the potential to stimulate a transformation in the city's economy.

Several important changes are taking place in the environment in which local government operates, principally through changes to central government policy.

- Following the economic impact of Covid-19, the period of the Medium-Term Financial Plan will see continued restraint in central government funding for local services. Whilst the Spending Review announced a real-terms increase in local government grant income each year, this included an assumption that Council Tax will be increased by 3% (with 1% dedicated to Social Care) and additional funding for social care pressures. Given increased inflation and demand for children's and adult's social care services, homeless services and pressures in special education needs, funding available for other services will be severely restrained, if not reduced, in real terms.
- The Government's overarching policy priority is "levelling up", which involves investment in transport infrastructure, skills and improving the physical environment, businesses and social amenities of local places. The City Council has already responded to this agenda by publishing its own strategy; Prosperity and Opportunity for All. This will be used to show how "levelling up" can be achieved in Birmingham, through a partnership between government and the city and to co-ordinate our own measures to tackle inequalities and renew less well-off neighbourhoods.
- A significant reshaping of the landscape of regional funding for regeneration is underway, as EU funding and the Local Growth Fund come to an end to be replaced by the new Levelling Up Fund and the Shared Prosperity Fund due to be phased in. Birmingham has already been successful in securing over £50m from the Levelling Up Fund, but we will have to collaborate across the West Midlands to gain the most from the new arrangements, as part of the West Midlands region.
- The Government has produced new plans for social care, including an increase in National Insurance to provide more funds. However, additional funding will be very limited, with most of it going to the NHS rather than council provided care services in the first few years. There will continue to be a reliance on additional Council Tax to meet the increased spending pressures during this period. At the same time the

Health and Care Bill is bringing in new Integrated Care Services, with the aim of strengthening collaboration between councils and the NHS.
- New legislation on policing and crime will bring additional responsibilities for the Council's Community Safety function to work with the police and other agencies to tackle violent crime.
- Following the UK's departure from the EU, there will be new regulations governing the Council's procurement of goods and services and our powers to promote inward investment.
- The Government is looking to councils to help take forward its Early Years Review, restoring services for families with young children. However, funding for this is currently unclear.
- A national Net Zero Strategy has been published to begin to tackle the climate emergency. The role of local government in that strategy is not yet clear, but some specific funds have been made available for investment in electric vehicle charging points.
- The new Environment Act brings extra responsibilities for local authorities in waste management, planning and conservation.

Finally, two significant areas of focus for the Council are the preparations for, and delivery of the 2022 Commonwealth Games, and embracing the opportunities for the city that the completion of HS2 in late 2026 will bring. Both represent huge opportunities for the city.

Recovering from Covid-19 and refocusing on our priorities

The ongoing Covid-19 pandemic has hit families, neighbourhoods, and businesses right across Birmingham. The pandemic has had a profound impact, both economically and socially and has highlighted long-standing inequalities that must be tackled to ensure that every neighbourhood and every community across Birmingham benefits from the recovery.

We are well placed to do just that, because Birmingham continues to be a city of huge potential. Projects such as the Commonwealth Games and HS2 mean we're attracting the investment to make this a golden decade of opportunity for our young and growing population.

- The city's economic performance before the pandemic showed that Birmingham has many of the ingredients for success.
- In the Summer of 2022 the city will host the Commonwealth Games, one of the biggest sporting events in the world and a great opportunity to show off our city to an audience of a billion people. High Speed Rail (HS2) will arrive by the end of the decade, creating around 26,000 jobs and increasing economic output by £4bn per year. The Council has a commitment to tackle the climate emergency to improve our air quality and natural environment, it will also deliver economic growth and job opportunities through investment in decarbonisation and the creation of new industries.
- The Covid-19 pandemic has had a significant impact on the city, in terms of the tragic loss of human life, the restrictions it has placed on our everyday lives and the economic impact on workers and businesses. It has also created a severe challenge for the City Council's own finances, with increased spending requirements alongside loss of income.
- The crisis has also highlighted the chronic and structural inequalities in the city and the continued level of poverty and vulnerability in some groups and communities. Many households remain in a precarious state, relying on parts of the labour market that have been weakened and made fragile by the pandemic.

- It also revealed that many of our public services are stretched, fragile and not well designed to provide protection and resilience to our communities and to help individuals and families to overcome inequalities or give them a fair opportunity in life.

Covid-19 Major Incident Financial Impact

The 2021/22 financial year continued to see the world live with Covid-19 and the impact on council services and citizens continued to be significant, with demand for services including Housing and Social Care increasing and revenue generation from services including Leisure and Parking reducing. The net financial impact of Covid-19 on the Council's revenue budget after applying grant received was £1.4m in 2021/22.

To help mitigate Covid-19 costs the Council carried forward £17.5m of un-ringfenced Covid-19 related government grant funding from 2020/21 to 2021/22. In addition, £2.8m has been reclaimed from the Government's Income loss scheme up to the scheme end on 30 June 2021.

The Council also funded £11.5m of Corporate and £1m of Directorate Covid-19 costs in 2021/22 through the use of Tranche 5 of Government un-ringfenced grant funding.

In accordance with ring-fenced grant conditions, £5.9m of Public Health Grant was used to fund Covid-19 related spending in 2021/22.

The summary below sets out Covid-19 financial position in 2021/22:

| **Covid-19 Financial Position** | **£m** |
|---|---|
| Directorate Covid-19 overspend | 27.7 |
| Corporate budgets overspend | 11.4 |
| **Total impact of Covid-19** | **39.1** |
| Application of Tranche 5 funding budget 2021 | (11.5) |
| Covid-19 grants carried forward | (17.5) |
| Public Health grants | (5.9) |
| Income compensation | (2.8) |
| **Total Covid-19 income** | **(37.7)** |
| **Net deficit** | **1.4** |

Organisational overview - key facts

The political composition of the Council is:

| **Party** | **Councillors** |
|---|---|
| Labour | 65 |
| Conservative | 22 |
| Liberal Democrats | 12 |
| Green | 2 |
| Total Councillors | 101 |

Organisation of the Council's Leadership Team and the services it provides

The Council Leadership Team (CLT) is responsible for managing the activities of the Council's staff and for advising Councillors on the potential implications of political decisions. By law, senior Council staff are not allowed to participate in any party political activity and are expected to advise and help all Councillors irrespective of their political affiliation.

The Chief Executive is the senior officer who leads and takes responsibility for the work of the paid staff of the Council. The role of Chief Executive is a full time appointment.

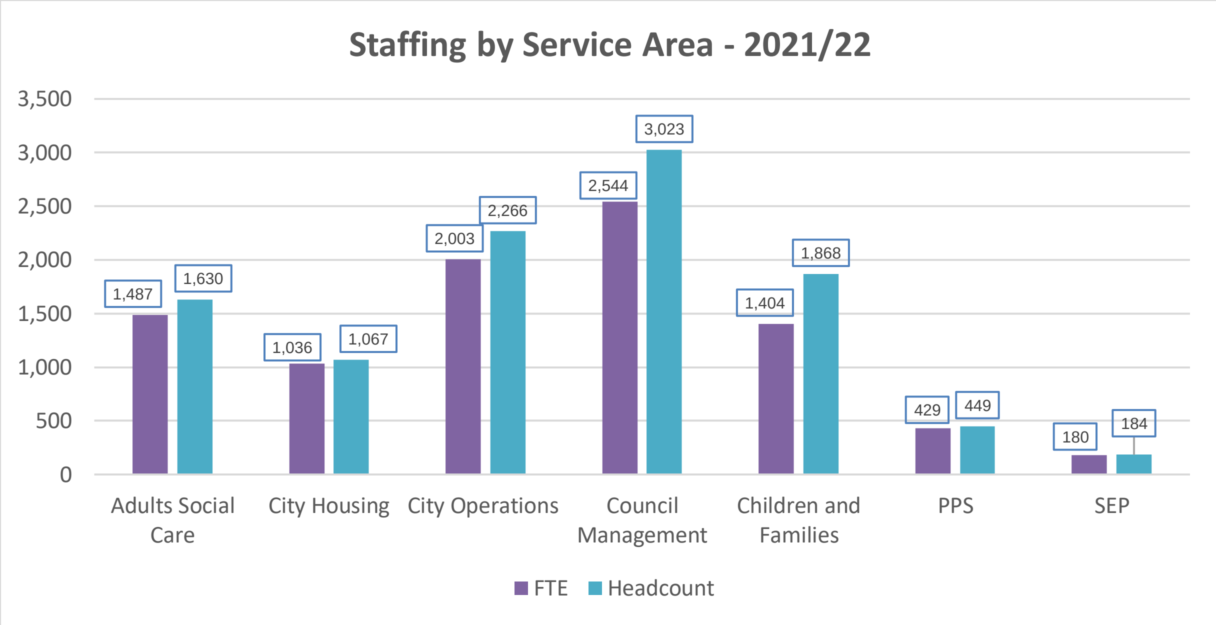
The Leader, together with the Cabinet, takes all of the significant decisions within the Council (excluding planning and licensing issues) through their Cabinet meetings or individual decision-making process.

The Council's services are delivered through directorates, designed to deliver those services as efficiently as possible. The current structure is as follows:

| Directorate | Purpose/Services |
|---|---|
| Place, Prosperity and Sustainability (PPS) | International and domestic investment including tourism and visitor economy. Economic growth including development and housing programmes. Transport and connectivity including major transport strategies and air quality. Planning and property services. |
| Adult Social Care | Services to support adults including integration of health and social care services, information and advice, and prevention, recovery and re-enablement services. Safeguarding of adults including multiagency arrangements. Assessment of eligibility for services. |
| Children and Families | Education of children and young people, special educational needs, and early years provision. Children's services and safeguarding. Skills and employability, youth engagement, employment opportunities, and libraries. |
| City Operations | Waste strategy and services, cleaner neighbourhoods, graffiti removal, dog warden services and recycling. Arts, culture and sports, including museums, galleries, sporting events and leisure facilities. Parks and allotments. Bereavement services. Highways and infrastructure. |
| City Housing | Council housing services and support. |
| Other Central Services | Central Services includes Finance & Governance (F&G), Human Resources and Digital Customer Services, as well as incorporating the new service Programmes, Performance and Improvement. F&G includes Audit,<br>Finance, Payroll, Accounts Payable, Accounts Receivable, Treasury Management,<br>Development and Commercial – Procurement and traded services such as City Serve (providing school meals), Civic Catering and Cleaning<br>City Solicitor – Legal, Governance and Member support |

<u>Our Staffing</u>

In supporting the delivery of services, the Council employed, as at 31 March 2022, 23,412 staff (31 March 2021: 24,082) which equated to 18,746 full time equivalents (fte) (31 March 2021: 18,566). If schools' staff are excluded, the Council employed 10,487 staff (31 March 2021: 10,550) which equated to 9,083 fte (31 March 2021: 8,925 fte). The chart below shows the Council's staffing, excluding school staff, by service area for 31 March 2022:




Financial resources to support the Council

The Council's revenue and capital budgets were allocated between seven Directorates with other budgets being managed corporately. The Council's net budget for 2021/22 was £828.6m.

The General Fund revenue outturn position for 2021/22 is an underspend of £17.8m.

The capital programme final outturn spend position for the 2021/22 financial year is £528.1m. This is £236.3m below the planned expenditure of £764.4m.

Details of the forecast net expenditure and resources available to the Council for 2022/23 and 2023/24 can be found in the published 2022-2026 Financial Plan.

Our purpose

The Council aims to be a city of growth, where every child, citizen and place matters – and the Council wants to make a positive difference, every day, to people's lives. This underpins everything the Council does, whether it is setting our priorities, making decisions or delivering services.

The Council's strategy and objectives

The Council has identified three priority areas which we believe are fundamental to tackling the critical challenges of creating a more equal and inclusive city whilst managing the demand on Council services to a more affordable level. These are:

***Shifting our focus from crisis to prevention –*** The Council needs to increase its efforts to help support individuals and families at the early stages of an issue, or crisis in their lives, before it results in a more substantial statutory need. This will be about joining up, integrating and reforming services using data and insight to link solutions that exist, often in the community already, with those areas of need. We will take a whole system approach, promoting the independence and resilience of service users and communities, collaborating with partners, and placing citizens and communities at the heart of our decision making. The

Council will continue to work on localisation and the development of hubs where the Council can work closely with users, the community and the voluntary sector.

***Increasing the pace and scale of growth for those that need it most, while delivering on climate change objectives*** – The pandemic has inevitably led to a slowing of economic growth. The Council will focus on infrastructure, our landholdings and access to low cost finance while leveraging the opportunities from HS2 and the Commonwealth Games to build back up the pace of growth in the city. The Council will ensure that all citizens share in the creation and benefits of sustainable growth. The Council will also focus on social infrastructure, including social and affordable housing and community amenities, supporting our town centres and local high streets and creating opportunities for local people. The Council will do so while simultaneously focussing on its commitment to tackle climate change.

***Delivering new ways of working*** – The pandemic has given rise to a significant shift in some of the Council's working arrangements and the Council needs to take forward and make permanent those that have delivered benefits to our staff, citizen and services. The Council intends that 80-85% of our workforce will continue to work in an agile way, which will continue to improve equalities and talent management, while also opening up our accommodation for collaboration, new ways of working and in carefully considered ways, allow for the development of community spaces, new homes and financial returns for the Council. Reforming the way we work will provide the financial breathing space to continue to improve our vital front line services. The Council will continue to develop an inclusive and diverse workforce which is supported to develop new skills and capabilities and empowered to be creative, innovative and outcome focused and to exploit opportunities.

**Governance arrangements**

Details of the Council's governance arrangements can be found in our Annual Governance Statement, which is provided with these financial statements.

**The Council's operational model, the activities of our key services, our financial performance and resource allocation**

This section considers the key inputs, operational activities of the Council's services and the associated costs of delivery of the outputs and outcomes associated with those services.

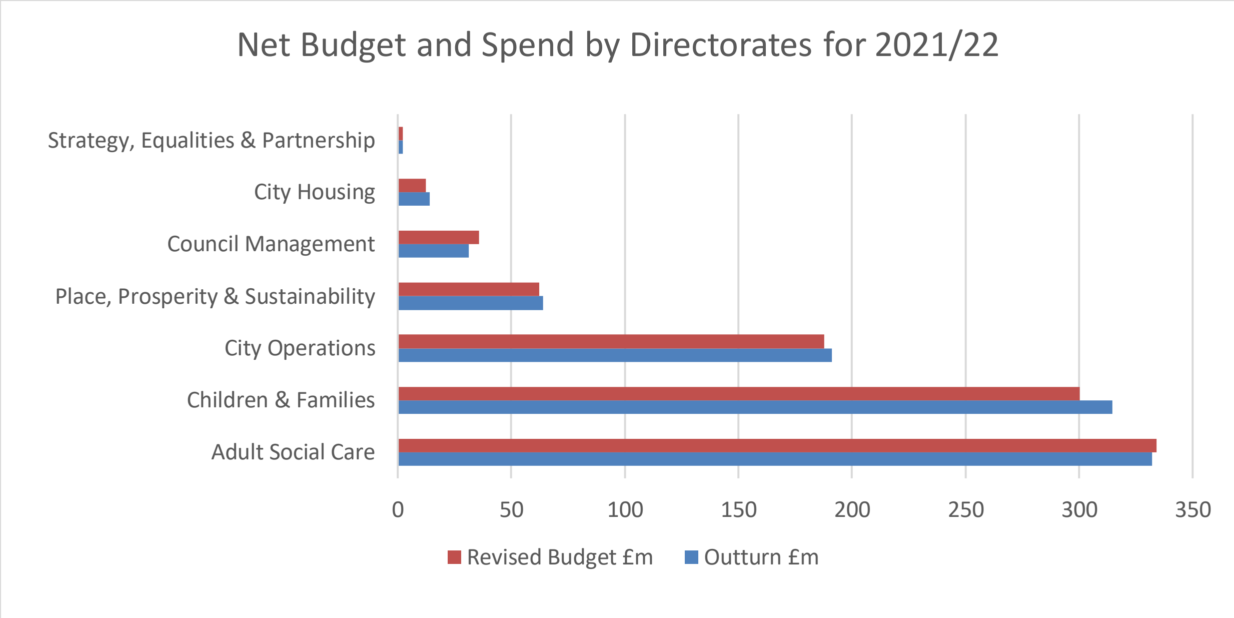
It also considers individually significant items of financial interest or focus for the Council.

Revenue Expenditure

The Council's revenue and capital budgets were allocated between seven Directorates with other budgets being managed corporately. Spending against these budgets was carefully monitored throughout the year and reported to Cabinet regularly. The year-end outturn position was reported to Cabinet on 28 June 2022.

The Council's net budget for 2021/22 was £828.6m. The General Fund revenue outturn position for 2021/22 is an underspend of £17.8m.

The chart below shows the budget and spend by Directorate for 2021/22 as reported to Cabinet:




## Capital Expenditure

The capital programme final spend position for 2021/22 is £528.1m. This is £236.3m below the planned expenditure of £764.4m as shown in the table below:

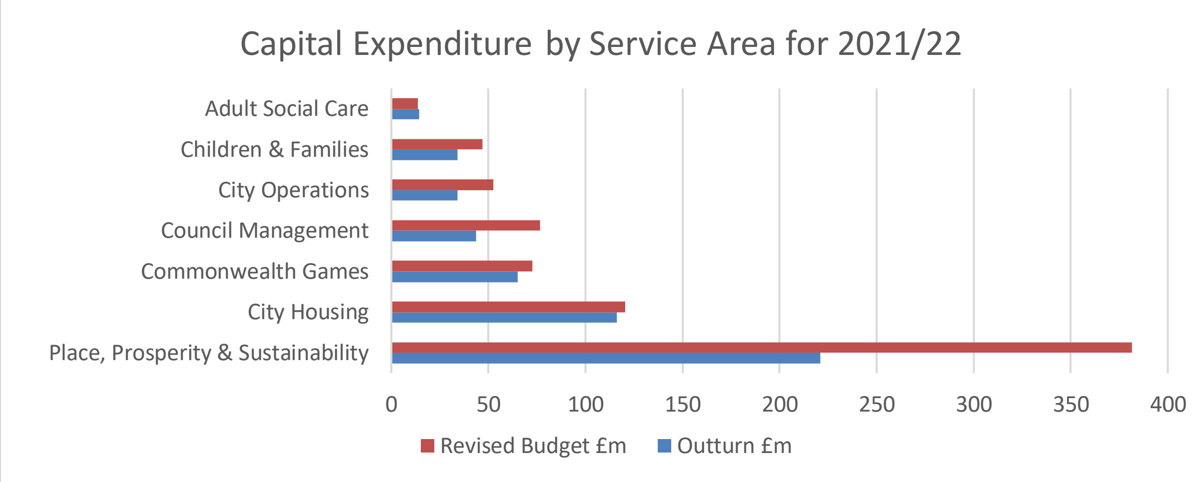
| | £m |
|---|---|
| **2021/22 Revised Budget** | **764.4** |
| Less: Cumulative Slippage | (262.9) |
| Less: (under) / overspends | 26.6 |
| **Outturn (Expenditure in year)** | **528.1** |

The Council analyses the capital programme budget variations between:

- Changes in the timing of budgeted expenditure - where the expenditure is still required but takes place later than planned this is called slippage and shown in brackets, and acceleration if earlier than planned; and
- Underspends (shown in brackets) or overspends, which represent a decrease or increase in the total capital cost of a project, which may be over several years.

It is important to note that no financial resources will be lost as a result of the slippage. The resources and planned expenditure will be "rolled forward" into future years. Details of this slippage are given in the Council's Outturn report for 2021/22 presented to Cabinet on 28 June 2022, which can be found on the Council's website.

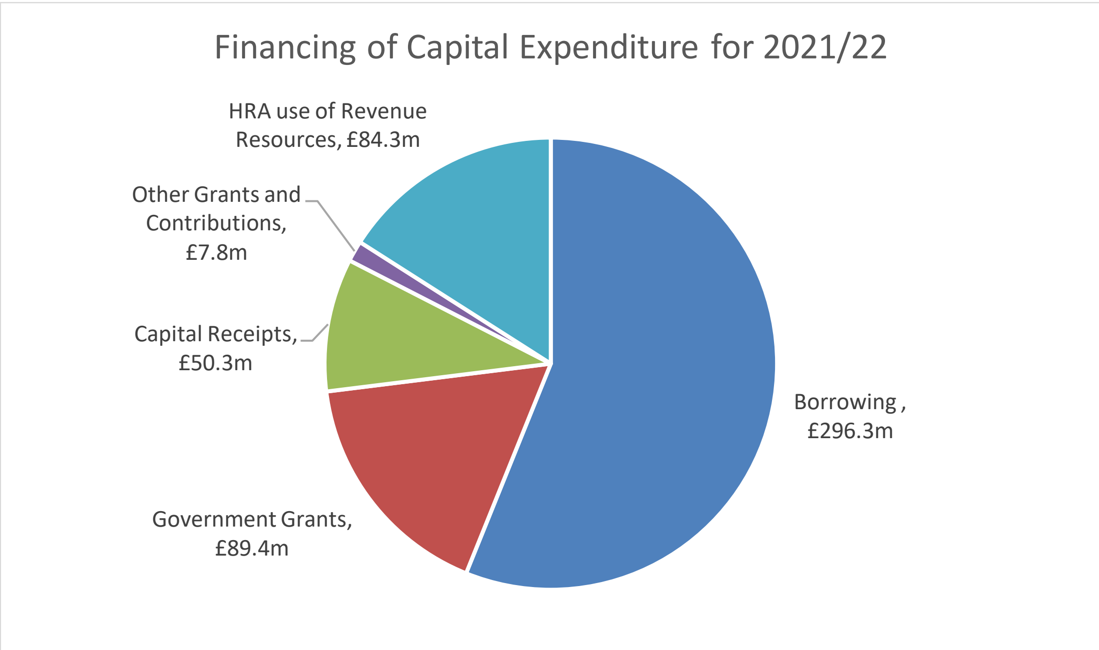
Total expenditure on Directorate capital schemes in 2021/22 is shown in the graph below:




## Capital Financing

The financing arrangements in respect of capital expenditure in 2021/22 were reported to Cabinet on 28 June 2022.

Details of the final capital financing arrangements are summarised below:




As at 31 March 2022, the Council's total loan debt net of treasury investments stood at £2,961.5m, compared to net loan debt of £3,162.3m as at 31 March 2021.

The Council's treasury investments held at 31st March 2022 were £146.3m. This was higher than originally planned due to energy relief and additional Covid-19 relief grants received in advance from the Government. The Council also held investments of £73.8m as accountable body.

Treasury management net borrowing costs totalled £234.7m and £117.6m after recharges to other services. This was £0.9m below the budget after including the Council's other long term liabilities.

Further details of the Council's financial liabilities are given in the notes to these financial statements. Full details regarding the financing of capital expenditure and the acquisition and disposal of non-current assets are also provided.

Service Concession Arrangements and Similar Contracts

The Council has entered into a number of Service Concession Arrangements, formerly classed as Private Finance Initiatives and similar contracts across Schools, Waste Management and Highways Services to deliver improvements in infrastructure and future service delivery. Further details can be found in Note 41 to these financial statements.

Pension Liabilities

For the Local Government Pension Scheme there is currently a net pension liability that is reviewed periodically by the West Midlands Metropolitan Authorities Pension Fund Actuary. The Council's share of the total pension shortfall is £2,647.7m at 31 March 2022 (31 March 2021: £3,185.2m). Whilst the figure is substantial it should be noted that:

- Pension liabilities are based on the requirements of IAS 19, Employee Benefits, which use a discount rate based on high quality corporate bonds, 2.7% as at 31 March 2022.

- It is not an immediate deficit that has to be met now. The sum is the current assessment taking a long term view of the future liabilities for existing pensioners and current employees who are accruing pension entitlement and of future expected investment performance;

- There is a 14 year recovery plan which has been built into the Council's financial plans;

- It is not unique to the Council as this is in common with the national position for pension funds. Details of the pension liability and assets are set out in Notes 19 and 20 to these financial statements.

Nevertheless, addressing the pension deficit represents a significant financial issue for the Council.

Provisions

The Council provides for costs in line with relevant accounting standards – further details can be found in Note 30 to these financial statements. The key provisions to note include those in relation to Equal pay legislation, and the Council's requirement to provide for the liability in association with Business Rates appeals.

Reserves

The Council maintains two types of reserves:

- Usable reserves – where the Council sets aside specific amounts for future policy purposes, to cover contingencies or where resources have been provided for specific purposes but have not yet been spent

- Unusable reserves, which are not available to support the provision of services and include:

- Unrealised gains and losses, particularly in relation to changes in valuation of non-current assets;
- Adjustment accounts that absorb the difference between the outcome of applying proper accounting practices and the requirements of statutory arrangements for funding expenditure.

The level of reserves held at the year-end are set out below.

| | 31 March 2021 | 31 March 2022 |
|---|---|---|
| | £m | £m |
| Usable Reserves | 1,446.9 | 1,512.2 |
| Unusable Reserves | (1,841.1) | (488.1) |
| **Total Reserves** | **(394.2)** | **1,024.1** |

Details of usable and unusable reserves are set out in Note 17 and 18.

The Council operates a policy of not using reserves unless they have been set aside for specific purposes and not using reserves to mitigate the requirement to make savings or meet on-going budget pressures, except in exceptional circumstances.

The main use of reserves relates to grant reserves where funding has been received prior to the requirement to spend the resource. The Council also has earmarked reserves where it has made a decision to set money aside to fund specific costs when they occur in later years.

The Council anticipated the net use of £155.9m of reserves in setting the 2021/22 budget. A further £37.4m of uses of reserves was approved by Cabinet as part of the Outturn Report on June 29, 2021.

There was a net £6.8m of budgeted uses of reserves that was not required in 2021/22. The proposed total net contribution to reserves is £195.8m, as detailed in paragraphs 4.13 to 4.14 of the Cabinet Report. The largest contribution of which is £93.8m of Section 31 funding received from the Government to compensate for Business Rates relief in 2021/22 that will impact the Council in 2022/23.

Key performance indicators

Cabinet approved the Council's two-year Delivery Plan in November 2020. This plan set out the overall policy direction of the Council and the activities the Council would undertake alongside this. It included a detailed set of milestones and timescales for specific commitments that would be delivered over the life of the plan, along with accountable officers for each action and a comprehensive performance framework comprising three areas of key performance indicators:

- **Vital Signs** of service effectiveness and efficiency, which is reported quarterly to Cabinet
- Delivery and legacy of the **Commonwealth Games**, which is reported quarterly to Cabinet
- An annual report to Cabinet setting out the Council's view of the '**state of the City**' in relation to key issues that stretch beyond the Council's own performance, on which the Council will work with our partners to address.

A detailed and explanatory performance scorecard is included within these reports, which sets out RAG ratings for over 130 Vital Signs KPIs, 14 Commonwealth Games KPIs and over 50 State of the City KPIs.

The KPIs are set out by strategic priority, so Members are able to focus on those which are relevant to their individual portfolios.

The March 2022 report 'Birmingham City Council Performance and Progress against Delivery Plan during q3 2021-22' can be found within the 22 March Cabinet papers on the Council's website.

**Opportunities and Challenges**

A detailed breakdown of the opportunities and challenges to the delivery of the Financial Plan 2022-26 can be found in chapter 1, section 5 of the Plan, along with a list of budget pressures that can be found in appendix F.

Many of the challenges stem from historic and structural inequalities within our society and economy, and the Covid-19 pandemic has exposed and compounded the difficulties our most vulnerable citizens face in their daily lives. We must address the structural inequalities that exist within our city. For many of our citizens the opportunities in the city are out of reach. This is damaging for them and threatens the long-term cohesion of our city. The Council has already committed itself to address these inequalities, recently publishing "Everyone's Battle, Everyone's Business" – a call to action for the Council and the city. This commitment also lies at the heart of our approach to "levelling up".

Birmingham is the engine of the West Midlands economy and helped to deliver faster growth than the rest of the country in the period before the pandemic. The city is becoming a hub for advanced manufacturing, life sciences, creative industries, financial services, and technology. The city is well-placed to harness the economic opportunities of the future, including digital, automation, and decarbonisation. Some of the key opportunities are:

- The Commonwealth Games. The biggest sporting and cultural event ever to be held in the city. We will be hosting the third largest sporting event in the world, with thousands of visitors arriving for the event and more than 1 billion people watching from around the world, creating the opportunity to promote our city to new investors and visitors and strengthen our global links.
- Continued investment in the city. Despite the pandemic, major projects such as HS2, the £700 million Paradise Development and Smithfield have continued. These landmark projects will in turn create opportunities for further investment and job creation and HS2 has the potential to stimulate a transformation in the city's economy.
- The Council has made a strong case for Birmingham to be at the very heart of the Government's levelling up agenda and we will work in partnership with other public agencies and the private sector to improve the lives and life chances of people from across the city.
- Some of the UK's largest public and private sector organisations are proud to call the city home.
- The city has fantastic universities that are producing a strong pipeline of local talent.

**Outlook**

The Financial Plan

The Council in February 2021 adopted a Medium Term Financial Plan for 2021-2025 that set a balanced budget for 2021/22, set a target for the Delivery Plan to achieve £38.5m of savings to balance the budget for 2022/23 and highlighted a significant structural budget deficit for the financial years beyond 2023/24. The pandemic has continued to impact the people of Birmingham and has added further pressure to the Council's finances for both the financial position in 2021/22 and the medium term financial outlook. The Council has responded to this challenge and to the need to have a financially resilient Medium Term Financial Plan by mainly focusing on planning the delivery of transformative change. It is in this context that the Council has set out its 2022-2026 Financial Plan.

In October 2021 when the Medium Term Financial Plan was refreshed to give us the latest baseline position, the Council faced a substantial budget deficit over the next four years, ranging from £58.1m in 2022/23 to £125.7m by 2025/26, with a very uncertain outlook over the longer term. It is therefore more important than ever that we stabilise the Council's finances and balance the books, ensuring that we are well positioned to tackle those challenges and priorities highlighted above. This 2022-2026 Financial Plan achieves that, reducing the gap to around £32.8m by 2025/26.

The Local Government Settlement announced in December 2021 only provided funding for 2022/23 contrary to widespread hopes that the fact the government held a three-year spending review in October would signal similar long-term stability for Councils. The one-year settlement is largely a rollover settlement from 2021/22, with the focus very much on "stability" for the immediate year ahead. There remains significant uncertainty over the level of resources available to the Council beyond 2022/23, mainly due to the reforms to local government financing.

The Financial Plan assumes annual increases in Council Tax at the maximum permissible level of 1.99%. Given the significant pressure on Social Care services reflected in the budget proposals, the Council increased Council Tax further in 2022/23 by the 1% Adult Social Care Precept announced by the Government in the Local Government Settlement. Government's core spending power calculations assume authorities raise Council Tax by the maximum amount permissible without holding a referendum.

The Council will also continue to invest, through the Capital Programme, in priorities such as continuing to retain and improve Council owned assets, including its buildings and roads, and facilitating the growth in the Birmingham economy through major projects and supporting businesses in the city.

The Council's ambition is to have a "best in class" financial management process, having attained a 3-star CIPFA Financial Management rating in 2021. The position was up from the 1-star rating awarded in 2019 and delivered a year ahead of schedule. In outlining its assessment, CIPFA concluded that Birmingham had made great strides in addressing the issues that constrained overall financial management capability and indicated that this progression highlighted a highly commendable response to issues arising from their April 2019 assessment. Work will continue developing robust financial planning, improving our procurement and business partnering approaches, benchmarking performance, instilling strong governance, leveraging digital tools to automate manual tasks and facilitate analytics and embedding business case development practice across the organisation. A key enabler providing an efficient and effective back-office to the Council will be our investment in a new state-of-the-art Finance, Procurement and Human Resources system and additional investment in support teams so that there is the required co-ordination with service delivering functions.

Medium term financial outlook

Significant uncertainty remains over the Council's resources beyond 2021-22. There are a number of Government policy announcements and decisions that are expected in the near future that create significant uncertainty over forecasting the level of resources that the Council needs over the medium term, they include:

- The Comprehensive Spending Review;
- The Local Government Fair Funding Review;
- Local retention of Business Rates; and
- Brexit;

Birmingham will continue to input into the review of local government financing to ensure that its position and circumstances are taken into account. The Council has recognised the need for the effective management of savings programmes and has implemented a clear process for decision-making and monitoring delivery. There is active engagement by both Members and senior officers, including monthly meetings co-chaired by the Cabinet Member for Finance and Resources and the Chief Finance Officer and Section 151 Officer, as well as formal revenue budget monitoring reports considered by Cabinet. Additionally, the Council has instilled strict project discipline and a robust approach to tracking and monitoring delivery of the savings programme through the Project Management Office (PMO).

This approach has led to significant improvements in the delivery of its savings in recent years, as shown in the table below:

| Year | Planned savings £m | Delivered savings £m | % |
|---|---|---|---|
| 2016/17 | 88.2 | 32.4 | 37% |
| 2017/18 | 70.9 | 48.3 | 68% |
| 2018/19 | 52.9 | 42.8 | 81% |
| 2019/20 | 46.2 | 38.7 | 84% |
| 2020/21 | 22.1 | 16.0 | 72% |
| 2021/22 | 36.7 | 33.6 | 92% |

Covid-19 has had an impact on the ability of the Council to deliver some of its savings planned for 2021/22 and onwards. The Financial Plan reflects a realistic position for the savings programme going forward.

**Basis of preparation and presentation**

The Council's Financial Statements for 2021/22 have been prepared on the basis of the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (the Code).

Where the Council has exercised any judgement in the preparation of these financial statements details of those judgements are set out in Note 2, Critical Judgements in Applying Accounting Policies. Where estimates have been used in the determination of any material figures, an explanation of the estimation technique and the impact of variances from the estimate are set out in Note 4, Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty.

The pages which follow contain the Council's Financial Statements for the year ended 31 March 2022, with comparative figures for the previous financial year, and comprise:
***The Core Financial Statements***

***The Comprehensive Income and Expenditure Statement (CIES)*** – provides the in-year cost of providing services in accordance with generally accepted accounting practices, rather than the amount reported monthly to the Cabinet which is based on an agreed budget to be funded from taxation, grants or from rents for Council dwellings.

In line with proper accounting practices under the Code the CIES incorporates transactions relating to:

- movements in the value of Property, Plant & Equipment and other non-current assets,
- the impact of updates in the valuation of pension liabilities under defined benefit arrangements
- changes in provisions set aside for the future, for example, for the costs of Equal Pay.

The CIES shows a surplus on the Provision of Services of £85.1m, with the impact of the items detailed above being less than the reductions in the cost of services as a result of savings plans implemented by the Council. The factors highlighted above do not impact on Council Tax or housing rents as they are reversed out through the Movement in Reserves Statement with the exception of an element of equal pay cost.

Supporting the CIES is the Expenditure and Funding Analysis (EFA) (Note 6), which shows the basis of the Council's annual expenditure and how it is funded from resources compared to how the resources are consumed and earned in line with generally accepted accounting practices. The EFA also shows how expenditure is allocated by the Council between directorates.

***Movement in Reserves Statement (MiRS)*** – provides a reconciliation of the movement in year on the different reserves of the Council. The MiRS shows how the movements in the Council's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to Council Tax or housing rents for the year.

***Balance Sheet*** – shows the value of assets and liabilities recognised by the Council as at 31 March 2022 and the level of reserves, split between usable and unusable.

The Council's net assets at 31 March 2022 are £1,024.1m compared to net liabilities of £394.2m at 31 March 2021, mainly as a result of:

- A significant reduction in the net liability associated with the Council's defined benefit pension scheme. Changes to actuarial assumptions have resulted in £537.5m reduction in net pension liabilities.
- An increase in the value of the Council's long term assets, principally its Property, which has seen an increase in value of £775.4m.

Cash Flow Statement – shows how the Council generates and uses cash during the year and the impact this has on the balances of cash and cash equivalents. Cash flows are classified into operating, investing and financing activities.
Supplementary Statements

Notes to the Accounts – additional detail supporting the information provided in the core financial statements is provided in the Notes to the Accounts.

Housing Revenue Account – records the financial position of the Council's statutory obligation to account separately for the cost of its housing provision.

Collection Fund – a statutory account that records the transactions in respect of the collection and distribution of Business Rates and Council Tax for which the Council acts as agent.

### *Group Accounts*

The Council operates through a variety of undertakings, either through majority shareholding or sole membership of companies with the current ability to appoint the majority of directors (subsidiary undertakings) or in partnership with other organisations (associate undertakings and joint ventures). To provide a full picture of the activities of the Council, Group Accounts have been prepared which include those organisations where the interest and level of activity is considered material. The Group Accounts consolidate the Council's accounts with those of:

Subsidiaries
Acivico Limited
Birmingham Children's Trust Community Interest Company
Birmingham City Propco Limited
InReach (Birmingham) Limited
National Exhibition Centre (Developments) Plc
PETPS (Birmingham) Limited
PETPS (Birmingham) Pension Funding Scottish Limited Partnership

Associate
Birmingham Airport Holdings Limited

Joint Venture
Paradise Circus Limited Partnership

The Council also operates through or in conjunction with a number of organisations where the level of activity is not considered material to the overall Group Accounts. Details of these organisations are set out in Note 46, Related Parties.

### *Rounding*

Because of rounding, some totals may not exactly agree with the sum of their component parts. These accounts are not adjusted for cross -casting immaterial differences between the main statements and disclosure notes.

### *Accountable Body Roles*

In addition to the activities reflected in the Council's CIES and Balance Sheet, the Council also acts as an agent for 37 organisations with gross expenditure of £135.9m, the most significant being the Greater Birmingham and Solihull Local Enterprise Partnership. Further details are contained in Note 47.

**Statement of Responsibilities for the Statement of Accounts**

## The Council's Responsibilities

The Council is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In Birmingham City Council this is the Director of Council Management who also has the role of Section 151 officer;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- 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 the United Kingdom 2021/22 (the Code). In preparing this Statement of Accounts, the Section 151 Officer has:

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

The Section 151 Officer has also:

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

## Certification of Accounts

I certify that the draft Statement of Accounts presents a true and fair view of the financial position of Birmingham City Council as at 31 March 2022 and of its income and expenditure for the year ended 31 March 2022.

…………………………………………………………………………………….

**Rebecca Hellard, Director of Council Management and Section 151 Officer**
**28 March 2023**

## Approval of Accounts

In accordance with the Accounts and Audit Regulations 2015, I certify that the Statement of Accounts was approved by the Audit Committee on 28 March 2023.

…………………………………………………………..

**Councillor Fred Grindrod,**
**Chair of Audit Committee**
**Date**

# CORE FINANCIAL STATEMENTS 2021/22

## Comprehensive Income and Expenditure Statement

This Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation.

| 2020/21 (Restated) Gross Expenditure | Gross Income | Net Expenditure | | Note | 2021/22 Gross Expenditure | Gross Income | Net Expenditure |
|---|---|---|---|---|---|---|---|
| £m | £m | £m | **Continuing Operations** | | £m | £m | £m |
| 441.8 | (209.8) | 232.0 | Adult Social Care | | 482.8 | (160.5) | 322.3 |
| 1,107.1 | (811.5) | 295.6 | Children and Families | | 1,190.5 | (838.3) | 352.2 |
| 33.8 | (26.7) | 7.1 | City Housing | | 47.6 | (29.2) | 18.4 |
| 259.5 | (69.2) | 190.3 | City Operations | | 286.7 | (73.4) | 213.3 |
| 61.5 | (45.5) | 16.0 | Place, Prosperity and Sustainability | | 88.9 | (87.4) | 1.5 |
| 638.8 | (566.2) | 72.6 | Council Management | | 658.5 | (584.8) | 73.7 |
| 114.9 | (139.4) | (24.5) | Strategy, Equalities and Partnerships | | 120.8 | (114.5) | 6.3 |
| 170.2 | (75.5) | 94.7 | Centrally Managed | | 14.9 | (87.2) | (72.3) |
| 188.4 | (282.2) | (93.8) | Housing Revenue Account | | 199.3 | (288.5) | (89.2) |
| **3,016.0** | **(2,226.0)** | **790.0** | **Total Cost Of Services** | | **3,090.0** | **(2,263.8)** | **826.2** |
| 83.2 | - | 83.2 | Other Operating Expenditure | 10 | 124.4 | - | 124.4 |
| 281.3 | (42.8) | 238.5 | Financing and Investment Income and Expenditure | 11 | 270.1 | (60.8) | 209.3 |
| 258.1 | (1,499.9) | (1,241.8) | Taxation and Non-Specific Grant Income | 12 | 95.1 | (1,343.4) | (1,248.3) |
| | | **(130.3)** | **(Surplus) / Deficit on Provision of Services** | | | | **(88.4)** |
| | | (223.3) | (Surplus) / deficit on revaluation of Property, Plant and Equipment assets | 21,22,23 | | | (583.8) |
| | | 740.2 | Remeasurement of the net defined benefit liability | 20 | | | (749.4) |
| | | **516.9** | **Other Comprehensive (Income) / Expenditure** | | | | **(1,333.2)** |
| | | **386.6** | **Total Comprehensive (Income) / Expenditure** | | | | **(1,421.6)** |

## Movement in Reserves Statement

This Statement shows the movement in the year in the different reserves held by the Council, analysed into 'usable reserves' (that is, those that can be applied to fund expenditure or reduce local taxation) and other reserves.

| | Total General Fund Balance | Total HRA Reserves | Capital Receipts | Major Repairs Reserve | Capital Grants Unapplied Account | **Total Usable Reserves** | Unusable Reserves | **Total Council Reserves** |
|---|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m | £m |
| **Balance at 31 March 2020** | **656.8** | **10.0** | **223.3** | **24.4** | **142.6** | **1,057.1** | **(1,067.9)** | **(10.8)** |
| Surplus/(Deficit) on the provision of services | 81.5 | 48.8 | - | - | - | 130.3 | - | 130.3 |
| Other Comprehensive Income and Expenditure | - | - | - | - | - | - | (516.9) | (516.9) |
| **Total Comprehensive Income and Expenditure** | **81.5** | **48.8** | **-** | **-** | **-** | **130.3** | **(516.9)** | **(386.6)** |
| Adjustments between accounting basis and funding basis under regulations (Note 16) | 324.0 | (44.5) | 30.1 | - | (50.2) | 259.6 | (259.6) | **(0.0)** |
| **Increase/(Decrease) in 2020/21** | **405.5** | **4.3** | **30.1** | **-** | **(50.2)** | **389.8** | **(776.5)** | **(386.6)** |
| **Balance at 31 March 2021** | **1,062.3** | **14.3** | **253.4** | **24.4** | **92.4** | **1,446.9** | **(1,844.4)** | **(397.5)** |
| **Movement in Reserves during 2021/22** | | | | | | | | |
| Surplus/(Deficit) on the provision of services | 38.9 | 49.5 | - | - | - | 88.4 | - | 88.4 |
| Other Comprehensive Income and Expenditure | - | - | - | - | - | - | 1,333.2 | 1,333.2 |
| **Total Comprehensive Income and Expenditure** | **38.9** | **49.5** | **-** | **-** | **-** | **88.4** | **1,333.2** | **1,421.6** |
| Adjustments between accounting basis and funding basis under regulations (Note 16) | (29.4) | (41.6) | 34.2 | (6.5) | 20.2 | (23.1) | 23.1 | - |
| **Increase/(Decrease) in 2021/22** | **9.5** | **7.9** | **34.2** | **(6.5)** | **20.2** | **65.3** | **1,356.3** | **1,421.6** |
| **Balance at 31 March 2022** | **1,071.8** | **22.2** | **287.6** | **17.9** | **112.6** | **1,512.2** | **(488.1)** | **1,024.1** |

**Balance Sheet**

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council.

| 31 March 2021 | | Note | 31 March 2022 |
|---|---|---|---|
| | | | £m |
| 6,209.6 | Property, Plant and Equipment | 21 | 6,990.5 |
| 249.9 | Heritage Assets | 22 | 249.9 |
| 5.2 | Investment Property | | 15.7 |
| 4.2 | Intangible Assets | 23 | 3.7 |
| 37.8 | Long Term Investments | 37 | 37.4 |
| 107.5 | Long Term Debtors | 24 | 109.1 |
| **6,614.2** | **Total Long Term Assets** | | **7,406.3** |
| 172.3 | Short Term Investments | 25 | 110.5 |
| 49.1 | Assets Held for Sale | 26 | 0.4 |
| 1.8 | Inventories | | 2.2 |
| 400.9 | Short Term Debtors | 27 | 341.8 |
| 54.3 | Cash and Cash Equivalents | 28 | 57.4 |
| **678.4** | **Total Current Assets** | | **512.3** |
| (490.5) | Short Term Borrowing | 32 | (299.7) |
| (431.6) | Short Term Creditors | 29 | (484.9) |
| (176.0) | Short Term Provisions | 30 | (133.7) |
| **(1,098.1)** | **Total Current Liabilities** | | **(918.3)** |
| (0.6) | Long Term Creditors | | (0.5) |
| (7.7) | Long Term Provisions | 30 | (18.5) |
| (2,989.4) | Long Term Borrowing | 32 | (2,924.2) |
| (409.1) | Other Long Term Liabilities | 37 | (385.3) |
| (3,185.2) | Net liability on defined benefit pension scheme | 20 | (2,647.7) |
| **(6,592.0)** | **Total Long Term Liabilities** | | **(5,976.2)** |
| **(397.5)** | **Net Assets/(Liabilities)** | | **1,024.1** |
| | **Usable Reserves** | 17 | |
| 197.7 | Unearmarked Reserves | | 230.1 |
| 450.1 | Earmarked Reserves | | 383.3 |
| 335.5 | Grant Reserves | | 369.4 |
| 3.6 | Unearmarked Non-Schools DSG | | 11.9 |
| 114.0 | Ringfenced Reserves | | 117.2 |
| 346.0 | Capital Reserves | | 400.3 |
| **1,446.9** | **Total Usable Reserves** | | **1,512.2** |
| (1,844.4) | Unusable Reserves | 18 | (488.1) |
| **(397.5)** | **Total Reserves** | | **1,024.1** |

## Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period.

| | | | |
|---|---|---|---|
| 130.3 | Net Surplus/(Deficit) on the provision of services | | 88.4 |
| 116.0 | Adjustments to net Surplus/Deficit on the provision of services for non-cash movements | 36 | 617.2 |
| (209.1) | Adjustments for items included in the net Surplus/(Deficit) on the provision of services that are investing and financing activities | 36 | (223.8) |
| **37.2** | **Net cash flows from Operating Activities** | | **481.8** |
| (244.0) | Investing Activities | 34 | (262.3) |
| 199.8 | Financing Activities | 35 | (216.4) |
| **(7.0)** | **Net increase/(decrease) in cash and cash equivalents** | | **3.1** |
| 61.3 | Cash and cash equivalents at the beginning of the reporting period | | 54.3 |
| **54.3** | **Cash and cash equivalents at the end of the reporting period** | **28** | **57.4** |

## Note 1
## Accounting Policies

### i. General Principles

The Statement of Accounts summarises the Council's transactions for the 2021/22 financial year and its position at the year-end of 31 March 2022. The Accounts and Audit Regulations 2015 as amended by the Accounts and Audit (Amendment) Regulations 2022 require the Council to prepare an annual statement of accounts in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (the Code) supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the statement of accounts is principally historical cost, modified by the revaluation of certain categorised non-current assets and financial instruments. Historical cost is deemed to be the carrying amount of an asset as at 1 April 2007 (that is, brought forward from 31 March 2007) or at the date of acquisition, whichever date is the later, and if applicable is adjusted for subsequent depreciation or impairment.

### ii. Accruals of Income and Expenditure

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

- Revenue from the provision of services is recognised when the Council can reliably measure the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council;
- Revenue from the sale of goods or provision of services satisfied over time is recognised if the Council can reasonably measure its progress towards complete satisfaction of the performance obligation;
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet, for example, fuel and transport parts;
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made;
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure based on the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract;
- When income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

### iii. Cash and Cash Equivalents

Cash and Cash Equivalents are represented by cash in hand and deposits with financial institutions, which must be repayable immediately without penalty on notice of not more than 24 hours. Any deposits with financial institutions that may be repaid after the immediate day are considered to be investments, not cash equivalents.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand, where there are pooling arrangements across the accounts with the same institution and form an integral part of the Council's cash management.

### iv. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

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

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

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

### v. Charges to Revenue for Non-Current Assets

Directorates and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:

- Depreciation attributable to the assets used by the relevant service;
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off;
- Amortisation of intangible non-current assets attributable to the service.

The Council is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance. An adjustment is, therefore, made to remove depreciation, amortisation and revaluation and impairment losses from the General Fund and Housing Revenue Account through Note 16, Adjustments Between Accounting Basis and Funding Basis under Regulations, and the Movement in Reserves Statement and to replace them by the statutory contribution from the General Fund to the Capital Adjustment Account.

### vi. Council Tax and Business Rates

Billing authorities are required by statute to maintain a separate fund (the Collection Fund) for the collection and distribution of amounts due in respect of Council Tax and Business Rates. The Collection Fund's key features relevant to the accounting for Council Tax and Business Rates in the core financial statements are:

- In its capacity as a Billing Authority the Council acts as an agent, collecting and distributing Council Tax on behalf of the major preceptors and as principal for itself;

- While the Council Tax and Business Rates income for the year credited to the Collection Fund is the accrued income for the year, regulations determine when it should be released from the Collection Fund and transferred to the Council's General Fund, or paid out from the Collection Fund to the major preceptors. The amount credited to the General Fund under statute is the Council's demand on the Fund for that year, plus/(less) the Council's share of any surplus/(deficit) on the Collection Fund for the previous year. This amount may be more or less than the accrued income for the year in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

<u>Comprehensive Income and Expenditure Statement</u>

The Council Tax and Business Rates income included in the Comprehensive Income and Expenditure Statement is the Council's share of accrued income for the year. The difference between the income included in the Comprehensive Income and Expenditure Statement 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. In addition, that part of Business Rates retained as the cost of collection allowance under regulation is treated as the Council's income and appears in the Comprehensive and Income Expenditure Statement as are any costs added to Business Rates in respect of recovery action.

<u>Balance Sheet</u>

Since the collection of Council Tax and Business Rates are in substance agency arrangements, any year end balances relating to arrears, impairment allowances for doubtful debts, overpayment and prepayments are apportioned between the major preceptors and the Council by the creation of a debtor/creditor relationship. Similarly, the cash collected by the Council belongs proportionately to itself and the major preceptors. There will, therefore, be a debtor/creditor position between the Council and the major preceptors since the cash paid to the latter in the year will not be equal to their share of the total cash collected. If the net cash paid to the major preceptors in the year is more than their proportionate share of the cash collected the Council will recognise a debit adjustment for the amount overpaid. Conversely, if the cash paid to the major preceptors in the year is less than their proportionate share of the amount collected then the Council will recognise a credit adjustment for the amount underpaid.

<u>Cash Flow Statement</u>

The Council's Cash Flow Statement includes in 'Operating Activities' cash flows only its own share of the Council Tax and Business Rates collected during the year, and the amount included for precepts paid excludes amounts paid to the major preceptors. In addition, that part of Business Rates retained as the cost of collection allowance under regulation appears in the Council's Cash Flow Statement. The difference between the major preceptors' share of the cash collected and that paid to them as precepts and settlement of the previous year's surplus or deficit on the Collection Fund, is included as a net increase/decrease in cash and cash equivalents.

**vii. Employee Benefits**

Benefits Payable During Employment

Short Term Benefits

Short term employee benefits are those due to be settled within 12 months of the year-end. They include benefits such as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits, for example cars for current employees, and 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 annual leave entitlements (or any other form of leave, for example time off in lieu) 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 wage and 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/Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that leave benefits are charged to revenue in the financial year in which the leave of absence occurs.

Other Long Term Benefits

Other long term employee benefits are benefits, other than post-employment and termination benefits, that are not expected to be settled in full before 12 months after the end of the annual reporting period for which employees have rendered the related service. Within local authorities the value of these benefits is not expected to be significant. Such long term benefits may include:

- Long term paid absence or sabbatical leave;
- Long term disability benefits;
- Bonuses;
- Deferred remuneration.

Long term benefits would be accounted for on a similar basis to post-employment benefits.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an employee's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the appropriate Directorate at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund and Housing Revenue Account balances to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards.

In the Movement in Reserves Statement, appropriations are required to and from the Pension Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post-Employment Benefits

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

- The Local Government Pension Scheme, administered by the West Midlands Pension Fund offices at Wolverhampton City Council;
- The Teachers' Pension Scheme administered by Capita Teachers' Pensions on behalf of the Department for Education;
- The NHS Pensions Scheme administered by NHS Pensions.

Each scheme provides defined benefits to members (retirement lump sums and pensions), earned during employment with the Council.

The arrangements for the Teachers' Pension Scheme and the NHS Pensions Scheme mean liabilities for these benefits cannot ordinarily be identified specifically to the Council. These schemes are, therefore, accounted for as if they were defined contribution schemes and no liability for future payments of benefits is recognised in the Balance Sheet.

