Members are reminded that they must declare all relevant pecuniary and non-pecuniary interests relating to any items of business to be discussed at this meeting

BIRMINGHAM CITY COUNCIL

AUDIT COMMITTEE

TUESDAY, 20 JUNE 2017 AT 14:00 HOURS
IN COMMITTEE ROOM 6, COUNCIL HOUSE, VICTORIA SQUARE, BIRMINGHAM, B1 1BB

A G E N D A

1 **NOTICE OF RECORDING/WEBCAST**

The Chairman to advise/meeting to note that this meeting will be webcast for live or subsequent broadcast via the Council's Internet site (www.birminghamnewsroom.com) and 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 **APPOINTMENT OF AUDIT COMMITTEE, CHAIR, DEPUTY CHAIR AND MEMBERS**

1. To note the resolution of the City Council appointing the Committee, Chair and Members to serve on the Committee for the period ending with the Annual Meeting of the Council in 2018.

   Labour

   Councillors M Khan (Chair), Pocock, Quinnen, Rice and Shah
   Conservative

   Councillors M Jenkins and Robinson
   Liberal Democrats

   Councillor Tilsley

2. To elect a Deputy Chair, for the purpose of substitution for the Chair if

absent, for the period ending with the Annual Meeting of the Council in 2018.

 4 **FUNCTIONS - AUDIT COMMITTEE**

To note the Committee's functions as set out in the attached schedule.

5 **DECLARATIONS OF INTERESTS**

Members are reminded that they must declare all relevant pecuniary and non-pecuniary interests relating to any items of business to be discussed at this meeting. If a pecuniary interest is declared a Member must not speak or take part in that agenda item. Any declarations will be recorded in the minutes of the meeting.

 6 **MINUTES - AUDIT COMMITTEE 14 MARCH 2017**

To confirm and sign the Minutes of the last meeting held on 14 March 2017.

 7 **STATEMENT OF ACCOUNTS 2016/17**

Report of the Interim Chief Finance Officer

 8 **BIRMINGHAM AUDIT ANNUAL REPORT 2016/17**

Report of Assistant Director, Audit & Risk Management

 9 **2016/17 ANNUAL GOVERNANCE STATEMENTS**

Report of the Interim Chief Finance Officer

 10 **GRANT THORNTON - PROGRESS REPORT**

Report of Grant Thornton - the External Auditors

11 **DATES AND TIME OF MEETINGS - AUDIT COMMITTEE**

To approve a schedule of dates for the Committee's meetings during 2017/2018.

The Chairman proposes that the Committee meets on the following Tuesdays at 1400 hours in the Council House:-

2017	**2018**
25 July	30 January
26 September	27 March
21 November	

12 **OTHER URGENT BUSINESS**

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

301 - 310 12A **EXTERNAL AUDITOR'S STATUTORY RECOMMENDATION - FOLLOW-UP LETTER**

Report of the Interim Chief Finance Officer

13 **AUTHORITY TO CHAIRMAN AND OFFICERS**

Chairman to move:-

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

AUDIT COMMITTEE

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.

Functions

(a) To review the City Council's Annual Accounts and Annual Governance Statement (AGS). This will include advising on significant changes throughout the year to financial regulations and policies.

(b) To monitor progress in addressing control or governance issues identified in the AGS.

(c) To review and provide the executive with assurance on the embedding and maintenance of an effective system of corporate governance including the risk management framework and the associated control environment.

(d) Responsibilities as set out in the terms of reference in relation to external audit including reviewing the planned programme of work, noting fees and terms of engagement of the external auditor, considering and advising the executive on responses to audit management letters, reports and investigations and reviewing whether agreed external audit or inspection recommendations have been implemented as timetabled.

(e) To review and make recommendations to the executive regarding the effectiveness of internal audit to include ensuring the internal audit function is adequately resourced, to review its strategy, receive, challenge and approve its annual plan and monitor its delivery and to review significant audit findings and monitor progress by managers in implementing agreed recommendations.

(f) To consider and make recommendations to the executive on the Council's arrangements for deterring, preventing, detecting and investigating fraud.

(g) To consider reports from the Ombudsman and monitor management response in relation to these.

(h) To consider, approve or make recommendations in respect of any other matters at the request of the Council.

BIRMINGHAM CITY COUNCIL

AUDIT COMMITTEE
14 MARCH 2017

MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD ON TUESDAY, 14 MARCH 2017 AT 1400 HOURS IN COMMITTEE ROOM 6, COUNCIL HOUSE, BIRMINGHAM

PRESENT:-

Councillors Bore, M Jenkins, Robinson, Shah and Spencer.

****

APPOINTMENT OF CHAIRMAN FOR THE MEETING

951 It was proposed by Councillor Shah, seconded by Councillor Spencer and agreed that Councillor Sir Albert Bore be appointed Chairman for the meeting.

COUNCILLOR BORE IN THE CHAIR.

The Chairman noted Councillor Chatfield's recent appointment as Cabinet Member for Transparency, Openness and Equality and wished to thank him for all his hard work and the efficient manner in which he had chaired the Audit Committee throughout the municipal year.

NOTICE OF RECORDING/WEBCAST

952 The Chairman advised and the meeting noted that this meeting would be webcast for live or subsequent broadcast via the Council's Internet site (www.birminghamnewsroom.com) and that members of the press/public could record and take photographs except where there were confidential or exempt items.

APOLOGIES

953 Apologies were submitted on behalf of Councillor Tilsley.

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

MINUTES

In response to a question by the Chairman, the Committee Manager undertook to contact Councillor Chatfield to ask if he had received a response to his letter regarding the current budget position and savings plan (Minute No 944 refers).

954 **RESOLVED**:-

That the Minutes of the last meeting be confirmed and signed.

CORPORATE RISK REGISTER UPDATE

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

(See document No 1)

Cynthia Carran, Principal Business Auditor, in referring to recommendation 2.3 – Risk 30 – Risk that e-mail/e-mail archiving IT system fails, advised that a solution had been agreed and was being delivered. Therefore, the new risk was no longer applicable. In response to Members' comments she undertook to provide further information regarding Risk 30.

Members commented on the report and Cynthia Carran and Sarah Dunlavey, Assistant Director, Audit and Risk Management, responded thereto.

In view of the fact that Risk 30 was no longer applicable, the Committee agreed to amend recommendation 2.3 accordingly.

955 **RESOLVED**:-

(i) That the Committee agrees that the information provided by directorates and risk ratings are reasonable and the action being taken is effective, or if further explanation/information is required; further that the level has reduced for the following risks:-

a) Risk 7 – Lack of capacity and capability to respond to threat of industrial action, employee relations tensions, poor service, performance issues, sickness absence and poor morale due to organisations downsizing and pay freezes.

b) Risk 9 – Failure to respond fully and effectively to the issues from recent reviews concerning school governance and related matters.

c) Risk 11 – That the loss of significant personal or other sensitive data may put the Council in breach of its statutory responsibilities and incur a fine of up to £500,000 from the Information Commissioner.

d) Risk 19 – Failure to deliver the Council's Localisation Agenda and commitments made in the Council's Improvement Plan and Leader's Policy Statement.

e) Risk 24 – That the need to address the updated pensions deficit will result in an increase in employer contributions.

(ii) that approval be given to the deletion of the following risks for the reasons set out in the report:-

a) Risk 8 – Risk of challenge regarding implementation of the Younger People's Re-provision Programme – the work stream is now closed and efficiency and savings targets have been transferred to the Maximising Independence of Adults Board (MIA).

b) Risk 9 – Failure to respond fully and effectively to the issues from recent reviews concerning school governance and related matters – a much improved performance culture and set of arrangements are now in place for the Council's education services.

c) Risk 13 – Not planning appropriately for the on-going reduction in government grants – this is an annual risk but there are processes in place to manage it.

d) Risk 24 – That the need to address the updated Pensions Deficit will result in an increase in employer contributions – this risk is crystallised in the setting of the 2017/18+ budget. The information received has been fully taken into account in the update of the Council's medium term financial plan and in the development of savings proposals.

(iii) that approval be given to the following new risk:-

Risk 31 – Increased pressure on the statutory homeless service in regard to volume of customers which leads to significant financial pressure on the general fund due to increased use of B&B;

(iv) that Risk 30 – Risk that e-mail/e-mail archiving IT system fails is no longer applicable;

(v) that approval be given to the refreshed risk management documents.

BIRMINGHAM AUDIT – DEVELOPMENT OF THE 2017/18 INTERNAL AUDIT PLAN

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

(See document No 2)

Craig Price, Principal Group Auditor, introduced the report and, in response to Members' comments, explained how the plan was dynamic and being constantly updated to reflect the changing risks and circumstances.

He expanded on the figures, set out in appendix A of the report, regarding the number of days in the audit plan.

Phil Jones and Richard Percival, Grant Thornton, confirmed that they were satisfied with the risk assessment regarding the audit plan.

956 **RESOLVED**:-

(i) That the progress made in the development of the 2017/18 internal audit plan be noted;

(ii) that the proposed internal audit coverage be noted and Members' comments be included in the audit risking process;

(iii) that it be noted that the final plan is due to be approved at the meeting scheduled to take place in June 2017.

ANNUAL GOVERNANCE STATEMENT – PROGRESS

The following report of the Strategic Director – Finance and Legal was submitted:-

(See document No 3)

Martin Stevens, Head of City Finance Accounts, introduced the report.

957 **RESOLVED**:-

That the report be noted.

GRANT THORNTON – PROGRESS REPORT

The following report of the External Auditor was submitted:-

(See document No 4)

Phil Jones and Richard Percival, Grant Thornton, introduced the report and responded to Members' comments.

In response to a question by Councillor M Jenkins, Sarah Dunlavey, Assistant Director, Audit and Risk Management, undertook to provide information regarding the use of contractors and tax indemnity.

958 **RESOLVED**:-

That the report be noted.

GRANT THORNTON – AUDIT PLAN

The following report of the External Auditor was submitted:-

(See document No 5)

Phil Jones and Richard Percival, Grant Thornton, introduced the report and responded to Members' comments explaining the difference between the significant risks referred to in the report and those set out in the Corporate Risk Register considered earlier in the meeting (Minute No 955 refers).

With regard to delivering alternative savings plans to mitigate budget pressures, it was unlikely that there would be a clear picture as to whether this would be achieved until the autumn at the earliest.

Angela Probert, Acting Chief Executive, in response to Members' comments regarding the various changes to the management structure including the recent resignation of Mark Rogers as Chief Executive, informed the Committee of the interim appointments made to date.

She referred to the recommendations of the Finance Review Panel and outlined measures that had been put in place regarding the delivery of the Council's plans and programmes.

959 **RESOLVED**:-

That the report be noted.

GRANT THORNTON – INFORMING THE AUDIT RISK ASSESSMENT

The following report of the External Auditor was submitted:-

(See document No 6)

Phil Jones and Richard Percival, Grant Thornton, introduced the report.

The Committee noted that this was Richard's last meeting and wished him well for the future.

960 **RESOLVED**:-

That the report be noted

ADOPTION OF ACCOUNTING POLICIES FOR 2016/17

The following report of the Strategic Director – Finance and Legal was submitted:-

(See document No 7)

Martin Stevens, Head of City Finance Accounts, introduced the report and, in response to a question by Councillor M Jenkins, undertook to provide information on the changes to the accounting process regarding leases.

961 **RESOLVED**:-

(i) That the accounting policies for the determination of the Council's accounts for 2016/17 be adopted;

(ii) that the implications for future years' accounts arising from the changes in accounting standards be noted.

OTHER URGENT BUSINESS

962 No other urgent business was raised.

AUTHORITY TO CHAIRMAN AND OFFICERS

963 **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.

The meeting ended at 1520 hours.

………………………………...
CHAIRMAN

BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to:	**AUDIT COMMITTEE**
Report of:	**Interim Chief Finance Officer**
Date of Decision:	**20 June 2017**
Subject:	**STATEMENT OF ACCOUNTS 2016/17**
Wards affected: All	

1 Purpose

1.1 This report presents the Council's draft Statement of Accounts for 2016/17 to Members for information. The Statement has been passed to the Council's external auditors, Grant Thornton, who have started their final accounts audit. The audited Statement of Accounts will be presented to Audit Committee for approval at the completion of the audit.

2 Decisions recommended:

2.1 To receive the draft Statement of Accounts for 2016/17.

2.2 To note the arrangements for the audit of the accounts and for public inspection.

Contact Officer: Martin Stevens
Telephone No: 0121 303 4667
E-mail address: martin.stevens@birmingham.gov.uk

Contact Officer: Steve Powell
Telephone No: 0121 303 4087
E-mail address: steve.powell@birmingham.gov.uk

3 Compliance Issues:

3.1 Are Decisions consistent with relevant Council Policies, Plans or Strategies?:
The production of the annual accounts is a statutory requirement for the Council.

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

3.3 Relevant legal powers, personnel, equalities and other relevant implications (if any):
The Statement of Accounts is a requirement of the Accounts and Audit Regulations 2015. The accounts have been prepared in accordance with The Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, which is based on International Financial Reporting Standards (IFRS).

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 issues raised in this report are largely of a technical financial nature. The Statement of Accounts includes the Annual Governance Statement, which has previously been considered by this committee.

4 Relevant background/chronology of key events:

4.1 The 2016/17 accounts were signed on 1 June 2017 in advance of the statutory deadline of 30 June 2017.

4.2 The Council's accounts for 2016/17 were opened for public inspection on 5 June 2017 for a period of 30 working days, ending on 14 July 2017. Questions on or objections to the accounts may be raised with the external auditor during the period of public inspection.

4.3 The fieldwork informing the audit of the accounts is expected to be substantially completed by the end of July 2017.

4.4 Appendix 1 to this report is the published draft Statement of Accounts for 2016/17. The document includes the core statements and supplementary statements required by accounting standards and also contains an overview of the Council's performance for 2016/17.

Signature:

Interim Chief Finance Officer: ………………………………………………….

Dated: ……………………………………………………………………………

Appendix 1

Draft Statement of Accounts 2016/17
Subject to Audit

Index

Contents		**Page**

Narrative Report

1 Introduction

1.1 This document presents the statutory financial statements for Birmingham City Council (the Council) for the period from 1 April 2016 to 31 March 2017. The financial statements have been prepared in accordance with the 2016/17 Code of Practice on Local Authority Accounting (The Code) published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

1.2 This narrative report provides a summary of the Council's financial position and details of material items that have impacted on the accounts during the year.

1.3 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.

2 Council Priorities

2.1 The Council's vision for the City is one of:

'A city of growth where every child, citizen and place matters'

and sets out clear priorities for the Council:

- **Children - a great place to grow up in:**
  Make the best of our diversity and create a safe and secure city for our children and young people to learn and grow

- **Housing – a great place to live in:**
  Provide housing in a range of types and tenures to meet the housing needs of all the current and future citizens of Birmingham

- **Jobs and Skills – a great place to succeed in**:
  Build on our assets, talents and capacity for enterprise and innovation to shape the market and harness opportunity

- **Health – a great place to grow old in:**
  Help people become healthier and more independent with measurable improvement in physical activity and mental wellbeing.

2.2 The Council recognises that it is one partner in achieving these priorities. The significant reductions in Government funding since 2010 mean that the Council's role has changed from one of service delivery across the City to one where it enables partners, communities and individuals.

3 Background to 2016/17

3.1 The Council has continued to operate within an extremely challenging financial environment and the management of the budget has been a major focus of activity in 2016/17.

3.2 The Birmingham Independent Improvement Panel (BIIP), appointed following the publication of the report on the governance and organisational capabilities of the Council by Lord Kerslake, has provided a number of progress reports to the Secretary of State. The BIIP reported to the Secretary of State in November 2016 on the progress the Council has made in those areas that required improvement and has supported the broad direction of travel. However, it was acknowledged that some of the crucial developments were at an early stage of design, implementation and adoption and that the changes had not yet filtered through to front-line staff or partners.

3.3 The BIIP had previously commented that the four-year financial strategy adopted for the 2016/17 - 2019/20 period was extremely challenging and that the transformational nature of the key proposals would be a serious test for the Council to deliver. The Council has been unable to deliver all of the savings planned for 2016/17, which has led to an overspend on the budget.

3.4 An independent financial review was commissioned jointly by the Council and the BIIP to assess whether the budget proposals for 2017/18 were realistic. The independent review identified that there were a number of areas where the Council's plans were ambitious and recommended that the Council prepare a contingency savings plan and a consistent set of delivery plans with clear accountabilities. Following a further visit in January 2017, the independent review team concluded that the Council had taken the recommendations on board and responded well, although not all recommendations had been fully implemented at the time of the report.

3.5 The BIIP provided a further report to the Secretary of State in February 2017 that concluded the Council had put in place more robust and credible financial plans. However, the report stated that the plans and strategies would not be easy to implement and that some of the implementation timetables were extremely ambitious and that the risks to achieving fully effective delivery were high.

4 Major Developments

4.1 Despite the financial pressures faced by the Council, it has continued to develop services to ensure more effective and efficient service delivery through the move to a Future Operating Model.

4.2 The Council has also invested in the infrastructure within the City through capital developments of £363.3m in 2016/17 and future committed capital projects in excess of £1bn. The major projects have included the following developments:

- the Paradise Circus area;
- the new Wholesale Market at Witton;
- improvement of leisure facilities;
- increases in school places to support additional pupil numbers; and
- additional housing capacity.

5 The Financial Statements

5.1 The pages which follow contain the Council's Financial Statements for the year ended 31 March 2017, with comparative figures for the previous financial year, and comprise:

The Main Financial Statements

5.2 The Comprehensive Income and Expenditure Statement (CIES) – provides the accounting cost in year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation or from rents for Council dwellings. The Council raises taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost.

The Housing Revenue Account (HRA) position is shown in a separate statement within these accounts.

The 2016/17 CIES shows a reduction of £124.3m, from £918.9m to £794.6m, in the net cost of services compared to 2015/16, which is primarily as a result of:

- A one-off payment in 2015/16 of £72.9m to Network Rail in respect of its share of the receipt from the disposal of its head lease interest in the Grand Central development;
- A one-off charge of £66.3m in 2015/16 to the CIES to reflect the impairment of the investment in NEC (Developments) Limited to reflect the realisable value of the company;
- The continued reduction in net expenditure on services due to the tightening of public expenditure;
- The impact of local authority maintained schools converting to academies.

offset by increases in

- Depreciation and impairment charges to the HRA - £9m
- Payments to third parties for the provision of care - £23m
- Public health payments - £12m

Supporting the CIES is the Expenditure and Funding Analysis (EFA), 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.

5.3 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.

5.4 Balance Sheet – shows the value of assets and liabilities recognised by the Council at 31 March 2017 and the level of reserves, split between usable, that is those that may be used to provide services, and unusable, that is those that may not be used to provide services. Unusable reserves include reserves that hold unrealised gains and losses where amounts would only become available to provide services if the assets were to be sold and reserves that hold timing differences in charging to the Comprehensive Income and Expenditure Statement.

The net liability has increased by £218.7m to £1,061.5m, mainly as a result of:

- The increase in the net liability on defined benefit pension schemes of £783.0m, further details of which are set out in Notes 19, 20 and 21. The Council is addressing the liability in accordance with external requirements and its accounting policies, over both the medium and longer term;
- A reduction in net current assets, excluding provisions, of £110.4m

offset by

- An increase of £492.9m in the carrying value of Property, Plant and Equipment following the latest valuation of non-current assets. The major change relates to the change in the factor for determining the Existing Use Value – Social Housing (EUV-SH) of Council dwellings which increased from 34% to 40%;
- A reduction of £148.8m in provisions set aside by the Council, mainly related to Equal Pay, following settlement of claims; and
- A reduction in long term borrowing and other long term liabilities of £64.0m.

5.5 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

5.6 Notes to the Accounts – additional detail supporting the information provided in the main financial statements is provided in the Notes to the accounts.

5.7 Housing Revenue Account – records the financial position of the Council's statutory obligation to account separately for the costs of its housing provision.

5.8 Collection Fund – records the transactions in respect of the collection and distribution of Business Rates and Council Tax and for which the Council acts as agent and has a statutory obligation to publish.

Group Accounts

5.9 The Council operates through a variety of undertakings, through either majority shareholding or sole membership of companies (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 Museums Trust
InReach (Birmingham) Limited
Innovation Birmingham Limited
National Exhibition Centre (Developments) Plc
Performances Birmingham Limited
PETPS (Birmingham) Limited

Associates
Birmingham Airport Holdings Limited
Service Birmingham Limited

Joint Venture
Paradise Circus General Partner Limited

5.10 In February 2017 a process commenced to explore a potential sale of the business and assets of Innovation Birmingham Limited to a strategic purchaser. The intention is to seek a new investor to continue with the strategic development of Innovation Birmingham Limited and the Innovation Birmingham Campus. The Innovation Birmingham Campus masterplan identifies a further 90,000 sq ft of proposed development before January 2020, creating one of the largest dedicated technology campuses in the UK.

5.11 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 48, Related Parties.

6 Accountable Body Roles

6.1 In addition to the activities reflected in the Council's CIES and Balance Sheet, the Council also acts as an agent for other funds, the most significant being the Greater Birmingham and Solihull Local Enterprise Partnership. Further details are contained in Note 49.

7 Summary of the Council's Financial Performance for the year ended 31 March 2017

7.1 Revenue Expenditure

7.1.1 The Council's revenue and capital budgets were allocated between four directorates with some 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 16 May 2017.

7.1.2 The Council's final revenue outturn was a net overspend of £29.8m after net appropriations from reserves. The table below gives a summary of the General Fund year-end outturn variation as reported to Cabinet.

Directorate	Revised Budget	Outturn	Variance
	£m	£m	£m
People	481.654	534.641	52.987
Place	141.079	160.208	19.129
Economy	68.901	68.687	(0.214)
Corporate Resources	50.557	50.556	(0.001)
Directorate Total	**742.191**	**814.092**	**71.901**
Other Corporate Items			(42.115)
Total Net Revenue Expenditure			**29.786**

7.1.3 Directorates overspent in total by £71.9m after net appropriations from earmarked reserves. There was a net underspending of £34.7m in corporate accounts and an underspend of £7.4m in policy contingency, after appropriations to reserves. In addition, a further £27.0m from the Capital Fund and £3.0m from the Organisation Transition Reserve were required to mitigate the overall position for the year.

7.2 Capital Expenditure

7.2.1 Total expenditure on directorate capital schemes in 2016/17, reported to Cabinet on 16 May 2017, was £335.4m (2015/16: £458.0m), compared to the revised capital budget of £465.5m (2015/16: £563.1m). The reported variance of £130.1m was mainly as a result of delays in expenditure on a number of capital schemes of £137.6m. Details of this slippage are given in the Council's Capital Outturn report for 2016/17. It should be noted that no Council resources were lost as a result of the slippage as the resources and planned expenditure will be "rolled forward" into future years.

Directorate	**Capital Revised Budget**	**Capital Outturn**	**Capital Variance**
	£m	**£m**	**£m**
People Directorate	83.9	54.2	(29.7)
Place Directorate	206.0	169.0	(37.0)
Economy Directorate	127.4	79.9	(47.5)
Corporate Resources Directorate	48.2	32.3	(15.9)
Total Directorate Capital Expenditure	**465.5**	**335.4**	**(130.1)**
PFI and Finance Lease Assets		27.9	
Total Capital Expenditure		**363.3**	

7.3 Material Assets Acquired

7.3.1 During the year a number of major projects have progressed including Paradise Circus redevelopment, a new building for the relocated Wholesale Market, the creation of additional school places at a number of schools, transport and highways infrastructure works and housing improvements and redevelopment.

7.4 Capital Financing

7.4.1 The financing arrangements in respect of capital expenditure in 2016/17, as reported to Cabinet on 16 May 2017, are summarised below:

Financing Method	**£m**
Borrowing	151.1
Government Grants	102.5
Other Grants and Contributions	6.6
Use of Capital Receipts	32.1
Use of Revenue Resources – HRA	36.4
Use of Revenue Resources – General Fund	6.7
Total Directorate Capital Financing	**335.4**
PFI and Finance Leases	27.9
Total Capital Financing	**363.3**

7.4.2 During the financial year ended 31 March 2017, the Council took £40.0m of long term loans. 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.

7.4.3 Further details of the Council's financial liabilities are given in Notes 39 and 40 to these financial statements. Full details regarding the financing of capital expenditure and the acquisition and disposal of non-current assets are given in Notes 22 to 25 to these financial statements.

7.5 Service Concession Arrangements and Similar Contracts

7.5.1 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. As a result of the schemes, the Council has a future liability to the end of the contracts of £439.9m as at 31 March 2017.

7.5.2 Details of the arrangements and timings of future liabilities are set out in Note 43 to these financial statements.

7.6 Pension Liabilities

7.6.1 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 £2,870.7m at 31 March 2017. Whilst the figure is substantial it should be noted that:

- 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 21 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 20 and 21 to these financial statements.

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

7.7 Provisions

Equal Pay

7.7.1 The Council has continued to receive claims in respect of the Equal Pay Act 1970 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 settle where it is recognised that a claim would be successful. These accounts include the expected costs of settlement for claims received up to 28 February 2017. The level of claims received after 28 February to the date of signing these accounts was not material.

Business Rates

7.7.2 As a result of the change introduced through the Local Government Finance Act 2012, local authorities assumed part of the liability for funding rate payers who successfully appeal against the rateable value of their properties on the rating list. This liability includes amounts that were collected in respect of both the current and prior years.

7.7.3 The Council, as Billing Authority, is required to make a provision for this liability. The financial statements include a provision to cover the Council's share of the estimated liability for the settlement of all appeals received up to 31 March 2017 but which remained unsettled. However, regulations permit local authorities to spread an element of the impact over a period of 5 years up to 2017/18. A share of the liability is attributable to Central Government and the West Midlands Fire and Rescue Authority.

NEC Pension Liability

7.7.4 On the disposal of the NEC Group on 1 May 2015, PETPS (Birmingham) Limited, a wholly owned subsidiary of the Council, replaced the National Exhibition Centre Limited as principal employer of the defined benefit schemes, which assumed the ongoing funding obligations with the agreement of the pension trustees. At the same time, 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.

7.8 Reserves

7.8.1 The Council maintains two types of reserves:

- Usable reserves – where the Council sets aside specific amounts for future policy purposes or to cover contingencies
- 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.

7.8.2 Details of the reserves are set out below.

	31 March 2016 £m	31 March 2017 £m
Usable Reserves	895.7	830.1
Unusable Reserves	(1,738.5)	(1,891.6)
Total	**(842.8)**	**(1,061.5)**

7.8.3 The reduction in the level of usable reserves is mainly as a result of the planned reduction in resources set aside:

- To support the Council's capital programme;
- To support the transition in operations as funding reductions are implemented;
- As part of the delegated budget for schools;
- From Capital Receipts that have now been applied to support the Council's capital programme or the transition in operations.

7.8.4 The reduction in usable reserves has been partially offset by increases in the HRA Major Repairs Reserve and in Capital Grants that have been received but not yet applied.

7.8.5 The Council's net liabilities at 31 March 2017 have increased by £218.7m to £1,061.5m being represented by the usable and unusable reserves. Details of the increase in net liabilities are set out in paragraph 7.8.2 above.

7.8.6 The Council has included financial assumptions for resourcing these liabilities in its long term financial plan, Financial Plan 2017+.

8 Future Revenue and Capital Expenditure Plans

8.1 The Council's Financial Plan 2017+ was set in the context of pressures on services arising from demographic changes and increasing and changing needs whilst facing reducing resources available to fund service provision and investment in assets as a result of the continuing reductions in grant funding as part of the government's policy of reducing public expenditure. The Council has historically been more dependent on government grants than many local authorities because of the higher levels of need in the City and because of the comparatively low tax base which constrains what can be raised locally through Council Tax.

8.2 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 Deputy Leader and Chief Executive as well as formal revenue budget monitoring reports considered by Cabinet.

8.3 The Council's key capital priorities are addressed through the three-year capital programme, totalling £918.9m in the Financial Plan 2017+. The Council continues to pursue major initiatives taking advantage of the availability of external capital resources, with the programme including £260.5m of Government grants and other external contributions. The programme also incorporates borrowing proposals set out in the approved Enterprise Zone Investment Plan, the cost of which will be supported from projected business rates growth in the Enterprise Zone area.

8.4 The Council has agreed to forego its Revenue Support Grant from 1 March 2017 in exchange for retaining 99% of Business Rates (the remaining 1% will continue to be passed to the West Midlands Fire and Rescue Authority). The Council has led negotiations with the Government throughout 2016/17 to develop a 100% Business Rates Retention Pilot across the seven West Midlands District Authorities. The top up grant that the Council receives has also been reduced in order to ensure fiscal neutrality in terms of the Local Government Finance Settlement. The agreement with the Government is in place until the roll out of 100% business rates retention nationally, although there are opportunities to enhance/expand the arrangement in future years if all parties are in favour of this.

8.5 Full details of the 2017/18 Revenue and Capital Budgets can be found within the Council Financial Plan 2017+ approved by Council on 28 February 2017, via www.birmingham.gov.uk.

CORE FINANCIAL STATEMENTS 2016/17

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. Figures for 2015/16 have been restated to reflect the change in reporting from the Service Reporting Code of Practice to a Directorate basis. Details of the restatement are set out in Note 7.

2015/16 Gross Expenditure	2015/16 Gross Income	2015/16 Net Expenditure		Note	2016/17 Gross Expenditure	2016/17 Gross Income	2016/17 Net Expenditure
£m	£m	£m	**Continuing Operations**		£m	£m	£m
1,577.1	(1,052.6)	524.5	People		1,590.2	(1,046.5)	543.7
315.3	(86.5)	228.8	Place		291.5	(78.5)	213.0
251.2	(54.5)	196.7	Economy		111.2	(46.0)	65.2
700.7	(630.8)	69.9	Corporate Resources		684.0	(631.6)	52.4
16.4	(10.3)	6.1	Corporately Managed		23.0	(6.1)	16.9
186.2	(293.3)	(107.1)	Housing Revenue		193.2	(289.8)	(96.6)
3,046.9	**(2,128.0)**	**918.9**	**Total Cost Of Services**		**2,893.1**	**(2,098.5)**	**794.6**
104.2	-	104.2	Other Operating Expenditure	9, 10	212.5	-	212.5
286.8	(63.4)	223.4	Financing and Investment Income and Expenditure	11	283.0	(56.6)	226.4
16.6	(1,128.7)	(1,112.1)	Taxation and Non-Specific Grant Income	12	6.0	(1,123.4)	(1,117.4)
		134.4	**(Surplus) / Deficit on Provision of Services**				**116.1**
			Items that will not be reclassified to the (Surplus)/Deficit on the Provision of Services				
		(332.3)	(Surplus) / deficit on revaluation of Property, Plant and Equipment assets	22, 23, 24			(645.0)
		73.3	Impairment losses on non-current assets charged to the revaluation reserve	22, 23, 24			-
		(261.2)	Remeasurement of the net defined benefit liability	21			748.0
		(520.2)					**103.0**
			Items that may be reclassified to the (Surplus)/Deficit on the Provision of Services				
		0.7	(Surplus) / deficit on revaluation of available for sale financial assets				(0.3)
		0.7					**(0.3)**
			Reclassification Adjustment for prior year unrealised gains/(losses)				
		(0.1)	Gain/(loss) adjustment on disposal of available for sale financial assets				-
		(0.1)					**-**
		(519.6)	**Other Comprehensive (Income) / Expenditure**				**102.7**
		(385.2)	**Total Comprehensive (Income) / Expenditure**				**218.8**

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.

	General Fund Balance	Housing Revenue Account	Capital Receipts	Major Repairs Reserve	Capital Grants Unapplied Account	**Total Usable Reserves**	Unusable Reserves	**Total Council Reserves**
		£m	£m	£m	£m	**£m**	£m	**£m**
Balance at 31 March 2015	**485.3**	**4.5**	**16.3**	**15.8**	**104.1**	**626.0**	**(1,854.0)**	**(1,228.0)**
Movement in Reserves during 2015/16								
Surplus/(Deficit) on the provision of services	(193.4)	59.0				**(134.4)**		**(134.4)**
Other Comprehensive Income and Expenditure						**-**	519.6	**519.6**
Total Comprehensive Income and Expenditure	**(193.4)**	**59.0**	**-**	**-**	**-**	**(134.4)**	**519.6**	**385.2**
Adjustments between accounting basis and funding basis under regulations (Note 16)	208.3	(58.9)	295.8	(10.0)	(31.1)	**404.1**	(404.1)	**-**
Increase/Decrease in 2015/16	**14.9**	**0.1**	**295.8**	**(10.0)**	**(31.1)**	**269.7**	**115.5**	**385.2**
Balance at 31 March 2016	**500.2**	**4.6**	**312.1**	**5.8**	**73.0**	**895.7**	**(1,738.5)**	**(842.8)**
Movement in Reserves during 2016/17								
Surplus/(Deficit) on the provision of services	(158.0)	41.9				**(116.1)**		**(116.1)**
Other Comprehensive Income and Expenditure						**-**	(102.6)	**(102.6)**
Total Comprehensive Income and Expenditure	**(158.0)**	**41.9**	**-**	**-**	**-**	**(116.1)**	**(102.6)**	**(218.7)**
Adjustments between accounting basis and funding basis under regulations (Note 16)	70.7	(41.9)	(33.7)	33.2	22.2	**50.5**	(50.5)	**-**
Increase/Decrease in 2016/17	**(87.3)**	**-**	**(33.7)**	**33.2**	**22.2**	**(65.6)**	**(153.1)**	**(218.7)**
Balance at 31 March 2017	**412.9**	**4.6**	**278.4**	**39.0**	**95.2**	**830.1**	**(1,891.6)**	**(1,061.5)**

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 2016 £m		Note	31 March 2017 £m
4,855.3	Property, Plant and Equipment	22	5,348.2
249.8	Heritage Assets	23	251.5
10.0	Investment Property		9.8
25.6	Intangible Assets	24	19.7
32.2	Long Term Investments	25	33.5
75.0	Long Term Debtors	26	92.9
5,247.9	**Total Long Term Assets**		**5,755.6**
58.8	Short Term Investments	27	29.3
4.2	Assets Held for Sale	28	6.6
1.2	Inventories		1.2
288.0	Short Term Debtors	29	276.1
66.4	Cash and Cash Equivalents	30	49.7
418.6	**Total Current Assets**		**362.9**
(34.5)	Cash and Cash Equivalents	30	(13.5)
(430.5)	Short Term Borrowing	34	(513.6)
(323.4)	Short Term Creditors	31	(363.6)
(283.3)	Provisions	32	(172.9)
(1,071.7)	**Total Current Liabilities**		**(1,063.6)**
(1.8)	Long Term Creditors		-
(68.4)	Provisions	32	(30.0)
(2,771.9)	Long Term Borrowing	34	(2,730.9)
(507.8)	Other Long Term Liabilities	39	(484.8)
(2,087.7)	Net liability on defined benefit pension scheme	21	(2,870.7)
(5,437.6)	**Total Long Term Liabilities**		**(6,116.4)**
(842.8)	**Net Assets/(Liabilities)**		**(1,061.5)**
895.7	Usable Reserves	18	830.1
(1,738.5)	Unusable Reserves	19	(1,891.6)
(842.8)	**Total Reserves**		**(1,061.5)**

Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period.

2015/16 £m		Note	2016/17 £m
(134.4)	Net Surplus/(Deficit) on the provision of services		(116.1)
460.2	Adjustments to net Surplus/Deficit on the provision of services for non cash movements	38	376.8
(478.3)	Adjustments for items included in the net Surplus/(Deficit) on the provision of services that are investing and financing activities	38	(230.2)
(152.5)	**Net cash flows from Operating Activities**		**30.5**
254.1	Investing Activities	36	(166.0)
(85.3)	Financing Activities	37	139.8
16.3	**Net increase/(decrease) in cash and cash equivalents**		**4.3**
15.6	Cash and cash equivalents at the beginning of the reporting period		31.9
31.9	**Cash and cash equivalents at the end of the reporting period**	**30**	**36.2**

Note 1
Accounting Policies

i. General Principles

The Statement of Accounts summarises the Council's transactions for the 2016/17 financial year and its position at the year-end of 31 March 2017. The Accounts and Audit Regulations 2015, requires 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 2016/17 (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 sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council;
- Revenue from the provision of services is recognised when the 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;
- 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.

The Council has based its general accruals on the difference between the forecast revenue outturn for the year and the actual income/expenditure recorded by 31 March. Specific accruals are included for material items and for items relating to:

- Statutory accounts, for example, the Collection Fund, Precepts;
- Grants received by the Council that are conditional on expenditure within the year.

This is intended to improve the efficiency of the final accounts process in order that earlier closedown deadlines can be achieved.

iii. Fair Value Measurement

The Council measures some of its non-financial assets, such as 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. Exceptional Items

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

v. 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.

vi. 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. Within the Comprehensive Income and Expenditure Statement, the People Directorate line is charged with the employer's contributions payable to the Teachers' Pension Scheme and NHS Pensions Scheme in the year.

<u>The Local Government Pension Scheme</u>

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 AA rated 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 – allocated to Directorates 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 in settlement of liabilities; 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.

vii. 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.

viii. 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.

ix. Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable 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 considered more likely than not to be satisfied in the future. 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.

x. 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.

xi. 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.

Since 1 April 2010 all additions and all material assets revalued (over £5m) are accounted for on a component basis. As components are added, any component being replaced is derecognised. On derecognising components where the component is within a non separated component bundle, the depreciation is apportioned on a straight line basis and derecognised accordingly. In addition, 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.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement. The Council has not reviewed the deeds of all of its land and property to determine the categorisation of these assets.

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

- infrastructure assets, vehicles, plant, furniture and equipment – 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;
- all other assets – current value, determined as the price that would be received to sell an asset in an orderly transaction between market participants at the Balance Sheet date.

Where a material asset within Property, Plant and Equipment contains major components whose cost is significant in relation to the total cost of the asset and which has a useful life that is significantly different from that of the asset, the components are evaluated separately.

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

Where non-property assets have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for 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 valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a Directorate.

Where decreases in value are identified, the accounting treatment is:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance;
- where there is insufficient balance, the carrying amount of the asset is written down firstly against the Revaluation Reserve and the remaining amount against the relevant Directorate line in the Comprehensive Income and Expenditure Statement.

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

Impairment

Assets are assessed at each year-end 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 impairment losses are identified, the accounting treatment is:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance;
- where there is insufficient balance, the carrying amount of the asset is written down firstly against the Revaluation Reserve and the remaining amount 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 asset is reviewed annually by the Directorate user through their service review and 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 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. Depreciation is not charged in the year of purchase.

Components, where identified, are depreciated on a straight line basis over their useful lives.

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.

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, amortisation or revaluations that would have been recognised had they not been classified as held for sale, and their recoverable amount at the date of the decision 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 (for 2016/17, 75% of the receipt net of statutory deductions and allowances) 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. The written-off value of disposals is not a charge against Council Tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing.

xii. 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.

Where historical cost information is available, the Council has used this when compiling the balance sheet; otherwise insurance valuations have been used, where applicable. Where there is evidence of a movement in valuation as a result of material acquisitions or disposals, or a significant movement in comparable market values, a revaluation will be considered. In some cases, reliable valuation information is not available due to a lack of comparable market data and the diverse nature of the individual items, and where the historical cost information cannot be obtained, the asset has been excluded from the balance sheet.

The Council is the custodian of a number of scheduled monuments, including burial mounds and archaeological remains, and owns a significant number of public art works, including statues, sculpture and fountains. With some minor exceptions, historical cost information is not available; for the majority, there is no insurance valuation available and the Council does not consider that reliable information can be obtained at a cost that is commensurate with the benefits to users of the financial statements. Consequently the Council does not recognise these assets in 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 xi. Property, Plant and Equipment in this note).

xiii. 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. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion and they are, therefore, carried at amortised cost. The depreciable amount of an intangible asset is amortised on a straight line basis over its useful life to the relevant Directorate in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant Directorate in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to Other Operating Expenditure 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 and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

xiv. 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 at current value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are 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 are posted to Financing Income and Expenditure in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and 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 and, for any sale proceeds greater than £10,000, to the Capital Receipts Reserve.

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*.

xv. 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.

xvi. 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 is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).

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

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income 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.

The written-off value of disposals is 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 therefore appropriated to the Capital Adjustment Account from the General Fund Balance through the Movement in Reserves Statement.

Operating Leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to 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.

xvii. Interests in Companies and Other Entities

The Council has material interests in companies and other entities that have the nature of subsidiaries, associates and jointly controlled entities 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.

xviii. 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.

xix. 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 and 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, 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. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium/discount is respectively deducted from/added to the amortised cost of the new or modified loan and the write down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

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 into two types:

- Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market;
- Available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

Loans and Receivables

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

However, the Council has made a number of loans to third parties at less than market rates (soft loans). When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement, charged to the appropriate Directorate, for the present value of the interest that will be foregone over the life of the instrument, resulting in a lowered amortised cost than the outstanding principal. Interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a marginally higher effective rate of interest than the rate receivable from the third parties, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require 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 Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to/from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

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

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

Available-for-Sale Assets

Available-for-Sale assets are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at cost. Where a fair value of those assets that do not form part of the Group Accounts can be determined, the carrying value of the asset is adjusted to the fair value.

Where a fair value cannot be measured reliably, the asset is carried at cost less any impairment losses. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

Where it is possible to determine a fair value of an asset, they are based on:

- Instruments with quoted market prices – the market price;
- Other instruments with fixed and determinable payments – discounted cash flow analysis;
- Equity shares with no quoted market price – appraisal of company valuations.

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.

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

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

Any gains/losses that arise on the derecognition of the asset are credited/debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains/losses previously recognised in the Available-for-Sale Reserve.

Instruments Entered Into Before 1 April 2006

The Council 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 xxi. on Provisions, Contingent Liabilities and Contingent Assets.

xx. 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. 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.

xxi. 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.

Provision for Back Pay Arising from Equal Pay Claims

The Council has made a provision for the costs of back pay arising from claims made under the Equal Pay Act 1970, as amended by the Equal Pay Act (Amendment) Regulations 2003. The Council bases the estimate of its provision on the expected costs of settlement for claims received up to the point of production of its financial statements.

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. 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 and Housing Revenue Account balances 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 and Housing Revenue Account balances through the Movement in Reserves Statement in future financial years as payments are made.

