

## **Group Accounts 2020/21 - Process and Procedures for compiling Birmingham City Council Group draft accounts.**

### **Background**

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 its activities. The Group Accounts more fully reflect the overall financial picture of the Council's activities. The financial statements are 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.

To complete a draft set of Group Accounts for Birmingham City Council (BCC) each year, an up to date record of Companies with which BCC has an interest.

This list assists BCC to ascertain which companies should be included or excluded from the Group Accounts.

There are two tests for this – control over the Company and the materiality of their financial statements which are discussed later in this report.

### **In Year Processes**

An up to date and comprehensive list of Companies and Related Parties is kept and updated during each financial year. This is done via interrogation of the Companies House website which is part of Gov.uk.

The Companies list details each Company that Council has an interest in. This includes details of the control the Council has over each related Company, whether these are treated as Joint Control, Joint Venture, Associate or Subsidiary.

An automatic email notification process for all Companies that the Council has an interest in has been set up, if the Companies are registered on Companies House. This provides the Council with the most up to date details of its related companies.

Finance has requested that Legal Services and Finance colleagues make the Final Accounts team aware of any new Companies. At least once a year, all Business Partners and Legal Services colleagues are emailed to discover whether any new Companies have been set up for (a) related party purposes and (b) whether to include in the Group Financial Statements. This is usually done in late Autumn.

The latest financial statements are available on the Companies House website for each company and these figures are included in the Companies spreadsheet. These are summarised by Turnover and Gross Profit, then Non-Current Assets, Current Assets, Current Liabilities, Long Term Liabilities to ascertain the net assets figure from the company balance sheets.

The materiality level for inclusion in the Group Accounts for 2020/21 was £3m. Therefore, if the net assets were £3m and above and there is some significant control the Company should be included in the Group Accounts. Companies that are close to materiality and where there is significant control are reviewed annually to see if the two tests are met for inclusion.

### **Questionnaires**

**Informing the Audit Risk** – this questionnaire is sent out in the late autumn and is an audit requirement. Each company included in the Group Accounts must provide a response on this questionnaire. (See Appendix 2 for the template).

Once the responses are received, they are reviewed for consistency between financial years and for any information that may impact on the Group Accounts.

All the responses are collated with a formal report to the Audit Committee which should take place in the first quarter of each year and before the financial year end.

There is 100% response rate for this questionnaire.

**Group Company Questionnaire** – this questionnaire is also sent out in the autumn. It includes a standard list of questions for each company's accounts and is used to determine any accounting changes and/or other issues that need to be considered when consolidating the Group Financial Statements. (See appendix 3 for the template). When consolidating Group Accounts, ensure the where different accounting standards have been used. Where this happens, the Council make the required accounting adjustments so that the statements of accounts are consistent with each other. This questionnaire also details other issues that we may need to consider in group consolidation.

Two responses to this questionnaire – one in January so that the Council is informed of any potential issues to be considered when compiling the Group Accounts. The second return is due at the point of receiving the draft Financial Statements.

The Council receives most of the company's responses for the January deadline however, only NECD, PETPS Birmingham and PETPS SLP have supplied the second responses for 2020/21.

### **Going Concern**

Going Concern is a major issue for auditors. For 2019/20 and 2020/21 The Council has provided auditors with responses from each Company and evidence to prove that the Group companies should be accounted for as Going Concerns. For 2020/21 a briefing paper was provided to the Director of Council Management Rebecca Hellard to show that assurance can comfortably be provided on not only Birmingham City Council as a going concern but also our Group Companies (see Appendix 3). This report is embedded in the end of year procedures going forwards.

## **Preparation of Group Accounts**

Each member of the Group Companies must provide their Account by 30<sup>th</sup> April to ensure that there is time to consolidate them into the BCC Group Financial Statements which includes aligning the Accounting Policies and excluding any inter company transactions between the Council and the Group Company.

A working paper is set up for each year's accounts (Appendix 5). Each company's accounts are input into this spreadsheet, including all Profit and Loss and Balance Sheet lines in column 1. Any accounting adjustments are then made in a separate column and any adjustments between the draft and final accounts are also picked up. These items are totalled up and the total figures are used for consolidation.