The Local Government Pension Scheme

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

- The liabilities of the West Midlands Local Government Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – that is, an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of earnings for current employees;
- Liabilities are discounted to their value at current prices, using a discount rate of 2.7% based on the indicative rate of return on high quality corporate bond yields;
- The assets of the West Midlands Local Government Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:
    - quoted securities – current bid price;
    - unquoted securities – professional estimate;
    - unitised securities – current bid price;
    - property – market value.
- The change in the net pensions liability is analysed into the following elements:

Service cost comprising:

- current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the Directorates for which the employees worked;
- past service cost – the increase in liabilities arising from current year decisions whose effect related to years of service earned in earlier years – debited to the (Surplus)/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement;
- net interest on the net defined benefit liability/(asset), that is the net interest expense for the Council – the change during the reporting period in the net defined benefit liability/(asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability/(asset) at the beginning of the period – taking into account any changes in the net defined benefit liability/(asset) during the period as a result of contribution and benefit payments.

Re-measurements comprising:

- the return on plan assets – excluding amounts included in net interest on the net defined benefit liability/(asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure;
- 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 – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- Contributions paid to the West Midlands Local Government Pension Fund - cash paid as employer’s contributions to the pension fund; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund and Housing Revenue Account balances 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 transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners, and any 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 and Housing Revenue Account arising from the requirement to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

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

**viii. Events After the Reporting Period**

Events after the Balance Sheet date are those material events, both favourable and adverse, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

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

Events taking place after the date of Audit Committee adoption of the accounts are not reflected in the Statement of Accounts.

**ix. Financial Instruments**

Financial Liabilities

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

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

However, the Birmingham City Council 2030 bonds, issued in exchange for NEC loan stock in 2005 and the NEC Development 2027 bonds, were issued at a fair value in excess of the principal repayable. Interest is being charged on an amortised cost accounting basis, which writes the value down to zero at maturity.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement.

Where premia and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was repayable, or discount received when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cash flow characteristics. There are three main classes of financial assets measured at:

- amortised cost
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI). The Council does not currently have any financial assets designated at FVOCI.

The Council's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (that is, where the cash flows do not take the form of a basic debt instrument).

Financial Assets Measured at Amortised Cost

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

However, the Council has made a number of loans at less than market rates (soft loans). When soft loans are made, a loss is recorded in the CIES (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal.

Interest is credited to the Financing and Investment Income and Expenditure line in the CIES at a marginally higher effective rate of interest than the rate receivable from the organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the CIES to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Any gains and losses that arise on derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

Expected Credit Loss Model

The Council recognises expected credit losses on all of its financial assets held at amortised cost (or where relevant FVOCI), either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the Council.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

Financial Assets Measured at Fair Value through Profit or Loss

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

Where it is possible to determine a fair value, measurement of the financial assets is based on the following techniques:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

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

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

Instruments Entered Into Before 1 April 2006

The Council has entered into a number of financial guarantees that are not required to be accounted for as financial instruments. These guarantees are reflected in the Statement of Accounts to the extent that provisions might be required, or a contingent liability note is needed under the policies set out in section xxii on Provisions, Contingent Liabilities and Contingent Assets.

**x. Government Grants and Contributions**

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

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

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

Monies advanced as grants and contributions for which conditions are unlikely to be satisfied are carried in the Balance Sheet as creditors. Where conditions are satisfied or expected to be satisfied, the grant or contribution is credited to the relevant Directorate (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

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

**xi. Business Improvement Districts**

In accordance with the provisions of the Business Improvement District Regulations (England) 2004 ballots of local businesses within specific areas of the City have resulted in the creation of distinct Business Improvement Districts. Business ratepayers in these areas pay a levy in addition to the Business Rate to fund a range of specified additional services which are provided by specific companies set up for the purpose.

In line with Code guidance the Council has determined that it acts as agent to the Business Improvement District authorities and therefore neither the proceeds of the levy nor the payment to the Business Improvement District Company are shown in the Council's accounts.

**xii. Community Infrastructure Levy**

The Council has elected to charge a Community Infrastructure Levy (CIL). The levy will be charged on new builds with appropriate planning consent. The Council charges for and collects the levy, which is a planning charge. The income from the levy will be used to fund infrastructure projects to support the development of the City.

CIL is received without outstanding conditions; it is, therefore, recognised at the commencement date of the chargeable development in the Comprehensive Income and Expenditure Statement in accordance with section xi. Government Grants and Contributions of this note. CIL charges will be largely used to fund capital expenditure although an element may be used to support infrastructure maintenance and a small proportion of the charges may be used to fund the costs of administration associated with the CIL.

**xiii. Heritage Assets**

Heritage assets are assets that have historical, artistic, scientific, technological, geographical or environmental qualities that are held in trust for future generations because of their cultural, environmental or historical associations and contribution to knowledge and culture. They include museums' and libraries' heritage collections, historic buildings and the historical environment, public works of art and civic regalia and plate.

Where assets of a heritage nature are used in the ongoing delivery of the Council's services, such as historically interesting buildings and parks and open space, they have not been categorised as heritage assets but remain as other land and buildings or as community assets within Property, Plant and Equipment.

For the Museum, Library and Civic Plate Collections, insurance valuations are used due to the unique nature, diversity and quantity of the assets, and lack of historical cost information. For other types of Heritage Assets, historical cost information is used where available when compiling the Balance Sheet. In some cases, neither reliable valuation information nor historical cost information is available, in which case the asset has been excluded from the Balance Sheet.

The Council considers that heritage assets will have indeterminate lives and a high residual value; and therefore does not consider it appropriate to charge depreciation on the assets. Any impairment or disposal of heritage assets is recognised and measured in accordance with the Council's relevant policies (see section xxi. Property, Plant and Equipment in this note).

**xiv. Intangible Assets**

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (for example, software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services.

Intangible assets are measured initially at cost and the depreciable amount is amortised over the useful life of the asset on a straight-line basis and charged to the relevant Directorate in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The 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.

### xv. Interests in Companies and Other Entities

The Council has material interests in companies and other entities that have the nature of subsidiaries, associates and joint operations and proper accounting practices require it to prepare group accounts. In the Council's own single entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

### xvi. Investment Properties

Investment properties are those that are held by the Council solely to earn rentals and/or for capital appreciation. An asset does not meet the definition of being an investment property if it is used in any way to facilitate the delivery of services, for the production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently carried at fair value, measured at highest and best use. Investment properties are not depreciated but are revalued annually based on market conditions at the year-end. Gains/losses on revaluation, or on disposal, are posted to Financing Income and Expenditure in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains/losses on disposal.

Rentals received in relation to investment properties are credited to Financing Investment Income in the Comprehensive Income and Expenditure Statement and result in a gain for the General Fund Balance. However, revaluation and disposal gains/losses are not permitted by statutory arrangements on the General Fund Balance and are therefore reversed out through the Movement in Reserves Statement and posted to the Capital Adjustment Account.

Whilst discharging its role the Council works to ensure that the stewardship of all property assets is such that they are managed in a way that is economic, efficient and effective. The Council has a site that meets the definition of 'Investment Properties'.

The Council has a number of lease arrangements with subsidiary companies that are not treated as investment properties in line with IAS 40, Investment Property.

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

### xvii. Joint Operations and Jointly Controlled Assets

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

Jointly controlled assets are items of property, plant or equipment that are jointly controlled by the Council and other venturers, with the assets being used to obtain benefits for the venturers. The joint venture does not involve the establishment of a separate entity. The

Council accounts for only its share of the jointly controlled assets, the liabilities and the expenses that it incurs on its own behalf or jointly with others in respect of its interest in the joint venture and income that it earns from the venture.

**xviii. Leases**

Leases are classified as either finance or operating leases at the inception of the lease. Classification as a finance lease occurs where the terms of the lease transfer substantially all the risks and rewards incidental to the ownership of the asset from lessor to lessee and where the lease term is for the major part of the economic life of the asset in question, whether or not title is eventually transferred. Those leases not classified as finance leases are deemed to be operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

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

The Council as Lessee

Finance Leases

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

Lease payments are apportioned between:

- A charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability; and
- A finance charge – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Property, Plant and Equipment recognised under finance leases are accounted for using the policies generally applied to such assets (see section xxi above).

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

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the Directorate benefiting from use of the leased property, plant or equipment. Charges are made on a straight line basis over the life of the lease, even if this does not match the pattern of payments.

The Council as Lessor

Finance Leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet is written off to Other Operating Expenditure in the Comprehensive Income and Expenditure Statement as part of the gain/loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain/loss on disposal, matched by a lease (long term debtor) asset in the Balance Sheet

Lease rentals receivable are apportioned between:

- A charge for the acquisition of the interest in the property – applied to write down the lease debtor; and
- Finance income - credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to impact the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve through the Movement in Reserves Statement. Where the amount due in relation to the lease asset is settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve through the Movement in Reserves Statement.

Operating Leases

Where the Council grants an operating lease for an asset, it is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight line basis over the life of the lease, even if this does not match the pattern of payments. Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

**xix. Overheads and Support Services**

The costs of overheads and support services are charged to Directorates in accordance with the Council's arrangements for accountability and performance.

**xx. Property, Plant and Equipment**

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

- the purchase price;
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The Council capitalises borrowing costs incurred whilst material assets are under construction. Material assets are considered to be those where total planned (multi-year) borrowing for a single asset (including land and building components) exceeds £20m, and where there is a 'substantial period of time' from the first capital expenditure financed from borrowing until the asset is ready to be brought into use. A substantial period of time is considered to mean in excess of two years. Both of these tests will be determined using estimated figures at the time of preparing the accounts in the first year of capitalisation. Should either test fail in subsequent financial years, the prior year's treatment will not be adjusted retrospectively.

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

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

- infrastructure assets, vehicles, plant, furniture and equipment (excluding Tyseley Energy Recovery Facility) – depreciated historical cost;
- community assets and assets under construction – historical cost;
- dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH);
- where cleared land has been designated for social housing use, that land is valued using the basis of EUV-SH;
- surplus assets – fair value; assessed in their highest and best use
- all other assets – current value, determined as the price that would be received to sell an asset in its existing use. Where there is no market based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value.

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. Increases in asset valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment

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

Revaluation and impairment losses

Where revaluation and impairment losses are identified, and where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the reduction in value is charged against that balance until it is used up. Thereafter, or if there is no balance of revaluation gains, the loss is charged against the relevant Directorate in the Comprehensive Income and Expenditure Statement.

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

Useful Life

The Council estimates that assets, at new, have remaining useful lives within the parameters as detailed below:

- Council Dwellings – separated into the key components
    - Land – indefinite life;
    - Kitchens – 20 years;
    - Bathrooms – 40 years;
    - Doors/Windows/Rainwater, Soffits and Facias – 35 years;
    - Central Heating/Boilers – 15 to 30 years;
    - Roofs – 25 to 60 years;
    - Remaining components (Host) – 30 to 60 years;
- Buildings – up to 50 years;
- Vehicles, Plant, Furniture and Equipment – up to 50 years;
- Infrastructure – up to 40 years.

The useful life of each relevant asset is reviewed as part of the Council's five year cycle of revaluation by an appropriately qualified valuer.

Where a school is proposing to transfer to Academy School Trust status after the year end, the Council maintains the useful life of the school's assets on the basis of the last valuation undertaken.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets, including components, by the systematic straight line allocation of their depreciable amounts over their useful lives. Assets without a determinable finite useful life, and assets that are not yet available for use, are not depreciated. Depreciation is charged in the year of disposal but not charged in the year of purchase.

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

Componentisation

Where an asset is material (over £5m) and has major components whose cost is significant to the total cost of the asset, and which have markedly different useful lives, components are separately identified and depreciated. Also, additions are considered for components, whereby as components are added, any component being replaced is derecognised. Where the historical cost of the old component is not readily determinable, it has been estimated by comparing the remaining useful economic life of the component to the original useful economic life and the cost of the replacement component. A pro rata of both the depreciation and any applicable Revaluation Reserve is also derecognised.

Disposals and Non-Current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and carrying value less the cost of sale. Where there is a subsequent decrease to carrying value less the cost of sale, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in current value are recognised only up to the amount of any previous losses recognised in the Surplus/Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

Where assets are no longer used by a Directorate, these assets are offered to other Directorates for use. Those assets which are surplus are made available for sale and will be classified as Assets Held for Sale.

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

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet and the gain or loss on disposal is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account. Gains and losses on disposal of assets are not a charge against Council Tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance through the Movement in Reserves Statement.

Amounts, in excess of £10,000, received from a disposal are categorised as capital receipts. A proportion of receipts relating to housing disposals is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve. Receipts are appropriated to the Reserve from the General Fund Balance through the Movement in Reserves Statement.

### xxi. Service Concession Arrangements

Service concession arrangements (formerly classed as PFI and similar contracts) are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the contractor. As the Council is deemed to control the services that are provided under the arrangement, and as ownership of the property, plant and equipment will pass to the Council at the end of the contracts for no additional charge, the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) is balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment. The Council includes the cost of establishing Special Purpose Vehicles in the calculation of the liabilities.

Non-current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council.

The amounts payable to the contractor each year are analysed into five elements:

- Fair value of the services procured during the year – debited to the relevant Directorate in the Comprehensive Income and Expenditure Statement;
- Finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- Contingent rent – inflationary increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- Payment towards liability – applied to write down the Balance Sheet liability towards the contractor;
- Lifecycle replacement costs – usually recognised as an addition to Property, Plant and Equipment when the relevant works are carried out in line with the operator’s model spending profiles.

### xxii. Provisions, Contingent Liabilities and Contingent Assets

<u>Provisions</u>

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For example, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate Directorate in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties. Provisions are not discounted to their value at current prices unless material.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant Directorate.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (for example, from an insurance claim), this is only recognised as income for the relevant Directorate if it is virtually certain that reimbursement will be received if the Council settles the obligation.

Onerous Contracts

An onerous contract is a contract for the exchange of assets or service in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits or service potential expected to be received under it.

Onerous Contracts are accounted for under IAS 37 – Provisions, Contingent Liabilities and Contingent Assets. A provision will be recognised for the unavoidable costs.

Provision for Back Pay Arising from Equal Pay Claims

The Equal Pay Act 1970 was enacted at a time when it was not uncommon for employers to openly give different rates of pay to men and women performing the same job, or to reserve certain jobs for men and other (lower-paid) jobs for women. The Equality Act 2010 repealed and replaced the Equal Pay Act 1970 from 1 October 2010 and implemented the principle that men and women should receive equal pay for equal work in Great Britain.

The Council has received capitalisation directions to support an element of the provision made. However, statutory arrangements allow settlements to be financed from the General Fund and Housing Revenue Account in the year that the payments actually take place, not when the provision is established, for all claims made up to 1 April 2020. The additional provision made above the capitalisation directions given is, therefore, balanced by an Equal Pay Back Pay Account created from amounts credited to the General Fund Balance in the year that the provision was made or modified. The balance on the Equal Pay Back Pay Account will be debited back to the General Fund Balance through the Movement in Reserves Statement in future financial years as payments are made.

The ability to defer the reserves impact of new provisions ceased to be allowable from 1 April 2020. Liabilities, and changes in them, recognised before 1 April 2020 continue to be deferred until settlement. New Equal Pay liabilities recognised after 1 April 2020 are accounted for in line with Section 8 of the CIPFA code, and IAS37.

Contingent Liabilities

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

Contingent liabilities are not recognised in the Balance Sheet but disclosed in Note 31 to the accounts.

Contingent Assets

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

Contingent assets are not recognised in the Balance Sheet but disclosed in Note 31 to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

### xxiii. Reserves

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

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, local taxation, retirement and employee benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies.

### xxv. Revenue Expenditure Funded from Capital under Statute

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

### xxiv. Accounting for Schools

Local authority maintained schools, in line with relevant accounting standards and the Code, are considered to be separate entities with the balance of control lying with the Council. As such the Council should consolidate the activities of schools into its group accounts. However, the Code requires that the income, expenditure, assets and liabilities of maintained schools be accounted for in local authority entity accounts rather than requiring the preparation of group accounts.

The Council has the following types of maintained schools under its control:

- Community schools;
- Voluntary Controlled schools;
- Voluntary Aided schools;
- Foundation schools.

Given the nature of the control of the entities and the control of the service potential from the non-current assets of the maintained schools, the Council has recognised buildings and other non-current assets on its Balance Sheet. The Council has recognised all land for Community Schools on its Balance Sheet and recognised that land for Voluntary Aided, Voluntary Controlled and Foundation Schools where it can be demonstrated that the Council has control over the land through restrictive covenants within site deeds or where there is reasonable evidence that restrictive covenants are in place.

Academies and Free Schools are not considered to be controlled by the Council and are not consolidated into the entity or group accounts.

### xxvi. Value Added Tax

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

### xxvii. Fair Value Measurement

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

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The Council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Council's financial statements are categorised with the fair value hierarchy as follows:

- 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 or liability, either directly or indirectly;
- Level 3 – unobservable inputs for the asset or liability.

**xxviii. Council Acting as Agent**

The Council does not include transactions that relate to its role in acting as an agent on behalf of other bodies. In such cases the Council is acting as an intermediary and does not have exposure to significant risks and rewards from the activities being undertaken.

**xxix. Dedicated Schools Grant Deficit Balances**

Where the Council has a deficit in respect of its schools budget for a financial year beginning on 1 April 2020, the Council does not charge to a revenue account an amount in respect of that deficit. Instead, it charges the amount of the deficit to an account established, charged and used solely for the purpose of recognising deficits in respect of its schools budget.

These financial statements continue to be produced under IFRS with the DSG being accounted for in the normal way (through the CIES). An accounting adjustment is made via the MiRS to move any DSG deficit balances on a time limited basis to an unusable reserve established for that purpose.

**xxxi. Highways infrastructure assets**

Highways infrastructure assets include carriageways, footways and cycle tracks, structures (e.g. bridges), street lighting, street furniture, traffic management systems and land which together form a single integrated network.

Recognition

Expenditure on the acquisition or replacement of components of the network is capitalised on an accrual basis, provided that it is probable that the future economic benefits associated with the item will flow to the Council and the cost of the item can be measured reliably.

The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2022 SI 1232/2022 – These amendment regulations provide that where a local authority replaces a component of an infrastructure asset, the authority has a choice of how to identify the carrying amount to be derecognised in respect of that component (i.e. either a nil amount or to follow the Code). The Council has elected to make use of this statutory override.

Measurement

Highways infrastructure assets are generally measured at depreciated historical cost. However, this is a modified form of historical cost – opening balances for highways infrastructure assets were originally recorded in Balance Sheets at amounts of capital undischarged for sums borrowed as at 1 April 1994, which was deemed at that time to be historical cost. Where impairment losses are identified, they are accounted for by the carrying amount of the asset being written down to the recoverable amount.

Depreciation

Depreciation is provided on the parts of the highways network infrastructure assets that are subject to deterioration or depletion and by the systematic allocation of their depreciable amounts over their useful lives. Depreciation is charged on a straight-line basis. Annual depreciation is the depreciation amount allocated each year.
Useful lives of the various parts of the highways network are assessed by the Chief Highways Engineer using industry standards where applicable as follows:

| | |
|---|---|
| Carriageways | 25 years |
| Footways and cycle tracks | 20 years |
| Highways Drainage | 15 years |
| Street furniture | 30 years |
| Street lighting | 30 years |
| Structures (bridges, tunnels) | 120 years |
| Traffic management systems | 25 years |
| Other infrastructure assets | 10 years |

Disposals and derecognition

When a component of the network is disposed of or decommissioned, the carrying amount of the component in the Balance Sheet is written off to the ‘Other operating expenditure’ line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement, also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). The written-off amounts of disposals are not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are transferred to the capital adjustment account from the General Fund Balance in the Movement in Reserves Statement.

## Note 2
## Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in Note 1, the Council has had to make certain judgements in respect of complex transactions or those transactions involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

### Going Concern

Local Authorities are required by the Code of Practice on Local Authority Accounting 2021/22 to prepare their accounts on the going concern basis, that is that the functions of the Council will continue in operational existence for the foreseeable future, as it can only be discontinued as a result of statutory prescription.

The financial reporting framework for local government presumes going concern in the event of anticipated continuation of provision of the services provided by the entity. Therefore a ‘continued provision of service approach’ applies, unless there is clear evidence to the contrary.

The Council continues to face financial challenges as a result of the ongoing reduction in central government support and the need to fund budget pressures, while also operating in an environment where the continued impact of, and costs related to, the Covid-19 pandemic are uncertain.

It is in this context that the Council has set out its 2022-2026 Financial Plan.

Through rigorous and diligent financial management, coupled with the additional funding provided by the Government the Council has spent within our budget in 2021-22. Two in year updates of the Medium-Term Financial Plan were undertaken and reported to Cabinet and the Overview and Scrutiny Resources Committee; the first being in July 2021 and the second in October 2021.

The local Government settlement announced in December 2021 only provided funding for 2022-23, despite the 3-year announcement of departmental settlements as part of the Spending Review. As such there is significant uncertainty over the level of resources available to the Council beyond 2022-23.

As a result of the continued uncertainty in outlook, the Financial Plan 2022-2026 should be considered an initial plan of how the Council intends to invest to reshape and transform services so that they provide for better outcomes and better value for money in the future.

The Council has successfully delivered significant savings plans previously and has appropriate contingency plans in place to provide protection against any timing differences in the generation of capital receipts or any shortfall in the delivery of savings plans. As such the Council has identified that it has sufficient General Fund Balances and can redesignate earmarked reserves to meet any shortfall. On this basis, the Council considers that it can continue to meet its liabilities as they fall due, supporting the preparation of the financial statements on a going concern basis irrespective of the statutory requirements.

### Schools

The Council has assessed the legal framework underlying each type of school and determined the treatment of non-current assets within the financial statements on the basis of whether it owns or has some responsibility for, control over or benefit from the service potential of the premises and land occupied. The Council has considered its accounting arrangements for each school, on a case by case basis, under the terms of:

- IAS 16, Property, Plant and Equipment
- IAS 17, Leases
- IFRIC 4, Determining Whether an Arrangement Contains a Lease; and
- LAAP Bulletin 101, Accounting for Non-Current Assets Used by Local Authority Maintained Schools

The Council has determined that, within its Balance Sheet, for:

- Community Schools - all land and buildings should be recognised;
- Voluntary Controlled, Voluntary Aided and Foundation Schools - all buildings should be recognised and that land should be recognised where the Council can demonstrate that it has control over the asset through restrictive covenants within site deeds or there is reasonable evidence that restrictive covenants are in place;
- Academy Schools - no non-current assets should be recognised as they maintain their own financial records.

Local authority maintained schools, as independent entities, have responsibility for the management of their own resources. However, as their transactions are consolidated into the Council's financial statements, the Council has reviewed their activity to ensure consistency of accounting treatment. The Council has identified activity incurred as revenue expenditure by local authority maintained schools, which under the Council's policies would be considered to be capital expenditure. The Council has, therefore, treated expenditure which it can reasonably identify as being capital in nature as capital expenditure financed from revenue, which is then depreciated over an average useful economic life. Where it is not clear whether expenditure incurred relates specifically to capital, it has been left as revenue expenditure.

Whilst the Council is required to report the transactions of local authority maintained schools within its entity financial statements, it has not included details of employees of Voluntary Aided and Foundation Trust schools in Note 43, Officers' Remuneration, as they are employed by the relevant governing body.

The table below shows the number and type of schools within Birmingham at 31 March 2022.

| Type of School | Nursery | Primary | Secondary | All Through | Alternative | 16 to 19 | Special | Pupil Referral Unit | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Community** | 27 | 105 | 8 | | | | 8 | 1 | **149** |
| **Voluntary Controlled** | | 4 | | | | | | | **4** |
| **Voluntary Aided** | | 42 | 4 | | | | | | **46** |
| **Foundation Trust** | | 9 | 4 | | | | 9 | | **22** |
| **Academy** | | 133 | 54 | 5 | | | 10 | | **202** |
| **Free School** | | 2 | 9 | 2 | 6 | 1 | | | **20** |
| **Studio School** | | | 1 | | | | | | **1** |
| **UTC** | | | 1 | | | | | | **1** |
| **Total** | **27** | **295** | **81** | **7** | **6** | **1** | **27** | **1** | **445** |

Where a school proposes to transfer to Academy status, the Council will continue to retain any asset subject to transfer on the basis of its last revaluation, which maintains both the asset value and the anticipated useful life until the date of transfer. The Council has taken the view that any asset transferring will continue, on the basis of the permitted use within the lease agreements, to be used for the provision of education services, thus supporting the Council's statutory obligation for the provision of education. On transfer to an Academy, assets are derecognised in the Council's financial statements for nil consideration.

**Service Concession Arrangements – Highways PFI**

On entering into the Highways PFI contract, the contractor's operational model of planned spend formed the basis of identifying levels of investment in the highways infrastructure, lifecycle and service costs from the unitary charge payable. This model is used to identify capital additions and associated liabilities that are reflected on the Council's Balance Sheet.

Assumptions within the original contract model have continued to be used with the model updated to reflect actual lifecycle costs incurred during the year.

An exercise is currently underway to procure a new subcontractor to deliver the remainder of the contract to 2035, whereby a new model will be created based upon affordability. The revised contract will include requirements for the contractor to report actual spending for accounting purposes.

**Leases**

The judgement is in determining whether the contract is an operating lease or a finance lease. Leases are categorised between operating and finance leases according to management judgement on the basis of relevant accounting standards, with the premise that long term land leases, typically greater than 110 years, and long term building leases, typically greater than 50 years, are accounted for on the basis of finance leases.

**The Better Care Fund (including the improved Better Care Fund)**

The judgement is in determining where control of the funds and expenditure decision lies. The Better Care Fund was announced in June 2013 with the intention to drive the transformation of local services and was to be operated through pooled budget arrangements between the Council and local Clinical Commissioning Groups. Specific resources were earmarked for the Better Care Fund by NHS England in its allocation to Clinical Commissioning Groups. The remainder of the fund was made up of the Social Care Capital Grant and the Disabled Facilities Grant which were paid to local authorities.

In accounting for the pooled resources, in agreement with the Clinical Commissioning Groups:

- Activity where funding was received and expended under the control of Clinical Commissioning Groups has been accounted for in their accounts
- Activity where funding was received and expended under the control of the Council has been accounted for in its accounts
- Activity where funding was under joint control has been accounted for on the basis of the share for each organisation.

Further details on the Better Care Fund are provided in Note 46, Related Parties.

**The Council acting as Agent**

The Council acts as agent for a range of funding resources. In its role as agent, transactions relating to agency activity are not included in the Council's financial statements. Three of the largest areas where the Council acts as agent are:

- Growing Places Fund
- Regional Growth Fund - Advanced Manufacturing Supply Chain Initiative
- Covid-19 grant funding

The resources for the Growing Places and Regional Growth Funds are under the control of the Greater Birmingham and Solihull Local Enterprise Partnership (GBSLEP) with decisions taken by impartial and independent Investment Boards and Committees. All governance processes are overseen by the Council.

Whilst the Council has received the funding, it is on the basis of an Accountable Body to ensure that resources are spent in compliance with the grant offer letters. Decisions in respect of the use of funds are not in the hands of the Council apart from in its capacity as one of the voting members of the GBSLEP. The Council can be awarded resources by the GBSLEP but only through the normal resource application and allocation process.

Given the basis of control, the Council has determined that it acts as agent rather than principal for these resources which are, therefore, not included in the Council's financial statements.

Details of the Council's role as agent for external resources are included in Note 47 to these financial statements.

**Early Payment to the Local Government Pension Scheme**

The Council made a payment of £369.2m on 27 April 2020 to the Local Government Pension Scheme being the estimated sum due for the three year period 1 April 2020 to 31 March 2023 in respect of employer contributions. The Council has determined that the application of Section 30 of The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, as amended, requires the Council to charge to its revenue accounts the amount payable for the financial year for retirement benefit payments and contributions to the pension fund as set out in the actuary's certificate following the triennial valuation of 31 March 2019, namely 21.3% of pensionable pay plus £48.2m which was calculated to total £123m for 2021/22.

**Equal Pay**

The Council has continued to receive equal pay claims up to the sign off of these financial statements and has, as a result, made provision in its accounts for these potential future liabilities. The Council has continued to negotiate with claimants' representatives and settles where it is recognised that a claim would be successful. These accounts include the expected costs of settlement for claims received and all negotiations agreed as at 31 March 2022.

In England and Wales, the ability to defer the reserves impact of new provisions ceased to be allowable from 1 April 2020. These regulations previously gave discretion to a local authority not to charge to revenue a provision for back pay arising from unequal pay claims until the cash settlement took place. The Council had taken advantage of this, and the full extent of the equal pay provision recognised in prior years had all been offset against capital receipts. Liabilities recognised before 1 April 2020 will continue to be deferred until the equal back pay payment is actually made, whether or not this date is on or after 1 April 2020, in line with regulations.

However, this approach is not applicable for new equal pay liabilities recognised after 1 April 2020 and provision of these claims has been made in accordance with Section 8.2 of the Code, recognised and impacting on the General Fund.

## Note 3
## Accounting Standards That Have Been Issued but Have Not Yet Been Adopted

The Council is required to disclose information relating to the impact of the accounting change on the financial statements as a result of the adoption by the Code of a new or amended standard that has been issued, but is not required to be adopted by the Council for the 2021/22 accounting period.

The relevant amended or new standards are:

Annual Improvements to IFRS Standards 2018–2020. The annual IFRS improvement programme notes four changed standards as follows:

- IFRS 1 (First-time adoption) – amendment relates to foreign operations of acquired subsidiaries transitioning to IFRS
- IAS 37 (Onerous contracts) – clarifies the intention of the standard.
- IFRS 16 (Leases) – amendment removes a misleading example that is not referenced in the Code material
- IAS 41 (Agriculture) – one of a small number of IFRSs that are only expected to apply to local authorities in limited circumstances.

It is not envisaged that these will have a significant effect on the Council's financial statements.

Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)

There are no changes in accounting requirements for 2022/23 that are anticipated to have a material impact on the Council's financial performance or position.

## Note 4
## Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, balances cannot be determined with certainty, and actual results could be materially different if the assumptions and estimates were to change.

The Council is exposed to a degree of estimation uncertainty related to interest rate risk in its financial instruments, principally its borrowing and investments. More information on this can be found in Note 38.

IAS 1 requires the Council to disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

In respect of those assets and liabilities, the notes shall include details of:

(a) their nature, and
(b) their carrying amount as at the end of the reporting period.

While there are a number of areas of uncertainty that the Council manages, those that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities in the next financial year are as follows:

- Valuation of certain parts of the Council's Plant, Property and Equipment balances, specifically relating to the Council's dwellings, and other land and buildings; and
- The net defined benefit pension liability.

These are dealt with separately below:

***Property, Plant and Equipment***

The Council recognises a variety of land and buildings in its Balance Sheet, and applies a range of valuation methodologies, in line with the adopted accounting policies and required standards, to arrive at a valuation for the portfolio at each Balance Sheet date. A number of these approaches include specific estimates, and uncertainties. The areas for which a risk of material uncertainty is noted are included in the tables below - note that where a part of the balance is not included in a table, it is not considered to have a material uncertainty associated with it.

**Council Dwellings – HRA (31 March 2022 £2,986.2m)**

There are two approaches applied to the valuation of these assets, the beacon approach and discounted cashflow. The beacon approach covers the majority of the assets and is set out in the following tables:

| | |
|---|---|
| Approach to valuation | Council dwellings are subject to a full revaluation every five years, with a desktop review in intervening years. The majority of assets are valued using a beacon approach, where a value is undertaken for the housing stock portfolio based on properties that are a representative sample of the Council's properties across the city. The beacon value is derived from sales of similar, ex Council or comparable properties, suitably adjusted by taking into account information from the land registry and other relevant sources, before being applied to the wider population of properties. In this instance, all beacon properties were revalued at the valuation date. |
| Nature of uncertainty | The Council recognises the value of nearly 59,000 properties in total (excluding garage sites). Of these properties, approximately 48,000 use this beacon valuation approach, which is the agreed, recommended approach where such large numbers of properties require a valuation. With such a large population of properties being valued |

| | |
|---|---|
| | there is naturally a degree of estimation uncertainty. A relatively small movement in the beacon values would, once extrapolated, result in a significant change in the overall value of the estate. |
| Amount recorded in the financial statements at 31 March 2022 | £2,827.6m |
| Sensitivity | Should the property market value change over the 12 months following the Balance Sheet date, the beacon values would likely change as a result, and the overall valuation for these properties could change significantly. Land Registry data suggests that in the period from January 2021 to January 2022 property prices in Birmingham rose by an average of 7.8%. A 7.8% movement in the beacon valuations, applied as a general movement across all beacons, extrapolated across the full population would give rise to an increase in the valuation of these properties of £220.6m. |

**Other land and buildings (31 March 2022 £2,439.6m)**

The Council recognises the value of almost 1,350 other land and buildings assets. The valuation approach for other land and buildings is to obtain valuations on the basis of a five year rolling programme, which is supplemented by annual reviews, to reflect significant changes in market value. This results in only a sample of assets being revalued each year. For asset classes that use a DRC valuation, the Council's valuer applies an appropriate index to those properties that don't have a full, detailed valuation performed, to obtain an estimated valuation.

A small subset of assets are not valued. The Council considers the extent to which applying the percentage movement in assets that have been valued, would impact those that have not been valued, to ensure that it is not material. Although this does introduce uncertainty to this component of the valuation, the Council does not believe it to be material and therefore has not included it in the table below.

The areas of this approach that give rise to a material uncertainty are as follows:

*DRC assets, forming part of the five year cycle of valuations that have had indexation applied, rather than a detailed valuation performed*

| | |
|---|---|
| Approach to valuation | These assets form part of the rolling five year cycle of valuations but are not in the current year population to receive a specific valuation. The Council's valuer applies additional obsolescence and an uplift for movement in the Buildings Cost Information Service (BCIS) index to these assets, to arrive at an estimated, market driven change in the valuation based on building costs. Note that the indexation applied to assets excludes land, as the Council does not believe it appropriate to apply an index to the value of land. |
| Nature of uncertainty | A market based index is applied to achieve an overall movement in the asset value as a desktop exercise. Based on market movements in building costs, and therefore the index, and individual specific valuations of properties in this |

| | |
|---|---|
| | population, the 31 March 2023 Statement of Accounts may result in a change in the valuation recorded for these properties at that point. |
| Amount recorded in the financial statements at 31 March 2022 | £1,057.1m |
| Sensitivity | Indexation is applied to these assets, as a proxy for the changes in likely building costs to replace them.<br><br>As such, any indexation applied to the value of the assets will change them, during the year to 31 March 2023.<br><br>The overall movement from 31 March 2021 to the Balance Sheet date equates to a net increase of 4.9%. If the same movement is applied to these assets in the year to 31 March 2023, the value would increase by £51.8m. With inflation increasing in the short term it is very likely that building costs will increase above this rate in 2022/23. As a proxy for overall market rises in costs, the ONS published CPI for the 12 months to March 2022 is 7.0%.<br><br>If 7.0% is applied as the index for the year to 31 March 2023, then these asset values will increase by £74.0m. |

***Net defined benefit pension liability***

The Council has a number of employees who are members of Pension schemes. One such scheme, the Local Government Pension Scheme (LGPS) is a defined benefit scheme, which can give rise to significant liabilities for the Council.
The liabilities are presented net in the Council's Balance Sheet, having considered both the total assets, and the potential return from them, and all liabilities associated with scheme members. Given the duration of the liabilities, and the complexity of both determining scheme returns, and expected future liabilities, the calculation of the Council's net liability is performed by a qualified actuary.

| | |
|---|---|
| Approach to valuation | The Council, and the Council's actuary, follow an agreed and accepted process for completing the valuation, which is consistent across the sector. That is to complete a full, detailed valuation every three years, and then in the intervening years, complete a "roll-forward". This approach means that between full valuations, there is inherently a larger degree of uncertainty in the result. The estimate for the Local Government Pension Scheme liability has been performed by a qualified actuary and is based on the latest actuarial valuation and transaction information from 2021/22, which results in a net pension liability of £2,647.7m (2020/21 £3,185.2m).<br><br>The Pension Fund liability is calculated triennially by the appointed actuary with annual updates in the intervening years. The Fund liabilities at 31 March 2022 are based on a roll-forward of the last triennial valuation at 31 March 2019. The methodology used in the intervening years follows |

| | |
|---|---|
| | generally agreed guidelines and is in accordance with IAS 19. These assumptions are summarised in Note 20. |
| Nature of uncertainty | The actual valuation results could be significantly different to those in Note 20 were the key assumptions to vary – given the nature of a roll-forward approach, where certain key inputs are updated, rather than formally reassessed, there is a larger inherent degree of uncertainty in any year (such as this one) for which a roll-forward approach is applied. Due to the complexity of the calculation, it is impracticable to disclose the full nature and extent of the change in these assumptions in the next twelve months, however a sensitivity analysis is provided in full in Note 20 which indicates the potential scale and impact of certain key assumptions. |
| Amount recorded in the financial statements at 31 March 2022 | £2,647.7m |
| Sensitivity | See Note 20 for further details.<br><br>However, this note and the sensitivity analysis included deals predominantly with the overall calculation itself, and not the uncertainty that relates specifically to the roll-forward approach. While the standard requires the Council to disclose this specific uncertainty, given the complexity of the calculation, the Council has concluded that it is impracticable to quantify it. |

**Note 5**
**Events After the Reporting Period**

The draft Statement of Accounts was authorised for issue by the Chief Finance Officer and Section 151 Officer on 29 July 2022. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2022, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

*Transfer of Academy Schools*

Academy Schools are not accounted for within the Council's financial statements. Where a school transfers to Academy status, it is deemed to be disposed of within the financial statements for nil consideration. Between 1 April 2022 and 29 July 2022, 2 schools have transferred to Academy School Trust status with a carrying value of £6.7m at 31 March 2022. To date 4 schools, with assets having a net book value of £15.0m at 31 March 2022, have confirmed their proposals to transfer to Academy School Trust status for the remainder of 2022/23.

*Chief Executive*

On 12 July 2022, Deborah Cadman OBE was appointed as permanent Chief Executive for Birmingham City Council.

There were no other significant events after the reporting period.

## Note 6
## Expenditure and Funding Analysis

The Expenditure and Funding Analysis shows how the Council allocates expenditure 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.

| 2021/22 | As Reported to Cabinet | Adjustment to arrive at the Net Amount Chargeable to the General Fund and HRA Balances | **Net Expenditure Chargeable to the General Fund and HRA Balances** | Adjustments between Funding and Accounting Basis | Net Expenditure in the Comprehensive Income and Expenditure Statement |
|---|---|---|---|---|---|
| | | (Note 7) | | (Note 7) | |
| | £m | £m | **£m** | £m | £m |
| Adult Social Care | 332.2 | (23.6) | **308.6** | 13.7 | 322.3 |
| Children and Families | 314.6 | (33.1) | **281.5** | 70.7 | 352.2 |
| City Housing | 14.1 | 2.2 | **16.3** | 2.1 | 18.4 |
| City Operations | 191.1 | (20.1) | **171.0** | 42.3 | 213.3 |
| Place, Prosperity and Sustainability | 63.9 | (76.2) | **(12.3)** | 13.8 | 1.5 |
| Council Management | 31.2 | 12.8 | **44.0** | 29.7 | 73.7 |
| Strategy, Equalities and Partnerships | 2.2 | 4.1 | **6.3** | 0.0 | 6.3 |
| Centrally Managed | (120.7) | 164.2 | **43.5** | (115.8) | (72.3) |
| Housing Revenue Account | 0.0 | (47.7) | **(47.7)** | (41.5) | (89.2) |
| **Net Cost of Services** | **828.6** | **(17.4)** | **811.2** | **15** | **826.2** |
| Other Income and Expenditure | (828.6) | 0.0 | **(828.6)** | (86.0) | (914.6) |
| **(Surplus) /Deficit** | **0.0** | **(17.4)** | **(17.4)** | **(71.0)** | **(88.4)** |
| Opening General Fund and HRA Balance | | | **1,076.6** | | |
| Surplus/ (Deficit) for the Year | | | **17.4** | | |
| **Closing General Fund and HRA Balance** | | | **1,094.0** | | |

| 2020/21 | As Reported to Cabinet (Restated) | Adjustment to arrive at the Net Amount Chargeable to the General Fund and HRA Balances (Restated) | **Net Expenditure Chargeable to the General Fund and HRA Balances (Restated)** | Adjustments between Funding and Accounting Basis (Restated) | Net Expenditure in the Comprehensive Income and Expenditure Statement (Restated) |
|---|---|---|---|---|---|
| | | (Note 7) | | (Note 7) | |
| | £m | £m | **£m** | £m | £m |
| Adult Social Care | 322.1 | (86.7) | **235.4** | (3.4) | 232.0 |
| Children and Families | 284.0 | (63.0) | **221.0** | 74.5 | 295.5 |
| City Housing | 8.9 | 1.7 | **10.6** | (3.5) | 7.1 |
| City Operations | 196.0 | (27.2) | **168.8** | 21.5 | 190.3 |
| Place, Prosperity and Sustainability | 68.5 | (59.9) | **8.6** | 7.4 | 16.0 |
| Council Management | 65.7 | (3.6) | **62.1** | 10.5 | 72.6 |
| Strategy, Equalities and Partnerships | 1.8 | (26.3) | **(24.5)** | 0.0 | (24.5) |
| Centrally Managed | (94.1) | (53.1) | **(147.2)** | 241.9 | 94.7 |
| Housing Revenue Account | 0.0 | (49.3) | **(49.3)** | (44.5) | (93.8) |
| **Net Cost of Services** | **852.9** | **(367.3)** | **485.5** | **304.4** | **789.9** |
| Other Income and Expenditure | (852.9) | (42.4) | **(895.3)** | (24.9) | (920.2) |
| **(Surplus) /Deficit** | **0.0** | **(409.8)** | **(409.8)** | **279.5** | **(130.3)** |
| Opening General Fund and HRA Balance | | | **666.8** | | |
| Surplus/ (Deficit) for the Year | | | **409.8** | | |
| **Closing General Fund and HRA Balance** | | | **1,076.6** | | |

# Note 7
# Note to the Expenditure and Funding Analysis

This analysis provides detail of the main adjustments from the Net Expenditure Chargeable to the General Fund and HRA balances to the Comprehensive Income and Expenditure Statement.

| 2021/22 | Depreciation reported at Directorate level | Reserve Appropriations | Other Adjustments | **Total to arrive at amount charged to the General Fund and HRA** | Adjustments for Capital Purposes | Net Change for the Pensions Adjustment | Other Adjustments | **Total Adjustment Between Funding and Accounting Basis** |
|---|---|---|---|---|---|---|---|---|
| | £m | £m | £m | **£m** | £m | £m | £m | **£m** |
| Adult Social Care | (1.7) | (24.6) | 2.7 | **(23.6)** | **9.9** | **3.8** | **0.0** | **13.7** |
| Children and Families | (67.0) | (15.8) | 49.7 | **(33.1)** | **66.6** | **10.8** | **(6.7)** | **70.7** |
| City Housing | (0.2) | (0.2) | 2.6 | **2.2** | **0.2** | **1.9** | **0.0** | **2.1** |
| City Operations | (39.6) | (3.7) | 23.2 | **(20.1)** | **36.8** | **5.4** | **0.1** | **42.3** |
| Place, Prosperity and Sustainability | (6.3) | (22.2) | (47.7) | **(76.2)** | **15.7** | **1.4** | **(3.3)** | **13.8** |
| Council Management | (1.4) | (11.6) | 25.8 | **12.8** | **22.4** | **6.6** | **0.7** | **29.7** |
| Strategy, Equalities and Partnerships | 0.0 | 4.1 | 0.0 | **4.1** | **0.0** | **0.0** | **0.0** | **0.0** |
| Centrally Managed | 0.0 | 64.6 | 99.6 | **164.2** | **30.4** | **118.4** | **(264.6)** | **(115.8)** |
| Housing Revenue Account | (56.5) | (8.0) | 16.8 | **(47.7)** | **93.0** | **(1.8)** | **(132.7)** | **(41.5)** |
| **Net Cost of Services** | (172.7) | (17.4) | 172.7 | **(17.4)** | 275.0 | 146.5 | (406.5) | **15.0** |
| Other Income and Expenditure | 172.7 | 0.0 | (172.7) | **0.0** | **38.1** | **(57.6)** | **(66.5)** | **(86.0)** |
| **(Surplus) or Deficit** | **0.0** | **(17.4)** | **0.0** | **(17.4)** | **313.1** | **88.9** | **(473.0)** | **(71.0)** |

| 2020/21 | Depreciation reported at Directorate level (Restated) | Reserve Appropriations (Restated) | Other Adjustments (restated) | **Total to arrive at amount charged to the General Fund and HRA (Restated)** | Adjustments for Capital Purposes (Restated) | Net Change for the Pensions Adjustment (Restated) | Other Adjustments (Restated) | **Total Adjustment Between Funding and Accounting Basis (Restated)** |
|---|---|---|---|---|---|---|---|---|
| | £m | £m | £m | **£m** | £m | £m | £m | **£m** |
| Adult Social Care | (1.6) | (11.9) | (73.2) | **(86.7)** | 7.1 | (10.5) | 0.0 | **(3.4)** |
| Children and Families | (67.0) | (39.2) | 43.2 | **(63.0)** | 104.1 | (31.1) | 1.5 | **74.5** |
| City Housing | (0.5) | 0.1 | 2.1 | **1.7** | 0.5 | (4.0) | 0.0 | **(3.5)** |
| City Operations | (28.6) | (6.1) | 7.5 | **(27.2)** | 39.9 | (18.4) | 0.0 | **21.5** |
| Place, Prosperity and Sustainability | (4.0) | 1.1 | (57.0) | **(59.9)** | 7.4 | 0.0 | 0.0 | **7.4** |
| Council Management | (1.0) | (12.7) | 10.1 | **(3.6)** | 28.2 | (18.0) | 0.3 | **10.5** |
| Strategy, Equalities and Partnerships | 0.0 | (26.2) | (0.1) | **(26.3)** | 0.0 | 0.0 | 0.0 | **0.0** |
| Centrally Managed | (2.6) | (310.6) | 260.1 | **(53.1)** | 16.0 | 118.3 | 107.6 | **241.9** |
| Housing Revenue Account | (53.9) | (4.3) | 8.9 | **(49.3)** | 75.3 | (1.4) | (118.4) | **(44.5)** |
| **Net Cost of Services** | (159.2) | (409.8) | 201.6 | **(367.4)** | 278.5 | 34.9 | (9.0) | **304.4** |
| Other Income and Expenditure | 159.2 | 0.0 | (201.6) | **(42.4)** | **(64.5)** | **63.8** | **(24.2)** | **(24.9)** |
| **(Surplus) or Deficit** | **0.0** | **(409.8)** | **(0.0)** | **(409.8)** | **214.60** | **98.7** | **(33.2)** | **279.5** |

**Note 8**
**Expenditure and Funding Analysis by Nature of Activity**

This analysis provides detail of the expenditure and income of the Council on a subjective basis.

| 2020/21 £m | | 2021/22 £m |
|---|---|---|
| | **Expenditure** | |
| 941.7 | Employee Benefits Expenses | 923.8 |
| 2,207.0 | Other Service Expenses | 2,121.4 |
| 159.1 | Depreciation, Amortisation and Impairment | 172.7 |
| 233.6 | Interest Payments | 230.0 |
| 24.8 | Movements in the value of financial assets | 16.3 |
| 49.8 | Precepts and Levies | 49.6 |
| 6.4 | Payments to Housing Capital Receipts Pool | 6.3 |
| 16.0 | Loss on Disposal of Non Current Assets | 59.5 |
| **3,638.4** | **Total Expenditure** | **3,579.6** |
| | **Income** | |
| (524.6) | Fees and Charges and Other Service Income | (609.4) |
| (821.3) | Income from Council Tax and Business rates | (825.0) |
| (2.2) | Movements in the value of financial assets | 0.0 |
| (2,400.8) | Government Grants and Contributions | (2,196.5) |
| (19.8) | Interest and Investment Income | (37.1) |
| **(3,768.7)** | **Total Income** | **(3,668.0)** |
| **(130.3)** | **(Surplus)/Deficit on Provision of services** | **(88.4)** |

**Note 9**
**Material Items of Income and Expense**

As noted in the Narrative Report, the Covid-19 pandemic continued to have a significant impact on the operation and financial performance of the Council – including material streams of both income, and expense. The financial impact of Covid-19 has been noted in a number of places in these financial statements, most significantly in the following areas:

- The Narrative Report
- Note 2 – referencing that for some of the grant monies received, the Council is acting as an agent
- Note 14 – being those grants received in relation to Covid-19 where the Council acts as principal
- Note 47 – referencing the Council acting as an agent for grants received.

Separately, the impact of Covid-19 on the Council has been regularly reported in a number of separately available reports.

As such, although it is an area of material income, and expense in the Council's financial performance, the comprehensive nature of the wider reporting, in addition to the disclosure in these financial statements, means that the Council have not separately highlighted the aggregate impact of Covid-19 in the CIES.

**Note 10**
**Other Operating Expenditure**

Other Operating Expenditure disclosed in the Comprehensive Income and Expenditure Statement is detailed below.

| 2020/21 £m | | 2021/22 £m |
|---|---|---|
| 1.9 | Parish Council Precepts | 1.9 |
| 11.0 | Enterprise Zone Growth Payment | 9.0 |
| 44.9 | Integrated Transport Authority Levy | 44.7 |
| 0.3 | Environment Agency Levy | 0.3 |
| 2.7 | Apprenticeship Levy | 2.7 |
| 6.4 | Payments re: Housing Capital Receipt Pool | 6.3 |
| 15.8 | (Gains)/Losses on the Disposal of non-current assets | 59.5 |
| **83.0** | **Total** | **124.4** |

The Loss on the disposal of non-current assets recognises the difference between the payment for the sale of a non-current asset and the carrying value of that asset within the accounts, which may not be the same as the market value or the historical cost of that asset.

**Note 11**
**Financing and Investment Income and Expenditure**

Financing and Investment Income and Expenditure disclosed in the Comprehensive Income and Expenditure Statement (CIES) is detailed below.

| 2020/21 Gross Expenditure £m | 2020/21 Income £m | 2020/21 Net £m | | 2021/22 Gross Expenditure £m | 2021/22 Income £m | 2021/22 Net £m |
|---|---|---|---|---|---|---|
| 164.6 | - | 164.6 | Interest Payable and similar charges | 164.6 | - | 164.6 |
| 61.0 | - | 61.0 | Net Interest on the Net Defined Benefit Liability | 65.4 | - | 65.4 |
| 2.9 | - | 2.9 | Administration Expenses - Pensions | - | - | - |
| - | (18.9) | (18.9) | Interest Receivable and similar income | - | (25.6) | (25.6) |
| 8.0 | - | 8.0 | Income and expenditure in relation to investment properties and changes in their fair value | - | (10.6) | (10.6) |
| 23.2 | - | 23.2 | (Gains)/Losses on financial assets at amortised cost | 16.3 | - | 16.3 |
| 1.6 | - | 1.6 | (Gains)/Losses on financial assets at fair value through profit and loss | - | - | - |
| - | (2.2) | (2.2) | (Gains)/Losses on the Disposal of Financial Instruments | - | - | - |
| 20.0 | (20.8) | (0.8) | (Surplus)/Deficit on trading operations not consolidated within Service Expenditure Analysis in Comprehensive Income and Expenditure Statement | 23.8 | (23.7) | 0.1 |
| - | (0.9) | (0.9) | Other investment income and expenditure | - | (0.9) | (0.9) |
| **281.3** | **(42.8)** | **238.5** | **Total** | **270.1** | **(60.8)** | **209.3** |

**Note 12**
**Taxation and Non Specific Grant Income and Expenditure**

Taxation and Non Specific Grant Income and Expenditure disclosed in the Comprehensive Income and Expenditure Statement comprises the following:

| 2020/21 | | | | 2021/22 | | |
|---|---|---|---|---|---|---|
| Gross Expenditure £m | Income £m | Net £m | | Gross Expenditure £m | Income £m | Net £m |
| - | (367.6) | (367.6) | Council Tax Income - Collection Fund | - | (384.8) | (384.8) |
| - | (452.3) | (452.3) | Business Rates - Collection Fund | - | (427.2) | (427.2) |
| 17.7 | - | 17.7 | Share of Collection Fund - Council Tax | - | (2.3) | (2.3) |
| 240.4 | (1.3) | 239.1 | Share of Collection Fund - Business Rates | 95.1 | (10.6) | 84.5 |
| - | (558.3) | (558.3) | Non Ring Fenced Government Grants | - | (410.0) | (410.0) |
| - | (120.4) | (120.4) | Capital Grants and Contributions | - | (108.5) | (108.5) |
| **258.1** | **(1,499.9)** | **(1,241.8)** | **Total** | **95.1** | **(1,343.4)** | **(1,248.3)** |

Further information on grant income received is provided in Note 14.

**Note 13**
**Trading Operations**

Trading operations are those activities where the service is required to operate in a commercial environment and balance their budget by generating income from other parts of the Council or other organisations.