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 33 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 33 to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

xxii. 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.

Contributions from developers, paid under section 106 of the Town and Country Planning Act 1990, are shown on the Balance Sheet as either Grant Reserves or Capital Grants Unapplied. Where these monies are invested externally, the sums invested are shown under short term investments.

xxiii. 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 2016/17.

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.

xxiv. Business Improvement Districts

In accordance with the provisions of the Business Improvement District Regulations (England) 2004 a ballot of local businesses within specific areas of the City has 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.

xxv. 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 ix. 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.

xxvi. 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.

xxvii. Jointly Controlled Operations and Jointly Controlled Assets

Jointly controlled 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.

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. 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.

xxx. 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.

xxxi. Acquired Operations

Acquired operations are identified separately in the Comprehensive Income and Expenditure Statement in the year of transfer. In subsequent years, the acquired services are included in the relevant Directorate in continuing operations for comparative purposes.

Where non-current assets are transferred as part of an acquired operation at less than fair value, historical cost is deemed to be the fair value at the date of acquisition with the financial support recognised as a contribution and included in the Capital Adjustment Account.

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 2016/17 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, including those arising from equal pay claims. The Council has developed its medium to long term financial strategy, detailed in the Council Financial Plan 2017+, and is meeting these budget challenges by developing multi-year savings plans and funding investment to deliver these through the generation of capital receipts. 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 general fund balances and can redesignate earmarked reserves to meet the shortfall or it can delay the timing of its Minimum Revenue Provision contributions and equal pay settlements. 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 in 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 45, 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 2017.

Type of School	Primary	Secondary	Nursery	Special	Pupil Referral Unit	**Total**
Community	121	12	27	21	1	**182**
Voluntary Controlled	6	-	-	-	-	**6**
Voluntary Aided	55	9	-	-	-	**64**
Foundation Trust	8	6	-	3	-	**17**
Academy (formerly Council school)	108	48	-	3	-	**159**
Academy (not formerly Council school)	2	10	-	-	-	**12**
Total	**300**	**85**	**27**	**27**	**1**	**440**

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.

Specialist Assets

The Council includes the value of assets on the Balance Sheet in line with its accounting policy set out in section xi. of Note 1. However, the Council has a number of assets that it considers to be specialist assets for which an Existing Use Value, defined as 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, cannot be determined. This is because the assets are considered to be specialist in nature or are rarely sold. In such circumstances, the Code allows the use of Depreciated Replacement Cost as the basis of valuation.

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

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 48, 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. Two of the largest schemes where the Council acts as agent are:

- Growing Places Fund
- Regional Growth Fund - Advanced Manufacturing Supply Chain Initiative

These resources 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 49 to these financial statements.

Sale of the NEC

As part of the arrangements involved in the sale of the NEC Group on 1 May 2015, the Council has continued to guarantee the £73m National Exhibition Centre (Developments) Plc loan stock and has recognised the liability in its balance sheet. The Council has determined that regulation 30(D) of The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended to 1 April 2016 does not apply.

Note 3
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, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

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

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment Valuations	Valuations are undertaken on the basis of a five year rolling programme, which is supplemented by annual reviews to reflect significant changes in market values. HRA assets are subject to a full revaluation every five years, following DCLG guidance, with a desktop review in the intervening years. The valuation of specialist assets using Depreciated Replacement Cost includes the use of building cost factors. For those assets not valued in year, updated building factors have been applied to estimate carrying values at 31 March.	For those assets not valued this year, an increase of 1% in the average valuation of assets that have not been amended for a variation in building indices would have the effect of increasing the carrying value of these assets by £8.7m, with a corresponding increase in the level of unusable reserves.
Heritage Asset Valuations (Museums' and Libraries' Archive Collections)	In the absence of recent transactions in a number of assets held in the Museum and Libraries Collections, the Council has used the associated insurance valuations as the most reasonable measure of value of the assets.	If the value of the assets were to vary from the insurance valuations by 1%, this would change the carrying value of Heritage Assets on the Balance Sheet by £2.4m with a corresponding adjustment in the unusable reserves.
Financial Instruments	Interest rate risk - the Council is exposed to significant risk in relation to interest rate movements on its borrowing and investments.	An analysis of the impact if interest rates were 1% higher, with all other variables held constant, is set out in Note 40.
Long term obligations under, for example, PFI schemes	For service concessions, the fair value of the long term obligations has been based on financial models, including future assumptions on inflation and interest rates.	The financial models assume an inflation rate of 2.5% If the annual inflation rate was to increase to 3.5% each year of the contracts, this would result in an increase in running costs of £29.9m in 2017/18, and a further £381.2m over the remaining lives of the contracts.

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Equal Pay	The Council has included a provision of £145.2m for the settlement of claims for back pay arising from the Equal Pay initiative. The Council has based its estimate on the number of claims received and on historical information on settlement of similar claims and on the current negotiations with claimants' representatives.	An increase of 1% in the average level of settlement would have the effect of increasing the provision required by £1.5m.
Business Rate Appeals	An estimate of the impact of Business Rate appeals has been based on the number of claims lodged and the experience of levels of success in settlement of those claims.	An increase of 1% in the average level of settlement would have the effect of £6.0m on the provision set aside.
Defined Benefit Pension Liability	The estimate for the Local Government Pension Scheme has been based on the latest actuarial valuation and transaction information from 2016/17.	A number of factors can impact on the valuation of the scheme liability. A sensitivity analysis of the factors is set out in more detail in Note 21 of these financial statements.

Note 4
Events After the Reporting Period

The draft Statement of Accounts was authorised for issue by the Interim Chief Finance Officer on 1 June 2017. 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 2017, 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 2017 and 31 May 2017, five schools, with assets having a net book value of £32.9m, have transferred to Academy School Trust status. A further six schools, with assets having a net book value of £61.7m have announced their proposals to transfer to Academy School Trust status.

Transfer of Council Services

On 24 January 2017, the Council approved the creation of a Children's Trust that would deliver Children's Services. It is intended that the Trust will operate through a wholly owned, community interest company with effect from April 2018. During 2017/18, Children's Services will operate as a Shadow Trust within the Council to ensure a smooth transfer to the new model of operation in 2018/19. Cabinet, in July 2017, will consider the final details for the transfer of services to the Trust, including the model of transfer of staff and finalise the financial operation of the Trust.

Business Rates Retention

In the Spending Review of November 2015, the Government announced plans for local government to retain 100% of Business Rates income to fund local services. The additional funding provided through the retention of Business Rates would be offset by the reduction in Revenue Support Grant.

A number of Pilot Schemes have been created to enable different arrangements to be tested and considered before the final national scheme is implemented. The West Midlands Metropolitan Authorities have agreed to participate in a Pilot Scheme with effect from 1 April 2017. It is anticipated that the Pilot Scheme will continue until the National Scheme is implemented.

Future Resource Allocations

The Council faces reducing Government grants, reducing capital receipts and lower income from services. These pose challenges to the financial resilience of the Council. In this context, the Council's Financial Plan 2017+ sets out medium to long-term strategies for business changes and the management and development of its services. A key focus of business planning has been the achievement of the Council's priority outcomes through the adoption of a core set of corporate principles to inform service and organisational redesign where appropriate. The Council is planning to meet its anticipated expenditure reductions through a number of activities, including potential staff redundancies in 2017/18.

Payment to Local Government Pension Scheme

The Council has made a prepayment of the estimated sum due for the next three years in respect of employer contributions to the Local Government Pension Scheme due to the favourable discount offered for early payment. The Council made a payment of £373.2m on 30 April 2017.

Service Birmingham

The current contract for the provision of ICT services will be reviewed jointly with Capita PLC, the majority shareholder of Service Birmingham, to allow greater flexibility to better cater for the future needs of the Council and its residents.

West Midlands Mayor

On 4 May 2017, the first West Midlands Mayor was elected. The Mayor chairs the West Midlands Combined Authority and has powers and responsibilities to make strategic decisions across the whole region, covering Birmingham, Coventry, Dudley, Sandwell, Solihull, Walsall and Wolverhampton. The Mayor will control:

- A £1.1bn, 30 year investment fund;
- The adult skills budget;
- The consolidated transport budget
- The local roads network
- Bus franchising and smart ticketing on the transport network.

The Mayor will also have compulsory purchase powers over housing and planning.

The powers of the Mayor may change in the future.

Other Events
There were no other significant events after the reporting period.

Note 5
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.

2015/16	Net Expenditure Reported to Cabinet	Adjustment to arrive at the Net Amount Chargeable to the General Fund and HRA Balances (Note 6)	**Net Expenditure Chargeable to the General Fund and HRA Balances**	Adjustments between Funding and Accounting Basis (Note 6)	Net Expenditure in the Comprehensive Income and Expenditure Statement
	£m	£m	**£m**	£m	£m
People	551.0	(65.3)	**485.7**	38.8	524.5
Place	180.1	29.2	**209.3**	19.5	228.8
Economy	118.9	(98.5)	**20.4**	176.3	196.7
Corporate Resources	63.6	(0.5)	**63.1**	6.8	69.9
Corporately Managed	(39.1)	92.8	**53.7**	(47.6)	6.1
Housing Revenue Account	-	(45.4)	**(45.4)**	(61.7)	(107.1)
Net Cost of Services	**874.5**	**(87.7)**	**786.8**	**132.1**	**918.9**
Other Income and Expenditure	(874.5)	72.7	**(801.8)**	17.3	(784.5)
(Surplus)/Deficit	**-**	**(15.0)**	**(15.0)**	**149.4**	**134.4**
Opening General Fund and HRA Balance			489.8		
Surplus/(Deficit) for the Year			15.0		
Closing General Fund and HRA Balance			**504.8**		

2016/17	Net Expenditure Reported to Cabinet	Adjustment to arrive at the Net Amount Chargeable to the General Fund and HRA Balances (Note 6)	**Net Expenditure Chargeable to the General Fund and HRA Balances**	Adjustments between Funding and Accounting Basis (Note 6)	Net Expenditure in the Comprehensive Income and Expenditure Statement
	£m	£m	**£m**	£m	£m
People	481.7	28.5	**510.2**	33.5	543.7
Place	141.1	56.0	**197.1**	15.9	213.0
Economy	68.9	(46.6)	**22.3**	42.9	65.2
Corporate Resources	50.5	0.2	**50.7**	1.7	52.4
Corporately Managed	93.1	125.3	**218.4**	(201.5)	16.9
Housing Revenue Account	-	(131.1)	**(131.1)**	34.5	(96.6)
Net Cost of Services	**835.3**	**32.3**	**867.6**	**(73.0)**	**794.6**
Other Income and Expenditure	(835.3)	55.0	**(780.3)**	101.8	(678.5)
(Surplus)/Deficit	**-**	**87.3**	**87.3**	**28.8**	**116.1**
Opening General Fund and HRA Balance			504.8		
Surplus/(Deficit) for the Year			(87.3)		
Closing General Fund and HRA Balance			**417.5**		

Note 6
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.

2015/16	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
People	(1.4)	24.7	(88.6)	**(65.3)**	44.3	(0.9)	(4.6)	**38.8**
Place	66.6	5.4	(42.8)	**29.2**	19.9	(0.2)	(0.2)	**19.5**
Economy	(0.7)	(26.3)	(71.5)	**(98.5)**	103.6	(0.1)	72.8	**176.3**
Corporate Resources	0.8	12.7	(14.0)	**(0.5)**	6.3	(0.1)	0.6	**6.8**
Corporately Managed	(65.3)	(31.3)	189.4	**92.8**	61.9	(14.3)	(95.2)	**(47.6)**
Housing Revenue Account	-	(0.2)	(45.2)	**(45.4)**	55.1	(0.1)	(116.7)	**(61.7)**
Net Cost of Services	-	(15.0)	(72.7)	**(87.7)**	291.1	(15.7)	(143.3)	**132.1**
Other Income and Expenditure	-	-	72.7	**72.7**	491.9	71.0	(545.6)	**17.3**
(Surplus)/Deficit	-	(15.0)	-	**(15.0)**	783.0	55.3	(688.9)	**149.4**

2016/17	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
People	35.7	22.9	(30.1)	**28.5**	51.4	(23.3)	5.4	**33.5**
Place	13.7	(6.8)	49.1	**56.0**	16.2	(5.6)	5.3	**15.9**
Economy	38.7	(16.9)	(68.4)	**(46.6)**	43.9	(1.4)	0.4	**42.9**
Corporate Resources	5.1	6.6	(11.5)	**0.2**	5.8	(4.7)	0.6	**1.7**
Corporately Managed	(93.2)	81.5	137.0	**125.3**	4.0	(0.1)	(205.3)	**(201.5)**
Housing Revenue Account	-	-	(131.1)	**(131.1)**	124.6	(1.9)	(88.2)	**34.5**
Net Cost of Services	-	87.3	(55.0)	**32.3**	245.9	(37.0)	(281.8)	**(73.0)**
Other Income and Expenditure	-	-	55.0	**55.0**	122.6	72.0	(92.8)	**101.8**
(Surplus)/Deficit	-	87.3	-	**87.3**	368.5	35.0	(374.6)	**28.8**

Note 7
Prior Period Restatement of the Service Expenditure and Income

The 2016/17 Code of Practice on Local Authority Accounting requires that the Council shows its expenditure and income on services on the basis of Directorates. This is a change from previous years where the service analysis was based on the Service Expenditure Code of Practice (SerCOP). This note sets out how the net expenditure and income has been restated.

Service Reporting Code of Practice (SeRCOP) Service Line	(Restated) As Reported in the Comprehensive Income and Expenditure Statement 2015/16 £m	Adjustments between SeRCOP classification and Internal Reporting Classifications £m	As Restated in 2015/16 £m	Directorate
Net Expenditure				
Continuing Operations				
Cultural and Related Services	149.6	(149.6)	-	
Environmental and Regulatory Services	77.9	150.9	228.8	Place
Planning Services	(8.9)	78.8	69.9	Corporate Resources
Housing General Fund (Other Housing Services)	54.6	(54.6)	-	
Central Services to the Public	8.8	(8.8)	-	
Children's and Education Services	245.5	279.0	524.5	People
Adult Social Care	268.2	(268.2)	-	
Public Health	8.9	(8.9)	-	
Highways and Transport Services	201.0	(4.3)	196.7	Economy
Local Authority Housing (Housing Revenue Account - HRA)	(107.1)	-	(107.1)	HRA
Corporate and Democratic Core	(1.0)	1.0	-	
Non Distributed Costs	24.6	(18.5)	6.1	Corporately Managed
Total Continuing Operations excluding acquired services	922.1	(3.2)	918.9	
Acquired Services - from Health				
Public Health - Children's Services	(3.1)	3.1	-	
Net Cost of Services	**919.0**	**(0.1)**	**918.9**	
(Surplus)/Deficit on Trading Operations not consolidated within the Service	(1.4)	0.1	(1.3)	
Other Financing and Investment Income and Expenditure	224.7	-	224.7	
Total Financing and Investment Income and Expenditure	**223.3**	**0.1**	**223.4**	
Gross Expenditure				
Continuing Operations	£m	£m	£m	
Cultural and Related Services	182.1	(182.1)	-	
Environmental and Regulatory Services	105.1	210.2	315.3	Place
Planning Services	47.4	653.3	700.7	Corporate Resources
Housing General Fund (Other Housing Services)	641.5	(641.5)	-	
Central Services to the Public	21.0	(21.0)	-	
Children's and Education Services	1,107.5	469.6	1,577.1	People
Adult Social Care	369.7	(369.7)	-	
Public Health	85.5	(85.5)	-	
Highways and Transport Services	237.9	13.3	251.2	Economy
Local Authority Housing (Housing Revenue Account - HRA)	186.2	-	186.2	HRA
Corporate and Democratic Core	1.8	(1.8)	-	
Non Distributed Costs	24.6	(8.2)	16.4	Corporately Managed
Total Continuing Operations excluding acquired services	3,010.3	36.6	3,046.9	
Acquired Services - from Health				
Public Health - Children's Services	8.3	(8.3)	-	
Gross Cost of Services	**3,018.6**	**28.3**	**3,046.9**	
(Surplus)/Deficit on Trading Operations not consolidated within the Service	59.8	(28.3)	31.5	
Other Financing and Investment Income and Expenditure	255.3	-	255.3	
Total Financing and Investment Income and Expenditure	**315.1**	**(28.3)**	**286.8**	

Service Reporting Code of Practice (SeRCOP) Service Line	(Restated) As Reported in the Comprehensive Income and Expenditure Statement 2015/16 £m	Adjustments between SeRCOP classification and Internal Reporting Classifications £m	As Restated in 2015/16 £m	Directorate
Gross Income				
Continuing Operations	£m	£m	£m	
Cultural and Related Services	(32.5)	32.5	-	
Environmental and Regulatory Services	(27.2)	(59.3)	(86.5)	Place
Planning Services	(56.3)	(574.5)	(630.8)	Corporate Resources
Housing General Fund (Other Housing Services)	(586.9)	586.9	-	
Central Services to the Public	(12.2)	12.2	-	
Children's and Education Services	(862.0)	(190.6)	(1,052.6)	People
Adult Social Care	(101.5)	101.5	-	
Public Health	(76.6)	76.6	-	
Highways and Transport Services	(36.9)	(17.6)	(54.5)	Economy
Local Authority Housing (Housing Revenue Account - HRA)	(293.3)	-	(293.3)	HRA
Corporate and Democratic Core	(2.8)	2.8	-	
Non Distributed Costs	-	(10.3)	(10.3)	Corporately Managed
Total Continuing Operations excluding acquired services	(2,088.2)	(39.8)	(2,128.0)	
Acquired Services - from Health				
Public Health - Children's Services	(11.4)	11.4	-	
Gross Income of Services	**(2,099.6)**	**(28.4)**	**(2,128.0)**	
(Surplus)/Deficit on Trading Operations not consolidated within the Service	(61.2)	28.4	(32.8)	
Other Financing and Investment Income and Expenditure	(30.6)	-	(30.6)	
Total Financing and Investment Income and Expenditure	**(91.8)**	**28.4**	**(63.4)**	

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.

2015/16		2016/17
£m	Expenditure	£m
984.1	Employee Benefits Expenses	938.0
1,965.9	Other Service Expenses	1,772.7
150.5	Depreciation, Amortisation and Impairment	224.4
255.3	Interest Payments	253.3
51.9	Precepts and Levies	51.1
6.6	Payments to Housing Capital Receipts Pool	6.3
40.2	Loss on Disposal of Non-Current Assets	148.8
3,454.5	**Total Expenditure**	**3,394.6**
	Income	
(615.3)	Fees, Charges and Other Services Income	(478.9)
(480.8)	Income from Council Tax and Business Rates	(508.1)
(2,193.4)	Government Grants and Contributions	(2,267.9)
(30.6)	Interest and Investment Income	(23.6)
(3,320.1)	**Total Income**	**(3,278.5)**
134.4	**(Surplus)/Deficit on Provision of Services**	**116.1**

Note 9
Material Items of Income and Expense

In the 2015/16 financial statements there were two items considered to be material to the accounts that have been detailed below.

On 1 May 2015, the Council completed the sale of its interests in the NEC Group to Lloyds Development Capital, the private equity arm of Lloyds Banking Group. The Council received a payment of £250m to cover:

- the sale of equity in the National Exhibition Centre Limited;
- a premium for the sale of leasehold interests, detailed in Note 42; and
- net income from the operations of the NEC Group until completion of the sale.

Details of the gain/loss on disposal in 2015/16 of the NEC Group are set out in Note 10 and in Note G5 to these accounts.

The substantial improvements to New Street Station have been managed with Network Rail in two elements, namely, New Street Gateway and Grand Central. Grand Central opened to the public on 24 September 2015. On 11 February 2016, the Council completed the sale of its head lease interest in Grand Central, for which the Council received a premium of £329m. Details of the gain/loss on disposal in 2015/16 of Grand Central are set out in Note 10 to these accounts.

As part of the partnership arrangement undertaking the developments at New Street Station, Network Rail was entitled to a share of any surplus on the sale of Grand Central. A payment of £72.9m was made in 2015/16 to Network Rail as its share of the receipt and is accounted for in the Comprehensive Income and Expenditure Statement within Economy Directorate.

There are no single activities in 2016/17 that are considered to be material to the Council's accounts.

Note 10
Other Operating Expenditure

Other Operating Expenditure disclosed in the Comprehensive Income and Expenditure Statement is detailed below.

2015/16		2016/17
£m		£m
-	Parish Council Precepts	1.9
5.5	Enterprise Zone Growth Payment	6.3
51.6	Integrated Transport Authority Levy	49.0
0.3	Environment Agency Levy	0.3
6.6	Payments re: Housing Capital Receipt Pool	6.3
40.2	(Gains)/Losses on the Disposal of non-current assets	148.7
104.2	**Total**	**212.5**

The Gain/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 is detailed below. The activity for 2015/16 has been restated to reflect a change in the allocation of internal trading income. Details of the restatement are set out in Note 7.

2015/16				2016/17		
Gross Expenditure £m	Income £m	Net £m		Gross Expenditure £m	Income £m	Net £m
184.3	-	184.3	Interest Payable and similar charges	181.3	-	181.3
71.0	-	71.0	Net Interest on the Net Defined Benefit Liability	71.9	-	71.9
-	(9.9)	(9.9)	Interest Receivable and similar income	-	(12.0)	(12.0)
31.5	(32.8)	(1.3)	(Surplus)/Deficit on trading operations not consolidated within Service Expenditure Analysis in Comprehensive Income and Expenditure Statement	29.8	(33.0)	(3.2)
-	(20.7)	(20.7)	Other investment income and expenditure	-	(11.6)	(11.6)
286.8	**(63.4)**	**223.4**	**Total**	**283.0**	**(56.6)**	**226.4**

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:

2015/16				2016/17		
Gross Expenditure £m	Income £m	Net £m		Gross Expenditure £m	Income £m	Net £m
-	(271.2)	(271.2)	Council Tax Income - Collection Fund	-	(289.8)	(289.8)
-	(203.9)	(203.9)	Business Rates - Collection Fund	-	(212.1)	(212.1)
-	(3.9)	(3.9)	Share of Collection Fund - Council Tax	-	(3.6)	(3.6)
15.8	(1.8)	14.0	Share of Collection Fund - Business Rates	6.0	(2.6)	3.4
-	(544.2)	(544.2)	Non Ring Fenced Government Grants	-	(491.0)	(491.0)
-	(103.7)	(103.7)	Capital Grants and Contributions	-	(124.3)	(124.3)
0.8	-	0.8	Capital Grants Repaid	-	-	-
16.6	**(1,128.7)**	**(1,112.1)**	**Total**	**6.0**	**(1,123.4)**	**(1,117.4)**

Further information on grant income received is provided in Note 14.

Note 13
Trading Operations

Trading operations are those activities where service managers are required to operate in a commercial environment and balance their budget by generating income from other parts of the Council or other organisations. In 2016/17, the Council reviewed its trading units to ensure that the trading activities reported continued to meet the criteria detailed above.

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.

The allocation of trading activities for 2015/16 has been restated to reflect a change in the allocation of internal trading income. There has been no change in total activity. Detail of the restatement is included in Note 7, Prior Period Restatement of the Service Expenditure and Income. Details of units with significant trading activity are as follows.

2015/16 (Restated)				2016/17		
Turnover £m	Expenditure £m	(Surplus) / Deficit £m	**Trading activity**	Turnover £m	Expenditure £m	(Surplus) / Deficit £m
(40.6)	39.6	(1.0)	Cityserve (Direct Services)	(42.6)	38.6	(4.0)
(10.3)	8.8	(1.5)	Trade Refuse	(10.9)	8.9	(2.0)
(6.8)	6.7	(0.1)	Birmingham Parks and Nurseries	(6.5)	6.3	(0.2)
(0.7)	0.6	(0.1)	Pest Control	(0.7)	0.9	0.2
(4.9)	4.8	(0.1)	Procurement	(2.8)	3.5	0.7
(4.3)	5.1	0.8	Schools' Human Resources	(3.8)	3.2	(0.6)
(1.9)	2.0	0.1	Central Payroll	(1.9)	1.9	-
(2.0)	1.6	(0.4)	Other Trading Activities	(3.1)	3.0	(0.1)
(71.5)	**69.2**	**(2.3)**		**(72.3)**	**66.3**	**(6.0)**
			Allocation of Surplus/Deficit on Trading Operations			
(38.7)	37.7	(1.0)	- consolidated in CIES	(39.3)	36.5	(2.8)
(32.8)	31.5	(1.3)	- consolidated in Note 11, Financing and Investment Income and Expenditure	(33.0)	29.8	(3.2)
(71.5)	**69.2**	**(2.3)**		**(72.3)**	**66.3**	**(6.0)**

Details of Trading Activities

Cityserve (Direct Services)
Cityserve provides facilities management (catering and cleaning) to schools and Community Day Nurseries. It also provides a mobile caretaking service.

Catering has become more complex and challenging in complying with the government's mandatory Nutritional Standards for School Food. Cityserve is committed to a compliant and nutritious provision in each school. Due to the diverse nature of the pupil base across the city the provision in each school is tailored to the pupil profile.

Cleaning services are provided in all types of education establishments including primary, secondary, nursery schools and children's centres. The main aim of the service is to provide a safe and healthy environment for the pupils/children and staff by achieving and maintaining high standards of cleaning in all establishments.

The Mobile Caretaking Service completes a range of duties to cover sickness, holiday or where there is a vacancy.

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 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 utilise Procurement Services and are charged for work undertaken.

Schools' Human Resources
Schools have a choice 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, contracts have been won to provide payroll services to academies, further education colleges and other external bodies.

Other
Other trading activities include Shelforce 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. The revenue grants for 2015/16 have been restated to show all contributions from Clinical Commissioning Groups within one activity. There has been no change in the overall total of grants received for 2015/16.

2015/16 (Restated) £m		2016/17 £m
	Credited to Taxation and Non Specific Grant Income	
280.1	Revenue Support Grant	226.6
126.0	Business Rates Top Up Grant	127.1
18.8	New Homes Bonus Grant	21.8
18.2	Schools PFI Grant	18.2
50.3	Highways Management and Maintenance PFI Grant	50.3
5.1	Troubled Families Grant	4.7
6.3	Housing Benefit Administration Grant	5.9
3.1	Discretionary Housing Payment	3.8
13.7	Education Services Grant	12.0
6.2	Small Business Rate Relief Grant	6.6
4.6	Business Rates S31 Grant	4.8
-	Children's Trust Grant	3.8
4.4	Future Council Change Programme	-
7.4	Other	5.4
544.2	**Revenue Grants credited to Taxation and Non Specific Grant Income**	**491.0**
	Credited to Cost of Services	
10.7	Adult Education (Skills Funding Agency)	10.5
545.8	Housing Benefit Subsidy	544.8
711.8	Dedicated Schools Grant	681.1
18.0	Education Funding Agency	16.7
58.9	Pupil Premium Grant	54.1
3.1	Illegal Money Lending	3.1
10.7	Universal Infants Free School Meals Grant	10.3
9.1	NHS Clinical Commissioning Group contributions	11.1
86.4	Public Health Grant	95.6
29.7	Better Care Fund (formerly CCG Contributions)	33.8
5.1	Adult Social Care Implementation	-
3.6	Independent Living Fund Grant	4.5
-	Youth Promise	3.2
37.6	Grants and contributions of less than £3m	39.9
1,530.5	**Total Revenue Grants Credited to Cost of Services**	**1,508.7**
2,074.7	**Total Revenue Grants**	**1,999.7**

2015/16		2016/17
£m		£m
	Capital Grants	
62.1	Education Funding Agency (formerly DSCF fund)	67.5
0.8	Lottery	-
0.5	Section 106/278	-
3.3	Department of Health - Community Capacity	2.5
5.2	Integrated Transport Block	5.2
-	Kickstart	8.1
0.8	European Regional Development Fund	-
3.3	Homes & Communities Agency - New Build Programme	0.3
2.5	Department for Transport (inc. Cycle Ambition)	7.8
0.7	Homes & Communities Agency	0.9
0.2	Growing Places	2.2
14.4	Local Growth Fund	13.1
2.0	Skills Funding Agency	11.7
1.0	Urban Broadband Grant	-
1.8	Integrated Transport Authority	-
5.1	Other Grants and Contributions	5.0
103.7	**Capital Grants credited to Taxation and Non Specific Grant Income**	**124.3**
	Capital Grants funding Revenue Expenditure under Statute credited to Cost of Services	
-	Education Funding Agency	1.0
3.0	A45 Road Improvement	-
4.4	Department of Health - Better Care Fund	6.3
1.9	Urban Broadband Grant	0.3
5.1	European Regional Development Fund	0.9
0.6	Other Grants and Contributions	0.6
15.0	**Total Capital Grants funding Revenue Expenditure Under Statute**	**9.1**
118.7	**Total Capital Grants Received**	**133.4**

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 2016/17. 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 Funding Agency (EFA) through the Dedicated Schools Grant (DSG). An element of DSG is recouped by the EFA to fund academy schools in Birmingham. DSG is ringfenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School and Early Years Finance (England) Regulations 2015. The Schools Budget includes elements for a range of educational services provided on a Council wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2016/17 are as follows:

	Central Expenditure £m	Individual Schools Budget £m	**Total £m**
Final DSG for 2016/17 before academy recoupment	103.8	995.6	**1,099.4**
Academy figure recouped for 2016/17	-	(418.1)	**(418.1)**
Total DSG after Academy recoupment for 2016/17	**103.8**	**577.5**	**681.3**
Plus: Brought forward from 2015/16	7.2		**7.2**
Less: Carry forward to 2016/17 agreed in advance	-		**-**
Agreed initial budgeted distribution in 2016/17	**111.0**	**577.5**	**688.5**
In-year adjustments	(1.2)	0.9	**(0.3)**
Final budgeted distribution for 2016/17	**109.8**	**578.4**	**688.2**
Less: Actual Central Expenditure	(117.6)		**(117.6)**
Less: Actual ISB deployed to schools		(578.4)	**(578.4)**
Plus: Council contribution for 2016/17	-	-	**-**
Carry forward to 2017/18	**(7.8)**	**-**	**(7.8)**

The year end net deficit of £7.8m is composed of two elements:

- A deficit of £9.1m on the High Needs block which reflects the demographic impact of increased numbers of placements with Special Educational Needs and Disabilities requiring high cost provision. This has been compounded by increases in the costs of provision particularly where the placements are in the independent sector. The service is looking to implement savings and efficiencies in 2017/18 and future years in order to address the deficit and forecast pressures;

- A surplus of £1.3m on the Schools block composed primarily of unutilised contingency (£0.9m) which will be utilised in 2017/18 to help fund any unavoidable deficits of schools converting to academies under the sponsored route. The balance of £0.4m is a saving against the DSG budget used to fund material and eligible in-year pupil number increases and will be used to supplement the 2017/18 budget in line with national school funding regulations.

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 funding 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.

2016/17	General Fund Balance £m	Housing Revenue Account £m	Capital Receipts Reserve £m	Major Repairs Reserve £m	Capital Grants Unapplied £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)	34.1	0.9	-	-	-
Financial Instruments (transferred to/from the Financial Instruments Adjustments Account)	4.4	-	-	-	-
Council Tax and NNDR (transfers to/from the Collection Fund)	(12.3)	-	-	-	-
Holiday Pay (transferred to/from the Accumulated Absences Reserve)	3.6	-	-	-	-
Equal pay settlements (transferred to/from the Unequal Pay Backpay Account)	(144.5)	(9.9)	-	-	-
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)	286.9	81.5	-	-	69.1
Total Adjustments to Revenue Resources	**172.2**	**72.5**	**-**	**-**	**69.1**
Adjustments between Revenue and Capital Resources					
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(62.5)	(36.1)	88.5	-	-
Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)	0.6	-	(0.6)	-	-
Contribution to the costs of Equal Pay (funded by the Capital Receipts Reserve)	83.9	-	(83.9)	-	-
Reclassification of grants originally treated as capital grants	2.1	-	-	-	(2.1)
Share of capital receipts received due to third parties	-	-	-	-	-
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	-	(47.5)	-	47.5	-
Provision for the repayment of debt (transfer from the Capital Adjustment Account)	(130.4)	(2.9)	-	-	-
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	(1.5)	(27.8)	-	-	-
Total Adjustments between Revenue and Capital Resources	**(101.5)**	**(114.3)**	**(2.3)**	**47.5**	**(2.1)**
Adjustments to Capital Resources					
Use of the Capital Receipts Reserve to finance capital expenditure	-	-	(32.0)	-	-
Use of the Capital Receipts Reserve to repay debt	-	-	(0.3)	-	-
Capital Receipts arising from investment restructuring	-	-	-	-	-
Use of the Major Repairs Reserve to finance capital expenditure	-	-	-	(14.3)	-
Application of capital grants to finance capital expenditure	-	-	-	-	(44.8)
Cash payments in relation to deferred capital receipts	-	-	0.5	-	-
Other	-	-	0.3	-	-
Total Adjustments to Capital Resources	**-**	**-**	**(31.5)**	**(14.3)**	**(44.8)**
Total Adjustments	**70.7**	**(41.8)**	**(33.8)**	**33.2**	**22.2**

2015/16	General Fund Balance £m	Housing Revenue Account £m	Capital Receipts Reserve £m	Major Repairs Reserve £m	Capital Grants Unapplied £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)	53.1	2.2	-	-	-
Financial Instruments (transferred to/from the Financial Instruments Adjustments Account)	66.0	-	-	-	-
Council Tax and NNDR (transfers to/from the Collection Fund)	9.1	-	-	-	-
Holiday Pay (transferred to/from the Accumulated Absences Reserve)	(4.7)	-	-	-	-
Equal pay settlements (transferred to/from the Unequal Pay Backpay Account)	(250.4)	(11.3)	-	-	-
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)	727.8	55.1	-	-	36.8
Total Adjustments to Revenue Resources	**600.9**	**46.0**	**-**	**-**	**36.8**
Adjustments between Revenue and Capital Resources					
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(554.9)	(27.2)	579.8	-	-
Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)	4.6	-	(4.6)	-	-
Contribution to the costs of Equal Pay (funded by the Capital Receipts Reserve)	201.4	-	(201.4)	-	-
Reclassification of grants originally treated as capital grants	-	-	-	-	-
Share of capital receipts received due to third parties	72.9	-	(72.9)	-	-
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	6.6	-	(6.6)	-	-
Posting of HRA resources from revenue to the Major Repairs Reserve	-	(37.8)	-	37.8	-
Provision for the repayment of debt (transfer from the Capital Adjustment Account)	(114.4)	(19.8)	-	-	-
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	(8.8)	(20.1)	-	-	-
Total Adjustments between Revenue and Capital Resources	**(392.6)**	**(104.9)**	**294.3**	**37.8**	**-**
Adjustments to Capital Resources					
Use of the Capital Receipts Reserve to finance capital expenditure	-	-	(22.2)	-	-
Use of the Capital Receipts Reserve to repay debt	-	-	(9.5)	-	-
Capital Receipts arising from investment restructuring	-	-	21.0	-	-
Use of the Major Repairs Reserve to finance capital expenditure	-	-	-	(47.8)	-
Application of capital grants to finance capital expenditure	-	-	-	-	(67.2)
Cash payments in relation to deferred capital receipts	-	-	12.0	-	-
Other	-	-	0.2	-	(0.7)
Total Adjustments to Capital Resources	**-**	**-**	**1.5**	**(47.8)**	**(67.9)**
Total Adjustments	**208.3**	**(58.9)**	**295.8**	**(10.0)**	**(31.1)**

Note 17
Transfers To/(From) Earmarked Reserves

This note sets out the amounts set aside from the General Fund Balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2016/17.

	Balance at 31 March 2015	Transfers Out 2015/16	Transfers In 2015/16	**Balance at 31 March 2016**	Transfers Out 2016/17	Transfers In 2016/17	**Balance at 31 March 2017**
	£m	£m	£m	**£m**	£m	£m	**£m**
Earmarked Reserves	**136.8**	(83.1)	134.2	**187.9**	(117.4)	65.7	**136.2**
Grant Related Reserves	**144.7**	(61.0)	54.2	**137.9**	(47.1)	42.6	**133.4**
Schools' Reserves	**66.0**	(5.4)	2.9	**63.5**	(22.7)	1.7	**42.5**
General Fund Balances	**347.5**	**(149.5)**	**191.3**	**389.3**	**(187.2)**	**110.0**	**312.1**

Further details of the usable balances available to the Council, including earmarked reserves, are shown in Note 18 of these financial statements.

Note 18
Usable Reserves

Details of the major reserves held by the Council are detailed below. Further information on the movements in reserves is shown in the Movement in Reserves Statement and Note 16.

Usable Reserves	Balance at 31 March 2016	Transfers Out 2016/17	Transfers In 2016/17	Balance at 31 March 2017
	£m	£m	£m	£m
Insurance Fund	8.4	(2.8)	-	5.6
Highways PFI Earmarked Reserve	5.2	-	-	5.2
Sums set aside to finance Capital Expenditure	80.8	(47.5)	18.2	51.5
Treasury Management Reserve	6.3	(3.5)	-	2.8
Adult Education Reserve	0.5	(0.1)	-	0.4
Supporting People	1.3	(1.3)	-	-
Housing Benefit Subsidy Reserve	8.9	(6.2)	-	2.7
Local Welfare Reserve	0.8	(0.8)	0.2	0.2
Cyclical Maintenance Reserve	3.4	-	2.6	6.0
Equipment Renewal Reserve	4.2	-	0.8	5.0
Support to the Business Plan	21.2	(20.9)	0.4	0.7
Management Capacity for Change	6.9	(6.9)	5.9	5.9
Troubled Families	3.3	(1.2)	1.4	3.5
Children's Trust	-	-	3.4	3.4
Other Earmarked Reserves	36.7	(26.2)	32.8	43.3
Total Earmarked Reserves	**187.9**	**(117.4)**	**65.7**	**136.2**

Usable Reserves	Balance at 31 March 2016	Transfers Out 2016/17	Transfers In 2016/17	Balance at 31 March 2017
Section 256 Grant from the NHS	12.8	(7.8)	-	5.0
Public Health	7.2	-	-	7.2
Highways PFI Grant	75.0	(25.1)	32.0	81.9
Weekly Collection Support Scheme	0.3	(0.3)	-	-
Section 106 Grants	15.8	(2.2)	6.7	20.3
Non-Schools' DSG	7.2	(7.2)	1.3	1.3
Other Grant Reserves	19.6	(4.5)	2.6	17.7
Total Revenue Grant Reserves	**137.9**	**(47.1)**	**42.6**	**133.4**
Schools' Balances	63.6	(22.7)	1.6	42.5
General Fund Balances	110.8	(12.7)	2.7	100.8
Housing Revenue Account	4.7	-	-	4.7
HRA Major Repairs Reserve	5.8	(14.3)	47.5	39.0
Capital Receipts Reserve	312.1	(123.1)	89.4	278.3
Capital Grants Unapplied	73.0	(46.9)	69.0	95.2
Total Usable Reserves	**895.8**	**(384.2)**	**318.5**	**830.1**

Details of the major usable reserves are set out below.

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.

Highways PFI Earmarked Reserve – has been earmarked to support the Highways PFI Business Model.

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.

Treasury Management Reserve – has been earmarked to manage uneven treasury costs arising from, for example, debt rescheduling activity or borrowing earlier than planned to take advantage of lower interest rates. The reserve is planned to be used over the next few years.

Adult Education Reserve – has been earmarked to fund future developments in respect of the service's asset strategy, investment in IT infrastructure and to safeguard against potential future years' grant funding reductions.

Supporting People Reserve – has arisen from the earlier delivery of savings from the mainstream Supporting People programme and was earmarked to enable in-year savings targets to be delivered.

Housing Benefit Subsidy Reserve – has been earmarked as a contingency reserve should there be any adjustments to funding arising from the audit of grant claims.

Local Welfare Reserve – was earmarked for the continuation of the scheme into 2016/17 when Central Government funding ceased. A small residual balance remains to be utilised in 2017/18.

Cyclical Maintenance Reserve – has been earmarked to fund major maintenance work on the Council's assets including the Library of Birmingham.

Equipment Renewal Reserve – has been earmarked to fund equipment renewal for bus lane enforcement.

Support to the Business Plan Reserve – has been earmarked to support one off efficiencies and delivery of savings in future years as identified in the Financial Plan 2017+.

Management Capacity for Change Reserve – the net underspend identified on corporate accounts has been set aside for future year contingencies.

Troubled Families – to support over a three year period, the delivery of specified outcomes within the Troubled Families cohort.

Children's Trust – Department for Education funding to support the development, set up and transition costs of Birmingham's Children's Trust.

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, the growth strategy for HS2, subvention for major events, replacement IT systems and repairs and maintenance for specific service chargeable buildings.

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 aid. The reserves will be used to meet future years' expenditure for the service for which the grant was awarded.

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.

General Fund Balances – reflect the accumulated surpluses of income over expenditure from previous years and any resources set aside as general contingency against adverse future events. General Fund Balances have reduced by £10.0m to £100.8m, which primarily results from the planned utilisation of funds set aside for organisational transition, used to deliver the transformational change of the future Council.

Housing Revenue Account – 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. 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 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 19
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 2016 £m		31 March 2017 £m
977.1	Revaluation Reserve	1,542.1
0.2	Available for Sale Financial Instruments Reserve	0.5
(290.8)	Capital Adjustment Account	(399.9)
(27.9)	Financial Instruments Adjustment Account	(26.8)
(2,087.7)	Pensions Reserve	(2,870.7)
30.0	Deferred Capital Receipts Reserve	39.6
(22.9)	Collection Fund Adjustment Account	(10.6)
(299.6)	Equal Pay Back Pay Account	(145.2)
(16.9)	Accumulated Absences Account	(20.5)
(1,738.5)	**Total Unusable Reserves**	**(1,891.5)**

Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant, Furniture 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.

2015/16 £m	£m		2016/17 £m	£m
	743.8	**Balance at 1 April**		**977.1**
410.8		Upward revaluation of assets	734.6	
(78.5)		Downward revaluation of assets and impairment losses not charged to the Surplus/(Deficit) on the Provision of Services	(89.6)	
(73.3)		Impairment (losses)/reversals not charged to the Surplus/(Deficit) on the Provision of Services	-	
	259.0	Surplus/(Deficit) on revaluation of non-current assets not posted to the Surplus/(Deficit) on the Provision of Services		645.0
(8.3)		Difference between fair value depreciation and historical cost depreciation	(19.5)	
(17.4)		Accumulated gains on assets sold or scrapped	(60.5)	
	(25.7)	Amount written off to the Capital Adjustment Account		(80.0)
	977.1	**Balance at 31 March**		**1,542.1**

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.