The next step is to eliminate any inter-company transactions. These transactions are provided separately and the summary of these is used in the Group Accounts. Each intercompany transaction should equal out to zero so there is no impact on the bottom line for each company.

These figures are used to provide the notes to the Accounts, which are then added to the entity figures for a complete set of the Group Accounts.

## **Group Companies (extract from published draft financial statements 2020/21)**

### **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

**Extract from Birmingham City Council Draft Statement of Accounts relating  
to Group Companies Profit/Loss 2020/21**

**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	2020/21
	£m	£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 47 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
<b>Comprehensive Income and Expenditure</b>		
Turnover	212.4	213.5
Operating Expenses	(223.4)	(228.3)
<b>Operating Profit/(Loss)</b>	<b>(11.0)</b>	<b>(14.8)</b>
Interest Receivable	0.2	-
Interest Payable	(1.9)	(1.8)
<b>Profit/(Loss) for the Year</b>	<b>(12.7)</b>	<b>(16.6)</b>
Other Comprehensive Income		
Actuarial Gain/(Loss) on defined benefit scheme	19.4	(60.1)
<b>Total Comprehensive Income for the Year</b>	<b>6.7</b>	<b>(76.7)</b>
<b>Balance Sheet</b>		
Intangible Asset	5.3	4.6
<b>Total Non-Current Assets</b>	<b>5.3</b>	<b>4.6</b>
Debtors	13.7	6.4
Short Term Investments	21.5	32.0
Cash and Cash Equivalents	-	(0.8)
<b>Total Current Assets</b>	<b>35.2</b>	<b>37.6</b>
Cash Overdrawn	(1.0)	-
Creditors due within one year	(20.5)	(20.9)
<b>Total Current Liabilities</b>	<b>(21.5)</b>	<b>(20.9)</b>
Long Term Borrowing	(10.0)	(10.0)
Pension Liabilities	(72.6)	(151.7)
<b>Total Long-Term Liabilities</b>	<b>(82.6)</b>	<b>(161.7)</b>
<b>Total Assets/(Liabilities)</b>	<b>(63.6)</b>	<b>(140.4)</b>
Reserves	(63.6)	(140.4)
<b>Total Reserves</b>	<b>(63.6)</b>	<b>(140.4)</b>

There was no qualification to the audit opinion on the last audited accounts of the Trust.

### **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 47 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	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. 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 47 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	2020/21
	£m	£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 47 of the Council entity accounts.



## **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		31 March 2021
£m		£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)
<u>118.8</u>	Net Assets	<u>40.5</u>
<b>22.2</b>	<b>Council Interest in Net Assets @ 18.68%</b>	<b>7.6</b>
<b>171.1</b>	<b>Revenue</b>	<b>27.0</b>
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
<u>41.0</u>	Total Comprehensive Income/(Expenditure)	<u>(78.3)</u>
(29.1)	Less Dividends paid	-
<u>11.9</u>	<b>Change in Net Assets</b>	<u>(78.3)</u>
<b>7.7</b>	<b>Council Interest in Total Comprehensive Income/(Expenditure) @ 18.68%</b>	<b>(14.6)</b>

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.

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		31 March 2021
£m		£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)
<hr/> (12.9)	Net Assets/(Liabilities)	<hr/> (16.0)
 <b>(6.5)</b>	<b>Council Interest in Net Liabilities @ 50%</b>	 <b>(8.0)</b>
 <b>19.3</b>	<b>Revenue</b>	 <b>12.6</b>
(2.6)	Post-Tax Profit/(Loss)	(3.0)
-	Other Comprehensive Income/(Expenditure)	-
<hr/> (2.6)	Total Comprehensive Income/(Expenditure)	<hr/> (3.0)
 <b>(1.3)</b>	<b>Council Interest in Total Comprehensive Income/(Expenditure) @ 50%</b>	 <b>(1.5)</b>

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.