The internal trading expenditure and income is incorporated within the relevant service line in the Comprehensive Income and Expenditure Statement. External trading income and expenditure is identified in Note 11, Financing and Investment Income and Expenditure. Details of units with significant trading activity are as follows.

| 2020/21 | | | | 2021/22 | | |
|---|---|---|---|---|---|---|
| Turnover £m | Expenditure £m | (Surplus) / Deficit £m | **Trading activity** | Turnover £m | Expenditure £m | (Surplus) / Deficit £m |
| (17.0) | 16.2 | (0.8) | Cityserve (Direct Services) | (18.2) | 19.5 | 1.3 |
| (7.8) | 7.4 | (0.4) | Trade Refuse | (8.3) | 7.3 | (1.0) |
| (14.0) | 12.4 | (1.6) | Birmingham Parks and Nurseries | (14.7) | 15.5 | 0.8 |
| (0.9) | 1.1 | 0.2 | Pest Control | (1.0) | 1.6 | 0.6 |
| (0.6) | 1.1 | 0.5 | Procurement | (0.6) | 1.7 | 1.1 |
| (2.7) | 2.1 | (0.6) | Schools' Human Resources | (2.7) | 2.4 | (0.3) |
| (1.7) | 1.5 | (0.2) | Central Payroll | (1.7) | 1.6 | (0.1) |
| (5.1) | 5.4 | 0.3 | Other Trading Activities | (7.0) | 7.0 | 0.0 |
| **(49.8)** | **47.2** | **(2.6)** | | **(54.2)** | **56.6** | **2.4** |
| | | | Allocation of Surplus/Deficit on Trading Operations | | | |
| (29.1) | 27.3 | (1.8) | - consolidated in CIES | (30.5) | 32.8 | 2.3 |
| (20.7) | 19.9 | (0.8) | - consolidated in Note 11, Financing and Investment Income and Expenditure | (23.7) | 23.8 | 0.1 |
| **(49.8)** | **47.2** | **(2.6)** | | **(54.2)** | **56.6** | **2.4** |

<u>Details of Trading Activities</u>

**Cityserve**
During 2021/22 Cityserve provided school meal services to around 160 schools within the Birmingham conurbation. These were mostly primary schools, where children received free school meals either through the benefit system, or via the Government's Universal Infant Free School Meal fund. All additional school meals were paid for by parents/guardians of the children who elected to receive a service from Cityserve. In addition to primary schools, Cityserve provided school meals to some secondary schools, special schools, community day centres and children's centres.

The Government sets the standard of school meals through the mandatory School Food Standards guidelines, issued by the Department for Education. Cityserve comply with all the recommended policies, practices and standards contained within this document. These standards are set so every child receives a healthy and nutritious meal every school day, by ensuring the correct portion controls are followed, as well as the nutritional standards and values. In addition to these standards, Cityserve provide a wide range of food to suit the communities in which schools are located. Every school will have a bespoke menu offered to them, which ensures that cultural and religious diet preferences can be delivered to meet the requisite needs of the community.

The school food market has been significantly eroded in the past 24 months due to a number of factors including the Covid-19 pandemic, supply chain issues caused by Brexit and high cost inflation around both transport, labour and products. In response to the Covid-19 pandemic, Cityserve worked to devise a “safety net” for children to continue to receive school meals, delivered either in the traditional way where schools remained open, or via a “packed lunch” offer, which some schools preferred. Cityserve staff were re-deployed across the Council where necessary to support community services where required. Some of this re-deployment was to receive food items, create food parcels and deliver them to vulnerable people.

**Trade Refuse**
Trade Refuse offers a competitive waste management service to businesses and provides containers and skips, prepaid sacks, hire of equipment and special collections.

**Birmingham Parks and Nurseries**
Birmingham Parks and Nurseries is responsible for the maintenance of all of the Council’s parks and open spaces, as well as the floral displays that have helped to promote the City over the years. In addition, it looks after all of the 'green' maintenance of Council estates, highway verges, traffic islands, schools, residential care homes, cemeteries and crematoria, playing fields, allotments and children's outdoor playgrounds.

**Pest Control**
The Pest Control service provides treatment to commercial and domestic properties for rats, mice, insect control including wasps, fleas and ants and control of squirrels and pigeons. Rat pest control services are free for domestic users.

**Procurement Services**
In addition to providing the Council’s in-house procurement service, schools may choose to subscribe to utilise the procurement service and are charged for work undertaken.

**Schools’ Human Resources**
Schools have a choice to make in deciding who will support them with a Human Resources function. The Schools’ Human Resources team has won competitive contracts to provide a range of schools with this function.

**Payroll Services**
In addition to providing the Council’s payroll service, Service Level Agreements or contracts are in place to provide payroll and pensions services to schools, academies and other external bodies.

**Other**
Other trading activities include Shelforce, Civic Catering, Birmingham City Laboratories and Schools’ Management. Shelforce is part of the Council’s employment support services to registered disabled people and through the direct employment of registered disabled people in the manufacture of PVCu windows and doors.

## Note 14
## Grant Income

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

| 2020/21 | | 2021/22 |
|---|---|---|
| £m | | £m |
| | **Credited to Taxation and Non Specific Grant Income** | |
| 55.3 | Business Rates Top Up Grant | 56.0 |
| 7.2 | New Homes Bonus Grant | 7.6 |
| 18.2 | Schools PFI Grant | 18.2 |
| 50.3 | Highways Management and Maintenance PFI Grant | 50.3 |
| 89.8 | Covid Local Authority Support Grant | 43.8 |
| 4.8 | Troubled Families Grant | 4.6 |
| 5.4 | Housing Benefit Administration Grant | 4.8 |
| 5.0 | Discretionary Housing Payment | 3.6 |
| 34.2 | Small Business Rate Relief Grant | 37.2 |
| 23.0 | Business Rates S31 Grant | 17.3 |
| 36.7 | Adult Social Care Support Grant | 43.9 |
| 183.5 | Additional Business Rates Relief Grant | 98.0 |
| 17.4 | Covid Hardship Fund | 14.5 |
| 23.5 | Local tax income guarantee grant | (2.3) |
| - | Adults Social Care Grant | 6.0 |
| 4.0 | Other | 6.5 |
| **558.3** | **Revenue Grants credited to Taxation and Non Specific Grant Income** | **410.0** |
| | **Credited to Cost of Services** | |
| 10.2 | Adult Education | 10.5 |
| 526.8 | Housing Benefit Subsidy | 522.1 |
| 644.9 | Dedicated Schools Grant | 662.3 |
| 7.5 | Education Funding Agency | 8.4 |
| 42.7 | Pupil Premium Grant | 41.0 |
| 4.2 | Illegal Money Lending | 4.3 |
| 9.4 | Universal Infants Free School Meals Grant | 6.6 |
| 7.8 | NHS Trusts and CCG Adult Social Care Contributions | 21.1 |
| 92.2 | Public Health Grant | 93.3 |
| 126.2 | Better Care Fund (including improved Better Care Fund) | 111.9 |
| 4.1 | Independent Living Fund Grant | 4.1 |
| 2.8 | Youth Promise | 2.9 |
| 5.1 | Asylum Seekers | 6.0 |
| 4.7 | Flexible Homeless Support | 4.7 |
| 4.8 | Enterprise Zone - Projects | 9.2 |
| 3.5 | Primary PE and Sport Grant | 3.3 |
| 16.9 | Teachers' Pensions Grant | 1.2 |
| 5.5 | Teachers' Pay Grant | 0.4 |
| 2.6 | Vulnerable Persons Resettlement Grant | 1.2 |
| 9.6 | Business Support Grant | - |
| 39.4 | Test and Trace | 11.3 |
| 33.0 | Additional Restrictions Grant (ARG) | 7.0 |
| 20.7 | Sales, Fees, and Charges Support Grant | 2.8 |
| 4.2 | Infection Control Grant | 4.6 |
| 6.2 | Winter Grant | 6.5 |
| 5.2 | Local Restrictions Support Grant (Open) | (1.6) |

| | | |
|---|---|---|
| 3.7 | Track & Trace Self Isolation Payments & Administration | 4.0 |
| 4.1 | Covid-19 Catch-up Premium | 2.8 |
| 3.8 | Asymptomatic Testing | 2.4 |
| 3.1 | Reimbursement of Covid related transport costs | 2.2 |
| - | Domestic Abuse New Burdens Duty | 3.3 |
| - | Workforce Recruitment and Retention Fund | 7.5 |
| - | Energy Bills Discretionary Fund | 3.6 |
| 50.5 | Grants and contributions of less than £3m | 98.2 |
| **1,705.4** | **Total Revenue Grants Credited to Cost of Services** | **1,669.1** |
| **2,263.7** | **Total Revenue Grants** | **2,079.1** |

| 2020/21 | | 2021/22 |
|---|---|---|
| £m | | £m |
| | **Capital Grants** | |
| 28.4 | Education Funding Agency | 21.7 |
| 33.1 | Commonwealth Games - DLUHC | - |
| 4.6 | Commonwealth Games - West Midlands Combined Authority | - |
| - | Department for Transport - Tame Valley Viaduct | 20.8 |
| - | West Midlands Combined Authority - Commonwealth Games | 25.0 |
| 8.4 | Department of Health - Better Care Fund | 7.1 |
| 5.1 | Integrated Transport Block | 5.4 |
| - | Levelling Up Fund & LEP Contribution - A457 Dudley Road | 4.9 |
| - | Department for Levelling Up, Housing & Communities | 9.0 |
| 2.4 | Homes & Community Agency | - |
| 2.1 | Department for Transport | 3.9 |
| 29.6 | Local Growth Fund | - |
| - | Local Authority Delivery (LAD) | 2.1 |
| - | Colmore BID - Snowhill Public Realm | 2.7 |
| 6.7 | Other Grants and Contributions | 5.8 |
| **120.4** | **Capital Grants credited to Taxation and Non Specific Grant Income** | **108.4** |
| | **Capital Grants funding Revenue Expenditure under Statute credited to Cost of Services** | |
| 2.2 | Local Growth Fund | - |
| 3.8 | Department for Transport - Hydrogen Buses | - |
| 4.5 | Department of Health - Better Care Fund | 5.8 |
| - | ERDF - Employment Services | 2.4 |
| 3.3 | European Regional Development Fund | - |
| 3.0 | Other Grants and Contributions | 0.8 |
| **16.8** | **Total Capital Grants funding Revenue Expenditure Under Statute** | **9.0** |
| **137.2** | **Total Capital Grants Received** | **117.4** |

All Capital Grants received are either non-conditional or the conditions have been met, therefore there are no entries to the Capital Grants Receipts in Advance Account for 2021/22. The Capital Grants received have been credited to the Taxation and Non Specific Grant Income line on the Comprehensive Income and Expenditure Statement except where the grant is used to finance Revenue Expenditure funded from Capital under Statute (REFCUS) where the grant is credited to the service line in the Comprehensive Income and Expenditure Statement.

## Note 15
## Dedicated Schools Grant

The Council's expenditure on schools is funded primarily by grant monies provided by the Education and Skills Funding Agency, the Dedicated Schools Grant (DSG). DSG is ringfenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance and Early Years (England) Regulations 2018. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2021/22 are as follows:

| | Central Expenditure | Individual Schools Budget | Total |
|---|---|---|---|
| | £m | £m | £m |
| Final DSG for 2021/22 before Academy Recoupment | 191.9 | 1,122.3 | 1,314.2 |
| Academy figure recouped for 2021/22 | - | (652.9) | (652.9) |
| **Total DSG after Academy recoupment for 2021/22** | **191.9** | **469.4** | **661.3** |
| Plus: Brought forward from 2020/21 | 3.6 | - | 3.6 |
| **Agreed initial budgeted distribution in 2021/22** | **195.5** | **469.4** | **664.9** |
| **Final budgeted distribution for 2021/22** | **195.5** | **469.4** | **664.9** |
| Less: Actual Central Expenditure | (182.4) | - | (182.4) |
| Less: Actual ISB deployed to schools | - | (469.4) | (469.4) |
| **Carry forward to 2022/23** | **13.1** | **-** | **13.1** |

The year end net surplus of £13.1m is composed of 4 elements:

- A surplus of £9.1m on the Schools Block funding is primarily composed of lower than anticipated commitments against prescribed centrally managed DSG budgets, specifically the pupil growth fund and falling pupils fund. Also, underspend in contingency fund as no deficit was funded by Birmingham City Council for primary or secondary school closures or academy conversions during FY 2021/22.

- A net deficit of £0.3m on the High Needs Block relating to i) a remaining £4.1m deficit (the deficit was £14.1m in 2019/20) driven and ii) £3.8m surplus on the High Needs Block. The deficit was driven by the previous year's demographic impact of increased numbers of placements with Special Educational Needs and Disabilities requiring high cost provision (compounded by increases in the costs of provision particularly where the placements are in the independent sector). The service has obtained Schools Forum agreement to repay the deficit back at £5m a year, in 2020-21 £5m was paid back and a further £5m was paid in 2021-22 with the remainder being repaid in 2022-23.

- A surplus of £1.7m on the Central Schools Services Block funding is primarily composed of lower than anticipated commitments against prescribed centrally managed DSG budgets. For example, minor underspends against historic commitments, such as equal pay and nursery redundancy costs, underspend due to recruitment delay in some services and deferral of IT development costs.

- A surplus of £2.4 m on the Early Years block is partially due to lower take up of places, also the actual clawback from DFE was £0.8m less than originally estimated.

**Note 16**
**Adjustments Between Accounting Basis and Funding Basis Under Regulations**

This note 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.

The following sets out a description of the reserves that the adjustments are made against.

General Fund Balance
The General Fund is the statutory fund into which all the receipts of the Council are required to be paid and out of which all liabilities of the Council are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund Balance, which is not necessarily in accordance with proper accounting practice. The General Fund Balance therefore summarises the resources that the Council is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the Council is required to recover) at the end of the financial year. However, the balance is not available to be applied to fund Housing Revenue Account (HRA) services.

Housing Revenue Account Balance
The HRA Balance reflects the statutory obligation to maintain a revenue account for local authority Council housing provision in accordance with Part VI of the Local Government and Housing Act 1989. It contains the balance of income and expenditure as defined by the 1989 Act that is available to fund future expenditure in connection with the Council's landlord function or, where in deficit, that is required to be recovered from tenants in future years.

Major Repairs Reserve
The Council is required to maintain the Major Repairs Reserve (MRR), which controls an element of the capital resources limited to being used on capital expenditure on HRA assets or the financing of historical capital expenditure by the HRA. The balance on the reserve shows the resources that have yet to be applied at the year-end.

Capital Receipts Reserve
The Capital Receipts Reserve holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year-end.

Capital Grants Unapplied
The Capital Grants Unapplied Account (Reserve) holds the grants and contributions received towards capital projects for which the Council has met or is expected to meet the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and/or the financial year in which this can take place.

| 2021/22 | General Fund Balance | Housing Revenue Account | Capital Receipts Reserve | Major Repairs Reserve | Capital Grants Unapplied |
|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m |
| **Adjustments to Revenue Resources** | | | | | |
| Adjustments by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements: | | | | | |
| Pension costs (transferred to/from the Pensions Reserve) | 90.7 | (1.8) | - | - | - |
| Financial Instruments (transferred to/from the Financial Instrument Adjustments Account) | (2.5) | - | - | - | - |
| Council Tax and Business Rates (transfers to/from the Collection Fund Adjustment Account) | (123.7) | - | - | - | - |
| Holiday Pay (transferred to/from the Accumulated Absences Reserve) | (3.7) | - | - | - | - |
| Equal Pay settlements (transferred to/from the Unequal Pay Backpay Account) | (29.0) | (0.3) | - | - | - |
| Reversal of entries included in the Surplus/Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account) | 220.1 | 93.0 | - | - | 61.9 |
| **Total Adjustments to Revenue Resources** | **151.9** | **90.9** | **-** | **-** | **61.9** |
| **Adjustments between Revenue and Capital Resources** | | | | | |
| Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve | (73.6) | (50.9) | 113.7 | - | - |
| Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve) | 0.8 | - | (0.8) | - | - |
| Contribution to the costs of Equal Pay (funded by the Capital Receipts Reserve) | 14.9 | - | (14.9) | - | - |
| Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve) | 6.3 | - | (6.3) | - | - |
| Posting of HRA resources from revenue to the Major Repairs Reserve | - | (56.0) | - | 56.0 | - |
| Provision for the repayment of debt (transfer to the Capital Adjustment Account) | (128.3) | (3.7) | - | - | - |
| Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account) | (1.4) | (21.8) | - | - | - |
| **Total Adjustments between Revenue and Capital Resources** | **(181.3)** | **(132.4)** | **91.7** | **56.0** | **-** |
| **Adjustments to Capital Resources** | | | | | |
| Use of the Capital Receipts Reserve to finance capital expenditure | - | - | (50.2) | - | - |
| Use of the Capital Receipts Reserve to repay debt | - | - | (8.0) | - | - |
| Use of the Major Repairs Reserve to finance capital expenditure | - | - | - | (62.5) | - |
| Application of capital grants to finance capital expenditure | - | - | - | - | (41.7) |
| Cash payments in relation to deferred capital receipts | - | - | 0.4 | - | - |
| Other | - | - | 0.4 | - | - |
| **Total Adjustments to Capital Resources** | **-** | **-** | **(57.4)** | **(62.5)** | **(41.7)** |
| **Total Adjustments** | **(29.4)** | **(41.5)** | **34.3** | **(6.5)** | **20.2** |

| 2020/21 | General Fund Balance | Housing Revenue Account | Capital Receipts Reserve | Major Repairs Reserve | Capital Grants Unapplied |
|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m |
| **Adjustments to Revenue Resources** | | | | | |
| Adjustments by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements: | | | | | |
| Pension costs (transferred to/from the Pensions Reserve) | 100.1 | (1.4) | - | - | - |
| Financial Instruments (transferred to/from the Financial Instrument Adjustments Account) | (0.1) | - | - | - | - |
| Council Tax and Business Rates (transfers to/from the Collection Fund Adjustment Account) | 247.4 | - | - | - | - |
| Holiday Pay (transferred to/from the Accumulated Absences Reserve) | 2.8 | - | - | - | - |
| Equal Pay settlements (transferred to/from the Unequal Pay Backpay Account) | (2.7) | (0.0) | - | - | - |
| Reversal of entries included in the Surplus/Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account) | 139.8 | 75.3 | - | - | 42.6 |
| **Total Adjustments to Revenue Resources** | **487.2** | **73.9** | **-** | **-** | **42.6** |
| | | | | | |
| **Adjustments between Revenue and Capital Resources** | | | | | |
| Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve | (33.1) | (31.7) | 64.8 | - | - |
| Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve) | 1.5 | - | (1.5) | - | - |
| Contribution to the costs of Equal Pay (funded by the Capital Receipts Reserve) | 0.8 | - | (0.8) | - | - |
| Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve) | 6.4 | - | (6.4) | - | - |
| Posting of HRA resources from revenue to the Major Repairs Reserve | - | (53.3) | - | 53.3 | - |
| Provision for the repayment of debt (transfer to the Capital Adjustment Account) | (137.7) | (10.7) | - | - | - |
| Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account) | (1.1) | (22.6) | - | - | - |
| **Total Adjustments between Revenue and Capital Resources** | **(163.2)** | **(118.3)** | **56.1** | **53.3** | **-** |
| | | | | | |
| **Adjustments to Capital Resources** | | | | | |
| Use of the Capital Receipts Reserve to finance capital expenditure | - | - | (42.0) | - | - |
| Use of the Capital Receipts Reserve to repay debt | - | - | (13.8) | - | - |
| Capital Receipts arising from investment restructuring | - | - | - | - | - |
| Use of the Major Repairs Reserve to finance capital expenditure | - | - | - | (53.3) | - |
| Application of capital grants to finance capital expenditure | - | - | - | - | (92.7) |
| Cash payments in relation to deferred capital receipts | - | - | 17.4 | - | - |
| Other | - | - | 12.4 | - | - |
| **Total Adjustments to Capital Resources** | **-** | **-** | **(26.0)** | **(53.3)** | **(92.7)** |
| | | | | | |
| **Total Adjustments** | **324.0** | **(44.4)** | **30.1** | **-** | **(50.1)** |

## Note 17
## Usable Reserves

Details of the major reserves held by the Council are set out below. Further information on the movements in reserves is shown in the Movement in Reserves Statement and Note 16.

The Reserves have been split into the following major categories:

- Unearmarked Reserves – Reserves that the Council can use for any purpose within the General Fund
- Earmarked Reserves – Reserves that the Council has set aside to meet specific future liabilities
- Grant Reserves – Reserves arising as a result of revenue grants received by the Council for specific projects that haven't been fully utilised by 31 March 2022 but will be used to offset expenditure incurred in subsequent years
- Ringfenced Reserves – Reserves that are required to be used for specific activities undertaken by the Council. These are mainly for schools or for the Housing Revenue Account and cannot be used to support general Council activity
- Unearmarked Non-Schools DSG – See Note 15
- Capital Reserves – Reserves that have been set aside to finance capital schemes. These reserves cannot be used to support revenue expenditure without the consent of the Secretary of State.

| Usable Reserves | Balance at 31 March 2021 | Transfers Out 2021/22 | Transfers In 2021/22 | Balance at 31 March 2022 |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| **Unearmarked Reserves** | | | | |
| General Fund Balances | 38.3 | - | - | 38.3 |
| Delivery Plan Reserve | 70.1 | (7.8) | 3.9 | 66.2 |
| Financial Resilience Reserve | 89.3 | (32.8) | 69.1 | 125.6 |
| | **197.7** | **(40.6)** | **73.0** | **230.1** |
| **Earmarked Reserves** | | | | |
| Insurance Fund | 10.3 | (0.6) | - | 9.7 |
| Sums set aside to finance Capital Expenditure | 4.7 | (9.3) | 24.1 | 19.5 |
| Housing Benefit Subsidy Reserve | 10.1 | (1.5) | - | 8.6 |
| Cyclical Maintenance Reserve | 16.8 | - | 2.9 | 19.7 |
| Equipment Renewal Reserve | 4.1 | (0.7) | 3.7 | 7.1 |
| Management Capacity for Change | 18.0 | (10.9) | 4.2 | 11.3 |
| Business Rates | 20.3 | (1.0) | 4.3 | 23.6 |
| Covid-19 Support | 17.5 | (17.5) | 12.8 | 12.8 |
| Education PFI | 3.8 | - | 0.8 | 4.6 |
| City Clean Up Reserve | 12.1 | (12.1) | - | - |
| Budget Smoothing Reserve | 34.7 | - | - | 34.7 |
| Community Recovery Plan Reserve | 10.0 | (0.2) | - | 9.8 |

| | | | | |
|---|---|---|---|---|
| Funding Council Tax Hardship Payments | 7.2 | (7.2) | - | - |
| General Policy Contingency Reserve | 5.5 | (5.5) | - | - |
| Income Compensation re Collection Fund | 23.5 | (7.8) | - | 15.7 |
| Capital Receipts Flexibility Reserve | 11.9 | (11.9) | - | - |
| Support to the Business Plan | 178.7 | (177.3) | 93.8 | 95.2 |
| Commonwealth Games Reserve | 11.3 | - | 15.9 | 27.2 |
| Policy Contingency Enhanced Operations Commonwealth Games | 9.1 | (5.0) | - | 4.1 |
| Commonwealth Games Legacy Programme Reserve | - | - | 2.2 | 2.2 |
| Commonwealth Games Readiness Reserve | - | - | 4.6 | 4.6 |
| Clean Air Zone Reserves | - | - | 22.3 | 22.3 |
| Enterprise Resource Planning System Reserve | 3.3 | - | - | 3.3 |
| General Maintenance Tenants Reserve | 3.1 | (0.3) | 0.8 | 3.6 |
| Other Earmarked Reserves | 34.1 | (14.1) | 23.7 | 43.7 |
| **Total Reserves Earmarked by the Council** | **450.1** | **(282.9)** | **216.1** | **383.3** |
| **Revenue Grant Reserves** | | | | |
| Section 256 Grant from the NHS (Adults & Communities) | 1.1 | - | 14.8 | 15.9 |
| Public Health | 14.5 | (0.1) | 1.4 | 15.8 |
| Better Care Fund (BCF) and Improved BCF | 15.5 | (15.5) | 18.6 | 18.6 |
| Highways PFI Grant | 196.3 | (14.2) | 18.0 | 200.1 |
| General Fund Section 106 Grants | 26.1 | (3.1) | 3.4 | 26.4 |
| HRA Section 106 Grants | 3.1 | - | 3.9 | 7.0 |
| Community Infrastructure Levy | 14.8 | (8.6) | 6.7 | 12.9 |
| Self Isolation Payments Grant | 2.7 | (0.3) | - | 2.4 |
| Additional Restrictions Support Grant Reserve | 9.0 | (8.9) | - | 0.1 |
| Public Health Test and Trace | 15.7 | (6.4) | - | 9.3 |
| Clean Air Zone Grant Reserve | 8.6 | (3.1) | 1.8 | 7.3 |
| Covid-19 Hardship Fund Reserve | 3.5 | (3.5) | 18.0 | 18.0 |
| Discretionary Support for Energy Bills Rebate Reserve | - | - | 3.6 | 3.6 |
| Other Grant Reserves | 24.5 | (8.3) | 15.8 | 32.0 |
| **Total Revenue Grant Reserves** | **335.4** | **(72.0)** | **106.0** | **369.4** |
| **Non-Schools' DSG** | **3.6** | **(3.3)** | **11.6** | **11.9** |
| **Ringfenced Reserves** | | | | |
| Schools' Balances | 78.4 | (2.9) | 8.4 | 83.9 |
| Housing Revenue Account | 11.3 | - | 4.1 | 15.4 |
| HRA Major Repairs Reserve | 24.4 | (61.1) | 54.6 | 17.9 |
| **Total Ringfenced Reserves** | **114.1** | **(64.0)** | **67.1** | **117.2** |
| **Capital Reserves** | | | | |
| Capital Receipts Reserve | 253.6 | (80.3) | 114.4 | 287.7 |
| Capital Grants Unapplied | 92.4 | (41.7) | 61.9 | 112.6 |
| **Total Capital Reserves** | **346.0** | **(122.0)** | **176.3** | **400.3** |
| **Total Usable Reserves** | **1,446.9** | **(584.8)** | **650.0** | **1,512.2** |

Details of the major usable reserves as at 31 March 2022 are set out below.

Unearmarked Reserves comprising:

General Fund Balances - reflects the accumulated surpluses of income over expenditure from previous years and any resources set aside as general contingency against adverse future events.

The Delivery Plan Reserve (DPR) has been established to enable the necessary investment required by the Council's Delivery Plan. It also contains the previous Invest to Save Reserve.

Financial Resilience Reserve (FRR) – created in 2017/18 to provide contingency funding in case the Council faces financial difficulties in the future.

Earmarked Reserves comprising:

Insurance Fund – the Council is sufficiently large to be able to self-insure against all bar the most catastrophic business risks. A budget is held to cover insurance losses in-year and the Insurance Fund exists to act as a buffer should losses exceed budgeted expectations in any given financial year. The fund increases in those years where losses incurred do not exceed the budget and decreases where losses incurred exceed the budget.

Sums set aside to finance Capital Expenditure – has arisen from revenue contributions set aside to fund budgeted capital expenditure, Equal Pay settlements and associated costs in line with the Council's Capital Financing and Equal Pay funding plans.

Housing Benefit Subsidy – has been earmarked as a contingency reserve should there be any adjustments to funding arising from the audit of grant claims.

Cyclical Maintenance – has been earmarked to fund major maintenance work on the Council's assets including the Library of Birmingham.

Equipment Renewal – has been earmarked to fund equipment renewal for bus lane enforcement.

Management Capacity for Change – the net underspend identified on central accounts has been set aside for future year contingencies.

Business Rates – An overall reserve for Business Rates related activities, including:

- A contingency in case there is a requirement to make a payment under the Council's "no detriment" agreement with the other West Midlands Business Rates Retention Pilot authorities.

- To address the timing difference between grant received and when the Council has assumed it will be required.

Covid-19 Support – reflects the remaining balance of Government funding received to offset the additional costs incurred by the Council as a result of the Covid-19 pandemic.

Education PFI – reflects the sum set aside to meet the profiled schedule of future years payments.

City Clean Up Reserve – funding to provide resources for activity to help clean up the city.

Budget Smoothing Reserve – earmarked resources to provide flexibility in addressing the structural budget gap over the medium term.

Community Recovery Plan Reserve – resources earmarked to help communities recover from the effects of Covid-19.

Funding Council Tax Hardship Payments – earmarked resources from Government to be utilised to fund shortfalls in the Collection Fund relating to hardship fund reductions in Council Tax payments.

General Policy Contingency Reserve – earmarked funding to top up the contingency budget in 2021/22.

Income Compensation re Collection Fund - funding from Government to compensate for exceptional Collection Fund losses due to Covid-19.

Capital Receipts Flexibility Reserve – resource from the use of capital receipts flexibility to support the budget in future years.

Support to the Business Plan – earmarked funding to compensate for Business Rates refunds announced by the Government

Commonwealth Games Reserve – earmarked to deliver a successful Commonwealth Games

Policy Contingency Enhanced Operations Commonwealth Games - earmarked to deliver a successful Commonwealth Games

Commonwealth Games Legacy Programme Reserve- earmarked to deliver projects to ensure a positive legacy for the city and its citizens from the Games.

Commonwealth Games Readiness Reserve- earmarked to fund the City readiness programme before the Games.

Clean Air Zone Reserves – earmarked to fund projects from surplus, and to fund the eventual costs of decommissioning and compliance monitoring.

ERP System Reserve – earmarked to fund the costs of implementing the new ERP system.

General Maintenance Tenants Reserve- earmarked to fund repairs and maintenance on specific service chargeable buildings within the Council's property portfolio.

Other Earmarked Reserves – there are a large number of small value reserves which cover a wide range of services that have been set aside to support future years' service delivery. The reserves cover a wide range of areas and include, for example, resources earmarked for special educational needs reform, highways initiatives and subvention for major events including the Commonwealth Games,

Revenue Grant reserves comprising:

Grant Reserves – relate to the unused element of grant support for which the conditions of the grant are expected to be met or for which there are no conditions of grant. The reserves will be used to meet future years' expenditure for the service for which the grant was awarded.

In addition to the resources set aside in the Council's budget to meet the costs of the Highways PFI scheme, grant support is also received on an equal annual basis over the life of the contract. There was expected to be a budget surplus in the early years of the contract as the unitary charge payable to the contractor would increase during the initial core investment period until all milestones had been completed. The excess of available resources together with any deductions from unitary charge payments as a result of poor performance against the contract have been set aside in the Highways PFI reserve and will be used in the later period of the contract where the unitary charge payable is expected to exceed the budgeted resources and grant support. The reserve is expected to be fully utilised by the end of the contract.

Ringfenced reserves comprising:

Schools' Balances - are the net cumulative balances held by the local authority maintained schools which, under national school funding regulations, the schools are entitled to retain for unexpected commitments and/or for planned school curriculum/infrastructure improvements and investment. Within the total Schools' Balances there are 26 (2020/21: 28) local authority maintained schools with deficit balances totalling £4.8m (2020/21: £6.3m) and a deficit balance on the Non-Schools Dedicated Schools Grant of £4.1m (2020/21: £9.1m). The deficit balance of £4.1m is a reduction of £10.0m from 2019/20 due to a deficit recovery plan repayment agreed by Schools Forum to clear the deficit over a period of three years.

Housing Revenue Account (HRA) – the HRA is a statutory account, ringfenced from the rest of Council funds, so that rents charged to tenants in respect of dwellings cannot be subsidised from Council Tax. Similarly, rents collected from HRA tenants cannot be used to subsidise the General Fund. The balances on the HRA reflect the accumulated surpluses of income over expenditure.

HRA Major Repairs Reserve – the Council is required by The Accounts and Audit Regulations 2015 to maintain the Major Repairs Reserve. The reserve controls an element of the capital resources required to be used on HRA assets or for capital financing purposes. Capital reserves comprising:

Capital Receipts Reserve – reflects the income received from the disposal of capital assets prior to being used to fund future capital expenditure or for the redemption of debt. Capital receipts cannot be used to fund revenue expenditure except where allowed by statute, for example to meet costs of Equal Pay.

Capital Grants Unapplied – reflect the unused element of capital grants or capital contributions awarded to the Council, for which the conditions of the grant support are expected to be met or for which there are no conditions. The reserve will be used to meet future years' capital expenditure.

**Note 18**
**Unusable Reserves**

The following table shows the value of reserve balances that have come about as a result of accounting adjustments and are not therefore available to spend.

| 31 March 2021 £m | | 31 March 2022 £m |
|---|---|---|
| 2,117.2 | Revaluation Reserve | 2,587.1 |
| (57.4) | Capital Adjustment Account | 0.2 |
| (66.9) | Financial Instruments Adjustment Account | (64.0) |
| (3,430.2) | Pensions Reserve | (2,769.7) |
| 25.0 | Deferred Capital Receipts Reserve | 33.7 |
| (262.1) | Collection Fund Adjustment Account | (138.4) |
| (150.4) | Equal Pay Back Pay Account | (121.1) |
| (19.6) | Accumulated Absences Account | (15.9) |
| **(1,844.4)** | **Total Unusable Reserves** | **(488.1)** |

Revaluation Reserve

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

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

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.

| 2020/21 £m | 2020/21 £m | | 2021/22 £m | 2021/22 £m |
|---|---|---|---|---|
| | **1,955.6** | **Balance at 1 April** | | **2,117.1** |
| 423.8 | | Upward revaluation of assets | 800.0 | |
| (200.5) | | Downward revaluation of assets and impairment losses not charged to the Surplus/(Deficit) on the Provision of Services | (216.3) | |
| | 223.4 | Surplus/(Deficit) on revaluation of non-current assets not posted to the Surplus/(Deficit) on the Provision of Services | | 583.7 |
| (32.4) | | Difference between fair value depreciation and historical cost depreciation | (36.5) | |
| (29.4) | | Accumulated gains on assets sold or scrapped | (77.3) | |
| | (61.8) | Amount written off to the Capital Adjustment Account | | (113.8) |
| | **2,117.2** | **Balance at 31 March** | | **2,587.0** |

## 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 when 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 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.

Note 16 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

| **2020/21** **£m** | **2020/21** **£m** | | **2021/22** **£m** | **2021/22** **£m** |
|---|---|---|---|---|
| | (223.1) | Balance at 1 April | | (57.4) |
| | | Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement (CIES): | | |
| (120.2) | | Charges for depreciation and impairment of non current assets | (145.1) | |
| (35.7) | | Revaluation losses on Property, Plant and Equipment | (25.4) | |
| (2.9) | | Amortisation and impairment of intangible assets | (2.1) | |
| (8.0) | | Changes in the Fair Value of Investment Properties | 10.6 | |
| (1.0) | | Changes in the Fair Value of Financial Instruments | - | |
| (0.1) | | Impairment of Capital Debtors/Grants | (0.4) | |
| (106.8) | | Revenue expenditure funded from capital under statute | (83.5) | |
| (77.7) | | Amounts of non current assets written off on disposal or sale as part of the gain/(loss) on disposal to the CIES | (183.2) | |
| | (352.2) | | | (429.1) |
| | 61.8 | Adjusting amounts written out of the Revaluation Reserve | | 113.8 |

| | | | | |
|---|---|---|---|---|
| | (290.4) | Net written out amount of the cost of non-current assets consumed in the year | | (315.3) |
| | | Capital financing applied in the year: | | |
| 42.0 | | Use of the Capital Receipts Reserve to finance new capital expenditure | 50.2 | |
| 53.3 | | Use of the Major Repairs Reserve to finance new capital expenditure | 62.5 | |
| 94.7 | | Capital grants and contributions credited to the CIES that have been applied to capital financing | 55.5 | |
| 92.7 | | Application of grants to capital financing from the Capital Grants Unapplied Account | 41.7 | |
| 13.8 | | Application of capital receipts to repay debt | 8.0 | |
| 148.4 | | Provision for the financing of capital investment charged against the General Fund and HRA balances | 132.0 | |
| 23.7 | | Capital expenditure charged against the General Fund and HRA balances | 23.2 | |
| | 468.6 | | | 373.1 |
| | (12.3) | Repayment of long term debtors | | (0.3) |
| | **(57.4)** | **Balance at 31 March** | | **0.2** |

## Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains in accordance with statutory provisions. The Council uses this account to manage premia paid and discounts received on the early redemption of loans and the recognised losses on loans advanced at less than a commercial interest rate. These values are debited or credited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, these values are posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on Council Tax. For premia and discounts, this period is the unexpired term that was outstanding on the loans when they were redeemed.

In the 2021/22 financial year, the Council has not agreed early repayment of long term loans with the lenders (2020/21 no early repayment of long term loans with the lenders).

| 2020/21 | | | 2021/22 | |
|---|---|---|---|---|
| £m | £m | | £m | £m |
| | **(67.0)** | **Balance at 1 April** | | **(66.9)** |
| - | | Premia incurred in the year and charged to the Comprehensive Income and Expenditure Statement | - | |
| 0.1 | | Proportion of premia incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements | 2.9 | |
| | 0.1 | Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements | | 2.9 |
| | **(66.9)** | **Balance at 31 March** | | **(64.0)** |

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post-employment benefits in the Comprehensive Income 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 pension funds 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 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.

Generally, the Pensions Reserve will match exactly the Pension Liabilities recorded on the Balance Sheet at the end of each year. However, the Council made an advance payment of £369.2m in April 2020 to cover its estimated contributions for the three-year period to 31 March 2023. However, as indicated above, the Council is only required to account for the amount payable in year. The difference of £122.0m at 31 March 2022 between the Pensions Reserve and the Pension Liabilities reflects the anticipated contributions in 2022/23.

| 2020/21 £m | | 2021/22 £m |
|---|---|---|
| **(2,591.3)** | **Balance at 1 April** | **(3,430.2)** |
| (740.2) | Remeasurement of the net defined benefit liability | 749.4 |
| (246.0) | Reversal of items relating to retirement benefits debited or credited to the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement | (230.6) |
| 147.3 | Employer's pensions contributions and direct payments to retirees payable in the year | 141.7 |
| **(3,430.2)** | **Balance at 31 March** | **(2,769.7)** |

Deferred Capital Receipts Reserve

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the Council does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

| 2020/21 £m | | 2021/22 £m |
|---|---|---|
| **42.5** | **Balance at 1 April** | **25.0** |
| - | Transfer of deferred sale proceeds credited to the General Fund under capital finance regulations | (1.9) |
| - | Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | 10.8 |
| (17.5) | Transfer to the Capital Receipts Reserve upon receipt of cash | (0.2) |
| **25.0** | **Balance at 31 March** | **33.7** |

Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of Council Tax and Business Rates income in the Comprehensive Income and Expenditure Statement as it falls due from Council Tax and Business Rates payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

| 2020/21 £m | | 2021/22 £m |
|---|---|---|
| **(14.6)** | **Balance at 1 April** | **(262.1)** |
| (247.5) | Amount by which Council Tax/Business Rates income credited to the Comprehensive Income and Expenditure Statement is different from Council Tax/Business Rates income calculated for the year in accordance with statutory requirements | 123.7 |
| **(262.1)** | **Balance at 31 March** | **(138.4)** |

Equal Pay Back Pay Account

The Equal Pay Back Pay Account compensates for the differences between the rate at which the Council provides for the potential costs of back pay settlements in relation to Equal Pay cases and the ability under statutory provisions to defer the impact on the General Fund Balance until such time as cash might be paid out to claimants.

| 2020/21 £m | | 2021/22 £m |
|---|---|---|
| **(153.2)** | **Balance at 1 April** | **(150.4)** |
| 1.9 | (Increase)/reduction in provision for back pay in relation to Equal Pay cases | 13.8 |
| 0.9 | Cash settlements paid in the year | 15.5 |
| 2.8 | Amount by which amounts charged for Equal Pay claims to the Comprehensive Income and Expenditure Statement are different from the cost of settlements chargeable in the year in accordance with statutory requirements | 29.3 |
| **(150.4)** | **Balance at 31 March** | **(121.1)** |

Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

| 2020/21<br>£m | | 2021/22<br>£m |
|---|---|---|
| (16.7) | **Balance at 1 April** | **(19.5)** |
| - | Settlement or cancellation of accrual made at the end of the preceding year | 3.7 |
| (2.8) | Amounts accrued at the end of the current year | (0.0) |
| (2.8) | 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 | 3.7 |
| **(19.5)** | **Balance at 31 March** | **(15.8)** |

## Note 19
## Pension Schemes Accounted for as Defined Contribution Schemes

Teachers' Pension Scheme

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education. The scheme provides teachers with specified benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The scheme is a multi-employer defined benefit scheme. The scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. Valuations of the notional fund are undertaken every four years.

The scheme has in excess of 3,800 participating employers and consequently the Council is not able to identify its share of the underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2021/22, the Council paid £45.6m (2020/21: £46.7m) to the Teachers' Pensions Scheme in respect of teachers' retirement benefits, representing 23.68% (2020/21: 23.68%) of pensionable pay. The contributions due to be paid in the 2022/23 financial year are estimated to be £45.6m on the basis of employer contributions of 23.68%.

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and detailed in Note 20.

The Council is not liable to the scheme for any other entities' obligations under the plan.
NHS Pension Scheme

Staff who joined the Council on 1 April 2014 upon the transfer of Public Health responsibilities from the National Health Service were members of the NHS Pension Scheme. The scheme provides its members with specified benefits upon their retirement and the Council has taken responsibility for making contributions based on a percentage of members' pensionable salaries.

The scheme is a multi-employer defined benefit scheme covering NHS employers, GP practices and other bodies allowed under the direction of the Secretary of State in England and Wales. The scheme is unfunded and is not designed to be run in a way that would enable member organisations to identify their share of the underlying assets and liabilities. Actuarial valuations of the scheme are undertaken every four years with a valuation of the scheme liability carried out on an annual basis by the scheme actuary through an update of the result of the full actuarial valuation. For the purposes of this Statement of Accounts, the scheme is accounted for on the same basis as a defined contribution scheme.

In 2021/22, the Council paid £0.58m (2020/21: £0.69m) to the NHS Pension Scheme in respect of employees' retirement benefits, representing 14.38% (2020/21: 14.38%) of pensionable pay. There were no contributions remaining payable at the year end. The contributions due to be paid in the 2022/23 financial year are estimated to be £0.58m on the basis of an employer contribution rate of 14.68%.

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the NHS Pension Scheme. These costs are accounted for on a defined benefit basis and detailed in Note 20.

The Council is not liable to the scheme for any other entities' obligations under the plan.

**Note 20**
**Defined Benefit Pension Schemes**

Participation in Pension Schemes

As part of the terms and conditions of employment of its officers, the Council makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments, which needs to be disclosed at the time that employees earn their future entitlement.

The Council participates in two post-employment schemes accounted for as defined benefit schemes:

- The Local Government Pension Scheme, administered locally by the West Midlands Pension Fund offices at City of Wolverhampton Council – this is a funded defined benefit career average salary scheme for benefits accrued since 1 April 2014, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets. Benefits accrued to 31 March 2014 are based on final salary. An employer's future service contribution rate of 21.3% was set for the Council for 2021/22 (2020/21: 21.3%).

- Arrangements for the award of discretionary post-retirement benefits upon early retirement – this is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pensions liabilities, and cash has to be generated to meet actual pension payments as they eventually fall due.

The pension scheme is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the scheme is the responsibility of the pensions committee of Wolverhampton City Council. Policy is determined in accordance with the Pensions Fund Regulations.

The principal risks to the Council of the scheme are:

- the longevity assumptions
- statutory changes to the scheme
- structural changes to the scheme (for example, large-scale withdrawals)
- changes to inflation
- bond yields, and
- the performance of the equity investments held by the scheme.

These risks are mitigated, to a certain extent, by the statutory requirements to charge to the General Fund and the Housing Revenue Account the amounts required by statute as described in the accounting policies note.

Transactions relating to Post-employment benefits

The Council recognises the cost of retirement benefits in the reported Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge the Council is required to make 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 and Housing Revenue Account via the Movement in Reserves Statement.

The table below shows the transactions that have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year. The major change from 2020/21 to 2021/22 in the table relate to a £537.5m movement in the net liabilities, driven by -

- £0.3bn decrease in obligations as a result of change in discount rate, and
- £0.2bn increase in asset returns, largely as a result of improved returns on equity

Change to Actuary and reporting of Local Government Pension Scheme and Teachers' Pension Scheme

The Actuary has changed from Barnett Waddingham to Hymans Robertson LLP during 2022. The figures for Local Government Pension Scheme and Teachers' Pension scheme are now merged into one figure for 2021/22 for both funded and unfunded. This is reflected in the disclosures below.

| | Local Government Pension Scheme & Teacher's Pension Scheme | |
|---|---|---|
| | 2020/21 | 2021/22 |
| | £m | £m |
| Comprehensive Income and Expenditure Statement | | |
| Cost of Services: | | |
| current service cost | 159.9 | 188.2 |
| past service costs, including curtailments | 13.2 | 1.4 |
| effect of settlements | 9.0 | (24.4) |
| administration expenses | 2.9 | - |
| Financing and investment income and expenditure: | | |
| Net interest expense | 61.0 | 65.4 |
| **Total post-employment benefit charged to the (Surplus)/Deficit on the provision of services** | **246.0** | **230.6** |
| **Movement in Reserves Statement** | | |
| Reversal of net charges made to the Surplus/Deficit on the provision of services for post-employment benefits in accordance with the Code | (98.7) | (88.9) |
| **Net charge against the General Fund Balance for pensions in the year comprising:** | | |
| **employer's contributions payable to scheme** | **147.3** | **141.7** |

| | | |
|---|---|---|
| Comprehensive Income and Expenditure Statement | | |
| Total post-employment benefit charged to the (Surplus)/Deficit on the provision of services | 246.0 | 212.0 |
| Other post-employment benefit charged to the Comprehensive Income and Expenditure Statement | | |
| Remeasurements (liabilities and assets) | 740.2 | (749.4) |
| **Total Post-Employment Benefits charged to the Comprehensive Income and Expenditure Statement** | **986.2** | **(537.4)** |

| **Fair Value of Assets & Liabilities** | 2017/18 | 2018/19 | 2019/20 | 2020/21 | **2021/22** |
|---|---|---|---|---|---|
| | £m | £m | £m | £m | **£m** |
| **Total Present Value of Liabilities** | (6,988.2) | (6,768.8) | (6,613.3) | (8,301.9) | **(8,008.6)** |
| Fair Value of Assets | 4,400.3 | 4,216.8 | 4,022.0 | 5,116.7 | **5,360.9** |
| **Net Liability arising from defined benefit obligation** | (2,587.9) | (2,552.0) | (2,591.3) | (3,185.2) | **(2,647.7)** |

## 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 plans is as follows:

| | 2020/21 £m | 2021/22 £m |
|---|---|---|
| Benefit Obligation at 1 April | 6,613.3 | 8,301.9 |
| Current Service Cost | 159.9 | 188.2 |
| Interest on Pension Liabilities | 139.3 | 165.5 |
| Member Contributions | 22.0 | 22.9 |
| Actuarial (gains)/losses arising from changes in demographic assumptions | (89.6) | (48.3) |
| Actuarial (gains)/losses arising from changes in financial assumptions | 1,671.5 | (404.3) |
| Experience (gains)/losses on liabilities | (93.9) | 19.8 |
| Past Service Cost/ Curtailments | 13.2 | 1.4 |
| Settlements | 76.3 | (28.6) |
| Unfunded Pension Payments | (9.8) | - |
| Benefits paid | (200.3) | (209.9) |
| **Benefit Obligation at 31 March** | **8,301.9** | **8,008.6** |

## Reconciliation of the Movements in the Fair Value of Scheme Assets

| | 2020/21 £m | 2021/22 £m |
|---|---|---|
| Fair Value of Assets at 1 April | 4,022.0 | 5,116.7 |
| Interest on Plan Assets | 78.3 | 100.1 |
| Remeasurements (assets) | 747.9 | 316.6 |
| Administration expenses | (2.9) | - |
| Settlements | 67.3 | (4.3) |
| Employer contributions | 392.2 | 18.8 |
| Member contributions | 22.0 | 22.9 |
| Benefits/transfers paid | (210.1) | (209.9) |
| **Fair Value of Assets at 31 March** | **5,116.7** | **5,360.9** |

## Local Government Pension Scheme assets

An analysis of the Local Government Pension Scheme assets is set out below.

| | 2020/21 | | 2021/22 | |
|---|---|---|---|---|
| | Total | Percentage of Total | Total | Percentage of Total |
| | £m | % | £m | % |
| **Equity** | 3,090.1 | 60% | 2,891.2 | 54% |
| **Gilts** | 424.1 | 8% | 331.8 | 6% |
| **Bonds** | 323.2 | 6% | 872.1 | 16% |
| **Property** | 382.5 | 8% | 384.4 | 7% |
| **Other** | 647.7 | 13% | 667.8 | 13% |
| **Cash** | 249.1 | 5% | 210.5 | 4% |
| **Derivatives** | - | - | 3.1 | 0% |
| **Total Assets** | **5,116.7** | **100%** | **5,360.9** | **100%** |

Basis for estimating assets and liabilities

Liabilities for both the Local Government Pension Scheme and the unfunded Teachers' Pension Scheme have been assessed by Hymans Robertson LLP, an independent firm of actuaries. The assessment has been on an actuarial basis using the projected unit credit method, an estimate of the pensions that will have to be paid in future years dependent on assumptions about mortality rates, salary levels etc. The estimates for the Local Government Pension Scheme have been based on the latest full valuation of the scheme as at 31 March 2019. The principal assumptions used by the actuary have been:

| Assumptions | Local Government Pension Scheme | |
|---|---|---|
| | 2020/21 | 2021/22 |
| Mortality assumptions: | | |
| Longevity at 65 for current pensioners: | | |
| Men (years) | 21.6 | 21.2 |
| Women (years) | 23.9 | 23.6 |
| Longevity at 65 for future pensioners retiring in 20 years: | | |
| Men (years) | 23.4 | 22.9 |
| Women (years) | 25.8 | 25.4 |
| Rate of CPI inflation | 2.8% | 3.2% |
| Rate of increase in salaries | 3.8% | 4.2% |
| Rate of increase in pensions | 2.8% | 3.2% |
| Rate for discounting of scheme liabilities | 2.0% | 2.7% |

The duration of the Council's past service liability duration is estimated to be 20 years based on the membership data used for the most recent full valuation undertaken as at 31 March 2019.

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 to 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, it is unlikely that isolated changes 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, that is, on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analyses below did not change from those used in the previous period.

| | Impact on the Defined Benefit Obligation in the Scheme | | |
|---|---|---|---|
| | Change in assumption | Impact on Council Liability | Impact on Council Deficit |
| | £m | % | % |
| Longevity assumptions (increase by 1 year) | 320.3 | 4.0% | 12.1% |
| Pension increase assumptions (increase by 0.1%) | 116.3 | 1.5% | 4.4% |
| Salary increase assumption (increase by 0.1%) | 12.3 | 0.2% | 0.5% |
| Discount scheme liability assumptions (increase by 0.1%) | (129.7) | (1.6%) | (4.9%) |

Impact on the Council's Cash Flows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 14 years. Funding levels are monitored on an annual basis. The next triennial valuation will be carried out as at 31 March 2022 and will set contributions for the period for 1 April 2023 to 31 March 2026.