2015/16 £m	£m		2016/17 £m	£m
	271.5	**Balance at 1 April**		**(290.8)**
		Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement (CIES):		
15.1		Charges for depreciation and impairment of non current assets	(214.7)	
(182.2)		Revaluation losses on Property, Plant and Equipment	4.3	
(7.5)		Amortisation and impairment of intangible assets	(8.3)	
(68.7)		Impairment of Capital Debtors/Grants	(5.4)	
(98.1)		Revenue expenditure funded from capital under statute	(36.3)	
(617.8)		Amounts of non current assets written off on disposal or sale as part of the gain/(loss) on disposal to the CIES	(246.8)	
	(959.2)			(507.2)
	25.7	Adjusting amounts written out of the Revaluation Reserve		80.0
	(933.5)	Net written out amount of the cost of non-current assets consumed in the year		(427.2)
		Capital financing applied in the year:		
22.2		Use of the Capital Receipts Reserve to finance new capital expenditure	32.0	
47.8		Use of the Major Repairs Reserve to finance new capital expenditure	14.3	
82.0		Capital grants and contributions credited to the CIES that have been applied to capital financing	64.4	
67.2		Application of grants to capital financing from the Capital Grants Unapplied Account	44.8	
9.5		Application of capital receipts to repay debt	0.3	
134.2		Provision for the financing of capital investment charged against the General Fund and HRA balances	133.3	
28.9		Capital expenditure charged against the General Fund and HRA balances	29.3	
	391.8			318.4
	(21.0)	Generation of capital receipt from investment restructuring		-
	0.7	Financing of capital grant repayment		-
	(0.3)	Repayment of long term debtors		(0.3)
	(290.8)	**Balance at 31 March**		**(399.9)**

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.

2015/16			2016/17	
£m	£m		£m	£m
	(29.7)	**Balance at 1 April**		**(27.8)**
1.9		Proportion of premia incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	1.0	
	1.9	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		1.0
	(27.8)	**Balance at 31 March**		**(26.8)**

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.

The net increase in the pension liability in 2016/17 is mainly due to the reduction in the rate for discounting scheme liabilities, from 3.6% to 2.7%, which is based on high-quality corporate bond yields, resulting in an increase in the present value of liabilities.

2015/16 £m		2016/17 £m
(2,293.6)	**Balance at 1 April**	**(2,087.7)**
261.2	Remeasurement of the net defined benefit liability	(748.0)
(165.0)	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	(149.7)
109.7	Employer's pensions contributions and direct payments to retirees payable in the year	114.7
(2,087.7)	**Balance at 31 March**	**(2,870.7)**

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.

2015/16 £m		2016/17 £m
50.1	**Balance at 1 April**	**30.0**
(10.4)	Transfer of deferred sale proceeds credited to the General Fund under capital finance regulations	(0.1)
2.3	Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	10.1
(12.0)	Transfer to the Capital Receipts Reserve upon receipt of cash	(0.4)
30.0	**Balance at 31 March**	**39.6**

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.

2015/16		2016/17
£m		£m
(13.8)	**Balance at 1 April**	**(22.9)**
(9.1)	Amount by which Council Tax/NNDR income credited to the Comprehensive Income and Expenditure Statement is different from Council Tax/NNDR income calculated for the year in accordance with statutory requirements	12.3
(22.9)	**Balance at 31 March**	**(10.6)**

Available for Sale Financial Instruments Reserve

The Available for Sale Financial Instruments Reserve contains the changes in fair value recognised by the Council arising from changes in the value of its investments that have quoted market prices or otherwise do not have fixed or determinate payments.

2015/16		2016/17
£m		£m
0.8	**Balance at 1 April**	**0.2**
-	Upward revaluation of investments	0.7
(0.7)	Downward revaluation of investments not charged to the Surplus/Deficit on the Provision of Services	(0.4)
0.1		**0.5**
0.1	Accumulated gains/(losses) on assets sold and maturing assets written out to the Comprehensive Income and Expenditure Statement as part of Other Investment Income	-
0.2	**Balance at 31 March**	**0.5**

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.

2015/16 £m		2016/17 £m
(561.3)	**Balance at 1 April**	**(299.6)**
58.7	(Increase)/reduction in provision for back pay in relation to Equal Pay cases	59.9
203.0	Cash settlements paid in the year	94.5
261.7	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	154.4
(299.6)	**Balance at 31 March**	**(145.2)**

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.

2015/16 £m		2016/17 £m
(21.6)	**Balance at 1 April**	**(16.9)**
4.7	Settlement or cancellation of accrual made at the end of the preceding year	0.6
-	Amounts accrued at the end of the current year	(4.2)
4.7	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	(3.6)
(16.9)	**Balance at 31 March**	**(20.5)**

Note 20
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 3,700 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 2016/17, the Council paid £38.2m (2015/16: £38.5m) to the Teachers' Pensions Scheme in respect of teachers' post-employment benefits, representing 16.48% (2015/16: 14.1% from April to August and 16.48% from September to March) of pensionable pay. The contributions due to be paid in the 2017/18 financial year are estimated to be £38.2m on the basis of employer contributions of 16.48%.

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the Teachers' Pension Scheme. These costs are accounted for on a defined benefit basis and detailed in Note 21.

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 the transfer of Public Health responsibilities from the National Health Service on 1 April 2014 to the Council 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 2016/17, the Council paid £0.2m (2015/16: £0.2m) to the NHS Pension Scheme in respect of employees' post-employment benefits, representing 14.3% (2015/16: 14.3%) of pensionable pay. The contributions due to be paid in the 2017/18 financial year are estimated to be £0.2m on the basis of an employer contribution rate of 14.3%.

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 21.

The Council is not liable to the scheme for any other entities' obligations under the plan.

Note 21
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 office 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 contribution rate of 13.4% was set for the Council for 2016/17 (2015/16: 12.9%), plus an additional payment of £43.7m (2015/16: £41.9m) to fund the pension deficit in respect of past service costs.

- Arrangements for the award of discretionary post-employment 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:

- longevity assumptions
- statutory changes to the scheme
- structural changes to the scheme (for example, large-scale withdrawals)
- changes to inflation
- bond yields, used to determine the discount rate applied to future liability cashflows, 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 Note 1, Accounting Policies. The process of triennial valuations gives the Council certainty of the basis of payments in the intervening years as changes in the net fund deficit do not impact on the planned levels of contributions.

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.

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2015/16	2016/17	2015/16	2016/17
	£m	£m	£m	£m
Comprehensive Income and Expenditure Statement				
Cost of Services:				
current service cost	108.1	97.6		
effect of curtailments	7.6	2.9		
effect of settlements	(23.1)	(24.5)		
administration expenses	1.4	1.7		
Financing and investment income and expenditure:				
Net interest expense	69.0	70.3	2.1	1.6
Total post-employment benefit charged to the (Surplus)/Deficit on the provision of services	**163.0**	**148.0**	**2.1**	**1.6**
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	(59.6)	(39.7)	4.2	4.7
Net charge against the General Fund Balance for pensions in the year comprising:				
employer's contributions payable to scheme	103.4	108.3		
retirement benefits payable to retirees			**6.3**	**6.3**

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2015/16	2016/17	2015/16	2016/17
	£m	£m	£m	£m
Comprehensive Income and Expenditure Statement				
Total post-employment benefit charged to the (Surplus)/Deficit on the provision of services	163.0	148.0	2.1	1.6
Other post-employment benefit charged to the Comprehensive Income and Expenditure Statement				
remeasurements (liabilities and assets)	(264.7)	747.5	3.5	0.5
Total Post Employment Benefits charged to the Comprehensive Income and Expenditure Statement	(101.7)	895.5	5.6	2.1

	2012/13 £m	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m
Present Value of Liabilities					
- Local Government Pension Scheme	(5,149.4)	(4,649.9)	(5,548.6)	(5,284.8)	(6,863.0)
- Unfunded Teachers' Scheme	(71.8)	(67.9)	(69.3)	(68.5)	(64.2)
Total Present Value of Liabilities	**(5,221.2)**	**(4,717.8)**	**(5,617.8)**	**(5,353.3)**	**(6,927.2)**
Fair Value of Assets in the Local Government Pension Scheme	3,037.5	2,913.2	3,324.2	3,265.6	4,056.6
Surplus/(Deficit) in the scheme					
- Local Government Pension Scheme	(2,111.9)	(1,736.7)	(2,224.3)	(2,019.2)	(2,806.4)
- Unfunded Teachers' Scheme	(71.8)	(67.9)	(69.3)	(68.5)	(64.2)
Net Liability arising from defined benefit obligation	**(2,183.7)**	**(1,804.6)**	**(2,293.6)**	**(2,087.7)**	**(2,870.6)**

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 Teacher Pension Scheme		**Total**	
	Funded		Unfunded					
	2015/16 £m	2016/17 £m	2015/16 £m	2016/17 £m	2015/16 £m	2016/17 £m	**2015/16 £m**	**2016/17 £m**
Benefit Obligation at 1 April	5,462.5	5,207.6	85.9	77.4	69.3	68.5	**5,617.8**	**5,353.4**
Current Service Cost	108.1	97.6	-		-		**108.1**	**97.6**
Interest on Pension Liabilities	171.9	184.7	2.7	2.7	2.1	1.6	**176.7**	**189.0**
Member Contributions	27.4	27.0	-		-		**27.4**	**27.0**
Actuarial (gains)/losses arising from changes in financial assumptions	(375.6)	1,461.3	(5.6)	(4.5)	3.5	0.5	**(377.7)**	**1,457.3**
Curtailments	7.6	2.9	-		-		**7.6**	**2.9**
Settlements	(26.8)	(18.3)	-				**(26.8)**	**(18.3)**
Benefits/Transfers paid	(167.5)	(169.6)	(5.9)	(5.7)	(6.3)	(6.4)	**(179.7)**	**(181.7)**
Benefit Obligation at 31 March	**5,207.6**	**6,793.2**	**77.4**	**69.8**	**68.5**	**64.2**	**5,353.3**	**6,927.2**

Reconciliation of the Movements in the Fair Value of Scheme Assets

	Local Government Pension Scheme				Unfunded Teacher Pension Scheme		**Total**	
	Funded		Unfunded					
	2015/16 £m	2016/17 £m	2015/16 £m	2016/17 £m	2015/16 £m	2016/17 £m	**2015/16 £m**	**2016/17 £m**
Fair Value of Assets at 1 April	3,324.2	3,265.6	-	-	-		**3,324.2**	**3,265.6**
Interest on Plan Assets	105.6	117.1	-	-	-		**105.6**	**117.1**
Remeasurements (assets)	(116.4)	709.3	-	-	-		**(116.4)**	**709.3**
Administration expenses	(1.4)	(1.7)	-	-	-		**(1.4)**	**(1.7)**
Settlements	(3.7)	6.2	-	-	-		**(3.7)**	**6.2**
Employer contributions	97.5	102.6	5.9	5.7	6.3	6.4	**109.7**	**114.7**
Member contributions	27.4	27.0	-	-	-		**27.4**	**27.0**
Benefits/transfers paid	(167.5)	(169.6)	(5.9)	(5.7)	(6.3)	(6.4)	**(179.7)**	**(181.7)**
Fair Value of Assets at 31 March	**3,265.6**	**4,056.6**	**-**	**-**	**-**	**-**	**3,265.6**	**4,056.6**

Local Government Pension Scheme assets

An analysis of the Local Government Pension Scheme assets is set out below.

	31 March 2016				31 March 2017			
	Quoted	Unquoted	Total	Percentage of Total	Quoted	Unquoted	Total	Percentage of Total
	£m	£m	£m	%	£m	£m	£m	%
Equity Instruments:								
UK Quoted	253.4		253.4	7.8%	337.5		337.5	8.3%
UK Unquoted		49.6	49.6	1.5%		49.1	49.1	1.2%
Global Quoted	363.2		363.2	11.1%	484.0		484.0	11.9%
Global Unquoted		322.0	322.0	9.9%		334.8	334.8	8.3%
Europe	240.3		240.3	7.4%	347.2		347.2	8.6%
Japan	114.9		114.9	3.5%	179.3		179.3	4.4%
Pacific Basin	124.6		124.6	3.8%	195.9		195.9	4.8%
North America	251.7		251.7	7.7%	380.0		380.0	9.4%
Emerging Markets	242.2		242.2	7.4%	333.6		333.6	8.2%
Sub-total Equity	**1,590.3**	**371.6**	**1,961.9**	**60.1%**	**2,257.5**	**383.9**	**2,641.4**	**65.1**%
Bonds:								
UK Government		247.5	247.5	7.6%		294.8	294.8	7.3%
Other	191.5	146.2	337.7	10.3%	226.7	146.5	373.2	9.2%
Sub-total Bonds	**191.5**	**393.7**	**585.2**	**17.9%**	**226.7**	**441.3**	**668.0**	**16.5**%
Property:								
UK		195.6	195.6	6.0%		215.9	215.9	5.3%
Property Funds		78.0	78.0	2.4%		92.2	92.2	2.3%
Sub-total Property		**273.6**	**273.6**	**8.4%**		**308.1**	**308.1**	**7.6**%
Alternatives:								
Infrastructure	7.0	95.9	102.9	3.2%	4.7	112.6	117.3	2.9%
Absolute Return		171.6	171.6	5.3%		207.8	207.8	5.1%
Sub-total Alternatives	**7.0**	**267.5**	**274.5**	**8.4%**	**4.7**	**320.4**	**325.1**	**8.0**%
Cash:								
Cash Instruments		121.9	121.9	3.7%		102.8	102.8	2.5%
Cash Accounts		48.5	48.5	1.5%		11.2	11.2	0.3%
Sub-total Cash		**170.4**	**170.4**	**5.2%**		**114.0**	**114.0**	**2.8**%
Total Assets	**1,788.8**	**1,476.8**	**3,265.6**	**100.0%**	**2,488.9**	**1,567.7**	**4,056.6**	**100.0**%

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 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 2016. The principal assumptions used by the actuary have been:

Assumptions	Local Government Pension Scheme		Discretionary Benefits	
	2015/16	2016/17	2015/16	2016/17
Mortality assumptions:				
Longevity at 65 for current pensioners:				
Men (years)	23.0	21.8	23.0	21.8
Women (years)	25.7	24.2	25.7	24.2
Longevity at 65 for future pensioners retiring in 20 years:				
Men (years)	25.3	23.9	25.3	23.9
Women (years)	28.0	26.5	28.0	26.5
Rate of CPI inflation	2.0%	2.7%	2.0%	2.2%
Rate of increase in salaries	3.8%	4.2%	n/a	n/a
Rate of increase in pensions	2.0%	2.7%	2.0%	2.2%
Rate for discounting of scheme liabilities	3.6%	2.7%	2.5%	1.8%

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)	261.0	3.8	9.1
Pension increase assumptions (increase by 0.1%)	107.2	1.5	3.7
Salary increase assumption (increase by 0.1%)	16.5	0.2	0.6
Discount scheme liability assumptions (increase by 0.1%)	(121.5)	(1.8)	(4.2)

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 19 years. Funding levels are monitored on an annual basis. The next triennial valuation will be carried out as at 31 March 2019 and will set contributions for the period for 1 April 2020 to 31 March 2023.

The Council expects to pay £373.2m of contributions to the scheme in 2017/18 to cover the anticipated contributions for the three year period from 1 April 2017 to 31 March 2020 on the basis of the equivalent employer's contribution rates plus additional payments to fund the pension deficit in respect of past service costs as detailed below.

Financial Year	Employer's Contribution Rate %	Past Service Cost Deficit Payment £m
2017/18	15.3	61.8
2018/19	16.8	61.8
2019/20	18.3	61.5

Note 22
Property, Plant and Equipment

The following tables analyse movements in the carrying values of non-current assets during the year. The PFI/Service Concession assets included in Property, Plant and Equipment have been restated for 2015/16 to reflect the highways investment provided to the Council which is subsumed in the PFI contract.

Movements in Balances: 2016/17

	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 2016	**1,778.0**	**2,407.4**	**198.4**	**541.0**	**92.7**	**7.4**	**110.2**	**5,135.1**	**725.8**
Additions	95.9	59.9	6.9	38.1	0.6	-	107.6	**309.0**	43.6
Assets reclassified between categories	-	30.1	0.4	3.9	0.7	-	(35.1)	**-**	
Assets reclassified (to)/from Held for Sale	-	(6.8)	-	-	-	(1.6)	-	**(8.4)**	
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	437.7	48.3	-	-	-	0.3	-	**486.3**	(6.9)
Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	-	4.6	-	-	-	-	(0.1)	**4.5**	2.9
Derecognition - Disposals	(31.4)	(179.5)	(21.6)	-	(33.7)	(0.1)	-	**(266.3)**	(17.5)
Derecognition - other	(1.5)	-	-	-	-	-	-	**(1.5)**	
At 31 March 2017	**2,278.7**	**2,364.0**	**184.1**	**583.0**	**60.3**	**6.0**	**182.6**	**5,658.7**	**747.9**
Accumulated Depreciation and Impairment									
At 1 April 2016	**(111.1)**	**(32.1)**	**(70.2)**	**(66.4)**	**-**	**-**	**-**	**(279.8)**	**(68.3)**
Depreciation charge	(47.5)	(56.4)	(20.4)	(22.8)	-	(0.1)	-	**(147.2)**	(29.0)
Depreciation written out to the Revaluation Reserve	111.1	37.7	-	-	-	-	-	**148.8**	2.0
Depreciation written out to the Surplus/Deficit on the Provision of Services	-	67.2	-	-	-	-	-	**67.2**	0.8
Impairment (losses)/reversals recognised in the Revaluation Reserve	-	8.1	-	-	-	0.1	-	**8.2**	
Impairment (losses)/reversals recognised in the Surplus/Deficit on the Provision of Services	(77.2)	(57.1)	-	-	-	-	-	**(134.3)**	
Derecognition - Disposals	-	4.3	20.9	-	-	-	-	**25.2**	0.6
Assets reclassified (to)/from Held for Sale	-	1.4	-	-	-	-	-	**1.4**	
At 31 March 2017	**(124.7)**	**(26.9)**	**(69.7)**	**(89.2)**	**-**	**-**	**-**	**(310.5)**	**(93.9)**
Net Book Value									
At 31 March 2017	**2,154.0**	**2,337.1**	**114.4**	**493.8**	**60.3**	**6.0**	**182.6**	**5,348.2**	**654.0**
At 31 March 2016	**1,666.9**	**2,375.3**	**128.2**	**474.6**	**92.7**	**7.4**	**110.2**	**4,855.3**	**657.5**

Movements in Balances: 2015/16 (Restated)

	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 2015	**1,810.8**	**2,319.2**	**201.5**	**476.3**	**90.7**	**-**	**258.7**	**5,157.2**	**675.0**
Additions	100.5	83.9	24.3	47.0	0.9	-	86.4	**343.0**	67.2
Assets reclassified between categories	-	214.3	0.1	17.9	1.1	0.5	(233.5)	**0.4**	
Assets reclassified (to)/from Held for Sale	-	(3.5)	-	-	-	-	-	**(3.5)**	
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	-	191.2	-	-	-	5.6	-	**196.8**	17.0
Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	(114.8)	(66.4)	-	-	-	1.3	(1.4)	**(181.3)**	(5.2)
Derecognition - Disposals	(17.1)	(331.3)	(27.5)	(0.2)	-	-	-	**(376.1)**	(28.2)
Derecognition - other	(1.4)	-	-	-	-	-	-	**(1.4)**	
At 31 March 2016	**1,778.0**	**2,407.4**	**198.4**	**541.0**	**92.7**	**7.4**	**110.2**	**5,135.1**	**725.8**
Accumulated Depreciation and Impairment									
At 1 April 2015	**(145.3)**	**(127.8)**	**(76.3)**	**(46.5)**	**-**	**-**	**-**	**(395.9)**	**(52.4)**
Depreciation charge	(37.8)	(50.2)	(21.3)	(20.1)	-	-	-	**(129.4)**	(26.6)
Depreciation written out to the Revaluation Reserve	39.3	85.7	-	-	-	-	-	**125.0**	5.1
Depreciation written out to the Surplus/Deficit on the Provision of Services	-	118.8	-	-	-	-	-	**118.8**	4.2
Impairment (losses)/reversals recognised in the Revaluation Reserve	(82.1)	15.6	-	-	-	-	-	**(66.5)**	
Impairment (losses)/reversals recognised in the Surplus/Deficit on the Provision of Services	114.8	(89.0)	-	-	-	-	-	**25.8**	
Derecognition - Disposals	-	14.6	27.4	0.2	-	-	-	**42.2**	1.4
Assets reclassified (to)/from Held for Sale	-	0.2	-	-	-	-	-	**0.2**	
At 31 March 2016	**(111.1)**	**(32.1)**	**(70.2)**	**(66.4)**	**-**	**-**	**-**	**(279.8)**	**(68.3)**
Net Book Value									
At 31 March 2016	**1,666.9**	**2,375.3**	**128.2**	**474.6**	**92.7**	**7.4**	**110.2**	**4,855.3**	**657.5**
At 31 March 2015	**1,665.5**	**2,191.4**	**125.2**	**429.8**	**90.7**	**-**	**258.7**	**4,761.3**	**622.6**

Revaluations

Operational (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 in Birmingham Property Services carried out the valuations. A Valuation Certificate was issued on 25 May 2017 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 1 April 2016, with a review of any significant changes to assets during the year 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 significant increase in building costs during the year to 31 March 2017. As a result, the valuations reflect these higher building costs. During the annual revaluation exercise material assets were componentised in line with the accounting policy.

In light of the identified increase in building costs used to inform DRC valuations, a review was undertaken to assess the impact on the value of those assets not subject to revaluation in 2016/17. 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 2017.

Housing
The entire housing stock was valued as at 1 April 2016 by Azmat Mir MRICS, and similarly qualified staff in Birmingham Property Services, according to the Department of Communities and Local Government 'Stock Valuation for Resource Accounting - Guidance for Valuers 2010'. The valuation was on the basis of Existing Use Value - Social Housing using sample "Beacon Properties" and a Valuation Certificate was issued in accordance with the Appraisal and Valuation Standards of the Royal Institution of Chartered Surveyors. The valuation was reviewed for any significant changes to assets during the year to ensure that any material changes in asset values at the Balance Sheet date were identified.

Infrastructure and Community Assets
Infrastructure assets are valued at Depreciated Historical Cost, with the amount of outstanding debt as at 31 March 1994, when a new system of capital accounting was introduced, used as a proxy for the opening balance of historical cost with adjustments for subsequent capital expenditure and depreciation. Community assets are valued at Historical Cost.

Investment Property
The Council has one asset where it is anticipated that the major return from holding it will be through capital appreciation in the value of the site.

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 have been reclassified as surplus assets, and revalued at 31 March 2017 at fair value, assessing the assets in their highest and best use, using Level 2 inputs.

Recurring Fair Value Measurements	Input level in Fair Value Hierarchy	Valuation technique used to measure Fair Value	31 March 2016 Fair Value £m	31 March 2017 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.	7.4	6.0

An analysis of the valuations, by class of asset, broken down by the basis and date of formal 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			133.7	583.0	60.3		182.6	**959.6**
Valued at fair value as at:								
31 March 2017	2,278.7	1,490.9				6.0		**3,775.6**
31 March 2016		328.7						**328.7**
31 March 2015		290.7	50.4					**341.1**
31 March 2014		143.2						**143.2**
31 March 2013		110.5						**110.5**
Total cost or valuation	**2,278.7**	**2,364.0**	**184.1**	**583.0**	**60.3**	**6.0**	**182.6**	**5,658.7**

Housing Valuation:

The housing stock, land and other property within the HRA are valued in line with the DCLG 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 2016/17 of 40% (2015/16 34%). An impairment of £77.2m (2015/16: £73.3m) was made to the carrying value of HRA dwellings to reflect the fact that capital expenditure on HRA dwellings did not add equivalent value. Details are included in Note H3 of the Supplementary Statements.

Capital Commitments

At 31 March 2017, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2016/17 and future years budgeted to cost £1,115.9m (2015/16: £1,028.0m). The major commitments are:

	£m
PFI Lifecycle Costs	610.1
HRA New Build & Investment	231.3
Additional School Places	41.3
Corporate IT Investment	40.0
Revenue Reform Projects	39.8
Paradise Circus Enterprise Zone	25.4
Swimming Pools – New Build	16.4
Metro Extension	13.0
Birmingham Cycle Routes	11.8
InReach St Vincent's – Private Housing	10.0
Metro Centenary Square	10.0
High Speed Rail College	9.4
Independent Living	9.2
Ashted Circus	7.7
Gateway	6.7
Sutton New Hall Cemetery	6.2
Longbridge Connectivity	5.2
Other projects < £5m	22.4
Total Capital Commitments	**1,115.9**

Capitalisation of Borrowing Costs

The Council has adopted an accounting policy, detailed in Note1 - section xi., of capitalising borrowing costs in relation to qualifying assets. In 2016/17 the amount of borrowing costs capitalised during the period was £2.7m (2015/16: £6.3m). 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 4.76% in 2016/17 (2015/16: 4.92%). For 2016/17, interest capitalised by scheme was as follows:

	£m
Enterprise Zone	1.6
Wholesale Market	1.1

Note 23
Heritage Assets

Heritage Assets are identified as those which are considered to have historical, artistic, scientific, technological, geophysical or environmental qualities and that are held and maintained principally for their contribution to knowledge and culture.

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 2015						
- At Cost	3.7	11.1	0.4	-	-	15.2
- At Valuation	213.6	-	-	15.5	1.8	230.9
Additions	-	-	0.1	-	-	0.1
Revaluations	0.7	-	-	2.9	-	3.6
31 March 2016	**218.0**	**11.1**	**0.5**	**18.4**	**1.8**	**249.8**
- At Cost	*3.7*	*11.1*	*0.5*	*-*		*15.3*
- At Valuation	*214.3*	*-*	*-*	*18.4*	*1.8*	*234.5*
31 March 2016	***218.0***	***11.1***	***0.5***	***18.4***	***1.8***	***249.8***
01 April 2016						
- At Cost	3.7	11.1	0.5	-	-	15.3
- At Valuation	214.3	-	-	18.4	1.8	234.5
Additions	0.2	-	-	-	-	0.2
Revaluations	1.5	-	-	-	-	1.5
31 March 2017	**219.7**	**11.1**	**0.5**	**18.4**	**1.8**	**251.5**
- At Cost	*3.9*	*11.1*	*0.5*	*-*		*15.5*
- At Valuation	*215.8*	*-*	*-*	*18.4*	*1.8*	*236.0*
31 March 2017	***219.7***	***11.1***	***0.5***	***18.4***	***1.8***	***251.5***

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 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.

Museum Collections

The Council holds collections of artworks, ceramics, jewellery and items of archaeological and scientific significance. The vast majority of the Museums 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. The collection itself includes a number of highly valued items including works of art in oil by the 19th Century artist Ford Madox Brown, together with substantial works by Burne-Jones, Holman Hunt, Bellini and Canaletto amongst others. There have been some significant additions to the collections, in particular the Staffordshire Hoard, the largest hoard of Anglo-

Saxon gold and silver metalwork yet found. 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. 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.

The Birmingham Museums Trust has acquired, on the Council's behalf, a number of items from various sources during 2016/17, most notably stained glass by Edward Burne-Jones and contemporary art by John Stezaker.

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 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 including those of pioneers Francis Frith and Sir Benjamin Stone. 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. In addition 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 Audobon'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 details 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 has been created 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 24
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:

	2015/16			2016/17		
	Internally Generated Assets	Other Assets	Total	Internally Generated Assets	Other Assets	Total
	£m	£m	£m	£m	£m	£m
Balance at start of year:						
- Gross carrying amounts	-	111.1	111.1	-	41.6	41.6
- Accumulated amortisation	-	(82.7)	(82.7)	-	(16.0)	(16.0)
Net carrying amount at start of year	**-**	**28.4**	**28.4**	**-**	**25.6**	**25.6**
Additions:						
- Internal development	-	4.5	4.5	-	2.4	2.4
Other disposals	-	(74.2)	(74.2)	-	(0.8)	(0.8)
Amortisation for the period	-	(7.5)	(7.5)	-	(8.3)	(8.3)
Amortisation written out for disposals/transfers	-	74.2	74.2	-	0.8	0.8
Other changes	-	0.2	0.2	-	-	-
Net carrying amount at end of year	-	25.6	25.6	-	19.7	19.7
Comprising:						
Gross carrying amounts	-	41.6	41.6	-	43.2	43.2
Accumulated amortisation	-	(16.0)	(16.0)	-	(23.5)	(23.5)
	-	25.6	25.6	-	19.7	19.7

Note 25
Long Term Investments

Details of the Council's long term investments are summarised below.

31 March 2016 £m		31 March 2017 £m
26.4	Investment in Subsidiary and Associated Companies	26.4
5.5	Available for Sale Financial Assets	6.8
0.3	Unquoted Equity Investment at Cost	0.3
32.2	**Total**	**33.5**

Note 26
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. These balances have been split by type of debt.

31 March 2016 £m		31 March 2017 £m
45.2	External Loans	55.0
0.8	Employee loans	0.9
0.3	Mortgages: former Council House tenants	0.3
28.7	Other debtors	36.7
75.0	**Total**	**92.9**

Note 27
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 2016 £m		31 March 2017 £m
43.0	Money Market Funds	18.5
15.7	Financial Institutions	10.8
0.1	Other Investments	-
58.8	**Total**	**29.3**

Note 28
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. The reduction in Property, Plant and Equipment held for sale relates to those non-current assets, held by the Council that formed part of the disposal of the NEC Group.

	Current	
	2015/16	2016/17
	£m	£m
Balance outstanding at start of year	**68.8**	**4.2**
Assets newly classified as held for sale:		
- Property, Plant and Equipment	3.3	7.0
Impairments (losses)/reversals	(0.1)	(0.4)
Assets sold	(67.8)	(4.1)
Other Movements	-	(0.1)
Balance outstanding at year end	**4.2**	**6.6**

In 2016/17, three assets have been reclassified as held for sale, with disposal expected in 2017/18.

If a programme of asset sales is undertaken the value of capital receipts may differ from the value of the assets within these financial statements for a number of reasons:

- The Council values a number of assets at ‘fair value’. The size of a receipt from the sale of an asset is heavily dependent on how much the market is willing to pay for a particular asset at any one time and this can fluctuate

- In line with the Code, the Council values some of its assets at Depreciated Replacement Cost (DRC). This includes those associated with the entities that are consolidated into the Group Accounts. Typically, where assets are valued at DRC it is likely that the asset values in the accounts will be higher than those the open market is willing to pay.

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 29
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. The amounts owed have been analysed by type of debtor.

31 March 2016		31 March 2017
£m		£m
60.2	Central government bodies	66.4
8.2	Other local authorities	7.2
5.0	NHS bodies	5.1
1.7	Public corporations and trading funds	6.7
212.9	Other entities and individuals	190.7
288.0	**Total**	**276.1**

Note 30
Cash and Cash Equivalents

The balance of Cash and Cash Equivalents is made up of the elements detailed below.

31 March 2016		31 March 2017
£m		£m
2.9	Cash held by the Council	2.9
63.5	Bank current accounts	46.8
(34.5)	Bank Overdrafts	(13.5)
31.9	**Total**	**36.2**

Note 31
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 2016		31 March 2017
£m		£m
(40.3)	Central government bodies	(36.3)
(5.8)	Other local authorities	(6.3)
(3.8)	NHS bodies	(3.5)
(36.2)	Public corporations and trading funds	(99.9)
(237.3)	Other entities and individuals	(217.6)
(323.4)	**Total**	**(363.6)**

Note 32
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 2015		**Balance at 1 April 2016**	Additional provisions made in 2016/17	Amounts used in 2016/17	Transfer between current and non-current provision	Unused amounts reversed in 2016/17	Unwinding of discounting in 2016/17	**Balance at 31 March 2017**
£m		**£m**	£m	£m	£m	£m	£m	£m
	Short Term							
303.4	Equal Pay	**258.0**	1.4	(105.0)	51.3	(60.5)	-	**145.2**
14.4	Business Rates Appeals	**16.1**	8.4	(7.7)	-	-	-	**16.8**
-	NEC Pensions	**-**	2.5	-	1.0	-	-	**3.5**
14.7	Other Provisions	**9.2**	1.1	(2.9)	-	-	-	**7.4**
332.5	**Total**	**283.3**	**13.4**	**(115.6)**	**52.3**	**(60.5)**	**-**	**172.9**
	Long Term							
258.2	Equal Pay	**52.1**	-	-	(51.3)	(0.8)	-	**-**
7.3	Business Rates Appeals	**8.7**	0.3	-	-	-	-	**9.0**
-	NEC Pensions	**7.6**	14.0	-	(1.0)	-	0.4	**21.0**
-	Other Provisions	**-**	-	-	-	-	-	**-**
265.5	**Total**	**68.4**	**14.3**	**-**	**(52.3)**	**(0.8)**	**0.4**	**30.0**

Equal Pay

Under the Equal Pay Act 1970, as amended by the Equal Pay Act (Amendment) Regulations 2003, employees are entitled to equal pay for equal work. The Council has received a number of claims under the Equal Pay Act and, as a result, has set aside a provision of £145.2m (2015/16: £310.1m) that incorporates the best estimate of all unpaid claims received to 28 February 2017. The provision will be subject to review during the period of the audit. The Council has developed a model to assess the likely costs of claims, gained through the history of claims settled to date. Furthermore, a significant proportion of claims received at 28 February 2017, which remain to be settled, are subject to a legal agreement that stipulates the conditions of settlement.

The Secretary of State for Communities and Local Government has issued regulations allowing Local Authorities to use capital receipts received on or after 1 April 2013 to meet back payments associated with implementing the Equal Pay Act 1970. The Council has included both the capital and revenue impacts of equal pay claims in its long term financial plan, Financial Plan 2017+.

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. These accounts include a provision of £25.8m (2015/16:

£24.8m) 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 2017. The remaining share of the liability is attributable to Central Government and the West Midlands Fire and Rescue Authority. 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).

The Secretary of State for Communities and Local Government issued regulations allowing Local Authorities to spread the impact of accounting for their share of the backdated element of the appeals provision, based on the assessment made in 2013/14, up to a maximum of five years. The Council has opted to use this regulatory mitigation to spread the impact of the liability.

NEC – Pension Liability

On the disposal of the NEC Group on 1 May 2015, PETPS (Birmingham) Limited, a wholly owned subsidiary of the Council replaced The National Exhibition Centre Limited as principal employer of the defined benefit pension schemes, which assumed the ongoing funding obligations with the agreement of the pension trustees. At the same time, 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 and has set aside a provision of £24.5m (2015/16: £7.6m).

Other Provisions

Details of the major items included in other provisions are:

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. It is anticipated that this provision will be utilised fully by 31 March 2018.

Gateway/Grand Central

A provision of £2.3m from the rental income from the units within the former Pallasades Shopping Centre that will be required to fund future lease severance costs or other eligible costs associated with the redevelopment of New Street Station, as prescribed in the Master Agreement with Network Rail.

The Carbon Reduction Commitment

In 2017/18 the Council will have to purchase allowances as a result of mandatory participation in the Government's Carbon Reduction Commitment Energy Efficiency scheme (CRCEES). The quantity of allowances that will be purchased is dependent on the amount of energy used in properties that the Council occupied in 2016/17. In line with the recommended treatment by CIPFA, a provision for this cost has been made in the 2016/17 accounts based on the estimated energy consumed in 2016/17.

Note 33
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 has an on-going Accountable Body role for a range of grant funding regimes, both historical and current, which include supporting programmes and projects under its direct control as well as managing Programmes involving wider Partnerships with external organisations.

   Direct
   For arrangements managed under its control, the Accountable Body function covers projects and programmes where the Council accesses European or Domestic grant support either for itself or on behalf of another organisation. In accepting this role the Council underwrites the financial performance and delivery of the activity along with compliance with the funding regulations. Under this role there is, depending on the nature of the particular scheme, a potential liability to the Council arising from either non-delivery of outputs, claiming of ineligible expenditure or from the disposal of assets prior to any clawback liability expiring. The Council has quantified this potential liability at 31 March 2017 as £425.4m and has identified future commitments of £38.4m.

   Partnerships
   Where the Council has accepted the Accountable Body role for grant funding, which involves a wider Partnership arrangement and management of the fund, for example Local Enterprise Partnership (LEP) or the Regional Growth Fund (RGF), the Council's grant liability exists if it is deemed that it has been "unreasonable" in discharging its responsibilities. The Council has quantified this potential liability at 31 March 2017 as £405.9m and has identified future expenditure commitments of £596.6m.

   To minimise the impact of any grant clawback liability for both Direct and Partnership Accountable Body type arrangements, the Council has put in place various controls and mechanisms, such as legal agreements and charges over assets, and supports financial management with detailed expenditure verification and monitoring procedures.

2. The Council's final Housing Benefit claim for 2016/17 is still being considered by the Department for Work and Pensions. There may be clawback of subsidy from the Council, above the level provided for in the accounts, which would reduce the level of benefit income shown and also reduce the General Fund balance carried forward.

3. Under the Equal Pay Act 1970, as amended by the Equal Pay Act (Amendment) Regulations 2003, employees are entitled to equal pay for work of equal value. The Council has received a number of claims under the Equal Pay Act and, as a result, has set aside a provision of £145.2m (31 March 2016: £310.1m) which incorporates all claims received and negotiations agreed to 28 February 2017.

   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. The Council has developed a robust medium to long term financial plan, set out in the Financial Plan 2017+, which recognises the impact of future spending and funding requirements. The Council also has the ability to use capital receipts generated between 1 April 2013 and 31 March 2018 to meet the costs of equal pay.

4. 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.

5. 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 2015/16 and an Administrator has been 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 £2.0m.

Contingent Assets

At 31 March 2017 the Council has identified the following material contingent assets.

1. The Council has been undertaking a review of its major contracts. It has identified that there have been payments made not in accordance with its interpretation of the full terms and conditions of the associated contracts. Through discussions with the relevant contractors, the Council has made a substantial recovery against one contract and is pursuing legal action to recover overpayments in other contracts. Given the current status of these discussions and their sensitivity, the Council does not consider that further disclosure would be in its best interests at this time.

2. 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 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 34
Council Borrowing

A breakdown of the Council's borrowings is summarised below:

2015/16 Long Term £m	2015/16 Short Term £m		2016/17 Long Term £m	2016/17 Short Term £m
160.5	48.6	Lender's Option Borrower's Option (LOBO) loans	90.5	78.1
410.5	13.5	Local Bonds	444.5	6.5
2,200.9	100.8	Public Works Loan Board	2,195.9	69.7
-	267.6	Other Borrowing (mainly Other Local Authorities)	-	359.3
2,771.9	**430.5**	**Total**	**2,730.9**	**513.6**

Note 35
Cash Flow Statement - Operating Activities

The cash flows from operating activities include the following items:

2015/16 £m		2016/17 £m
(9.9)	Interest received	(12.0)
184.3	Interest paid	181.3
(20.8)	Dividends received	(11.7)
153.6		**157.6**

Note 36
Cash Flow Statement - Investing Activities

The cash flows from investing activities include the following:

2015/16 £m		2016/17 £m
(341.5)	Purchase of property, plant and equipment, investment property and intangible assets	(284.9)
(3,289.0)	Purchase of short-term and long-term investments	(1,925.0)
365.4	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	89.1
3,518.6	Proceeds from short-term and long-term investments	1,954.5
0.6	Other receipts from investing activities	0.3
254.1	**Net cash flows from investing activities**	**(166.0)**

Note 37
Cash Flow Statement - Financing Activities

The cash flows from financing activities include the following:

2015/16 £m		2016/17 £m
103.7	Other receipts from financing activities	124.3
1,054.3	Cash receipts of short-term and long-term borrowing	825.0
(40.2)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(44.0)
(1,211.8)	Repayments of short-term and long-term borrowing	(782.0)
8.7	Other payments for financing activities	16.5
(85.3)	**Net cash flows from financing activities**	**139.8**

Note 38
Cash Flow Statement – Other Adjustments

The cash flow adjustments to the net surplus/deficit on the provision of services include:

2015/16 £m		2016/17 £m
129.4	Depreciation/Impairment charge	147.2
7.5	Amortisation of Intangible Assets	8.3
-	Derecognition of Available for Sale Assets	0.3
(0.9)	(Increase)/Decrease in investments	-
37.7	Revaluation of Non-Current Assets	63.2
403.0	Derecognition of Non-Current Assets	246.9
26.3	(Increase)/Decrease in Debtors	(6.0)
48.3	Increase/(Decrease) in Creditors	30.6
(0.3)	(Increase)/Decrease in Inventories	-
(246.2)	Increase/(Decrease) in Provisions	(148.7)
55.4	Pensions Liability	35.0
460.2		**376.8**

The cash flow adjustments included in the net surplus/deficit on the provision of services that are investing or financing activities include:

2015/16 £m		2016/17 £m
(103.7)	Capital Grants	(124.3)
(365.9)	Capital Receipts	(89.4)
(8.7)	Council Tax and Business Rates Adjustments	(16.5)
(478.3)		**(230.2)**

Note 39
Financial Instruments

Categories of Financial Instruments

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

	Long Term		Current	
	31 March 2016 £m	31 March 2017 £m	31 March 2016 £m	31 March 2017 £m
Investments				
Loans and receivables	-	-	58.8	29.3
Available-for-sale financial assets	5.5	6.8	-	-
Unquoted equity investment at cost	0.3	0.3	-	-
Financial assets at fair value through profit and loss	-	-	-	-
Total	**5.8**	**7.1**	**58.8**	**29.3**
Investments that are not financial instruments	26.4	26.4	-	-
Total investments	**32.2**	**33.5**	**58.8**	**29.3**
Debtors				
Loans and receivables	46.0	55.8	3.7	11.1
Financial assets carried at contract amounts	-	-	196.3	186.0
Total	**46.0**	**55.8**	**200.0**	**197.1**
Debtors that are not financial instruments	29.0	37.1	88.0	79.0
Total debtors	**75.0**	**92.9**	**288.0**	**276.1**
Cash				
Loans and receivables			66.4	49.7
Total cash: asset			**66.4**	**49.7**
Financial liabilities at amortised cost			(34.5)	(13.5)
Total cash: liability			**(34.5)**	**(13.5)**
Borrowings				
Financial liabilities at amortised cost	(2,771.9)	(2,730.9)	(430.5)	(513.6)
Financial liabilities at fair value through profit and loss	-	-	-	-
Total	**(2,771.9)**	**(2,730.9)**	**(430.5)**	**(513.6)**
Borrowings that are not financial instruments	-	-	-	-
Total borrowings	**(2,771.9)**	**(2,730.9)**	**(430.5)**	**(513.6)**
Other Long Term Liabilities				
PFI and finance lease liabilities	(441.5)	(423.2)		
Total	**(441.5)**	**(423.2)**		
Transferred Debt	(66.3)	(61.6)		
Total long term liabilities	**(507.8)**	**(484.8)**		
Creditors				
Financial liabilities at amortised cost	-	-	-	-
Financial liabilities carried at contract amount	-	-	(234.6)	(280.7)
Total	**-**	**-**	**(234.6)**	**(280.7)**
Creditors that are not financial instruments	(1.8)	-	(88.8)	(82.9)
Total creditors	**(1.8)**	**-**	**(323.4)**	**(363.6)**

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 £17.3m, paying a fixed interest rate of 5%. During the development phase of the project, interest was rolled up in the loan. In 2015/16, 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. Interest payments have resumed and a bullet principal payment is due in March 2020. All interest on the deferred payments is rolled up and the term of the loan has been extended to 2045.