The Council has made a one-off contribution of £369.2m to the scheme in 2020/21 to cover the anticipated contributions for the three year period from 1 April 2020 to 31 March 2023 on the basis of the equivalent employer's contribution rates plus additional payments to fund the pension deficit in respect of past service costs. Set out below are the contribution rates for the period to 31 March 2023.

| Financial Year | Employer's Future Service Contribution Rate | Past Service Cost Deficit Payment |
|---|---|---|
| | % | £m |
| 2022/23 | 21.3 | 51.8 |

## Note 21
## Property, Plant and Equipment

The following tables analyse movements in the carrying values of non-current assets during the year.

| | Council dwellings | Other land and buildings | Vehicles, plant, furniture & equipment | Infrastructure assets | Community assets | Surplus assets | Assets under construction | Total Property, Plant and Equipment | PFI / Service Concession assets Included in Property, Plant and Equipment |
|---|---|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| **Cost or Valuation** | | | | | | | | | |
| **At 1 April 2021** | **2,609.8** | **2,376.3** | **125.8** | **0** | **80.8** | **129.5** | **452.5** | **6,510.2** | **856.4** |
| Additions | 89.2 | 35.7 | 10.6 | 0 | 2.9 | | 301.1 | **503.3** | 95.3 |
| Assets reclassified between categories | 0.6 | 36.4 | 0.3 | 0 | 0.1 | - | (67.3) | **(1.2)** | |
| Assets reclassified (to)/from Held for Sale | - | 1.3 | - | - | - | 3.7 | | **5.1** | |
| Revaluation increases/ (decreases) recognised in the Revaluation Reserve | 325.4 | 164.7 | - | - | - | 2.5 | - | **492.6** | 3.5 |
| Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services | - | (21.1) | - | - | - | (14.8) | (0.1) | **(36.0)** | (5.8) |
| Derecognition - Disposals | (38.8) | (102.5) | (10.2) | 0 | - | (0.8) | - | **(155.5)** | (3.8) |
| Other movements in cost or valuation | - | (36.5) | - | - | - | 36.5 | - | | |
| **At 31 March 2022** | **2,986.2** | **2,454.2** | **126.5** | **824.4** | **83.8** | **156.6** | **686.6** | **7,318.3** | **941.1** |
| **Accumulated Depreciation and Impairment** | | | | | | | | | |
| **At 1 April 2021** | **-** | **(14.9)** | **(48.8)** | **(236.9)** | **-** | **-** | **-** | **(300.6)** | **(237.9)** |
| Depreciation charge | (56.0) | (50.4) | (13.4) | 0 | - | (0.6) | - | **(146.9)** | (29.8) |
| Depreciation written out to the Revaluation Reserve | 55.3 | 35.0 | - | - | - | 0.9 | - | **91.2** | 2.4 |
| Depreciation written out to the Surplus/Deficit on the Provision of Services | - | 12.9 | - | - | - | 0.5 | - | **13.4** | 0.9 |
| Derecognition - Disposals | 0.7 | 2.1 | 10.1 | 0 | - | - | - | **16.2** | 3.3 |
| Assets reclassified (to)/from Held for Sale | - | - | - | - | - | (0.2) | - | **(0.2)** | |
| Other movements in depreciation and impairment | - | 0.6 | - | - | - | (0.6) | - | **-** | |
| **At 31 March 2022** | **-** | **(14.6)** | **(52.1)** | **0** | **-** | **-** | **-** | **(327.8)** | **(261.1)** |
| **Net Book Value** | | | | | | | | | |
| **At 31 March 2022** | **2,986.2** | **2,439.6** | **74.4** | **0** | **83.8** | **156.6** | **686.6** | **6,990.5** | **680.0** |
| **At 31 March 2021** | **2,609.8** | **2,361.4** | **77.0** | **0** | **80.8** | **129.5** | **452.7** | **6,209.6** | **614.0** |

<u>Movements in Balances: 2020/21</u>

| | Council dwellings | Other land and buildings | Vehicles, plant, furniture & equipment | Infrastructure assets | Community assets | Surplus assets | Assets under construction | Total Property, Plant and Equipment | PFI / Service Concession assets Included in Property, Plant and Equipment |
|---|---|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| **Cost or Valuation** | | | | | | | | | |
| **At 1 April 2020** | **2,458.1** | **2,339.3** | **129.2** | **0** | **79.3** | **170.8** | **258.6** | **6,131.1** | **814.9** |
| Additions | 102.1 | 29.3 | 11.9 | 0 | 0.8 | 0.2 | 247.2 | **412.6** | 44.2 |
| Assets reclassified between categories | 6.9 | 22.6 | 1.4 | 0 | 0.7 | - | (53.3) | **-** | |
| Assets reclassified (to)/from Held for Sale | - | (2.7) | - | - | - | (42.8) | - | **(45.5)** | |
| Revaluation increases/ (decreases) recognised in the Revaluation Reserve | 65.6 | 54.7 | - | - | - | 5.2 | - | **125.7** | (2.6) |
| Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services | - | (27.9) | - | - | - | 0.2 | - | **(27.7)** | (0.3) |
| Derecognition - Disposals | (22.9) | (39.7 | (16.7) | 0 | - | (3.4) | - | **(86.1)** | (4.3) |
| Other movements in cost or valuation | - | 0.7 | | | | (0.7) | | | |
| **At 31 March 2021** | **2,609.8** | **2,376.3** | **125.8** | **0** | **80.8** | **129.5** | **452.5** | **6,510.2** | **851.9** |
| | | | | | | | | | |
| **Accumulated Depreciation and Impairment** | | | | | | | | | |
| **At 1 April 2020** | **-** | **(25.5)** | **(51.2)** | **0)** | **-** | **-** | **-** | **(291.4)** | **(215.3)** |
| Depreciation charge | (53.3) | (49.6) | (13.9) | (25.4) | - | (0.8) | - | **(143.1)** | (29.7) |
| Depreciation written out to the Revaluation Reserve | 52.9 | 44.5 | - | - | - | 0.3 | - | **97.7** | 3.1 |
| Depreciation written out to the Surplus/Deficit on the Provision of Services | - | 14.8 | - | - | - | - | - | **14.8** | 0.2 |
| Derecognition - Disposals | 0.4 | 1.3 | 16.3 | 0 | - | - | | **21.2** | 3.8 |
| Assets reclassified (to)/from Held for Sale | - | - | - | - | - | 0.3 | - | **0.3** | |
| Other movements in depreciation and impairment | - | (0.2) | | | - | 0.2 | | **-** | |
| **At 31 March 2021** | **-** | **(14.9)** | **(48.8)** | **0** | **-** | **-** | **-** | **(300.6)** | **(237.9)** |
| | | | | | | | | | |
| **Net Book Value** | | | | | | | | | |
| **At 31 March 2021** | **2,609.8** | **2,361.4** | **77.0** | **0** | **80.8** | **129.5** | **452.7** | **6,209.6** | **614.0** |
| **At 31 March 2020** | **2,458.1** | **2,313.8** | **78.0** | **0** | **79.3** | **170.8** | **258.6** | **5,839.7** | **599.6** |

**Revaluations**

The Royal Institution of Chartered Surveyors (RICS) created a forum to consider the impact of Covid-19 on potential material uncertainty on asset valuations. The latest update recommends that material uncertainty remains for only a limited number of assets, namely those with trading potential such as hospitality assets. At the valuation date, property markets are functioning again, providing sufficient evidence to support opinions of value.

Operational Land and Buildings (other than Housing)
The Council carries out valuations of its property assets over a five year cycle and reviews those assets that are not in the valuation cycle for the year to ensure that carrying values remain materially correct at the Balance Sheet date. Azmat Mir, Member of the Royal Institution of Chartered Surveyors (MRICS), Head of Property Consultancy and other similarly qualified staff within the Council's Property Services section carried out the valuations. A Valuation Certificate was issued on 15 July 2022 in accordance with the Appraisal and Valuation Standards of the Royal Institution of Chartered Surveyors.

The effective date of the current year's valuation was 19 February 2022, with a review of any significant changes to assets to ensure that any material changes in asset values at the Balance Sheet date were identified. The review concluded that, for assets valued at Depreciated Replacement Cost (DRC), there had been a marginal overall decrease in building costs from valuation date to 31 March 2022.

A review was undertaken to assess the impact of obsolescence and the movement in building costs on the value of those assets not subject to revaluation in 2021/22. As a result, a desktop exercise was undertaken to update those values in the Balance Sheet, reflecting a more up to date value as at 31 March 2022 resulting in a relatively small decrease in relevant asset values.

Housing
The Council's housing stock was valued as at 19 February 2022 by Azmat Mir MRICS Registered Valuer, and similarly qualified staff within the Council's Property Services section, assisted by an external contractor (Sure Surveyors - Debbie Fawkner MRICS Registered Valuer) in line with the Ministry of Housing, Communities and Local Government's Guidance on Stock Valuation for Resource Accounting published in November 2016. The basis of the valuation for the housing stock element is in accordance with the Royal Institution of Chartered Surveyors using the Existing Use Value – Social Housing basis, which takes open market value for the underlying dwellings and applies a multiplier to reflect the reduced value as a result of the use for social housing for 2021/22 of 40% (2020/21: 40%). Part of the housing stock comprising mainly the high-rise blocks of flats and some defective properties have been valued on the basis of a Discounted Cash Flow method of valuation (DCF). A review was undertaken to consider any material movement between 19 February and 31 March 2022 and advised accordingly.

HRA dwellings have seen a net increase in value of £376.4m since 31 March 2021. Details are included in Notes H1 and H3 of the Supplementary Statements.

Surplus Assets
A small number of assets have been deemed surplus to the requirement of the Council but do not meet the criteria to be classified as Assets Held for Sale. As such they are classified as surplus assets and revalued during 2021/22 at fair value, assessing the assets in their highest and best use, using Level 2 inputs. The increase in value reflects the reclassification of assets previously identified as either Assets held for Sale or as Other Land and Buildings.

| Recurring Fair Value Measurements | Input Level in Fair Value Hierarchy | Valuation technique used to measure Fair Value | 31 March 2021 Fair Value £m | 31 March 2022 Fair Value £m |
|---|---|---|---|---|
| Highest and Best Use | Level 2 | The fair value of surplus properties has been measured using a market approach, which takes into account quoted prices for similar assets in active markets, existing lease terms and rentals, research into market evidence including market yields, the covenant strength for existing tenants, and data and market knowledge gained in managing the Council's Property Portfolio. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs is significant, leading to the properties being categorised as Level 2 on the fair value hierarchy. | 131.7 | 156.6 |

An analysis of the gross carrying value, by class of asset, broken down by the basis and date of valuation is set out on the following table.

| | Council dwellings | Other land and buildings | Vehicles, plant, furniture & equipment | Infrastructure assets | Community assets | Surplus assets | Assets under construction | **Total Property, Plant and Equipment** |
|---|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m | **£m** |
| Carried at Historical Cost | | | | | 83.8 | | 686.6 | **770.4** |
| Carried at Depreciated Historical Cost | | | 98.5 | 824.4 | | | | **922.9** |
| Valued at current value as at: | | | | | | | | |
| 31 March 2022 | 2,986.2 | 1,762.9 | | | | 156.6 | | **4,905.7** |
| 31 March 2021 | | 242.4 | | | | | | **242.4** |
| 31 March 2020 | | 134.5 | 28.0 | | | | | **162.5** |
| 31 March 2019 | | 194.2 | | | | | | **194.2** |
| 31 March 2018 | | 120.2 | | | | | | **120.2** |
| **Total cost or valuation** | **2,986.2** | **2,454.2** | **126.5** | **824.4** | **83.8** | **156.6** | **686.6** | **7,318.3** |

## Capital Commitments

At 31 March 2022, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2022/23 and future years. The commitments are:

| | £m |
|---|---|
| PFI Lifecycle Costs | 459.2 |
| HRA New Build & Investment | 94.1 |
| Perry Barr Residential Project | 28.1 |
| Bus Depot Relocation | 15.5 |
| Council House Refurbishment | 12.5 |
| Montague St Depot | 11.5 |
| A34 Perry Barr Highway | 9.4 |
| Perry Barr Depot | 7.7 |
| Paradise Circus Ent Zone | 7.5 |
| Birmingham City Centre Retail Core Public Realm | 7.4 |
| Works to Tyseley Energy Renewal Plant | 6.5 |
| Other Projects <£5m | 24.1 |

## Capitalisation of Borrowing Costs

The Council has adopted an accounting policy, detailed in Note1 - section xxi., of capitalising borrowing costs in relation to qualifying assets. In 2021/22 the amount of borrowing costs capitalised during the period was £9.1m (2020/21: £7.6m). The interest does not relate to a specific loan and was calculated using the Council's average borrowing rate in the year expenditure was incurred. This was 4.3% in 2021/22 (2020/21: 4.16%). For 2021/22, interest capitalised by scheme was as follows:

| | £m |
|---|---|
| Enterprise Zone | 1.7 |
| Perry Barr Residential Scheme | 7.4 |

## Infrastructure Assets

In accordance with the temporary relief offered by the Update to the Code on infrastructure assets this note does not include disclosure of gross cost and accumulated depreciation for infrastructure assets because historical reporting practices and resultant information deficits mean that this would not faithfully represent the asset position to the users of the financial statements.

The authority has chosen not to disclose this information as the previously reported practices and resultant information deficits mean that gross cost and accumulated depreciation are not measured accurately and would not provide the basis for the users of the financial statements to take economic or other decisions relating to infrastructure assets.

| Net Book Value (modified historical cost) | 2020/21 £m | 2021/22 £m |
|---|---|---|
| at 1 April | 481.1 | 498.5 |
| Additions | 21.1 | 63.6 |
| Depreciation | (25.4) | (30.0) |
| Other movements in cost | 21.7 | 28.6 |
| **Net Book Value at 31 March** | **498.5** | **560.7** |

**Note 22**
**Heritage Assets**

The Council has significant collections of assets that contribute towards the rich and diverse heritage of the city, reflecting two thousand years of historic development, across Museums, Historic Buildings, Public Art, Libraries and Civic Collections.

Where historical cost information is available, the Council has used this when compiling the Balance Sheet; otherwise insurance valuations, reviewed annually, have been used, where applicable. Where there is evidence of a movement in valuations as a result of material acquisitions or disposals, or a significant movement in comparable market values, a revaluation will be considered.

Heritage Assets held by the Council:

| | Museum Collections | Historic Buildings | Public Art | Libraries and Archive collections | Civic Regalia and Plate | Total Assets |
|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m |
| **01 April 2020** | | | | | | |
| - At Cost | 1.8 | 11.1 | 0.5 | - | - | 13.4 |
| - At Valuation | 216.3 | - | - | 18.4 | 1.8 | 236.5 |
| **31 March 2021** | ***218.1*** | ***11.1*** | ***0.5*** | ***18.4*** | ***1.8*** | ***249.9*** |
| **01 April 2021** | | | | | | |
| - At Cost | 1.8 | 11.1 | 0.5 | - | - | 13.4 |
| - At Valuation | 216.3 | - | - | 18.4 | 1.8 | 236.5 |
| **31 March 2022** | ***218.1*** | ***11.1*** | ***0.5*** | ***18.4*** | ***1.8*** | ***249.9*** |

### Museum Collections

The Council holds collections of artworks, ceramics, jewellery and items of archaeological and scientific significance. The vast majority of the Museum's Loan collection is held within the Birmingham Museum and Art Gallery, which holds one of the finest collections of art, history and science in the UK and the best collection of Pre-Raphaelite works in the world. There are significant exhibits and artwork comprising the Permanent Collection on display in community museums, for example Aston Hall and Soho House, together with items held in storage at the Museum's Collection Centre. The value of the collection has been adjusted to reflect updated insurance valuations. In addition, there is a collection of Boulton silverware, a set of 24 pieces in silver jointly owned by the Council and the Birmingham Assay Office.

## Historic Buildings and the Historical Environment

The Council either owns or holds on trust in excess of 150 listed buildings and structures, with Grade I and Grade II properties being the most significant. These include Aston Hall, a Grade I listed Jacobean manor house completed in 1635, Blakesley Hall, an Elizabethan timber house built by a local merchant in 1590 and Soho House, home of Birmingham industrialist and entrepreneur Matthew Boulton, all of which are included as Heritage Assets.

## Public Art

The Council owns over 80 pieces of public art, including statues, sculpture and fountains, some of which are listed structures. Victoria Square fountain and the King Edward VII statue are included in the Balance Sheet as reliable information is available for these works of art.

## Libraries and Archive Collections

The Library of Birmingham is unique amongst UK public libraries for the range and depth of the collections it houses. The library houses a large photography collection and the Council also holds over 6,000 archive collections including major collections of national importance, such as those relating to the industrial innovators James Watt and Matthew Boulton. There are significant collections of early and fine printing, incorporating over 8,000 books printed before 1701, and an extensive collection of literature and rare books, including Audubon's 19th Century work, The Birds of America, and one of the world's most comprehensive Shakespeare collections.

## Civic Regalia and Plate

The Council owns in excess of 230 items of civic regalia and plate, kept either on display, in storage or used on ceremonial and other formal occasions. There is a large variety of items within the collection, the main ones being the Mayoral Chains of Office and Mace, which was cast in silver, in the late 19th Century, by Elkington and Co.

The Council has developed a Heritage Strategy, which provides a framework and context for how it preserves, manages, interprets and promotes the Council's Heritage Assets, and how they are taken forward during the 21st Century. This is supported by a more detailed collecting policy within the Museums service, which informs the Council's policy on acquisition, management and disposal, together with Documentation and Conservation policies, which detail how the service manages and cares for the collections. These are all available on the Council's website, or via the relevant service area. Both Libraries and Museums use database systems to manage their collections.

Access to heritage assets is provided through permanent displays of historical material, temporary exhibitions and events, publications, catalogues and digital and web-based resources. In addition the Museum’s Collection Centre schedules occasional open days allowing public access to some of the Museum’s stored historical artefacts. For the wider historical environment, guided tours, printed leaflets and publications, heritage trails and interpretive panels are effective in enabling intellectual access.

Birmingham Museums Trust exists to promote heritage within Birmingham, with the aims of advancing education through the operation, maintenance, development and promotion of museums, galleries and libraries in Birmingham. The Council continues to retain ownership of the buildings and collections.

**Note 23**
**Intangible Assets**

The Council accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant, Furniture and Equipment.

The carrying amount of intangible assets is amortised on a straight-line basis over a five year period, which is deemed to be the period that intangible assets are expected to be of use to the Council.

The movement on intangible asset balances during the year is as follows:

| | 2020/21 | | | 2021/22 | | |
|---|---|---|---|---|---|---|
| | Internally Generated Assets £m | Other Assets £m | Total £m | Internally Generated Assets £m | Other Assets £m | Total £m |
| Balance at start of year: | | | | | | |
| - Gross carrying amounts | - | 13.1 | 13.1 | - | 9.0 | 9.0 |
| - Accumulated amortisation | - | (6.0) | (6.0) | - | (4.8) | (4.8) |
| **Net carrying amount at start of year** | **-** | **7.1** | **7.1** | **-** | **4.2** | **4.2** |
| Additions: | | | | | | |
| - Internal development | - | - | - | - | 1.5 | 1.5 |
| Other disposals | - | (4.1) | (4.1) | - | (4.2) | (4.2) |
| Amortisation for the period | - | (2.9) | (2.9) | - | (2.1) | (2.1) |
| Amortisation written out for disposals/transfers | - | 4.1 | 4.1 | - | 4.2 | 4.2 |
| Net carrying amount at end of year | - | 4.2 | 4.2 | - | 3.6 | 3.6 |
| Comprising: | | | | | | |
| Gross carrying amounts | - | 9.0 | 9.0 | - | 6.3 | 6.3 |
| Accumulated amortisation | - | (4.8) | (4.8) | - | (2.7) | (2.7) |
| | **-** | **4.2** | **4.2** | **-** | **3.6** | **3.6** |

**Note 24**
**Long Term Debtors**

The table below shows amounts owed to the Council that are due for payment more than 12 months after the Balance Sheet date. An estimate has been made on the collectability of outstanding debt. The outstanding balances have been split by type of debt.

| 31 March 2021 £m | | 31 March 2022 £m |
|---|---|---|
| 80.3 | External Loans | 72.9 |
| 0.8 | Employee Loans | 0.7 |
| 0.3 | Mortgages: former Council House Tenants | 0.3 |
| 26.1 | Other Debtors | 35.2 |
| **107.5** | **Total** | **109.1** |

**Note 25**
**Short Term Investments**

Details of the amounts invested by the Council that are due for repayment within 12 months of the Balance Sheet date are detailed below.

| 31 March 2021 £m | | 31 March 2022 £m |
|---|---|---|
| 171.0 | Money Market Funds | 33.8 |
| 1.3 | Financial Institutions | 2.7 |
| - | Other Investments (DMADF and Local Authorities) | 74.0 |
| **172.3** | **Total** | **110.5** |

**Note 26**
**Assets Held for Sale**

The table below details the value of assets whose carrying amount will be recovered principally through a sale transaction rather than through their continuing use.

| | 2020/21 £m | 2021/22 £m |
|---|---|---|
| **Balance outstanding at start of year** | **16.7** | **49.1** |
| Assets newly classified as held for sale: | | |
| - Property, Plant and Equipment | 45.2 | - |
| Assets declassified as held for sale: | | |
| - Property, Plant and Equipment | - | (4.8) |
| - Assets sold | (12.8) | (43.9) |
| Other Movements | - | - |
| **Balance outstanding at year end** | **49.1** | **0.4** |

Assets held for sale are those assets where the expectation is that their disposal will occur within twelve months. During 2021/22 eight assets were disposed, with a further three assets recategorised to either surplus or land and building assets as they no longer fulfil the criteria to be classed as held for sale assets.

Assets carried within the Council’s financial statements are valued using either Depreciated Replacement Cost (DRC) in the case of specialist assets or the value to the Council of the asset in existing use. The value of capital receipts may differ from the carrying value of the assets and is heavily dependent on how much the market is willing to pay for a particular asset at any one time and this can fluctuate.

## Note 27
## Short Term Debtors

The table below shows the amounts owed to the Council at the end of the year that are due for payment within 12 months. An allowance has been made, within the overall level of debt due, to reflect an element of non-recovery.
The amounts owed have been analysed by type of debtor to allow an assessment of the risk of non-recovery.

| 31 March 2021 | | 31 March 2022 |
|---|---|---|
| £m | | £m |
| 131.5 | Central government bodies | 84.5 |
| 39.0 | Other local authorities | 17.8 |
| 7.9 | NHS bodies | 8.3 |
| 6.1 | Public corporations and trading funds | 5.4 |
| 216.4 | Other entities and individuals | 225.8 |
| **400.9** | **Total** | **341.8** |

## Note 28
## Cash and Cash Equivalents

The balance of Cash and Cash Equivalents is made up of the elements detailed below.

| 31 March 2021 | | 31 March 2022 |
|---|---|---|
| £m | | £m |
| 4.5 | Cash held by the Council | 3.6 |
| 49.8 | Bank current accounts | 53.8 |
| **54.3** | **Total** | **57.4** |

## Note 29
## Short Term Creditors

The table below shows amounts owed by the Council at the end of the year that are due for payment within 12 months. The amounts due have been analysed by type of creditor.

| 31 March 2021 | | 31 March 2022 |
|---|---|---|
| £m | | £m |
| (102.3) | Central government bodies | (179.6) |
| (10.4) | Other local authorities | (8.4) |
| (2.9) | NHS bodies | (5.1) |
| (45.3) | Public corporations and trading funds | (35.5) |
| (270.7) | Other entities and individuals | (256.3) |
| **(431.6)** | **Total** | **(484.9)** |

## Note 30
## Provisions

The following table shows the value of the Council's liabilities that will probably result in a transfer of economic benefits in line with the Accounting Policy for Provisions.

| | **Balance at 31 March 2021** | Additional provisions made in 2021/22 | Amounts used in 2021/22 | Transfer between current and non-current provisions | Unused amounts reversed in 2021/22 | Unwinding of discounting in 2021/22 | **Balance at 31 March 2022** |
|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m |
| **Short Term** | | | | | | | |
| Equal Pay | 153.8 | 8.2 | (15.5) | (13.2) | (20.6) | - | **112.7** |
| Business Rates Appeals | 14.1 | 8.9 | (13.2) | - | - | - | **9.8** |
| Other Provisions | 8.1 | 3.8 | - | - | (0.7) | - | **11.2** |
| **Total** | **176.0** | **20.9** | **(28.7)** | **(13.2)** | **(21.3)** | **-** | **133.7** |
| **Long Term** | | | | | | | |
| Equal Pay | - | - | - | 13.2 | - | - | **13.2** |
| Business Rates Appeals | 7.7 | 4.8 | (7.1) | - | (0.1) | - | **5.3** |
| Other Provisions | - | - | - | - | - | - | **0.0** |
| **Total** | **7.7** | **4.8** | **(7.1)** | **13.2** | **(0.1)** | **-** | **18.5** |

Equal Pay

The Equal Pay Act 1970 was enacted at a time when it was not uncommon for employers to openly give different rates of pay to men and women performing the same job, or to reserve certain jobs for men and other (lower-paid) jobs for women. The Equality Act 2010 repealed and replaced the Equal Pay Act 1970 from 1 October 2010 and implemented the principle that men and women should receive equal pay for equal work in Great Britain.

The Council has set aside a provision of £125.9m (2020/21: £153.8m) in respect of its estimate of liability for Equal Pay. The provision reflects the assessed position as at 31 March 2022.

The Secretary of State for Communities and Local Government issued regulations allowing Local Authorities to use capital receipts received on or after 1 April 2013 to meet back payments associated with issued and valid equal pay claims. The Council has included both the capital and revenue impacts of equal pay claims in the Council's 2022-2026 Financial Plan.

Business Rates Appeals
As a result of the change in the funding of Local Government in 2013/14, local authorities have assumed part of the liability for refunding Business Rates payers who have successfully appealed against the rateable value of their properties in the rating list. This liability includes amounts that were collected in respect of both the current year and prior years.

The Council, as Billing Authority, is required to make a provision for this liability on behalf of the major preceptors and itself. From 1 April 2017 the Council became part of a 100% Local Business Rates Retention Pilot. Under the pilot the Council retains 99% of the Business Rates it collects including 99% of any amounts due to be collected in future. The other 1% is retained by the West Midlands Fire and Rescue Authority (WMFRA). Prior to 1 April 2017 the Council's share was 49% with 1% due to the WMFRA and the other 50% being due to Central Government. Under the pilot the Council has assumed responsibility to pay for 99% of backdated appeals, even those prior to 1 April 2017. However, the Council has also been allowed to take the Government's 50% share of the provision set aside for backdated appeals prior to 1 April 2017.

These accounts include a provision of £15.1m representing 99% of the total provision (2020/21: £21.8m representing 99% of the total provision) set aside to cover the Council's share of the total estimated unpaid liability relating to the settlement of all appeals received up to 31 March 2022. The remaining 1% share of the liability is attributable to the WMFRA.

The Council has assessed the likely cost of settling appeals, based upon the history of appeals settled to date and details of those appeals that are still outstanding. The information used in this modelling has been provided by the Valuations Office Agency (VOA).

Other Provisions

Details of the major items included in other provisions are:

Subsidiaries

As part of the relationship with its subsidiary companies, the Council may have to provide a guarantee that it will support a company to enable it to continue meeting its liabilities as they fall due. The Council continues to review the likelihood of any call on the guarantees that it has given to determine whether it needs to set aside resources to meet any future liabilities. The Council has set aside a provision of £3.6m (2020/21: £4.1m).

Equal Pay Legal Costs

The Council has set aside a provision for legal costs associated with the handling or defending of Equal Pay claims. The provision will be used when legal fees are agreed for each case and may be subject to assessment; the timing of which is uncertain.

## Note 31
## Contingent Liabilities and Contingent Assets

Contingent Liabilities

These relate to pending legal or contractual claims not included in the accounts and guarantees given by the Council for repayment of loans taken out by certain associated companies. The Council currently has the following contingent liabilities:

1. The Council's final Housing Benefit claim for 2021/22 is still being considered by the Department for Work and Pensions. There may be clawback of subsidy from the Council which would reduce the level of benefit income shown and reduce the General Fund balance carried forward.

2. The Council is facing a number of compensation claims from former employees for employment related and current health issues, from people who attended Council schools and from other service users. Currently the validity of any outstanding claims is being assessed.

3. The Council enters into a number of arrangements with external partners for the delivery of services or as part of infrastructure developments within the city. There are occasions where the Council faces claims from external partners where it is believed that specific outcomes have not been delivered. Currently the validity of any outstanding claims is being assessed.

4. Under the Equality Act 2010, employees are entitled to equal pay for work of equal value. The Council has received a number of claims under the Equality Act and, as a result, has set aside a provision of £125.9m (31 March 2021: £153.8m) which incorporates all claims received and negotiations agreed by 31 March 2022.

   Whilst the provision reflects the forecast impact of claims made to date, there remain a number of uncertainties regarding any additional liabilities that the Council may face. There are uncertainties surrounding the volume and timing of any future claims and the determination of any settlements.

Contingent Assets

At 31 March 2022 the Council has identified the following material contingent assets.

When disposing of non-current assets which may be the subject of further development by the purchaser, the Council may include clauses within the disposal agreement that require the purchaser to make additional payments to the Council depending on the outcome of the development. The Council does not recognise such potential additional consideration at the time of disposal as its receipt and amount is too uncertain. The Council has included such clauses in the agreement for the disposal of a number of developments and anticipates generating additional capital receipts in future years.

Due to the commercially sensitive nature of the agreements, detailed information on further anticipated receipts has not been disclosed.

**Note 32**
**Council Borrowing**

A breakdown of the Council's borrowings is summarised below:

| 2020/21 | | | 2021/22 | |
|---|---|---|---|---|
| Long Term | Short Term | | Long Term | Short Term |
| £m | £m | | £m | £m |
| (30.4) | (42.1) | Lender's Option Borrower's Option (LOBO) loans | (30.4) | (42.1) |
| (462.0) | (8.3) | Local Bonds | (454.3) | (8.6) |
| (2,459.2) | (49.0) | Public Works Loan Board | (2,439.2) | (74.1) |
| (37.8) | (391.1) | Other Borrowing (mainly Other Local Authorities) | (0.3) | (174.9) |
| (2,989.4) | (490.5) | Total | (2,924.2) | (299.7) |

**Note 33**
**Cash Flow Statement - Operating Activities**

The cash flows from operating activities include the following items:

| 2020/21 | | 2021/22 |
|---|---|---|
| £m | | £m |
| (18.9) | Interest received | (25.6) |
| 164.6 | Interest paid | 164.6 |
| (0.9) | Dividends received | (0.9) |
| **144.8** | | **138.1** |

**Note 34**
**Cash Flow Statement - Investing Activities**

The cash flows from investing activities include the following:

| 2020/21 | | 2021/22 |
|---|---|---|
| £m | | £m |
| (391.0) | Purchase of property, plant and equipment, investment property and intangible assets | (445.9) |
| (5,237.9) | Purchase of short-term and long-term investments | (2,858.3) |
| 82.3 | Proceeds from the sale of property, plant and equipment, investment property and intangible assets | 114.0 |
| 5,302.6 | Proceeds from short-term and long-term investments | 2,927.9 |
| **(244.0)** | **Net cash flows from investing activities** | **(262.3)** |

## Note 35
## Cash Flow Statement - Financing Activities

The cash flows from financing activities include the following:

| 2020/21 £m | | 2021/22 £m |
|---|---|---|
| 120.4 | Other receipts from financing activities | 108.4 |
| 1,147.1 | Cash receipts of short-term and long-term borrowing | 386.7 |
| (31.3) | Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-Balance Sheet PFI contracts | (70.7) |
| (1,043.0) | Repayments of short-term and long-term borrowing | (642.1) |
| 6.6 | Other payments for financing activities | 1.3 |
| **199.8** | **Net cash flows from financing activities** | **(216.4)** |

## Note 36
## Cash Flow Statement – Other Adjustments

The cash flow adjustments to the net surplus/deficit on the provision of services include:

| 2020/21 £m | | 2021/22 £m |
|---|---|---|
| 143.1 | Depreciation/Impairment charge | 147.8 |
| | Assets reclassified between categories | 1.3 |
| 2.9 | Amortisation of Intangible Assets | 2.1 |
| (0.5) | Derecognition of Available for Sale Assets | 0.4 |
| 20.9 | Revaluation of Non-Current Assets | 12.0 |
| 77.4 | Derecognition of Non-Current Assets | 183.2 |
| (17.7) | (Increase)/Decrease in Debtors | 49.8 |
| 41.4 | Increase/(Decrease) in Creditors | 40.6 |
| (0.2) | (Increase)/Decrease in Inventories | (0.4) |
| (5.0) | Increase/(Decrease) in Provisions | (31.5) |
| (146.3) | Pensions Liability | 211.9 |
| **116.0** | **Net Cash Flow - Other Adjustments** | **617.2** |

The cash flow adjustments included in the net surplus/deficit on the provision of services that are investing or financing activities include:

| | | |
|---|---|---|
| (120.4) | Capital Grants | (108.4) |
| (82.3) | Capital Receipts | (114.0) |
| (6.4) | Council Tax and Business Rates Adjustments | (1.4) |
| **(209.1)** | | **(223.8)** |

**Note 37**
**Financial Instruments**

## 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.

All of the Council's financial liabilities held during the year are measured at amortised cost and comprise:

- long-term loans from the Public Works Loan Board and commercial lenders
- bonds issued
- long-term LOBO loans
- loans from other local authorities
- Private Finance Initiative contracts
- lease payables
- transferred debt
- trade payables for goods and services received
- overdraft with banks

### 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 two 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:
    - loans to organisations made for service purposes
    - current and deposit bank accounts
    - cash in hand
    - trade receivables for goods and services provided

- Fair value through profit and loss (all other financial assets) comprising:
    - money market funds
    - equity investments in companies
    - loans to organisations where the cash flows are not solely payments of principal and interest

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

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

| | Long Term | | Short Term | |
|---|---|---|---|---|
| | 31 March 2021 £m | 31 March 2022 £m | 31 March 2021 £m | 31 March 2022 £m |
| **Investments** | | | | |
| Fair Value through Profit or Loss | 2.1 | 1.7 | 172.3 | 36.5 |
| Amortised Cost | - | - | - | 74.0 |
| Investments that are not financial instruments | 35.7 | 35.7 | - | - |
| **Total investments** | **37.8** | **37.4** | **172.3** | **110.5** |
| **Debtors** | | | | |
| Fair Value through Profit or Loss | 3.4 | 3.8 | - | - |
| Amortised Cost | 80.0 | 79.3 | 262.0 | 206.6 |
| **Total** | **83.4** | **83.1** | **262.0** | **206.6** |
| *Debtors that are not financial instruments* | 24.1 | 26.0 | 138.9 | 135.2 |
| **Total debtors** | **107.5** | **109.1** | **400.9** | **341.8** |
| **Cash** | | | | |
| Cash in Hand | | | 54.3 | 57.4 |
| **Total cash: asset** | | | 54.3 | 57.4 |
| Cash Overdrawn | | | (0.0) | - |
| **Total cash: liability** | | | (0.0) | - |
| **Borrowings** | | | | |
| Fair Value through Profit or Loss | - | - | - | - |
| Fair Value at Amortised Cost | (2,989.4) | (2,924.2) | (490.5) | (299.7) |
| **Total borrowings** | **(2,989.4)** | **(2,924.2)** | **(490.5)** | **(299.7)** |
| **Other Long Term Liabilities** | | | | |
| PFI and finance lease liabilities | (369.2) | (352.3) | | |
| **Total** | (369.2) | (352.3) | | |
| *Transferred Debt and Other Liabilities* | (39.9) | (33.1) | | |
| **Total long term liabilities** | **(409.1)** | **(385.4)** | | |
| **Creditors** | | | | |
| Fair Value at Amortised Cost | (0.6) | (0.5) | (265.5) | (239.6) |
| **Total** | (0.6) | (0.5) | (265.5) | (239.6) |
| *Creditors that are not financial instruments* | - | - | (166.1) | (245.3) |
| **Total creditors** | **(0.6)** | **(0.5)** | **(431.6)** | **(484.9)** |

Material Soft Loans Made by the Council

The Council has made the following material soft loans:

Warwickshire County Cricket Club was granted a loan of £20m in 2009 to support the major ground refurbishment undertaken. The loan is deemed to be a material soft loan and is carried in the accounts at £17.2m, paying a fixed interest rate of 5%. During the development phase of the project, interest was rolled up in the loan. In 2016/17, Warwickshire County Cricket Club exercised its right, under the terms of the loan agreement, to defer interest and principal repayment for two quarters from March 2013 and extend the loan maturity to make these payments. The club applied for a further 18 month interest and principal deferral, which was granted by the Council. All interest on the deferred payments is rolled up and the term of the loan has been extended to 2045.

On the creation of Birmingham Children's Trust CIC it was offered loan facilities to ensure that it had sufficient cash resources to operate efficiently given that the company was a company limited by guarantee and had no equity. The Council advanced a loan of £4m in April 2018 at an interest rate of 2.41% and a further loan of £6m in April 2019 at an interest rate of 1.87%. The Trust exercised its right under the contract and repaid the £6m loan in full in January 2022. The remaining loan of £4m is due to be repaid as a single repayment in March 2028 but the Trust has the right to repay at an earlier date. The loan is deemed to be a material soft loan and is carried in the accounts at £3.2m

The treatment of soft loans in the financial statements is as follows:

| | 2020/21<br>£m | 2021/22<br>£m |
|---|---|---|
| **Opening balance at 1 April** | **25.3** | **25.3** |
| Loans repaid | (0.2) | (6.1) |
| Movement in Expected Credit Loss per IFRS9 | (0.1) | (0.0) |
| (Increase)/Reduction in discount | 0.3 | 1.2 |
| **Closing Balance at 31 March** | **25.3** | **20.4** |
| Nominal value at 31 March | 32.0 | 25.1 |

Valuation Assumptions

The interest rate at which the fair value of soft loans has been made at recognition is arrived at by taking the Council's prevailing cost of borrowing and adding an allowance for the risk that the loan might not be repaid.

As with all loans made by the Council, reviews of the repayment schedule are undertaken with the borrowing counterparties, particularly in the light of the impact of Covid-19 to determine whether the level of risk has increased sufficiently to make any changes to the assessment the carrying value of the loans.

Income, Expenses, Gains and Losses

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments are shown in the following table. The losses on financial instruments recognise that some debts will not be recovered and includes an allowance for an increase as a result of the difficulties arising from the spread of Covid-19.

| | 2020/21 Surplus/Deficit on the Provision of Services | 2021/22 Surplus/Deficit on the Provision of Services |
|---|---|---|
| | £m | £m |
| **Net (Gains)/Losses on financial instruments:** | | |
| Financial assets measured at fair value through profit/loss | 1.6 | 0.0 |
| Financial assets measured at amortised costs | 23.2 | 16.3 |
| **Total Net (Gains)/Losses on financial instruments** | **24.8** | **16.3** |
| **Income/Expenditure in (Surplus)/Deficit on the Provision of Services** | | |
| Interest Receivable from financial assets measured at amortised costs | (18.9) | (25.6) |
| Investment income from financial assets measured through profit and loss | (0.9) | (0.9) |
| Interest Expense | 164.6 | 164.5 |
| **Net Income/Expenditure in (Surplus)/Deficit on the Provision of Services** | 144.8 | 138.0 |
| **Net (gain)/loss for the year** | **169.6** | **154.3** |

Fair Value of Financial Instruments

The fair value of a financial instrument is the price that would be received when selling an asset, or the price that would be paid when transferring a liability, to another market participant in an arms'-length transaction. Where liabilities are held as an asset by another party, such as the Council's borrowing, the fair value is estimated from the holder's perspective.

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

Financial instruments classified at amortised cost are carried in the Balance Sheet at their amortised cost. Their fair values disclosed below have been estimated by calculating the net present value of the remaining contractual cash flows at 31 March 2022, 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.
- Discount rates for “Lender’s Option Borrower’s Option” (LOBO) loans have been reduced to reflect the value of the embedded options. The size of the reduction has been calculated using proprietary software.
- 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 31 March.
- 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 PWLB’s new annuity loan certainty rates.
- 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 interest rate environment.

Fair values are shown in the tables 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 that are observable for the asset or liability, other than quoted prices, 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 forecasts or estimated creditworthiness

Details of the impact of fair value assessments on specific categories of financial liabilities are set out below.

| **Financial Liabilities** | **Input level in Fair Value Hierarchy** | **Valuation inputs and assumptions used to measure Fair Value** | **31 March 2021** | **31 March 2021** | **31 March 2022** | **31 March 2022** |
|---|---|---|---|---|---|---|
| | | | Carrying Amount £m | Fair Value £m | Carrying Amount £m | Fair Value £m |
| ***Financial Liabilities held at amortised cost:*** | | | | | | |
| PWLB loans | Level 2 | PWLB new maturity loan certainty rate | 2,508.1 | 3,378.3 | 2,513.2 | 3,120.1 |
| Bonds issued (BIRCTY 9.675% 21/04/2030) | Level 2 | market rate for similar instruments | 302.0 | 380.2 | 295.9 | 343.7 |
| Bonds issued (NECF 7.5625% 30/09/2027) | Level 1 | Quoted price from Bloomberg | 82.2 | 97.9 | 81.0 | 90.2 |
| LOBO loans | Level 2 | market rate for similar instruments | 72.5 | 140.3 | 72.5 | 124.6 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Other long-term loans | Level 2 | market rate for similar instruments | 137.0 | 156.9 | 124.5 | 130.2 |
| Lease payables and PFI Liabilities | Level 2 | PWLB new annuity loan certainty rate | 383.2 | 586.3 | 370.2 | 522.4 |
| Transferred debt * | Level 2 | market rate for similar instruments | 34.7 | 38.5 | 29.0 | 30.8 |
| Other long-term liabilities/creditors | N/A | Fair value is approximated at their carrying amount | 11.5 | 11.5 | 10.9 | 10.9 |
| Short term loans (mainly from other local authorities) | N/A | Fair value is approximated at their carrying amount | 378.0 | 378.0 | 136.8 | 136.8 |
| Short term creditors | N/A | Fair value is approximated at their carrying amount | 245.9 | 245.9 | 215.4 | 215.4 |
| **TOTAL Financial Liabilities** | | | **4,155.1** | **5,413.8** | **3,849.4** | **4,725.1** |

**The Transferred Debt information is provided by Dudley Metropolitan Borough Council, who have responsibility for the West Midlands County Council Debt Administration Fund. The fair values were provided to them by their Treasury Advisors.*

The fair value of financial liabilities held at amortised cost is higher than their Balance Sheet carrying amount because the Council'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.

As part of the Highways PFI settlement arrangements with Birmingham Highways Limited (BHL), the Council's overpayment claim against BHL was converted into a loan agreement of £64m at an interest rate of 8% per annum. It is expected that the value of the loan will only be recognised towards the end of the Highways PFI contract in June 2035 and will be dependent on the successful restructuring of the project, the continuance of the PFI contract and the successful performance of the contract over the remaining term.

**PWLB Loans**

The difference between the carrying amount and the fair value measures the additional interest that the Council will pay over the remaining terms of the loans under the agreements with the PWLB, against what would be paid if the loans were at prevailing market rates. However, the Council has a continuing ability to borrow at concessionary rates from the PWLB rather than from the markets. If the Council were to repay the loans to the PWLB, the PWLB would raise a penalty charge for early redemption in addition to charging a premium for the additional interest that will not now be paid. The exit price for the PWLB loans including the penalty charge would be £3,581.6m.

Details of the impact of fair value assessments on specific categories of assets are set out below.

| **Financial Assets** | **Input level in Fair Value Hierarchy** | **Valuation inputs and assumptions used to measure Fair Value** | **31 March 2021** | **31 March 2021** | **31 March 2022** | **31 March 2022** |
|---|---|---|---|---|---|---|
| | | | Carrying Amount £m | Fair Value £m | Carrying Amount £m | Fair Value £m |
| ***Financial assets held at fair value:*** | | | | | | |
| *Money Market Funds/equity - short term* | Level 1 | market price | 172.3 | 172.3 | 36.5 | 36.5 |
| *Shares in companies - long term* | Level 3 | with significant unobservable inputs | 2.1 | 2.1 | 1.7 | 1.7 |
| *Loans to organisations for service purposes - long term* | Level 2 | with significant unobservable inputs | 3.4 | 3.4 | 3.8 | 3.8 |
| ***Financial assets held at amortised cost:*** | | | | | | |
| *Deposits (DMADF and other local authorities) - short term* | N/A | Fair value is approximated at their carrying amount | - | - | 74.0 | 74.0 |
| Loans to organisations for service purposes | Level 3 | with significant unobservable inputs | 79.4 | 83.9 | 72.3 | 74.4 |
| *Long term asset/long term debtors* | N/A | Fair value is approximated at their carrying amount | 2.7 | 2.7 | 9.5 | 9.5 |
| Short term debtors | N/A | Fair value is approximated at their carrying amount | 262.0 | 262.0 | 204.1 | 204.1 |
| Cash/bank deposits - short term | N/A | Fair value is approximated at their carrying amount | 54.3 | 54.3 | 57.4 | 57.4 |
| **Total Financial Assets** | | | **576.2** | **580.7** | **459.3** | **461.4** |

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

**Note 38**
**Nature and Extent of Risks Arising from Financial Instruments**

The Council's activities expose it to a variety of risks relating to its financial instruments, including:

- Credit risk – the possibility that other parties might fail to pay amounts due to the Council;
- Liquidity risk – the possibility that the Council may not have funds available to meet its payment commitments;
- Market risk – the possibility of financial loss due to changes in interest rates and market prices.

These risks are mainly managed by a central Treasury Management team in accordance with policies and approvals set by the Council in its annual Budget Report, Treasury Management Strategy, and Treasury Management Practices in particular. The Council complies with CIPFA's Code of Practice for Treasury Management in the Public Services and the Prudential Code for Capital Finance in Local Authorities, both of which regulate the use of financial instruments and establish a treasury risk management framework.

<u>Credit Risk</u>
Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers.

This risk is measured and managed primarily through the investment policies and strategy in the approved Budget, which requires that deposits are made in accordance with approved credit criteria and limits, including minimum credit ratings as follows:

| 'Specified' short term loan investments (all in Sterling) | Minimum Short term rating* | Minimum Long term rating* | Maximum investment per counterparty |
|---|---|---|---|
| Banks (including overseas banks) and Building Societies | F1+ /A1+ /P1 | AA- /AA- /Aa3 | £25m |
| | F1+ /A1+ /P1 | A- / A- /A3 | £20m |
| | F1 /A1 /P1 | A- / A- /A3 | £15m |
| | F2 /A2 /P2 | BBB+ /BBB+ /Baa1 | £10m |
| Sterling commercial paper and corporate bonds | F1+ /A1+ /P1 | A- / A- /A3 | £15m |
| Sterling Money Market Funds (short term and Enhanced) | AAA (with rating indicating lowest level of volatility where applicable) | | £40m |
| Local authorities | n/a | n/a | £25m |
| UK Government and supranational bonds | n/a | n/a | None |
| UK Nationalised Banks and Government controlled agencies | n/a | n/a | £25m |
| Secured investments including repo and covered bonds | Lending limits determined as for banks (above) using the rating of the collateral or individual investment | | |

* Fitch / S&P / and Moody's rating Agencies respectively. Institutions must be rated by at least two of the Agencies, and the lowest rating will be taken into account.

This risk is minimised through the Treasury Management Policy, which requires that deposits are not made with financial institutions unless they meet minimum credit ratings from the three major credit ratings agencies. The Treasury Management Policy also imposes a maximum sum to be invested with a financial institution located within each rating category and country. The Treasury Management Policy is contained within the Council's approved Financial Plan.

The Council will not invest more than £400m in long term investments as follows:

- Government stocks (or "Gilts") and other supranational bonds, with a maturity of less than five years.
- Corporate Bonds, Certificates of Deposit (CD) or Commercial Paper (CP) with a maturity of less than three years, subject to a long term credit rating of not less than AA (in addition to the restrictions in the table above). CD or CP shall not exceed 20% of long-term investments (i.e. those maturing in one year or more).

The Council also uses information from a variety of other sources in reaching a view about the suitability of particular investments.

The Council also makes a variety of investments in support of its service objectives. These investments are not subject to the above credit quality requirements, but are individually appraised and approved in relation to their support for service outcomes as well as their financial consequences and risks.

The Council's maximum exposure to credit risk, in relation to its investments in financial institutions, cannot be assessed generally, as the risk of any institution failing to make due payments will be specific to each individual institution. In relation to the Council's outstanding treasury deposits with financial institutions, local authorities and other institutions, no such deposits have defaulted in the year or are impaired. A risk of recoverability applies to all deposits, but there was no evidence at 31 March 2022 that this was likely to crystallise.

The Council does not hold collateral as security on its treasury deposits.

Liquidity Risk

Liquidity risk arises from the need to borrow to finance capital expenditure, loan maturities and other payments. The Council has a comprehensive cash flow management system that measures liquidity and seeks to ensure that cash is available as needed. The Council has ready access to loans from the Public Works Loan Board (PWLB) in accordance with the PWLB circulars currently in force, and there is no significant risk that it will be unable to raise finance to meet its commitments. The Council sets limits on the proportion of its fixed rate borrowing maturing in specified periods. The maturity analysis of financial liabilities is as follows:

| | 31 March 2021<br>£m | 31 March 2022<br>£m |
|---|---|---|
| Less than 1 year | (756.0) | (539.3) |
| Between 1 and 2 years | (120.1) | (84.4) |
| Between 2 and 5 years | (281.6) | (313.0) |
| Between 5 and 20 years | (1,617.1) | (1,617.3) |
| Between 20 and 40 years | (1,280.3) | (1,255.3) |
| Over 40 years | (100.1) | (40.1) |
| **Total** | **(4,155.2)** | **(3,849.4)** |

All trade and other payables are due to be paid in less than 1 year, except £0.5m long term creditors.

LOBO loans
The LOBO maturity profile assumes that the lender will not exercise their option until maturity. The LOBOs are of fixed rates, ranging between 3.8% and 11.5%. Of the total amount, £30m have a break clause of every 5 years, £30m have a break clause twice a year and £11.1m have a break clause any day at one month's notice. However, in the current low interest rate environment, it is unlikely that the lender will exercise their option to request early repayment of these LOBOs.

Market Risk

Interest rate risk
The Council is exposed to significant risk in relation to interest rate movements on its borrowing and investments.

The Council is exposed to changes in interest rates as a result of most of its borrowings being at long-term fixed rates and investment being short-term or at variable rates of interest. Consequently, falls in interest rates will have an adverse impact on the Council's finances.

For instance, a rise in interest rates would have the following effects:

- Borrowings at variable rates – the interest expense charged to the Surplus/(Deficit) on the Provision of Services will rise
- Borrowings at fixed rates – the fair value of the liabilities for borrowings will fall
- Investments at variable rates – the interest income credited to the Surplus/(Deficit) on the Provision of Services will rise
- Investments at fixed rates – the fair value of the assets will fall.

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus/(Deficit) on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus/(Deficit) on the Provision of Services and affect the General Fund Balance. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in Other Comprehensive Income and Expenditure.

These risks are measured and managed in accordance with the Council's Treasury Management Strategy, including the setting and monitoring of risk limits on the level of variable rate instruments and on the amount of borrowing maturing in future years.

At 31 March 2022, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

| | £m |
|---|---|
| Increase in interest payable on variable rate borrowings | 1.9 |
| Increase in interest receivable on variable rate investments | (1.5) |
| Impact on Surplus/(Deficit) on the Provision of Services | 0.4 |
| Share of overall impact charged to the HRA | 1.5 |
| Decrease in fair value of fixed rate investment assets | 4.9 |
| Decrease in fair value of fixed rate borrowing liabilities (no impact on the Surplus/(Deficit) on the Provision of Services or Other Comprehensive Income and Expenditure) | (428.1) |

The impact of a 1% fall in interest rates would be as above but with the movements being reversed. The above sensitivities have been prepared and based on loan debt and loan investments outstanding at 31 March 2022.

Price Risk

The Council's holdings of shares are all unquoted shares held primarily to support service objectives rather than as financial investments. The financial value of these shares will vary according to general market conditions and the particular circumstances of the share issuers. Active prices for these investments are not available. Any temporary fluctuations in the market value of such investments would have no significant impact on the Council's finances.

## Note 39
## Capital Expenditure and Capital Financing

The Council's capital expenditure on an accruals basis, analysed between types of asset, is summarised below. This also includes revenue expenditure funded from capital under statute.

| | 31 March 2021 £m | 31 March 2022 £m |
|---|---|---|
| **Opening Capital Financing Requirement** | 4,501.9 | 4,556.1 |
| **Capital Investment** | | |
| Property, Plant and Equipment | 412.5 | 465.6 |
| Intangible Assets | - | 1.5 |
| Revenue Expenditure funded from Capital under Statute | 86.8 | 97.6 |
| Secretary of State Direction - Flexible use of Capital Receipts | 20.1 | 22.3 |
| Long Term Loans | 1.9 | - |
| Increase in Share Equity | 1.5 | - |
| **Sources of Finance** | | |
| Capital Receipts | (42.0) | (50.2) |
| Government Grants and other Contributions | (187.4) | (97.2) |
| Sums set aside from Revenue: | | |
| - Direct Revenue Contributions | (23.7) | (23.2) |
| - Use of Major Repairs Reserve | (53.3) | (62.5) |
| - Revenue Provision for Debt Redemption | (148.4) | (132.0) |
| - Capital Receipts set aside for debt redemption | (13.8) | (8.0) |
| **Closing Capital Financing Requirement** | **4,556.1** | **4,770.0** |
| **Explanation of Movements in Year** | | |
| Movement in underlying need to borrow | 33.7 | 156.3 |
| Assets acquired under finance leases | 0.7 | 0.9 |
| Assets acquired under PFI contracts | 19.8 | 56.7 |
| **Increase/(decrease) in Capital Financing Requirement** | **54.2** | **213.9** |
| **Movement in Year** | **54.2** | **213.9** |

Note:
The Secretary of State direction relates to the permission given to local authorities to use capital receipts generated between 1 April 2016 and 31 March 2022 to finance the revenue costs of transformation that deliver savings to the public sector. this flexibility has been subsequently further extended for a further three years.

**Note 40**
**Leases**

The Council has a significant number of leases, as summarised below.

**Council as the lessee**

**Finance leases**
The Council has acquired a number of buildings and other assets under finance leases. The assets acquired under these leases are carried in the Balance Sheet at the following net amounts.

| 31 March 2021 £m | | 31 March 2022 £m |
|---|---|---|
| 30.0 | Other Land and Buildings | 31.5 |
| 3.0 | Vehicles, Plant, Furniture & Equipment | 3.0 |
| **33.0** | **Total** | **34.5** |

The Council is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the property acquired by the Council and finance costs that will be payable by the Council in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

| 31 March 2021 £m | | 31 March 2022 £m |
|---|---|---|
| | Finance lease liabilities (net present value of minimum lease payments): | |
| 1.1 | - current (not later than 1 year) | 0.9 |
| 1.2 | - non-current (later than 1 year) | 1.2 |
| 1.9 | Finance costs payable in future years | 1.9 |
| **4.2** | **Minimum Lease Payments** | **4.0** |

The minimum lease payments will be payable over the following periods:

| | Minimum lease payments | | Finance lease liabilities | |
|---|---|---|---|---|
| | 31 March 2021 £m | 31 March 2022 £m | 31 March 2021 £m | 31 March 2022 £m |
| Not later than 1 year | 1.2 | 1.0 | 1.1 | 0.9 |
| Later than 1 year and not later than 5 years | 1.1 | 1.1 | 1.0 | 1.0 |
| Later than 5 years | 1.9 | 1.9 | 0.2 | 0.2 |
| **Total** | **4.2** | **4.0** | **2.3** | **2.1** |

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2021/22 contingent rents of £nil were payable (2020/21: £nil).

The Council has not sublet any of the assets held under these finance leases.

**Operating leases**
The Council has acquired a number of administrative buildings under operating leases. The future minimum lease payments due under non-cancellable leases where the length of lease was greater than 1 year at inception are:

| 31 March 2021 £m | | 31 March 2022 £m |
|---|---|---|
| 0.3 | Not later than 1 year | 0.8 |
| 0.5 | Later than 1 year and not later than 5 years | 1.1 |
| 1.2 | Later than 5 years | 1.1 |
| **2.0** | **Total** | **3.0** |

The Council has not sublet any of the assets held under these operating leases.

The expenditure charged to the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

| 31 March 2021 £m | | 31 March 2022 £m |
|---|---|---|
| 0.2 | Minimum lease payments | 0.4 |
| 0.1 | Contingent rents | 0.0 |
| **0.3** | **Total** | **0.4** |

## Council as the lessor

**Finance leases**
The Council has leased out property to a number of parties on finance leases. The Council has a gross investment in the lease, made up of the minimum lease payments expected to be received over the remaining term and the residual value anticipated for the property when the lease comes to an end. The minimum lease payments comprise settlement of the long-term debtor for the interest in the property acquired by the lessee, and finance income that will be earned by the Council in future years whilst the debtor remains outstanding. The gross investment is made up of the following amounts:

| 31 March 2021 £m | | 31 March 2022 £m |
|---|---|---|
| | Finance lease debtor (net present value of minimum lease payments): | |
| 24.1 | - non-current (later than 1 year) | 26.0 |
| 203.5 | Unearned finance income | 212.5 |
| (28.3) | Less – Unguaranteed residual value of property | (30.1) |
| **199.3** | **Gross investment in the lease** | **208.4** |

The gross investment in the lease and the minimum lease payments will be received over the following periods:

| | Finance Lease debtor | | Minimum Lease payments | |
|---|---|---|---|---|
| | 31 March 2021 | 31 March 2022 | 31 March 2021 | 31 March 2022 |
| | £m | £m | £m | £m |
| Not later than 1 year | 0.0 | 0.0 | 1.6 | 1.5 |
| Later than 1 year and not later than 5 years | 0.1 | 0.1 | 6.3 | 6.0 |
| Later than 5 years | 24.0 | 25.9 | 191.4 | 200.9 |
| **Total** | **24.1** | **26.0** | **199.3** | **208.4** |

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2021/22 £1.5m contingent rents were receivable by the Council (2020/21 £1.5m).

**Operating leases**

The Council has leased out property to a number of parties as operating leases.

The future minimum lease payments receivable under non-cancellable leases where the length of lease was greater than 1 year at inception are:

| 31 March 2021 | | 31 March 2022 |
|---|---|---|
| £m | | £m |
| 9.5 | Not later than 1 year | 9.1 |
| 27.9 | Later than 1 year and not later than 5 years | 26.5 |
| 64.1 | Later than 5 years | 59.4 |
| **101.5** | **Total** | **95.0** |

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2021/22 £3.4m contingent rents were receivable by the Council (2020/21 £3.1m).

**Leases - contingent rent**

Contingent rents are determined from the comparison of the property lease rental system to the accounts leasing system.

**Note 41**
**Service Concession Arrangements**

The Council has entered into a number of Service Concession arrangements, formerly classed as Private Finance Initiative (PFI), through which assets are constructed or refurbished and services are provided under long-term contracts with private sector firms. The main contracts cover Schools and Highways Management and Maintenance.

The main terms of the material arrangements are as follows:

- Schools. There are four separate arrangements in place for the rebuild / refurbishment and management of a total of 26 schools within Birmingham. These arrangements are of varying duration and service providers: 10 schools from 2001/02 (for 32 years), 11 schools from 2004/05 (for 35 years), four schools from 2011/12 (for 25 years) and a single secondary school from 2013/14 ending 2038/39. The service provider is paid a Unitary Charge monthly for the duration of the contracts, with indexation applied annually as per the terms of each contract. Within each contract the Council retains both the schools' assets and the liability for future contract commitments in the Balance Sheet, with the exception of when schools gain Academy status. There are a number of PFI managed schools that have gained Academy status, a total of nine schools to date across the four separate school PFI contracts. Whilst the assets no longer belong to the Council and are thus removed from the Balance Sheet, the ongoing liability remains as a Council responsibility.

- Birmingham Highways Management and Maintenance Public Finance Initiative (PFI). This contract provides for the management and maintenance of all public highway and other contractually designated areas within the Birmingham boundary by the contractor; Birmingham Highways Limited (BHL). The original contract commenced on 7 June 2010, with a contract period of 25 years and was originally designed so that the initial five year period was for capital improvement to the highways network followed by a 20 year period during which the improved highway condition was maintained. These financial statements are based on a continuance of the current contract arrangements.

  Indexation is applied annually on 1 April by reference to movements in the Retail Price Index. Deductions can be levied for non-performance of the contractual deliverables as specified within the contract. As the size and scale of the highway network varies, the contract provides for these changes to be accrued into the network maintained by the Service Provider, Birmingham Highways Limited, attracting an increase/decrease in payments made as appropriate.

  The Council continues to have full use of the roads and roadside furniture during the period of the arrangement, at the end of which all rights revert to the Council. There are no early terminations or period clauses within the PFI arrangement.

  Following poor performance and subsequent legal action, a settlement agreement was reached which addressed the dispute between the Council and the contractor. As a result, the original subcontractor, Amey Plc, exited the contract on 31 March 2020 and a new interim sub-contractor; Kier Highways Ltd was appointed by BHL from 1 April 2020 for an initial period of 15 months, in order to develop a way forward with the contract. An extension to the arrangement with Kier has been negotiated pending procurement of a long-term replacement subcontractor.

On the basis of a transfer of responsibilities under the contract to a new provider, these financial statements are based on a continuance of the current contract arrangements.

| **Payments Remaining as at 31 March 2022** | **Interest** | **Repayment of Liability** | **Payment for Services** | **Total** |
|---|---|---|---|---|
| | **£m** | **£m** | **£m** | **£m** |
| Within 1 year | 29.0 | 17.0 | 47.0 | 93.0 |
| Between 2 and 5 years | 101.5 | 77.4 | 205.6 | 384.5 |
| Between 6 and 10 years | 87.1 | 128.3 | 300.4 | 515.8 |
| Between 11 and 15 years | 29.5 | 129.2 | 216.2 | 374.9 |
| Between 16 and 20 years | 1.7 | 16.1 | 18.7 | 36.5 |
| | **248.8** | **368.0** | **787.9** | **1,404.7** |

Although the payments made to the contractor are described as unitary payments, they have been calculated to compensate the contractor for the fair value of the services they provide, the capital expenditure incurred and interest payable whilst the capital expenditure remains to be reimbursed. The movement in the liabilities to repay the contractors for capital expenditure incurred is as follows:

| 2020/21 | | 2021/22 |
|---|---|---|
| £m | | £m |
| 392.4 | Liability outstanding at the start of the year | 381.0 |
| (31.9) | Repayment of liability | (69.6) |
| 20.5 | Lifecycle and further capital expenditure | 56.6 |
| **381.0** | **Liability outstanding at the year end** | **368.0** |

**Service Concessions - contingent rent**
Contingent rents in respect of service concession arrangements total £4.8m (£1.5m 20/21).

## Note 42
## Members' Allowances

Allowances paid to Members of the Council in 2021/22 totalled £2.5m (2020/21: £2.3m). These figures include Members' allowances and expenses. Further information can be found on the Council's website.

## Note 43
## Officers' Remuneration

The posts forming the Council's Senior Leadership Team changed between the financial years 2020/21 and 2021/22 due to the implementation of a new structure.

The remuneration paid to or receivable by the Council's senior employees in the new structure is detailed in the table below.

| | | Salary, fees and allowances | Compensation for loss of office | Expense allowances | Pension contributions | Total |
|---|---|---|---|---|---|---|
| | | £ | £ | £ | £ | £ |
| Deborah Cadman, Chief Executive [(1)] | 2020/21 | - | - | - | - | - |
| | 2021/22 | 184,374 | - | - | 39,272 | 223,646 |
| Assistant Chief Executive [(2)] | 2020/21 | 119,368 | - | - | 25,425 | 144,793 |
| | 2021/22 | 44,495 | - | - | 9,477 | 53,972 |
| Professor Graeme Betts, Director, Adult Social Care [(3)] | 2020/21 | 173,060 | - | - | - | 173,060 |
| | 2021/22 | 176,133 | - | - | - | 176,133 |
| Acting Director, Adult Social Care [(4)] | 2020/21 | 27,290 | - | - | 5,813 | 33,103 |
| | 2021/22 | 28,623 | - | - | 6,097 | 34,720 |
| Director, Council Management [(5)] | 2020/21 | - | - | - | - | - |
| | 2021/22 | 70,983 | - | - | 15,119 | 86,102 |
| Managing Director, City Housing [(6)] | 2020/21 | - | - | - | - | - |
| | 2021/22 | 136,921 | - | - | 29,164 | 166,085 |
| Managing Director, City Operations | 2020/21 | 139,068 | - | - | 29,621 | 168,689 |
| | 2021/22 | 148,102 | - | - | 31,546 | 179,648 |
| Strategic Director, Place, Prosperity and Sustainability [(7)] | 2020/21 | - | - | - | - | - |
| | 2021/22 | 40,027 | - | - | 8,526 | 48,553 |
| Acting Strategic Director, Place, Prosperity and Sustainability [(8)] | 2020/21 | 139,068 | - | 315 | 29,621 | 169,004 |
| | 2021/22 | 82,745 | - | - | 17,625 | 100,370 |
| Director, Children and Families [(9)] | 2020/21 | - | - | - | - | - |
| | 2021/22 | 72,047 | - | - | 15,346 | 87,393 |
| Director, Strategy, Equalities and Partnerships [(10)] | 2020/21 | - | - | - | - | - |
| | 2021/22 | 46,013 | - | - | 9,801 | 55,814 |
| Director, Public Health | 2020/21 | 103,975 | - | - | 22,147 | 126,122 |
| | 2021/22 | 107,645 | - | - | 22,928 | 130,573 |
| Interim Director, Council Management [(5)] | 2020/21 | N/A | N/A | N/A | N/A | N/A |
| | 2021/22 | N/A | N/A | N/A | N/A | N/A |
| Commonwealth Games Programme Director [(11)] | 2020/21 | N/A | N/A | N/A | N/A | N/A |
| | 2021/22 | N/A | N/A | N/A | N/A | N/A |
| Transformation Director [(12)] | 2020/21 | N/A | N/A | N/A | N/A | N/A |
| | 2021/22 | N/A | N/A | N/A | N/A | N/A |
| Director, Education and Skills [(13)] | 2020/21 | N/A | N/A | N/A | N/A | N/A |
| | 2021/22 | N/A | N/A | N/A | N/A | N/A |

Notes:

(1) Deborah Cadman was appointed as Interim Chief Executive from 14 June 2021 and on 6 July 2022 her permanent appointment was announced.

(2) The Assistant Chief Executive left the Council on 8 August 2021.

(3) Professor Graeme Betts, Director, Adult Social Care took responsibility for the post of Acting Chief Executive on 7 March 2021 until 13 June 2021.

(4) The Acting Director, Adult Social Care took up the role on 7 March 2021 until 13 June 2021.

(5) The Director, Council Management was appointed on a permanent basis on 1 November 2021. The payroll costs of the permanent appointment are shown within the table above. Prior to the permanent appointment they were employed as Interim Director, Council Management, through a third party, the costs of which were £185,263 in 2021/22 (2020/21: £316,750). The third party amount is not the amount that would have been received by the postholder.

(6) The Managing Director, City Housing took up the role on 17 May 2021.

(7) The Strategic Director, Place, Prosperity and Sustainability took up the role on 4 January 2022.

(8) The Acting Strategic Director, Place, Prosperity and Sustainability covered the role until 30 October 2021.

(9) The Director, Children and Families took up the role on 1 November 2021.

(10) The Director, Strategy, Equalities and Partnerships took up the role on 15 November 2021.

(11) The Commonwealth Games Programme Director was employed through a third party, the costs of which were £279,600 in 2021/22 (2020/21: £261,600 commencing from 11 May 2020). This amount is not the amount that would have been received by the postholder.

(12) The Transformation Director was employed through a third party from 10 May 2021, the costs of which were £207,776 in 2021/22. This amount is not the amount that would have been received by the postholder.

(13) The Director, Education and Skills was employed through a third party from 4 May 2021 to 30 November 2021, the costs of which were £112,000 in 2021/22. This amount is not the amount that would have been received by the postholder.

Coverage of statutory posts during periods of annual leave or sickness absence was by officers within the relevant teams under delegated responsibilities.

Other Council employees receiving more than £50,000 remuneration for the year (excluding employer's pension contributions) were paid the amounts detailed in the table below. Staff within Voluntary Aided and Foundation schools are employed by the governing body of the school and have therefore been excluded from the table below.

| 2020/21 Teaching Staff & Staff in Schools | 2020/21 Other Council Employees | 2020/21 **Total** | Remuneration band | 2021/22 Teaching Staff & Staff in Schools | 2021/22 Other Council Employees | 2021/22 **Total** |
|---|---|---|---|---|---|---|
| No | No | **No** | | No | No | **No** |
| 173 | 140 | **313** | £50,000 - £54,999 | 169 | 150 | **319** |
| 102 | 129 | **231** | £55,000 - £59,999 | 98 | 142 | **240** |
| 61 | 31 | **92** | £60,000 - £64,999 | 71 | 69 | **140** |
| 68 | 40 | **108** | £65,000 - £69,999 | 64 | 39 | **103** |
| 38 | 22 | **60** | £70,000 - £74,999 | 46 | 27 | **73** |
| 18 | 17 | **35** | £75,000 - £79,999 | 15 | 24 | **39** |
| 13 | 3 | **16** | £80,000 - £84,999 | 12 | 11 | **23** |
| 14 | 8 | **22** | £85,000 - £89,999 | 11 | 6 | **17** |
| 7 | 5 | **12** | £90,000 - £94,999 | 8 | 8 | **16** |
| 4 | 2 | **6** | £95,000 - £99,999 | 6 | 6 | **12** |
| 2 | 8 | **10** | £100,000 - £104,999 | 2 | - | **2** |
| - | 3 | **3** | £105,000 - £109,999 | - | 9 | **9** |
| 1 | - | **1** | £110,000 - £114,999 | 1 | 2 | **3** |
| - | - | **-** | £115,000 - £119,999 | 1 | 2 | **3** |
| 1 | 1 | **2** | £120,000 + | - | 2 | **2** |
| **502** | **409** | **911** | | **504** | **497** | **1,001** |

Remuneration includes salary, allowances, bonuses and compensation for loss of employment.

The figures for both years include those employees with planned termination payments, 20 in 2021/22 (9 in 2020/21). Excluding employees in receipt of planned termination payments, 477 employees in 2021/22 (400 in 2020/21) received remuneration of £50,000 or more.

The number of Teaching Staff and Staff in Schools reflect those staff employed by the Council and has been affected by the conversion of a number of schools to Academy Status. Academy schools are independent of the Council and their employees are therefore excluded from the Council’s financial statements.

The number of staff in Voluntary Aided and Foundation Schools, with a remuneration of more than £50,000 per annum, was 195 in 2021/22 (2020/21: 235).

## Note 44
## Exit Packages

The costs of exit packages are amounts payable as a result of either the Council's decision to terminate an employee's employment before the normal retirement date, or an employee's decision to accept voluntary redundancy in exchange for those benefits. The following table provides information on the number of exit packages payable by the Council for the year, with total cost per band and total cost of both compulsory and other redundancies.

| 2020/21 | | | | | | | 2021/22 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Compulsory | | Voluntary | | **Total** | | Value of | Compulsory | | Voluntary | | **Total** | |
| No. | £m | No. | £m | **No.** | **£m** | individual package £000 | No. | £m | No. | £m | **No.** | **£m** |
| - | - | - | - | **-** | **-** | £250+ | - | - | - | - | **-** | **-** |
| 1 | 0.2 | 1 | 0.2 | **2** | **0.4** | £200 - £250 | - | - | 1 | 0.2 | **1** | **0.2** |
| - | - | - | - | **-** | **-** | £150 - £200 | - | - | 1 | 0.2 | **1** | **0.2** |
| 2 | 0.2 | 2 | 0.3 | **4** | **0.5** | £100 - £150 | - | - | 3 | 0.4 | **3** | **0.4** |
| 2 | 0.2 | - | - | **2** | **0.2** | £80 - £100 | 1 | 0.1 | 3 | 0.3 | **4** | **0.4** |
| 2 | 0.1 | 1 | 0.1 | **3** | **0.2** | £60 - £80 | 2 | 0.2 | 5 | 0.3 | **7** | **0.5** |
| 2 | 0.1 | 1 | 0.1 | **3** | **0.2** | £40 - £60 | 2 | 0.1 | 10 | 0.5 | **12** | **0.6** |
| 6 | 0.2 | 11 | 0.3 | **17** | **0.5** | £20 - £40 | 10 | 0.2 | 25 | 0.7 | **35** | **0.9** |
| 51 | 0.4 | 57 | 0.2 | **108** | **0.6** | less than £20 | 59 | 0.4 | 86 | 0.5 | **145** | **0.9** |
| **66** | **1.4** | **73** | **1.2** | **139** | **2.6** | **Total** | **74** | **1.0** | **134** | **3.1** | **208** | **4.1** |

In addition to the costs of exit packages identified above, the Council incurred costs of £0.020m in 21/22 (£0.018m in 20/21) relating to the provision of transitional support and training to employees whose further employment was considered to be at risk.

Exit packages include the costs of compulsory and voluntary redundancy, pension fund strain payments and other departure costs.

## Note 45
## Auditor Remuneration

The Council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and for non-audit services provided by the Council's external auditors.

| 2020/21 £m | | 2021/22 £m |
|---|---|---|
| 0.5 | Fees payable to Grant Thornton UK LLP with regard to external audit services carried out by the appointed auditor for the year | 0.4 |
| 0.0 | Fees payable to Grant Thornton UK LLP for the certification of grant claims and returns for the year | 0.0 |
| 0.5 | Total | 0.4 |

**Note 46**
**Related Parties**

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, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (for example, Council Tax bills, Business Rates, Housing Benefits). Grants received from Government departments are set out in Note 14. Grant receipts outstanding at 31 March 2022 are included in the balances within Note 27.

**Members**
Members of the Council have direct control over the Council's financial and operational policies. The total of Members' allowances paid in 2021/22 is shown in Note 42.

**Officers**
There were no transactions between Senior Officers of the Council and the Council and its related parties, other than the receipt of emoluments due as employees of the Council and payments of Council Tax due as appropriate.

**School Governors**
All school governors and staff should complete the school's Register of Business Interests. This register should be kept up-to-date and be freely available for inspection by governors, staff and parents.

**Other Public Bodies**

Aligned Budgets

The Council is party to an aligned commissioning agreement with the Clinical Commissioning Groups (CCGs) covering the Birmingham area, namely, Birmingham & Solihull CCG and West Birmingham and the Black Country CCG. Under this arrangement the strategic commissioning of Mental Health (MH) services is overseen by the Mental Health System Strategic Board. The Adults with Learning Disabilities (LD) Integrated Commissioning Board performs the same function for LD services. Each Board has representation from the City Council and NHS bodies and reviews the expenditure plans for the services but there is no arrangement in place to pool City Council and NHS budgets for the services. The objective of the arrangement is to improve services for users through closer working and co-operation in the commissioning of services and have been established pursuant to Section 75 of the NHS Act 2006 and related Regulations with the Council hosting the Learning Disability element and the combined CCGs hosting Mental

Health Services provision. The table below summarises the financial activity relating to the BCC hosted Learning Disability element for the year.

| | 2020/21 £m | 2021/22 £m |
|---|---|---|
| Funding provided to the pooled budget | | |
| Birmingham City Council | 109.2 | 114.4 |
| Combined Clinical Commissioning Groups | 71.6 | 75.7 |
| | **180.8** | **190.1** |
| Expenditure met from the pooled budget | | |
| Birmingham City Council | 109.2 | 114.4 |
| Combined Clinical Commissioning Groups | 71.6 | 75.7 |
| | **180.8** | **190.1** |
| **Net surplus arising from the pooled budget during the year** | **-** | **-** |

The Better Care Fund (including the improved Better Care Fund)

The Better Care Fund (BCF) was announced in June 2013 with the intention of driving the transformation of local care services and is operated through pooled budget arrangements between the Council and local Clinical Commissioning Groups (CCGs). Specific resources were earmarked for the BCF by NHS England in its allocation to CCGs. The remainder of the fund was made up of the Social Care Capital Grant and the Disabled Facilities Grant which were paid to local authorities. No new money was made available at the time to the health and care system, but the BCF provided an opportunity for joint working between local authorities and health organisations to deliver better outcomes for service users. The funding the Council receives through the BCF replaces the Section 256 transfer from the NHS that had been made in previous years.

As part of the Government's response to Covid-19 the Hospital Discharge Service Operating Model was established and provided funding, via the NHS, to help cover the cost of post-discharge recovery and support services, rehabilitation and reablement for up to 6 weeks following discharge from hospital. From September 2020 this was replaced with the Discharge to Assess Pathways model and for the 2021/22 financial year a total of £3.4m was received by the Local Authority to support these clients.

The improved Better Care Fund (iBCF) was introduced in 2016/17. It was implemented through two statements, the first – iBCF1 in November 2016 and the second - iBCF2 in Spring 2017. This Section 31 Grant is received by local authorities and is included in the BCF Pool. iBCF Funding received in 2021/22 remained at £65.9m.

The Council endorsed the principle of a BCF joint pooled budget for Older Adult Social Care and Health integrated provision between the Council and local CCGs, namely Birmingham & Solihull CCG and West Birmingham and the Black Country CCG. Joint proposals were developed during 2014/15 for implementation from 1 April 2015, which included the Council acting as host for the BCF.

In 2021/22 funding of £101.3m (2020/21: £116.3m) was earmarked for the BCF by the Department of Health via the CCGs as detailed in the table below. The main variation from 2020/21 is due to a reduction of £9.9m on the Discharge to Assess Pathway support. The Council's contribution was made up of the Disabled Facilities Grant, iBCF Grant, together with £12.4m of additional support to the wider Health and Social Care System.

| Contribution to the BCF Pooled Fund | 2020/21 £m | 2021/22 £m |
|---|---|---|
| Birmingham & Solihull CCG | 103.1 | 87.7 |
| Sandwell and West Birmingham CCG | 13.2 | 13.6 |
| **NHS Contribution** | **116.3** | **101.3** |
| | | |
| Birmingham City Council | 21.1 | 25.3 |
| iBCF Section 31 Grant | 65.9 | 65.9 |
| **Total BCF Pooled Fund** | **203.3** | **192.5** |

The BCF is used to fund various schemes as identified in the agreed joint plan. The management arrangements for the individual projects depend on the services being provided and include:

- Sole control of the activities by CCGs;
- Sole control of the activities by the Council;
- Joint control of the activities with CCGs or the Council acting as host;
- Lead commissioning by CCGs or the Council on behalf of the other organisations.

Details of the specific projects are set out below.

| **Service Provision** | **Budgeted Activity** | | **Nature of Arrangement** |
|---|---|---|---|
| | **2020/21** | **2021/22** | |
| | **£m** | **£m** | |
| Bed Based Additional Provision | 1.5 | 1.3 | Lead Commissioning – Council |
| Social Care Based Additional Provision | 1.7 | 1.8 | Sole Control – Council |
| Reablement – Kenrick Centre | 1.7 | 2.1 | Sole Control – Council |
| Care Act | 3.4 | 3.6 | Lead Commissioning – Council |
| Carers Strategy | 1.4 | 1.5 | Joint Control |
| Eligibility Criteria | 22.8 | 24.0 | Sole Control – Council |
| Management of Programme | 0.1 | 0.0 | Joint Control |
| Community Services | 50.9 | 40.6 | Sole Control – CCGs |
| Reablement – Rapid Assessment, Interface and Discharge | 1.8 | 0.3 | Sole Control – CCGs |
| Outpatient Antimicrobial Therapy | 0.1 | 0.1 | Sole Control – CCGs |
| End of Life Personal Health Budgets | 0.0 | 0.1 | Sole Control – CCGs |
| Dementia | 2.9 | 2.9 | Sole Control – CCGs |
| Assertive Outreach | 0.3 | 0.3 | Sole Control – CCGs |
| Equipment Contracts | 5.5 | 5.0 | Lead Commissioning – Council |
| Disabled Facilities Grant and Capital | 12.9 | 12.9 | Sole Control – Council |
| Health & Social Care System Improvements | 16.7 | 26.2 | Joint Control |
| Hospital Discharge Service | 13.7 | 3.9 | Joint Control |
| | **137.4** | **126.6** | |
| improved Better Care Fund (iBCF) | 65.9 | 65.9 | Sole Control – Council |
| **Total BCF** | **203.3** | **192.5** | |

**Other Related Parties**

During 2021/22 payments to the value of £471.4m, inclusive of VAT, were payable to related parties of which £42.8m remained outstanding at 31 March 2022. Additionally, £90.4m inclusive of VAT, was receivable during 2021/22 from companies in which the Council had a related party interest, of which £18.5m remained outstanding at 31 March 2022. The majority of the value of expenditure is in relation to companies where elected members are acting in their official capacity within the Group.

Other balances at 31 March 2022 are: assets of £37.4m of investments and £78.9m of loans (of which £74.5m is repayable after 31 March 2023); liabilities of £81.0m of funding guarantee (NEC Developments Plc), £17.5m held as cash invested by Birmingham Children's Trust and £2.5m of borrowings (all of which is repayable by 31 March 2023).

Entities Controlled or Significantly Influenced by the Council

The Council maintains involvement with a number of associated and subsidiary companies where the assets and liabilities of these companies are not included in the Council's core financial statements. Group accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

**The subsidiaries that have been consolidated into the group financial statements are listed below:**

| | | | Loans Council as Grantor | | Council Assets at year end | Council Liabilities at year end |
|---|---|---|---|---|---|---|
| | Exp. £m | Income £m | Granted £m | Repaid £m | £m | £m |
| Acivico Limited | 28.5 | 2.5 | 1.0 | 2.6 | 7.4 | 5.9 |
| Birmingham Children's Trust CIC | 231.3 | 14.5 | - | 6.0 | 5.7 | 29.4 |
| Birmingham City Propco Limited | - | 2.2 | - | - | 20.2 | - |
| InReach (Birmingham) Limited | - | - | 0.8 | 1.4 | 14.2 | - |
| National Exhibition Centre (Developments) Plc | 5.5 | - | - | - | - | 81.0 |
| PETPS (Birmingham) Limited | - | - | - | - | - | - |
| PETPS (Birmingham) Pension Funding Scottish Limited Partnership | 2.5 | - | - | - | - | 2.5 |

Separate to the numbers in the table above: The Council has made a provision of £3.6m in its accounts for potential reimbursement right support to its subsidiaries.

**The associate and joint venture that have been consolidated into the group financial statements are listed below:**

| | Expenditure £m | Income £m | Council Assets at year end £m | Council Liabilities at year end £m |
|---|---|---|---|---|
| Birmingham Airport Holdings Limited (BAH) | - | 0.4 | 1.0 | - |
| Paradise Circus Limited Partnership | 4.8 | 0.6 | 0.4 | - |

The Council also has relationships with a number of other companies and third party organisations where the assets and liabilities of the Council's holding is not material to the Group Accounts or where the Council has representation and influence on the board of the organisation but has no claim on the assets and liabilities of the organisation. Details of the organisation and its relationship to the Council are set out in the tables below.

Organisations where the Council has 100% share ownership of the company, but the level of activity is not material to the Council's Group Accounts, are detailed below. Those organisations highlighted with an asterisk had transactions with the Council in excess of £0.1m in 2021/22.

| | |
|---|---|
| Birmingham Charities Limited | Fields Millennium Green Trust (Kings Norton) |
| Birmingham Curzon Regeneration Company Limited | Finance Birmingham Limited |
| Birmingham Endeavour Limited | Forward Homes (Birmingham) Limited |
| Birmingham Municipal Housing Limited | Frontier Development Holding Limited |
| Birmingham Museums Trust * | Greater Birmingham and West Midlands Brussels Office * |
| Birmingham Venture Capital Limited * | NEC Pension Trustee Company Limited * |
| Birmingham Wheels Ltd | NEC Pension Trustee Company No.2 Limited |
| Creative Advantage West Midlands Limited | Performances (Birmingham) Limited * |

Entities where the Council has some influence

Organisations, including associated subsidiaries, where the Council is a minority shareholder of the company and the level of activity is not material to the Council's Group Accounts are detailed below. Those organisations highlighted with an asterisk had transactions with the Council in excess of £0.1m in 2021/22.

| | |
|---|---|
| Ascarii Limited | Frontier Development Capital Limited |
| Ascension Ventures | Goodfish Limited |
| Auctus | Learning Labs Limited |
| Big Button | Midlands Industrial Association Ltd |
| Birmingham LEP Company (also known as Birmingham Lend Lease Partnership) * | Mutt Motorcycles Limited |
| Birmingham Schools SPC Phase 1A Limited * | Natural HR Limited |
| Birmingham Schools SPC Phase 1B Limited * | Opinsta Limited |
| Birmingham Wholesale Market Company Limited * | Owned It |
| Bridge Street Management Ltd | Stockfield Community Association |
| Central Technology Belt | UK Municipal Bonds Agency PLC |
| Crowd Technologies | Veolia Environmental Services Birmingham Ltd * |
| CSR City Limited | Vision Technologies |
| Ex Cathedra | West Midlands Growth Company Limited * |
| Eyoto Group Limited | Wetakestock Limited |
| Friends of Rectory Park | |

The Council also has representation on the board of a number of organisations but has no associated shareholding or entitlement to returns from the organisation. Details of the relevant companies are set out below. Those organisations highlighted with an asterisk had transactions with the Council in excess of £0.1m in 2021/22.

| | |
|---|---|
| Acocks Green Carnival Committee | Greater Birmingham and Solihull LEP Ltd. |
| Acocks Green Primary School Academy * | Gurdwara Baba Deep Singh Ji Shaheed |
| Active Wellbeing Society Limited * | Harborne Parish Lands Charity |
| Bartley Green School Academy * | Holloway Hall Community Association |
| Betel UK | King Edward VI Academy Trust * |
| Birmingham Asian Resource Centre | Midlands Arts Centre |
| Birmingham Citizens Advice Bureau Service Ltd | Millennium Point Property Ltd * |

- Birmingham Disability Resource Centre *
- Birmingham Opera Company
- Birmingham Organising Committee for the 2022 Commonwealth Games Limited *
- Birmingham Repertory Theatre *
- Birmingham Royal Ballet *
- Birmingham Settlement Ltd *
- Birmingham Voluntary Service Council *
- Bournville Village Trust *
- Canal & River Trust *
- Care Plus
- City of Birmingham Symphony Orchestra *
- Clifton Road Youth Centre
- Cottesbrooke Infant and Nursery School Academy *
- Culture Spectrum
- Dance Xchange *
- Fox Hollies Community Association *
- Friends of Acocks Green Recreation Ground
- Millennium Point Trust
- New Local Ltd
- Pen Museum
- Rowheath Pavilion
- Sikh Council UK
- St Barnabas School (Academy)
- St. Basil's *
- St. Michael's Primary School Academy
- St. Paul's Community Development Trust
- Warwickshire County Cricket Club *
- Waverley School Academy *
- West Midlands Ambulance Service
- West Midlands Combined Authority *
- West Midlands Fire and Rescue Authority *
- Wilson Stuart School Academy *
- Witton Lodge Community Association Ltd *
- Yenton Primary School (Academy) *

Business Improvement Districts (BID) are business led partnerships, created to deliver additional services to local businesses. A BID covers a defined area in which a levy is charged on all business rate payers, which is then used to develop projects that will benefit business within the area. The Council has representation on BID boards within the Birmingham area as detailed below. Those organisations highlighted with an asterisk had transactions with the Council in excess of £0.1m in 2021/22.

- Acocks Green Village BID
- Colmore Business District BID*
- Erdington Town Centre Partnership
- Harborne Village BID Limited
- Jewellery Quarter Development Trust CIC
- Kings Heath BID
- Northfield Town Centre BID
- Retail Birmingham Limited*
- Soho Road BID
- Southside BID
- Sutton Coldfield Town Centre BID*
- Westside Partnership Limited

Tenant Management Organisations (TMO) – The Council, whilst not having shareholding, entitlement to returns, nor board representation, does still hold significant influence over these bodies. Those highlighted with an asterisk had transactions with the Council in excess of £0.1m in 2021/22.

- Bloomsbury Estate Management Board*
- Four Towers TMO*
- Holly Rise Housing Co-operative
- Manor Close Residents' Management Org.
- Roman Way Estate CIC*

<u>Other Related Parties</u>

In addition to the companies where the Council has influence through its share ownership or representation on the board, set out above, the Council has had transactions of over £0.1m within 2021/22 with the following organisations which fall within the definition of related parties:

- Ashley Community Housing (ACH)
- Birmingham and Solihull Mental Health Trust
- Birmingham Community Healthcare NHSFT
- Birmingham Women's and Children's NHSFT
- Black Country Housing Group Limited
- Chamberlain Highbury Trust (The)
- National Centre for Conductive Education (NICE)
- Norton Hall Children and Family Centre
- Sandwell and West Birmingham Hospitals NHST
- Sandwell College
- Sir Josiah Mason Trust
- South and City College (Birmingham) Limited
- Thompsons Solicitors
- University Hospital Birmingham Foundation Trust
- Yardley Great Trust

The value of transactions for other, non-consolidated, related parties, individually less than £0.1m within 2021/22 was net expenditure of £0.5m (£1.0m expenditure and £0.5m income).

**Note 47**
**The Council Acting as Agent**

The Council acts as an intermediary in its role as agent for a number of external bodies. The Council processes transactions through its financial ledger but does not include them in its financial statements as there is no exposure to significant risk or reward associated with the transactions. Details of the major activities where the Council acts as agent are detailed below:

| **Agency Role** | **No** | **Level of Reserve** £m | **Gross Expenditure** £m |
|---|---|---|---|
| Accountable Body | 37 | 134.5 | 135.9 |
| Provision of External Payrolls | 110 | | 272.2 |
| Arrangements supporting Housing activities | 1 | 2.9 | 5.7 |
| Reporting of Trust activities | 18 | 27.9 | 0.4 |
| Subsidiary Companies | 5 | 20.0 | 1.3 |
| Other transactions | 11 | 0.8 | 0.8 |

<u>External Payrolls</u>

The Council provides payroll services to external organisations, including Academy Schools and Colleges of Further Education, using capacity within its payroll system. Whilst the cost of providing the service is charged to the external organisation and forms part of the CIES, the payroll records for the external organisations do not form part of the Council's financial statements.

<u>Accountable Body Role</u>

The Council acts as accountable body for a number of external activities, including the Greater Birmingham & Solihull Local Enterprise Partnership (the LEP), Local Enterprise Zones and the England Illegal Money Lending Team.

The Council records and reports the financial activities of the bodies for which it is accountable and may directly receive the funds allocated to the activities and incur expenditure as directed by the external party. The Council may also receive funds in its own right from the arrangement to support eligible projects, which will form part of the Council's financial statements.

Greater Birmingham & Solihull Local Enterprise Partnership

Resources have been made available through a number of Government sources, including the Regional Growth Fund where the Council has been identified as the accountable body. In its role as accountable body, under the terms and conditions of the funding arrangements, the Council has no entitlement to:

- retain any interest generated as a result of the provision of state funds;
- use the state funds in any way other than as provided for in the offer letter.

The Council acts as the accountable body for the resources provided on behalf of the LEP. The Council may receive direct funding to support eligible projects as determined by the LEP's independent investment boards and committees.

The Council acts as the accountable body for a number of Covid-19 Grants and these are now included in the figures in the table above, rather than disclosed separately as they were in 2020/21.

Enterprise Zones

The Council provides accountancy support, collecting Business Rate contributions through its role as agent for the Collection Fund and making payments on its behalf against LEP approved projects as contained in the Enterprise Zone Investment Programme.

England Illegal Money Lending Team

The England Illegal Money Lending Team seizes and holds cash from third parties temporarily as part of its accountable body activities on behalf of the Courts.

Housing Activities

For a number of mixed tenure housing developments on Council owned land, the Council receives payment for any market sales prior to distribution between the Council and the developer.

Trusts

The Council provides administrative and accountancy support to a number of trusts and some of those are transacted through the Council's bank accounts. Included within this group are activities related to the collection of rent and management of properties on behalf of Housing Trusts and Community Associations.

Subsidiary Companies

The following are consolidated into the Council's Group Accounts:

- **The National Exhibition Centre(Developments) Plc**
  Following the sale of the City Council's interests in the NEC Group, the sole function of The National Exhibition Centre(Developments) Plc is servicing the finance originally raised to fund the construction of Halls 17 to 20 at the National Exhibition Centre. Expenses are incurred in administering the debt.
- **PETPS(Birmingham) Limited, PETPS(Birmingham) Capital Limited, PETPS(Birmingham) General Partner limited and PETPS (Birmingham) Pension Funding SLP**
  Following completion of the sale of the City Council's interests in the NEC Group in 2015, PETPS(Birmingham) Limited became principal employer and assumed the ongoing funding obligations of the NEC Limited Pension Fund (the "Fund") and the NEC Executive Pension Scheme with the agreement of the pension trustees. At the same time the City Council gave guarantees to meet the current and future contingent funding obligations that may arise in respect of the liabilities.

  PETPS(Birmingham) Capital Limited and PETPS(Birmingham) General Partner limited were incorporated as part of a funding structure to facilitate the City Council making payments to the Fund. As part of this structure, a Scottish Limited Partnership called PETPS (Birmingham) Pension Funding SLP was established.

Other

The Council provides accountancy support to:
- a number of national and regional bodies, collecting contributions and making payments on their behalf
- service users who require support in managing their resources.

**Note 48**
**Trust Funds**

The Council administers a number of trust funds which have been established from donations and bequests made to it to meet a variety of objectives and purposes. The total funds held at 31 March 2022 were £ 32.6m (2020/21: £ 31.4m). The trust funds do not represent assets of the Council and have not been included in the Consolidated Balance Sheet. The major trust funds are detailed below.

| | Balance at 31 March 2021 | Income | Expenditure | **Balance at 31 March 2022** |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| **Council acting as Sole Trustee** | | | | |
| Birmingham Municipal Charity - general charitable objectives | 0.7 | 0.1 | 0.0 | 0.8 |
| Charles Baker Trust – for the elderly and disabled | 0.3 | 0.0 | 0.0 | 0.3 |
| Cropwood Estate – management of the estate | 15.0 | 0.1 | 0.0 | 15.1 |
| Elford Trust – healthy recreation for Birmingham citizens | 4.5 | 0.2 | 0.0 | 4.7 |
| Harriet Louisa Loxton Charity – for the aged and infirm | 1.9 | 0.3 | 0.0 | 2.2 |
| Highbury Trust – for the benefit of the citizens of Birmingham | 2.1 | 0.1 | 0.2 | 2.0 |
| Other | 0.2 | 0.0 | 0.0 | 0.2 |
| **Total Council acting as Sole Trustee** | **24.7** | **0.8** | **0.2** | **25.3** |

| | | | | |
|---|---|---|---|---|
| **Council acting as Custodian** | | | | |
| Alderson – to let dwelling houses to ex-servicemen and other persons in need | 0.6 | 0.1 | 0.1 | 0.6 |
| Bodenham Trust – for children with special educational needs | 0.7 | 0.1 | 0.0 | 0.8 |
| Clara Martineau Trust – for children with special educational needs | 5.1 | 0.7 | 0.2 | 5.6 |
| Moseley Road Friends Institute – provision and maintenance | 0.2 | 0.1 | 0.1 | 0.2 |
| Other | 0.1 | 0.0 | 0.0 | 0.1 |
| **Total Council acting as Custodian** | **6.7** | **1.0** | **0.4** | **7.3** |
| **Total Trust Balances** | **31.4** | **1.8** | **0.6** | **32.6** |

Analysis of the assets of the main funds:

| | Restricted Funds at 31 March 2022 £m | Unrestricted Funds at 31 March 2022 £m | **Total Funds 31 March 2022 £m** |
|---|---|---|---|
| **Council acting as Sole Trustee** | | | |
| Birmingham Municipal Charity - general charitable objectives | 0.8 | 0.0 | 0.8 |
| Charles Baker Trust – for the elderly and disabled | 0.2 | 0.1 | 0.3 |
| Cropwood Estate – management of the estate | 0.7 | 14.4 | 15.1 |
| Elford Trust – healthy recreation for Birmingham citizens | 4.2 | 0.5 | 4.7 |
| Harriet Louisa Loxton Charity – for the aged and infirm | 2.1 | 0.1 | 2.2 |
| Highbury Trust – for the benefit of the citizens of Birmingham | 1.8 | 0.2 | 2.0 |
| Other | 0.1 | 0.1 | 0.2 |
| **Total Council acting as Sole Trustee** | **9.9** | **15.4** | **25.3** |
| | | | |
| **Council acting as Custodian** | | | |
| Alderson – to let dwelling houses to ex-servicemen and other persons in need | 0.0 | 0.6 | 0.6 |
| Bodenham Trust – for children with special educational needs | 0.8 | 0.0 | 0.8 |
| Clara Martineau Trust – for children with special educational needs | 5.3 | 0.3 | 5.6 |
| Moseley Road Friends Institute – provision and maintenance | 0.2 | 0.0 | 0.2 |
| Other | 0.1 | 0.0 | 0.1 |
| **Total Council acting as Custodian** | **6.4** | **0.9** | **7.3** |
| **Total Assets** | **16.3** | **16.3** | **32.6** |

# SUPPLEMENTARY FINANCIAL STATEMENTS 2021/22

## Housing Revenue Account - Income and Expenditure Statement

The Housing Revenue Account (HRA) reflects a statutory obligation to maintain a revenue account for local Council housing provision in accordance with Part 6 of the Local Government and Housing Act 1989. The Account is required to be self-financing and cannot subsidise or be subsidised by the General Fund. The HRA Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. The Council charges rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the Movement on the HRA Statement.

| 2020/21 £m | | Note | 2021/22 £m |
|---|---|---|---|
| | **Income** | | |
| (253.5) | Dwellings rents | | (255.3) |
| (8.6) | Non-dwellings rents | | (11.5) |
| (20.1) | Charges for services and facilities | | (21.7) |
| **(282.2)** | **Total Income** | | **(288.5)** |
| | **Expenditure** | | |
| 58.4 | Repairs and maintenance | | 62.3 |
| 71.5 | Supervision and management | | 72.5 |
| 4.6 | Rent, rates, taxes and other charges | | 8.0 |
| 53.6 | Depreciation and impairment charge | H3 & H6 | 56.4 |
| 0.3 | Debt management costs | | 0.1 |
| **188.4** | **Total Expenditure** | | **199.3** |
| **(93.8)** | **Net Expenditure/(Income) of HRA Services as included in the whole authority Comprehensive Income and Expenditure Statement and Net (Income) / Cost of HRA Services** | | **(89.2)** |

| 2020/21 | HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement: | 2021/22 |
|---|---|---|
| 4.7 | Change in fair value of financial instruments | 3.0 |
| 46.7 | Interest payable and similar charges | 46.5 |
| 0.7 | Amortisation of premia and discounts | 0.7 |
| (0.6) | HRA interest and investment income | (0.2) |
| (8.8) | (Gains)/ Losses on the disposal of HRA non-current assets | (12.1) |
| 3.6 | Pensions interest cost and expected return on pensions assets | 4.0 |
| (1.3) | Capital Grants and Contributions Receivable | (2.2) |
| **(48.8)** | **(Surplus)/Deficit for the Year on HRA Services** | **(49.5)** |

**Movement on the Housing Revenue Account Statement**

| 2020/21 | | 2021/22 |
|---|---|---|
| £m | | £m |
| (48.8) | (Surplus)/Deficit for the year on the HRA Income and Expenditure Account | (49.5) |
| 44.5 | Adjustments between accounting basis and funding basis under statute (Note 16) | 41.6 |
| **(4.3)** | Net (increase) / decrease before transfers to / (from) reserves | **(7.9)** |
| 1.6 | Transfer to / (from) reserves | 3.9 |
| **(2.7)** | (Increase) / decrease for the year on HRA balance | **(4.0)** |
| (8.5) | HRA Balance Brought Forward | **(11.2)** |
| **(11.2)** | HRA Balance Carried Forward | **(15.2)** |

| | | |
|---|---|---|
| | **Total HRA Reserve** | |
| (11.2) | HRA Balance | (15.2) |
| (3.1) | HRA Earmarked Reserve | (7.0) |
| **(14.3)** | **Total HRA Reserve** | **(22.2)** |

**Notes to the Housing Revenue Account**

**H1. Housing Stock**

The types of properties (including Shared Ownership properties) owned by the Council at 31 March comprise:

| 31 March 2021 | | 31 March 2022 |
|---|---|---|
| 3,702 | 1 bedroom bungalows | 3,691 |
| 14,785 | 1 bedroom flats | 14,697 |
| 56 | 1 bedroom houses | 55 |
| 293 | 2 bedroom bungalows | 293 |
| 10,426 | 2 bedroom flats | 10,289 |
| 8,275 | 2 bedroom houses | 8,151 |
| 30 | 3 or more bedroom bungalows | 29 |
| 3,769 | 3 or more bedroom flats | 3,685 |
| 18,374 | 3 or more bedroom houses | 18,012 |
| **59,710** | **Total housing stock** | **58,902** |

The change in the property numbers is analysed below:

| 2020/21 | | 2021/22 |
|---|---|---|
| 60,185 | Stock at 1 April | 59,710 |
| (418) | Sales | (675) |
| (160) | Demolitions / transfers | (174) |
| 103 | Acquisitions | 41 |
| **59,710** | **Stock at 31 March** | **58,902** |

The Balance Sheet values of HRA non-current assets are as follows:

| 31 March 2021 | | 31 March 2022 |
|---|---|---|
| £m | | £m |
| 2,609.8 | Council dwellings/garages | 2,986.2 |
| 12.1 | Assets under Construction | 5.7 |
| 56.1 | Other land and buildings | 30.3 |
| **2,678.0** | **Total operational assets** | **3,022.2** |
| | | |
| 10.9 | Non-operational assets | 49.0 |
| **2,688.9** | **Total** | **3,071.2** |

The housing stock, land and other property within the HRA are valued in line with the Ministry of Housing, Housing and Communities and Local Government (MHCLG) Guidance on Stock Valuation for Resource Accounting published in November 2016. The basis of the valuation for the housing stock element is in accordance with the Royal Institution of Chartered Surveyors using the Existing Use Value - Social Housing basis, which takes open market value for the underlying dwellings and applies a discount factor to reflect the reduced value as a result of use for social housing for 2021/22 of 40%. The change reflects properties lost through sales, demolitions, acquisitions, and revaluation of Beacon Values and depreciation. £112.7m was spent on HRA dwellings during the year.

As at 31 March 2022, the Council also owned 199 dwellings (31 March 2021: 189) that were occupied by trespassers following the death or departure of the tenant of that property. These properties are, therefore, not available for social housing. These properties are not considered to have a value whilst they are occupied in this way, but if they were to become available for social housing, their value, on the basis of an Existing Use Value – Social Housing (EUV-SH) would be £10.1m (31 March 2021: £8.2m).

The value of the Council dwellings is broken down into components as follows:

| 31 March 2021 | ` | 31 March 2022 |
|---|---|---|
| £m | | £m |
| 632.9 | Land | 706.3 |
| 16.5 | Kitchens | 15.5 |
| 21.7 | Bathrooms | 21.2 |
| 43.6 | Windows | 40.8 |
| 49.7 | Heating | 46.5 |
| 11.8 | Roofs | 9.9 |
| 1,833.6 | Remaining Structure | 2,146.0 |
| **2,609.8** | **Total** | **2,986.2** |

## H2. Value of Dwellings on Vacant Possession

(a) The vacant possession value of dwellings within the Council's HRA, valued in accordance with the Guidance, as at 31 March 2022 is £6,924.2m.

(b) The difference between the above figure and the figure of £2,986.2m in the Balance Sheet notionally represents diminution in the value of assets caused by their being let at social housing rents, according to the MHCLG's stock valuation model as explained in Supplementary Note H1.

## H3. Revaluations and Impairment Charges

Revaluations and impairment charges reflect an increase or reduction in the value of property due to the economic environment or an event that has occurred to the assets. This could include a decline in demand, obsolescence, and commitments to make significant changes to housing. There has been an impairment in HRA asset values in 2021/22 of £0.1m (2020/21: £nil). The net value of HRA dwellings has increased by £376.4m to £2,986.2m.

**H4. Major Repairs Reserve**

A transfer is made to the Major Repairs Reserve each year of a value equivalent to the amount charged to the HRA for depreciation of dwellings based on the componentised valuation of the dwellings and individual component residual lives, to make provision for ongoing elemental renewal over the longer term.

The main movements on the Major Repairs Reserve are set out below

| 2020/21 £m | | 2021/22 £m |
|---|---|---|
| 24.4 | Balance on Major Repairs Reserve at 1 April | 24.4 |
| 53.3 | Amount transferred to Major Repairs Reserve during the year | 56.0 |
| (53.3) | Charge to the Major Repairs Reserve during the financial year in respect of capital expenditure on the land, houses and other property within the Council's HRA | (62.5) |
| **24.4** | **Balance on Major Repairs Reserve at 31 March** | **17.9** |

**H5. Capital Expenditure on HRA Assets**

Expenditure on HRA assets was funded from the following sources:

| 2020/21 £m | | 2021/22 £m |
|---|---|---|
| 21.9 | Usable Capital Receipts (Right to Buy/Land) | 28.0 |
| 53.3 | Major Repairs Reserve | 62.5 |
| 22.6 | HRA Revenue contributions | 21.8 |
| 7.0 | Prudential Borrowing | 0.0 |
| 1.3 | Other resources | 0.4 |
| **106.1** | | **112.7** |

The total capital receipts from disposals of land, houses and other property within the HRA during the financial year was £50.9m (land £3.0m, houses £47.9m). The values for 2020/21 were £31.7m (land £5.3m and houses £26.4m). The Government operates a capital receipts pooling framework and of these amounts £6.3m was paid to Central Government (2020/21: £6.4m).

**H6. Depreciation Charges**

The total charge for depreciation for the houses and other property within the Council's HRA is £56.3m (2020/21: £53.6m). The depreciation charge is calculated by reference to an assessment of the remaining useful life of the key components of each individual dwelling valued on a depreciated replacement cost basis.

### H7. Contribution from Pension Reserve

The Comprehensive Income and Expenditure Statement includes pension costs calculated in accordance with International Accounting Standard 19 as described in detail in Note 20 to the Financial Statements. To ensure that these costs do not affect the level of HRA balances and council house rents, an appropriation is made from the Pensions Reserve so that the movement in balances only reflects the actual employer's pension contribution.

### H8. Rent Arrears

Rent arrears from current tenants at 31 March 2022 totalled £17.8m (2020/21: £16.9m). Other arrears including Housing Benefit overpayments, leaseholder major works and miscellaneous services totalled £23.8m at 31 March 2022 (2020/21: £24.5m).