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 £0.5m, pays an interest rate of 2.2% and matures in 2022.

The treatment of soft loans in the financial statements is as follows:

	2015/16 £m	2016/17 £m
Opening balance at 1 April	**16.8**	**17.7**
Nominal value of new loans granted in year	-	-
Fair value adjustment on initial recognition	-	-
Loans repaid	(0.1)	(0.1)
Impairment losses	-	-
(Increase)/Reduction in discount	1.0	0.2
Closing Balance at 31 March	**17.7**	**17.8**
Nominal value at 31 March	22.5	22.4

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.

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:

	2015/16				2016/17			
	Financial Liabilities measured at amortised cost	Financial Assets:Loans and Receivables	Financial Assets: Available for Sale	**Total**	Financial Liabilities measured at amortised cost	Financial Assets:Loans and Receivables	Financial Assets: Available for Sale	**Total**
	£m	£m	£m	**£m**	£m	£m	£m	**£m**
Interest Expense	184.3			**184.3**	181.3			**181.3**
Total expense in (Surplus)/Deficit on the Provision of Services	**184.3**			**184.3**	**181.3**			**181.3**
Interest and Dividend Income		(9.9)	(20.7)	**(30.6)**		(12.0)	(11.6)	**(23.6)**
Total income in (Surplus)/Deficit on the Provision of Services		**(9.9)**	**(20.7)**	**(30.6)**		**(12.0)**	**(11.6)**	**(23.6)**
(Gains)/Losses on Revaluation			0.6	0.6			(0.3)	(0.3)
(Surplus)/Deficit arising on revaluation of financial assets in Other Comprehensive Income and Expenditure			**0.6**	**0.6**			**(0.3)**	**(0.3)**
Net (gain)/loss for the year	**184.3**	**(9.9)**	**(20.1)**	**154.3**	**181.3**	**(12.0)**	**(11.9)**	**157.4**

Fair Value of Assets and Liabilities

Financial liabilities, financial assets represented by loans and receivables and long term debtors and creditors are carried in the balance sheet at amortised cost.

Their fair value can be assessed by calculating the present value of cash flows that will take place over the remaining term of the instruments (Level 2), using the assumptions in the tables below. The fair value calculations for financial liabilities and assets are as follows:

Financial Liabilities	Input level in Fair Value Hierarchy	Valuation inputs and assumptions used to measure Fair Value	31 March 2016		31 March 2017	
			Carrying Amount £m	Fair Value £m	Carrying Amount £m	Fair Value £m
PWLB	Level 2	PWLB new loan certainty rate based on published PWLB rates	2,301.7	2,925.5	2,265.6	3,105.1
Bonds	Level 2	An estimate of the rate payable for a new loan on the same terms, based on published gilt yields	423.8	517.6	450.9	576.4
Other Market Loans - LOBOs	Level 2		209.0	280.9	168.5	275.5
Other Market Loans - Quasi Loans	Level 2		0.3	0.2	0.2	0.2
Other Long Term Liabilities (PFI/finance leases)	Level 2	PWLB new loan certainty rate based on published PWLB rates	455.6	710.7	436.4	733.9
Other Long Term Liabilities (Transferred debt)*	Level 2	An estimate of the rate payable for a new loan on the same terms, based on published swap rates adjusted	52.2	62.8	48.4	59.2
Other Market Loans - Short Term	-	Fair value is approximated at their carrying amount	267.6	267.6	359.3	359.3
Short term creditors carried at contract amount (including PFI/finance leases/operating leases/transferred debt)	-	Fair value is approximated at their carrying amount	234.6	234.6	280.7	280.7
TOTAL			**3,944.8**	**4,999.9**	**4,010.0**	**5,390.3**

**The Transferred Debt information is provided by Dudley Metropolitan Borough Council, which has responsibility for the West Midlands County Council Debt Administration Fund. The fair values were provided to them by their Treasury Advisors (Arlingclose Ltd)*

Financial Assets	Input level in Fair Value Hierarchy	Valuation inputs and assumptions used to measure Fair Value	31-Mar-16		31-Mar-17	
			Carrying Amount £m	Fair Value £m	Carrying Amount £m	Fair Value £m
Available-for-sale financial assets	Level 3	Based on company performance	5.5	5.5	6.8	6.8
Unquoted equity investment at cost	Level 2	Valued at cost until reliable fair value can be established	0.3	0.3	0.3	0.3
Debtors (capital and revenue loans)	Level 2	An estimate of the rate payable for a new loan on the same terms, based on published PWLB rates	49.7	51.2	66.9	69.8
Short term investments (Loans and receivables)	-	Fair value is approximated at their carrying amount	58.8	58.8	29.3	29.3
Short term trade Debtors	-	Fair value is approximated at their carrying amount	196.3	196.3	186.0	186.0
TOTAL			**310.6**	**312.1**	**289.3**	**292.2**

The fair value of the liabilities and assets at 31 March 2017 is higher than the carrying amount because the Council's portfolio of loans and investments includes fixed rate loans where the interest rate is higher than the rates available for similar loans at the Balance Sheet date. This shows a notional future loss on liabilities (based on economic conditions at 31 March 2017) arising from a commitment to pay interest to lenders above current market rates, and a gain on assets (based on economic conditions at 31 March 2017) attributable to the commitment to receive interest above current market rates.

PWLB Loans

The fair value, of Public Works Loan Board (PWLB) loans with a carrying value of £2,265.6m, measures the economic effect of the terms agreed with the PWLB compared with estimates of the terms that would be offered for market transactions undertaken at the Balance Sheet date. 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. A supplementary measure of the additional interest that the Council will pay as a result of its PWLB commitments for fixed rate loans is to compare the terms of these loans with the new borrowing rates available from the PWLB. If a value is calculated on this basis, the carrying amount of £2,265.6m would be valued at £3,105.1m. But, if the Council were to seek to avoid the projected loss by repaying the loans to the PWLB before the planned termination date, 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 £3,631.0m.

Note 40
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 investments (all in Sterling)	Short term rating*	Long term rating*	Council Individual lending limit
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 volatility rating V1 /S1 /MR1 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 individual investment		

* Fitch/S&P/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.

No significant changes have been made in banking regulations in the past 12 months, since the EU and UK 'bail-in' rules were introduced in 2015/16. Consequently, no risk categories have been added or amended.

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 25% 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 irrecoverability applies to all deposits, but there is no evidence at 31 March 2017 that this was likely to crystallise.

The Council does not hold collateral as security on its treasury deposits.

The following analysis summarises the Council's potential maximum exposure to credit risk on service investments, based on current knowledge and experience.

	Amount outstanding	Historical experience of default	Estimated experience of default	Estimated maximum exposure to default and uncollectability at 31 March 2017	Estimated maximum exposure at 31 March 2016
	£m	£m		£m	£m
Service investments	1.4	1.3	29%	0.4	0.4

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 2016	31 March 2017
	£m	£m
Less than 1 year	(788.4)	(890.7)
Between 1 and 2 years	(205.8)	(159.5)
Between 2 and 5 years	(242.0)	(187.8)
Between 5 and 20 years	(1,410.6)	(1,394.5)
Between 20 and 40 years	(1,139.1)	(1,173.8)
Over 40 years	(284.0)	(300.1)
Total	**(4,069.9)**	**(4,106.4)**

All trade and other current payables are due to be paid in less than one year.

Market Risk

Interest rate risk

The Council is exposed to significant risk in relation to interest rate movements on its borrowing and investments.

Movements in interest rates have a complex impact on the Council. For instance, a rise in interest rates would have the following effects:

- Borrowings at variable rates – the interest expense charged to the Surplus/(Deficit) on the Provision of Services will rise
- Borrowings at fixed rates – the fair value of the liabilities borrowings will fall
- Investments at variable rates – the interest income credited to the 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 2017, 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	3.6
Increase in interest receivable on variable rate investments	(0.3)
Impact on Surplus/(Deficit) on the Provision of Services	3.3
Share of overall impact debited to the HRA	1.0
Decrease in fair value of fixed rate investment assets	2.2
Decrease in fair value of fixed rate borrowings liabilities (no impact on the Surplus/(Deficit) on the Provision of Services or Other Comprehensive Income and Expenditure)	(550.6)

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 2017.

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.

Note 41
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 2016	31 March 2017
	£m	£m
Opening Capital Financing Requirement	4,347.5	4,523.1
Capital Investment		
Property, Plant and Equipment	343.4	309.0
Heritage Assets	0.1	0.2
Intangible Assets	4.7	2.4
Revenue Expenditure funded from Capital under Statute	98.1	26.7
Secretary of State Direction - Flexible use of Capital Receipts	-	9.6
Capital Grant Repayment	0.7	-
Long Term Loans	8.5	14.7
Increase in Share Equity	111.8	1.3
Sources of Finance		
Capital Receipts	(22.2)	(32.0)
Government Grants and other Contributions	(149.1)	(109.1)
Sums set aside from Revenue:	-	-
- Direct Revenue Contributions	(28.9)	(29.3)
- Use of Major Repairs Reserve	(47.8)	(14.3)
- Minimum Revenue Provision	(134.2)	(133.3)
- Capital Receipts set aside for debt redemption	(9.5)	(0.3)
Closing Capital Financing Requirement	**4,523.1**	**4,568.7**
Explanation of Movements in Year		
Increase in underlying need to borrow	147.0	17.6
Assets acquired under finance leases	1.0	1.0
Assets acquired under PFI contracts	27.6	27.0
Increase/(decrease) in Capital Financing Requirement	**175.6**	**45.6**
Movement in Year	**175.6**	**45.6**

The Secretary of State direction relates to the permission given to local authorities to use capital receipts generated between 1 April 2016 to 31 March 2019 to finance the revenue costs of transformation that deliver savings to the public sector.

The increase in share equity in 2015/16 includes the additional investment in the National Exhibition Centre (Developments) Limited following the disposal of the National Exhibition Centre Limited.

Note 42
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 2016 £m		31 March 2017 £m
18.2	Other Land and Buildings	20.0
3.5	Vehicles, Plant Furniture & Equipment	3.1
21.7	**Total**	**23.1**

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 2016 £m		31 March 2017 £m
	Finance lease liabilities (net present value of minimum lease payments):	
1.1	- current (not later than 1 year)	1.0
1.5	- non-current (later than 1 year)	1.4
1.9	Finance costs payable in future years	1.8
4.5	**Minimum Lease Payments**	**4.2**

The minimum lease payments will be payable over the following periods:

	Minimum lease payments		Finance lease liabilities	
	31 March 2016	31 March 2017	31 March 2016	31 March 2017
	£m	£m	£m	£m
Not later than 1 year	1.3	1.2	1.1	1.0
Later than 1 year and not later than 5 years	1.7	1.5	1.4	1.3
Later than 5 years	1.5	1.5	0.1	0.1
Total	**4.5**	**4.2**	**2.6**	**2.4**

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 2016/17 contingent rents of £0.1m were payable (2015/16: £0.1m).

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 2016 £m		31 March 2017 £m
0.6	Not later than 1 year	0.5
1.2	Later than 1 year and not later than 5 years	0.7
1.7	Later than 5 years	1.5
3.5	**Total**	**2.7**

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 2016 £m		31 March 2017 £m
0.6	Minimum lease payments	0.5
0.1	Contingent rents	0.1
0.7	**Total**	**0.6**

<u>Council as the lessor</u>

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 2016 £m		31 March 2017 £m
	Finance lease debtor (net present value of minimum lease payments):	
-	- current (not later than 1 year)	-
27.0	- non-current (later than 1 year)	28.7
183.7	Unearned finance income	192.7
(28.5)	Less – Unguaranteed residual value of property	(29.0)
182.2	**Gross investment in the lease**	**192.4**

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 2016	31 March 2017	31 March 2016	31 March 2017
	£m	£m	£m	£m
Not later than 1 year	-	-	1.5	1.7
Later than 1 year and not later than 5 years	0.1	0.1	6.0	6.5
Later than 5 years	26.9	28.6	174.7	184.2
Total	**27.0**	**28.7**	**182.2**	**192.4**

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 2016/17 £1.2m contingent rents were receivable by the Council (2015/16 £1.2m).

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 2016		31 March 2017
£m		£m
10.4	Not later than 1 year	11.4
26.4	Later than 1 year and not later than 5 years	28.0
70.0	Later than 5 years	77.2
106.8	**Total**	**116.6**

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 2016/17 £3.0m contingent rents were receivable by the Council (2015/16 £2.6m).

Leases - contingent rent
Contingent rents are determined from the comparison of the property lease rental system to the accounts leasing system.

Note 43
Service Concession Arrangements

The Council has entered into a number of PFI arrangements through which assets are constructed or refurbished and services are provided under long-term contracts with private sector firms. These contracts cover Schools, Waste Disposal facilities and Highways Management and Maintenance.

These arrangements, which are included within concession arrangements, constitute the purchase of assets on deemed credit terms. The deemed credit terms vary between arrangements. The Council includes the cost of establishing Special Purpose Vehicles in the calculation of the liabilities. The main terms of the material arrangements are as follows:

- Waste Disposal. The arrangement includes the management and operation of the Council's Household Recycling Centres, Waste Transfer Stations and the Waste Incinerator. The contract began on 17 January 1994 and runs to 17 January 2019, with payments made monthly. Prices are indexed each year from 1 April. All assets, identified above, will revert to the Council at the end of the arrangement. There are no early terminations or period clauses within the contract and there have been no changes in the arrangement during the period under review.

- 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 arrangement. The contract provides for management and maintenance of all public highway and other contractually designated areas within the Birmingham boundary by the Service Provider. The contract commenced on 7 June 2010, with a contract period of 25 years, and provides for a five year period of remediation for all of the main highway assets followed by a 20 year period during which the improved highway condition is maintained. The management element of the contract deals with road space management under legislation and responsibility for the Street Works Register, and services include:

    - Raising highway standards
    - Upgrading street lighting and the Council's traffic management assets
    - Refurbishing the Council's tunnels
    - Maintaining specified street furniture.

  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, 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. There have been no changes in the arrangement during 2016/17.

Payments remaining as at 31 March 2017	Interest	Repayment of liability	Payment for services	**Total**
	£m	£m	£m	**£m**
Payable in 2017/18	34.5	18.1	74.8	**127.4**
Payable within 2 to 5 years	125.7	53.8	203.6	**383.1**
Payable within 6 to 10 years	130.5	94.4	241.3	**466.2**
Payable within 11 to 15 years	87.1	128.3	286.6	**502.0**
Payable within 16 to 20 years	29.5	129.2	204.7	**363.4**
Payable within 21 to 25 years	1.7	16.1	16.7	**34.5**
Total	**409.0**	**439.9**	**1,027.7**	**1,876.6**

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:

2015/16		2016/17
£m		£m
469.6	**Liability outstanding at the start of the year**	**457.0**
(40.2)	Repayment of liability	(44.1)
27.6	Lifecycle and further capital expenditure	27.0
457.0	**Liability outstanding at the year end**	**439.9**

£26.3m of the costs incurred in respect of lifecycle and further capital expenditure relates to the continuing upgrade of the City's highway infrastructure, with the remainder incurred on minor enhancements to schools' PFI projects.

Contingent rents, charged to the CIES, as a result of the impact of inflation total £4.2m (2015/16: £4.9m). The outstanding liability identified does not include the impact of future contingent rent.

Note 44
Members' Allowances

Allowances paid to Members of the Council in 2016/17 totalled £2.5m (2015/16: £2.6m). These figures include Members' allowances, superannuation contributions and expenses. Further information can be found on the Council's website www.birmingham.gov.uk

Note 45
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
		£	£	£	£	£
A Probert, Acting Chief Executive and Head of Paid Service[1]	2015/16	33,420		15,000	4,311	52,731
	2016/17	139,516			18,695	158,211
M Rogers, Chief Executive and Head of Paid Service[2]	2015/16	182,500		3,600	23,543	209,643
	2016/17	168,965	118,231	9,600	369,826	666,622
P Hay, Strategic Director, People[3]	2015/16	164,898		-	21,272	186,170
	2016/17	155,018	95,454	3,600	20,772	274,844
J Kennedy, Corporate Director, Place	2015/16	103,057		-	13,294	116,351
	2016/17	144,684			19,388	164,072
W Nazir, Corporate Director, Economy	2015/16	22,315		-	2,879	25,194
	2016/17	139,516			18,695	158,211
P Dransfield, Strategic Director – Major Programmes and Projects, Corporate Resources	2015/16	150,930		-	19,470	170,400
	2016/17	155,018			20,772	175,790
J Warlow, Strategic Director – Finance & Legal, Corporate Resources [4]	2015/16	126,184		-	16,278	142,462
	2016/17	139,516	107,318	9,900	18,695	275,429
M O'Donnell, Interim Chief Finance Officer [5]	2015/16	-		-	-	-
	2016/17	-		-	-	-
S Powell, Acting Section 151 Officer[6]	2015/16	-		-	-	-
	2016/17	12,186			2,973	15,159
Dr A Phillips, Director of Public Health	2015/16	124,076		-	17,743	141,819
	2016/17	124,076			17,743	141,819
P DasGupta, Assistant Chief Executive	2015/16	18,434		-	2,378	20,812
	2016/17	83,446			11,182	94,628
C Gibbs, Acting Strategic Director, Change and Support Services [7]	2015/16	-		-	-	-
	2016/17	8,499			1,139	9,638

Notes:

(1) Angela Probert, Strategic Director, Change and Support Services, was appointed Acting Chief Executive and Head of Paid Service with effect from 1 March 2017.

(2) Mark Rogers retired from the Council on 28 February 2017.

(3) Peter Hay held the statutory roles of Chief Education Officer, Director of Children's Social Care and Director of Adult Social Services during 2016/17. Peter left the service on 31 March 2017 on secondment before he retires on 31 July 2017.

(4) Jon Warlow left the Council on 28 March 2017. Jon held the statutory role as Section 151 Officer to 5 February 2017.

(5) Mike O'Donnell took up post as Interim Chief Finance Officer and Section 151 Officer with effect from 27 March 2017. Mike has been seconded to the Council from the London Borough of Camden for four days each week. Payments due to the London Borough of Camden in respect of the arrangement were £6,400 in 2016/17.

(6) Steve Powell covered the role of Section 151 Officer between 6 February 2017 and 26 March 2017.

(7) Chris Gibbs was appointed to the role of Acting Strategic Director, Change and Support Services, with effect from 1 March 2017, to provide cover whilst Angela Probert was in the role of Acting Chief Executive and Head of Paid Service.

Comparative figures are only provided for 2015/16 for the period of time where individuals were members of the Corporate Leadership Team.

Coverage of statutory posts during periods of annual leave or sickness absence was by officers within the relevant teams under delegated responsibilities.

The Council's other employees receiving more than £50,000 remuneration for the year (excluding employer's pension contributions) were paid the amounts detailed in the table below. However, 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.

2015/16 Teaching Staff & Staff in Schools No	2015/16 Other Council Employees No	2015/16 **Total No**	Remuneration band	2016/17 Teaching Staff & Staff in Schools No	2016/17 Other Council Employees No	2016/17 **Total No**
164	191	**355**	£50,000 - £54,999	160	242	**402**
94	73	**167**	£55,000 - £59,999	103	62	**165**
90	41	**131**	£60,000 - £64,999	61	61	**122**
55	58	**113**	£65,000 - £69,999	63	67	**130**
32	17	**49**	£70,000 - £74,999	31	13	**44**
19	10	**29**	£75,000 - £79,999	15	13	**28**
14	6	**20**	£80,000 - £84,999	11	6	**17**
13	11	**24**	£85,000 - £89,999	7	12	**19**
4	12	**16**	£90,000 - £94,999	7	10	**17**
6	2	**8**	£95,000 - £99,999	5	6	**11**
3	6	**9**	£100,000 - £104,999	2	2	**4**
	2	**2**	£105,000 - £109,999	1	1	**2**
	3	**3**	£110,000 - £114,999			
1	1	**2**	£115,000 - £119,999			
	10	**10**	£120,000 +	1	4	**5**
495	**443**	**938**		**467**	**499**	**966**

Remuneration includes salary, allowances, bonuses and compensation for loss of employment.

The ‘Other Council Employees’ figures in the above table include employees with planned termination payments, 49 in 2016/17 (46 in 2015/16). Excluding employees in receipt of planned termination payments, 450 employees in 2016/17 (397 in 2015/16) received remuneration of £50,000 or more.

The number of Teaching Staff and Staff in Schools reflect those staff employed 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 176 in 2016/17 (2015/16: 168).

Note 46
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.

2015/16							2016/17					
Compulsory		Voluntary		**Total**		Value of individual package	Compulsory		Voluntary		**Total**	
No	£m	No	£m	**No**	**£m**	£000	No	£m	No	£m	**No**	**£m**
-	-	3	0.9	**3**	**0.9**	£250+	-	-	2	0.7	**2**	**0.7**
2	0.5	3	0.6	**5**	**1.1**	£200 - £250	-	-	1	0.2	**1**	**0.2**
1	0.2	6	1.1	**7**	**1.3**	£150 - £200	2	0.4	7	1.2	**9**	**1.6**
2	0.3	14	1.7	**16**	**2.0**	£100 - £150	2	0.2	18	2.2	**20**	**2.4**
3	0.3	14	1.1	**17**	**1.4**	£80 - £100	1	0.1	14	1.2	**15**	**1.3**
4	0.3	15	1.0	**19**	**1.3**	£60 - £80	4	0.3	15	1.0	**19**	**1.3**
13	0.6	25	1.3	**38**	**1.9**	£40 - £60	-	-	22	1.1	**22**	**1.1**
20	0.5	63	1.9	**83**	**2.4**	£20 - £40	7	0.2	66	1.8	**73**	**2.0**
92	0.8	269	1.8	**361**	**2.6**	less than £20	56	0.3	340	2.3	**396**	**2.6**
137	**3.5**	**412**	**11.4**	**549**	**14.9**	**Total**	**72**	**1.5**	**485**	**11.7**	**557**	**13.2**

In addition to the costs of exit packages identified above, the Council incurred costs of £0.2m in 2016/17 (£0.3m in 2015/16) 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 47
Auditor Remuneration

The Council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections and for non-audit services provided by the Council's external auditors.

2015/16 £m		2016/17 £m
0.3	Fees payable to Grant Thornton with regard to external audit services carried out by the appointed auditor for the year	0.3
0.1	Fees payable to Grant Thornton for the certification of grant claims and returns for the year	0.1
0.4	**Total**	**0.4**

Note 48
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 the subjective analysis in Note 14 on reporting for resource allocation decisions. Grant receipts outstanding at 31 March 2017 are included in the balances within Note 29.

Members

Members of the Council have direct control over the Council's financial and operational policies. The total of Members' allowances paid in 2016/17 is shown in Note 44.

Officers

There were no transactions between Senior Officers of the Authority and Birmingham City 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.

Greater Birmingham and Solihull Business Rates Pooling Arrangement

The Greater Birmingham and Solihull Business Rates Pool (the Pool) was designated by the Secretary of State in accordance with paragraph 34 of Schedule 7B to the Local Government Finance Act 1988 as a pool of authorities for the purposes of the scheme for the local retention of business rates under schedule 7B to the Act.

The Council entered into a pooled budget arrangement in 2013/14 with seven other local authorities including acting as intermediary between the authorities and the government in respect of top-up/tariff payments, as detailed in the table below, following the introduction of the Business Rates Retention Scheme. This arrangement has continued in 2016/17. The objective of the Pool is to adopt a strategic approach to promoting growth and job creation that supports the Greater Birmingham and Solihull Local Enterprise Partnership's Strategy for Growth, which includes:

- economic development;
- core funding; or
- a combination of both.

The funding provided to the pooled budget includes tariff payments that would otherwise have been paid to the Government. The expenditure met from the budget paid to the Council includes an element of its top-up payments that it would otherwise have received from the Government. The table below summarises the financial activity for the year.

	2015/16 £m	2016/17 £m
Funding provided to the pooled budget		
Birmingham City Council	-	-
Bromsgrove District Council	9.3	9.5
Cannock Chase District Council	11.5	11.0
East Staffordshire Borough Council	19.0	19.5
Lichfield District Council	11.5	11.8
Redditch Borough Council	12.4	12.6
Solihull Metropolitan Borough Council	28.6	26.7
Tamworth Borough Council	11.0	11.1
	103.3	**102.2**
Expenditure met from the pooled budget		
Birmingham City Council	98.9	99.6
Bromsgrove District Council	0.2	0.1
Cannock Chase District Council	0.3	0.1
East Staffordshire Borough Council	0.1	0.2
Lichfield District Council	0.2	0.2
Redditch Borough Council	0.4	0.1
Solihull Metropolitan Borough Council	0.8	0.2
Tamworth Borough Council	0.2	0.1
GBS LEP	2.0	1.1
Safety Net Contingency	0.2	0.5
	103.3	**102.2**

The information in the table above is based on information available at the time of compiling the 2016/17 Statement of Accounts. On finalisation of the business rates income (post audit), it is possible that there may be a change to income to be re-allocated, but this is not expected to be of a material nature overall.

The Pool will continue in future years in its present form until such time that a decisions is taken by one or more members that leads to the arrangement being varied or ended.

<u>Other Public Bodies - Pooled Budgets</u>
The Council is in a pooled budget arrangement with the Clinical Commissioning Groups (CCGs) covering the Birmingham area, namely, Birmingham Cross City CCG, Birmingham South Central CCG and Sandwell and West Birmingham CCG. The pooled budget is responsible for the joint commissioning of services relating to Mental Health and Learning Disabilities. The objective of the pooled arrangement is to improve services for users through closer working and co-operation in the commissioning of services. The arrangements 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 for the year. The figures for 2015/16 have been restated to reflect the full expenditure on Mental Health Services across the pool:

	2015/16 (Restated)		2016/17	
	£m	£m	£m	£m
Funding provided to the pooled budget				
Birmingham City Council	110.0		101.2	
Combined Clinical Commissioning Groups	166.3		167.1	
		276.3		**268.3**

	2015/16 (Restated)		2016/17	
	£m	£m	£m	£m
Expenditure met from the pooled budget				
Birmingham City Council	110.0		101.2	
Combined Clinical Commissioning Groups	166.3		167.1	
		276.3		**268.3**
Net surplus arising from the pooled budget during the year		**-**		**-**

The 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 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. No new money has been made available to the health and care system but the BCF provides 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 has been made in recent years.

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 Cross City CCG, Birmingham South Central 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. Further services have been added to the BCF during the year.

In 2016/17 funding of £85.932m (2015/16: £86.244m) 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 resources previously allocated through two capital grants, namely the Disabled Facilities Grant and the Social Care Capital Grant.

	2015/16	2016/17
Contribution to the BCF Pooled Fund	£m	£m
Birmingham Cross City CCG	54.978	54.192
Birmingham South Central CCG	19.223	19.534
Sandwell and West Birmingham CCG	12.043	12.206
NHS Contribution	**86.244**	**85.932**
Birmingham City Council	9.496	13.895
Total BCF Pooled Fund	**95.740**	**99.827**

The BCF will be used to fund a number of schemes as identified in the agreed joint plan. The management arrangements for the individual projects will be dependent on the services being provided and will 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 2015/16 £m	2016/17 £m	Nature of Arrangement
Bed Based Additional Provision	1.358	1.685	Lead Commissioning – Council
Social Care Based Additional Provision	1.606	2.137	Sole Control – Council
Reablement – Kenrick Centre	1.197	-	Lead Commissioning – Council
Reablement – Kenrick Centre – GP cover	0.050	-	Joint Control
Care Act	2.970	3.026	Lead Commissioning – Council
Carers Strategy	1.185	1.222	Joint Control
Eligibility Criteria	20.044	20.425	Sole Control – Council
Acuity Tool Management	0.120	0.377	Joint Control
CUR Implementation Team	-	0.213	Joint Control
Recovery Team Implementation	-	0.219	Joint Control
Management of Programme	1.011	0.627	Joint Control
Community Services	42.530	42.998	Sole Control - CCGs
Reablement – Rapid Assessment, Interface and Discharge	1.681	1.699	Sole Control - CCGs
Outpatient Antimicrobial Therapy – Heart of England Foundation Trust	0.034	0.034	Sole Control - CCGs
Outpatient Antimicrobial Therapy – Birmingham Community Health Care FoundationTrust	0.031	0.031	Sole Control - CCGs
Non Elective Admissions (reduction)	6.483	6.606	Sole Control - CCGs
Equipment Contracts	6.207	5.976	Joint Control
Disabled Facilities Grant and Capital	7.764	8.803	Sole Control – Council
Non-recurring Pump Priming Schemes	1.321	3.742	Joint Control
Contingency	-	(0.147)	Joint Control
	95.592	**99.673**	
Balance of funding	0.148	0.154	
Total BCF	**95.740**	**99.827**	

Other Related Parties

During 2016/17 payments, to the value of £353.0m inclusive of VAT, were payable to related parties of which £24.3m remained outstanding at 31 March 2017. Additionally £58.0m inclusive of VAT, was receivable during 2016/17 from companies in which the Council had a related party interest of which £13.6m remains outstanding at 31 March 2017. The majority of the value of expenditure is in relation to companies where elected members are acting in their official capacity.

Other balances at 31 March 2017 are assets of £33.5m of investments, £59.4m of loans (of which £49.3m is repayable after 31 March 2018) and £7.7m of leases; and liabilities of £86.5m of funding guarantees and £17.5m of provisions.

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 2016/17.

The subsidiaries that have been consolidated into the group financial statements are listed below :

	Expenditure	Income	Creditor balance at year end	Debtor balance at year end
	£m	£m	£m	£m
Acivico Limited	28.8	3.1	8.3	4.1
Birmingham Museums Trust	6.7	2.3	0.3	0.2
Innovation Birmingham Limited	0.5	0.6	0.1	-
InReach (Birmingham) Limited	-	0.1	0.4	-
The National Exhibition Centre (Developments) Limited	4.6	-	0.2	-
Performances (Birmingham) Limited	2.4	0.9	0.2	-
PETPS (Birmingham) Limited	9.9	-	-	-

The associates and joint venture that have been consolidated into the group financial statements are listed below :-

	Expenditure	Income	Creditor balance at year end	Debtor balance at year end
	£m	£m	£m	£m
Birmingham Airport Holdings Limited (BAH)	2.9	5.7	-	2.3
Paradise Circus General Partner Limited	20.2	2.2	-	1.0
Service Birmingham Limited	89.9	18.3	2.6	1.7

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 2016/17.

Birmingham Business Support Centre Limited	Finance Birmingham Limited
Birmingham Charities Limited	Forward Homes (Birmingham) Limited
Birmingham Curzon Regeneration Company Limited	Frontier Development Holding Limited
Birmingham Endeavour Limited	Gallery 37 Foundation
Birmingham Municipal Housing Limited	Greater Birmingham and West Midlands Brussels Office*
Birmingham Venture Capital Limited*	Library of Birmingham Development Trust
Creative Advantage West Midlands 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 2016/17.

Ascension Ventures*
Aston Eyetech Limited
Auctus*
Big Button
Birmingham LEP Company (also known as Birmingham Lend Lease Partnership)*
Birmingham Research Park Ltd*
Birmingham Schools SPC Holdings Phase 1A Limited
Birmingham Schools SPC Phase 1A Limited*
Birmingham Schools SPC Holdings Phase 1B Limited
Birmingham Schools SPC Phase 1B Limited*
Birmingham Wheels Ltd
Birmingham Wholesale Market Company Limited*
Bridge Street Management Ltd
Central Technology Belt
Closed Questions (Vote Here Ltd)
Concierge Events Limited
Crowd Technologies
CSR City Limited
Droplet Online*
Ex Cathedra
Finds You*
Foodient T/A Whisk
Formatzone Limited
Frontier Development Capital Limited
Goodfish Limited
Icknield Port Loop LLP*
Inceptum Development Limited
Info-Ctrl Limited
Learning Labs Limited
Marketing Birmingham*
Matchbox Enterprises Ltd
Midlands Industrial Association Ltd
Mutt Motorcycles Limited
Natural HR Limited
Obillex Limited*
Owned It
Pure Mobile
Skips
Socially Accepted Games T/A Soshi
Stockfield Community Association
Stockfield Community Association (Subsidiary) Ltd
UK Municipal Bonds Agency Plc
Veolia Environmental Services Birmingham Ltd*
Vision Technologies
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 2016/17.

Acocks Green Primary School Academy*
Alston Primary School Academy*
Ark Tindal Primary School Academy*
Bartley Green School Academy*
Birmingham Asian Resource Centre
Birmingham Citizens Advice Bureau Service Ltd
Birmingham Conservation Trust
Birmingham Disability Resource Centre*
Birmingham Hippodrome Theatre Trust Ltd*
Birmingham Opera Company
Birmingham Repertory Theatre*
Birmingham Royal Ballet*
Birmingham Settlement Ltd
Birmingham Voluntary Service Council
Bournville College*
Greenholm Primary School Academy*
Grestone Primary School Academy*
Heathfield Primary School Academy*
Joseph Chamberlain College*
Leigh Primary School Academy*
Midlands Arts Centre*
Millennium Point Property Ltd*
Millennium Point Trust
Prince Albert Primary School Academy*
S4E*
St Basils*
St. Paul's Community Development Trust*
United Reformed Church (West Midlands) Trust Limited
Warren Farm Primary School Academy*
Warwickshire County Cricket Club*

Castle Vale Neighbourhood Partnership Board
City of Birmingham Symphony Orchestra*
Cockshut Hill Technology College Academy*
Dance Xchange*
The Drum/Newtown Cultural Project
West Midlands Arts Trust
West Midlands Combined Authority (incl. ex Centro)*
Wilson Stuart School Academy*
Witton Lodge Community Association Ltd*
WLCA Enterprises Ltd

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 2016/17.

Acocks Green Village BID*
Colmore Business District BID*
Erdington Town Centre Partnership*
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 have an influence over these bodies. Those highlighted with an asterisk had transactions with the Council in excess of £0.1m in 2016/17.

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 £100,000 with the following organisations which fall within the definition of related parties:

Anthony Collins Solicitors
Birmingham and Solihull Mental Health Trust
Birmingham and Solihull Women's Aid
Birmingham Community Healthcare Trust
Birmingham YMCA
Chinnbrook Family and Community Project
Focus Birmingham
Leigh Trust
Lench's Trust
Norton Hall Children and Family Centre
Optima Community Association
OTIS Limited
Pertemps
Priority Area Playgroup
Sandwell and West Birmingham Hospitals NHST
Sir Josiah Mason Trust
South and City College (Birmingham) Limited
Stonham (part of Home Group)
Thompsons Solicitors
University Hospital Birmingham Foundation Trust
Yardley Great Trust

The value of transactions for other, non-consolidated, related parties, individually less than £100,000 was net expenditure of £0.8m (£1.2m expenditure and £0.4m income).

Note 49
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 At 31 March 2017**	**Gross Income**
		£m	£m
Accountable Bodies	33	173.2	254.9
Trusts	15	23.8	0.4
External Payrolls	109	-	270.9
Subsidiary Companies	2	0.3	5.6
Housing	9	0.1	4.5
Business Rate Pooling	8	1.0	127.1
Total	**176**	**198.4**	**663.4**

<u>Accountable Bodies</u>

The Council acts as accountable body for a number of external activities, including the Greater Birmingham and Solihull Local Enterprise Partnership, Local Enterprise Zones and the England Illegal Money Lending Team.

The Council receives the funds allocated to the activities and incurs expenditure as directed by the external party. The Council may receive funds in its own right from the arrangement to support eligible projects.

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 Greater Birmingham & Solihull Local Enterprise Partnership (the LEP). The Council may receive direct funding to support eligible projects as determined by the LEP.

Enterprise Zones

The Council provides accountancy support, collects Business Rate contributions through its role as agent for the Collection Fund and makes 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.

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.

External Payrolls

The Council provides payroll services to a number of 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.

Subsidiary Companies

The Council records the activity of two of its subsidiary companies, National Exhibition Centre (Developments) PLC and InReach (Birmingham) Limited, in its financial ledger. Whilst not forming part of the Council entity financial statements, the companies are consolidated into the Council's group accounts.

Housing

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.

Business Rate Pooling

The Greater Birmingham and Solihull Business Rates Pool (the Pool) was designated by the Secretary of State and the Council entered the pooled budget arrangement in 2013/14 with seven other local authorities. The Council acts as intermediary between the authorities and the Government in respect of top-up tariff payments and holds the Pool's funds prior to distribution to meet agreed costs incurred by the LEP.

Note 50
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 monies held at 31 March 2017 was £28.6m (2015/16: £27.4m). In addition, the Council held £3.2m (2015/16: £3.3m) of Adult Services Clients' Funds. The trust funds and clients' 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 2016	Income	Expenditure	Balance at 31 March 2017
	£m	£m	£m	£m
Council acting as Sole Trustee				
Birmingham Municipal Charity - general charitable objectives	0.4	0.1	-	0.4
Charles Baker Trust – for the elderly and disabled	0.3	-	-	0.3
Cropwood Estate – management of the estate	14.7	0.1	-	14.8
Elford Trust – healthy recreation for Birmingham citizens	3.3	0.2	-	3.5
Harriet Louisa Loxton Charity – for the aged and infirm	1.6	0.2	-	1.8
Highbury Trust – for the benefit of the citizens of Birmingham	2.0	0.1	0.1	2.0
Total Council acting as Sole Trustee	**22.2**	**0.7**	**0.1**	**22.8**
Council acting as Custodian				
Alderson – to let dwelling houses to ex-servicemen and other persons in need	0.4	0.1	0.1	0.4
Bodenham Trust – for children with special educational needs	0.6	0.1	-	0.7
Clara Martineau Trust – for children with special educational needs	3.5	0.6	0.1	4.0
Holinsworth Fund – to further the work of voluntary bodies	0.2	-	-	0.2
The Lord Mayor's Charity Appeal – for charitable purposes	0.1	0.1	0.1	0.1
Moseley Road Friends Institute – provision and maintenance	0.2	0.1	0.1	0.2
Other	0.2	-	-	0.2
Total Council acting as Custodian	**5.2**	**1.1**	**0.4**	**5.8**
Total Trust Balances	**27.4**	**1.8**	**0.5**	**28.6**

Analysis of the assets of the main funds:

	Restricted Funds at 31 March 2017	Unrestricted Funds at 31 March 2017	Total Funds at 31 March 2017
	£m	£m	£m
Council acting as Sole Trustee			
Birmingham Municipal Charity - general charitable objectives	0.4	-	0.4
Charles Baker Trust – for the elderly and disabled	0.1	0.2	0.3
Cropwood Estate – management of the estate	0.2	14.6	14.8
Elford Trust – healthy recreation for Birmingham citizens	3.3	0.2	3.5
Harriet Louisa Loxton Charity – for the aged and infirm	1.6	0.2	1.8
Highbury Trust – for the benefit of the citizens of Birmingham	2.0	-	2.0
Total Council acting as Sole Trustee	**7.6**	**15.2**	**22.8**
Council acting as Custodian			
Alderson – To let dwelling houses to ex-servicemen and other persons in need	-	0.4	0.4
Bodenham Trust – for children with special educational needs	0.7	-	0.7
Clara Martineau Trust – for children with special educational needs	4.0	-	4.0
Holinsworth Fund – to further the work of voluntary bodies	0.2	-	0.2
The Lord Mayor's Charity Appeal – for charitable purposes	-	0.1	0.1
Moseley Road Friends Institute – provision and maintenance	0.2	-	0.2
Other	0.1	0.1	0.2
Total Council acting as Custodian	**5.2**	**0.6**	**5.8**
Total Assets	**12.8**	**15.8**	**28.6**

SUPPLEMENTARY FINANCIAL STATEMENTS 2016/17

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.

The Income and Expenditure Statement for 2015/16 has been restated to recognise the reallocation of the HRA share of Corporate and Democratic Core costs and the costs in the Net Cost of Services not allocated to specific services to Repairs and Maintenance and Supervision and Management budget heads.