A provision for bad debts has been made to meet possible future write offs of rent and other services/leaseholder/benefit overpayments. The provision was £37.2m at 31 March 2022 (2020/21: £36.7m) and has been calculated based on value/aged analysis in accordance with Government guidelines.

| 31 March 2021 | | 31 March 2022 |
|---|---|---|
| £m | | £m |
| 16.9 | Current tenants | 17.8 |
| 11.9 | Housing benefit overpayment | 10.8 |
| 12.6 | Other debt (services/leaseholders) | 13.0 |
| **41.4** | **Total arrears** | **41.6** |
| 36.7 | Provision for bad debts | 37.2 |

## Collection Fund Income and Expenditure Account

The Collection Fund Income and Expenditure Account reflects the statutory requirement for the Council to maintain a separate Collection Fund for Council Tax and Business Rates or National Non Domestic Rates (NNDR). The statement shows transactions in relation to the collection of income from tax payers and the distribution to major preceptors and the Council itself, as principal. The resulting balance is apportioned between the Council and major preceptors.

| 2020/21 | 2020/21 | 2020/21 | | 2021/22 | 2021/22 | 2021/22 |
|---|---|---|---|---|---|---|
| Council Tax | NNDR | Total | | Council Tax | NNDR | Total |
| £m | £m | £m | **Income** | £m | £m | £m |
| (431.6) | | (431.6) | Collectable Council Tax | (451.9) | | (451.9) |
| **(431.6)** | | **(431.6)** | | **(451.9)** | | **(451.9)** |
| | (282.2) | (282.2) | Collectable Business Rates | | (374.7) | (374.7) |
| | 4.3 | 4.3 | Transitional Payment Payable to Government | | 3.0 | 3.0 |
| | **(277.9)** | **(277.9)** | | | **(371.7)** | **(371.7)** |
| | **(10.0)** | **(10.0)** | **Enterprise Zone Deficit Repayable to the Collection Fund** | | **(5.0)** | **(5.0)** |
| | | | **Apportionment of Prior Year Deficit:** | | | |
| - | (0.6) | (0.6) | Birmingham City Council | (11.4) | (195.2) | (206.6) |
| | 0.6 | 0.6 | Central Government | | - | - |
| - | - | - | West Midlands Fire & Rescue Authority | (0.5) | (2.0) | (2.5) |
| - | | - | West Midlands Police and Crime Comm. | (1.3) | | (1.3) |
| - | - | - | **Total Apportionment of Prior Year Deficit** | **(13.2)** | **(197.2)** | **(210.4)** |
| **(431.6)** | **(287.9)** | **(719.5)** | **TOTAL INCOME** | **(465.1)** | **(573.9)** | **(1,039.0)** |

| 2020/21 | 2020/21 | 2020/21 | | 2021/22 | 2021/22 | 2021/22 |
|---|---|---|---|---|---|---|
| Council Tax | NNDR | Total | | Council Tax | NNDR | Total |
| £m | £m | £m | Expenditure | £m | £m | £m |
| | | | **Precepts Demands & Shares Incl Prior Years Surplus:** | | | |
| 371.8 | 436.0 | 807.8 | Birmingham City Council | 382.9 | 426.4 | 809.3 |
| 0.0 | | 0.0 | New Frankley in Birmingham Parish Council | 0.0 | | 0.0 |
| 1.9 | | 1.9 | Sutton Coldfield Town Council | 1.8 | | 1.8 |
| | - | - | Central Government | | 0.9 | 0.9 |
| 16.0 | 4.3 | 20.3 | West Midlands Fire & Rescue Authority | 16.0 | 4.2 | 20.2 |
| 42.1 | | 42.1 | West Midlands Police and Crime Comm. | 45.1 | | 45.1 |
| | | | **Charges:** | | | |
| 27.3 | 27.9 | 55.2 | Increase/(Decrease) in Provision for Bad and Doubtful Debts | 3.3 | 8.7 | 12.0 |
| | 34.5 | 34.5 | Increase/(Decrease) in Provision for Appeals | | 25.8 | 25.8 |
| | 1.8 | 1.8 | Cost of Collection | | 1.8 | 1.8 |
| **459.1** | **504.5** | **963.6** | **TOTAL EXPENDITURE** | **449.1** | **467.8** | **916.9** |
| **27.5** | **216.6** | **244.1** | **(Surplus)/Deficit for the year** | **(16.0)** | **(106.1)** | **(122.1)** |
| **(3.9)** | **17.0** | **13.1** | **(Surplus)/Deficit brought forward** | **23.6** | **233.6** | **257.2** |
| **23.6** | **233.6** | **257.2** | **(Surplus)/Deficit carried forward** | **7.6** | **127.5** | **135.1** |

## Notes to the Collection Fund
### C1. Contributions from Council Taxpayers

The Council's tax base at January 2021 (the number of chargeable dwellings in each valuation band net of discounts) converted to an equivalent number of Band D dwellings was calculated as follows:

| Band | Number of Properties | Ratio | Band D equivalent dwellings |
|---|---|---|---|
| AR | 163 | 5/9 | 90 |
| A | 88,213 | 6/9 | 58,809 |
| B | 90,098 | 7/9 | 70,076 |
| C | 62,296 | 8/9 | 55,374 |
| D | 33,129 | 1 | 33,129 |
| E | 18,722 | 11/9 | 22,883 |
| F | 8,196 | 13/9 | 11,839 |
| G | 5,491 | 15/9 | 9,152 |
| H | 792 | 18/9 | 1,584 |
| **Total** | **307,100** | | **262,936** |
| Less adjustment for collection rate | | | (8,941) |
| | | | **253,995** |

The level of Council Tax is calculated at the beginning of the year and is calculated so as to ensure that the Council has enough money to pay for the services it provides. The amount of tax paid by local residents is based on how much it is estimated that the property they live in would have been worth in 1991. There are nine property valuation bands, AR to H.

The total required by the Collection Fund is divided by the Council Tax base. The Tax base represents the number of properties in the City, expressed as equivalent Band D properties. The level of Council Tax paid for a Band D property is the total income required divided by the Council Tax base, subject to any discounts to which a Council Tax payer may be entitled. The amount is adjusted for discounts and exemptions that particular residents in the City are entitled to.

The figures for the New Frankley in Birmingham Parish are:

| Band | Number of Properties | Ratio | Band D equivalent dwellings |
|---|---|---|---|
| AR | 1 | 5/9 | 1 |
| A | 681 | 6/9 | 454 |
| B | 1,000 | 7/9 | 778 |
| C | 85 | 8/9 | 76 |
| D | 53 | 1 | 53 |
| E | 1 | 11/9 | 1 |
| F | 0 | 13/9 | 0 |
| G | 0 | 15/9 | 0 |
| H | 1 | 18/9 | 2 |
| **Total** | **1,822** | | **1,365** |
| Less adjustment for collection rate | | | (46) |
| | | | **1,319** |

The figures for Sutton Coldfield Town Council are:

| Band | Number of Properties | Ratio | Band D equivalent dwellings |
|---|---|---|---|
| AR | 0 | 5/9 | 0 |
| A | 1,602 | 6/9 | 1,068 |
| B | 3,914 | 7/9 | 3,044 |
| C | 6,224 | 8/9 | 5,532 |
| D | 8,296 | 1 | 8,296 |
| E | 7,850 | 11/9 | 9,595 |
| F | 3,871 | 13/9 | 5,592 |
| G | 2,447 | 15/9 | 4,078 |
| H | 360 | 18/9 | 720 |
| **Total** | **34,564** | | **37,925** |
| Less adjustment for collection rate | | | (1,289) |
| | | | **36,636** |

**C2. Business Ratepayers**

The Council collects Business Rates (NNDR) receipts for its area, which are based on local rateable values multiplied by a uniform rate which is set by the Government (49.9p for 2021/22: 49.9p for 2020/21). The total non-domestic rateable value at 31 March 2022 was £1,128.1m (31 March 2021: £1,133.9m).

Since 1 April 2017, the Council is included in a 100% Local Business Rates Retention pilot. The amount raised each year, less certain reliefs and adjustments, is distributed on the following basis:

- 99% - Birmingham City Council
- 1% - The West Midlands Fire and Rescue Authority.

Previously Business Rates was distributed on the following basis:

- 50% - Central Government
- 49% - Birmingham City Council
- 1% - The West Midlands Fire and Rescue Authority.

**C3. Precept Payments**

The preceptors on the Council Tax element of the Collection Fund are the Council, New Frankley in Birmingham Parish Council, Sutton Coldfield Town Council, the West Midlands Fire and Rescue Authority and the West Midlands Police and Crime Commissioner.

The preceptors on the NNDR element of the Collection Fund are the Council and the West Midlands Fire and Rescue Authority.

**C4. Debtors Outstanding but not Impaired**

Balances outstanding for both Council Tax and Business Rates including amounts net of an allowance for impairment are apportioned between the Council and its major preceptors as follows:

**Analysis of Council Tax debtors past due but not impaired**

| | 2020/21 BCC £m | 2020/21 Fire £m | 2020/21 Police £m | 2021/22 BCC £m | 2021/22 Fire £m | 2021/22 Police £m |
|---|---|---|---|---|---|---|
| Council Tax Arrears | 117.5 | 4.9 | 13.7 | 133.8 | 5.9 | 16.1 |
| Impairment Allowance for doubtful debts | (52.5) | (2.2) | (6.1) | (55.0) | (2.4) | (6.6) |
| **Amounts Past Due but not Impaired** | **65.0** | **2.7** | **7.6** | **78.8** | **3.5** | **9.5** |
| **Represented by Amounts:** | | | | | | |
| Less than 1 Year | 29.8 | 1.2 | 3.5 | 28.9 | 1.3 | 3.5 |
| 1-2 Years | 14.5 | 0.6 | 1.7 | 17.3 | 0.8 | 2.1 |
| 2-6 Years | 20.1 | 0.8 | 2.3 | 25.2 | 1.1 | 3.0 |
| Over 6 Years | 0.6 | 0.1 | 0.1 | 7.4 | 0.3 | 0.9 |
| **TOTAL** | **65.0** | **2.7** | **7.6** | **78.8** | **3.5** | **9.5** |

**Analysis of Business Rates debtors past due but not impaired**

| | 2020/21 BCC £m | 2020/21 Fire £m | 2020/21 CG £m | 2021/22 BCC £m | 2021/22 Fire £m | 2021/22 CG £m |
|---|---|---|---|---|---|---|
| Business Ratepayer Arrears | 126.7 | 1.3 | 0.0 | 119.9 | 1.2 | 0.0 |
| Impairment Allowance for doubtful debts | (71.9) | (0.7) | 0.0 | (80.6) | (0.8) | 0.0 |
| **Amounts Past Due but not Impaired** | **54.8** | **0.6** | **0.0** | **39.3** | **0.4** | **0.0** |
| **Represented by Amounts:** | | | | | | |
| Less than 1 Year | 28.7 | 0.3 | 0.0 | 18.3 | 0.2 | 0.0 |
| 1-2 Years | 13.5 | 0.2 | 0.0 | 8.1 | 0.1 | 0.0 |
| 2-6 Years | 12.6 | 0.1 | 0.0 | 12.9 | 0.1 | 0.0 |
| Over 6 Years | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **TOTAL** | **54.8** | **0.6** | **0.0** | **39.3** | **0.4** | **0.0** |

Birmingham City Council

# Statement of GROUP Accounts 2021/22

# NARRATIVE REPORT

## Introduction

In common with many other local authorities, the Council uses different forms of service delivery, where this is appropriate. In some cases, it has created separate companies with its partners to deliver those services. The use of separate companies means that the Council's single entity financial statements on their own do not fully reflect the assets and liabilities or income and expenditure associated with all of its activities. The Group Accounts more fully reflect the overall financial picture of the Council's activities.

This section presents the statutory financial statements for Birmingham City Council Group (the Group) for the period from 1 April 2021 to 31 March 2022. The financial statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (The Code) published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The aim of the Group Accounts is to provide the reader with an overall view of the material economic activities of the Council.

These Group Accounts have been prepared using uniform accounting policies for like transactions and other events in similar circumstances. The accounting policies of its subsidiaries, associates and joint ventures have been aligned with the policies of the Council, for the purposes of Group Accounts, where materially different. Such adjustments as are necessary to align the Group Accounting Policies are made as consolidation adjustments.

This narrative report provides a summary of the Group's financial position and details of material items that have impacted on the accounts during the year.

The financial statements contain a number of technical accounting terms and concepts. A glossary of the major accounting terms has been provided at the end of the financial statements to help the reader's understanding.

The pages which follow contain the Group's Financial Statements for the year ended 31 March 2022, with comparative figures for the previous financial year.

## Consolidation of Subsidiaries, Associate Companies and Joint Ventures

The Council operates through a variety of undertakings, either exercising full control of an organisation (subsidiary undertakings) or in partnership with other organisations (associate undertakings or joint ventures). To provide a full picture of the activities of the Council, Group Accounts have been prepared which include those organisations where the interest and the level of activity is considered material to the Group as a whole.

There have been no changes to the Group structure within the financial year 2021/22.

The entities consolidated into the Council's Group Accounts are:

<u>Subsidiaries</u>
Acivico Limited
Birmingham Children's Trust Community Interest Company (CIC)
Birmingham City Propco Limited
InReach (Birmingham) Limited
National Exhibition Centre (Developments) Plc
PETPS (Birmingham) Limited
PETPS (Birmingham) Pension Funding Scottish Limited Partnership

Associate
Birmingham Airport Holdings Limited

Joint Venture
Paradise Circus Limited Partnership

Further detail regarding the Council's relationship with the above companies is given in notes G20 and G21.

The Council maintains involvement with a number of other related entities where the assets and liabilities of the companies are not included in these Group Financial Statements, either on the basis of materiality or that the Council does not exercise control or has no significant influence over the operation of the entity. Further details are set out in Note 46, Related Parties to the Council entity accounts.

**Covid-19**

Covid-19 continues to have an impact on the Financial performance of Group Companies, specifically Birmingham Airport. The Airport is still showing a net loss although this has reduced significantly from 2020/21.

The Council will continue to monitor the performance of its companies. It has given no additional letters of comfort to its companies as a result of Covid-19.

**The Main Financial Statements**

The following statements consolidate the accounts of the Council with those of its subsidiaries, associate and joint venture. Transactions between the Council and its Group entities are eliminated on consolidation. Details of the inter-company transactions are set out in Note 46, Related Parties, to the entity accounts.

The Group Comprehensive Income and Expenditure Statement (GCIES) – provides the accounting cost in year recognised by the Group, in a specified format, in accordance with generally accepted accounting practices. Details of the net (surplus)/deficit on the provision of services is detailed below.

| | 2020/21 | | 2021/22 | |
|---|---|---|---|---|
| | Entity £m | Group £m | Entity £m | Group £m |
| (Surplus)/Deficit on Provision of Services | (134.7) | (116.1) | (85.1) | (71.7) |

The 2021/22 GCIES shows an adverse movement of £44.4m from £116.1m to £71.7m in the movement on the net Surplus/(Deficit) on Provision of Services compared to 2020/21 as shown in the table above. Details of the major movements are set out in the Narrative Report in the Council entity accounts.

Group Movement in Reserves Statement (GMiRS) – provides a reconciliation of the movement in year on the different reserves held and how the balance of resources generated or used in the year reconciles to the Council's statutory requirements for raising Council Tax.

Group Balance Sheet – shows the value of assets and liabilities recognised by the Group at 31 March 2022 and the level of reserves, split into usable and unusable.

| | 2020/21 | | 2021/22 | |
|---|---|---|---|---|
| | Entity<br>£m | Group<br>£m | Entity<br>£m | Group<br>£m |
| Long Term Assets | 6,619.7 | 6,607.7 | 7,406.3 | 7,390.4 |
| Current Assets | 676.2 | 675.2 | 512.3 | 516.1 |
| Current Liabilities | (1,098.1) | (1,091.7) | (918.3) | (919.8) |
| Long Term Liabilities | (6,592.0) | (6,756.2) | (5,976.2) | (6,086.5) |
| **Net Assets/(Liabilities)** | **(394.2)** | **(565.0)** | **1,024.1** | **900.2** |
| Represented by: | | | | |
| Usable Reserves | 1,446.9 | 1,260.8 | 1,512.2 | 1,375.2 |
| Unusable Reserves | (1,841.1) | (1,825.8) | (488.1) | (475.0) |
| **Total Reserves** | **(394.2)** | **(565.0)** | **1,024.1** | **900.2** |

The Net Group assets have increased to £900.2m in 2021/22 from a liability of £565.0m in 2020/21, a movement of £1,465.2m. This is mainly due to reductions in the pension liabilities in the Council's Accounts, Acivico Ltd Accounts and Birmingham Children's Trust CIC Accounts. Further details on this can be found in Note 20 of the Entity Accounts and Note G18 of the Group Accounts.

The difference in the level of usable reserves attributable to Group entities has increased from £1,260.8m in 2020/21 to £1,375.2m in 2021/22, a movement of £114.4m. This is mainly due to movements in the Council reserves, details of which can be found in Note 17 of the Entity Accounts.

Group Cash Flow Statement – shows how the Group generates and uses cash during the year and the impact this has on the balances of cash and cash equivalents.

The notes below will provide information only where there are material differences between the entity and Group Accounts.

## Group Comprehensive Income and Expenditure Statement

This statement shows the income and expenditure recognised by the Group during the reporting period.

| 2020/21 (Restated) Gross Expenditure | 2020/21 (Restated) Gross Income | 2020/21 (Restated) Net Expenditure | | Note | 2021/22 Gross Expenditure | 2021/22 Gross Income | 2021/22 Net Expenditure |
|---|---|---|---|---|---|---|---|
| | | | **Continuing Operations** | | | | |
| £m | £m | £m | | | £m | £m | £m |
| 441.8 | (209.8) | 232.0 | Adult Social Care | | 482.8 | (160.5) | 322.3 |
| 1,104.5 | (799.8) | 304.7 | Children and Families | | 1,214.0 | (823.0) | 391.0 |
| 33.8 | (26.7) | 7.1 | City Housing | | 47.6 | (29.2) | 18.4 |
| 260.7 | (70.1) | 190.6 | City Operations | | 286.2 | (74.4) | 211.8 |
| 56.4 | (39.3) | 17.1 | Place, Prosperity and Sustainability | | 81.4 | (80.1) | 1.3 |
| 638.8 | (566.2) | 72.6 | Council Management | | 658.5 | (584.8) | 73.7 |
| 114.9 | (139.4) | (24.5) | Strategy, Equalities and Partnerships | | 120.8 | (114.5) | 6.3 |
| 170.3 | (75.5) | 94.8 | Centrally Managed | | 15.2 | (87.2) | (72.0) |
| 188.4 | (282.2) | (93.8) | Housing Revenue Account | | 199.3 | (288.5) | (89.2) |
| **3,009.6** | **(2,209.0)** | **800.6** | **Total Cost of Services** | | **3,105.8** | **(2,242.2)** | **863.6** |
| 83.2 | 0.0 | 83.2 | Other Operating Expenditure | | 92.5 | 0.0 | 92.5 |
| 283.7 | (41.8) | 241.9 | Financing and Investment Income and Expenditure | G4 | 278.0 | (57.5) | 220.5 |
| 258.1 | (1,499.9) | (1,241.8) | Taxation and Non-Specific Grant Income | | 95.1 | (1,343.4) | (1,248.3) |
| | | **(116.1)** | **(Surplus)/Deficit on Provision of Services** | | | | **(71.7)** |
| | | 16.3 | Share of the (surplus)/deficit on the Provision of Services of Associates | | | | 3.5 |
| | | - | Tax Expense/(credit) of Subsidiaries | | | | (0.8) |
| | | (2.4) | Tax Expense/(credit) of Associates | | | | - |
| | | **(102.2)** | **Group (Surplus)/Deficit** | | | | **(69.0)** |
| | | | **Items that will not be reclassified to the (Surplus)/Deficit on the Provision of Services** | | | | |
| | | (222.1) | (Surplus) / deficit on revaluation of Property, Plant and Equipment assets | | | | (583.8) |
| | | 0.5 | Changes in non-current assets charged to the revaluation reserve | | | | 0.8 |
| | | 825.6 | Remeasurement of the net defined benefit liability | G18 | | | (814.7) |
| | | - | Share of Other Comprehensive Income and Expenditure of Associates and Joint Ventures | | | | - |
| | | **604.0** | | | | | **(1,397.7)** |
| | | | **Items that may be reclassified to the (Surplus)/Deficit on the Provision of Services** | | | | |
| | | 0.5 | (Surplus) / deficit on revaluation of financial assets | | | | 1.5 |
| | | **0.5** | | | | | **1.5** |
| | | **604.5** | **Other Comprehensive (Income) / Expenditure** | | | | **(1,396.2)** |
| | | **502.3** | **Total Comprehensive (Income) / Expenditure** | | | | **(1,465.2)** |

## Group Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held, analysed into 'usable reserves' (that is, those that can be applied to fund expenditure or reduce local taxation) and other reserves.

| | General Fund Balance | Housing Revenue Account | Capital Receipts | Major Repairs Reserve | Capital Grants Unapplied Account | **Total Usable Reserves** | Unusable Reserves | **Total Council Reserves** | Council's Share of Reserves of Subsidiaries, Associates and Joint Ventures | **Total Group Reserves** |
|---|---|---|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | **£m** | £m | **£m** | £m | **£m** |
| **Balance at 1 April 2020** | **656.8** | **10.0** | **223.3** | **24.4** | **142.6** | **1,057.1** | **(1,067.9)** | **(10.8)** | **(51.9)** | **(62.7)** |
| **Movement in Reserves during 2019/20** | | | | | | | | | | |
| Surplus/(Deficit) on the provision of services | 309.4 | 48.8 | | | | 358.2 | | 358.2 | (256.0) | 102.2 |
| Other Comprehensive Income and Expenditure | | | | | | 0.0 | (518.1) | (518.1) | (86.4) | (604.5) |
| **Total Comprehensive Income and Expenditure** | 309.4 | 48.8 | 0.0 | 0.0 | 0.0 | 358.2 | (518.1) | (159.9) | (342.4) | (502.3) |
| Adjustments between Group Accounts and Council Accounts | (223.5) | | | | | (223.5) | | (223.5) | 223.5 | - |
| **Net Increase/(Decrease) before Transfers** | 85.9 | 48.8 | 0.0 | 0.0 | 0.0 | 134.7 | (518.1) | (383.4) | (118.9) | (502.3) |
| Adjustments between accounting basis and funding basis under regulations (Note 16) | 319.6 | (44.5) | 30.1 | 0.0 | (50.2) | 255.1 | (255.1) | - | | - |
| **Increase/(Decrease) in 2020/21** | 405.5 | 4.3 | 30.1 | 0.0 | (50.2) | 389.8 | (773.2) | (383.4) | (118.9) | (502.3) |
| **Balance at 31 March 2021** | **1,062.3** | **14.3** | **253.4** | **24.4** | **92.4** | **1,446.9** | **(1,841.1)** | **(394.2)** | **(170.8)** | **(565.0)** |
| **Movement in Reserves during 2021/22** | | | | | | | | | | |
| Surplus/(Deficit) on the provision of services | 270.6 | 49.5 | | | | 320.1 | | 320.1 | (251.1) | 69.0 |
| Other Comprehensive Income and Expenditure | | | | | | 0.0 | 1,333.2 | 1,333.2 | 63.0 | 1.396.2 |
| **Total Comprehensive Income and Expenditure** | 270.6 | 49.5 | 0.0 | 0.0 | 0.0 | 320.1 | 1,333.2 | 1,653.3 | (188.1) | 1,465.2 |
| Adjustments between Group Accounts and Council Accounts | (235.0) | | | | | (235.0) | | (235.0) | 235.0 | - |
| **Net Increase/(Decrease) before Transfers** | 35.6 | 49.5 | 0.0 | 0.0 | 0.0 | 85.1 | 1,333.2 | 1,418.3 | 46.9 | 1,465.2 |
| Adjustments between accounting basis and funding basis under regulations (Note 16) | (26.1) | (41.6) | 34.2 | (6.5) | 20.2 | (19.8) | 19.8 | - | | - |
| **Increase/(Decrease) in 2021/22** | 9.5 | 7.9 | 34.2 | (6.5) | 20.2 | 65.3 | 1,353.0 | 1,418.3 | 46.9 | 1,465.2 |
| **Balance at 31 March 2022** | **1,071.8** | **22.2** | **287.6** | **17.9** | **112.6** | **1,512.2** | **(488.1)** | **1,024.1** | **(123.9)** | **(900.2)** |

## Group Balance Sheet

The Group Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Group.

| 31 March 2021 £m | | Note | 31 March 2022 £m |
|---|---|---|---|
| 6,215.3 | Property, Plant and Equipment | | 6,990.5 |
| 249.9 | Heritage Assets | | 249.9 |
| 36.9 | Investment Properties | G5 | 42.5 |
| 9.3 | Intangible Assets | | 8.2 |
| 5.9 | Long Term Investments | | 4.1 |
| 82.8 | Long Term Debtors | | 89.3 |
| 7.6 | Investments in Associates | G21 | 5.9 |
| **6,607.7** | **Total Long Term Assets** | | **7,390.4** |
| | | | |
| 172.3 | Short Term Investments | | 110.5 |
| 46.9 | Assets Held for Sale | | 0.4 |
| 1.9 | Inventories | | 2.2 |
| 397.9 | Short Term Debtors | G7 | 341.5 |
| 56.2 | Cash and Cash Equivalents | | 61.5 |
| **675.2** | **Total Current Assets** | | **516.1** |
| | | | |
| - | Cash and Cash Equivalents | | - |
| (458.5) | Short Term Borrowing | | (282.2) |
| (457.1) | Short Term Creditors | G8 | (503.9) |
| (176.1) | Provisions | | (133.7) |
| **(1,091.7)** | **Total Current Liabilities** | | **(919.8)** |
| | | | |
| (73.6) | Long Term Creditors | | (73.5) |
| (5.4) | Provisions | | (15.9) |
| (2,902.1) | Long Term Borrowing | | (2,840.7) |
| (409.1) | Other Long Term Liabilities | | (385.3) |
| (3,366.0) | Net Liability on Defined Benefit Pension Scheme | G18 | (2,771.1) |
| **(6,756.2)** | **Total Long Term Liabilities** | | **(6,086.5)** |
| | | | |
| **(565.0)** | **Net Assets/(Liabilities)** | | **900.2** |
| | | | |
| 1,260.8 | Usable Reserves | G9 | 1,375.2 |
| (1,825.8) | Unusable Reserves | G10 | (475.0) |
| **(565.0)** | **Total Reserves** | | **900.2** |

## Group Cash Flow Statement

The Group Cash Flow Statement shows the changes in cash and cash equivalents of the Group during the reporting period.

| 2020/21 | | Note | 2021/22 |
|---|---|---|---|
| £m | | | £m |
| 102.2 | Net Surplus/(Deficit) on Continuing Operations | | 69.0 |
| **102.2** | **Net Surplus/(Deficit) on the provision of services** | | **69.0** |
| 154.4 | Adjustments to net Surplus/(Deficit) on the provision of services for non-cash movements | G14 | 601.2 |
| (209.1) | Adjustments for items included in the net Surplus/(Deficit) on the provision of services that are investing and financing activities | | (223.8) |
| **47.5** | **Net cash flows from Operating Activities** | | **446.4** |
| (256.7) | Investing Activities | G12 | (267.9) |
| 203.2 | Financing Activities | G13 | (173.2) |
| **(6.0)** | **Net increase/(decrease) in cash and cash equivalents** | | **5.3** |
| 62.2 | Cash and cash equivalents at the beginning of the reporting period | | 56.2 |
| **56.2** | **Cash and cash equivalents at the end of the reporting period** | | **61.5** |

# NOTES TO THE GROUP ACCOUNTS

## Note G1
## Accounting Policies

The Group Financial Statements summarise the Council's and its Group's transactions for the 2021/22 financial year. The Group Financial Statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22, supported by International Financial Reporting Standards (IFRS).

Members within the Group have been classified as either subsidiaries, associates or joint ventures with details included in respect of the classification within Notes G20 and G21. Subsidiaries have been consolidated into the Group Financial Statements on a line by line basis, with associates and joint ventures consolidated under the equity method.

Investments in subsidiaries and associates in the Council's entity accounts are carried at cost rather than fair value less any provision for losses unless there is evidence of impairment.

Notes to the Group Financial Statements have been presented where the figures are materially different from those of the Council entity accounts. Where there are no material differences, the Notes to the Council entity accounts provide the required disclosures.

Accounting policies of the individual members of the Group have been aligned to the Council's accounting policies.

The accounting policies applied to the Group Financial Statements are consistent with those set out in Note 1 to the Council entity accounts, with additional policies specific to the Group set out below.

### Disposal of a Subsidiary Company

When a subsidiary company is disposed of, the assets and liabilities of the subsidiary are derecognised at their carrying value at the time of disposal and the value of any consideration received is recognised. The transactions plus any resulting differences are identified in the Profit/Loss on disposal of a subsidiary and form part of the Surplus/Deficit on Provision of Services within the Group Comprehensive Income and Expenditure Statement.

### Defined Contribution Pension Schemes

The NEC Limited Group funded two defined benefit schemes, which ceased to provide future service accrual with effect from 30 June 2010 and operated two contributory benefit schemes comprising a Stakeholder Scheme to which only members contribute, and a Group Personal Pension Plan where the company matched member contributions to an agreed maximum. The schemes transferred to PETPS (Birmingham) Limited on 1 May 2015 on the Council's disposal of NEC Ltd. Further information may be found in Note G18.

### Defined Benefit Pension Scheme

Acivico Limited and Birmingham Children's Trust CIC participate in the Local Government Pension Scheme (LGPS). The scheme is a funded defined benefit scheme based upon career average salary for benefits accrued since 1 April 2014 and on final pensionable salary for benefits accrued to 31 March 2014. Further information may be found within the Council's entity accounting policies and Note G18.

**Note G2**
**Critical Judgements in Applying Accounting Policies**

In addition to the Critical Judgements, set out in Note 2 of the entity accounts, the Council has considered the following judgement in respect of the application of its accounting policies.

The Council has created a number of companies that are limited by guarantee that are also charitable companies. In such cases the Council is sole member on creation of the company.

The Trustees of a charity have the responsibility for determining the policies and the activities of the company in line with the specific remit of the charity. Where the Council is sole member of the charitable company, it also has, through the Articles of Association, the right to appoint Directors or Trustees to sit on the company board. Whilst the Council has the right to appoint Directors, this right is limited to appointing a minority of Directors such that they have less than 20% of the voting rights. The charitable company board is responsible for the day to day management and for setting the direction of the company. Trustees of charities must always act in the best interest of the charity and not in the interests of the body that appointed them.

Whilst the Council is sole member of charitable companies and whilst it may pass resolutions to impact on the operation of the companies, to date it has not done so. There are also financial barriers to the Council exercising any form of control as this may jeopardise the charitable nature of the organisations which would lead to financial detriment.

On the basis of the above factors, the Council considers that it does not have the current ability to direct the relevant activities of charitable companies given its minority level of representation, the Trustees must act independently of the Council in the best interest of the charity and should the Council exercise any rights through its role as sole member, it is considered that this would have an adverse financial impact. Therefore, the Council does not consider that it should consolidate any charitable companies into the Council’s Group Accounts.

**Note G3**
**Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty**

Information on pension valuations has been provided by actuaries supporting the relevant funds based on the best information available at the time of producing the reports. Details of the pension funds and their sensitivity to changes in determinants of the funds’ assets and obligations are set out in Note 20 in the Council entity accounts and Note G18 of the Group Financial Statements.

Other assumptions made about the future and other major sources of estimation and uncertainty are provided in Note 4 to the Council entity accounts.

## Note G4
## Financing and Investment Income and Expenditure

Financing and Investment Income and Expenditure disclosed in the Group CIES are detailed below.

| 2020/21 | | | | 2021/22 | | |
|---|---|---|---|---|---|---|
| Gross Expenditure | Gross Income | Net | | Gross Expenditure | Gross Income | Net |
| £m | £m | £m | | £m | £m | £m |
| 164.9 | - | 164.9 | Interest Payable and similar charges | 163.5 | - | 163.5 |
| 62.5 | - | 62.5 | Net interest on the net defined benefit liability | 68.8 | - | 68.8 |
| 2.9 | - | 2.9 | Admin Expenses – Pensions | - | - | - |
| 23.2 | - | 23.2 | (Gain)/Loss on financial assets at amortised cost | 16.3 | - | 16.3 |
| 1.9 | - | 1.9 | (Gain)/Loss on financial assets at Fair Value through Profit & Loss | 0.2 | - | 0.2 |
| - | (2.2) | (2.2) | (Gain)/Loss on the Disposal of Financial Instruments | - | - | - |
| - | (17.9) | (17.9) | Interest Receivable and similar income | - | (22.3) | (22.3) |
| 8.3 | - | 8.3 | Changes in the Fair Value of Investment Properties | 5.4 | (10.6) | (5.2) |
| 20.0 | (20.8) | (0.8) | (Surplus)/Deficit on trading operations not consolidated within Service Expenditure Analysis in Comprehensive Income and Expenditure Statement | 23.8 | (23.7) | 0.1 |
| 0.0 | (0.9) | (0.9) | Other investment income and expenditure | 0.0 | (0.9) | (0.9) |
| **283.7** | **(41.8)** | **241.9** | **Sub Total** | **278.0** | **(57.5)** | **220.5** |

## Note G5
## Investment Properties

The Council, Birmingham City Propco Limited and InReach (Birmingham) Limited have non-current assets that meet the criteria for treatment as Investment Properties. Details of the financial impact of Investment Properties are set out below.

| | 2020/21 | 2021/22 |
|---|---|---|
| | £m | £m |
| **Cost or Valuation** | | |
| **At 1 April** | **45.4** | **36.9** |
| Assets reclassified between categories | - | - |
| Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services | (8.5) | 5.6 |
| **At 31 March** | **36.9** | **42.5** |

| Recurring Fair Value Measurement | Input Level in Fair Value Hierarchy | Valuation Technique used to measure Fair Value | Fair Value 31 March 2021 | Fair Value 31 March 2022 |
|---|---|---|---|---|
| | | | £m | £m |
| Highest and Best Use | Level 2 | The fair value has been measured using a market approach, taking into account quoted prices for similar assets in active markets and data and market knowledge. | 31.7 | 37.3 |
| Highest and Best Use | Level 3 | The fair value has been measured using a market approach taking into account yields from rental compared to similar assets. | 5.2 | 5.2 |

The fair value of the Council's Group Investment Properties is measured annually at each reporting date. Valuations are carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors (RICS). The valuations were undertaken by appropriately qualified valuers as detailed below:

- For the Council, Azmat Mir MRICS, Head of Property Consultancy within the Council's Property Services section.
- For InReach (Birmingham) Limited, Mark Shelley MRICS and James Cartwright MRICS of Avison Young (UK) Ltd.
- For Birmingham City Propco Limited, James Williamson MRICS and Ian Elliot MRICS of Avison Young (UK) Ltd

**Note G6**
**Financial Instruments**

This note sets out the differences from the information contained in Note 37 of the Council entity accounts to enable the reader to determine, more clearly, the impact of group company transactions.

Debtors and Cash
Debtors and cash consolidated as part of the Group Financial Statements are classified as loans and receivables. Further information on Group debtors is provided in Note G7.

Creditors
Short term creditors consolidated as part of the Group Financial Statements are classified as financial liabilities at amortised cost. Further information on Group creditors is provided in Note G8.

Long term creditors consolidated as part of the Group Financial Statements relate to debt issued by NEC (Developments) Plc on the London Stock Exchange. The following long-term creditors are brought into the Group Financial Statements upon group consolidation.

| | 31 March 2021 | 31 March 2022 |
|---|---|---|
| **Long-term Creditors** | £m | £m |
| NEC 7.56% Loan Stock – maturity 30 September 2027 | (73.0) | (73.0) |

The basis of the fair value of the NECD bond is in accordance with IFRS 9 fair value hierarchy ‘Level 1 - fair value is only derived from quoted prices in active markets for identical assets or liabilities’. The quoted market price is obtained from Bloomberg on 31 Mar 2022 and used to calculate the fair value of the NECD bond.

| Financial Liabilities | Input level in Fair Value Hierarchy | Valuation inputs and assumptions used to measure Fair Value | 31 March 2021 | | 31 March 2022 | |
|---|---|---|---|---|---|---|
| | | | Carrying Amount £m | Fair Value £m | Carrying Amount £m | Fair Value £m |
| NEC Loan Stock | Level 1 | Stock Market valuation | 73.0 | 97.9 | 73.0 | 90.2 |

Within the Council entity accounts, the guarantee given to NEC Developments (NECD) for the repayment of the Loan Stock is treated as borrowing and as a reimbursement right within NECD. The guarantee was determined at fair value on the disposal of the NEC in 2015 and is accounted for using the Effective Interest Rate method.

Long Term Borrowing
The reduction in long term borrowing at 31 March 2022 between the Council entity accounts, £2,924.2m and the group accounts, £2.840.7m, is largely represented by the borrowing recognised by the Council associated with group entities, namely NECD and PETPS SLP. These transactions are eliminated on consolidation.

Income, Expense, Gains and Losses
These amounts in the Group Financial Statements are not considered materially different from those in the Council entity accounts.

Fair Values of Assets and Liabilities
The amounts consolidated as part of the Group Financial Statements are not considered significantly different from the carrying amounts.

Nature and extent of risks arising from financial instruments
The nature and extent of risks from financial instruments arising in the Group Financial Statements are not considered materially different from those in the Council entity accounts.

## Note G7
## Short Term Debtors

The table below shows amounts owed to the Council’s Group undertakings at the end of the year that are due within 12 months. These balances have been split by type of organisation to reflect the potential relative risks that the Council faces. The actual level of recovery will continue to be monitored to ensure that the recovery rate is as high as practicable.

| 31 March 2021 £m | | 31 March 2022 £m |
|---|---|---|
| 131.5 | Central government bodies | 84.5 |
| 39.0 | Other local authorities | 17.8 |
| 7.9 | NHS bodies | 8.3 |
| 6.1 | Public corporations and trading funds | 5.4 |
| 213.4 | Other entities and individuals | 225.5 |
| **397.9** | **Total** | **341.5** |

## Note G8
## Short Term Creditors

The table below shows amounts owed by the Council's Group undertakings at the end of the year that are due within 12 months, split by type of organisation.

| 31 March 2021 £m | | 31 March 2022 £m |
|---|---|---|
| (102.3) | Central government bodies | (179.6) |
| (10.4) | Other local authorities | (8.4) |
| (2.9) | NHS bodies | (5.1) |
| (45.3) | Public corporations and trading funds | (35.5) |
| (296.2) | Other entities and individuals | (275.3) |
| (457.1) | **Total** | **(503.9)** |

## Note G9
## Usable Reserves

Details of the Group's usable reserves are set out below.

| 31 March 2021 £m | | 31 March 2022 £m |
|---|---|---|
| 1,062.3 | General Fund Balances | 1,071.8 |
| 14.3 | Housing Revenue Account (HRA) | 22.2 |
| 253.4 | Capital Receipts Reserve | 287.6 |
| 24.4 | Major Repairs Reserve | 17.9 |
| 92.4 | Capital Grants Unapplied | 112.6 |
| (190.8) | Company Profit & Loss | (141.7) |
| 4.8 | Merger Reserve | 4.8 |
| **1,260.8** | **Total** | **1,375.2** |

Details of General Fund Balances are set out in Note 17 of the entity accounts.

**Note G10**
**Unusable Reserves**

The following table shows the value of Group reserve balances that have come about as a result of accounting adjustments and are not therefore available to spend.

| 31 March 2021 £m | | 31 March 2022 £m |
|---|---|---|
| 2,125.2 | Revaluation Reserve | 2,594.3 |
| (49.7) | Capital Adjustment Account | 4.5 |
| (64.7) | Financial Instruments Adjustment Account | (63.2) |
| 25.0 | Deferred Capital Receipts | 33.6 |
| (3,430.2) | Pensions Reserve | (2,769.7) |
| (262.1) | Collection Fund Adjustment Account | (138.4) |
| (150.4) | Equal Pay Back Pay Account | (121.1) |
| (19.5) | Accumulated Absences Account | (15.6) |
| 0.6 | Called up Share Capital | 0.6 |
| **(1,825.8)** | **Total** | **(475.0)** |

Further analysis is provided below for unusable reserves which are materially different from the balances included in the Council entity accounts.

## Revaluation Reserve

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

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

For amounts arising in the Council entity accounts, 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.

| 2020/21 £m | | 2021/22 £m |
|---|---|---|
| **1,965.3** | **Balance at 1 April** | **2,125.2** |
| | **Revaluations not posted to (Surplus)/Deficit on the Provision of Services** | |
| 420.2 | Council: Upward revaluation of assets | 800.0 |
| (198.1) | Council: Downward revaluation of assets | (216.3) |
| **222.1** | **Council: Surplus/(Deficit) on revaluation of non-current assets not posted to the (Surplus)/Deficit on the Provision of Services** | **583.7** |
| | **Amounts written off to the Capital Adjustment Account** | |
| (32.4) | Council: Difference between fair value depreciation and historical cost depreciation | (36.5) |
| - | Adjustment for Transfer of land to Investment Property | (77.3) |
| (29.4) | Council: Accumulated gains on assets sold or scrapped | - |
| **(61.8)** | **Council: Amount written off to the Capital Adjustment Account** | **(113.8)** |
| | **Group Movements** | |
| (0.4) | Other movements in reserve in Group entities | (0.8) |
| **(0.4)** | **Total Group Movements** | **(0.8)** |
| **2,125.2** | **Balance at 31 March** | **2,594.3** |

The Council is allowed under statute to reverse out the financial impact from its Comprehensive Income and Expenditure Statement where it has impaired or revalued equity in a company or where it has given a 'soft' loan to another organisation. The impact of adjustments form part of the unusable reserves.

In consolidating group accounts, inter-company transactions are eliminated. However, where the Council has either revalued assets or has given a soft loan to a group entity then the carrying values in the two organisations would be different. For consolidation, the entries in the Council entity accounts, reducing the carrying value of assets, would need to be reversed prior to elimination.

## Note G11
## Cash Flow Statement - Operating Activities

The cash flows from operating activities include the items set out below.

| 2020/21 £m | | 2021/22 £m |
|---|---|---|
| (17.9) | Interest Received | (22.3) |
| 164.9 | Interest Paid | 163.5 |
| (0.9) | Dividends Received | (0.9) |
| **146.1** | **Total** | **140.3** |

## Note G12
## Cash Flow Statement - Investing Activities

The cash flows from investing activities are set out below.

| 2020/21 £m | | 2021/22 £m |
|---|---|---|
| (391.0) | Purchase of property, plant and equipment, investment property and intangible assets | (467.4) |
| (5,250.6) | Purchase of short-term and long-term investments | (2,842.4) |
| 82.3 | Proceeds from the sale of property, plant and equipment, investment property and intangible assets | 114.0 |
| 5,302.6 | Proceeds from short-term and long-term investments | 2,927.9 |
| **(256.7)** | **Net cash flows from investing activities** | **(267.9)** |

## Note G13
## Cash Flow Statement - Financing Activities

The cash flows from financing activities are set out below.

| 2020/21 £m | | 2021/22 £m |
|---|---|---|
| 120.4 | Other receipts from financing activities | 108.4 |
| 1,147.1 | Cash receipts from short-term and long-term borrowing | 386.7 |
| (31.3) | Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-Balance Sheet PFI contracts | (31.3) |
| (1,039.6) | Repayments of short-term and long-term borrowing | (638.3) |
| 6.6 | Other payments for financing activities | 1.3 |
| **203.2** | **Net cash flows from financing activities** | **(173.2)** |

## Note G14
## Cash Flow Statement – Other Adjustments

The cash flow adjustments to the net surplus/deficit on the provision of services are set out below.

| 2020/21 £m | | 2021/22 £m |
|---|---|---|
| 146.8 | Depreciation/Impairment charge | 146.9 |
| 2.9 | Amortisation of Intangible Assets | 2.7 |
| 77.7 | Derecognition of Non-Current Assets | 151.3 |
| 14.6 | (Increase)/Decrease in Associate & Joint Venture | 1.7 |
| 15.3 | Revaluation of Non-Current Assets | 12.0 |
| (0.5) | (Increase)/Decrease in Assets Held for Sale | - |
| (22.4) | (Increase)/Decrease in Debtors | 42.3 |
| 55.4 | Increase/(Decrease) in Creditors | 53.8 |
| (0.2) | (Increase)/Decrease in Inventories | (0.4) |
| (4.5) | Increase/(Decrease) in Provisions | (31.9) |
| (129.3) | Pensions Liability | 219.8 |
| (1.4) | Other Non-Cash Movements | 3.0 |
| **154.4** | | **601.2** |

## Note G15
## Expenditure and Funding by Nature of Activity

Detail of the Council's Expenditure and Funding by Nature of Activity is provided in Note 8 to the entity accounts.

| 2020/21 £m | | 2021/22 £m |
|---|---|---|
| | Expenditure | |
| 1,019.1 | Employee Benefits Expenses | 1,016.2 |
| 2,123.8 | Other Service Expenses | 2,045.5 |
| 156.3 | Depreciation, Amortisation and Impairment | 171.9 |
| 238.6 | Interest Payments | 232.3 |
| 24.6 | Movements in the value of financial assets | 22.0 |
| 49.8 | Precepts and Levies | 49.6 |
| 6.4 | Payments to Housing Capital Receipts Pool | 6.3 |
| 16.0 | Loss on Disposal of Non-Current Assets | 27.6 |
| **3,634.6** | **Total Expenditure** | **3,571.4** |
| | Income | |
| (507.6) | Fees, Charges and Other Service Income | (587.8) |
| (821.3) | Income from Council Tax and Business Rates | (825.0) |
| (2.2) | Movements in the value of financial assets | - |
| (2,400.8) | Government Grants and Contributions | (2,196.5) |
| (18.8) | Interest and Investment Income | (33.8) |
| **(3,750.7)** | **Total Income** | **(3,643.1)** |
| **(116.1)** | **(Surplus)/Deficit on Provision of Services** | **(71.7)** |

## Note G16
## Related Parties

Details of the Council's material transactions with related parties are provided in Note 46 to the Council entity accounts. Details of the subsidiary companies, associates and joint ventures of group entities are detailed in the relevant Notes G20 and G21 of these group financial statements.

In addition to the related parties detailed within Note 46 to the Council entity accounts, Birmingham Airport Holdings Limited transacts business with the shareholding West Midlands District Councils, with Solihull MBC acting as the lead authority. Transactions would be undertaken in a number of areas and include Business Rates, planning applications and building control services. All of these transactions are carried out on an arms-length basis at full commercial rate.

Birmingham Airport Limited entered into a lease arrangement with Solihull MBC, on behalf of all the Districts, which has been treated as a finance lease in its accounts by the company. The total amount payable in the year under the arrangement was £0.8m with an amount due at the year-end of £4.7m.

## Note G17
## Leases

**Group as the lessee**

Details of the Council's finance and operating leases are included in Note 40 to the Council entity accounts.

**Group as the lessor**

Within the Group there are leases between Group entities and also leases from Group entities to external organisations. Details of the Council's finance leases are provided in Note 40 to the Council entity accounts. This note sets out the impact of intra-Group leases and leases of Group entities to external organisations.

### Leases by Group entities to External Organisations

Finance leases

Details of the Council's finance leases are provided in Note 40 to the Council entity accounts.

The Council created Birmingham City Propco Limited in 2017/18 to provide a vehicle for commercial investment. The company purchased the leasehold interests of the Council in respect of the Crowne Plaza NEC and Hilton Metropole NEC Hotels. Details of the leases are set out below.

| 31 March 2021 £m | | 31 March 2022 £m |
|---|---|---|
| | Finance lease debtor (net present value of minimum lease payments): | |
| 0.1 | - Current | 0.1 |
| 19.9 | - Non-current | 19.9 |
| 44.1 | Unearned finance income | 43.1 |
| **64.1** | **Gross investment in the lease** | **63.1** |

The gross investment in the lease and the minimum lease payments will be received over the following periods:

| | Finance lease debtor | | Minimum lease payments | |
|---|---|---|---|---|
| | 31 March 2021 | 31 March 2022 | 31 March 2021 | 31 March 2022 |
| | £m | £m | £m | £m |
| Not later than one year | 0.1 | 0.1 | 1.1 | 1.0 |
| Later than one year and not later than five years | 0.2 | 0.4 | 4.0 | 4.0 |
| Later than five years | 19.7 | 19.5 | 59.0 | 58.1 |
| **Total** | **20.0** | **20.0** | **64.1** | **63.1** |

Operating Leases

The future minimum lease payments receivable under non-cancellable leases where the length of lease was greater than 1 year at inception are:

| 31 March 2021 | | 31 March 2022 |
|---|---|---|
| £m | | £m |
| 0.4 | Not later than one year | 0.4 |
| 1.7 | Later than one year and not later than five years | 1.7 |
| 25.2 | Later than five years | 24.8 |
| **27.3** | **Gross investment in the lease** | **26.9** |

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews.

**Note G18**
**Defined Benefit and Defined Contribution Pension Schemes**

Details of the Council's involvement in the Teachers' Pensions Scheme and Local Government Pension Scheme are provided in Notes 19 and 20 to the Council entity accounts.

Acivico Limited Group
The Company's subsidiary companies participate in the West Midlands Pension Fund, a Local Government Pension Scheme.

A ruling was made regarding age discrimination arising from public sector pension scheme transition arrangements put in place when moving from final salary to average salary scheme arrangements. Court of Appeal judgements were made in cases affecting judges' pensions (the McCloud Judgement) and firefighter pensions. Allowance has been made for the potential impact in the results reported.

The information disclosed below is in respect of the whole of the plans for which the Company is either the sponsoring employer or has been allocated a share of cost under an agreed group policy throughout the periods shown.

| | 2020/21 £m | 2021/22 £m |
|---|---|---|
| Present value of funded defined benefit obligations | (89.2) | (85.6) |
| Fair value of plan assets | 84.1 | 89.4 |
| Adjustment for pension surplus in Acivico (Building Consultancy) | (0.5) | (3.8) |
| **Net (Liability)/Asset** | **(5.6)** | **-** |

Movements in the present value of defined benefit obligation:

| | 2020/21 £m | 2021/22 £m |
|---|---|---|
| Balance at beginning of period | 70.8 | 89.2 |
| Current service cost | 1.3 | 1.9 |
| Interest cost | 1.6 | 1.7 |
| Actuarial (gains)/losses | 17.2 | (5.5) |
| Contributions by members | 0.2 | 0.2 |
| Liabilities Extinguished on Settlement | - | - |
| Past Service cost including Curtailments | - | - |
| Benefits paid | (1.9) | (1.9) |
| **31 March** | **89.2** | **85.6** |

Movements in the fair value of plan assets:

| | 2020/21 £m | 2021/22 £m |
|---|---|---|
| Balance at beginning of period | 71.9 | 84.1 |
| Interest on assets | 1.7 | 1.6 |
| Actuarial (losses)/gains | 12.0 | 5.2 |
| Settlements | - | - |
| Contributions | 0.4 | 0.4 |
| Benefits paid | (1.9) | (1.9) |
| **31 March** | **84.1** | **89.4** |

Expense recognised in the profit and loss account:

| | 2020/21 £m | 2021/22 £m |
|---|---|---|
| **Operating Costs:** | | |
| Current Service Cost | 1.3 | 1.9 |
| Included in Operating Cost | 1.3 | 1.9 |
| | | |
| **Financing Costs:** | | |
| Interest cost on pension scheme liabilities | 1.7 | 1.7 |
| Interest income on plan assets | (1.7) | (1.7) |
| Net interest cost | - | - |
| | | |
| **Total income statement expense/(income)** | **1.3** | **1.9** |

Other Comprehensive Income

The amounts recognised in Acivico's Other Comprehensive Income and consolidated into the Group Consolidated Other Comprehensive Income are as follows:

| | 2020/21 | 2021/22 |
|---|---|---|
| | £m | £m |
| Actuarial (gain)/loss on liabilities | 17.2 | (5.5) |
| Actuarial (gain)/loss on plan assets | 12.0 | 5.2 |
| **Remeasurement (gain)/loss recognised during the period** | **29.2** | **(0.3)** |

The fair value of the plan assets and the return on those assets were as follows:

| | 2020/21 Fair Value | | 2021/22 Fair Value | |
|---|---|---|---|---|
| | £m | % | £m | % |
| Equities | 49.5 | 59 | 59.9 | 67 |
| Government Bonds | 8.4 | 10 | 19.7 | 22 |
| Other Bonds | 3.3 | 4 | - | - |
| Property | 6.1 | 7 | 6.2 | 7 |
| Cash/Liquidity | 5.0 | 6 | 3.6 | 4 |
| Other | 11.8 | 14 | - | - |
| **Total** | **84.1** | **100** | **89.4** | **100** |

Principal actuarial assumptions (expressed as weighted averages) at the year-end were as follows:

| | 2020/21 | 2021/22 |
|---|---|---|
| | % | % |
| Discount rate | 2.0 | 2.7 |
| Future salary increases | 3.8 | 4.2 |
| Future pension increases | 2.8 | 3.2 |
| CPI increases | 1.9 | 3.8 |

In valuing the liabilities of the Pension Fund at 31 March 2022, mortality assumptions have been made as indicated below.

The life expectancy for members as at the Balance Sheet date:

| | 31 March 2021 | 31 March 2022 |
|---|---|---|
| Male: member aged 65 (current life expectancy) | 21.6 | 21.6 |
| Male: member aged 45 (life expectancy at age 65) | 23.9 | 22.9 |
| Female: member aged 65 (current life expectancy) | 23.4 | 23.4 |
| Female: member aged 45 (life expectancy at age 65) | 25.8 | 25.4 |

The valuation of the defined benefit obligation is sensitive to the assumption adopted for the discount rate. The effect of a 0.1% increase in the discount rate is set out below

| | £m |
|---|---|
| Effect on service cost | (0.8) |
| Effect on defined benefit obligation | (4.1) |

Birmingham Children's Trust CIC

Birmingham Children's Trust CIC participates in the West Midlands Pension Fund, a Local Government Pension Scheme. The scheme is a defined benefit scheme, which pays out pensions at retirement based on length of service and final pay for service earned up to 31 March 2014 and on a career salary average for service earned from 1 April 2014.

The information disclosed below is in respect of the whole of the plans for which the Company is either the sponsoring employer or has been allocated a share of cost under an agreed group policy throughout the periods shown.

| | 2020/21 £m | 2021/22 £m |
|---|---|---|
| Present value of funded defined benefit obligations | (375.8) | (376.6) |
| Fair value of plan assets | 224.1 | 255.2 |
| **Net (Liability)/Asset** | **(151.7)** | **(121.4)** |

Movements in the present value of defined benefit obligation:

| | 2020/21 £m | 2021/22 £m |
|---|---|---|
| Balance at beginning of period | 252.2 | 375.8 |
| Current service cost | 17.3 | 29.8 |
| Interest cost | 5.9 | 8.0 |
| Change in financial assumptions | 105.1 | (36.7) |
| Change in demographic assumptions | (3.2) | (1.9) |
| Contributions by scheme members | 3.4 | 3.9 |
| Experience/(gain) on defined benefit obligation | (2.0) | 0.4 |
| Benefits paid | (2.9) | (2.7) |
| **31 March** | **375.8** | **376.6** |

Movements in the fair value of plan assets:

| | 2020/21 £m | 2021/22 £m |
|---|---|---|
| Balance at beginning of period | 179.6 | 224.1 |
| Return on assets (less interest) | 31.1 | 14.2 |
| Interest on assets | 4.3 | 4.7 |
| Administrative expenses | (0.1) | - |
| Contributions paid by employer | 8.7 | 10.9 |
| Contributions by scheme members | 3.4 | 4.0 |
| Benefits paid | (2.9) | (2.7) |
| **31 March** | **224.1** | **255.2** |

Expense recognised in the profit and loss account:

| | 2020/21 £m | 2021/22 £m |
|---|---|---|
| **Operating Costs:** | | |
| Current Service Cost | 17.3 | 29.8 |
| Administrative Expenses | 0.1 | - |
| Included in Operating Cost | 17.4 | 29.8 |
| | | |
| **Financing Costs:** | | |
| Interest cost on pension scheme liabilities | 5.9 | 8.0 |
| Interest income on plan assets | (4.3) | (4.7) |
| Net interest cost | 1.6 | 3.3 |
| | | |
| **Total Income Statement expense** | **19.0** | **33.1** |

Other Comprehensive Income

The amounts recognised in the Trust's Other Comprehensive Income and consolidated into the Group Consolidated Other Comprehensive Income are as follows:

| | 2020/21 £m | 2021/22 £m |
|---|---|---|
| Return on plan assets in excess of interest income | 31.1 | 14.2 |
| Actuarial gain/(loss) on liabilities due to changes in financial assumptions | (105.1) | 36.7 |
| Actuarial gain/(loss) on liabilities due to changes in demographic assumptions | 3.2 | 1.9 |
| Experience gain on defined benefit obligation | 2.0 | (0.4) |
| **Remeasurement gain/(loss) recognised during the period** | **(68.8)** | **52.4** |

The fair value of the plan assets and the return on those assets are as follows:

| | 2020/21 Fair Value | | 2021/22 Fair Value | |
|---|---|---|---|---|
| | £m | % | £m | % |
| Equities | 132.0 | 59 | 171.0 | 67 |
| Gilts | 22.3 | 10 | 17.9 | 7 |
| Bonds | 8.6 | 4 | 56.1 | 22 |
| Property | 16.2 | 7 | - | - |
| Cash/Liquidity | 13.4 | 6 | - | - |
| Other | 31.6 | 14 | 10.2 | 4 |
| **Total** | **224.1** | **100** | **255.2** | **100** |

Principal actuarial assumptions (expressed as weighted averages) at the year-end are as follows:

| | 2020/21 % | 2021/22 % |
|---|---|---|
| Discount rate | 2.05 | 2.75 |
| Future salary increases | 3.85 | 4.15 |
| Future pension increases | 2.85 | 3.15 |
| CPI increases | 2.85 | 3.15 |

In valuing the liabilities of the Pension Fund at 31 March 2022, mortality assumptions have been made as indicated below.

The life expectancy for members as at the Balance Sheet date:

| | 31 March 2021 | 31 March 2022 |
|---|---|---|
| Male: member aged 65 (current life expectancy) | 21.6 | 21.2 |
| Male: member aged 45 (life expectancy at age 65) | 23.4 | 22.9 |
| Female: member aged 65 (current life expectancy) | 23.9 | 23.6 |
| Female: member aged 45 (life expectancy at age 65) | 25.8 | 25.4 |

PETPS (Birmingham) Limited

Following completion of the sale of the NEC Group by the Council on 1 May 2015, NEC Limited was replaced as principal employer by PETPS (Birmingham) Limited (PETPS), a wholly owned subsidiary of the Council, which assumed the ongoing funding obligation of the NEC Limited Pension Fund (the Fund) and the NEC Executive Pension Scheme (the Scheme) with the agreement of the pension trustees. The Fund and the Scheme had ceased to provide future service accrual with effect from 30 June 2010.

The Fund and the Scheme are defined benefit schemes, operating under UK trust law, which pay out pensions at retirement based on service and final pay. The trustee boards of the Fund and the Scheme are independent of the Council and are responsible for setting certain policies (for example, investment and contribution policies).

Under guarantees provided, the Council is responsible for meeting the current and future contingent funding obligations. The Fund and the Scheme therefore expose the Council to actuarial risks, such as longevity, currency, interest rate and market (investment) risk.

The assets of the Fund and the Scheme are held separately from those of PETPS and the Council. On the advice of an independent qualified actuary, contribution payments are made to the Fund and the Scheme by the Council to ensure that the assets are sufficient to cover future liabilities. Assets of the Fund and the Scheme are measured using fair market values.

The most recently completed formal actuarial valuations of the Fund and the Scheme were at 5 April 2019. The funding requirements are based on the Statements of Funding Principles of the Fund and the Scheme. The funding is based on a separate actuarial valuation for funding purposes, for which assumptions may differ from the assumptions set out in these disclosures. The defined benefit obligations are measured using the projected unit credit method and discounted at the rate of return on high quality corporate bonds of equivalent term.

The retirement benefit obligations in respect of the defined benefit schemes as calculated in accordance with IAS 19 (revised 2011) are disclosed below. Comparative figures for 2020/21 for the Fund and the Scheme have been provided.

Balance Sheet

The following amounts have been recognised in PETPS' Balance Sheet and so consolidated into the Group Balance Sheet.

| | 31 March 2021 £m | 31 March 2022 £m |
|---|---|---|
| Present value of funded obligations | (221.6) | (205.0) |
| Fair value of plan assets | 200.0 | 204.1 |
| Deficit for funded plans | (21.6) | (0.9) |
| Unrecognised asset due to the asset ceiling | - | - |
| **Retirement Benefit Obligation** | **(21.6)** | **(0.9)** |

Income Statement

The amounts recognised in PETPS' Income Statement and consolidated into the Group Consolidated Income and Expenditure Statement are as follows:

| | 2020/21 £m | 2021/22 £m |
|---|---|---|
| **Operating Costs:** | | |
| Administration Expenses | 0.6 | 0.8 |
| Past Service Cost | - | - |
| Included in Operating Cost | 0.6 | 0.8 |
| **Financing Costs:** | | |
| Interest cost on pension scheme liabilities | 4.2 | 4.2 |
| Interest income on plan assets | (4.2) | (3.9) |
| Net interest cost | 0.0 | 0.3 |
| **Total Income Statement expense** | **0.6** | **1.1** |

Other Comprehensive Income

The amounts recognised in PETPS' Other Comprehensive Income and consolidated into the Group Consolidated Other Comprehensive Income are as follows.

| | 2020/21 £m | 2021/22 £m |
|---|---|---|
| Return on plan assets in excess of interest income | 9.5 | 3.3 |
| Actuarial gain/(loss) on liabilities due to changes in financial assumptions | (30.7) | 10.9 |
| Actuarial gain/(loss) on liabilities due to changes in demographic assumptions | 0.3 | 3.3 |
| Actuarial gain/(loss) on liabilities due to experience | 0.1 | 0.8 |
| **Remeasurement gain/(loss) recognised during the period** | **(20.8)** | **18.3** |

Reconciliation of Liabilities and Assets

Movements in the retirement benefit obligations are as follows:

| | 2020/21 £m | 2021/22 £m |
|---|---|---|
| Beginning of Period | (194.0) | (221.6) |
| Interest Cost | (4.2) | (4.2) |
| Actuarial gain/(loss) on liabilities due to changes in financial assumptions | (30.7) | 10.9 |
| Actuarial gain/(loss) on liabilities due to changes in demographic assumptions | 0.3 | 3.3 |
| Actuarial gain/(loss) on liabilities due to experience | 0.1 | 0.8 |
| Benefits Paid | 6.9 | 5.8 |
| **Present value of obligation at 31 March** | **(221.6)** | **(205.0)** |

Movements in the fair value of plan assets are as follows:

| | 2020/21 £m | 2021/22 £m |
|---|---|---|
| Beginning of Period | 190.7 | 200.0 |
| Interest income on plan assets | 4.2 | 3.9 |
| Return on plan assets in excess of interest income | 9.4 | 3.4 |
| Contributions by employer | 3.2 | 3.2 |
| Administration expenses paid | (0.6) | (0.8) |
| Benefits paid | (6.9) | (5.8) |
| **Fair value of plan assets at 31 March** | **200.0** | **203.9** |

Plan Assets

The major categories of plan assets are as follows:

| | 31 March 2021 | | 31 March 2022 | |
|---|---|---|---|---|
| | £m | % | £m | % |
| Equities, GTAA* and Hedge Funds | 65.7 | 33 | 48.2 | 24 |
| Bonds and Cash | 111.1 | 55 | 116.3 | 57 |
| Infrastructure | - | - | 15.0 | 7 |
| Property | 17.1 | 9 | 18.8 | 9 |
| Gilts | 6.1 | 3 | 5.8 | 3 |
| | **200.0** | **100** | **204.1** | **100** |

* Global Tactical Asset Allocation

## Assumptions

The principal assumptions made by the actuary were:

| | 31 March 2021 % | | 31 March 2022 % | |
|---|---|---|---|---|
| | Fund | Scheme | Fund | Scheme |
| Discount rate | 2.00 | 1.95 | 2.60 | 2.65 |
| RPI Inflation rate | 3.25 | 3.40 | 3.60 | 3.85 |
| CPI Inflation rate | 2.80 | 2.85 | 3.25 | 3.40 |
| Future Pension increases | | | | |
| pension accrued prior to 5 April 2005 | 3.15 | 3.30 | 3.45 | 3.65 |
| pension accrued after 5 April 2005 | 2.20 | 2.25 | 2.30 | 2.35 |

The base mortality assumptions for the Fund and the Scheme are based on the SAPS tables (S3 series) (2021: SAPS tables (S3 series)). Future improvements are based on the CMI 2021 projection (2021: CMI 2020 projection) with a long term rate of improvement of 1.25% p.a. (2021: 1.25% p.a.).

The life expectancy for members as at the Balance Sheet date:

| | 31 March 2021 Years | | 31 March 2022 Years | |
|---|---|---|---|---|
| | Fund | Scheme | Fund | Scheme |
| Male: member aged 65 (current life expectancy) | 22.0 | 22.0 | 21.6 | 23.0 |
| Male: member aged 45 (life expectancy at age 65) | 22.7 | 22.8 | 22.3 | 24.3 |
| Female: member aged 65 (current life expectancy) | 25.2 | 25.1 | 24.9 | 26.1 |
| Female: member aged 45 (life expectancy at age 65) | 26.5 | 26.5 | 26.3 | 27.5 |

## Sensitivity Analysis

An increase of 0.25 per cent in the discount rate would decrease the retirement benefit obligations by £8.5m (2021: £9.9m).
An increase of 0.25 per cent in the inflation rate would increase the retirement benefit obligations by £6.3m (2021: £8.6m).
An increase of one year to the life expectancy would increase the retirement benefit obligations by £8.5m (2021: £10.0m).

The duration of the NEC Limited Pension Fund liabilities is approximately 22 years (2021: 22 years), and the duration of the NEC Executive Pension Scheme liabilities is approximately 14 years (2021: 14 years).

## Expected Contributions for 2022/23

The contribution schedule in force sets out contributions of £2.5m that will be paid into the Fund in the 2022/23 financial year. The contribution into the Fund will be paid from the Asset Backed Funding arrangement that was put in place in 2017.

## Note G19
## Adjustments between Group Accounts and Council Accounts

The following adjustments are made in the Group's Movement in Reserves Statement in order to reconcile the General Fund Balance back to its Council position prior to funding basis adjustments being made.

| | General Fund Balance £m | Housing Revenue Account (HRA) £m | Capital Receipts Reserve £m | Major Repairs Reserve £m | Capital Grants Unapplied £m | **Total Usable Reserves** £m | Unusable Reserves £m | **Total Council Reserves** £m | Council's Share of Reserves of Subsidiaries, Associates and Joint Ventures £m | **Total Group Reserves** £m |
|---|---|---|---|---|---|---|---|---|---|---|
| 2020/21 | | | | | | | | | | |
| Provision of goods and services to subsidiaries | 15.6 | | | | | 15.6 | | 15.6 | (15.6) | - |
| Purchases of goods and services from subsidiaries | (239.1) | | | | | (239.1) | | (239.1) | 239.1 | - |
| **Total adjustments between Group accounts and Council accounts** | (223.5) | - | - | - | - | (223.5) | - | (223.5) | 223.5 | - |
| 2021/22 | | | | | | | | | | |
| Provision of goods and services to subsidiaries | 25.7 | | | | | 25.7 | | 25.7 | (25.7) | - |
| Purchases of goods and services from subsidiaries | (260.7) | | | | | (260.7) | | (260.7) | 260.7 | - |
| **Total adjustments between Group accounts and Council accounts** | **(235.0)** | **-** | **-** | **-** | **-** | **(235.0)** | **-** | **(235.0)** | **235.0** | **-** |

**Note G20**
**Subsidiary Companies**

### I. Acivico Limited

Acivico Limited is a registered company, which is wholly owned by the Council. The company was launched in April 2012, with three special purpose vehicles: one holding company and two trading companies. The two trading companies, Acivico (Design Construction and Facilities Management) Limited and Acivico (Building Consultancy) Limited, have been operational since April 2012 and provide a range of statutory and non-statutory services on behalf of and to the Council and to other public and private sector clients. The Council has held the £1 issued ordinary share (100%) for the whole of the reporting period covered by these financial statements.

The Council issued a letter of assurance to the company, in June 2022, to ensure that it was able to meet its liabilities as they fell due.

The year-end of the company is 31 March and for the purposes of consolidation the draft accounts for the period to 31 March 2022 have been used, as amended for alignment of accounting policies and the guarantee given by the Council.

| | 2020/21<br>£m | 2021/22<br>£m |
|---|---|---|
| Total Comprehensive Income for the Year | (4.8) | 7.3 |
| Net Assets/(Liabilities) at the year-end | (9.5) | (2.1) |

There was no qualification to the audit opinion on the last audited accounts of the company. Information regarding transactions during the year and balances held at the year-end between the Council and Acivico Limited Group can be found within Note 46 of the Council entity accounts.

### II. Birmingham Children's Trust CIC

Birmingham Children's Trust CIC was incorporated on 17 May 2017 and became independently operational on 1 April 2018. The Council is sole member of the company. However, as the company is an asset locked entity, the Council has no entitlement to any assets of the company. For the purposes of consolidation, the Council has used the Trust's draft accounts for 2021/22, as amended for alignment of accounting policies. Details of the outturn, before elimination of intra-group transactions, are set out below.

| | 2020/21 £m | 2021/22 £m |
|---|---|---|
| **Comprehensive Income and Expenditure** | | |
| Turnover | 213.5 | 236.6 |
| Operating Expenses | (228.3) | (240.7) |
| **Operating Profit/(Loss)** | **(14.8)** | **(4.1)** |
| Interest Receivable | - | - |
| Interest Payable | (1.8) | (3.4) |
| **Profit/(Loss) for the Year** | **(16.6)** | **(7.5)** |
| Other Comprehensive Income | | |
| Actuarial Gain/(Loss) on defined benefit scheme | (60.1) | 37.1 |
| **Total Comprehensive Income for the Year** | **(76.7)** | **29.6** |
| **Balance Sheet** | | |
| Intangible Asset | 4.6 | 4.0 |
| **Total Non-Current Assets** | **4.6** | **4.0** |
| Debtors | 6.4 | 14.5 |
| Short Term Investments | 32.0 | 17.5 |
| Cash and Cash Equivalents | (0.8) | - |
| **Total Current Assets** | **37.6** | **32.0** |
| Cash Overdrawn | - | - |
| Creditors due within one year | (20.9) | (21.3) |
| **Total Current Liabilities** | **(20.9)** | **(21.3)** |
| Long Term Borrowing | (10.0) | (4.0) |
| Pension Liabilities | (151.7) | (121.2) |
| **Total Long-Term Liabilities** | **(161.7)** | **(125.2)** |
| **Total Assets/(Liabilities)** | **(140.4)** | **(110.5)** |
| Reserves | (140.4) | (110.5) |
| **Total Reserves** | **(140.4)** | **(110.5)** |

There was no qualification to the audit opinion on the last audited accounts of the Trust. Information regarding transactions during the year and balances held at the year-end between the Council and Birmingham Children's Trust Community Interest Company can be found within Note 46 of the Council entity accounts.

**III. The National Exhibition Centre (Developments) Plc**

The company was set up to provide an additional 30,000 square metres of exhibition space in four halls. The building was financed by a loan stock issue of £73 million, at 7.5625%, by the company and is guaranteed by the Council and which is due for repayment in 2027.

The Council has held all 1,000 issued ordinary shares of £1 each and all 100,000 £1 preference shares throughout the reporting period covered by these financial statements.

The position at the year end is detailed below.

| | 2020/21<br>£m | 2021/22<br>£m |
|---|---|---|
| Profit/(Loss) for the year | (1.0) | (1.0) |
| Net Assets/(Liabilities) at the year-end | 6.0 | 5.0 |

The year end of the company is 31 March 2022. For the purposes of consolidation the draft accounts have been used. There was no qualification to the audit opinion on the last audited accounts of the company.

The Council continues to retain ownership of NEC (Developments) Plc.

**IV. PETPS (Birmingham) Limited**

PETPS (Birmingham) Limited, a company limited by guarantee, was incorporated on 14 November 2014. The company is a wholly owned subsidiary of the Council.

Following completion of the sale of the National Exhibition Centre Limited Group (NEC Limited) on 1 May 2015, PETPS (Birmingham) Limited replaced NEC Limited as the principal employer and assumed the ongoing funding obligation of two defined benefit pension schemes with the agreement of the pension trustees.

| | 2020/21<br>£m | 2021/22<br>£m |
|---|---|---|
| Profit/(Loss) for the year | - | - |
| Net Assets/(Liabilities) at the year-end | - | - |

The year-end of the company is 31 March 2022 and for the purposes of consolidation the draft accounts have been used. There was no qualification to the audit opinion on the last audited accounts of the company.

Information regarding transactions during the year and balances held at the year-end between the Council and PETPS (Birmingham) Limited can be found within Note 46 of the Council entity accounts.

**V. PETPS (Birmingham) Pension Funding Scottish Limited Partnership**

PETPS (Birmingham) Pension Funding Scottish Limited Partnership (SLP) was formed by PETPS (Birmingham) Capital Limited (PETPS Capital) and PETPS (Birmingham) General Partner Limited (PETPS General), which are both wholly owned subsidiaries of the Council.

The arrangement was created in 2017/18 to enable the Council to manage the funding implications of its guarantee in respect of the pensions from the NEC Group Limited following its disposal. The Council has invested equity in PETPS Capital which it has subsequently invested in SLP. The rights of the investment in SLP have been assigned to the NEC Pension Fund Trustees whilst the pension fund is in deficit. At 31 March 2022, the level of investment in SLP that is currently assigned to the NEC Pension Fund Trustees was £2.4m (31 March 2021: £4.9m).

At 31 March 2022, there were nominal balances in PETPS Capital and PETPS General with the major transactions in SLP.

| | 2020/21 | 2021/22 |
|---|---|---|
| | £m | £m |
| Profit/(Loss) for the year | - | - |
| Net Assets/(Liabilities) at the year-end | - | - |

The year-end of the company is 31 March 2022 and for the purposes of consolidation the draft accounts have been used. Advantage has been taken of the exemption not to produce partnership accounts under regulation 7 of The Partnerships (Accounts) Regulations 2008 as the financial information for the partnership has been consolidated into these group accounts.

Information regarding transactions during the year and balances held at the year-end between the Council and PETPS (Birmingham) Pension Funding Scottish Limited Partnership can be found within Note 46 of the Council entity accounts.

**VI. InReach (Birmingham) Limited**

The Council set up InReach (Birmingham) Limited, a wholly owned subsidiary of the Council, in 2015/16 to facilitate the development of new private rented homes for market rent.

Throughout the whole of the reporting period considered in these financial statements, the Council has held 100% of the £2,000,100 share capital of the company.

| | 2020/21 | 2021/22 |
|---|---|---|
| | £m | £m |
| Operating Profit/(Loss) for the year | 0.6 | 0.6 |
| Change in value of Investment Property | (0.3) | (5.4) |
| Interest Payable | (0.7) | (0.8) |
| Tax | - | 0.8 |
| Total Comprehensive Income for the Year | (0.4) | (4.8) |
| Net Assets/(Liabilities) at the year-end | 8.3 | 3.5 |

The year end of the company is 31 March and for the purposes of consolidation the draft accounts for the 12 month period ending 31 March 2022 have been used. There was no qualification to the audit opinion on the last audited accounts of the company.

**VII. Birmingham City Propco Limited**

The Council set up Birmingham City Propco Limited, a wholly owned subsidiary of the Council, in 2017/18 to provide a vehicle for commercial investment. The initial transactions of the company were to purchase the leasehold interests of the Council in respect of the Crowne Plaza NEC and Hilton Metropole NEC Hotels, which were completed on 15 March 2018.

| | 2020/21 | 2021/22 |
|---|---|---|
| | £m | £m |
| Profit/(Loss) for the year | - | 0.3 |
| Net Assets/(Liabilities) at the year-end | 8.1 | 9.3 |

The year end of the company is 31 March and for the purposes of consolidation the draft accounts for the 12 month period ending 31 March 2022 have been used. There was no qualification to the audit opinion on the last audited accounts of the company.

Information regarding transactions during the year and balances held at the year-end between the Council and Birmingham City Propco Limited can be found within Note 46 of the Council entity accounts.

**Note G21**
**Associate and Joint Venture**

The associate that has been consolidated into the Group Financial Statements is listed below.

**I. Birmingham Airport Holdings Limited**

The seven West Midlands District Councils together own 49% of Birmingham Airport Holdings Limited (BAH) (the Council holds 18.68% of the total shareholding). The remaining shares of the company are held by Airport Group Investments Limited, 48.25%, and 2.75% is held for the benefit of employees. The Shareholders' Agreement provides for the District Councils to cast their 49% vote in all circumstances in one consolidated block. The vote of 75% of ordinary shareholders is required for certain major decisions of the company.

The seven West Midland Districts together own all £15.4m of BAH's 6.31% preference shares (the Council owns £5.9m) which are cumulative and redeemable.

The BAH Group Accounts incorporate:

- Birmingham Airport Limited;
- Birmingham Airport Air Traffic Limited;
- Birmingham Airport Developments Limited;
- Birmingham Airport (Finance) Plc;
- Birmingham Airport Operations Limited;
- Birmingham Airport Services Limited;

- BHX Fire and Rescue Limited;
- BHX (Scotland) Limited;
- BHX Limited Partnership;
- Euro-Hub (Birmingham) Limited; and
- First Castle Developments Limited.

The principal activity of the group is the operation and management of Birmingham Airport and the provision of facilities and services associated with those operations.

The year-end of the company is 31 March 2022. For the purposes of consolidation the draft accounts have been used. There was no qualification to the audit opinion on the last audited accounts of the group.

BAH is accounted for as an associate for the following reasons:

- The Shareholders' Agreement provides for the Districts to cast their 49% vote in all circumstances in one consolidated block. As the Council holds 18.68% within this 49% it is considered that the Council has greater power to influence the voting of the block;

- At 1 April 2019, 4 of the 16 Directors were Council officers or councillors. At 1 July 2020, 2 of the 11 Directors were Council councillors, and at 27 October 2021, 2 of the 12 Directors were Council councillors.

Following adjustments to the financial information to align accounting policies with those of the Council, in accordance with the principal of equity accounting under the Code, the summarised financial information for the associate for the year ended 31 March is detailed below:

| 31 March 2021 £m | | 31 March 2022 £m |
|---|---|---|
| 481.7 | Non-Current Assets | 462.4 |
| 88.3 | Current Assets | 76.3 |
| (50.9) | Current Liabilities | (48.9) |
| (478.6) | Non-Current Liabilities | (458.4) |
| 40.5 | Net Assets | 31.4 |
| **7.6** | **Council Interest in Net Assets @ 18.68%** | **5.9** |
| **27.0** | **Revenue** | **67.9** |
| (66.5) | Post-Tax Profit/(Loss) | (21.9) |
| (12.1) | Other Comprehensive Income/(Expenditure) | 14.0 |
| 0.3 | Adj. for difference in Balance Sheet between draft and final accounts 2019/20 | - |
| (78.3) | Total Comprehensive Income/(Expenditure) | (7.9) |
| - | Less Dividends paid | - |
| **(78.3)** | **Change in Net Assets** | **(7.9)** |
| **(14.6)** | **Council Interest in Total Comprehensive Income/(Expenditure) @ 18.68%** | **(1.5)** |

The carrying value of the Council's interest in net assets of this entity is £5.9m (2020/21: £7.6m), which is included within Investments in Associates and Joint Ventures in the Group Balance Sheet.

Birmingham Airport Holdings Limited at 31 March 2022 has disclosed the following contingent liabilities within its financial statements:

- On 3 December 2013 the company along with other group members of Birmingham Airport Holdings Limited, provided guarantees in support of £75 million private placement senior notes issued by Birmingham Airport (Finance) plc. Series A senior notes of £30 million are for a period of ten years maturing on 3 December 2023 and carry a fixed interest rate of 4.472 per cent per annum. Series B senior notes of £45 million are for a period of 15 years maturing on 3 December 2028 and carry a fixed interest rate of 4.557 per cent per annum;

- On 30 March 2016 the company along with other group members of Birmingham Airport Holdings Limited, provided guarantees in support of £76 million private placement senior notes issued by Birmingham Airport (Finance) plc. The notes are for a period of twenty five years maturing on 30 March 2041 and carry a fixed interest rate of 3.8 per cent per annum

- On 24 January 2019, the company, along with other group members of Birmingham Airport Holdings Limited, provided guarantees in support of £90 million private placement senior notes issued by Birmingham Airport (Finance) plc on 24 January 2019. The senior notes are for a period of 30 years maturing 24 January 2049 and carry a fixed interest rate of 3.21 per cent per annum.

- On 23 January 2020, the company, along with other group members of Birmingham Airport Holdings Limited, provided guarantees in support of £85 million private placement senior notes issued by Birmingham Airport (Finance) plc on 24 January 2020. The senior notes are for a period of 30 years maturing 24 January 2050 and carry a fixed interest rate of 2.44 per cent per annum.

- On 21 May 2020, the company, along with other group members of Birmingham Airport Holding Limited, provided guarantees in support of £45 million private placement senior notes issued by Birmingham Airport (Finance) PLC on 21 May 2020. The senior notes are for a period of 30 years maturing 21 May 2050 and carry a fixed interest rate of 2.94 per cent per annum.

- The company, in its role as parent company to the group, has provided a statutory guarantee to certain subsidiaries for all outstanding liabilities as at 31 March 2022. This guarantee allows the subsidiary companies to take the audit exemption from obtaining a signed statutory audit opinion under section 479A of the Companies Act 2006. The subsidiaries provided with the guarantee were:

    - Birmingham Airport Air Traffic Limited;
    - Birmingham Airport Developments Limited;
    - Birmingham Airport Operations Limited;
    - Birmingham Airport Services Limited;
    - BHX Fire and Rescue Limited;
    - Euro-Hub (Birmingham) Limited; and
    - First Castle Developments Limited.

The joint venture that has been consolidated into the Group Financial Statements is listed below.

**II. Paradise Circus Limited Partnership**

Paradise Circus Limited Partnership (the partnership) is a joint venture arrangement between the Council, BriTel Funds Trustees Limited (BriTel) and Paradise Circus General Partner Limited, which is itself formed through a partnership of the Council and BriTel. The Council and BriTel share control of the joint venture on a 50/50 basis.

The partnership is facilitating the development of the area known as Paradise Circus, supporting delivery against one of the Council's strategic aims of making Birmingham an entrepreneurial city to learn, work and invest in. The entity was incorporated on 11 September 2013, with operational activity commencing in January 2015.

The year-end of the company was 30 June 2021. For the purposes of consolidation these accounts have been used and supplemented by management accounts information for the nine month period to 31 March 2022. There was no qualification on the audit opinion for the last audited accounts of the company.

Following adjustments to the financial information to align accounting policies with those of the Council, in accordance with the principles of equity accounting under the Code, the summarised financial information for the joint venture for the year ended 31 March is as follows:

| 31 March 2021 £m | | 31 March 2022 £m |
|---|---|---|
| 23.1 | Non-Current Assets | 23.9 |
| 16.5 | Current Assets | 18.8 |
| (6.0) | Current Liabilities | (5.2) |
| (49.6) | Non-Current Liabilities | (51.7) |
| (16.0) | Net Assets/(Liabilities) | (14.2) |
| **(8.0)** | **Council Interest in Net Liabilities @ 50%** | **(7.1)** |
| **12.6** | **Revenue** | **0.4** |
| (3.0) | Post-Tax Profit/(Loss) | (4.1) |
| - | Other Comprehensive Income/(Expenditure) | - |
| (3.0) | Total Comprehensive Income/(Expenditure) | (4.1) |
| **(1.5)** | **Council Interest in Total Comprehensive Income/(Expenditure) @ 50%** | **(2.0)** |

The carrying value of the Council’s interest in this entity is a net deficit of £7.1m (2020/21: £8.0m deficit), which is included within the current liabilities in the Group Balance Sheet.

# Annual Governance Statement 2021/22

**Annual Governance Statement 2021/22**

## 1 Scope of Responsibility

1.1. Birmingham City Council (the Council) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency, and effectiveness.

1.2. In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and including arrangements for the management of risk.

1.3. The Council has approved and adopted a code of corporate governance which is consistent with the principles of the *Delivering Good Governance in Local Government: Framework* (CIPFA/Solace 2016). This statement explains how the Council has complied with the framework and also meets the requirements of *The Accounts and Audit Regulations 2015*, Regulation 6(1)(a), which requires an authority to conduct a review at least once a year of the effectiveness of its system of internal control and include a statement reporting on the review with any published Statement of Accounts and, Regulation 6(1)(b), which requires all relevant bodies to prepare an Annual Governance Statement (AGS).

1.4. This governance statement provides assurance over the governance arrangements that have been in place for 2021/22 and also identifies significant changes to those governance arrangements that were put in place as a result of Covid-19.

## 2 The Purpose of the Governance Framework

2.1. The Council is accountable to its communities for the money it spends. It is required under law to ensure it provides value for money and to achieve this it has a governance framework which supports a culture of transparent decision making.

2.2. For a governance framework to work, arrangements should be in place to ensure that the Council can achieve its strategically agreed objectives and remain financial sustainable as these two elements are interdependent.

2.3. The Council is committed to good governance and to improving governance on a continuous basis through a process of evaluation and review.

2.4. Good governance for the Council is ensuring it is doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner and the Council seeks to achieve its objectives while acting in the public interest, at all times.

2.5. The governance framework comprises the systems, processes, culture and values by which the Council directs and controls its activities and through which it accounts to, engages with and leads its communities. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of high quality services and value for money.

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

2.7. The governance framework has been in place at the Council for the year ended 31 March 2022 and up to the date of approval of the Statement of Accounts, subject to changes highlighted relating to Covid-19.

## 3 The Governance Framework

3.1. The governance framework comprises of the systems, processes, culture and values by which the Council directs and controls its activities and through which it accounts to, engages with and leads its communities. The Council has adopted a Corporate Assurance Framework and this Annual Governance Statement provides supplementary information by identifying the Council's vision, strategies and plans, both internally and working with partners: the culture and framework within which councillors and officers operate; financial management and compliance with CIPFA Financial Management Code 2019 (FM Code) and outlines the challenge process by Scrutiny and Audit Committee.

The Council's vision and priorities for Birmingham

3.2. During the 2021/22 financial year, the Council's vision for Birmingham was to create 'a city of growth where every child, citizen and place matters', with a set of outcomes and priorities to underpin this vision. The Council's aim was to transform and modernise services in response to changing demand from a growing population and to support this, the Council focused resources on six priorities:

- **An entrepreneurial city to learn, work and invest in.**
- **An aspirational city to grow up in**
- **A fulfilling city to age well in**
- **A great city to live in.**
- **A city whose residents gain the maximum benefit from hosting the 2022 Commonwealth Games.**
- **A city that takes a leading role in tackling climate change.**

3.3. The Council's vision and priorities in terms of the contribution to strategic outcomes are set out in the Council Delivery Plan 2020-2022 (the Plan). The Plan is available on the Council's website.

3.4. The Plan identifies three longer term goals which are fundamental to tackling the critical challenges facing the city whilst managing demand on Council services to a more affordable level. These continue to guide the transformation of the Council and will develop beyond 2022. The three areas are:

- **Shifting focus from crisis to prevention**
- **Increasing the pace and scale of growth, for those that need it most, while delivering the Council's climate change objectives and**
- **Delivering new ways of working**

3.5. Following the Council's all out elections in May 2022, the Council developed a new Corporate Plan 2022 – 2026. This Plan updates the Council's priorities in the light of the Covid-19 recovery, tackling inequalities and the 'levelling up' of the city. It will guide the Council's work for the next four years, providing the context for more detailed delivery strategies and plans which address the most important challenges facing the city.

3.6. Many of the Council's existing priorities were introduced as long term goals and remain relevant as the Council develops new proposals to build a city which is:

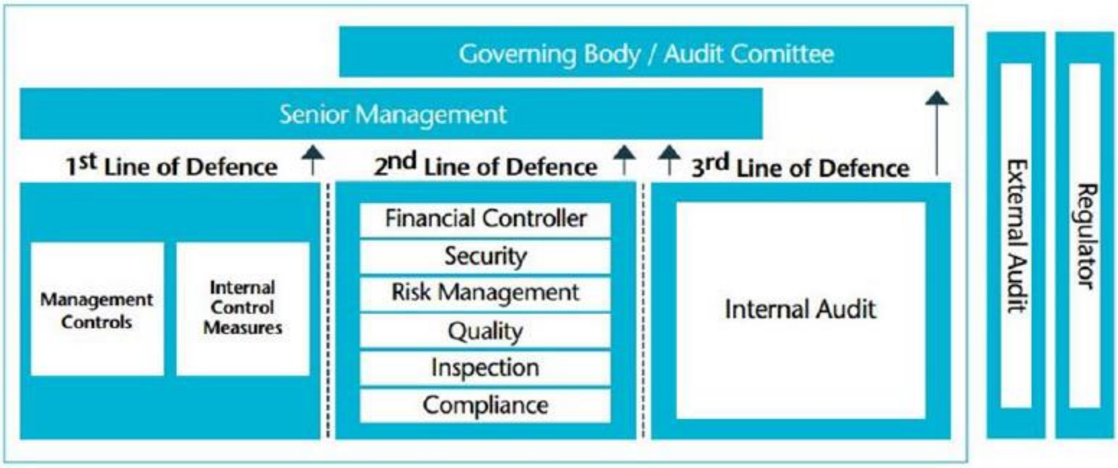
- **A Bold Prosperous Birmingham**: through continued economic growth, tackling unemployment, attracting inward investment and infrastructure and maximising the benefits of the Commonwealth Games.
- **A Bold Inclusive Birmingham**: through empowered citizens, looking after vulnerable children, supporting young people to fulfil potential and promoting diversity, civic pride and culture.
- **A Bold Safe Birmingham**: through tackling antisocial behaviour and hate crime, housing provision and addressing homelessness and improving living environments.
- **A Bold Healthy Birmingham**: through tackling health inequalities, encouraging and enabling physical activity and healthy living, quality of care and helping to support mental health
- **A Bold Green Birmingham**: by improving the cleanliness of our city and streets, improving the environment and air quality, carbon reduction and being a city of nature.

3.7. A new Council Delivery Plan will set out key delivery activity, milestones and key performance indicators that help monitor and demonstrate delivery against the new Corporate Plan priorities. Corporate priorities are supported by more detailed Directorate Business Plans which are also regularly monitored and reviewed with a golden thread through to appraisals.

3.8. Regular monitoring and reporting through a robust governance structure against these measures ensure that weaknesses in performance are identified at an early stage and effective action to bring performance in line with targets is undertaken.

3.9. A Corporate Assurance Framework was reported to Audit Committee on 29 November 2021. The framework has been developed to improve oversight and prepare an evidence base for the key sources of assurance that are relied upon to manage risks and as a result support in the achievement of organisational strategic objectives

3.10. The Assurance Framework adopts the Three Lines of Defence Model. By defining the sources of assurance in three broad categories, it helps to understand how each contributes to the overall level of assurance provided and how best they can be integrated and mutually supportive. The Three Lines of Defence model is illustrated below:




<u>The Impact of Covid-19 on Governance</u>

3.11. In response to Covid-19, the Council developed a 12 point plan to meet the needs of the city, residents and communities. Based within the framework of the Council's vision and priorities the 12 points were:

- To preserve life and protect vulnerable groups and maintain the viability of the city is our fundamental purpose during the coming days, weeks and months.
- Ensure the response is scalable, proportionate and flexible, working closely with our NHS, education, business and community providers.
- Contribute to effective containment measures as appropriate to limit the spread of infection, and work with citizens and communities to help them to take the appropriate actions.
- Ensure continued delivery of the Council's critical services, focusing most on those services which support and protect the most vulnerable in society.
- Maintain the Council's services to an appropriate level and prioritise services to maintain those which are critical to life and the protection of vulnerable groups.
- Engage with and support NHS and Public Health response systems/campaigns including media and communications, working across all the networks of the city to ensure information reaches all our communities.
- Provision and sharing of advice; warning and information internally and to public and local businesses to support the immediate and long-term resilience of the city.
- Maintain good working relationships with partners to ensure supply chain continuity, especially for those resources that underpin the safety and security of Birmingham and its citizens.

- Ensure that all roles and areas of responsibility are predetermined and formally agreed so there is clarity internally and with partners during these uncertain times.

- Monitor the impact of the outbreak on the community and our services to respond in a timely manner and plan recovery to ensure that Birmingham remains looking forward.

- Work with partners across our voluntary, community and faith communities to mobilise the spirit of Birmingham to respond to the challenges facing us.

- Work across political parties to collaborate in the best interests of the city; we recognise that the challenges ahead require us all to work together to support citizens and the city to weather the coming challenges and emerge as a city moving forward.

3.12. The 12 point plan was followed until the Council deactivated its Covid-19 governance arrangements.

3.13. Covid-19 meant that the Council made significant changes to governance arrangements upon activating its Emergency Plan from 18 March 2020 to 2 August 2021. As a result, emergency Covid-19 decisions were made in accordance with the Emergency Plan and therefore, in line with the Council's Constitution, normal reporting and decision-making rules changed and did not apply.

3.14. The Council's Emergency Plan and the Constitution adopted the Strategic / Tactical / Operational Command and Control structure, which is a nationally adopted framework by all emergency response organisations. The command and control structure ensured a joined-up approach to emergencies at various scales and provided officers with wide delegations to make decisions at pace, as the Council responded to the developing situation. The Council was dealing with the need to continually respond to the crisis as it developed, and although there was an intention to publish key decisions taken during the emergency response, it was not reasonably practicable to publish all decisions taken at the time. Subsequently, the Council published a log of the decisions taken during the emergency response.

Governance Arrangements in the Wider Context

3.15. The Council's planning framework is set in the context of the wider city leadership and governance, such as the West Midlands Combined Authority's (WMCA) Strategic Economic Plan (developed by the local authorities, local enterprise partnerships and universities in conjunction with the WMCA) and the Birmingham and Solihull Inception Framework (to deliver a simplified way of working between health and care organisations for better health and care for local people).

3.16. The Mayor heads the WMCA. The WMCA uses devolved powers from central government to allow the Council, along with its regional counterparts, to drive economic growth, investment and the reform of public services. There will be continued innovative ways of delivering local services and for people to engage in their local community, such as through the local council for Sutton Coldfield.

3.17. The Council is a key member of statutory and non-statutory partnerships. The overarching non-statutory City Partnership consists of key stakeholders and partners across the public, business, educational, voluntary and community sectors. It has established a collective purpose, mission and vision for itself with a set of six goals that align with the Council's Levelling Up Strategy and is now developing a work programme to engage partners in shaping and enacting insight-led collective approaches to the opportunities and challenges facing Birmingham. The Council utilises existing and established routes to community engagement that look to promote involvement of communities of interest, stakeholders and the wider public across the city.

3.18. The Council has an established partnership toolkit setting out the governance and internal control arrangements which must be in place when the Council enters partnership working. This includes arrangements for the roles of Members and Officers, and the implementation and monitoring of objectives and key targets.

3.19. The Greater Birmingham and Solihull Local Enterprise Partnership (GBSLEP) operates a full executive team within a separate company, GBSLEP Limited. The Council remains the accountable body for capital funds and some revenue funding awards and retains its place on the LEP Board in respect to its s151 role over public funds. Working with partners, the Council plays a strategic role for the Greater Birmingham area, working with the GBSLEP and where applicable, jointly and in consultation with the WMCA. As Accountable Body and partner to the GBSLEP, the Council develops collaborative solutions to common problems, and facilitates coherent programmes with regional and national partners to deliver an economic strategy for the city and region. GBSLEP projects are delivered within the GBSLEP Assurance Framework, approved by the Council's governance processes as Accountable Body, managed and monitored through Programme Delivery Board and thematic "Pillar Boards", with regular reporting to the LEP Board.

3.20. In February 2022, the Government published its Levelling Up White Paper which has far-reaching implications for the future structure of LEPs across the country. Within the paper the direction for the GBSLEP is set out as integration with the WMCA. The Council is working with GBSLEP and WMCA to shape and support these changes

3.21. The Cabinet Committee - Group Company Governance's role is to ensure that the Council's strategic objectives are met across the group of companies which either the Council owns or has an interest in, and to support the development of the group in line with the Council's regulations and ambitions. The Committee works to improve the level of Council oversight of the activities of those companies and to ensure that sound governance arrangements are in place to support council interests, appointments and nominees. The Committee will meet with companies, review performance, business plans and strategies and ensure that the relationship continues to contribute to council priorities.

Financial Management Arrangements

3.22. The Council continues to face financial challenges. The ongoing financial impact of Covid-19 after a decade of austerity, inflationary pressures and increased demand for the Council's services pose a threat to the financial sustainability of both Birmingham as a city and the Council.

3.23. The Council ensures the economical, effective and efficient use of resources and secures continuous improvement in the way in which its functions are exercised, by having regard to a combination of economy, efficiency and effectiveness as required by the Best Value duty. Achievement of value for money is a key part of the Council's long term financial strategy.

3.24. The Council set a Financial Plan for 2021-2025 that was driven by the 2020-2022 Delivery Plan, supporting effective allocation and prioritisation of resources to critical work and projects over a longer period. The introduction of the rolling budget process, a key part of the Council's financial management improvements, saw the planning assumptions in the 2021 Medium Term Financial Plan, refreshed twice in the year, reported to Cabinet and Overview and Scrutiny Committee in July and October.

3.25. The Council's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2016). The role of the Chief Finance Officer (CFO)/Section 151 Officer includes being:

- A key member of Corporate Leadership Team (CLT), helping it to develop and implement strategy and to resource and deliver the Council's strategic objectives sustainably and in the public interest.
- Actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and alignment with the Council's financial strategy.
- Leading the promotion and delivery of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively.
- To deliver these responsibilities, the CFO leads and directs a finance function that is resourced to be fit for purpose; and is professionally qualified and suitably experienced.

3.26. 2021/22 represents the first year of formal adoption by the Council of the CIPFA Financial Management Code 2019 (FM Code). The FM Code provides guidance for good practice in financial management and helps local authorities demonstrate financial sustainability. Compliance with the FM Code helps to strengthen the framework that surrounds financial decision making. Complying with the standards set out in the FM Code is the collective responsibility of elected members, the chief finance officer and members of CLT.

<u>The Executive Structure</u>

3.27. The Council facilitates policy and decision–making via an Executive Structure. There were ten members of Cabinet for the 2021/22 financial year:

- The Leader with responsibilities for strategic policies; structure and governance of the Council; Lord Mayor's Office; communications; financial strategy; Council wide efficiency and improvement; policy and partnerships; WMCA; major projects; promotion of the City and inward investment; Commonwealth Games, sports and events development; Council land use and property assets including appropriation; economic growth and jobs; business improvement districts; land use planning; housing development; enforcement

- Deputy Leader with responsibilities for business change; efficiency and improvement for the Council; oversight of good governance in relation to Council representation on outside bodies; risk management; revenues and benefits service; customer services; external scrutiny and local government ombudsman; open data and information systems; whistleblowing and corporate complaints procedure; emergency planning; impact and Implications of Brexit; to lead on information law and data protection matters; to challenge any lack of transparency in all work carried out by the Council; ICT and legal.

  Eight other Cabinet Members have the following portfolios:
- Cabinet Member – Vulnerable Children and Families

- Cabinet Member – Street Scene and Parks
- Cabinet Member – Health and Social Care
- Cabinet Member – Homes and Neighbourhoods
- Cabinet Member – Finance and Resources
- Cabinet Member – Social Inclusion, Community Safety and Equalities
- Cabinet Member – Transportation and Environment
- Cabinet Member – Education, Skills and Culture.

3.28. The Council's Constitution, which is reviewed annually by the Monitoring Officer with amendments agreed at the Annual General Meeting, is available on the Council's website. The Council has authorised Council Business Management Committee (CBMC) to take all necessary steps, through the year, to amend, add, substitute or delete any of the Council's non-Executive Constitutional amendments and refer all changes to Full Council for approval.

3.29. The Constitution sets out the terms of reference or function for each of the Committees and signposts to a schedule of matters reserved for decision by Full Council.

3.30. CBMC has responsibility for the planning and preparation of the agenda, papers and other arrangements for Council meetings and provides the forum for non-executive, non-scrutiny and non-regulatory matters.

3.31. CBMC oversees the Council's relationship with the Independent Remuneration Panel which is chaired by an independent person. CBMC submits recommendations to the Council on the operation and membership of the Panel and amendments to the Councillors' Allowances Scheme.

3.32. CBMC also discharges the Council's functions in relation to parishes and parish councils, considers terms and conditions of employment and any recommendations from Audit Committee relating to the discharge of the Council's duty under the Accounts and Audit Regulations 2015.

<u>Roles, Values and Standards of Conduct and Behaviour of Members and Officers</u>

3.33. Identifying the culture within which the Executive (Cabinet), councillors and officers operate is one of the principles of good governance.

3.34. The Constitution sets out the respective roles and responsibilities of the Cabinet and other Members and Officers and how these are put into practice.

3.35. The Constitution also includes a Scheme of Delegation to Officers which sets out the powers of Chief Officers/Directors.

3.36. The Council has Codes of Conduct for both Members and Officers which set out the standards of conduct and personal behaviour expected and the conduct of work between members and officers. In particular, the Council has clear arrangements for declaration of interests and registering of gifts and hospitality offered and received.

## Member Development

3.37. The Members' Development Strategy 2018-2022 aims to provide a member development programme that ensures all councillors have the opportunity to gain the knowledge and skills to fulfil their role as 21st Century Councillors; make a positive difference every day to the people of Birmingham; provide strategic leadership and work together with officers in the transformation and delivery of Council services.

3.38. Councillors are at the heart of the Council and the organisation supports the member development strategy. It is overseen by CLT and the Member Development Steering Group; coordinated through the Members' Development Team, consisting of officers from Legal and Governance. This collaborative approach ensures ownership of the strategy by the Council as a whole.

3.39. In addition to the Members' Development Programme, all Councillors have access to e-learning through the City Council iLearn portal and are regularly kept up to date on training and development via the City Councillor bulletin circulated by email. This gives details of legislation, training opportunities and other issues of importance to Members.

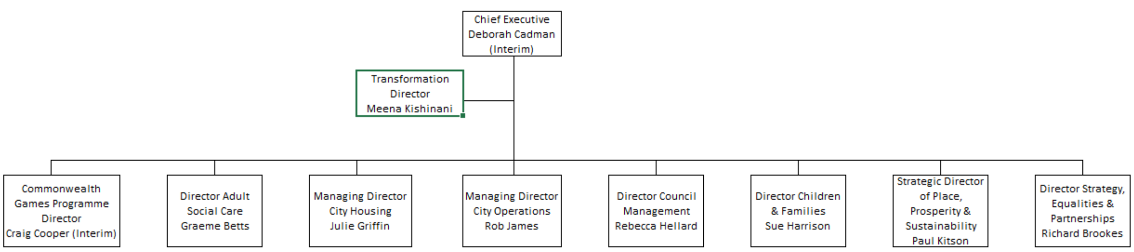
3.40. During Covid-19 and the increased requirement for more agile and online working, the main focus of the Members' Development Programme for 2021/22 has been to continue to provide briefing/training sessions through Microsoft Teams. There has been encouragement of online learning opportunities and assisting in learning the skills required in participating and managing meetings remotely. Information has been provided for both internal and Local Government Association training opportunities for:

- Role Specific Training, ensuring members have the knowledge and understanding of legal and governance requirements to carry out their role on regulatory and scrutiny committees
- On-going Member Development, to provide on-going development opportunities for members related to current and potential future roles and responsibilities.

## Management Structure

3.41. During 2021/22, the Council operated through seven Directorates, Adult Social Care, Children & Families, Council Management, City Housing, City Operations, Place, Prosperity and Sustainability, and Strategy, Equalities and Partnerships.

3.42. The Council's management structure on 31 March 2022 was as per the diagram below:



3.43. The following key changes occurred:

- Deborah Cadman was appointed as Interim Chief Executive from 14 June 2021 and on 6 July 2022 her permanent appointment was announced.
- Graeme Betts took up the role of Acting Chief Executive prior to Deborah Cadman's appointment with Louise Collett taking up the role of Acting Director of Adult Social Care during this time.
- Sue Harrison, Director Children and Families joined the Council in October 2021. Prior to this, the post was filled on an interim basis.
- Jonathan Tew, Assistant Chief Executive left the Council on 31 August 2021.
- Rebecca Hellard was appointed Director of Council Management on a permanent basis from 1st November 2021.
- Paul Kitson was appointed Strategic Director of Place, Prosperity and Sustainability in January 2022
- Richard Brookes was appointed Director Strategy, Equalities and Partnerships in November 2021

Workforce

3.44. The Council's workforce strategy 2018-2022 was agreed by Cabinet in 2018 and refreshed in February 2020. The Council's workforce vision is to have a workforce that reflects the lived experience of people and is representative of the communities it serves, to be an employer of choice, with a high performing, agile and diverse workforce, capable of delivering innovative services.

3.45. Having a flexible, skilled and mobile workforce is critical to the Council responding effectively to increasing demands placed on front line services and support functions and to the delivery of a long-term sustainable organisation. During Covid-19, the workforce adapted to working from home for all but essential front line services, and now the Council is reviewing new ways of working for the future.

3.46. During 2021/22, the 'My Appraisal' review process continued, enabling a consistent means of assessing and rewarding performance. 'My Appraisal' is specifically designed to ensure that employees are supported to implement the Council's core values:

- We put citizens first
- We are true to our word
- We act courageously
- We achieve excellence

Scrutiny, Accountability and Risk Management

3.47. For good governance to function well, the Council must encourage and facilitate a high level of robust internal challenge, which both contributes to the financial stability of the Council and provides the right cultural approach.

3.48. The purpose of the Audit Committee is to support the Council's Corporate Governance responsibilities, to provide independent assurance to the Council in relation to internal control, risk management and governance and help ensure robust arrangements are maintained. The role of the Audit Committee includes active involvement in the review of financial systems and procedures, close liaison with external audit, responsibility for the approval of the Annual Accounts and to review and make recommendations to the

Executive regarding the effectiveness of internal audit and the Council's arrangements for deterring, preventing, detecting and investigating fraud.

3.49. Following an independent assessment of the effectiveness of Audit Committee in 2019/20, committee members expressed a wish to enhance their effectiveness by drawing upon wider sources of assurance; specifically, that of management and where appropriate, cabinet members. During the year, Audit Committee's ability to challenge was strengthened by the appointment of an independent advisor. Audit Committee has also received assurance reports from the Leader, Deputy Leader and Cabinet Members. An annual report is also presented to Full Council.

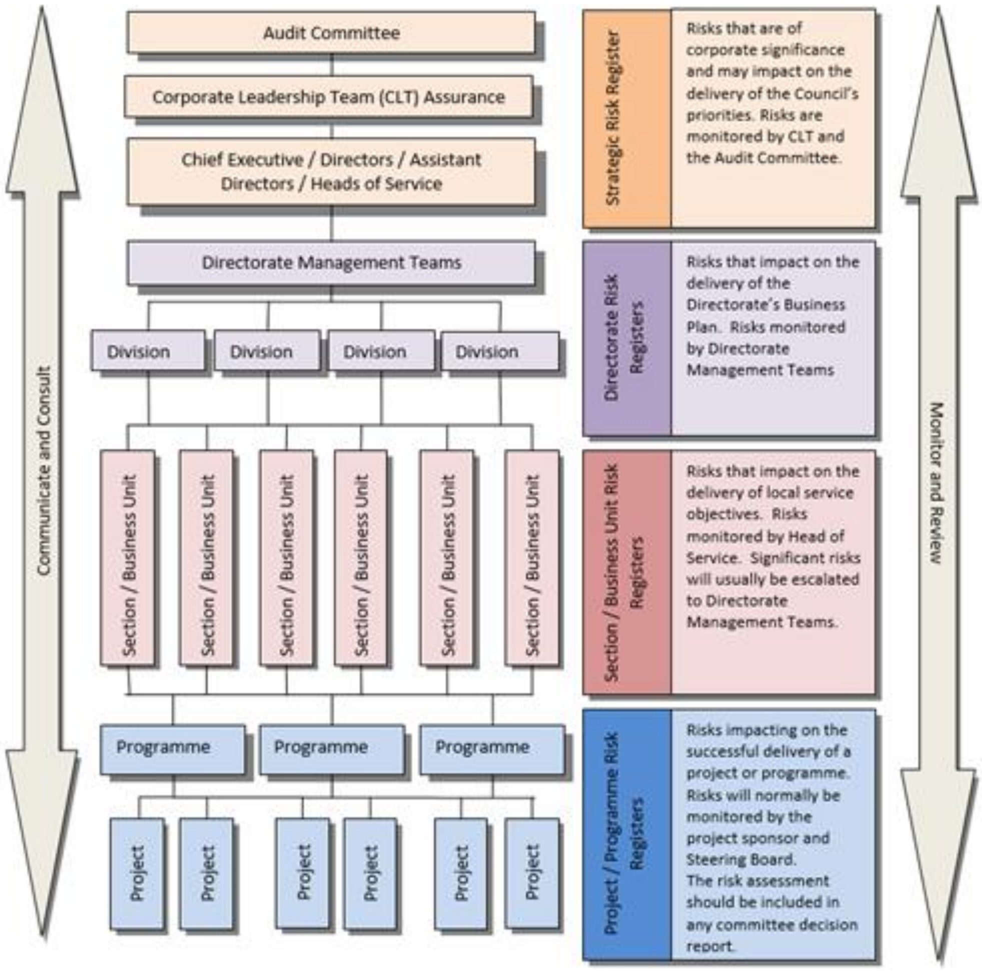
3.50. The Overview & Scrutiny Committees cover all Cabinet Member portfolios. All Executive (Cabinet) decisions can be called in for Scrutiny to ensure that they are soundly based and consistent with Council policy.