2015/16 (Restated) £m		Note	2016/17 £m
	Income		
(267.7)	Dwellings rents		(263.8)
(6.1)	Non-dwellings rents		(7.9)
(19.5)	Charges for services and facilities		(18.1)
(293.3)	**Total Income**		**(289.8)**
	Expenditure		
59.7	Repairs and maintenance		57.4
76.1	Supervision and management	H9	78.0
5.2	Rent, rates, taxes and other charges		5.1
37.8	Depreciation and impairment charge	H3 & H6	47.5
0.2	Debt management costs		0.2
7.2	Movement in the allowance for bad debts (not specified by the Code)		5.0
186.2	**Total Expenditure**		**193.2**
(107.1)	**Net Expenditure/(Income) of HRA Services as included in the whole authority Comprehensive Income and Expenditure Statement**		**(96.6)**
-	HRA share of Corporate and Democratic Core		-
-	HRA share of other amounts included in the whole authority Net Cost of Services but not allocated to specific services		-
(107.1)	**Net Cost/(Income) of HRA Services**		**(96.6)**

	HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement:	
55.1	Interest payable and similar charges	52.6
0.3	Amortisation of premia and discounts	0.5
(0.3)	HRA interest and investment income	(0.3)
(4.3)	(Gains)/Losses on the disposal of HRA non-current assets	0.5
2.8	Pensions interest cost and expected return on pensions assets	2.8
(5.5)	Capital Grants and Contributions Receivable	(1.4)
(59.0)	**(Surplus)/Deficit for the Year on HRA Services**	**(41.9)**

Movement on the Housing Revenue Account Statement

2015/16		2016/17
£m		£m
(59.0)	(Surplus)/Deficit for the year on the HRA Income and Expenditure Account	(41.9)
58.8	Adjustments between accounting basis and funding basis under statute (note 16)	40.6
(0.2)	Net (increase) / decrease before transfers to / (from) reserves	**(1.3)**
0.1	Transfers to / (from) reserves	1.2
(0.1)	(Increase) / decrease for the year on HRA balance	**(0.1)**
(4.5)	HRA Balance Brought Forward	(4.6)
(4.6)	HRA Balance Carried Forward	**(4.7)**

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 2016		31 March 2017
3,726	1 bedroom bungalows	3,725
15,248	1 bedroom flats	15,152
47	1 bedroom houses	49
292	2 bedroom bungalows	296
10,843	2 bedroom flats	10,758
8,546	2 bedroom houses	8,494
35	3 or more bedroom bungalows	31
4,200	3 or more bedroom flats	4,150
19,700	3 or more bedroom houses	19,415
62,637	**Total housing stock**	**62,070**

The change in the property numbers is analysed below:

2015/16		2016/17
62,943	Stock at 1 April	62,637
(455)	Sales	(632)
(181)	Demolitions / transfers	(143)
330	Acquisitions	208
62,637	**Stock at 31 March**	**62,070**

The Balance Sheet values of HRA non-current assets are as follows:

31 March 2016		31 March 2017
£m		**£m**
1,666.9	Council dwellings/garages	2,154.0
34.7	Other land and buildings	35.9
1,701.6	**Total operational assets**	**2,189.9**
19.9	Non-operational assets	19.0
1,721.5	**Total**	**2,208.9**

The housing stock, land and other property within the HRA are valued in line with the DCLG 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 2016/17 of 40% (2015/16 34%).

During the year, £95.9m was spent on HRA dwellings of which £77.2m was impaired as not adding value to the dwellings. This impairment was charged against the HRA in the CIES.

At 31 March 2017, the Council also owned 82 dwellings (2016: 119) 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 £2.8m (2016: £3.2m).

The value of Council dwellings is broken down into components as follows:

31 March 2016		31 March 2017
£m		**£m**
404.7	Land	529.7
19.5	Kitchens	20.4
25.3	Bathrooms	21.7
56.6	Windows	43.4
38.3	Heating	52.2
33.2	Roofs	37.1
1,089.3	Remaining Structure	1,449.5
1,666.9	**Total**	**2,154.0**

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 2017 is £4,979.2m.

(b) The difference between the above figure and the figure of £2,154.0m in the Balance Sheet notionally represents diminution in the value of assets caused by their being let at social housing rents, according to the DCLG'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 has occurred to the assets. This could include a decline in demand, obsolescence, and commitments to make significant changes to housing. As disclosed in Supplementary Note H1 there was an impairment of £77.2m made to the carrying value of HRA dwellings to reflect the fact that capital expenditure on the assets did not add equivalent value. In addition a revaluation of the HRA dwellings has identified an increase in value of £548.8m, which has been transferred to the Revaluation Reserve.

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

2015/16		2016/17
£m		**£m**
15.8	**Balance on Major Repairs Reserve at 1 April**	**5.8**
37.8	Amount transferred to Major Repairs Reserve during the year	47.5
(47.8)	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	(14.3)
5.8	**Balance on Major Repairs Reserve at 31 March**	**39.0**

H5. Capital Expenditure on HRA Assets

Capital expenditure on HRA assets was funded from the following sources:

2015/16		2016/17
£m		**£m**
22.2	Usable Capital Receipts (Right to Buy / land)	22.5
47.8	Major Repairs Reserve	14.3
20.1	HRA Revenue contributions	27.8
4.5	Prudential Borrowing	28.0
5.9	Other resources	3.3
100.5		**95.9**

The total capital receipts from disposals of land, houses and other property within the HRA during the financial year was £36.1m (land £6.0m, houses £30.1m). The values for 2015/16 were £27.2m (land £6.1m and houses £21.1m). The Government operates a capital receipts pooling framework and of these amounts £6.3m was paid to Central Government (2015/16: £6.5m).

H6. Depreciation Charges

The total charge for depreciation for the land, houses, and other property within the Council's HRA is £47.5m (2015/16: £37.8m). 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 (IAS) 19 as described in detail in Note 21 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 2017 totalled £12.3m (2015/16: £12.1m). Other arrears including Housing Benefit overpayments, leaseholder major works and miscellaneous services totalled £22.5m at 31 March 2017 (2015/16: £22.2m).

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 £29.8m at 31 March 2017 (2015/16: £28.7m) and has been calculated based on value/aged analysis in accordance with Government guidelines.

31 March 2016		31 March 2017
£m		**£m**
12.1	Current tenants	12.3
13.2	Housing benefit overpayment	13.2
9.0	Other debt (services/leaseholders)	9.3
34.3	**Total arrears**	**34.8**
28.7	Provision for bad debts	29.8

H9. Supervision and Management

The Council has recognised that an element of the settlements being agreed in respect of claims under the Equal Pay Act 1970 relate to employees whose employment costs fell on the HRA. Therefore the HRA has been charged its share of the Council's overall Equal Pay liability based on the current estimate of claims. The charge to the HRA relates solely to claims relating to activities correctly charged to the HRA, and amounts to a charge of £0.7m in 2016/17 (2015/16: £0.5m). Statutory arrangements under Regulation 30A of The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, as amended to 1 April 2016, allow the change in provision to be reversed back to an Equal Pay Back Pay Account. The remaining balance on the Equal Pay Back Pay Account will be debited back to the HRA through the Movement in Reserves Statement in future financial years as payments are made.

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.

2015/16				2016/17		
Council Tax	NNDR	Total		Council Tax	NNDR	Total
£m	£m	£m	Income	£m	£m	£m
(322.9)		(322.9)	Collectable Council Tax	(343.0)		(343.0)
(322.9)		**(322.9)**		**(343.0)**		**(343.0)**
	(437.2)	(437.2)	Collectable Business Rates		(445.1)	(445.1)
	1.1	1.1	Transitional Payment Payable to Government		1.7	1.7
	(436.1)	**(436.1)**			**(443.4)**	**(443.4)**
	(3.8)	**(3.8)**	**Enterprise Zone Deficit Repayable to the Collection Fund**		**(2.2)**	**(2.2)**
			Apportionment of Prior Year Deficit:			
-	(2.1)	(2.1)	Birmingham City Council	-	(17.9)	(17.9)
	(2.3)	(2.3)	Central Government		(18.3)	(18.3)
-	-	-	West Midlands Fire & Rescue Authority	-	(0.4)	(0.4)
-		-	West Midlands Police and Crime Comm.	-		-
-	**(4.4)**	**(4.4)**	**Total Apportionment of Prior Year Deficit**	**-**	**(36.6)**	**(36.6)**
(322.9)	**(444.3)**	**(767.2)**	**TOTAL INCOME**	**(343.0)**	**(482.2)**	**(825.2)**

2015/16				2016/17		
Council Tax	NNDR	Total		Council Tax	NNDR	Total
£m	£m	£m	Expenditure	£m	£m	£m
			Precepts Demands & Shares:			
272.1	203.9	476.0	Birmingham City Council	293.7	212.1	505.8
0.1		0.1	New Frankley Parish Council	0.1		0.1
-		-	Sutton Coldfield Town Council	1.8		1.8
	201.9	201.9	Central Government		209.7	209.7
12.9	4.0	16.9	West Midlands Fire & Rescue Authority	13.7	4.2	17.9
25.0		25.0	West Midlands Police and Crime Comm.	27.2		27.2
			Charges:			
9.4	12.7	22.1	Increase/(Decrease) in Provision for Bad and Doubtful Debts	9.0	8.6	17.6
	40.0	40.0	Increase/(Decrease) in Provision for Appeals		17.8	17.8
	1.9	1.9	Cost of Collection		1.9	1.9
			Payment to NNDR Pool			
319.5	**464.4**	**783.9**	**TOTAL EXPENDITURE**	**345.5**	**454.3**	**799.8**
(3.4)	**20.1**	**16.7**	**(Surplus)/Deficit for the year**	**2.5**	**(27.9)**	**(25.4)**
(4.7)	**31.7**	**27.0**	**(Surplus)/Deficit brought forward**	**(8.1)**	**51.8**	**43.7**
(8.1)	**51.8**	**43.7**	**(Surplus)/Deficit carried forward**	**(5.6)**	**23.9**	**18.3**

Notes to the Collection Fund
C1. Contributions from Council Taxpayers

The Council's tax base at January 2016 (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	141	5/9	78
A	81,540	6/9	54,360
B	85,085	7/9	66,177
C	58,000	8/9	51,556
D	30,660	1	30,660
E	17,619	11/9	21,534
F	7,895	13/9	11,404
G	5,337	15/9	8,895
H	758	18/9	1,516
Total	**287,035**		**246,180**
Less adjustment for collection rate			(7,138)
			239,042

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 Council 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	690	6/9	460
B	974	7/9	758
C	84	8/9	75
D	54	1	54
E	1	11/9	1
F	-	13/9	-
G	-	15/9	-
H	1	18/9	2
Total	**1,805**		**1,351**
Less adjustment for collection rate			(39)
			1,312

The figures for Sutton Coldfield Town Council are:

Band	Number of Properties	Ratio	Band D equivalent dwellings
AR	2	5/9	1
A	1,640	6/9	1,093
B	3,887	7/9	3,023
C	6,084	8/9	5,408
D	8,282	1	8,282
E	7,811	11/9	9,547
F	3,799	13/9	5,487
G	2,439	15/9	4,065
H	347	18/9	694
Total	**34,291**		**37,600**
Less adjustment for collection rate			(1,091)
			36,509

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 (48.4p for 2016/17: 48.0p for 2015/16). The total non-domestic rateable value at 31 March 2017 was £1,076.42m (31 March 2016: £1,068.10m). Under the current Business Rates Retention Scheme the amount raised each year, less certain reliefs and adjustments, is 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 Business Rates element of the Collection Fund are the City Council, Central Government and the West Midlands Fire and Rescue Authority.

Draft Statement of GROUP Accounts 2016/17

Narrative Report

1 Introduction

1.1 This document presents the statutory financial statements for Birmingham City Council Group (the Group) for the period from 1 April 2016 to 31 March 2017. The financial statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (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.

1.2 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 and trusts 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.

1.3 These Group Accounts have been prepared using uniform accounting policies for like transactions and other events in similar circumstances. The accounting policies of the subsidiaries, associates and jointly controlled entities 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.

1.4 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.

1.5 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.

1.6 The pages which follow contain the Group's Financial Statements for the year ended 31 March 2017, with comparative figures for the previous financial year.

2 Consolidation of Subsidiary and Associate Companies

2.1 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.

2.2 The Council disposed of the National Exhibition Centre Limited Group (NEC Ltd) on 1 May 2015 and the Group Accounts have included the activity of that company for the period to the date of disposal. There has been no activity in respect of the Group for 2016/17.

2.3 The Council has incorporated one company into its Group consolidation for the first time as the activity in the company is considered material to the whole, namely InReach (Birmingham) Limited, which was created to facilitate the development of new private rented homes for market rent at St Vincent Street, Ladywood.

2.4 The Group Accounts consolidate the Council's accounts with those of:

Subsidiaries

- Acivico Limited
- Birmingham Museums Trust
- Innovation Birmingham Limited
- InReach (Birmingham) Limited
- National Exhibition Centre Limited (including NEC Finance Plc) for the period to 1 May 2015
- National Exhibition Centre (Developments) Plc
- Performances Birmingham Limited
- PETPS (Birmingham) Limited

Associates

- Birmingham Airport Holdings Limited
- Service Birmingham Limited

Joint Venture

- Paradise Circus General Partner Limited

2.5 Further detail regarding the Council's relationship with the above companies is given in notes G25 and G26.

2.6 The Council also maintains involvement with a number of other related entities where the assets and liabilities of the companies are not included in these Group Accounts. Where these entities fall within the Group boundary as subsidiaries, associates or jointly controlled entities they have been excluded from consolidation on the grounds of materiality. Otherwise they do not fall within the Group boundary due to the Council's limited control or influence. Further details are set out in Note 48 to the Council's accounts.

3 Changes in Group Structure

3.1 The Council set up InReach (Birmingham) Limited in 2015/16, a wholly owned subsidiary of the Council, to facilitate the development of new private rented homes for market rent at St Vincent Street, Ladywood. The activity of the company has increased in 2016/17 such that it is now considered material to the Group and it has been consolidated into the Council's Group Financial Statements for the first time.

3.2 In February 2017 a process commenced to explore a potential sale of the business and assets of Innovation Birmingham to a strategic purchaser. The intention is to seek a new investor to continue with the strategic development of Innovation Birmingham Ltd and the Innovation Birmingham Campus. The Innovation Birmingham Campus masterplan identifies a further 90,000 sq ft of proposed development before January 2020, creating one of the largest dedicated technology campuses in the UK.

4 The Main Financial Statements

4.1 The following statements consolidate the accounts of the Council with those of its subsidiaries and associates. Transactions between the Council and its Group entities are eliminated on consolidation.

4.2 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.

4.3 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.

	2015/16		2016/17	
	Entity	Group	Entity	Group
	£m	£m	£m	£m
Surplus/(Deficit) on Provision of Services	(134.4)	84.8	(116.1)	(107.3)

4.4 The 2016/17 GCIES shows a loss of £192.1m in the net Surplus/(Deficit) on Provision of Services compared to 2015/16. The major changes in the net position are detailed in the Narrative Report of the entity accounts plus the impact of the one-off gain arising from the sale of the NEC Group Limited in 2015/16.

4.5 Group Balance Sheet – shows the value of assets and liabilities recognised by the Group at 31 March 2017 and the level of reserves, split into usable and unusable.

	2015/16		2016/17	
	Entity	Group	Entity	Group
	£m	£m	£m	£m
Long Term Assets	5,247.9	5,252.2	5,755.6	5,761.8
Current Assets	418.6	428.2	362.9	366.9
Current Liabilities	(1,071.7)	(1,077.7)	(1,063.6)	(1,065.7)
Long Term Liabilities	(5,437.6)	(5,431.5)	(6,116.4)	(6,123.6)
Net Assets/(Liabilities)	**(842.8)**	**(828.8)**	**(1,061.5)**	**(1,060.6)**
Represented by:				
Usable Reserves	895.7	897.4	830.1	814.1
Unusable Reserves	(1,738.5)	(1,726.2)	(1,891.6)	(1,874.7)
Total Reserves	**(842.8)**	**(828.8)**	**(1,061.5)**	**(1,060.6)**

4.6 The net liability has increased by £231.8m to £1,060.6m. This is mainly due to an increase in the net liability on defined benefit pension schemes offset by a reduction in provision by the Council for Equal Pay claims and increases in the carrying value of Property, Plant and Equipment.

4.7 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. Discontinued operations relate to the disposal of NEC Ltd on 1 May 2015. The figures for 2015/16 have been restated to reflect the new reporting requirements and for the revision to the allocation of internal trading. Details of the restatement are set out in Note 5 to the entity accounts.

2015/16 (Restated) Gross Expenditure £m	2015/16 (Restated) Gross Income £m	2015/16 (Restated) Net Expenditure £m		Note	2016/17 Gross Expenditure £m	2016/17 Gross Income £m	2016/17 Net Expenditure £m
			Continuing Operations				
1,577.1	(1,052.6)	524.5	People		1,590.2	(1,046.5)	543.7
327.5	(100.3)	227.2	Place		303.4	(98.1)	205.3
258.5	(61.8)	196.7	Economy		125.4	(54.0)	71.4
634.4	(630.8)	3.6	Corporate Resources		684.0	(631.6)	52.4
9.1	(9.2)	(0.1)	Corporately Managed		13.9	(6.1)	7.8
186.2	(293.3)	(107.1)	Housing Revenue		193.2	(289.8)	(96.6)
2,992.8	**(2,148.0)**	**844.8**	**Total Cost Of Services**		**2,910.1**	**(2,126.1)**	**784.0**
45.0	-	45.0	Other Operating Expenditure		212.5		212.5
295.1	(69.7)	225.4	Financing and Investment Income and Expenditure	G7	289.6	(61.4)	228.2
12.0	(99.9)	(87.9)	Discontinued Operations	G5,G6	-	-	-
16.6	(1,128.7)	(1,112.1)	Taxation and Non-Specific Grant Income		6.0	(1,123.4)	(1,117.4)
		(84.8)	**(Surplus) / Deficit on Provision of Services**				**107.3**
		(9.8)	Share of the (surplus)/deficit on the Provision of Services of Associates				(7.9)
		0.1	Tax Expense of Subsidiaries				0.1
		3.3	Tax Expense of Associates				1.4
		(91.2)	**Group (Surplus)/Deficit**				**100.9**
			Items that will not be reclassified to the (Surplus)/Deficit on the Provision of Services				
		(295.0)	(Surplus) / deficit on revaluation of Property, Plant and Equipment assets	G9			(650.1)
		73.3	Impairment losses on non-current assets charged to the revaluation reserve	G9			-
		(249.4)	Remeasurement of the net defined benefit liability	G22			766.7
		7.2	Share of Other Comprehensive Income and Expenditure of Associates and Joint Ventures				8.4
		(463.9)					**125.0**
			Items that may be reclassified to the (Surplus)/Deficit on the Provision of Services				
		0.7	(Surplus) / deficit on revaluation of available for sale financial assets				(0.3)
		0.7					**(0.3)**
			Reclassification Adjustment for prior year unrealised gains/(losses)				
		(0.1)	Gain/(loss) adjustment on disposal of available for sale financial assets				**-**
		(0.1)					**-**
		(463.3)	**Other Comprehensive (Income) / Expenditure**				**124.7**
		(554.5)	**Total Comprehensive (Income) / Expenditure**				**225.6**

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 2015	**485.3**	**4.5**	**16.3**	**15.8**	**104.1**	**626.0**	**(1,854.0)**	**(1,228.0)**	**(111.7)**	**(1,339.7)**
Movement in Reserves during 2015/16										
Surplus/(Deficit) on the provision of services	(105.1)	59.0				**(46.1)**		**(46.1)**	137.3	**91.2**
Other Comprehensive Income and Expenditure						**-**	519.6	**519.6**	(56.3)	**463.3**
Total Comprehensive Income and Expenditure	**(105.1)**	**59.0**	**-**	**-**	**-**	**(46.1)**	**519.6**	**473.5**	81.0	**554.5**
Adjustments between Group Accounts and Council Accounts (Note G23)	(88.3)					(88.3)		(88.3)	88.3	-
Changes in Group Reserves accounted for through equity (G8)									(43.5)	(43.5)
Net Increase/(Decrease) before Transfers	**(193.4)**	**59.0**	**-**	**-**	**-**	**(134.4)**	**519.6**	**385.2**	**125.7**	**510.9**
Adjustments between accounting basis and funding basis under regulations (Note 16)	208.3	(58.9)	295.8	(10.0)	(31.1)	**404.1**	(404.1)	**-**		**-**
Increase/Decrease in 2015/16	**14.9**	**0.1**	**295.8**	**(10.0)**	**(31.1)**	**269.7**	**115.5**	**385.2**	**125.7**	**510.9**
Balance at 31 March 2016	**500.2**	**4.6**	**312.1**	**5.8**	**73.0**	**895.7**	**(1,738.5)**	**(842.8)**	**14.0**	**(828.8)**
Movement in Reserves during 2016/17										
Surplus/(Deficit) on the provision of services	(138.4)	41.9				**(96.5)**		**(96.5)**	(4.4)	**(100.9)**
Other Comprehensive Income and Expenditure							(102.6)	**(102.6)**	(22.1)	**(124.7)**
Total Comprehensive Income and Expenditure	**(138.4)**	**41.9**				**(96.5)**	**(102.6)**	**(199.1)**	(26.5)	**(225.6)**
Adjustments between Group Accounts and Council Accounts (Note G23)	(19.6)					(19.6)		(19.6)	19.6	-
Changes in Group Reserves accounted for through equity (G8)									(6.2)	(6.2)
Net Increase/(Decrease) before Transfers	**(158.0)**	**41.9**				**(116.1)**	**(102.6)**	**(218.7)**	**(13.1)**	**(231.8)**
Adjustments between accounting basis and funding basis under regulations (Note 16)	70.7	(41.9)	(33.7)	33.2	22.2	**50.5**	(50.5)	**-**		**-**
Increase/Decrease in 2016/17	**(87.3)**	**-**	**(33.7)**	**33.2**	**22.2**	**(65.6)**	**(153.1)**	**(218.7)**	**(13.1)**	**(231.8)**
Balance at 31 March 2017	**412.9**	**4.6**	**278.4**	**39.0**	**95.2**	**830.1**	**(1,891.6)**	**(1,061.5)**	**0.9**	**(1,060.6)**

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 2016 £m		Note	31 March 2017 £m
4,874.6	Property, Plant and Equipment	G9	5,380.0
249.8	Heritage Assets		251.5
10.0	Investment Property		9.8
25.6	Intangible Assets		19.7
5.8	Long Term Investments		5.1
61.5	Long Term Debtors		74.1
24.9	Investments in Associates and Joint Ventures	G25,G26	21.6
5,252.2	**Total Long Term Assets**		**5,761.8**
58.8	Short Term Investments		29.3
4.2	Assets Held for Sale		6.6
1.5	Inventories		1.6
281.2	Short Term Debtors	G11	271.4
82.5	Cash and Cash Equivalents		58.0
428.2	**Total Current Assets**		**366.9**
(34.5)	Cash and Cash Equivalents		(13.5)
(430.5)	Short Term Borrowing		(513.6)
(329.4)	Short Term Creditors	G12	(369.2)
(283.3)	Provisions		(169.4)
(1,077.7)	**Total Current Liabilities**		**(1,065.7)**
(73.1)	Long Term Creditors	G10	(73.0)
(60.8)	Provisions		(16.3)
(2,684.4)	Long Term Borrowing		(2,644.3)
(507.8)	Other Long Term Liabilities		(484.8)
(2,105.4)	Net liability on defined benefit pension scheme	G22	(2,905.2)
(5,431.5)	**Total Long Term Liabilities**		**(6,123.6)**
(828.8)	**Net Assets/(Liabilities)**		**(1,060.6)**
897.4	Usable Reserves	G13	814.1
(1,726.2)	Unusable Reserves	G14	(1,874.7)
(828.8)	**Total Reserves**		**(1,060.6)**

Group Cash Flow Statement

The Group Cash Flow Statement shows the changes in cash and cash equivalents of the Group during the reporting period.

2015/16		Note	2016/17
£m			£m
91.2	Net Surplus/(Deficit) on the provision of services		(100.9)
443.0	Adjustments to net Surplus/Deficit on the provision of services for non-cash movements	G18	363.1
(693.0)	Adjustments for items included in the net Surplus/(Deficit) on the provision of services that are investing and financing activities	G18	(231.9)
0.2	Net cash flow from operating activities related to discontinued operations		-
(158.6)	**Net cash flows from Operating Activities**		**30.3**
270.2	Investing Activities	G16	(175.3)
(84.6)	Financing Activities	G17	141.5
27.0	**Net increase/(decrease) in cash and cash equivalents**		**(3.5)**
21.0	Cash and cash equivalents at the beginning of the reporting period		48.0
48.0	**Cash and cash equivalents at the end of the reporting period**		**44.5**

NOTES TO THE GROUP ACCOUNTS

Note G1
Accounting Policies

The Group Financial Statements summarise the Council's and Group's transactions for the 2016/17 financial year. The Group Financial Statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, 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 G25 and G26. 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 associates are carried at cost rather than fair value.

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 financial statements, 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 G22.

Defined Benefit Pension Scheme

Acivico Limited and Birmingham Museums Trust 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 G22.

Note G2
Critical Judgements in Applying Accounting Policies

National Exhibition Centre

On 16 January 2015, the Council announced that it had entered into a binding agreement for the disposal of The National Exhibition Centre Limited (NEC Ltd) to Lloyds Development Capital, the private equity arm of Lloyds Banking Group.

The disposal of the assets related to the NEC Group within the Council entity accounts and the subsidiaries consolidated within the Group accounts have been treated as one transaction on consolidation.

Other critical judgements relating to the Council in applying Accounting Policies are provided in Note 2 to the Council entity accounts.

There are no additional material judgements to report in respect of the remaining Group Entities.

Note G3
Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

Assumptions made about future and other major sources of estimation and uncertainty are provided in Note 3 to the Council entity accounts.

There are no additional material assumptions to report in respect of the remaining Group Entities.

Note G4
Prior Period Restatement of the Group Comprehensive Income and Expenditure Statement

The 2016/17 Code of Practice on Local Authority Accounting requires that the Council shows its expenditure and income on services on the basis of Directorates. This is a change from previous years where the service analysis was based on the Service Reporting Code of Practice. This note sets out how the net Group expenditure and income has been restated.

Service Reporting Code of Practice (SeRCOP) Service Line	(Restated) As Reported in the Comprehensive Income and Expenditure Statement 2015/16 £m	Adjustments between SeRCOP classification and Internal Reporting Classifications £m	As Restated in 2015/16 £m	Directorate
Net Expenditure				
Continuing Operations				
Cultural and Related Services	75.4	(75.4)	-	
Environmental and Regulatory Services	77.9	149.3	227.2	Place
Planning Services	(8.9)	12.5	3.6	Corporate Resources
Housing General Fund (Other Housing Services)	54.6	(54.6)	-	
Central Services to the Public	8.8	(8.8)	-	
Children's and Education Services	245.5	279.0	524.5	People
Adult Social Care	268.2	(268.2)	-	
Public Health	8.9	(8.9)	-	
Highways and Transport Services	201.0	(4.3)	196.7	Economy
Local Authority Housing (Housing Revenue Account - HRA)	(106.6)	(0.5)	(107.1)	HRA
Corporate and Democratic Core	(1.5)	1.5	-	
Non Distributed Costs	24.6	(24.7)	(0.1)	Corporately Managed
Total Continuing Operations excluding acquired services	847.9	(3.1)	844.8	
Acquired Services - from Health				
Public Health - Children's Services	(3.1)	3.1	-	
Net Cost of Services	**844.8**	**-**	**844.8**	
(Surplus)/Deficit on Trading Operations not consolidated within the Service	(1.4)	-	(1.4)	
Other Financing and Investment Income and Expenditure	226.8	-	226.8	
Total Financing and Investment Income and Expenditure	**225.4**	**-**	**225.4**	
Gross Expenditure				
Continuing Operations				
Cultural and Related Services	128.0	(128.0)	-	
Environmental and Regulatory Services	105.1	222.4	327.5	Place
Planning Services	47.4	587.0	634.4	Corporate Resources
Housing General Fund (Other Housing Services)	641.5	(641.5)	-	
Central Services to the Public	21.0	(21.0)	-	
Children's and Education Services	1,107.5	469.6	1,577.1	People
Adult Social Care	369.7	(369.7)	-	
Public Health	85.5	(85.5)	-	
Highways and Transport Services	237.9	20.6	258.5	Economy
Local Authority Housing (Housing Revenue Account - HRA)	186.7	(0.5)	186.2	HRA
Corporate and Democratic Core	1.3	(1.3)	-	
Non Distributed Costs	24.6	(15.5)	9.1	Corporately Managed
Total Continuing Operations excluding acquired services	2,956.2	36.6	2,992.8	
Acquired Services - from Health				
Public Health - Children's Services	8.3	(8.3)	-	
Gross Cost of Services	**2,964.5**	**28.3**	**2,992.8**	
(Surplus)/Deficit on Trading Operations not consolidated within the Service	59.8	(28.4)	31.4	
Other Financing and Investment Income and Expenditure	263.7	-	263.7	
Total Financing and Investment Income and Expenditure	**323.5**	**(28.4)**	**295.1**	

Service Reporting Code of Practice (SeRCOP) Service Line	(Restated) As Reported in the Comprehensive Income and Expenditure Statement 2015/16 £m	Adjustments between SeRCOP classification and Internal Reporting Classifications £m	As Restated in 2015/16 £m	Directorate
Gross Income				
Continuing Operations				
Cultural and Related Services	(52.6)	52.6	-	
Environmental and Regulatory Services	(27.2)	(73.1)	(100.3)	Place
Planning Services	(56.3)	(574.5)	(630.8)	Corporate Resources
Housing General Fund (Other Housing Services)	(586.9)	586.9	-	
Central Services to the Public	(12.2)	12.2	-	
Children's and Education Services	(862.0)	(190.6)	(1,052.6)	People
Adult Social Care	(101.5)	101.5	-	
Public Health	(76.6)	76.6	-	
Highways and Transport Services	(36.9)	(24.9)	(61.8)	Economy
Local Authority Housing (Housing Revenue Account - HRA)	(293.3)	-	(293.3)	HRA
Corporate and Democratic Core	(2.8)	2.8	-	
Non Distributed Costs	-	(9.2)	(9.2)	Corporately Managed
Total Continuing Operations excluding acquired services	(2,108.3)	(39.7)	(2,148.0)	
Acquired Services - from Health				
Public Health - Children's Services	(11.4)	11.4	-	
Gross Income of Services	**(2,119.7)**	**(28.3)**	**(2,148.0)**	
(Surplus)/Deficit on Trading Operations not consolidated within the Service	(61.2)	28.4	(32.8)	
Other Financing and Investment Income and Expenditure	(36.9)	-	(36.9)	
Total Financing and Investment Income and Expenditure	**(98.1)**	**28.4**	**(69.7)**	

Note G5
Discontinued Operations

In January 2015, the Council announced that it had entered into a binding agreement to dispose of the NEC Group to Lloyds Development Capital, the private equity arm of Lloyds Banking Group.

The sale was completed on 1 May 2015 and the City Council received a cash payment of £250m to cover:

- The sale of its equity in The National Exhibition Centre Limited (NECL);
- A premium for the sale of leasehold interests as detailed in Note 42 to the Council entity accounts;
- Net income from operations of the NEC Group until completion of the sale.

The gain on disposal of the discontinued operations was determined as follows:

	2015/16 £m
Consideration Received	**224.8**
Net cost of disposal	(5.1)
Net disposal proceeds	**219.7**
Assets/Liabilities disposed of:	
Tangible Assets	285.1
Debtors	38.9
Short Term Creditors	(104.0)
Long Term Liabilities	(86.7)
Total Net Assets/(Liabilities)	**133.3**
Gain on disposal of subsidiary	**86.4**

Comprehensive Income and Expenditure Statement

The Council disposed of the NEC Group Limited on 1 May 2015 and the information for 2015/16 covers the period 1 April 2015 to 1 May 2015 only.

	2015/16 £m
Turnover	13.5
Cost of Sales	(2.8)
Gross Profit	**10.7**
Administrative Expenses	(9.2)
Operating Profit	**1.5**
Interest Payable	
Profit/(Loss) before Taxation	**1.5**
Gain on Disposal	86.4
Net Discontinued Operations	**87.9**

Cash Flow

Details of the discontinued operations cash flow are included in the Cash Flow Statement and in Notes G16, Cash Flow Statement – Investing Activities and G17, Cash Flow Statement – Financing Activities.

There has been no impact on the 2016/17 Group Accounts.

Note G6
Material Items of Income and Expenditure

The Council completed the sale of the NEC Group Limited to Lloyds Development Capital on 1 May 2015. The transactions involved in the sale of the NEC Group Limited are identified and accounted for in the Council entity accounts.

The Council entity accounts for 2015/16, Comprehensive Income and Expenditure Statement (CIES), includes a loss on disposal of £59.2m relating to the disposal of the NEC within the total other operating expenditure of £104.2m. On consolidation for the Group accounts, the disposal of the NEC has been accounted as discontinued operations and therefore, other operating expenditure within the Group CIES has been adjusted to reflect the movement. The net gain on disposal for the NEC Group is £86.4m in 2015/16 and is detailed in note G5, Discontinued Operations. The gain on disposal does not impact on the Council's level of usable reserves.

There have been no items considered to be material to the Statement of Accounts in 2016/17.

Note G7
Financing and Investment Income and Expenditure

The figures for 2015/16 have been restated to reflect the change in the allocation of internal trading income as per Note 11. Financing and Investment Income and Expenditure disclosed in the Group CIES comprises the following:

2015/16 (Restated)				2016/17		
Gross Expenditure £m	Income £m	Net £m		Gross Expenditure £m	Income £m	Net £m
190.5	-	190.5	Interest Payable and similar charges	187.7	-	187.7
73.2	(2.0)	71.2	Net interest on the net defined benefit liability	72.1	-	72.1
-	(14.2)	(14.2)	Interest Receivable and similar income	-	(16.7)	(16.7)
31.4	(32.8)	(1.4)	(Surplus)/Deficit on trading operations not consolidated within Service Expenditure Analysis in Comprehensive Income and Expenditure Statement	29.8	(33.0)	(3.2)
-	(20.7)	(20.7)	Other investment income and expenditure		(11.7)	(11.7)
295.1	**(69.7)**	**225.4**	**Sub Total**	**289.6**	**(61.4)**	**228.2**

Note G8
Changes in Group Reserves accounted for through Equity

The National Exhibition Centre (Developments) Plc was set up to provide additional exhibition space, financed by a loan stock issue of £73m, at the NEC site. Since the disposal of NEC Ltd, the Council has given a guarantee to NEC (Developments) Plc, as part of the disposal arrangements of assets held by the company, for the loan stock and made payments to the company to enable it to meet its liabilities as they fall due.

NEC (Developments) Plc has accounted for amounts provided by the Council as capital contributions where there are no rights or obligations, including repayment, attached. The capital contributions are considered to be distributable reserves. Following the transactions and alignment of accounting policies there has been a reduction in member equity of £6.2m (2015/16; reduction of £43.5m).

Note G9
Property, Plant and Equipment

Details of the Group Property, Plant and Equipment are set out below. The PFI/Service Concession assets included in Property, Plant and Equipment have been restated for 2015/16 to reflect the highways activity incurred by the Council which is subsumed in the PFI contract.

Movements in Balances: 2016/17

	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 2016	**1,778.0**	**2,413.5**	**216.9**	**540.9**	**92.7**	**7.3**	**118.3**	**5,167.6**	**725.8**
Additions	95.9	66.3	9.7	38.1	0.6		107.6	**318.2**	43.6
Assets reclassified between categories	-	38.0	0.4	3.9	0.7		(43.1)	**(0.1)**	-
Assets reclassified (to)/from Held for Sale	-	(6.8)	-	-	-	(1.6)	-	**(8.4)**	-
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	437.7	50.1	-	-	-	0.4	-	**488.2**	(6.9)
Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	-	(1.1)	7.9	-	-	-	(0.1)	**6.7**	2.9
Derecognition - Disposals	(31.4)	(179.5)	(21.7)	-	(33.7)	(0.1)	-	**(266.4)**	(17.5)
Derecognition – other	(1.5)	-	-	-	-	-	-	**(1.5)**	
At 31 March 2017	**2,278.7**	**2,380.5**	**213.2**	**582.9**	**60.3**	**6.0**	**182.7**	**5,704.3**	**747.9**
Accumulated Depreciation and Impairment									
At 1 April 2016	**(111.2)**	**(32.3)**	**(83.2)**	**(66.3)**	**-**	**-**	**-**	**(293.0)**	**(68.3)**
Depreciation charge	(47.5)	(56.5)	(21.2)	(22.8)	-	(0.1)	-	**(148.1)**	(29.0)
Depreciation written out to the Revaluation Reserve	111.1	37.7	-	-	-	-	-	**148.8**	2.0
Depreciation written out to the Surplus/Deficit on the Provision of Services	-	67.2	-	-	-	-	-	**67.2**	0.8
Impairment (losses)/reversals recognised in the Revaluation Reserve	-	8.1	-	-	-	0.1	-	**8.2**	-
Impairment (losses)/reversals recognised in the Surplus/Deficit on the Provision of Services	(77.1)	(56.9)	-	-	-	-	-	**(134.0)**	-
Derecognition - Disposals	-	4.3	20.9	-	-	-	-	**25.2**	0.6
Assets reclassified to/(from) Held for Sale	-	1.4	-	-	-	-	-	**1.4**	-
At 31 March 2017	**(124.7)**	**(27.0)**	**(83.5)**	**(89.1)**	**-**	**-**	**-**	**(324.3)**	**(93.9)**
Net Book Value									
At 31 March 2017	**2,154.0**	**2,353.5**	**129.7**	**493.8**	**60.3**	**6.0**	**182.7**	**5,380.0**	**654.0**
At 1 April 2016	**1,666.8**	**2,381.2**	**133.7**	**474.6**	**92.7**	**7.3**	**118.3**	**4,874.6**	**657.5**

Movements in Balances: 2015/16 (Restated)

	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 2015	**1,810.8**	**2,353.4**	**219.1**	**476.2**	**90.7**	**-**	**259.8**	**5,210.0**	**675.0**
Additions	100.5	83.9	25.1	47.0	0.9	-	93.4	**350.8**	67.2
Assets reclassified between categories	-	214.3	0.2	17.9	1.1	0.4	(233.4)	**0.5**	-
Assets reclassified (to)/from Held for Sale	-	(3.5)	-	-	-	-	-	**(3.5)**	-
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	-	192.1	-	-	-	5.6	-	**197.7**	17.0
Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	(114.8)	(69.1)	-	-	-	1.3	(1.5)	**(184.1)**	(5.2)
Derecognition - Disposals	(17.1)	(357.6)	(27.5)	(0.2)	-	-	-	**(402.4)**	(28.2)
Derecognition - other	(1.4)	-						**(1.4)**	-
At 31 March 2016	**1,778.0**	**2,413.5**	**216.9**	**540.9**	**92.7**	**7.3**	**118.3**	**5,167.6**	**725.8**
Accumulated Depreciation and Impairment									
At 1 April 2015	**(145.3)**	**(128.2)**	**(88.3)**	**(46.5)**	**-**	**-**	**-**	**(408.3)**	**(52.4)**
Depreciation charge	(37.9)	(50.3)	(22.3)	(20.2)	-	-	-	**(130.7)**	(26.6)
Depreciation written out to the Revaluation Reserve	39.3	85.7	-	-	-	-	-	**125.0**	5.1
Depreciation written out to the Surplus/Deficit on the Provision of Services	-	119.3	-	-	-	-	-	**119.3**	4.2
Impairment (losses)/reversals recognised in the Revaluation Reserve	(82.1)	15.6	-	-	-	-	-	**(66.5)**	-
Impairment (losses)/reversals recognised in the Surplus/Deficit on the Provision of Services	114.8	(89.0)	-	-	-	-	-	**25.8**	-
Derecognition - Disposals	-	14.4	27.4	0.4	-	-	-	**42.2**	1.4
Derecognition - of components	-	0.2	-	-	-	-	-	**0.2**	-
At 31 March 2016	**(111.2)**	**(32.3)**	**(83.2)**	**(66.3)**	**-**	**-**	**-**	**(293.0)**	**(68.3)**
Net Book Value									
At 31 March 2016	**1,666.8**	**2,381.2**	**133.7**	**474.6**	**92.7**	**7.3**	**118.3**	**4,874.6**	**657.5**
At 1 April 2015	**1,665.5**	**2,225.2**	**130.8**	**429.7**	**90.7**	**-**	**259.8**	**4,801.7**	**622.6**

Further details on the Council's policies for fixed asset revaluations and depreciation are provided in Note 22 to the Council entity accounts. Buildings assets held by Innovation Birmingham Group Limited have been valued as at 31 March 2017.

Note G10
Financial Instruments

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 G11.

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 G12.

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 2016	31 March 2017
	£m	£m
Creditors		
Financial liabilities at amortised cost	(73.0)	(73.0)

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 G11
Short Term Debtors

The table below shows amounts owed to the Council's Group undertaking at the end of the year that are due within 12 months. These balances have been split by type of organisation.

31 March 2016		31 March 2017
£m		£m
48.6	Central government bodies	66.4
19.7	Other local authorities	7.2
5.0	NHS bodies	5.1
1.7	Public corporations and trading funds	6.7
206.2	Other entities and individuals	186.0
281.2	**Total**	**271.4**

Note G12
Short Term Creditors

The table below shows amounts owed by the Council Group undertaking at the end of the year that are due within 12 months, split by type of organisation.

31 March 2016		31 March 2017
£m		£m
(40.3)	Central government bodies	(36.3)
(5.8)	Other local authorities	(6.3)
(3.8)	NHS bodies	(3.5)
(36.2)	Public corporations and trading funds	(99.9)
(243.3)	Other entities and individuals	(223.2)
(329.4)	**Total**	**(369.2)**

Note G13
Usable Reserves

Details of the Group's usable reserves are detailed below.

31 March 2016		31 March 2017
£m		£m
227.7	General Fund	247.6
312.1	Capital Receipts Reserve	278.3
389.3	Earmarked General Fund Reserves	312.1
4.6	Housing Revenue Account (HRA)	4.6
5.8	Major Repairs Reserve	39.0
73.0	Capital Grants Unapplied	95.2
(77.9)	Profit and Loss Reserve	(120.7)
(19.0)	Designated Funds	(19.4)
(23.0)	Other Charitable Funds	(27.4)
4.8	Merger Reserve	4.8
897.4	**Total**	**814.1**

Further analysis is provided below for material usable reserves.

Movements in the General Fund are set out in the Council and Group Movement in Reserves Statements, further supported by Note 18 to the Council entity accounts. Differences arising on group consolidation are set out in Note G13 to the Group Accounts.

Profit and Loss Reserve

The Profit and Loss Reserve consolidates the in-year results for subsidiaries. In the Group Financial Statements it is kept separate from the General Fund given the specific statutory restrictions that apply to the General Fund. Depreciation charges in subsidiaries remain as charges to the Profit and Loss Reserve.