3.51. The Council has a procedure for handling complaints, compliments, and comments that monitors formal contact with members of the public. Such enquiries are actively tracked through the process and independently reviewed and where appropriate, actions taken to improve service delivery.

3.52. The Council ensures compliance with established policies, procedures, laws, and regulations - including risk management. For transparency, all reports to Cabinet and Cabinet Members are required to include governance information relating to: Council priorities, plans and strategies, risk management consultation, financial and legal implications and Public Sector Equalities Duty. All reports are required to be cleared by senior finance and legal officers.

3.53. The Council has a Risk Management Framework which sets out the processes for identifying, categorising, monitoring, reporting and mitigating risk at all levels, formalising processes already in place.

3.54. The schematic diagram below illustrates how risk was managed during 2021/22:




3.55. The Council's Strategic Risk Register is reviewed and updated on a regular basis. The Strategic Risk Register is reported to CLT Assurance monthly, so that they can monitor and challenge progress against actions and identify any new risks to the Council. Additionally, the Strategic Risk Register is reported to the Audit Committee three times per year so that it can satisfy itself and gain assurance that the Risk Management Framework has been consistently applied and risks appropriately managed. Key operational risks are captured within business plans at directorate and divisional level and monitored by Directorate Management Teams.

3.56. CLT Assurance meet monthly to review assurance and governance issues. Directorate Management Teams also have in place forums to review assurance and issues are reported to CLT Assurance as required.

3.57. An independent assessment of the Total Impact of Internal Audit was undertaken independently by PWC LLP in 2020. Internal Audit's Total Impact review will be supplemented by a Peer Review in 2022 to enhance its overall contribution to the Council. The Council has well-established protocols for working with external audit. The Council's external auditors have responsibilities under the Code of Audit Practice to review compliance with policies, procedures, laws and regulations within their remit.

Progressive Assurance Model

3.58. The Council has been on an improvement journey adopting a model of "progressive assurance" during 2019/20. The model was regarded by, at the time, MHCLG and peers as a very significant step forward for the Council's improvement agenda.

3.59. The 'Investing in the Future' Cabinet Report and Delivery Plan continues to guide the overall direction of the Council's improvement journey. The Council is adopting a refreshed approach to improvement, accountability and performance with effectiveness monitored through regular reporting to Cabinet, Scrutiny and CLT Performance Group on the overall position of delivery plan indicators.

External Audit

3.60. The external auditor has issued two Audit Findings Reports (AFR) on the audit of the financial statements based on work completed. The Interim AFRs were reported to Audit Committee on 19 October 2021 and 25 January 2022 with further external audit progress reports reported to Audit Committee on 29 November 2021 and 15 February 2022. The Draft Auditor's Annual Report (AAR) included no Statutory 24 recommendations, made four key recommendations in respect of governance, improving economy, efficiency and effectiveness, in three separate areas:

- Two recommendations relating to issues with the Homes to School Transport Service
- The arrangements in relation to required improvements in Special Educational Needs and Disability (SEND) services
- IT Audit findings and planned changes to the Council's general ledger

and eight improvement recommendations.

Engagement with the community and other stakeholders

3.61. During the pandemic, the Council saw how effective a coordinated voluntary, community, faith and social enterprise response could be in supporting individuals and neighbourhoods cope with the challenges presented. The Council worked closely with the sector, strengthening relationships and developing an understanding of how the Council can effectively serve communities and create greater trust.

3.62. Resulting from Covid-19 restrictions, the Council has adopted an on-line approach to consultation. The Council Financial Plan 2022 to 2026 was informed by the Brum Budget Challenge during December 2021, requesting citizens of Birmingham prioritise services within a limited budget via a digital tool, an on-line meeting led by the Council's Leader with the business community and an on-line event hosted by Birmingham Updates attended by the Leader, Deputy Leader, Cabinet Member for Finance and Resources and the Director of Council Management.

3.63. The Council's Scrutiny function engages with key partners and other interested groups and individuals in order to assess the impact and suitability of the Council's activity. The Scrutiny Committees make an annual report to Full Council.

3.64. Clear channels of communication are in place with service users, citizens and stakeholders although during Covid-19 this was online. Now pandemic restrictions have eased, the Council holds meetings in public, with many formal meetings webcast.

Directorates have extensive programmes of consultation and engagement activity for specific services.

## 4 Review of Effectiveness

4.1. The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the CLT which has responsibility for the development and maintenance of the governance environment, Birmingham Audit's annual report, and by comments made by the external auditors and other review agencies and inspectorates.

4.2. The Council continues to assess how its overall corporate governance responsibilities are discharged. In particular, the Council has adopted the 'Delivering Good Governance in Local Government: Framework' (2016 CIPFA/Solace) and continues to learn from experiences and makes necessary changes to improve its local code of governance. This includes developing a Corporate Assurance Framework to improve oversight and prepare an evidence base for the key sources of assurance that are relied upon to manage risks and as a result support in the achievement of organisational strategic objectives.

4.3. The Council has a well-developed methodology for annual governance review which is reviewed and updated each year. The process requires each Directorate and significant areas of service delivery / business units within a Directorate to produce an Assurance Statement highlighting significant governance issues, and details of what action(s) are being taken to mitigate any risks.

4.4. The Council's review of the effectiveness of the system of internal control is informed by:

- Directorate assurance based on management information, performance information, officer assurance statements and Scrutiny reports.
- The work undertaken by Birmingham Audit during the year.
- The work undertaken by the external auditor reported in their annual audit letter and statutory recommendations; and
- Other work undertaken by independent inspection bodies.

4.5. The arrangements for the provision of internal audit are contained within the Council's Financial Regulations which are included within the Constitution. The Chief Finance Officer is responsible for ensuring that there is an adequate and effective system of internal audit of the Council's accounting and other systems of internal control as required by the Accounts and Audit Regulations 2015. The internal audit provision operates in accordance with the Public Sector Internal Audit Standards.

4.6. The Birmingham Audit plan was compiled based on professional judgement and a risk model to 'score' all potential 'auditable' areas. To meet the standards required there was a need to ensure sufficient coverage of the adequacy and effectiveness of systems of internal control in relation to financial control, risk management, corporate governance and an element for proactive and reactive fraud work.

4.7. The resulting work-plan was discussed and agreed with the Directors and Audit Committee and shared with the Council's external auditor. Birmingham Audit reports include an assessment of the adequacy of internal control and prioritised action plans to address any identified weaknesses and include a risk rating for the Council and the

Service Area. These are submitted to Members, Corporate Directors and service managers as appropriate.

4.8. From the work undertaken by Birmingham Audit during 2021/22 and the outcomes from applying the model for formulating the end of year opinion the following assurance was able to be given: *"Based on the audit work undertaken and the wider assurance framework I am able to provide a reasonable assurance for the core systems of internal controls evaluated. As in any large organisation, our work did identify some significant issues that required action. All significant issues identified were reported to the appropriate Director during the year."*

4.9. In response to Covid-19, the Council developed a 12 point plan to meet the needs of the city, residents and communities. Part of the national response to Covid-19 included local authorities in the West Midlands area working collaboratively and the Council took the lead in the procurement of personal protective equipment for the region. Locally, the Council provided food deliveries to shielded residents, distribution of small business grants and the Retail, Hospitality and Leisure Fund, vouchers for families in receipt of free school meals, provision of accommodation to the homeless and distribution of personal protective equipment to care settings.

4.10. The funding and logistical consequences of delivering the Council's response during the pandemic was closely monitored as it created a severe challenge for the Council's own finances, with increased spending requirements alongside a loss of income. The crisis highlighted the chronic and structural inequalities in the city and the continued level of poverty and vulnerability in some groups and communities.

4.11. On 16 March 2021, the Council published its Covid-19 Economic Recovery Strategy with emphasis on the need for a more resilient economy and stronger communities, acknowledging a thriving economy depends on spreading opportunity and making families and communities more resilient. The strategy focused on four overall priorities for the city's recovery from Covid-19:

- Creating a more inclusive economy and tackling the inequalities and injustices highlighted by the crisis
- Taking more radical action to achieve zero carbon emissions and a green and sustainable city
- Strengthening our public services and creating new services to address needs
- Building the strength and resilience of our communities based on the positive response to the crisis.

4.12. In response to central government's levelling up strategy, in November 2021 the Council launched its own levelling up strategy 'Prosperity and Opportunity for All', a framework of five levelling up accelerators, for which the Council is seeking central government support. The strategy links to the Council's existing plans including the Economic Recovery Strategy, City Plan, Delivery Plan 2020-22 and Community Cohesion Strategy.

4.13. The Council has undertaken a self-assessment against the FM Code standards with a view to a CIPFA peer review for additional assurance. It is the opinion of the Chief Finance Officer that the Council is financially resilient and delivers value for money. However, in striving for financial management excellence, the Council has developed a set of actions for improvement which include further budget holder training and support on the new Human Resources and Finance system, continuing the implementation of the Finance Target Operating Model and strengthening corporate processes and documentation for project and investment appraisals. The planned improvements will contribute to the Council's longer term vision and financial improvement journey.

4.14. All significant issues have also been brought to the attention of the Audit Committee, and where appropriate to CLT. The more significant of these are set out in the section entitled '**Significant governance issues 2021/22'** below.

4.15. The internal audit function is monitored and reviewed regularly by Audit Committee. The Committee reviews management progress in implementing recommendations made in significant, high risk audit reports, progress made against issues raised by the external auditor in the Audit Findings Report and against issues raised in the AGS through the Corporate Risk Register.

4.16. The Council's Overview and Scrutiny Committees received reports on key control issues throughout 2021/22 including the recovery from Covid-19, the impact of Brexit on the City, the Commonwealth Games, Safeguarding Adults and Children, the Clean Air Zone and Clean Air Strategy.

4.17. Directorate and Business Unit business plans contain a variety of performance indicators and targets, which are regularly reviewed.

4.18. The Monitoring Officer advises that there were 46 concerns raised and considered under the Council's Whistleblowing & Serious Misconduct policy in the 2021/22 financial year, an increase of 1 in comparison to 2020/21.

## 5 Review of 2020/21 Governance Issues

5.1. The significant 2020/21 governance issues were considered by Audit Committee in June 2020, agreed as part of the Draft Statement of Accounts in October 2021 and reviewed as part of the Corporate Risk Register updates in the 2021/22 financial year. In addition, Audit Committee received reports relating to Fraud, Treasury Risk Management Arrangements, Procurement Governance Arrangements, Audit Findings Report Updates, External Audit of the Accounts Updates and Cabinet Member Assurance Updates.

5.2. The recovery from the impact of Covid-19 across services featured in Overview and Scrutiny schedules. Areas reviewed included Supporting the Economic Recovery from Covid-19 – Jobs and Skills supporting SMEs and Support to Businesses affected by Covid-19 by the Economy and Skills Overview and Scrutiny Committee, Public Health updates, the Winter Vaccine Programme and an update on Re-opening Day Care Centres by the Health and Social Care Overview and Scrutiny Committee.

5.3. Education and Children's Social Care Overview and Scrutiny Committee received reports on the annual review of the Children's Trust, Birmingham Safeguarding Children's Partnership, Home to School Transport and particularly focused on Special Educational Needs and Disability (SEND).

5.4. Resources Overview and Scrutiny Committee received reports on the Commercial (Procurement) Governance Arrangements of the Task and Finish Group, a Commonwealth Games Funding Update, an Update to the Medium Term Financial Plan, updates on the implementation of the Council's new Finance and Human Resources System and New Ways of Working.

5.5. Housing and Neighbourhoods Overview and Scrutiny Committee received the annual report on Birmingham's Community Safety Partnership.

5.6. Cabinet received and considered interim refresh reports on the Medium Term Financial Strategy and reviewed quarterly reports on Performance and Progress against the Delivery Plan, Revenue Budget Monitoring and Capital Budget Monitoring. Cabinet also considered reports on the recovery from the Impact of Covid-19, Fire Safety in High Rise Buildings, New Ways of Working and Homelessness.

## 6 Significant Governance Issues 2021/22

6.1. The matters shown in this section have either been identified as having a significant or high likelihood in the Strategic Risk Register or have been highlighted as corporate issues in the annual assurance process. The Council actively addresses these matters and identifies areas where further improvements need to be made. In particular:

| Issue No | Governance Issue | Mitigation Action / Proposed Action |
|---|---|---|
| 1 | **Commissioning and Contract Management**<br><br>Ongoing assurance including audit reviews, general compliance checks and Member scrutiny, highlighted the need to ensure Procurement Governance Arrangements were fit for purpose, complied with, decisions were appropriately timed and there was adherence to regulations and internal governance controls.<br><br>Combined with this, current Public Sector Procurement Regulations are under review prompting a call from Overview and Scrutiny Committee to examine and review the commercial governance processes to ensure that they are robust, fit for purpose, complied with and deliver value for money for both taxpayers and the Council's communities. | In response to the Overview and Scrutiny recommendation, in September 2021, a Councillor led Task and Finish Group was set up to review the Council's commercial governance arrangements, namely the Procurement Governance Arrangements. The Task Group also considered information in relation to the Government's Green Paper.<br><br>From the work, recommendations were made by Overview and Scrutiny Committee which is now seeing the current Council's Procurement Governance Arrangements being overhauled and updated. The updated Procurement Governance Arrangements will be presented to Full Council in July 2022 for consideration. Once adopted they will form part of the Council's Constitution around Contract Standing Orders and there will then be the necessary training, engagement and awareness of the new arrangements with an emphasis on ensuring compliance. |
| 2 | **Companies**<br><br>The Council has a complex group company structure and is seeking to improve the level of Council oversight of the activities of those companies that it either wholly owns or in which it has an interest.<br>Group company governance is a vital tenet of sound group financial management. | A series of actions to improve and strengthen the Council's governance arrangements were agreed and reported at the Cabinet Committee - Group Company Governance (GCGC) informal meeting on 16 September 2021.<br>The improvement plan remains active. Actions delivered include a full register of director training for officers and members where new appointments are contacted to attend and monitored for completion; a |

| Issue No | Governance Issue | Mitigation Action / Proposed Action |
|---|---|---|
| | Improvements to the process and operation as a “best in class” authority in this regard will contribute to the overall reduction of financial risk for the Council | nominated officer to support member appointments and a review of company/group guidance for officers ensuring company business plan reporting to GCGC includes financial performance.<br><br>At each meeting there is a company risk and performance update from every significant company and annually, a group outturn report.<br><br>Further work includes co-ordination of the nominated support officers into a formal group for reporting and updating of group company issues, the implementation of a company database IT solution and supporting the relationship with Audit Committee following Committee Chairs liaison during the year. |
| 3 | **Major Projects and Transformation**<br><br>The Council is involved in an ambitious programme of delivery including a range of major projects which include partnership working arrangements and sometimes complex legal agreements. | Cabinet gave approval to the creation of a fit for purpose Corporate Programme Management Office (CPMO) so that the Council can be assured and have confidence that major change projects deliver as intended, to budget and on time.<br><br>During Summer 2021, the CPMO designed and implemented a robust corporate monitoring mechanism for reporting major programmes and transformation initiatives that are underway across the Council.<br><br>The stated design aim of the reporting was to “Provide CLT (Corporate Delivery Board) with a digestible and actionable, exception focussed, overview of programme status (delivery & money) that is produced collaboratively and independently assured by the CPMO and Finance.”<br>This is a monthly mechanism designed to provide CLT and Members with assurance and visibility across a range of significant programmes, increasing accountability through collaborative reporting that brings together key programme stakeholders, Finance Business Partners and the CPMO. |

| Issue No | Governance Issue | Mitigation Action / Proposed Action |
|---|---|---|
| | | The monthly process is underpinned by a programme dashboard that tracks the delivery of programmes, benefits and associated costs. This monitoring also incorporates the savings tracker, designed by the CPMO and updated monthly by Finance Business Partners.<br><br>The programme dashboards are summarised into a monthly report, with recommendations and mitigating actions, that is presented to CLT before being presented by the CPMO at CDOG to the Deputy Leader and Cabinet Member for Finance & Resources with the Director Council Management, Chief Executive and Interim Director of Transformation. The report is then presented to the Leader before being presented to EMT / Informal Cabinet.<br><br>This monitoring mechanism is continuing to improve and evolve to reflect emerging programmes and is now well embedded in programmes across the Council to support delivery of the Corporate Plan. |
| 4 | **Housing**<br><br>The implementation of the Homelessness Reduction Act from 1 April 2018 has seen an increase in households approaching the homelessness service.<br><br>The service was unable to assess applications to the housing register at the rate they were being received through the first part of 2021-22.<br><br>An increase of 10% from 2020 to 2021 in approaches as homeless placed further pressure upon temporary accommodation provision. | Additional resources were identified, trained and mobilised to concentrate on the backlog of applications with a target to be inside the performance measure by March 2022.<br><br>The backlog did reduce significantly but the target was not fully met due to the sustained increase in applications to the housing register. Work continues to reduce backlogs and meet the performance measure.<br><br>Significant investment is underway in order to prevent homelessness and reduce pressure upon temporary accommodation and eliminate the use of Bed & Breakfast accommodation. |
| 5 | **Asset Condition and Sufficiency**<br><br>Many operational assets are in very poor condition following years of | The Council approved a Property Strategy 2018/19 – 2023/24 to better join |

| Issue No | Governance Issue | Mitigation Action / Proposed Action |
|---|---|---|
| | budget restrictions, lack of investment and dispersed management arrangements.<br><br>There is an aging schools' estate with some assets that are beyond repair.<br><br>The demand for secondary school places is beginning a period of sustained growth, requiring a large number of additional places to meet our statutory duty for sufficiency. | up decision making, realignment of assets and enable strategic development.<br><br>There have been a considerable number of assessments and surveys associated to relevant pieces of legislation undertaken by specialist providers across the estates to ensure that the Council discharges its Duty Holder responsibilities. Planned Preventative Maintenance cycles are in place to ensure that necessary works are undertaken and Service Contracts are in place for a number of statutory controls.<br><br>Officer and stakeholder boards for major scheme management and reporting to Capital Board or Cabinet as appropriate are in place to provide assurance on individual programmes. |
| 6 | **Recruitment and Retention**<br><br>A number of services across all directorates are reporting difficulties in attracting applicants for roles.<br><br>Current market forces are impacting negatively on the ability to attract and retain the right calibre people to achieve the Council's ambitions. | The end to end recruitment process is currently being revised to align with the new Oracle Recruitment Cloud system implemented in May 2022, with a focus on a candidate-centred approach. High profile marketing campaigns for key services were launched in June to attract to key roles in services including finance and social care.<br><br>A Council-wide vacancy marketing campaign and an associated vacancy marketing budget is also in development. The Council has also secured membership of Vercida jobs platform – which is a way of attracting new and diverse candidates. |
| 7 | **Birmingham SEND Inspection –** Inadequate provision and Written Statement of Action required<br><br>Joint CQC and Ofsted inspections of Birmingham SEND provision raised significant concerns requiring the Clinical Commissioning Group and Council to provide a joint response in the form of a Written Statement of Action. | The Council will work closely with its Parent Carer Forum as the next steps are planned and intends to address the fundamental weaknesses in the system that have been identified whilst building upon those showing promise, including joint commissioning, the better quality of |

| Issue No | Governance Issue | Mitigation Action / Proposed Action |
|---|---|---|
| | This, in conjunction with the implementation of the SEND two-year improvement programme is making the necessary and important improvements for the current local offer for children and young people addressing the issues raised in the Ofsted and CQC inspection.<br><br>The Department for Education has appointed a Commissioner to hold the Local Area to account to deliver the required improvements. The Council will work closely with the Commissioner on the improvements that are required. | more recent Education Health and Care Plans and the work the Council is doing with mainstream and special schools. |

6.2. These matters are monitored through the Strategic Risk Register, CLT and Directorate Service and operational plans as required. During the year the Audit Committee monitors progress against the issues identified in this statement.

6.3. We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed ………………………
Councillor Ian Ward
Leader of the Council

Signed ………………………….
Deborah Cadman
Chief Executive

## Glossary

**Academy School**
A school that chooses to opt out of Local Authority control and receive its funding from the Education Funding Agency directly.

**Accounting Policies**
The rules and practices adopted by the Council that determine how the transactions and events are reflected in the Accounts.

**Accruals**
Income and expenditure are recognised as they are earned or incurred, not as money is received or paid (see Debtors and Creditors).

**Amortised Cost**
Some financial assets and liabilities are carried at amortised cost, where part of their carrying amount in the Balance Sheet will be either written down or written up via the Comprehensive Income and Expenditure Statement over the term of the instrument.

**Annual Governance Statement**
The Annual Governance Statement is a statutory document that explains the processes and procedures in place to enable the Council to carry out its functions effectively.

**Balance Sheet**
The Balance Sheet shows the value, as at the Balance Sheet date, of the assets, liabilities and other balances recognised by the Council.

**Balances**
The total level of funds an authority has accumulated over the years, available to support expenditure within the year.

**Beacon Properties**
In valuing the Housing Stock the Council's properties are grouped into types of a similar nature. A sample from each type, known as beacon properties, are valued with the results being multiplied up to give a total value for each type.

**Business Rates**
A local tax paid by businesses to their local authority, based on the value of their premises as assessed by the Government Valuation Office Agency (VOA).

**Capital Charge**
A charge to service revenue accounts to reflect the cost of non-current assets used in the provision of services.

**Capital Expenditure**
Expenditure on the acquisition of a non-current asset, or expenditure which adds to, and not merely maintains, the value of an existing non-current asset. The Government has also enacted regulations which result in certain other types of spending being treated as capital expenditure.

**Capital Financing Requirement (CFR)**
A measure of an authority's cumulative need to borrow to finance capital expenditure, or to meet the costs of other long-term liabilities.

**Capital Receipt**
Cash received from the disposal of land and other non-current assets, and from the repayment of grants and loans of a capital nature made by the Council.

**Cash Flow Statement**
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 being from operating, investing or 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 (that is borrowing) to the Council.

**CIPFA/SOLACE Framework**
The CIPFA/SOLACE Framework helps local authorities to develop and maintain their own codes of governance and discharge their accountability for the proper conduct of public business.

**Collection Fund**
A separate account administered by the Council collecting receipts from Council Tax and Business Rates and paying it on to the General Fund and other public authorities.

**Community Assets**
Assets that the local authority intends to hold in perpetuity, that have no determinable useful life and that may have restrictions on their disposal. Examples of community assets are parks and historic buildings.

**Comprehensive Income and Expenditure Statement (CIES)**
This Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation.

**Consistency**
The concept that the accounting treatment of like items within an accounting period and from one period to the next is the same.

**Creditors**
Amounts owed by the Council for work done, goods received or services rendered or taxation owed, but for which payment has not been made by the end of the year.

**Current Value**
Current Value is a measurement base which reflects the economic environment prevailing for the service or function that an asset supports when valuing the asset. The Current Value measurement bases include Existing Use Value, Depreciated Replacement Cost and Fair Value (see below).

**Debtors**
Amounts owed to the Council for work done, goods received, services rendered or taxation due but not received by the end of the year.

**Deferred Capital Receipts**
Income that is still due following disposal of a non-current asset.

**Defined Benefit Pension Scheme**
Pension schemes in which the benefits received by the participants are independent of the contributions paid and are not directly related to the investments of the scheme.

**Defined Contribution Pension Scheme**
Pension schemes or other retirement benefit schemes in which the employer pays regular fixed contributions as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

**Depreciated Replacement Cost**
A method of valuation which provides the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and obsolescence.

**Depreciation**
The measure of the wearing out, consumption or other reduction in the useful economic life of a non-current asset.

**Earmarked Reserve**
A reserve which has been set aside for a specific purpose.

**Effective Interest Rate**
The rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument.

**Emoluments**
Payments received in cash and benefits for employment.

**Events After the Reporting Period**
Those events, both favourable and adverse, that occur between the Balance Sheet date and the date on which the Statement of Accounts is signed by the Responsible Financial Officer.

**Existing Use Value**
The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction, disregarding potential alternative uses and any other characteristics of the property that would cause its market value to differ from that needed to replace the remaining service potential at least cost.

**Expenditure and Funding Analysis**
The Expenditure and Funding Analysis shows how the Council allocates between the Council's Directorates, expenditure for decision making purposes. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

**Fair Value**
Fair Value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

**Fees and Charges**
Income arising from the provision of services, for example, the use of car parks.

**Finance Lease**
A lease that transfers substantially all of the risks and rewards of ownership of a non-current asset to the lessee. The payments usually cover the full cost of the asset together with a return for the cost of finance.

**Financial Instruments**
Financial Instruments are financial assets that can be traded. They can also be seen as packages of capital that may be traded. Most types of Financial Instruments provide an efficient flow and transfer of capital throughout all the world's investors. These assets can be cash, a contractual right to deliver or receive cash or another type of Financial Instrument, or evidence of one's ownership of an entity.

**General Fund**
The account which records income and expenditure for all the services of the Council except for the Housing Revenue Account and the Collection Fund, the net costs of which is met by Council Tax, Business Rates and Government grants.

**Government Grants**
Financial assistance from Government or other external bodies as a contribution towards the costs of services. Some grants may be accompanied by strict conditions relating to how the money can be spent. These are referred to as ring-fenced grants.

**Heritage Assets**
Assets that the Council intends to hold for the purpose of informing or educating the public about their heritage and which are not held for their investment value. Examples include collections of antiques in museums.

**Housing Revenue Account (HRA)**
A separate account detailing the expenditure and income arising from the provision of Council housing. Local authorities are required to maintain this separately from the General Fund.

**Impairment**
A diminution in value of a fixed asset resulting from, for example, obsolescence or physical damage. To comply with accounting standards the Council undertakes annual reviews of its assets to identify any assets which have been impaired.

**Infrastructure Assets**
These are inalienable assets, the value of which is recognised only by continued use of the asset created. Examples of such assets are highways and footpaths.

**Intangible Assets**
An intangible (non-physical) item may be defined as an asset when access to the future economic benefits it represents is controlled by the reporting entity.

**International Financial Reporting Standards**
International Financial Reporting Standards (IFRS) are a set of accounting standards developed by an independent, not for profit organisation called the International Accounting Standards Board (IASB). These are the standards which local authorities adhere to as interpreted for the public sector by the Chartered Institute of Public Finance and Accountancy (CIPFA).

**Investment Properties**
Interest in land and/or buildings in respect of which construction work and development have been completed, or which is held for its investment potential with rental income being negotiated at arm's length.

**Investments – long term**
A long-term investment is an investment that is intended to be held for use on a continuing basis in the activities of the Council. Investments should be so classified only where an intention to hold the investment for the long term can clearly be demonstrated or where there are restrictions as to the investor's ability to dispose of the investment.

**Investments - short term**
A short-term investment is an investment that will mature to cash within a one-year time period and is considered liquid. An asset is liquid if the owner can readily access it.

**Lender Option Borrower Option (LOBO)**
A LOBO is a type of loan instrument where borrowing is undertaken, initially at a fixed rate of interest. Periodically, at specific points, the lender has the option to alter the interest rate charged. Should the lender exercise the option to alter the interest rate, the borrower then has the option to continue with the loan instrument at the new rate or alternatively to terminate the agreement and pay back the sum borrowed with no other penalty.

**Liabilities**
Amounts due to individuals or organisations, at the Balance Sheet date, which will have to be paid at some time in the future. Current liabilities are payable within one year of the Balance Sheet date.

**Long Term Creditors**
These creditors represent existing liabilities to be settled beyond 12 months of the Balance Sheet date.

**Long Term Debtors**
These debtors represent income still to be received beyond 12 months of the Balance Sheet date, for example on the sale of an asset or granting of a loan.

**Market Value**
The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

**Materiality**
An item is material if its omission, non-disclosure or mis-statement in the financial statements could be expected to lead to a distortion of the view given by the financial statements.

**Minimum Revenue Provision (MRP)**
Minimum Revenue Provision is a charge to the revenue account in relation to capital expenditure financed from borrowing or credit arrangements. The Council is required by law to make an annual determination of MRP that it considers to be prudent.

**Movement in Reserves Statement (MiRS)**
This Statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (that is, those that can be applied to fund expenditure or reduce local taxation) and other reserves.

**Net Book Value**
The amount at which non-current assets are included in the Balance Sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation.

**Operating Lease**
A lease other than a finance lease.

**Operational Assets**
Non-current assets held, occupied, used or consumed in the direct delivery of services for which the Council has a statutory duty or discretionary power to provide.

**Precept**
Amounts levied on the Council by other Councils or public bodies (Police and Crime Commissioners, Fire and Rescue Authorities and Parish Councils), which the Council collects on their behalf.

**Prior Period Adjustments**
Those material adjustments applicable to prior years, arising from changes in accounting policies or from the correction of fundamental errors. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

**Property, Plant and Equipment**
Tangible assets that yield benefits to the Council and the services it provides for a period of more than one year. Examples include land, buildings and vehicles.

**Provisions**
Contributions to provisions are amounts charged to the revenue account during the year for costs, resulting from a past event and with uncertain timing of payment and where a reliable estimate of the cost involved can be made.

**Related Parties**
There is a detailed definition of related parties in FRS8, Related Party Disclosures. For the Council's purposes, related parties are deemed to include the elected Members of the Council and their partners; the Chief Officers of the Council and the companies in which the Council has an interest.

**Reserves**
Reserves are reported in two categories.

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

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

**Revenue Expenditure**

Expenditure on the day-to-day running costs of services e.g. employees, premises, supplies and services.

**Revenue Expenditure Funded from Capital under Statute (REFCUS)**
Expenditure incurred during the year that is treated as capital expenditure under statutory provision but does not result in a non-current asset owned by the Council. Examples of these are expenditure on items such as improvement grants.

**Right to Buy (RTB) Capital Receipts**
Capital receipts generated from the sale of Council housing under the national scheme available to existing tenants. These receipts can only be used in ways determined by the Government, for example to pay for further capital expenditure on Council housing.

**Service Concession Agreements**
A form of contract involving an external company providing services for a fixed period, using facilities that they have inherited/provided/constructed.

**Soft Loan**
Loans at nil or below prevailing interest rates are often referred to as soft loans.

**Top-up Grant**
Additional grant which the Government provides to reflect the difference between Business Rates income that the Council can generate and the amount which the Government has calculated it needs to spend on services.

**Voluntary Revenue Provision (VRP)**
Voluntary Revenue Provision is a charge to the revenue account in relation to capital expenditure financed from borrowing or credit arrangements that the Council chooses to make over and above Minimum Revenue Provision.

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BIRMINGHAM CITY COUNCIL

**Our ref:**

Grant Thornton UK LLP
17th Floor
103 Colmore Row
Birmingham
B3 3AG

22 March 2023

**Birmingham City Council : Financial Statements for the year ended 31 March 2021**

Dear Sir(s),

This representation letter is provided in connection with the audit of the financial statements of Birmingham City Council and its subsidiary undertakings for the year ended 31 March 2022, as listed in note 46 of the Council's financial statements, for the purpose of expressing an opinion as to whether the group and Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

**Financial Statements**

i. We have fulfilled our responsibilities for the preparation of the group and Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

Birmingham City Council,
The Council House,
Victoria Square,
Birmingham B1 1BB

Email: Rebecca.hellard@birmingham.gov.uk



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ii. We have complied with the requirements of all statutory directions affecting the group and Council and these matters have been appropriately reflected and disclosed in the financial statements.

iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the group and Council financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Such accounting estimates include valuation of property, plant and equipment, valuation of council dwellings, valuation of the equal pay provision and valuation of the net pension liability. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. During the year we revisited and reviewed the useful economic lives (UELs) applied to infrastructure assets alongside CIPFA guidance in consultation with the BCC Highway Assets and PFI team and a revised set of proposed UELs going forward has been established. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.

vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

vii. Except as disclosed in the group and Council financial statements:

   a. there are no unrecorded liabilities, actual or contingent

   b. none of the assets of the [group and ]Council has been assigned, pledged or mortgaged

   c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The group and Council financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

xi. We have considered the unadjusted misstatements schedule included in your Audit Findings Report and attached. We have not adjusted the financial statements for these misstatements brought to our attention as they are considered to be immaterial to the results of the group and

Council and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.

xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

xiii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xiv. We have updated our going concern assessment. We continue to believe that the group and Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that :

a. the nature of the group and Council means that, notwithstanding any intention to cease the group and Council operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements

b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and

c. the group and Council's system of internal control has not identified any events or conditions relevant to going concern.

We believe that no further disclosures relating to the group and Council's ability to continue as a going concern need to be made in the financial statements

xv. We have considered whether accounting transactions have complied with the requirements of the Local Government Housing Act 1989 in respect of the Housing Revenue Account ring fence.

xvi. The group and Council has complied with all aspects of ring-fenced grants that could have a material effect on the group and Council's financial statements in the event of non-compliance.

**Information Provided**

xvii. We have provided you with:

a. access to all information of which we are aware that is relevant to the preparation of the group and Council's financial statements such as records, documentation and other matters;

b. additional information that you have requested from us for the purpose of your audit; and

c. access to persons within the Council via remote arrangements,from whom you determined it necessary to obtain audit evidence.

xviii. We have communicated to you all deficiencies in internal control of which management is aware.

xix. All transactions have been recorded in the accounting records and are reflected in the financial statements.

xx. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xxi. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the group and Council, and involves:

a. management;

b. employees who have significant roles in internal control; or

c. others where the fraud could have a material effect on the financial statements.

xxii. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

xxiii. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xxiv. We have disclosed to you the identity of the group and Council's related parties and all the related party relationships and transactions of which we are aware.

xxv. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

xxvi. We have disclosed to you all information relating to emerging Equal Pay issues and confirm that related disclosures in the financial statements (which include but are not restricted to contingent liabilities, provisions and Annual Governance Statement) are complete and accurate and we have considered the requirement of IAS10 and confirm that any post balance sheet events (either adjusting or non-adjusting) have been disclosed where necessary.

**Annual Governance Statement**

xxvii. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

### Narrative Report

xxviii. The disclosures within the Narrative Report fairly reflect our understanding of the group and Council's financial and operating performance over the period covered by the financial statements.

### Approval

The approval of this letter of representation was minuted by the Council's Audit Committee at its meeting on 28 March 2023..

Yours faithfully

Name……………………….….

Position………………………….

Date…………………………….

Name……………………….….

Position………………………….

Date…………………………….

Signed on behalf of the Council

### Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2021/22 audit which have not been made within the final set of financial statements. The Committee is required to approve management's proposed treatment of all items recorded within the table below.

| Detail | Comprehensive Income and Expenditure Statement £m | Statement of Financial Position £m | Impact on total net expenditure £m | Reason for not adjusting |
|---|---|---|---|---|
| **Extrapolated error noted by the Pension Fund audit team**<br>As set out on the previous page, the auditor of the WMPF reported an extrapolated understatement in the valuation of the Fund's assets of £119m. The Council has adjusted its accounts for its share of the quantifiable element of this error but has not adjusted for the extrapolated element.<br>If this further adjustment had been made, the Council's share would have been £6.8m | CR return on assets (6.8) | DR net pension assets 6.8 | (6.8) | This is not a factual error but is an extrapolation of an error at the pension fund. |
| **PBSE - Adjusting event for settlement of legal case post year end**<br>Settlement of legal case resulting in adjusting event under IAS10 as the settlement of a legal claim is a specific example of an adjusting event within IAS 10 paragraph 9. This means that provisions is understated by £3.7m, with an equal and opposite overstatement in opening reserves. | | DR opening reserves 3.7<br>CR Provisions 3.7 | | Management has confirmed that they agree with our conclusion that this meets the requirement of an adjusting event under IAS10, however do not propose amending the accounts as it is not considered to be material. |

| Detail | CIES £m | SoFP £m | Impact on total net expenditure £m | Reason for not adjusting |
|---|---|---|---|---|
| **Application of incorrect social housing factor to valuations**<br>Within other land and buildings, the Council has a land asset which is valued on a social housing basis. This value has been reduced to 50%, when the social housing factor used for the Council's Dwellings is 40%. This has led to the value of the asset being overstated by £2.7m. (This error also occurred in 2020/21). | DR reval reserve 2.7 | CR PPE (2.7) | 2.7 | |
| Overall impact | 4.1 | 0.4 | 4.1 | Not material |

**BIRMINGHAM CITY COUNCIL**

**PUBLIC REPORT**

**Report to: AUDIT COMMITTEE**

**Report of: Chief Executive of Birmingham Children's Trust**

**Date of Meeting: 28 March 2023**

**Subject: Ombudsman Public Interest Report concerning a complaint in relation to respite support for disabled children.**

**Wards Affected: All**

**1. Purpose of Report**

a) **In December 2006, the Audit Committee endorsed a framework for informing and involving Members of the Council when the Local Government and Social Care Ombudsman issues a report.**

b) **The aim of this report is to inform members about the Ombudsman's report, issued on 2 March 2023, regarding a complaint in relation to respite support for disabled children.**

c) **As the Ombudsman has found fault causing injustice and have made recommendations to remedy the injustice caused, it should be considered by this Committee on behalf of the City Council.**

**2. Recommendations**

**That the Audit Committee notes the Chief Executive of Birmingham Children's Trust response to the Local Government and Social Care Ombudsman's recommendations.**

## 3. Background Information

3.1 A copy of the Local Government and Social Care Ombudsman's report dated 9 February 2023 is appended to this report. All Ombudsman reports are anonymous, so, whilst the events described are real, the names of those involved are not included.

3.2 The essence of the complaint:

Mrs F complained about the Council's decision in relation to respite support for her disabled children. She complained:

- the amount of respite awarded for her son in 2021 was insufficient, contradicted the social worker's recommendations and did not meet her son's or her own needs;
- the Council failed to give reasons for its decision;
- the Council had wrongly ended Child in Need meetings and the support the family was receiving from a disabilities social worker; and
- the Council did not deal with her complaint properly.

Mrs F says as a result of the lack of support she and the family are under immense stress and there is a risk of family breakdown.

## 4. The Key Events

4.1 Mr and Mrs F have a son, J, and a daughter, K. Both have autism, anxiety, difficulties with communication and can have challenging behaviour. Mrs F also has autism. In July 2018, mental health services referred J to the Council due to him harming himself and others. It was also noted that K had a diagnosis of depression.

4.2 The Council carried out a section 17 assessment in March 2019, when J was in secondary school and K in primary school. This found that J and K were being kept safe and their basic care needs were met, but this was at the expense of their parents. The assessment said that without support the situation was unlikely to be sustainable and the family were nearing crisis point. J needed regular opportunities to socialise outside the family and K needed her parents to have regular opportunities to rest. The assessment recommended short respite breaks for both J and K.

4.3 The Council agreed to provide J with direct payments for support to access the community for 12 hours a month, plus 30 hours for the school holiday. It would provide K with two overnight short breaks a month. Child in need plans were developed, J was referred to the Disabled Children's Family Support Team and monthly child in need meetings started.

4.4 The Council changed J's support package to two overnight short breaks a month in January 2020 and started searching for a suitable foster carer to provide them. The national COVID-19 lockdown started before J's short breaks were put in place.

Request for increase in support package

4.5 In October 2020 Mrs F requested a review of J's short breaks support. She said J's foster carer had made extra hours available. This was because there had been a delay in providing support due to the COVID-19 lockdown, and J was not able to attend school as he could not manage the COVID-19 restrictions. This had put extra pressure on the family.

4.6 Mrs F therefore asked the Council to increase J's package from two nights a month to every other weekend and a midweek night every week (a total of eight to ten nights a month). This was supported by J's school and the mental health service.

4.7 A family support worker carried out a section 17 assessment. This found the family was near breaking point as J's behaviour had become more challenging. The assessment recommended an increase in the short breaks to two weekends a month and one night a week.

4.8 The Community Resource Panel considered this assessment on 8 December 2020. It agreed to increase J's package to four nights a month. The decision letter to Mrs F said *"Please note each Foster Carer looks after up to 10 children per annum and each child has a standard 2 overnights per month, the assessments reflects J's needs and this is why an increase has been approved."*

4.9 Mrs F asked to appeal this decision. There are no more case records until 22 February 2021 when it is noted that the panel was due to review the decision the next day.

4.10 The panel, with a different chair, decided to continue the current provision of four nights a month. The decision letter to Mrs F said "*The extra nights previously agreed was an arrangement with yourself and the Foster Carer who had the extra nights due to the limited amount of children. In an emergency you can have extra nights if the Foster Carer has the availability however, this is temporary in times of crisis."*

4.11 A social worker emailed Mrs F saying if she wished to appeal "the next stage was the complaints process". Mrs F sent an email to the complaints team.

4.12 The next record is that on 26 April the social worker contacted Mrs F to say she had been allocated to re-assess J and K. It is unclear whether this was because of a request from Mrs F or a request from the panel due to her appeal. The Council temporarily increased J's respite to six overnight short breaks whilst the case was being re-assessed.

4.13 The social worker completed a new section 17 assessment on 22 June. This recommended the Council should either increase the current package or maintain the interim package of six nights a month, otherwise it was likely the family would break down. The assessment also says "[an increase in provision] *could potentially change the short break plan into [J] becoming a child in care by virtue of the number of nights."*

4.14 The panel, chaired by the assistant director, considered the provision for J and K on 29 June. It decided to continue with four nights a month for J and two nights a month for K. The decision letter does not give any reasons for the panel's decision.

Mrs F's appeal

4.15 Mrs F appealed the panel's decision on 10 August 2021. We have not seen any evidence of a response to her, although there is evidence the social worker was asking colleagues when the appeal would be heard.

4.16 In September 2021 the child in need meeting decided J and K's child in need plans could be stepped down to a family support worker with Early Help reviews and that monthly meetings with a disabilities social worker were no longer necessary. This was because there were no safeguarding concerns.

4.17 The Council wrote to Mrs F in January 2022. It said it should have referred her to the Ombudsman in August 2021. This was because there had already been an appeal panel in June, so the case could not be considered again. The Council apologised that an appeal had been incorrectly timetabled for November 2021 as the manager had been unaware of the previous appeal. This had caused some confusion which had taken time to clarify. Mrs F then approached the LGSCO.

4.18 In February 2022 a social worker emailed Mrs F saying *"we have been instructed to close this case … due to LGO involvement".* Then, in response to Mrs F's concern about this, the Council said "*the case has been transferred to the family support short breaks team … the council asks that your appeal is further reviewed by the LGO."*

4.19 In response to our enquiries the Council said its practice was that once an assessment has been completed and a package of support put in place, children were stepped down to the short breaks team and did not have a social worker between reviews. The allocation of a social worker was not dependent on any appeals or complaints. The Council apologised that this was not properly explained to Mrs F.

**5.The Ombudsman's Findings; *Report issued – Upheld: Maladministration and injustice.***

J and K's respite support

5.1 The LGSCO cannot intervene if the decision was properly taken. A decision will not be fault simply because Mrs F disagrees with it.

5.2 The Council's notes of the panel's decisions and its decision letters to Mrs F lack detail about what factors the panel considered and why it decided four nights respite for J was sufficient to meet his and the family's needs. There is no explanation given about why the panel did not agree with the section 17 assessments which had found he needed more care than this. The LGSCO principles of good administrative practice say the basis on which decisions are made and resources allocated should be open and transparent. Decision reasons should be clear, evidence based and explained. The LGSCO therefore find fault in the decision letters and case records.

5.3 The Council did temporarily increase the respite provision from four to six nights for a period after April 2021, which remedies some of this injustice.

Child in Need meetings

5.4 Mrs F complained that the Council wrongly ended the child in need meetings and moved J and K to a family support worker rather than social worker.

5.5 J and K are children in need as they are disabled children. The Council has a duty to assess children in need, provide services where necessary and have child in need plans which are reviewed at least every six months. However, it is not required to hold monthly child in need meetings or to allocate social workers to them. As set out in paragraph 13, the Council can determine that children with additional needs do not require statutory social work support. The LGSCO find no fault.

Mrs F's appeal

5.6 After the panel decided in December 2020 to provide J with four nights respite, Mrs F appealed. The panel reviewed its decision on 23 February 2021 with a different chair. This is in line with its appeal process.

5.7 The Council says when the panel next considered J's and K's provision on 29 June 2021 this was the stage three appeal panel. However, this panel followed a fresh section 17 assessment which was carried out in April 2021. We therefore consider that this was not an appeal panel but a new decision based on a new assessment.

5.8 This means that when Mrs F appealed in August 2021 the Council should have reviewed that decision. Its failure to do so was fault.

5.9 The LGSCO cannot say that if there had been a review of the decision after August 2021 the Council would have changed its decision about the number of nights for J. But Mrs F has been caused time and trouble by the delay and by having to approach the Ombudsman.

The Council's appeal and complaints process

5.10 The LGSCO find fault in the Council's panel appeal process and complaint policy.

5.11 The Council says that following an unsuccessful appeal, parents should go to the Ombudsman. This policy wrongly excludes the statutory children's complaint procedure which children and parents are entitled to use. It also leads to early referrals to the LGSCO which they cannot normally accept as the statutory children's complaint process has not been followed.

5.12 The Council's complaint procedure says it is "*not a means by which the merits of decisions or professional judgements can be challenged because they are unfavourable or in dispute.*" This is not in line with the Getting the best from complaints statutory guidance, which says all complaints about children's social care services, including services for disabled children, must go through the statutory children's complaint process. This includes complaints about "disputed decisions" and the "quantity of a service".

5.13 In response to the LGSCO's enquiries, the Council advised that it does not consider complaints where there is an alternative appeal process but it does accept complaints about "*how the decisions of the Community Resources Panel were made – separate and distinct from a challenge to or disagreement with the decision itself".*

5.14 The LGSCO's view is this reasoning is flawed. A parent is unlikely to complain about the decision-making process if they agree with the panel's decision. In addition, the children's complaint process is statutory; councils have a duty to allow parents and children to use it and they may use it if they have a complaint the Council has failed to meet the assessed needs of the child and/or carer or if there is a service failure. The complaints process can review how the panel made its decision and either recommend a new decision or recommend the panel take the decision again. And the complaint investigator is not confined to looking at the panel's decision, they may also find there is a systemic failure in the Council's process. The LGSCO would therefore expect the Council to signpost parents to the children's statutory complaints process following an unsuccessful appeal.

5.15 In 2019 the Ombudsman found fault with the Council on this point. In that case (18 013 857) the LGSCO said:
*"The Council disagrees it is at fault as it considers it would be reviewing the same decision twice if it considered Y's care package through its internal review procedure and the statutory complaints procedure. But the key point is the complaints procedure is statutory so the Trust has a duty to investigate complaints covered by this procedure. Mr and Mrs X's complaint about Y's care package is a complaint covered by the statutory complaints procedure. Furthermore, the guidance does not exclude a complaint subject to a council's own appeal procedure from the statutory complaints procedure. We therefore remain of the view the Trust is at fault for not signposting Mr and Mrs X to the statutory complaints procedure. The Trust should review its complaints procedure to ensure it complies with the statutory complaints procedure."*

5.16 The complaint procedure the Council sent to the LGSCO was dated 2019 so it is unclear if the policy was reviewed following the Ombudsman decision as it has not changed its practice.

5.17 The LGSCO find the Council's processes are flawed and have the potential to hamper and delay people's access to the statutory complaint process they are entitled to and be an inefficient use of public resources.

5.18 During the investigation, the LGSCO became concerned this fault may have affected others who have not complained to them. Under their powers set out under paragraph 26D of the Local Government Act 1974, we were asked how many others had appealed a decision made by the Community Resource Panel since April 2021. In response the Council said there had been 27 appeals to the panel since April 2021. These appellants have therefore missed out on an opportunity to have an independent investigation. This creates uncertainty to them that their cases were properly investigated or reviewed.

5.19 Birmingham Children's Trust provide services for children on behalf of the Council. When a council commissions another organisation to provide services on its behalf it remains responsible for those services and for the actions of the organisation providing them. So, although we found fault with the actions of the Trust, we have made recommendations to the Council.

## 6. The Ombudsman's Recommendations

6.1 The Council has agreed to take the following action to remedy the injustice identified in this report.

- Write to Mrs F with an apology and an explanation of why and how the panel reached its decision in June 2021.
- Pay her £300 to acknowledge the uncertainty caused.
- Pay her £200 to acknowledge the time and trouble she was put to due to fault in the appeal process.
- Advise appellants to the appeals panel since April 2021 that, if they are unhappy with the outcome of the panel they can complain to the Council under the statutory complaints procedure.
- Amend its complaint policy and appeal process to ensure those who raise complaints about children services have the opportunity to access the statutory children's complaints procedure, in line with the law and statutory guidance and provide evidence to us that it has done so. The Council has already implemented this.

## 7. The Council's View

7.1 The Council accepted the Ombudsman's recommendations at the draft report stage.

7.2 The pivotal issue this complaint has highlighted concerns the incorrect practice of referring families to the Ombudsman after the Community Resources Panel appeals process had concluded. The Trust acknowledges that this practice denied families with the opportunity to use the statutory complaints procedure to challenge decisions regarding support packages.

7.3 This approach was compounded by inconsistent and incorrect advice provided by staff, which created further confusion for the complainant.

7.4 Upon receipt of the Ombudsman's draft decision, the Trust immediately amended its practice and policy to ensure that families were not disadvantaged and had access to the statutory complaints procedure. The statutory complaints procedure provides complainants with the opportunity to have their complaint investigated independently (at stage 2).

7.5 Updated literature has been produced for the revised process, which clearly advises families of their right to use the complaints procedure if they are unhappy with decisions made at Community Resources Panel.

## 8. Legal and Resource Implications

8.1 The agreed payments will be made from an appropriate budget.

## 9. Risk Management & Equality Impact Assessment Issues

9.1 As a result of the prompt changes to practice and policy the Trust has taken, the Trust is confident that the risks this complaint has identified have been fully mitigated.

## 10. Compliance Issues

10.1 The Trust has taken prompt action to comply with the recommendations made by the Ombudsman. These actions include:

- A letter of apology will be issued to the complainants by the Chief Executive of the Trust, Andy Couldrick, by the end of the month. This letter will also provide an explanation of why and how the Community Resources panel reached its decision in June 2021.
- The compensation payments identified are currently being processed and will be paid to the complainant this month.
- The Community Resources Panel appeal process and the Trust's complaints policy have both been amended to ensure that children and families who wish to complain can access the statutory children's complaints procedure.
- Details of families who have used the Community Resources Panel appeals process since April 2021 have been identified. A letter will be sent to the families by the end of the month advising them of their right to use the statutory children's complaints procedure.

In addition, the Trust is currently devising a summary learning document regarding this complaint for staff in the Children with Disabilities Service to ensure that the learning is shared across the service.

## 11. Recommendations

That the Audit Committee notes the actions being taken in response to the Local Government and Social Care Ombudsman's report.

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# BIRMINGHAM CITY COUNCIL

## AUDIT COMMITTEE

## 28 March 2023

## SCHEDULE OF OUTSTANDING MINUTES

**Note: As of 30 September 2021 – Responses to outstanding actions to be made within a 2 month period unless there is an exceptional reason.**

Completed & discharged

Approaching 2 months

2 months +

| MINUTE NO./DATE | SUBJECT MATTER | COMMENTS |
|---|---|---|
| 529<br>22/11/2022 | **ASSURANCE SESSION - CABINET MEMBER SOCIAL JUSTICE, COMMUNITY, SAFETY & EQUALITIES PORTFOLIO**<br><br>**Additional actions:**<br><br>That the Audit Committee:<br><br>(iii) Agreed for officers to provide further details on the eligibility for the School meals during the holidays, details on the Ukraine Response Programme and the outstanding queries raised at the meeting. | Richard Brooks<br>Director - Strategy, Equality & Partnerships to respond<br>(Awaiting response) |
| 544<br>31/01/2022 | **ASSURANCE SESSION - CABINET MEMBER SOCIAL JUSTICE, COMMUNITY, SAFETY & EQUALITIES PORTFOLIO (PART 2)**<br><br>**Additional actions:**<br><br>That the Audit Committee:<br><br>(ii) Requested for regular updates on the progress and developments around Job Evaluation to be shared with the Committee.<br><br>(iii) Further details around flexible working, policy, performance of hybrid homeworking (new ways of working) data to be shared with the Committee. | Darren Hockaday – Director of HR & Organisation Development |