2015/16 £m		2016/17 £m
(279.0)	**Balance at 1 April**	**(77.9)**
201.1	In year profit and loss result for subsidiaries, adjusted for Group accounting policies and elimination of intra-group transactions	(42.8)
(77.9)	**Balance at 31 March**	**(120.7)**

Note G14
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 2016 £m		31 March 2017 £m
983.1	Revaluation Reserve	1,553.2
(290.8)	Capital Adjustment Account	(399.9)
(27.9)	Financial Instruments Adjustment Account	(26.8)
30.0	Deferred Capital Receipts	39.6
(2,087.7)	Pensions Reserve	(2,870.7)
(22.9)	Collection Fund Adjustment Account	(10.6)
(299.6)	Equal Pay Back Pay Account	(145.2)
(16.9)	Accumulated Absences Account	(20.5)
0.2	Available for Sale Financial Instruments Reserve	0.5
0.7	Called up Share Capital	0.7
5.6	Restricted Funds	5.0
(1,726.2)	**Total**	**(1,874.7)**

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.

2015/16 £m		2016/17 £m
787.2	**Balance at 1 April**	**983.1**
	Revaluations not posted to (Surplus)/Deficit on the Provision of Services	
410.8	Council: Upward revaluation of assets	734.6
(78.5)	Council: Downward revaluation of assets	(89.6)
(73.3)	Council: Impairment (losses)/reversals not charged to the Surplus/Deficit on the Provision of Services	-
259.0	**Council: Surplus/(Deficit) on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services**	**645.0**
	Amounts written off to the Capital Adjustment Account	
(8.3)	Council: Difference between fair value depreciation and historical cost depreciation	(19.5)
(17.4)	Council: Accumulated gains on assets sold or scrapped	(60.5)
(25.7)	**Council: Amount written off to the Capital Adjustment Account**	**(80.0)**
	Group Movements	
	Increase in Group's share of revaluation reserve resulting from increased stake in entity	
(37.4)	Other movements in reserve in Group entities	5.1
(37.4)	**Total Group Movements**	**5.1**
983.1	**Balance at 31 March**	**1,553.2**

Note G15
Cash Flow Statement - Operating Activities

The cash flows from operating activities include the following items:

2015/16 £m		2016/17 £m
(14.2)	Interest Received	(17.6)
190.5	Interest Paid	185.5
(20.7)	Dividends Received	(11.7)

Note G16
Cash Flow Statement - Investing Activities

The cash flows from investing activities are set out below. The figures for 2015/16 have been restated to reflect the amount that relates to discontinued operations as a result of the sale of NEC Group Limited.

2015/16 (Restated) £m		2016/17 £m
(326.8)	Purchase of property, plant and equipment, investment property and intangible assets	(292.9)
(3,289.0)	Purchase of short-term and long-term investments	(1,926.3)
355.2	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	72.2
224.8	Proceeds from the sale of subsidiary (NEC Group)	16.9
3,305.4	Proceeds from short-term and long-term investments	1,954.5
0.6	Other receipts from investing activities	0.3
270.2	**Net cash flows from investing activities**	**(175.3)**

Note G17
Cash Flow Statement - Financing Activities

The cash flows from financing activities are set out below. The figures for 2015/16 have been restated to reflect the amount that relates to discontinued operations as a result of the sale of NEC Group Limited.

2015/16 (Restated) £m		2016/17 £m
103.7	Other receipts from financing activities	126.0
1,055.0	Cash receipts of short-term and long-term borrowing	825.0
(40.2)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(50.9)
(1,211.8)	Repayments of short-term and long-term borrowing	(775.1)
8.7	Other payments for financing activities	16.5
(84.6)	**Net cash flows from financing activities**	**141.5**

Note G18
Group Cash Flow Statement – Other Adjustments

The cash flow adjustments to the net surplus/deficit on the provision of services include:

2015/16 £m		2016/17 £m
130.1	Depreciation/Impairment charge	148.1
7.5	Amortisation of Intangible Assets	8.3
284.1	Derecognition of Available for Sale Assets	4.7
(7.0)	(Increase)/decrease in investments	(2.8)
15.4	Revaluation of Non-Current Assets	63.7
364.6	Derecognition of Non-Current Assets	242.7
26.9	(Increase)/Decrease in Debtors	(2.8)
(102.4)	Increase/(Decrease) in Creditors	32.8
(0.4)	(Increase)/Decrease in Inventories	(0.1)
(250.8)	Increase/(Decrease) in Provisions	(158.4)
18.5	Pensions Liability	33.1
(43.5)	Change in Equity	(6.2)
443.0		**363.1**

The cash flow adjustments included in the net surplus/deficit on the provision of services that are investing or financing activities include:

2015/16 £m		2016/17 £m
(103.7)	Capital Grants	(126.0)
(580.6)	Capital Receipts	(89.4)
(8.7)	Council Tax and Business Rates Adjustments	(16.5)
(693.0)		**(231.9)**

Note G19
Group 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.

2015/16 £m	Expenditure	2016/17 £m
1,006.2	Employee Benefits Expenses	959.5
1,844.1	Other Service Expenses	1,768.4
150.5	Depreciation, Amortisation and Impairment	224.4
261.9	Interest Payments	259.7
51.9	Precepts and Levies	51.1
6.6	Payments to Housing Capital Receipts Pool	6.3
40.3	Loss on Disposal of Non-Current Assets	148.8
3,361.5	**Total Expenditure**	**3,418.2**
	Income	
(697.7)	Fees, Charges and Other Services Income	(636.8)
(509.1)	Income from Council Tax and Business Rates	(502.1)
(2,203.9)	Government Grants and Contributions	(2,147.9)
(35.6)	Interest and Investment Income	(24.1)
(3,446.3)	**Total Income**	**(3,310.9)**
(84.8)	**(Surplus)/Deficit on Provision of Services**	**107.3**

Note G20
Related Parties

Details of the Council's material transactions with related parties are provided in Note 48 to the Council entity accounts.

In addition to the related parties detailed within Note 48 to the Council entity accounts those included below are deemed to be related parties of the Group – bodies or individuals with the potential to control or significantly influence the Group entities or to be controlled or significantly influenced by the Group entities. Where in-year transactions and outstanding balances between Group entities and associated related parties are £1m or greater, they are disclosed below. The Group entities and their relationships with the Council are detailed in Notes G25 and G26.

	Purchased From £m	Sold To £m	Net amount Due (To)/From £m
The National Exhibition Centre (Developments) Plc			
Performances Birmingham Limited			
Performances Birmingham (Enterprises) Limited			
Innovation Birmingham Limited			
Birmingham Science Park Aston Limited			
Birmingham Technology (Property) Limited			
Birmingham Technology (Property One) Limited			
Birmingham Technology Venture Capital Limited			
InReach (Birmingham) Limited			
Birmingham Museums Trust			
Thinktank Trust			
Birmingham Museums Trading Limited			
Acivico Limited			
Acivico Design Construction and Facilities Management Limited			
Acivico (Building Consultancy) Limited			
PETPS (Birmingham) Limited			
Paradise Circus General Partner Limited			
Paradise Circus Nominee 1 Limited			
Paradise Circus Nominee 2 Limited			
Birmingham Airport Holdings Limited			
West Midlands District Councils via (Solihull MBC)			(4.7)
Solihull MBC	Solihull MBC is the local authority for the airport and transacts with the Company in a number of areas including business rates, planning applications and building control services. All of these transactions are carried out on an arms length basis at a full commercial rate.		

Note G21
Leases

<u>Group as the lessee</u>

Finance leases

Details of the Council's finance leases are provided in Note 42 to the Council entity accounts.

Operating leases

Details of the Council's operating leases are provided in Note 42 to the Council entity accounts.

<u>Group as the lessor</u>

Finance leases

Details of the Council's finance leases are provided in Note 42 to the Council entity accounts.

The Council is the lessor for premises leased to Innovation Birmingham Group Limited (IBL). As a group subsidiary entity, these leases are eliminated from the group accounts. The information in the section below provides details of the material leases with group entities, which are to be excluded from the disclosures provided in Note 42 to the Council entity accounts in deriving the group disclosures.

31 March 2016 £m		31 March 2017 £m
	Finance lease debtor (net present value of minimum lease payments):	
-	- Current	-
7.7	- Non current	7.7
13.8	Unearned finance income	13.6
(0.1)	Unguaranteed residual value of property	(0.1)
21.4	**Gross investment in the lease**	**21.2**

The gross investment in the lease and the minimum lease payments will be received over the following periods:

	Gross investment in the lease		Minimum lease payments	
	31 March 2016 £m	31 March 2017 £m	31 March 2016 £m	31 March 2017 £m
Not later than one year	-	-	0.2	0.2
Later than one year and not later than five years	0.1	0.1	0.7	0.7
Later than five years	7.6	7.6	20.5	20.3
Total	**7.7**	**7.7**	**21.4**	**21.2**

Note G22
Defined Benefit Pension Schemes

Details of the Council's involvement in the Teachers' Pensions Scheme and Local Government Pension Scheme are provided in Notes 20 and 21 to the Council entity accounts.

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 the 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 2013 and the valuation due at 5 April 2016 is in progress. 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 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 2015/16 for the Fund and the Scheme have been provided.

Balance Sheet

The following amounts have been recognised in the PETPS' balance sheet and so consolidated into the Group Balance Sheet.

	31 March 2016	31 March 2017
	£m	£m
Present value of funded obligations	(171.2)	(206.6)
Fair value of plan assets	157.4	184.0
Deficit for funded plans	(13.8)	(22.6)
Unrecognised asset due to the asset ceiling	-	-
Retirement Benefit Obligation	**(13.8)**	**(22.6)**

Income Statement

The amounts recognised in PETPS' Income Statement and consolidated into the Group Consolidated Income and Expenditure Statement are as follows:

	2015/16 £m	2016/17 £m
Operating Costs:		
Administration Expenses	0.4	0.7
Current Service Cost	-	-
Included in Operating Cost	0.4	0.7
Financing Costs:		
Interest cost on pension scheme liabilities	5.9	5.9
Interest income on plan assets	(5.3)	(5.4)
Net interest cost	0.6	0.5
Total income statement expense	**1.0**	**1.2**

Other Comprehensive Income

The amounts recognised in PETPS' Other Comprehensive Income and consolidated into the Group Consolidated Other Comprehensive Income are as follows:

	2015/16 £m	2016/17 £m
Return on plan assets in excess of interest income	(4.1)	26.9
Actuarial gain/(loss) on liabilities due to changes in financial assumptions	3.9	(43.2)
Actuarial gain/(loss) on liabilities due to changes in demographic assumptions	1.7	1.8
Actuarial gain/(loss) on liabilities due to experience	1.8	6.8
Remeasurement gain/(loss) recognised during the period	**3.4**	**(7.7)**

Reconciliation of Liabilities and Assets

Movements in the retirement benefit obligations are as follows:

	2015/16 £m	2016/17 £m
Beginning of Period	(177.8)	(171.2)
Interest Cost	(5.9)	(5.9)
Actuarial gain/(loss) on liabilities due to changes in financial assumptions	3.9	(43.2)
Actuarial gain/(loss) on liabilities due to changes in demographic assumptions	1.7	1.8
Actuarial gain/(loss) on liabilities due to experience	1.8	6.8
Benefits Paid	5.0	5.1
Present value of obligation at 31 March	**(171.2)**	**(206.6)**

Movements in the fair value of plan assets are as follows:

	2015/16 £m	2016/17 £m
Beginning of Period	141.2	157.4
Interest income on plan assets	5.3	5.4
Return on plan assets in excess on interest income	(4.1)	26.9
Contributions by employer	20.5	-
Administration expenses paid	(0.4)	(0.7)
Benefits paid	(5.0)	(5.1)
Fair value of plan assets at 31 March	**157.4**	**184.0**

Movements in the reimbursement right are as follows:

	2015/16 £m	2016/17 £m
Surplus/(Deficit) at start of year	(36.6)	(13.7)
Expense (charge)/credit	(1.0)	(1.2)
Employer contributions	20.5	-
Remeasurement gain/(loss) in Other Comprehensive Income	3.4	(7.7)
Surplus/(Deficit) at end of year	**(13.7)**	**(22.6)**

Plan Assets

The major categories of plan assets are as follows:

	31 March 2016		31 March 2017	
	£m	%	£m	%
Equities, GTAA and hedge funds	74.6	47	91.6	50
Bonds and Cash	62.6	40	71.1	39
Property	13.8	9	14.8	8
Gilts	6.4	4	6.5	3
	157.4	**100**	**184.0**	**100**

Assumptions

The principal assumptions made by the actuary were:

	31 March 2016 %	31 March 2017 %
Discount rate – Fund/Scheme	3.5	2.50/2.45
RPI Inflation rate	3.1	3.2
CPI Inflation rate	2.1	2.2
Future Pension increases		
- pension accrued prior to 5 April 2005	3.0	3.1
- pension accrued after 5 April 2005	2.1	2.1

The base mortality assumptions for the Fund are based on SAPS tables (S2 series) and the Scheme on the SAPS light tables (S2 series for males and S1 for females). The base mortality assumptions used in 2015/16 for the Fund was based on SAPS tables (S1 series) and for the Scheme was based on SAPS light tables (S1 series). Adjustments were applied to reflect the Scheme's populations with future improvements based on the CMI 2016 projection with a long term rate of improvement of 1.25%p.a. (2015/16: 1.25%).

The life expectancy for members as at the balance sheet date:

	31 March 2016 Years		31 March 2017 Years	
	Fund	Scheme	Fund	Scheme
Male: member aged 65 (current life expectancy)	22.0	23.7	22.2	23.4
Female: member aged 65 (current life expectancy)	24.4	25.0	24.7	24.6
Male: member aged 45 (life expectancy at age 65)	23.7	25.4	23.2	24.7
Female: member aged 45 (life expectancy at age 65)	26.3	26.9	26.2	26.1

Sensitivity Analysis

An increase of 0.25% in the discount rate would decrease the retirement benefit obligations by £10.6m
An increase of 0.25% in the inflation rate would increase the retirement benefit obligations by £8.0m
An increase of one year to life expectancy would increase the retirement benefit obligations by £8.9m

The duration of the NEC Limited Pension liabilities is around 22 years, and the duration of the NEC Executive Pension Scheme liabilities is around 15 years.

Expected Contributions for 2017/18

The contribution schedule in force sets out contributions of £0.94m in respect of the Fund and no contributions for the Scheme in the 2017/18 financial year. This is subject to change at the agreement of the 2016 valuation. The Council has accounted for its contribution requirements in its entity accounts on the basis of its guarantee.

Acivico Limited Group

The Company's subsidiary companies participate in the West Midlands Pension Fund, a Local Government Pension Scheme.

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.

	2015/16 £m	2016/17 £m
Present value of funded defined benefit obligations	(49.7)	(85.1)
Fair value of plan assets	47.6	77.3
Net (Liability)/Asset	**2.2**	**(7.8)**

Movements in the present value of defined benefit obligation:

	2015/16 £m	2016/17 £m
Balance at beginning of period	48.9	49.7
Current service cost	2.3	2.1
Interest cost	1.6	2.4
Change in financial assumptions	-	19.2
Change in demographic assumptions	-	(0.4)
Experience (gains)/losses	-	(1.3)
Actuarial (gains)/losses	(3.2)	13.7
Contributions by members	0.6	0.6
Benefits paid	(0.5)	(0.9)
31 March	**49.7**	**85.1**

Movements in the fair value of plan assets:

	2015/16 £m	2016/17 £m
Balance at beginning of period	46.4	47.6
Return on assets (less interest)	1.6	11.0
Interest on assets	-	2.4
Actuarial (losses)/gains	(1.7)	15.5
Contributions	1.8	1.8
Benefits paid	(0.5)	(0.9)
31 March	**47.6**	**77.3**

Expense recognised in the profit and loss account:

	2015/16 £m	2016/17 £m
Operating Costs:		
Current Service Cost	2.3	2.1
Included in Operating Cost	2.3	2.1
Financing Costs:		
Interest cost on pension scheme liabilities	1.6	2.4
Interest income on plan assets	(1.6)	(2.4)
Net interest cost	-	-
Total income statement expense	**2.3**	**2.1**

Other Comprehensive Income

The amounts recognised in Acivico's Other Comprehensive Income and consolidated into the Group Consolidated Other Comprehensive Income are as follows:

	2015/16 £m	2016/17 £m
Actuarial (gain)/loss on liabilities	(3.2)	31.2
Actuarial (gain)/loss on plan assets	1.7	(27.2)
Remeasurement (gain)/loss recognised during the period	**(1.5)**	**4.0**

The fair value of the plan assets and the return on those assets were as follows:

	2015/16 Fair Value		2016/17 Fair Value	
	£m	%	£m	%
Equities	28.8	60	49.8	64
Government Bonds	3.7	8	6.3	8
Other Bonds	2.2	5	3.2	4
Property	3.9	8	6.0	8
Cash/Liquidity	2.2	5	2.2	3
Other	6.8	14	9.9	13
Total	**47.6**	**100**	**77.3**	**100**

Principal actuarial assumptions (expressed as weighted averages) at the year-end were as follows:

	2015/16 %	2016/17 %
Discount rate	3.8	2.7
Future salary increases	4.0	4.2
Future pension increases	2.2	2.7
CPI increases	2.2	2.7

In valuing the liabilities of the pension fund at 31 March 2017, mortality assumptions have been made as indicated below.

The life expectancy for members as at the balance sheet date:

	31 March 2016	31 March 2017
Male: member aged 65 (current life expectancy)	23.0	21.8
Female: member aged 65 (current life expectancy)	25.7	24.2
Male: member aged 45 (life expectancy at age 65)	25.3	23.9
Female: member aged 45 (life expectancy at age 65)	28.0	26.5

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	(0.1)
Effect on defined benefit obligation	(1.6)

Birmingham Museums Trust Limited

The Museums Trust participates in the West Midlands Pension Fund, a Local Government Pension Scheme, for those staff who transferred from the Council to the Trust.

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.

	2015/16 £m	2016/17 £m
Present value of funded defined benefit obligations	(14.4)	(19.2)
Fair value of plan assets	13.8	16.9
Net (Liability)/Asset	**(0.6)**	**(2.3)**

Movements in the present value of defined benefit obligation:

	2015/16 £m	2016/17 £m
Balance at beginning of period	15.1	14.4
Current service cost	0.4	0.3
Interest cost	0.5	0.5
Change in financial assumption	(1.4)	5.4
Change in Demographic assumptions	-	(0.5)
Experience loss/(gain) on defined benefit obligation	-	(0.4)
Contributions by members	0.1	0.1
Past service cost, including curtailments	0.2	-
Benefits paid (net of transfers in)	(0.4)	(0.6)
31 March	**14.4**	**19.2**

Movements in the fair value of plan assets:

	2015/16 £m	2016/17 £m
Balance at beginning of period	13.8	13.8
Interest on assets	0.5	0.5
Return on assets	(0.5)	2.4
Other actuarial gains/(losses)	-	0.5
Contributions by employer	0.4	0.1
Contributions by members	0.1	0.1
Benefits paid (net of transfers in)	(0.4)	(0.6)
31 March	**13.8**	**16.9**

Expense recognised in the profit and loss account:

	2015/16 £m	2016/17 £m
Current service cost	0.4	0.3
Interest on defined benefit pension plan obligation	0.5	0.5
Curtailment	0.2	-
Expected return on defined benefit pension plan assets	(0.5)	(0.5)
Total	**0.6**	**0.3**

The expense is recognised in the following line items in the profit and loss account:

	2015/16	2016/17
	£m	£m
Administrative expenses	0.4	0.3
Other interest receivable and similar income	0.2	-
	0.6	**0.3**

The fair value of the plan assets and the return on those assets were as follows:

	2015/16		2016/17	
	Fair Value		Fair Value	
	£m	%	£m	%
Equities	8.4	61	10.9	64
Government Bonds	1.1	8	1.4	8
Other Bonds	0.6	5	0.7	4
Property	1.1	8	1.3	8
Cash/Liquidity	0.6	4	0.5	3
Other	2.0	14	2.2	13
Total	**13.8**	**100**	**16.9**	**100**
Actual return on plan assets:	(0.1)		2.9	

Principal actuarial assumptions (expressed as weighted averages) at the year-end were as follows:

	2015/16	2016/17
	%	%
Discount rate	3.9	2.8
Future salary increases	4.0	4.2
Future pension increases	2.2	2.7
Rate of CPI inflation	2.2	2.7

In valuing the liabilities of the pension fund at 31 March 2017, mortality assumptions have been made as indicated below. If life expectancy had been changed to assume that all members of the fund lived for one year longer, the value of the reported liabilities at 31 March 2017 would have increased by £0.7m.

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting a 65-year old to live for a number of years as follows:

Life expectancy from age 65 years		2015/16	2016/17
Retiring today:	male	23.0	21.8
:	female	25.7	24.2
Retiring in 20 years:	male	25.3	23.9
:	female	28.0	26.5

Note G23
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
2015/16										
Provision of goods and services to subsidiaries	7.1					7.1		7.1	(7.1)	-
Purchases of goods and services from subsidiaries	(29.1)					(29.1)		(29.1)	29.1	-
Impairment of capital contribution to a subsidiary	(66.3)					(66.3)		(66.3)	66.3	-
Total adjustments between Group accounts and Council accounts	**(88.3)**	**-**	**-**	**-**	**-**	**(88.3)**	**-**	**(88.3)**	**88.3**	**-**
2016/17										
Provision of goods and services to subsidiaries	6.5					6.5		6.5	(6.5)	-
Purchases of goods and services from subsidiaries	(26.1)					(26.1)		(26.1)	26.1	-
Total adjustments between Group accounts and Council accounts	**(19.6)**	**-**	**-**	**-**	**-**	**(19.6)**	**-**	**(19.6)**	**19.6**	**-**

Note G24
Analysis of Group Comprehensive Income and Expenditure Statement and Total Movement in Balance Sheet

Detailed below is the analysis of Group Balance Sheet movements.

2015/16				2016/17		
Council	Minority Interests	Total		Council	Minority interests	Total
£m	£m	£m		£m	£m	£m
(84.8)	-	(84.8)	(Surplus)/Deficit on the provision of services	107.3	-	107.3
(6.4)	-	(6.4)	Share of Associates	(6.4)	-	(6.4)
(463.3)	-	(463.3)	Other Comprehensive (Income)/Expenditure	124.7	-	124.7
(554.5)	**-**	**(554.5)**	**Total Comprehensive (Income)Expenditure**	**225.6**	**-**	**225.6**
43.6	-	43.6	(Increase)/Decrease in Equity	6.2	-	6.2
(510.9)	-	**(510.9)**	**Total movement in Balance Sheet**	**231.8**	-	**231.8**

Note G25
Subsidiary Companies

The subsidiaries that have been consolidated into the Group Financial Statements are listed below. On 1 May 2015, the Council disposed of its interests in The National Exhibition Centre Limited Group and has included only the activity up to the date of disposal in the 2015/16 figures within these financial statements.

I. 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 by the company which is guaranteed by the Council. 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 Council has zero coupon loan notes totalling £0.6m (2015/16: £0.8m). The loan notes are repayable in instalments and repayments commenced in 2013/14. The position at the year end is detailed below.

	2015/16	2016/17
	£m	£m
Profit/(Loss) for the year	(0.9)	(1.0)
Net Assets/(Liabilities) at the year-end	9.8	9.1

The year end of the company is 31 March 2017. For the purposes of the consolidation these accounts have been used. There was no qualification to the audit opinion on the last audited accounts of the company.

Included in the disposal of NEC Ltd, as set out in VIII. below, were building assets held by National Exhibition Centre (Developments) Plc in respect of Halls 17-20, which formed part of the sale on 1 May 2015. These assets were disposed of as part of the disposal of the NEC Group and accounted for in 2015/16.

The Council continues to retain ownership of NEC (Developments) Plc.

II. Innovation Birmingham Limited Group

The Innovation Birmingham Group of companies aims to promote, encourage, and secure the development and management of a science park in Birmingham. The Council holds a debenture over the property of the group as security for its financial guarantees. The Council is the sole member of Innovation Birmingham Limited Group which is a company limited by guarantee. The Council is also entitled to appoint up to seven members of the company and five of the nine voting directors. Furthermore, additional control by the Council is exercised by its 71% share of directors' voting rights. The Council's direct interest in Birmingham Technology (Property) Limited (a subsidiary company of BTL) is 1,250 £1 ordinary shares (12.5% interest). The Council also directly holds 500 £1 ordinary shares (9.1% interest) in Birmingham Technology (Venture Capital) Limited. The Articles of Association for Innovation Birmingham Group prohibits the distribution of profits and as such dividends.

	2015/16	2016/17
	£m	£m
Profit/(Loss) for the year	(0.2)	(0.4)
Net Assets/(Liabilities) at the year-end	0.5	0.1

The year end of the company is 31 March 2017. For the purposes of the consolidation these accounts have been used. There was no qualification to the audit opinion on the last audited accounts of this company.

Information regarding transactions during the year and balances held at the year end between the Council and Innovation Birmingham Limited Group can be found within Note 48 of the Council entity accounts.

III. Performances Birmingham Limited

Performances Birmingham Limited is the charity that manages and runs Birmingham Town Hall and Symphony Hall. The company is limited by guarantee and was founded by the Council in collaboration with Aston University and Lloyds Bank in 1982. The charity is controlled by the board of Trustees, with the Council being sole member of the Trust. The financial statements are prepared in accordance with the Charity Commission's Statement of

Recommended Practice, which means that there may be restrictions on the use of the funds which are available to the charity as defined in its objectives.

	2015/16 £m	2016/17 £m
Surplus/(Deficit) for the year	0.4	0.4
Net Assets/(Liabilities) at the year-end	2.2	2.6

The year end of the charity is 31 March 2017. For the purposes of the consolidation these accounts have been used. There was no qualification to the audit opinion on the last audited accounts of this charity.

Information regarding transactions during the year and balances held at the year-end between the Council and Performances Birmingham Limited Group can be found within Note 48 of the Council entity accounts.

IV. Birmingham Museums Trust

Birmingham Museums Trust Group is a charity that manages nine museum sites, namely, Birmingham Museum and Art Gallery, the Museum Collection Centre, Thinktank, Soho House, Aston Hall, Museum of the Jewellery Quarter, Blakesley Hall, Weoley Castle and Sarehole Mill. The Trust is a charitable company limited by guarantee, the Council being sole member that is controlled by the board of Trustees. The financial statements are prepared in accordance with the Charity Commission's Statement of Recommended Practice, which means that there may be restrictions on the use of the funds which are available to the charity as defined in its objectives.

	2015/16 £m	2016/17 £m
Surplus/(Deficit) for the year	1.9	(0.7)
Net Assets/(Liabilities) at the year-end	5.0	2.6

The year end of the charity is 31 March 2017 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 charity.

Information regarding transactions during the year and balances held at the year-end between the Council and Birmingham Museums Trust Group can be found within Note 48 of the Council entity accounts.

V. 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 (SPVs), 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.

	2015/16 £m	2016/17 £m
Profit/(Loss) for the year	(0.7)	(1.7)
Net Assets/(Liabilities) at the year-end	(1.5)	(7.2)

The year end of the company is 31 March 2017 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 Acivico Limited Group can be found within Note 48 of the Council entity accounts.

VI. 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.

	2015/16 £m	2016/17 £m
Profit/(Loss) for the year	-	-
Net Assets/(Liabilities) at the year-end	-	-

The year end of the company is 31 March 2017 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 48 of the Council entity accounts.

VII. InReach (Birmingham) Limited

The Council set up InReach (Birmingham) Limited in 2015/16, a wholly owned subsidiary of the Council, to facilitate the development of new private rented homes for market rent at St Vincent Street, Ladywood. The company has been consolidated into the Council's Group Financial Statements for the first time in 2016/17 as the level of transactions and balances to date are now considered material to the Group.

	2016/17
	£m
Profit/(Loss) for the year	(0.1)
Net Assets/(Liabilities) at the year-end	1.9

Details of the companies that no longer form part of the Group are set out below.

VIII. The National Exhibition Centre Limited Group

The Council disposed of its interest in The National Exhibition Centre Limited Group (NEC Limited) on 1 May 2015. Transactions within the company have been consolidated within the Group accounts for 2015/16 the period 1 April 2015 to 1 May 2015.

The sale agreed involved a number of transactions, the key ones of which were:

- The sale of the Council's equity in NEC Ltd;
- The transfer of the on-going funding of the NEC defined benefit pension schemes to PETPS (Birmingham) Limited, a wholly owned subsidiary of the Council, which is consolidated in these Group financial statements;
- The termination of existing leases for assets used by NEC Ltd and entering into new lease arrangements with the purchasers.

The assets held in the Group financial statements that related to the disposal of NEC Ltd were categorised as Assets Held for Sale in the Council's Group Balance Sheet at 31 March 2016.

The company managed and operated four venues within the West Midlands, namely the National Exhibition Centre, the Genting Arena, the Barclaycard Arena and the International Conference Centre (ICC) as principal and acted as agent on behalf of the Council for the collection of sums payable under leases granted by the Council at the venues and the management of capital works.

The Council owned all 10,000 £1 'A' shares of the Company's ordinary share capital. The Birmingham Chamber of Commerce and Industry held 1 'B' share in the Company. The company has been consolidated as a wholly owned subsidiary of the Council for the period to 1 May 2015 in these financial statements.

The Council, to the point of disposal, guaranteed the group's solvency and provided grant funding.

The year end of the Group was 31 March. For the purposes of the consolidation management information was used up to the date of disposal for inclusion in the 2015/16 financial statements. There was no qualification to the audit opinion on the last audited accounts of the group.

Note G26
Associate and Joint Venture Companies

The associates that have been consolidated into the Group Financial Statements are listed below.

I. Birmingham Airport Holdings Limited

The main ordinary shareholders of Birmingham Airport Holdings Limited (BAH) are the seven West Midland Districts. The Seven Districts together own 49% of BAH's 324.0m ordinary shares of 1p each (the Council owns 18.68% that is 60.5m ordinary shares). 48.25% ordinary shares are held by Airport Group Investments Limited which is owned by the Ontario Teachers' Pension Plan and Victorian Funds Management Corporation and the remaining 2.75% shares are held by an Employee Share Trust. The Shareholders' Agreement provides for the Districts 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 International Airport and the provision of facilities and services associated with those operations.

The year end of the company is 31 March 2017. For the purposes of the consolidation these accounts have been used. There was no qualification to the audit opinion on the last audited accounts of the company.

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;

- 25% of the BAH Board of Directors (4 of 16) are Council officers or 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 2016 £m		31 March 2017 £m
471.5	Non-Current Assets	468.2
132.5	Current Assets	73.0
(135.2)	Current Liabilities	(77.8)
(342.8)	Non-Current Liabilities	(358.7)
126.0	**Net Assets**	**104.7**
23.5	**Council Interest in Net Assets @ 18.68%**	**19.6**
130.5	**Revenue**	**145.8**
35.6	Post-Tax Profit/(Loss)	19.3
(13.6)	Other Comprehensive Income/(Expenditure)	(12.6)
22.0	**Total Comprehensive Income/(Expenditure)**	**6.7**

The carrying value of the Council's interest in this entity is £19.6m (2015/16: £23.5m), which is included with the Investments in Associates and Joint Ventures balance of £21.6m (2015/16: £24.9m), shown in the Group Balance Sheet.

Birmingham Airport Holdings Limited at 31 March 2017 has disclosed four existing contingent liabilities within its financial statements:

- On 13 February 2001 guarantees were provided by Birmingham Airport Holdings Limited, Birmingham Airport Limited and Euro-hub (Birmingham) Limited in support of a £105 million Corporate Bond issued by Birmingham Airport (Finance) Plc. The bond is for a period of 20 years maturing on 22 February 2021 and carries a fixed interest rate of 6.25% per annum;

- On 3 December 2013 the company along with other group members of Birmingham Airport Holdings Limited provided guarantees in support of £75m private placement senior notes received by Birmingham Airport (Finance) Plc. Series A senior notes of £30m are for a period of ten years maturing on 3 December 2023 and carry fixed interest rate of 4.472% per annum. Series B senior notes of £45m are for a period of fifteen 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 £76m private placement senior notes issued by Birmingham Airport (Finance) Plc. The notes are for a period of 25 years maturing on 30 March 2041 and carry a fixed interest rate of 3.8% per annum;

- On 30 March 2016 the company along with other group members of Birmingham Airport Holdings Limited, provided guarantees to the Royal Bank of Scotland Plc and Lloyds Bank Plc in support of a £20m banking facility made available to Birmingham Airport Holdings Limited. The facility is for a period of five years with an expiry date of 30 March 2021, with an option to extend by two further 12 month periods. At the date of the signing of its financial statements, the total amount outstanding under the facility was £nil.

II. Service Birmingham Limited

The company was incorporated on 22 December 2005 and operates between Capita Business Services Limited, who hold 650 Ordinary-B shares (68%), and Birmingham City Council who hold 300 Ordinary-A shares (32%). The company was formed to facilitate the strategic partnership between the two entities and operates within the ICT and Advisory Services division of the Capita Group Plc. Trading commenced on 1 April 2006, with the principal activity being the provision of ICT and business transformation outsourcing services to the Council.

The year end of the company is 31 December 2016, in line with that of its parent company Capita Plc. For the purposes of the consolidation these accounts have been used as they fall within three months of the Council's year end, with adjustments being made for the three month periods at the start and end of the reporting year. There was no qualification on the audit opinion for these 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 associate for the year ended 31 March is as follows:

31 March 2016 £m		31 March 2017 £m
5.0	Non-Current Assets	4.0
31.2	Current Assets	23.5
(30.8)	Current Liabilities	(20.9)
-	Non-Current Liabilities	(0.2)
5.4	**Net Assets**	**6.4**
1.7	**Council Interest in Net Assets @ 32%**	**2.0**
83.9	**Revenue**	**82.7**
8.4	Post-Tax Profit/(Loss)	10.9
-	Other Comprehensive Income/(Expenditure)	-
8.4	**Total Comprehensive Income/(Expenditure)**	**10.9**

The carrying value of the Council's interest in this entity is £2.0m (2015/16: £1.7m), which is included within the Investments in Associates and Joint Ventures balance of £21.6m (2015/16: £24.9m), shown in the Group Balance Sheet.

The current contract for the provision of ICT services will be reviewed jointly with Capita Plc, the majority shareholder of Service Birmingham, to allow greater flexibility to better cater for the future needs of the Council and its residents.

The joint venture that has been consolidated into the Group Financial Statements is listed below.

III. Paradise Circus Limited Partnership

The Council has entered into a joint venture arrangement with BriTel Funds Trustees Limited through Paradise Circus Limited Partnership. The partnership is facilitating the development of the area known as Paradise Circus, supporting delivery against one of the Council's strategic aims, generating economic growth and job creation through the regeneration of the area. The entity was incorporated on 11 September 2013, with operational activity commencing in January 2015. The Council and BriTel Funds Trustees Limited share control of the joint venture on a 50/50 basis.

The year end of the company was 30 June 2016. For the purposes of the consolidation these accounts have been used and supplemented by management accounts information for the nine month period to 31 March 2017. 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 associate for the year ended 31 March is as follows:

31 March 2016 £m		31 March 2017 £m
6.7	Non-Current Assets	6.8
13.9	Current Assets	23.3
(14.3)	Current Liabilities	(5.9)
(6.8)	Non-Current Liabilities	(26.0)
(0.5)	**Net Assets/(Liabilities)**	**(1.9)**
(0.25)	**Council Interest in Net Assets @ 50%**	**(0.95)**
17.4	**Revenue**	**17.8**
(0.5)	Post-Tax Profit/(Loss)	(1.3)
-	Other Comprehensive Income/(Expenditure)	-
(0.5)	**Total Comprehensive Income/(Expenditure)**	**(1.3)**

The carrying value of the Council’s interest in this entity is a net deficit of £0.95m (2015/16: £0.25m), which is included within the current liabilities in the Group Balance Sheet.

Birmingham City Council

Annual Governance Statement 2016/17

Annual Governance Statement 2016/17

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).

2. The purpose of the governance framework

2.1. Good governance is dynamic. The Council as a whole is committed to improving governance on a continuous basis through a process of evaluation and review.

2.2. The Council must try to achieve its objectives while acting in the public interest at all times. 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.

2.3. The governance framework comprises the systems and processes, and culture and values by which the Council is directed and controlled and its activities 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 appropriate 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 2017 and up to the date of approval of the Statement of Accounts.

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's vision and priorities in terms of the contribution to strategic outcomes are set out in the Vision and Forward Plan (the Plan). The Plan is updated each year and is available on the Council's website.

3.3. The Plan articulates the strategic direction for the Council with a clear set of corporate priorities. These priorities have been informed by extensive consultation with Cabinet Members and Members from opposition groups. Outcomes have been developed and progress against these priorities is monitored through a set of key performance measures which have been formally agreed by Cabinet following discussion with Members. Regular monitoring and reporting against these measures ensures that shortfalls in performance are identified at an early stage and effective action to bring performance in line with targets is undertaken.

3.4. In turn, the corporate priorities are supported by more detailed Directorate and Service Plans which are also regularly monitored and reviewed.

3.5. 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 part of the Council's long term financial strategy.

3.6. 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).

3.7. The Council's vision for the future of Birmingham is for a city of growth, in which every child, citizen and place matters.

3.8. The Council has four clear priorities:

3.8.1. **Children – a great place to grow up in**. To make the best of the city's diversity and create a safe and secure city for children and young people to learn and grow.

3.8.2. **Housing – a great place to live.** To provide housing in a range of types and tenures to meet the needs of all current and future citizens of Birmingham.

3.8.3. **Jobs and Skills – a great place to succeed in.** To build on the city's assets, talents and capacity for enterprise and innovation to shape the market and harness opportunity.

3.8.4. **Health – a great place to grow old in.** To help people become healthier and more independent with measurable improvement in physical activity and mental wellbeing.

3.9. Using the vision and priorities as a bed rock, the Council is creating the Council of the Future through a major transformation programme. The model below illustrates how the Council will shape and direct change:

3.10. There is recognition of the need for change in how the Council must work if it is to deliver the Council of the Future transformation. For employees, a Future Operating Model (FOM) will be implemented. The FOM aims to ensure the right supporting structures and the required changes to support new ways of working.

3.11. The FOM will also be implemented to support the Council's savings and budget plans. The Council faces significant funding reductions and challenges in achieving its budget plans, outlined in the Financial Plan 2017+. This has been highlighted by both the Birmingham Independent Improvement Panel (BIIP) and through a recommendation under Section 24 of the Local Audit and Accountability Act 2014, made by the external auditors. Throughout 2016/17 a thorough review of savings was undertaken. A Mid-Year Review was carried out to identify how much the Council could mitigate the in-year position and identified savings in the budget that were at risk. Those that were considered to be undeliverable have been written out of future years' financial plans.

3.12. Ultimately, the Council of the Future will be smaller and more strategic, partnership based, more about people and better at managing demand.

3.13. Profound change across local government is also underway. During 2016/17 the WMCA was established and a mayor elected on 6 May 2017. 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.

3.14. The Council has a strong public, third sector, and business engagement role. 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. A programme of review against these requirements is led by Overview and Scrutiny.

3.15. The Council launched a Birmingham Partners' Network to provide the space and time for key players across Birmingham to come together.

3.16. Working with partners, the Council assumes a strategic role for the Greater Birmingham area, working with the Greater Birmingham and Solihull Local Enterprise Partnership (LEP) to develop collaborative solutions to common problems, and facilitating coherent programmes with regional and international partners to deliver an economic strategy for the city and region. LEP projects follow the Council's governance processes, managed and monitored through a Project Delivery Board, with regular reporting to the LEP Board by the LEP Champion.

3.17. Given the increased importance of companies as service delivery vehicles, a dialogue has commenced with the Council's external auditor about what best practice would represent, and the value of this was reflected in the Grant Thornton report "Birmingham City Council Group Governance Review", dated 25 May 2016.

3.18. A Group Company Governance Committee was established as a Cabinet sub-committee, 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.

3.19. The Council's Constitution is codified into two documents, Part A and Part B, which are available on the intranet and the Council's website. The Constitution is reviewed annually by the Monitoring Officer and any amendments are agreed at the Annual General Meeting. Any in-year changes are agreed by Cabinet and/or the Council Business Management Committee (CBMC).

3.20. The Council facilitates policy and decision–making via an Executive Structure. There were ten members of Cabinet for the 2016/17 financial year: The Leader, Deputy Leader and eight other Cabinet Members with the following portfolios:

- Cabinet Member – Children, Families and Schools;
- Cabinet Member – Value for Money and Efficiency;
- Cabinet Member – Transport and Roads;
- Cabinet Member – Clean Streets, Recycling and Environment;
- Cabinet Member – Health and Social Care;
- Cabinet Member – Housing and Homes;
- Cabinet Member – Jobs and Skills;
- Cabinet Member – Transparency, Openness and Equality.

3.21. The Constitution sets out the terms of reference for each of the Committees and includes a schedule of matters reserved for decision by Full Council.

3.22. The 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.

3.23. 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.

3.24. CBMC also discharges the Council's functions in relation to parishes and parish councils.

3.25. The Council's Audit Committee provides independent assurance to the Council on financial management, risk management and control, and the effectiveness of the arrangements the Council has for these matters. The role of the Audit Committee includes active involvement in review of financial systems and procedures, close liaison with external audit and responsibility for the approval of the Annual Accounts.

Roles, Values and Standards of Conduct and Behaviour of Members and Officers

3.26. The Constitution sets out the respective roles and responsibilities of the Cabinet and other Members and Officers and how these are put into practice.

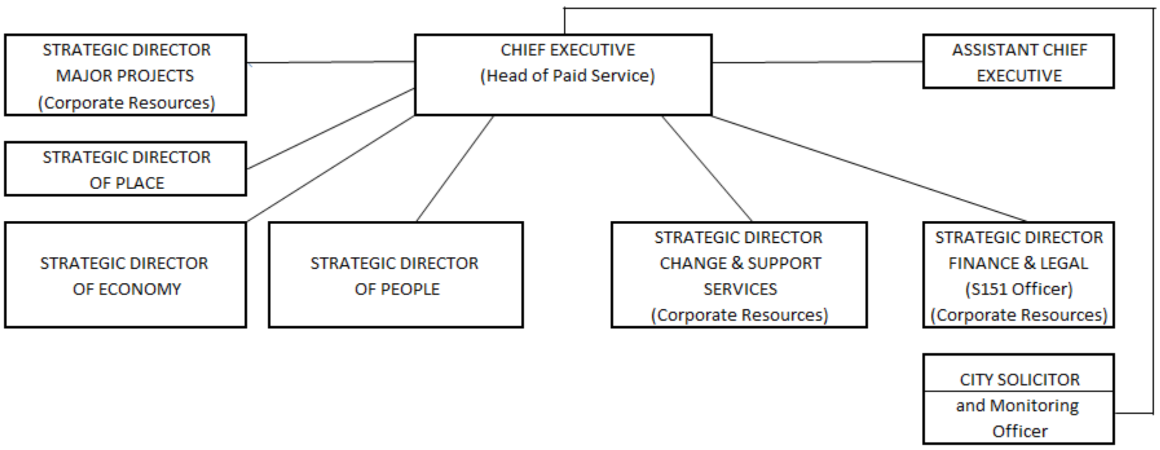
3.27. The Constitution also includes a Scheme of Delegation to Officers which sets out the powers of Corporate Directors.

3.28. The Council has a Code of Conduct for Members and a Code of Conduct for 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

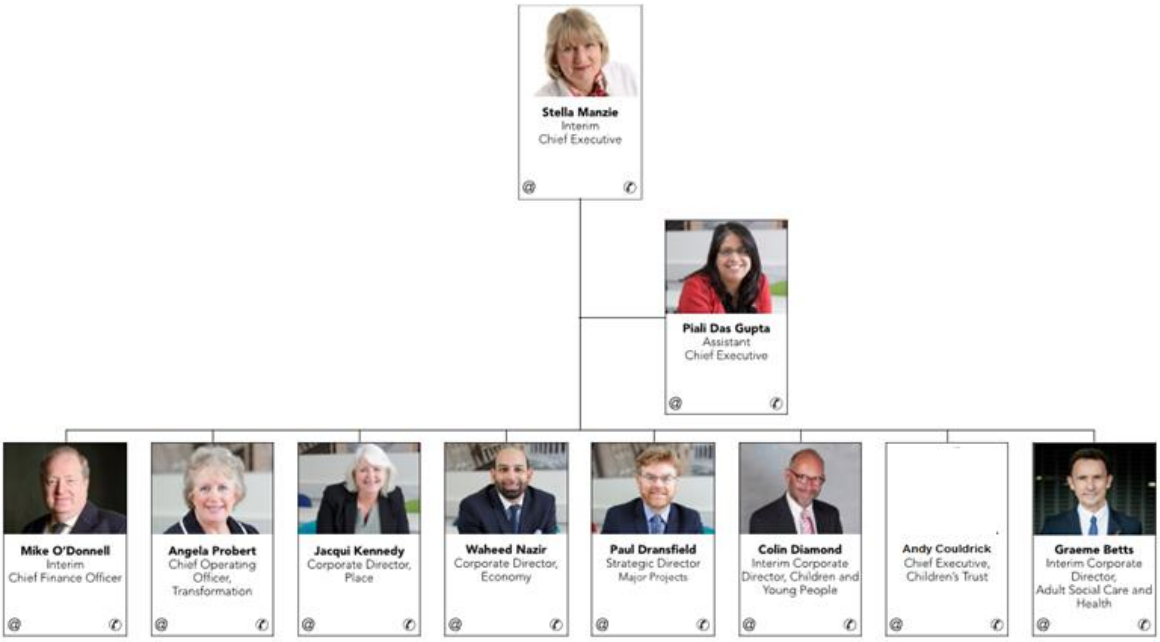
3.29. The Council operated within four Directorates during 2016/17, Economy, Corporate Resources, People and Place.

3.30. The Council's management structure in 2016/17 was as per the diagram below:



3.31. The Chief Executive left the Council on 28 February 2017 and an Interim Chief Executive was appointed by Full Council on 4 April 2017. The Strategic Director Finance and Legal left the Council on 28 March 2017. An Interim Chief Finance Officer was appointed on 21 March 2017. The Strategic Director - People stood down from his role on 31 March 2017. An Interim Corporate Director – Adults, Social Care and Health and Interim Corporate Director – Children and Young People will replace the Strategic Director - People role. The Assistant Chief Executive will be leaving the Council during early 2017/18. The appointment of the Chief Executive of the Children's Trust was announced in May 2017.

3.32. The new management structure for 2017/18 is as per the following diagram:



Financial Management Arrangements

3.33. The role of the Chief Finance Officer (CFO)/Section 151 Officer :

- The CFO is a key member of the 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;
- The CFO is 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;
- The CFO leads 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.

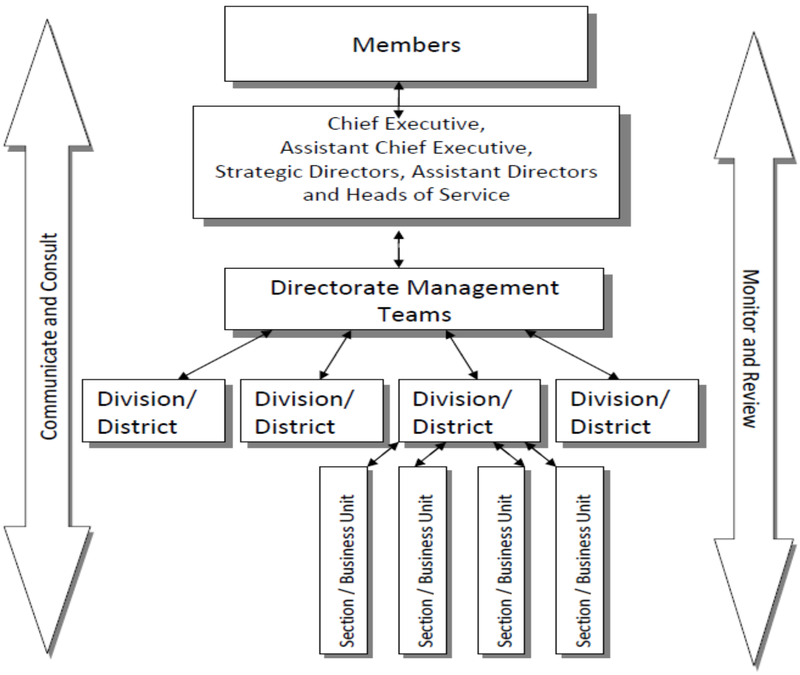
Scrutiny, Accountability and Risk Management

3.34. 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.

3.35. The Council has a procedure for handling complaints, compliments, and comments that monitors formal contact with members of the public. Complaints are actively tracked through the process and independently reviewed.

3.36. The Council ensures compliance with established policies, procedures, laws, and regulations - including risk management. For transparency, all reports to Cabinet, Cabinet Members and Districts 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.

3.37. Risk management continues to be embedded within the Council. The diagram below illustrates how risk was managed during 2016/17:



3.38. The Risk Management Policy Statement, Strategy and Methodology 2017 have been placed on the Council's website, and advice and support is provided as requested. Updated information regarding the management of the risks within the Council's Corporate Risk Register continues to be reported to the Audit Committee three times per year. CLT identifies new risks to the Council, and have the draft Corporate Risk Register update reported to it the month before it goes to the Audit Committee. CLT challenge the update information provided, and recommend re-wording or deletion of risks as appropriate. In addition business plans at directorate and divisional level include key risks.

3.39. Legal requirements and Council policy, together with guidance on their implementation, are set out in detail in the Policies, Standards, Procedures and Guidance database held on the Council's intranet for financial, information communications technology and business procedures, and People Solutions for Human Resources policies and procedures. Directorates maintain detailed delegations and guidance on specific legislative requirements which affect their service delivery. The Council has a strong Internal Audit function (Birmingham Audit) and 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.

Capacity and Capability

3.40. The financial reductions facing the Council are impacting on workforce capacity. Having a flexible, skilled and mobile workforce will be critical to the Council effectively responding to increasing demand and reducing resources.

3.41. The Council and BIIP jointly commissioned an independent review of the Council's revenue 2017/18 budget proposals and long term financial plans. The review considered whether the Council's proposals for 2017/18 and longer term financial plans were credible and robust and considered the Council's ability to deliver its financial plans.

3.42. An initial review was undertaken with a follow up visit in January 2017. The BIIP noted in the initial review that the Council had responded seriously to the financial challenge and had set about reassessing its financial bases to more realistic levels to address the financial gap. A number of areas of the financial plans were ambitious and some areas of risk were identified.

3.43. In the follow up visit, the BIIP concluded that the Council had responded well to the recommendations of the review team; that work was underway to review saving profiles of high-risk proposals where appropriate and the Council had established more robust governance arrangements to monitor the progress of the delivery of savings; the Council was reviewing its reserves strategy and giving consideration to a contingency plan; there was greater clarity and consistency in the delivery plans for main service areas and there had been a strengthening of capacity to support change corporately.

3.44. The BIIP did identify some risks on the deliverability of the Council's financial plans including that the implementation of the FOM will require bold, focused, suitably experienced and tenacious managerial leadership; that contingency savings plans be prepared at a very early stage of development; for the Council to assess the impact on corporate capacity to transfer children's services to a Children's Trust and for the

Council to review its approach with partners as current ways of working could inhibit the development and achievement of new ways of working.

3.45. The Council has in place a strategy for facilitating the implementation of the savings proposals including managing significant workforce reductions through redundancy and potentially outsourcing. This includes an organisational design tool kit, training and online tools for managers along with a team of trained HR professionals to support the most complex projects.

3.46. In addition to the Members' Development Programme, Councillors have access to e-learning through the Members' portal on People Solutions and are regularly kept up to date on training and development via the City Councillor bulletin circulated by e-mail. This gives details of legislation, training opportunities and other issues of importance to Members. Regular monthly "market places" and briefing sessions are held to keep Councillors up-to-date with Council services or services provided by partner organisations.

3.47. The Members' Development Programme for 2016-17 was delivered around three areas as outlined in the table below:

New Member Induction	On-going Member Development
Aim: To give oversight of Council processes and procedures to enable new members to get quickly up to speed with their role	**Aim: to provide ongoing development opportunities for members related to current and potential future role and responsibilities**
Understand role and responsibilities, the Council's values & behaviours, define new development offer	Skill development (e.g. social media, public speaking); networks and external visits
Code of conduct and the constitution	On-going transformation (e.g. Children's Trust)
Who's who in Birmingham, customer intelligence and access to IT and council services	Community leadership including bid writing, local leadership, Neighbourhood and Community Planning Toolkit)
1-2-1's	

Member/Officer Relationship
Aim: members and officers share understanding about their roles and responsibilities and how they work together
Member & Officers – redefined roles & expectations, supported by development programme
Underpinning behavioural standards, the new constitution and community governance with outward place focus

3.48. During 2016/17, the 'My Appraisal' review process was consolidated. This streamlined the personal review process and enabled 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

3.49. The Council engages in a wide range of consultation and engagement activities to inform service delivery and decision making. These are summarised in an annual statement and on-line consultation database. The Council Financial Plan 2017+ consultation process included public meetings led by the Council's Leader and Cabinet, a series of question and answer sessions on Twitter hosted by all Cabinet Members, consultation via post, email, and through the Council's website and consultation with the business community and the Chamber of Commerce.

3.50. 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.

3.51. The Customer First programme and Communications Review ensures that clear channels of communication are in place with service users, citizens and stakeholders. The Council holds meetings in public wherever possible. 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 also by comments made by the external auditors, responding to the BIIP reports 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. The Council's review process uses the Core Principles and Sub Principles included in this framework and this Statement sets out how the Council meets these roles and principles in its control and governance arrangements.

~~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 and inspection letter; 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 Interim Chief Financial 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. As in previous years the Birmingham Audit plan was compiled using 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 is discussed and agreed with the Corporate Directors and Audit Committee and shared with the Council's external auditor. Regular meetings between the internal and external auditor ensure that duplication of effort is avoided. 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 2016/17 and the outcomes from applying the model for formulating the end of year opinion the following assurance was able to be given: "I am able to provide reasonable assurance." In this context 'reasonable assurance' means that the systems can be relied upon to prevent error, fraud or misappropriation occurring without detection, and that nothing was found that would materially affect the Council's standing or Annual Accounts. As in any large organisation, Internal Audit did identify a number of concerns that required remedial action and these were reported to the appropriate Strategic / Corporate Director or Senior Manager during the year. All significant issues have also been brought to the attention of the Audit Committee, and where appropriate to the Corporate Leadership Team. The more significant of these are set out in the section entitled '**Significant governance issues 2016/17'** below.

4.9. The internal audit function is monitored and reviewed regularly by the Audit Committee. The Committee also reviews management progress against issues raised in the AGS and in implementing recommendations made in significant, high risk audit reports.

4.10. The Council's Overview and Scrutiny Committees received reports on key control issues throughout 2016/17 including budget monitoring, the big challenges for Health and Social Care, maximising jobs and skills opportunities in the City and corporate parenting.

4.11. The Council Plan is monitored through the Council Financial Plan Measures on a quarterly basis both by the Executive and Overview and Scrutiny Committees. Directorate, Divisional, and Service unit business plans contain a variety of performance indicators and targets, which are regularly reviewed.

4.12. The Monitoring Officer advises that there were 128 concerns raised and considered under the Council's Whistleblowing & Serious Misconduct policy in the 2016/17 financial year.

5. Review of 2015/16 governance issues

5.1. The significant 2015/16 governance issues were considered by Audit Committee in June 2016, agreed as part of the Statement of Accounts in September 2016, with updates in November 2016 and March 2017. In addition, this Committee received reports relating to the Corporate Risk Register, Final Accounts, Financial Resilience, West Midlands Pension Fund and Equal Pay.

5.2. Children's Safeguarding issues were considered by Cabinet and the Education and Vulnerable Children O&S Scrutiny Committee. The Educational and Vulnerable Children O&S Committee also considered issues such as the Children's Trust, governance and improving schools and child poverty.

5.3. Regular Revenue Budget Monitoring reports and quarterly Capital Budget Monitoring reports were considered by Cabinet.

5.4. The Council worked closely with the BIIP to formulate and implement action plans in response to the Kerslake review. Work continues to embed the processes into 2017/18 and beyond.

6. **Significant governance issues 2016/17**

6.1. The matters shown in this section have either been identified as having a significant or high likelihood in the Corporate 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	**Safeguarding** Safeguarding for both children and adults remains a priority. Work will continue to review the action plans in place as a result of the review by Commissioner Lord Warner and producing a robust Business Plan for 2017/18 and future years. The Care Act 2014 sets out the legal requirements for adult safeguarding.	The Council has launched an operating model which sets out the vision, values, direction and shape of the service. A clear performance framework that provides challenge and accountability at all levels has been introduced. The Care Act established the requirement to set up an independent Safeguarding Board for Adults. Arrangements are in place to work alongside the existing membership of the Birmingham Adults Safeguarding Board (BSAB) with a view to ensuring that local arrangements are compliant with the Care Act.

Issue No	Governance Issue	Mitigation Action / Proposed Action
2	**Financial Resilience** The Council faces continued reducing resources. This poses challenges to the financial resilience of the Council. Financial resilience continues to be a focus for the external auditors, with continued demands to evidence 'Going Concern'. The auditor noted in his Annual Audit Letter that there was considerable challenge for the Council to deliver its savings plans for 2016/17; and the potential impact on future years' savings plans. A statutory recommendation was made by the external auditor under Section 24 of the Local Audit and Accountability Act 2014; to ensure there was Council-wide commitment to deliver alternative savings plans to mitigate the impact of the combined savings and budget pressure risks in 2016/17 and for the Council to demonstrate it is implementing achievable actions to deliver the cumulative savings programme in the Financial Plan 2017+. Should the issues raised in the Statutory Recommendation not be fully addressed, the external auditors may issue a Public Interest Report. Given the Council is in the seventh year of budget reductions the possibility of Judicial Review challenge to the budget or elements of it, remains high.	Proactive actions are in place to plan and monitor the delivery of the savings programme including the delivery of workforce (including FOM) savings. Governance processes have been reviewed and significantly enhanced to improve the production of implementation plans and monitoring of the most significant savings proposals at the highest level. The Council will also pursue a contingency programme to identify and develop alternative savings proposals to address new pressures or help mitigate any savings deliverability issues.
3	**Partnership Working and Alternative Service Delivery Vehicles** The Council is seeking ways to improve effective partnership working, including working with neighbouring authorities in the newly established West Midlands Combined Authority. It is intended that Children's Services	The partnership with neighbouring authorities through the West Midlands Combined Authority continues to develop. The next stages are vital as devolution is implemented, making sure that work leads to permanent benefits for the region.

Issue No	Governance Issue	Mitigation Action / Proposed Action
	will move to a Trust arrangement from April 2018. The main driver for change is to improve the outcomes for disadvantaged children and young people through stronger practice led family support and social work service. The Council is looking at ways of working together across a range of agencies, to improve services outcomes and reduce costs. Options may include: • Using or considering alternative delivery vehicles. • Outsourcing of services. • Commissioning services.	Any transfer, commissioning or outsourcing of services is subject to the development and Cabinet approval of robust business cases and shadow working arrangements. The Council is reviewing the way it works with its partners - working equally to a common shared purpose.
4	**Equal Pay Claims** The risk of Equal Pay Claims remains significant and is being actively managed by a joint team from Legal Services and Human Resources.	The law in respect of equal pay is complex and has developed over the past 10 years. Any entitlement to compensation has to be justified in accordance with the legal position. Equal pay claims issued against the Council are subject to detailed analysis and robust legal challenge. The Council has sought to secure settlements that represented the best outcome for the taxpayer.
5	**Organisational Changes** The current challenging financial environment has required significant organisational upheaval as well as workforce reductions and compulsory redundancies. The implementation of the FOM will require significant and substantial changes to current job roles and responsibilities which the Council will be consulting affected staff on. The changes will include: • Rationalisation of Support Services	In the forthcoming year the significant budget reductions including the proposals for the FOM may strain industrial relations. However, positive local relationships with the trades unions and their understanding of the challenges will contribute to mitigating and managing this.

Issue No	Governance Issue	Mitigation Action / Proposed Action
	• Review of Spans and Layers across the whole Council	
6.	**Homelessness** The costs of homelessness are rising, primarily through the use of B & B accommodation to house homeless households. Temporary accommodation use is at its highest recorded numbers in Birmingham and this rise reflects the national increase of 43%. There are proposed reductions in funding in Supporting People and other external providers	The Housing Transformation Programme continues to review the service and financial impact for the homelessness service. This issue has been recognised as a budget pressure in the 2017/18 budget. Options to work with the third sector for alternative service provision are being explored.

6.2. These matters are monitored through the Corporate 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 John Clancy
Leader of the Council

Signed …………………………..
Stella Manzie
Interim Chief Executive
(& Head of Paid Service)

Signed ………………………………
Mike O'Donnell
Interim Chief Finance Officer
(Chief Finance Officer & Section 151 Officer)

Signed ………………………..
Kate Charlton
City Solicitor
(& Monitoring Officer)

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 Chief Finance Officer 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 Statement of Accounts presents a true and fair view of the financial position of Birmingham City Council at 31 March 2017 and its income and expenditure for the year ended 31 March 2017.

. . . .

Mike O'Donnell, Interim Chief Finance Officer
1 June 2017

Glossary

Academy School
A school that chooses to opt out of Local Authority control and receive its funding direct from the Education Funding Agency.

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.

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 similar types and 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
Rates that are levied on business properties. Commonly referred to as National Non-Domestic Rates (NNDR) or Non-Domestic Rates (NDR).

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 fixed asset, or expenditure which adds to, and not merely maintains, the value of an existing fixed asset.

Capital Receipt
Money received from the disposal of land and other non-current assets, and from the repayment of grants and loans 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 and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from

financing activities are useful in predicting claims on future cash flows by providers of capital (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 fund administered by the Council recording receipts from Council Tax and Business Rates and payments 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, 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
Sums of money 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
These represent 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
This is 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 sum 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 unfavourable, 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 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

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 leisure facilities.

Finance Lease
A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee. The payments usually cover the full cost of the asset together with a return for the cost of finance.

General Fund
The total services of the Council except for the Housing Revenue Account and the Collection Fund, the net cost of which is met by Council Tax, Government Grants and Business Rates.

Government Grants
Assistance by Government and inter-Government agencies and similar bodies, whether local, national or international, in the form of cash or transfers of assets to a local authority,

in return for past or future compliance with certain conditions relating to the activities of that local authority.

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.

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.

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
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.

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.

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), that cannot directly raise council tax themselves.

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.

Private Finance Initiative (PFI)
A Government initiative which enables authorities to carry out capital projects through partnership with the private sector.

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.

Usable Reserves
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).

Unusable Reserves
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.

Revenue Support Grant (RSG)
A grant from Central Government towards the cost of providing services.

Soft Loan
Loans at nil or below prevailing interest rates are often referred to as soft loans.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BIRMINGHAM CITY COUNCIL

To follow on completion of the audit.

BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to:	**AUDIT COMMITTEE**
Report of:	**Assistant Director, Audit & Risk Management**
Date of Meeting:	**20th June 2017**
Subject:	**Birmingham Audit Annual Report 2016/17**
Wards Affected:	**All**

1. PURPOSE OF REPORT

1.1 This report is the culmination of the work completed during the course of the year and provides an objective annual opinion on the adequacy and effectiveness of the systems of internal control. It highlights any significant issues that have arisen from internal audit activity during the year.

1.2 The report provides Members with information on inputs, outputs and performance measures in relation to the provision of the internal audit service during 2016/17, and compliance with the requirements set out in the Public Sector Internal Audit Standards (PSIAS).

1.3 It also sets out the Internal Audit Charter for 2017/18 and the proposed Internal Audit plan for 2017/18.

2. RECOMMENDATIONS

2.1 Members are asked to accept this report and the annual assurance opinion for 2016/17. Reasonable assurance is reported.

2.2 Members are asked to approve the Internal Audit Charter.

2.3 Subject to any amendments agreed in the discussion at Audit Committee, Members are asked to give their approval to the 2017/18 Internal Audit plan.

3. LEGAL AND RESOURCE IMPLICATIONS

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

4. RISK MANAGEMENT & EQUALITY ANALYSIS ISSUES

4.1 Risk Management is an important part of the internal control framework and an assessment of risk is a key factor in the determination of the Internal Audit plan.

4.2 Equality Analysis has been undertaken on all strategies, policies, functions and services used within Birmingham Audit.

5. COMPLIANCE ISSUES

5.1 Council policies, plans and strategies have been complied with.

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Sarah Dunlavey
Assistant Director, Audit & Risk Management

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Birmingham City Council

Birmingham Audit Annual Report 2016/17

20th June 2017

Contents

1. Background

1.1 The 2016/17 audit plan was prepared in accordance with the requirements of the Public Sector Internal Audit Standards (PSIAS) and the Accounts and Audit Regulations 2015. It also had due regard for the protocol with the External Auditors and took account of responsibilities under section 151 of the Local Government Act 1972.

1.2 The Council continues to go through significant change, the drivers for this change being both organisational and financial. During a period of change internal controls can become unstable and ineffective, it is important that any increased business risks are identified and appropriately managed. Our 2016/17 audit plan reflected these changes by concentrating on those areas that were considered to be of highest risk. We have applied the same approach to our 2017/18 audit planning process where further and even more fundamental change is expected.

2. Assurance Opinion

2.1 The audit plan is prepared and delivered to enable me to provide an independent opinion on the adequacy and effectiveness of the systems of internal control in place (comprising risk management, corporate governance and financial control). My opinion will form part of the Annual Governance Statement (AGS), which the Council is legally required to produce.

2.2 As my opinion is based on professional judgement, backed up by sample testing, I can only ever provide, at best, reasonable assurance. No process can provide an absolute assurance that the systems of internal control are adequate and effective in managing risk and meeting the Council's objectives. If serious issues are identified in the course of our work that have, or could have, prevented objectives to be met, then my opinion may be qualified.

2.3 Our work is carried out to assist in improving control. However, management is responsible for developing and maintaining an internal control framework. This framework is designed to ensure that the Council's resources are utilised efficiently and effectively, risks to meeting service objectives are identified and properly managed; and corporate policies, rules and procedures are adequate, effective and are being complied with.

2.4 The model used to formulate the end of year opinion places reliance on assurance provided from other parties and processes. This enables a broader coverage of risks and ensures that the totality of the audit, inspection and control functions deployed across the organisation are properly considered in arriving at the overall opinion. The model is an evolving one which changes from time to time as the intelligence we collect on sources of assurance develops. The opinion for 2016/17 is based on the following sources of assurance and weightings:

Internal Audit work (planned, follow-up and fraud work)	65%
Assurance from the work of the External Auditor	10%
The AGS	15%
The Risk Management Process	10%

2.5 **Based on the audit work undertaken and other identified sources of assurance I am able to provide a reasonable assurance on the effectiveness of the systems of internal control.** As in any large organisation, our work did identify some significant issues that required action. All significant issues have been reported to the appropriate Corporate Director during the year. A summary of significant findings from our work (including the main financial systems), is included as Appendix A.

3. Added Value

3.1 Although my primary responsibility is to give an annual assurance opinion, I am also aware that for the Internal Audit service to be valued by the organisation it needs to do much more than that. There needs to be a firm focus on assisting the organisation to meet its aims and objectives and on working in an innovative and collaborative way with managers to help identify new ways of working that will bring about service improvements and deliver efficiencies. Examples of how we have done this during the year include:

- Our ‘Schools’ audit team working to support delivery of the Education Improvement Plan.
- Assisting the Child Protection Service in developing / improving case conference processes and engagement with children.
- Using audit intelligence systems to trace children who have gone missing from education.
- Embedding the audit data warehouse into service areas to secure process efficiency and proactively prevent fraud and error entering the system.
- Developing a methodology for contract due diligence and ensuring contractors are viable.

4. Quality, Performance & Customer Feedback

4.1 Under the Accounts and Audit Regulations the Council must maintain an effective system of internal audit to evaluate its risk management, control and governance processes. An annual review of the system of internal audit is no longer required under the Accounts and Audit Regulation 2015. However, Internal Audit must comply with the requirements laid out in the PSIAS.

4.2 Quality Assurance

4.2.1 The provision of a quality service continues to be important. In line with the requirements of the PSIAS a Quality Assurance and Improvement Programme (QAIP) has been developed. The programme requires both internal and external assessments of internal audit effectiveness to be undertaken to ensure compliance with PSIAS and internal quality 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.

4.2.2 During the year, we retained our accreditation to the internationally recognised, and externally assessed, information security standard ISO27001:2013. But wef 1st April 2016 ceased the formal ISO9001 accreditation. The quality processes have been incorporate into the Information Security Manual, and the ISO27001 accreditation. Internal quality audits on our ISO processes are undertaken annually, most recently in April 2017. As in previous years only minor issues of non-compliance were identified and actions have been taken to correct these.

4.2.3 The PSIAS became effective from 1st April 2013, these standards set out the fundamental requirements for the professional practice of internal auditing within the public sector. The standards replaced CIPFA's Code of Practice for Internal Audit in Local Government.

4.2.4 During 2015/16 we undertook a full self-assessment to identify Birmingham Audit’s level of compliance with the standards. In July 2016 an independent external assessment was undertaken by colleagues from Bristol City Council. Their assessment identified that: *“Birmingham City Council’s Internal Audit Service conforms to the requirements of the Public Sector Internal Audit Standards”* and that *“the Internal Audit Service is well positioned, valued and makes an active contribution to the continuous improvement of systems of governance, risk management and internal control. This is achieved through both the delivery of the planned programme of audit work but also the active engagement and involvement of the Audit Service in developing systems and corporate working groups. The Head of Internal Audit is well regarded and maintains positive engagement across the Council.”*

4.2.5 As reported in our half year update report, the review identified a number of recommendations to further enhance processes. These recommendations have been accepted and are being implemented.

4.3 **Inputs**

4.3.1 The 2016/17 internal audit plan contained 5,443 days, and I am satisfied that there were adequate staffing resources available to me to deliver the agreed plan.

4.4 **Outputs**

4.4.1 During the year we issued a total of 273 final reports, containing 2816 recommendations. For comparison purposes during 2015/16 we issued 198 final reports containing 1483 recommendations. The increase in the number of reports and recommendations relates in the main to recommendations following school visits.

Reports by Type	
Internal Audit Reviews	122
Follow up Reviews	31
School Visits	96
Investigations	24
Total	273

A full list of the audit reports issued during the year is detailed in Appendix B.

4.4.2 Audit and follow up reports are given a risk rating of 1 - 3 to assist in the identification of the level of corporate importance. The key to the ratings given is:

1. Low - Non material issues

2. Medium - High importance to the business area the report relates to, requiring prompt management attention. Not of corporate significance

3. High - Matters which in our view are of high corporate importance, high financial materiality, significant reputation risk, likelihood of generating adverse media attention or of potential of interest to Members etc.

4.4.3 Of the 153 reports (122 Internal Audit and 31 Follow up Reviews) issued during the year, 2 were given a red level 3 risk rating, 57 had an amber level 2 rating, and 94 had a green level 1 rating.

4.4.4 On a monthly basis a list of all final reports issued, together with their Council risk rating, is sent to Members of the Audit Committee. Under the agreed protocol, Members can request to see copies of specific reports.

4.5 **Performance and Customer Feedback**

4.5.1 As at 31st March 2017 we had completed 98% of planned jobs against an annual target of 95%.

4.5.2 Our customers (both internal and external) continue to provide positive feedback on the services provided.

4.5.3 As part of the PSIAS external review, independent feedback was obtained from key stakeholders. The responses to this feedback indicated that stakeholders appreciated:

“• *Their involvement in the formation of the Internal Audit Plan.*
• *The professional way in which the Internal Audit Service ‘s work is delivered.*

- *The advice received from the Internal Audit Service.*
- *The positive impact the Internal Audit Service's work has on the Council's governance, risk and systems on internal control and enhancing understanding of these areas across the council."*

4.6 **Corporate Fraud Team**

4.6.1 In common with other public bodies the Council has a duty to protect the public purse. The Corporate Fraud Team (CFT) is responsible for the investigation of financial irregularities perpetrated against the Council, whether this is by employees, contractors or other third parties. The Team identify how fraud or other irregularity has been committed and make recommendations to management to address any issues of misconduct, as well as reporting on any weaknesses in controls to reduce the chance of recurrence in the future. A sub-team within CFT was established to specifically tackle 'application based' fraud, primarily related to Social Housing and Council Tax. In response to legislative changes and reductions in resources we have re-prioritised our work to concentrate on the more material cases, as well as putting greater emphasis on proactive work to try and identify and stop fraud and error. We are continually looking to enhance our counter fraud capability and develop new and innovative ways of identifying irregularities, whether this is the result of fraud, error, or procedural non-compliance.

4.6.2 The table below summarises the reactive investigations activity of the Team (excluding Application Fraud) during the year.

	2015/16	**2016/17**
Number of outstanding investigations at the beginning of the year	19	14
Number of fraud referrals received during the year	139	111
Number of cases concluded during the year	144	115
Number of investigations outstanding at the end of the year	14	10

4.6.3 All referrals are risk assessed to ensure that our limited resource is focused on the areas of greatest risk. We work in conjunction with managers to ensure that any referrals that are not formally investigated by us are appropriately actioned. We have continued to ensure that our processes are as lean as possible to ensure we can balance the caseload against available resources.

4.6.4 In addition to the above, the team have carried out proactive exercises looking at Staff Car Parking and No Recourse to Public Funds, as well as co-ordinating the processing of data matches derived from the National Fraud Initiative. Data analytical techniques have also been used to review and identify any potentially fraudulent transactions within the Council's main financial systems. The Team have delivered fraud awareness training to staff in the Adults and Health Directorate, Client Financial Services Team, and have issued various bulletins to raise awareness of fraud.

4.6.5 The Team have continued to work with directorate staff to implement the anti-fraud strategy for housing. This includes advising on records management, photo ID's, the new allocations policy, and providing training and support to front line staff in the use of the data warehouse to verify details submitted on housing / homeless / Right to Buy applications. Last year the team recovered 45 properties, cancelled 194 housing applications prior to letting, and reduced the points on a further 37 applications. The team also identified Housing Benefit overpayments totalling £589,110 and Council Tax changes of £324,974. This shows that in addition to the obvious social benefits deriving from the work, there is also a real financial saving from preventing and / or terminating fraud.

4.6.6 Our annual fraud report will be presented to Committee Members at the next meeting in July 2017.

5. The Internal Audit Charter 2017/18

5.1 On an annual basis Members are asked to approve the Internal Audit Charter. The charter for 2017/18 is attached as Appendix C. It sets out the objectives; framework and services delivered by Birmingham Audit, and details the relationship with the Audit Committee, our business plan objectives, the statutory requirements around our service and outlines the rationale behind the annual audit plan.

6. Internal Audit Plan 2017/18

6.1 The 2017/18 plan contains 5,113 days (4,013 days excluding the Schools Team). This compares to 5,443 days in 2016/17.

6.2 As in previous years the audit plan has been compiled using our professional judgement and is based on our assessment of risk. When compiling the plan we have taken into account the views of other key stakeholders throughout the organisation.

6.3 In order to meet the standards required of us and as contained within the legislative and professional framework surrounding the delivery of an internal audit service, there is a need to ensure sufficient coverage of the adequacy and effectiveness of systems of internal control in relation to financial control, risk management and corporate governance. A careful balance therefore has to be struck to achieve the optimum use of resources available. The Council is going through significant change, it is essential that proportionate and effective internal controls are maintained during this period. The audit plan will be subject to in year amendment and modification to reflect shifting priorities, emerging issues and process changes arising from the implementation of the Future Operating Model.

6.4 As in previous years we have used our risking model to 'score' all potential 'auditable' areas. The factors considered as part of the risk model are:

- Financial materiality.
- Assessment of the adequacy of the control environment.
- Strategic alignment to organisation priorities.
- Sensitivity / reputational risk.
- Assessment of management.
- Assurance based on internal audit work / knowledge and how recent that was.
- Assurance based on external audit or other inspectorate work and how recent that was.
- Direct assurance gained from operational management.
- Inclusion in the Corporate Risk Register and Council Business Plan / Priorities.

6.5 For each potential auditable area each of these factors is given a numerical value which feeds into a formula to arrive at an overall ‘score’. Using these scores we are then able to rank all potential auditable areas in order of priority based on our assessment of risk and on this basis determine how best to deploy the resources available to us. The risk assessment is designed to be dynamic and responsive to changing circumstances. We will review and update our assessment throughout the year. Ongoing changes across the organisation may result in in-year changes to the plan.

6.6 The table below shows the proposed split of audit days over the different categories of work we undertake, and for comparison purposes shows the same information for the previous year.

	16/17 %	**16/17 Days**	**17/18 %**	**17/18 Days**
Number of Audit Days in the annual plan	**100**	**5443**	**100**	**5113**
Main financial systems	16	860	18	905
Business controls assurance	35	1875	34	1735
Investigations	15	840	16	830
Schools (Non Visits)	4	195	3	155
Schools (Visits)	17	950	19	945
Follow up work	4	225	4	200
Ad-hoc work	5	273	3	178
Planning & reporting	3	180	2	125
City initiatives	1	45	1	40

6.7 Appendix D contains the detailed annual plan.

6.8 We are continuing to invest in the audit data warehouse and expand our data analytics capacity and capability across all areas. This approach is far less time consuming and labour intensive than traditional manual transaction testing and gives a much wider view on the system and service as a whole.

6.9 As always the views of Members on the overall content of the proposed plan and any suggestions for how specific elements of the plan should be used are welcomed.

6.10 A half yearly report will be produced to update Members on progress with the delivery of the 2017/18 plan.

Birmingham City Council

Summary of Significant Findings & our work on the Main Financial Systems

1. Red High Risk Reports

During 2016/17 we issued 2 reports, where we identified a 'high' risk rating for the Council. Brief details of the issues highlighted in these reports are detailed below:

Deprivation of Liberty Standards Follow Up - Deprivation of Liberty Safeguards (DoLs) assessments continues to be a national problem. Whilst there is ongoing activity to review and amend the Mental Capacity Act in relation to when a DoLs assessment is required, any potential change to legislation is not expected to be in place until 2020. We acknowledge that this is not a Council specific problem and have seen evidence that the arrangements to manage and monitor assessments have improved. The Directorate have progressed the previously agreed actions, no new recommendations were identified.

Disabled Facilities Grant - VAT Coding - The Council's Independent Living Service (ILS) is responsible for managing adaption works undertaken by external contractors on Non-Council properties which are funded from the Disabled Facilities Grant (DFG). Controls within the ILS have not been sufficiently robust to ensure that the VAT associated with those invoices being paid for adaptation works undertaken on Non Council properties, is being correctly processed; and that the Council does not claim VAT it is not entitled to. Consequently the ineffective control environment has resulted in significant financial and reputational risks materialising for the Council.

A penalty notice has been received from the HMRC which has been suspended for one month and will be cancelled if the specified conditions are met. As a result of action taken and monitoring systems established, the specified conditions are already being met. Therefore, no financial penalty is likely to be incurred. A follow-up review, to verify the effectiveness of the steps taken, will be undertaken in 2017/18.

School Visits

Throughout 2016/17 we have continued to work with both Directorate and school colleagues to ensure we undertake a robust and added value audit of key elements of school strategic and operational service delivery. Based on feedback and changing priorities the school audit work programme was revised during the year to ensure sufficient emphasis on financial systems and controls.

Overall we have continued to find that the majority of schools visited have effective systems of control in place, and staff and Governors are complying with key processes. There are areas for development which would improve strategic and operational delivery, but in the main, schools are being well managed.

As part of the audit, Governors and Senior Leadership are asked to complete a survey on their views on financial management within their school, the appropriateness of roles, core values and the culture of tolerance / mutual respect. Overall, no significant concerns were identified from the surveys.

The main issues identified are:

- Financial Governance – weaknesses continue to be identified in the delegation framework in a proportion of schools. While these do not stop schools functioning effectively, it means that there is not the required clarity around financial responsibilities. Improvements are required in the financial reporting to Governors to allow sufficient scrutiny and challenge. The correct completion of pecuniary interest forms remains an ongoing issue in a number of schools together with the improved recording of gifts and hospitality. The majority of schools are now completing their Schools Financial Value Standard on an annual basis but not always submitting it by the deadline or recording its approval.

- Budget Planning – whilst day to day financial management is well established a high proportion of schools are relying on their carry forward surplus to set a balanced budget. This poses a risk for future years when the surplus has been utilised unless action plans to reduce expenditure / increase income are developed. It is not surprising that this continues to be an area of significance as the financial challenges in schools grow, notably there is a continued increase in school forecasting deficits in future years.

- Purchasing – we identified the need for greater compliance with the key controls for the ordering and receipting of goods. Improvements are also required in respect of establishing appropriate divisions of duty.

- Delegated Powers – we identified the need for greater compliance in the reporting of quotes to Governors and improvement is required in the monitoring of cumulative expenditure to ensure value for money obtained.
- Safeguarding – schools were well aware of their responsibilities in relation to safeguarding their children and take that responsibility seriously. There remains the need for improvement in respect of monitoring IT and internet use and undertaking due diligence prior to lettings to ensure users meet both safeguarding and the 'No Platform for Extremism Policy' requirements. Schools are rolling out Prevent training but still need to improve the recording of when employees have been trained.
- Attendance - overall attendance remains well managed and effective arrangements are in place. There are two areas that continue to require further development – the retention of sufficient records where pupils leave a school in year and ensuring correct codes are used to record attendance/absence.

2. Risk Management

Risk management continues to be embedded within the Council. The revised risk management policy, strategy and toolkit have been placed on the Council's website, and advice and support is provided as requested and necessary. The Corporate Risk Register is reviewed by the Corporate Leadership Team and updated information regarding the management of the risks continues to be reported three times a year to the Audit Committee.

3. Corporate Governance

The highest standards of corporate governance, public accountability and transparency have a significant impact on how well an organisation meets its aims and objectives. We carried out several audit reviews in 2016/17 covering governance in specific service areas.

As in previous years we also reviewed the process used to produce and monitor the AGS which forms part of the Council's accounts.

4. Main Financial Systems

The requirement to give an assurance on the adequacy and effectiveness of financial controls is a key responsibility for us. During 2016/17 we reviewed each of the main financial systems. A summary of our work in these areas is detailed below.

Financial Control / Ledger

2016/17 has been very challenging for the Council with a number of budgeted savings plans being very ambitious and not materialising. An Independent Financial Review has been undertaken and its recommendations acted upon. From the work we carried out during the year, we did not find any fundamental or material issues and are able to provide assurance that, in general, effective arrangements are in place for the proper management and control of the Council's finances. However, the recent restructure in finance has removed/repositioned the management accounts section, which supported ledger integrity, it is too early to evaluate the impact of this. We did identify some concerns around budget pressures due to inadequate budgets and unrealistic income targets being set.

Payroll and Human Resources (HR)

The gross payroll cost as at the end of period 12 for 2016/17 was £725m; this has reduced from £752m in the previous year. The payroll system is stable and functioning well. Processes are in place to maintain the accuracy and quality of information, including HMRC's real time information.

The content and functionality of People Solutions / Employee Portal has been expanded and improved to provide more guidance is available to staff. There is now an expectation that staff will use the online guidance rather than raising 'Ask HR' request.

Processes and controls are in place and operated by HR staff and Payroll staff to ensure that the payroll is accurate and that staff are paid correctly and statutory and voluntary deductions are correct. However, employees and their line managers are also responsible for accurately updating the system via Employee Self-Service and Manager Self-Service. In some cases this can affect pay e.g. claims for overtime / additional hours worked, reductions in working hours, unpaid leave taken, maternity leave and sickness absences. Whilst the number of overpayments remains low, there is a still a need to ensure all changes are actioned on a prompt basis. Robust procedures are in place to recover any overpayments or agree appropriate payment plans.

Birmingham City Council

During the year PWC have assist the Council in developing employee tax risk matrices, together with supporting action plans. We found that the action plan was being adequately progressed, ensuring compliance with HMRC regulations.

Accounts Payable (AP)

In 2016/17 over 577,000 invoices were paid by AP, for main creditors (including feeder file transactions) totalling £1.536 billion. 99.0 % of invoices were paid within 30 days of receipt in AP (against a target of 95%). The average monthly purchase card spend was over £810k, well above the target of £250k, maximising the rebate received by the Council.

Payment processes are well established with checks in place to prevent duplicate payments and enforce compliance. Our work identified that quality of vendor master data records have significantly improved and processes strengthened to ensure quality is maintained. The feeder file verification process, including verification of bank details for feeder file payments over £75k, was working intended.

Whilst the overall number of petty cash accounts and transactions has substantially reduced (approximately 41,000 transactions with a value of £2.31m for 2015/16), we did identified a number of concerns and lack of compliance with corporate guidance over the use of petty cash accounts. Our recommendations for strengthening controls and compliance have been accepted. We will revisit the use of petty cash as part of our programme of work in 2017/18 to ensure appropriate action has been taken.

Procurement

Corporate Procurement Services (CPS) has devised tools and procedures to help improve contract management across the Council, and they continue to work with contract managers to support improvements in contract management and identify savings. In the contracts we reviewed this year, which were selected on a risk basis, we found that basic governance processes, e.g. contract management plan, risk register, KPIs were not in place. We intend to undertake further work this year to review how CPS is continuing to embed the principles of good contract management across the Council.

The procedure introduced in September 2013 to regulate the engagement of individuals e.g. consultants, is being implemented. The changes in HMRC rules from April 2017, which place greater onus on the Council to ensure the correct tax and National Insurance contributions are paid, re-enforce the need for the necessary engagement checks to be undertaken.

As well as the work we have undertaken to provide an overall assurance, we have undertaken other work on procurement and contracts which was specifically requested by service areas. This included a review of the Independent Living Service, where recommendations were made to strengthen the tender documentation, draft contract, proposed contract management and performance framework, and procurement advertisement.

Accounts Receivable (AR)

The invoicing and recovery of debt is an essential part of the Council's financial management processes and reliance is placed on income targets being met. The value of debts raised in 2016/17 was £678m a 23.57% decrease on last year. Overdue debts (over 90 days old) as at 31/3/2017 was £24.9m (an overall decrease of 4% compared to the previous year) of which £14.6m relates to Housing Benefit Overpayment (HBO). HBO debts are managed separately by the Benefit Service.

The AR processes were found to be operating appropriately, with effective processes in place for raising bills and recovering debt.

Benefits Service

Housing Benefit payments equate to around £560million which is returned to the Council through the subsidy grant.

The Benefit Service is responsible for the administration and payment of Housing Benefit (HB) and Council Tax Support (CTS). The introduction of Universal Credit (UC), which replaces many existing benefits, began in April 2013 and the roll out will continue throughout 2017 /2018.

During the year a significant service incident was encountered which resulted in the duplicate processing of feeder files into the Revenues and Benefits System. Prompt action was taken to stop any duplicate payments being made and minimise the impact of the incident. We completed independent checks on the reconciliation and are able to provide assurance that the impact on the subsidy claim has been assessed and robust audit trails exists that can be followed by the Council's External Auditors.

Birmingham City Council

Whilst responsibility for informing the Benefits Service of change of circumstance rests with claimants, it was identified that in a number of cases Housing Benefit had remained in payment when Council Tax liability had ended. Once this issue was detected a proactive manual checking process was established to identify and suspend benefit payments. An automatic system solution has recently been implemented that will automatically suspend Housing Benefit once Council Tax liability has ended. The total number and value of these cases was low in relation to total benefits paid. A review of the automatic solution will take place in 2017/18 to verify its operation.

Our review of claim verification identified that the process was operating as intended and helping to secure processing efficiencies. Only minor recommendations were made to enhance claim processing.

Council Tax & Non-Domestic Rates

Council Tax is one of the ways the Council receives the money it needs to provide local services. The amount paid is based upon the value of the property. Reductions (discounts and exemptions) in the amount paid are applicable to certain people.

Non-domestic rates, or business rates, collected by Local Authorities are the way that those who occupy a non-domestic property contribute towards the cost of local services. Apart from properties that are exempt from business rates, each has a rateable value (RV) which is set by the Valuation Office. There are various exemptions and reliefs that can be applied to empty properties, charities and small businesses.

The administration of Council Tax and NNDR has recently transferred back under the control of the Council from Service Birmingham and new management arrangements are being established. These arrangements will be reviewed as part of our 2017/18 planned work.

Whilst overall collection rates remain high, 94.55% for CT and 97.2% for NDR (source QRC4 2016/17); our testing did identified delays with the progression of a small number of debts through the recovery process. Additional resources have now been directed to the review of these accounts to ensure appropriate steps are taken.

Rents

The Rent Service is responsible for the collection of rent from council tenants. This requires liaison with Place Directorate staff in the Letting Suites who have face to face contact with the tenants when the tenancy is set up. The level of rent arrears is closely monitored and action is taken to assist current (secure and introductory tenants) and former tenants to clear arrears. Discretionary housing payments (DHP) can be made to those in particular hardship. Tenants receiving help with their rent who are in receipt of UC which includes housing costs will have to manage and make arrangement to pay their rent themselves. DHP applications can still be considered from UC claimants if their UC includes housing costs.

Improvements have been made in the monitoring of Rent accounts to reduce the need for manual intervention and reduce arrears. Recovery action is now targeted based on the level of arrears. The processes introduced by management since the inception of the Introductory Tenancy Arrears Team are proving to be effective in ensuring that accounts with an arrears balance are actively monitored and increases in arrears are acted upon promptly. The new escalation policy is helping to ensure that rent arrears are effectively managed.

5. Information Governance / Technology (IT) Issues

The Council is dependent on information and technology to deliver services in an efficient and effective manner and achieve positive outcomes for ‘citizens’. In common with other public sector bodies it is striving to make effective use of information and draw insight in order to target limited resources at the areas of greatest need. This introduces new challenges and risks that need to be managed.

Our work during the year has been targeted to provide assurance over the areas of greatest risk. The findings of our work have been summarised below. Responsibility for resolving the issues identified cut cross the Council and Service Birmingham.

Council

Our work continues to raise concerns over the management of system user accounts and controlling access to sensitive personal information. During periods of significant organisational change it is essential that access is tightly controlled to avoid data breaches occurring.

Birmingham City Council

Our information governance reviews identified:

- whilst the performance targets for responding to information access requests are now being achieved, scope remains to further tighten processes and ensure all requests are responded to promptly;
- data processing agreements, with 3rd parties who handle personal information on our behalf, are not always in place;
- a revised information security e-learning training package has now been implemented and communicated to all staff; and
- concerns over the level of compliance with security and information standards, impacting upon the use and reporting of information for statutory and non-statutory purposes.

Service Birmingham

During the year a significant service incident was encountered which resulted in the duplicate processing of feeder files into the Revenues and Benefits System. Service Birmingham responded to the incident and action was taken to minimise the impact and ensure that the benefit subsidy claim was not affected. Our recommendations to strengthen procedures and prevent reoccurrence have been accepted and are being actioned.

We found that the overall core IT infrastructure (network, directory service, data centres) is well managed. However, we have identified a number of improvements that can be made to enhance the security surrounding key operating and database systems.

Robust IT disaster recovery arrangements are in place, and tested, for nominated KPI systems. We identified a need to update the business impact assessment to ensure that all appropriate systems were included within the scope of these arrangements.

Council / Service Birmingham

We have continued to identify concerns in the overall governance and reporting arrangements surrounding the management of IT projects. Post implementation reviews of major projects have highlighted the need for a more effective lessons learnt process. A number of these concerns stemmed from the lack of a coordinated strategy being in place when the project was initiated.

High privilege SAP users are being managed effectively. Segregation of duties risks are being defined and compliance rules built within SAP's Governance, Risk and Control module and access provisioning processes. There is no a need to embed this into day to day activity.

An Information Communications and Digital Strategy has now been developed and agreed. The strategy sets out how Information and Communications Technology and Digital technologies (ICTD) will support the way in which council services will be provided in the future. Delivery of the strategy, through the two main programmes, is key and will be a focus of our work over the coming year. It is envisaged that key governance and security issues will be addressed through the implementation of this strategy.

The Information Assurance Board has been re-instigated, with ownership from the Corporate Leadership Team, the Board will have a key role in ensuring that information risks are identified and responded.

Birmingham City Council

Final Reports Issued During 2016/17

Audit Reviews (122 Reports):

Key to linkages to the Council’s areas of priority, core objective of good governance, Corporate Risk Register and financial assurance:

1. Children (a great city to grow up in)
2. Jobs & skills (a great city to succeed in)
3. Housing (a great city to live in)
4. Health (a great city to lead a healthy and active life in)
5. Good Governance
6. The Corporate Risk Register (CRR - based on the version which went to Audit Committee in March 2017)
7. Financial Assurance

Title	Council Risk Rating	Assurance	1 Children	2 Jobs & skills	3 Housing	4 Health	5 Good Gov	6 CRR	7 Financial Ass
Disabled Facilities Grant - VAT Coding	High	4							✓
Adults Direct Payment	Medium	3				✓			
Dealing with Excluded Pupils	Medium	3	✓					✓	
Sexual Health Contract - Effectiveness of Commissioning	Medium	3	✓						
Northgate Housing Security	Medium	3			✓				
BMHT Property Transactions	Medium	3			✓				
Contracts and Procurement Summary Report 2015/16	Medium	3		✓					✓
Children Missing From Education	Medium	3	✓					✓	
Tenancy Management	Medium	3			✓				
Accounting for Non HRA Assets	Medium	3					✓		

Birmingham City Council

Appendix B

Title	Council Risk Rating	Assurance	1 Children	2 Jobs & skills	3 Housing	4 Health	5 Good Gov	6 CRR	7 Financial Ass
Effective Social Working With Families	Medium	3	✓					✓	
CareFirst	Medium	3	✓					✓	
Sexual Health Contract - Identification of Child Sexual Exploitation	Medium	3	✓					✓	
Cityserve Financial Control Review	Medium	3					✓		
Annual Tenancy Visits	Medium	3			✓				
Database Security	Medium	3					✓		
Quotation Process	Medium	3		✓					✓
Markets	Medium	3							✓
Accounts Payable - Purchase Cards - Directorates / Youth Service	Medium	3	✓						
Operating System Security	Medium	3					✓		
Resilience - Business Continuity Planning for Critical Services	Medium	3					✓	✓	
IT Project Governance - Service Birmingham	Medium	3					✓		
Local Growth Fund - Management Arrangements	Medium	3		✓			✓		
Registration Service	Medium	3					✓		
Special Education Needs and Disability - Strategy and Plan	Medium	3	✓			✓			
Home Support Services and Care Homes - Contract Management	Medium	3					✓		
Take up of Direct Payments	Medium	3				✓			✓
Leisure Facilities Externally Operated Contract Management	Medium	3				✓	✓		
Licensing	Medium	3					✓		
Child Permanency Reports	Medium	3	✓						
Transport and Engineering Consultancy Framework - Contract Management	Medium	3							✓
Pathways for Children in Care	Medium	3	✓						
Infrastructure Assets	Medium	3							✓
Data Quality - DfE Returns	Medium	3	✓				✓		
Implementation and take up of the DP Prepaid card	Medium	3				✓			✓

Title	Council Risk Rating	Assurance	1 Children	2 Jobs & skills	3 Housing	4 Health	5 Good Gov	6 CRR	7 Financial Ass
Schools Asset Management	Medium	2	✓						✓
Acivico Contract Monitoring - Overall Delivery of Contract	Medium	2					✓	✓	
Savings Plan – Progress	Medium	2					✓	✓	✓
Sophos Post Implementation Review	Medium	2					✓		
Child Protection Case Conferences - Engagement	Medium	2	✓					✓	
Workforce Planning - Strategy	Medium	2		✓					
Financial Control Review	Medium	2					✓		
IT Disaster Recovery	Medium	2					✓		
Adult Care Planning - Financial Assessments	Medium	2				✓			✓
Public Health Restructure and Service Redesign - Governance	Medium	2				✓			
Acivico Contract Monitoring - Final Accounts Process	Low	3					✓	✓	
Mobile Devices	Low	3							✓
Housing Visiting Programme Mobile Solution	Low	3			✓				
Fixed Asset IT System	Low	3							✓
Accounts Payable - Corporate review of the use of Petty Cash – Economy	Low	3							✓
Accounts Payable - Corporate review of the use of Petty Cash - People	Low	3							✓
Information Security Management (iCare Application)	Low	3					✓		
Accounts Payable - Corporate review of the use of Petty Cash - Place	Low	3							✓
Payment Card Industry - Data Security Standard (PCI – DSS)	Low	3					✓		
Rent Collection & Charges - Overall Arrears Recovery Process	Low	3			✓				✓
Carefirst Voyager Master Data	Low	2						✓	
Vendor Master Data	Low	2							✓
Cancellation and Write Offs	Low	2							✓
Corporate Payroll Transaction Testing	Low	2							✓

Birmingham City Council

Title	Council Risk Rating	Assurance	1 Children	2 Jobs & skills	3 Housing	4 Health	5 Good Gov	6 CRR	7 Financial Ass
Lost and Stolen IT Equipment	Low	2							✓
Human Resources Subject Access Request	Low	2					✓	✓	
Children's Direct Payments	Low	2	✓					✓	
Carefirst IT Review	Low	2	✓					✓	
Accounts Receivable - Processing & Payment Methods	Low	2							✓
Benefit Service - Discretionary Housing Payments	Low	2			✓				
Corporate Payroll Annual Summary Report 2015/16	Low	2							✓
Accounts Receivable Annual Summary Report 2015/16	Low	2							✓
N3 Network	Low	2				✓			
Environmental Health	Low	2				✓			
Highways PFI	Low	2						✓	
Rent Collection & Charges - Introductory Tenancy Process - Case Panel Review	Low	2			✓				
E-Procurement - IT Security (In-Tend System)	Low	2		✓			✓		
Destin Manual	Low	2					✓		
Quality Checks - Housing Benefits	Low	2			✓				
Accounts Receivable - Recovery of employee related debts	Low	2							✓
Directory Services 2017	Low	2							✓
Accounts Payable - Activities in Directorates	Low	2							✓
Non Invoiced Income - Car Parking Income	Low	2							✓
SAP FireFighter	Low	2					✓		
Data Centre Move	Low	2					✓		
RBIS IT Security	Low	2					✓		
Data Centres	Low	2					✓		
Procurement Governance Arrangements	Low	2		✓			✓		

Title	Council Risk Rating	Assurance	1 Children	2 Jobs & skills	3 Housing	4 Health	5 Good Gov	6 CRR	7 Financial Ass
Tell Us Once 2017	Low	2					✓		
BID Synchronisation Project review	Low	2					✓		
Greater Birmingham and Solihull Local Enterprise Partnership - Arrangements for managing BCC Interests & Risks	Low	2					✓		
Children's Centre Manager	Low	2	✓				✓		
Information Security Management (CASPAR Application)	Low	2	✓				✓		
Information Security Management (EMS One Application)	Low	2	✓				✓		
Information Security Management (Apex Innovation Application)	Low	2	✓				✓		
IT Projects - ChildView Hub (CACI)	Low	2	✓				✓		
Planning Applications	Low	2					✓		
SAP Security	Low	2					✓		✓
Benefits Service - Risk Based Verification (RBV)	Low	2					✓		✓
IT Projects - Agile Working Project	Low	2					✓		
Accounting for Non-BCC Activities	Low	2							✓
Depreciation	Low	2							✓
Rent Collection and Charges - Former Tenancies	Low	2			✓				✓
Treasury Management	Low	2							✓
Rent Collection & Charges - Introductory Tenancies	Low	2			✓				✓
Information Security Management (Escort Liaison Application)	Low	2					✓		
Information Security Management (eAdmissions Application)	Low	2					✓		
National Non-Domestic Rates Credit Balances	Low	2							✓
National Non-Domestic Rates DD SPA and SPA	Low	2							✓
National Non-Domestic Rates Vulnerable	Low	2							✓
Council Tax Report - DIS	Low	2							✓
Council Tax Report -SPA	Low	2							✓

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Appendix B

Title	Council Risk Rating	Assurance	1 Children	2 Jobs & skills	3 Housing	4 Health	5 Good Gov	6 CRR	7 Financial Ass
Council Tax Report - AOE	Low	2							✓
Network Management	Low	2					✓		
Impulse	Low	2	✓				✓		
Risk Management - Parks and Nature Conservation	Low	1				✓	✓		
Accounts Payable - Validation of High Value Payments - Greater Than 75k	Low	1					✓		
Ethics	Low	1					✓		
Risk Management - Planning and Regeneration	Low	1					✓		
National Non-Domestic Rates - Accounts in Query	Low	1							✓
National Non-Domestic Rates - Accounts requested back from Enforcement Agents	Low	1							✓
Accounts Receivable - Debt collection agency process	Low	1							✓
Accounts Payable - Payments to Unaccompanied Asylum Seeking Child & Families with No Recourse to Public Funds	Low	1							✓
Accounts Receivable - Write Offs and Reasons	Low	1							✓
Complaints - Revenues and Benefit Service	Low	1					✓		
Billing & debt recovery processes within business areas	Low	1							✓
Accounts Payable - Feeder Files - External Supplier Invoices	Low	1							✓

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Follow Up Reports (31 Reports):

Title	**Risk Rating Council**
Deprivation of Liberty Standards Follow Up	High
IT Project Governance Follow Up	Medium
Independent Living Follow Up	Medium
Management of Voids Follow Up	Medium
SAP GRC Follow Up	Medium
Information Governance - Adoption & Fostering Follow Up	Medium
Young Adults Re-provisioning Follow Up	Medium
Personal Education Plans Follow Up	Medium
IT Service Management Follow Up	Medium
International School Follow Up	Medium
Library of Birmingham Follow Up	Medium
Planning and Regeneration - Grant Funded Schemes - Governance and Management Arrangements Follow Up	Medium
Birmingham Municipal Housing Trust Property Transactions Follow Up	Medium
International School 2nd Follow Up	Medium
Corporate Asset Management Follow Up	Low
Reconciliation of Control Accounts Follow Up	Low
Children with Complex Needs - Complaints Procedures Follow Up	Low
Caldicott Guardian Follow Up	Low
Web Page Security Follow Up	Low
SAP Roadmap Follow Up	Low
Housing Benefit Overpayments (HBO'S) Follow Up	Low
Third Party Service Provision Follow Up	Low
CareFirst Voyager master Data Final Follow Up	Low

Title	Risk Rating Council
Cohort IT Security Follow up	Low
SAP External Audit Report Recommendations Follow Up	Low
Subject Access Requests Follow up	Low
InReach (Birmingham) Ltd Follow Up	Low
Accounts Payable - Purchase Cards Follow Up	Low
Highways Open Book Accounting Follow Up	Low
Public Health - Restructure and Redesign Follow Up	Low
DBS Checks	Low

Investigation Reports (24 Reports)

School Visits (96 Reports)

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Internal Audit Charter

Internal Audit Charter 2017/18

1. Introduction

1.1 This charter sets out Birmingham Audits (BAs) purpose, authority and responsibilities; establishes BAs position within the organisation, including reporting relationships with the 'board'; covers the arrangements for appropriate resourcing; defines the scope of internal audit activities and role of Internal Audit in any fraud-related work; and includes arrangements for avoiding conflicts of interest if internal audit undertakes non-audit activities. It also sets out the objectives, framework and services delivered by BA (which are in accordance with the mandatory PSIAS). The detailed actions to deliver the charter are contained within the BA Business Plan.

Notes:

1. The term the 'board', can refer to one or all of the following: Audit Committee, Chief Executive, Assistant Chief Executive, Chief Finance Officer or City Solicitor.

2. Statutory officer roles with regards to Internal Audit:

Chief Executive & Assistant Chief Executive - ensure there is an open, honest, transparent and accountable culture in operation within the Council and are available as and when required by Internal Audit.

Chief Finance Officer - this role is responsible for ensuring the sound financial administration of the Council. They are also responsible for deciding on the action to be taken to investigate suspected financial irregularities, including referring the matter to the Police.

City Solicitor / Monitoring Officer is responsible for ensuring that the Council acts and operates within the law, responding to whistleblowing allegations, and promoting and maintain high standards of conduct by Council members, officers, partners and contractors. They may commission Internal Audit to investigate specific issues of concern and ensure that audit recommendations are acted upon.

2. Purpose, Authority & Responsibilities

2.1 BAs primary purpose is to provide independent and objective assurance to the Council on the control environment (risk management, internal control and governance) by evaluating its effectiveness in achieving the organisations objectives.

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2.2 In accordance with section 12 of the Financial Regulations:

- each Corporate Director must ensure there is an open, honest, transparent and accountable culture in operation within their area of responsibility and must make its services available as and when required for audit both internally and externally;

- Corporate Directors must respond in writing to any recommendations contained in audit reports in accordance with agreed protocols; and

  - the AD ARM on the authority of the Chief Finance Officer shall have authority to:-

➢ enter any Council premises or land at all reasonable times.
➢ have access to all records, documents, data and correspondence relating to all transactions of the City Council, or unofficial funds operated by an employee as part of their duties.
➢ require any employee of the City Council to provide such explanations, information or any other assistance necessary concerning any matter under audit examination.
➢ require any employee of the Council to produce cash, stores or any other property under his / her control, belonging to the Council or held as part of the employee's duties.

The rights above apply equally to organisations which have links with or provide services on behalf of the Council (eg: wholly owned companies, voluntary organisations or other agents acting on behalf of the Council) where the City Council has a statutory or contractual entitlement to exercise such right. These rights shall be included in all contractual arrangements entered into with such organisations.

2.3 BAs responsibilities include looking at how risk management, control, governance processes, and other resources are managed, and working with managers to add value, and improve the security, efficiency and effectiveness of their processes.

2.4 Individual auditors are responsible for ensuring that they operate with due professional care. This means that BA staff will:

- be fair and not allow prejudice or bias to override objectivity;
- declare any interests that could potentially lead to conflict;
- sign a confidentiality statement;
- not accept any gifts, inducements, or other benefits from employees, clients, suppliers or other third parties;
- use all reasonable care in obtaining sufficient, relevant and reliable evidence on which to base their conclusions;

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- be alert to the possibility of intentional wrongdoing, errors and omissions, inefficiency, waste, lack of economy, ineffectiveness, failure to comply with management policy, and conflicts of interest;
- have sufficient knowledge to identify indicators that fraud may have been committed;
- disclose all material facts known to them which if not disclosed could distort their reports or conceal unlawful practice subject to confidentiality requirements;
- disclose in reports any non-compliance with these standards; and not use information that they obtain in the course of their duties for personal benefit or gain.

3. Position within the Organisation (including reporting relationship with the board)

3.1 BA will remain independent of the areas audited to ensure that auditors perform their duties impartially, providing effective professional judgements and recommendations. BA will not have any operational responsibilities.

3.2 Subject to any statutory responsibilities and overriding instructions of the Council, accountability for the response to advice, guidance and recommendations made by BA lies with management. Management can either accept or implement the advice and recommendations or reject it. Any advice, guidance or recommendations made by BA will not prejudice the right to review the relevant policies, procedures, controls and operations at a later date.

3.3 The AD ARM will report the results of audit work in accordance with the Birmingham Audit Protocol.

4. Resourcing

4.1 The service will be delivered to professional standards by appropriately qualified and skilled staff. BA has achieved the ISO27001:2013 Information Security Standard. The Information Security Standard is subject to regular external review.

4.2 During 2017/18 we will continue to seek more efficient and effective ways to deliver the audit service, provide assurance to Members, and help identify new ways of working that will bring about service improvements and deliver efficiencies. The Audit data warehouse and data analysis will be used to support our assurance work and provide intelligence in respect of allegations of non-benefit related fraud referrals or data anomalies identified, and to carry out exception reporting, to identify samples and review data quality.

4.3 We will work with private sector partners as necessary to ensure we have the right skills and resources to deliver a quality driven professional service to the Council.

4.4 We will work in partnership with other inspection bodies to ensure that we get the maximum audit coverage from the resources invested; taking assurance from each other's work where appropriate.

4.5 If the AD ARM or those charged with governance consider that the adequacy and sufficiency of internal audit resources or the terms of reference in any way limit the scope of BA, or prejudice the ability of BA to deliver a service consistent with the definition of Internal Audit, they will advise the Council accordingly.

5. Scope

5.1 The scope of the internal audit function will embrace the internal control system of BCC. It covers all financial and non-financial related activities of the Council at all levels of its structure.

5.2 The internal control system is defined as including the whole network of systems and controls established by management to ensure that the objectives are met. It includes both financial and other controls for ensuring that corporate governance arrangements are satisfactory and best value is achieved. In determining where effort should be concentrated, the AD ARM will take account of the Council's assurance and monitoring mechanisms, including risk management arrangements, for achieving its objectives.

5.3 BA will consider the results of the Council's risk management processes. Where the results indicate adequate action has already been undertaken to manage the risks / opportunities BA will take this into account. Where the results indicate that insufficient work has been done then BA may undertake a separate review.

5.4 The scope of audit work extends to services provided through partnership arrangements. The AD ARM will decide, in consultation with all parties, whether BA conducts the work to derive the required assurance or rely on the assurances provided by other auditors. Where necessary, the AD ARM will agree appropriate access rights to obtain the necessary assurances.

5.5 BA will not undertake tasks, which are likely to compromise its independence, internal control functions or certification processes.

5.6 BA will participate and contribute to Council and Directorate policy development as required through attendance at Managers Network events, and working groups.

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5.7 Other Work

Where appropriate resources exist BA will make provision within the plan for:-

- The review of key systems or key services provided by the Council on behalf of other organisations.
- The review of key systems or services provided by others on behalf of the Council. In order to achieve this BA will require access to partner records, systems and staff. This access should form part of any partnership contract between BCC and the partner.

The decision to include it in the plan will be dependent on the level of risk identified and whether reliance can be placed on opinions provided by others.

5.8 Fraud & Corruption

Section 14 of the Financial Regulations states the following:

- The responsibility for prevention and detection of fraud rests with all employees.
- Each Corporate Director must ensure that the Chief Finance Officer, AD, ARM and if applicable, the Monitoring Officer, is notified immediately whenever a matter arises which involves, or is thought to involve, any financial irregularities, fraud and corruption.
- The Chief Finance Officer is responsible for deciding on the action to be taken to investigate suspected financial irregularities, including referring the matter to the Police.
- If there are any suspicions that a Member may be involved / or associated either directly or indirectly in an incident that may require investigation, then the Corporate Director must report this to the Chief Finance Officer, who may refer the matter to the appropriate Cabinet Member or Committee.
- Each Corporate Director must implement the Anti-Fraud Strategy, the Criminal Acts Procedure and the Confidential Reporting (Whistleblowing) Code and Public Interest Disclosure Act 1998.

BA will assist managers to minimise the scope for fraud by evaluating the Council's systems of internal financial control and reporting thereon. Where irregularities are suspected, BA will, in appropriate cases, undertake an investigation and report to management or will promptly provide advice and guidance to assist managers with their investigation. All investigations undertaken by BA will adhere to all Council policies.

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Where Directorates require BA to attend disciplinary hearings as a management witness, sufficient notice, ie: 10 working days, should be given.

6. Avoiding Conflicts of Interest

Internal audit staff will maintain an impartial, unbiased attitude to their work and will avoid conflicts of interest.

BA will maintain a register of interests for Audit staff. Any interests declared will be taken into account when planning and delivering work.

7. The Audit Committee

7.1 Our support to the Audit Committee helps to demonstrate the highest standards of corporate governance, public accountability and transparency in the Council's business. We will maintain an effective working relationship with the Audit Committee, this will include:

- their approval of the internal audit charter and audit plan, and monitoring of progress against them.
- the provision of training and technical support to keep Members informed of relevant legislation, good practice and governance issues.
- access to all reports. Those considered to be of the highest risk will be highlighted and bought to their attention.
- performance management information will be provided.

7.2 We will attend the committee meetings, and contribute to the agenda.

7.3 We will participate in the committee's review of its own remit and effectiveness, and ensure that it receives, and understands, documents that describe how Internal Audit will fulfil its objectives.

7.4 Our progress reports will include the outcomes of internal audit work in sufficient detail to allow the committee to understand what assurance it can take from that work, and / or what unresolved risks or issues it needs to address.

7.5 Annual / half year update reports will be produced. The annual report will include an overall opinion on the control environment, the extent to which the audit plan has been achieved, and a summary of any unresolved issues.

8. Business Plan Objectives - 2017/18

- To deliver an internal audit service that meets professional and mandatory standards and delivers suitable assurance to the Council.

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- To deliver an effective counter fraud service to prevent, detect and deter fraud and error.

9. Statutory Requirements

9.1 There is a statutory requirement for Local Authorities to have a counter fraud and internal audit function. This service is provided for the Council in-house by BA working in partnership with a number of external bodies. The AD ARM provides a continuous internal audit and counter fraud service and reviews the Council's controls and operations.

9.2 The services we provide are in accordance with the following legal and professional requirements:

Legal:

- Accounts and Audit Regulations 2015
- Council Tax Reduction Schemes (Detection of Fraud and Enforcement) Regulations 2013
- Criminal Justice Act 2003
- Criminal Procedures Investigation Act 1996
- Data Protection Act 1998
- Fraud Act 2006
- Freedom of Information Act 2000
- Human Rights Act 1998
- Local Government Act 2002
- Police & Criminal Evidence Act 1984
- Proceeds of Crime Act 2008
- Regulation of Investigatory Powers Act 2012
- Social Housing Fraud (Power to Require Information) Regulations 2014
- The Protection of Freedoms Act 2012
- Theft Act 1978
- Welfare Reform Act 2012

Professional Requirements:

- Relevant CCAB professional guidance including the Public Sector Internal Audit Standards
- Relevant IIA guidance
- Information Security - BS EN ISO27001:2013

9.3 BA reports to the Section 151 Officer under the Local Government Act 2002. The legislative driver for internal audit and counter fraud continue to evolve.

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9.4 The Council adopted the CIPFA / SOLACE code of corporate governance in July 2002. This code together with the Statement of Recommended Practice (SORP) 2002 introduced the requirement for an annual statement of assurance to be made. The Council has subsequently reviewed / revised their Local Code of Governance in accordance with the CIPFA / SOLACE Framework - Delivering Good Governance in Local Government. This means that the Chief Executive, Leader, Section 151 Officer and Monitoring Officer are required to sign a formal corporate assurance statement (known as the Annual Governance Statement (AGS)) on the effectiveness of the Council's governance arrangements and identify any significant governance issues.

9.5 We have a role to play in advising Directors regarding the processes, and reporting mechanisms needed to compile their own assurance statements, which the AGS will be based on. An integrated assurance framework has been introduced which places greater reliance on 'management assurance'. This is obtained from individual officers around specific areas of risk and the assurance documentation completed annually at both directorate and business unit level.

9.6 The audit plan is risk based and delivered to provide an independent opinion on the adequacy and effectiveness of the systems of internal control in place. Our opinion will be prepared using the following sources of assurance: Internal / External Audit work, the AGS process and Risk Management processes. We will work with the External Auditors to improve overall coverage and avoid duplication of effort.

9.7 We give an opinion on the internal control environment which forms part of the AGS, which the Council is legally required to produce as part of the final accounts. The work undertaken by BA makes an important contribution to providing assurance around the control environment, and the content of the AGS. The categories of work include: -

- Section 151 work around the major and significant financial systems
- IT Governance
- Audit around the major risks and the risk management process
- Audit of corporate governance / business control assurance arrangements
- Counter fraud activities
- School activities

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10. The Annual Audit Plan

- The Future Council programme has presented new risks as well as opportunities. We will continue to contribute to driving forward the change agenda ensuring our planning process is future focused.

- The audit plan for 2017/18 has been compiled based on a number of factors, ie:

  - the level of risk associated to each entity.
  - the level of assurance associated to each entity.
  - any reviews that fall under the 'must do' categorisation, ie: those which are required to be undertaken as part of the minimum internal audit standard.

  On an annual basis each entity will be reassessed based on the results of the previous years internal audit work and other assurance gained regarding the control environment.

  There is also an allocation for undertaking programmed school visits as part of the school improvement programme.

- All of the risks contained within the Corporate Risk Register are included within the BCC Assurance Map, which is updated prior to producing the audit plan, and some or all of these will be audited on the basis of their likelihood and impact. The focus of the audits will be the testing of the systems, controls and action plans put in place by the nominated risk owner to mitigate the risk. If other significant risks / opportunities are identified either through audit work, new / changing legislation or other change mechanisms they may, subject to resource availability, be added to the audit plan.

- Following discussions with the External Auditors we agreed that each of the systems they designate as 'main financial systems' would feature in the audit plan, unless otherwise directed.

- We will assess ourselves against the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption. Prevention and detection of fraud remains a priority for the Council.

- We will continue to develop our approach to systems audit work to put more emphasis on reducing the risk of fraud. Counter fraud activity will include both reactive and proactive fraud work and providing further assistance to officers to better manage the risk of fraud through prevention, detection and deterrence. This will include work in relation to the NFI 2016.

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- Follow up audits will be undertaken in accordance with the agreed policy.

- Consultancy work will be undertaken within the limitations of existing resources and where it does not introduce a conflict of interest.

  Consultancy work is defined as:

  "The provision to businesses of objective advice and assistance relating to the strategy, structure, management and operations of an organisation in pursuit of its long-term purposes and objectives."

  Consulting services may include but are not limited to:

  - School financial health checks,
  - facilitation of workshops,
  - assistance in the completion of financial returns
  - representation on Boards etc.

  The purpose, scope and approach for each piece of consultancy work will be agreed prior to commencement of the work.

- A Charging Policy has been implemented. This means that some elements of work will only be undertaken if resource is available and the client is willing to pay.

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Proposed Internal Audit Plan 2017/18

	Days	Days
Financial Systems **(including computer audits where appropriate)**		
Main Accounting	70	
Housing Rents	30	
Accounts Payable	60	
Accounts Receivable	60	
Carefirst	30	
Payroll/HR	60	
Benefits	60	
Revenue (Council Tax and NNDR)	80	
Asset Management	70	
Grants and Contributions	15	
Cash Income / Cashiers	60	
Procurement, Contract Audit and PFI	140	
Direct Payments	40	
Income / Expenditure - Schools	20	
Central transaction Hub	20	
IT related financial systems work	90	**905**
Business Controls Assurance		
Work in progress b/fwd. from 2016/17	40	
IT Related non-financial systems work	500	
Data Analysis	200	
Corporate Risk Management Facilitation	75	
Contingency	50	
Chargeable work on behalf of Acivico	40	905
Adults and Health / Children and Young People		
Children Services (Social Care)	60	
Children Services (Education)	50	
Corporate Safeguarding	50	
Independent Living	20	
Adoption and Fostering	20	
Public Health	30	
Troubled Families Programme	20	
Prevention Agenda	15	
Assessment & Support Planning	25	
Individual budgets	20	
Residential Placements - Adults	20	
Children with Complex Needs	20	
People Commissioning	25	
Children in Care Placement Services	5	

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	Days	Days
Safeguarding & Development - BCSB	50	
Better Care Fund	25	455
Place		
Birmingham Resilience	20	
Equality, Community Safety & Cohesion	25	
Waste Management	30	
Illegal Money Lending	10	
Wellbeing Service	20	
Careline	15	
Homeless - Temporary Accommodation	20	
Allocations	20	160
Economy / Finance / Transformation		
Annual Audit Letter	5	
Ethics	15	
Governance	20	
New Service Delivery Vehicles	20	
Project Management	40	
Risk Management - Contribution to Improvement Agenda	15	
ACIVICO - Management Arrangements	40	
Self-Assessment - AGS Process	10	
Accountable Body	50	215
		1735
Investigations		
Reactive investigations	630	
Proactive work / Fraud Awareness	200	**830**
Schools		
Schools Consortium	20	
Schools Themed Work	100	
Schools Facilities Management	15	
School Deficits	20	
Visits	945	**1100**
Follow Up Work		**200**
Ad Hoc Work		**178**
Planning and Reporting		**125**
City Initiatives		**40**
TOTAL		**5113**

BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to: AUDIT COMMITTEE

Report of: Interim Chief Finance Officer

Date of Meeting: 20 June 2017

Subject: 2016/17 ANNUAL GOVERNANCE STATEMENT

Wards Affected: All

1. Purpose of Report

1.1. The Annual Governance Statement (AGS) forms part of the Statement of Accounts for 2016/17 and reports on the Council's internal control regime.

1.2. Section 6 of the AGS includes 6 key issues for the Council which may impact on the organisation's governance arrangements.

2. Recommendations

2.1. To approve the Annual Governance Statement that will be included in the 2016/17 Statement of Accounts.

2.2. To agree that the arrangements for the management of the items included in Section 6 will be reported to the Audit Committee during the year.

3. Background

3.1 Annual Governance Statement (AGS) has been developed as part of local government's response to the corporate governance agenda.

3.2 The AGS forms part of the Council's annual Statement of Accounts. The Statement of Accounts will be available, post audit, at the September meeting.

3.3 The significant issues raised in the Assurance Statement and audit processes are summarised in section 6 of the AGS. This section comments very broadly on the Council's achievement of its central objectives and external assessments, it raises issues arising from joint working with partners and refers to significant matters highlighted by the annual review of internal control.

4. Legal and Resource Implications

4.1 The AGS is a requirement of The Accounts and Audit Regulations 2015, Regulation 6(1)(b) and meets the corporate governance best practice recommendations. There are no direct resource implications arising from this report.

5. Risk Management & Equality Impact Assessment Issues

5.1 The Statement forms part of the Council's risk management approach and the relevant issues are those considered in the attached schedule.

6. Compliance Issues

6.1 The AGS forms part of the statutory requirements for the Council's Annual Statement of Accounts.

6.2 The Council's continued improvement in responding to the issues referred to in the Statement will complement the development and delivery of the Council of the Future's objectives.

…………………………………..

Mike O'Donnell – Interim Chief Finance Officer, Finance

Contact Officer: **Annette Rowe**

Telephone No: **0121 303 3313**

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Annual Governance Statement 2016/17

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).

2. The purpose of the governance framework

2.1. Good governance is dynamic. The Council as a whole is committed to improving governance on a continuous basis through a process of evaluation and review.

2.2. The Council must try to achieve its objectives while acting in the public interest at all times. 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.

2.3. The governance framework comprises the systems and processes, and culture and values by which the Council is directed and controlled and its activities 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 appropriate 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 2017 and up to the date of approval of the Statement of Accounts.

3. **The governance framework**

3.1. The key elements of the systems and processes that comprise the Council's governance arrangements include the following:

The Council's vision and priorities for Birmingham

3.2. The Council's vision and priorities in terms of the contribution to strategic outcomes are set out in the Vision and Forward Plan (the Plan). The Plan is updated each year and is available on the Council's website.

3.3. The Plan articulates the strategic direction for the Council with a clear set of corporate priorities. These priorities have been informed by extensive consultation with Cabinet Members and Members from opposition groups. Outcomes have been developed and progress against these priorities is monitored through a set of key performance measures which have been formally agreed by Cabinet following discussion with Members. Regular monitoring and reporting against these measures ensures that shortfalls in performance are identified at an early stage and effective action to bring performance in line with targets is undertaken.

3.4. In turn, the corporate priorities are supported by more detailed Directorate and Service Plans which are also regularly monitored and reviewed.

3.5. 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 part of the Council's long term financial strategy.

3.6. 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).

3.7. The Council's vision for the future of Birmingham is for a city of growth, in which every child, citizen and place matters.

3.8. The Council has four clear priorities:

3.8.1. **Children – a great place to grow up in**. To make the best of the city's diversity and create a safe and secure city for children and young people to learn and grow.

3.8.2. **Housing – a great place to live.** To provide housing in a range of types and tenures to meet the needs of all current and future citizens of Birmingham.

3.8.3. **Jobs and Skills – a great place to succeed in.** To build on the city's assets, talents and capacity for enterprise and innovation to shape the market and harness opportunity.

3.8.4. **Health – a great place to grow old in.** To help people become healthier and more independent with measurable improvement in physical activity and mental wellbeing.

3.9. Using the vision and priorities as a bed rock, the Council is creating the Council of the Future through a major transformation programme. The model below illustrates how the Council will shape and direct change:

3.10. There is recognition of the need for change in how the Council must work if it is to deliver the Council of the Future transformation. For employees, a Future Operating Model (FOM) will be implemented. The FOM aims to ensure the right supporting structures and the required changes to support new ways of working.

3.11. The FOM will also be implemented to support the Council's savings and budget plans. The Council faces significant funding reductions and challenges in achieving its budget plans, outlined in the Financial Plan 2017+. This has been highlighted by both the Birmingham Independent Improvement Panel (BIIP) and through a recommendation under Section 24 of the Local Audit and Accountability Act 2014, made by the external auditors. Throughout 2016/17 a thorough review of savings was undertaken. A Mid-Year Review was carried out to identify how much the Council could mitigate the in-year position and identified savings in the budget that were at risk. Those that were considered to be undeliverable have been written out of future years' financial plans.

3.12. Ultimately, the Council of the Future will be smaller and more strategic, partnership based, more about people and better at managing demand.

3.13. Profound change across local government is also underway. During 2016/17 the WMCA was established and a mayor elected on 6 May 2017. 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.

3.14. The Council has a strong public, third sector, and business engagement role. 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. A programme of review against these requirements is led by Overview and Scrutiny.

3.15. The Council launched a Birmingham Partners' Network to provide the space and time for key players across Birmingham to come together.

3.16. Working with partners, the Council assumes a strategic role for the Greater Birmingham area, working with the Greater Birmingham and Solihull Local Enterprise Partnership (LEP) to develop collaborative solutions to common problems, and facilitating coherent programmes with regional and international partners to deliver an economic strategy for the city and region. LEP projects follow the Council's governance processes, managed and monitored through a Project Delivery Board, with regular reporting to the LEP Board by the LEP Champion.

3.17. Given the increased importance of companies as service delivery vehicles, a dialogue has commenced with the Council's external auditor about what best practice would represent, and the value of this was reflected in the Grant Thornton report "Birmingham City Council Group Governance Review", dated 25 May 2016.

3.18. A Group Company Governance Committee was established as a Cabinet sub-committee, 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.

3.19. The Council's Constitution is codified into two documents, Part A and Part B, which are available on the intranet and the Council's website. The Constitution is reviewed annually by the Monitoring Officer and any amendments are agreed at the Annual General Meeting. Any in-year changes are agreed by Cabinet and/or the Council Business Management Committee (CBMC).

3.20. The Council facilitates policy and decision–making via an Executive Structure. There were ten members of Cabinet for the 2016/17 financial year: The Leader, Deputy Leader and eight other Cabinet Members with the following portfolios:

- Cabinet Member – Children, Families and Schools;
- Cabinet Member – Value for Money and Efficiency;
- Cabinet Member – Transport and Roads;
- Cabinet Member – Clean Streets, Recycling and Environment;
- Cabinet Member – Health and Social Care;
- Cabinet Member – Housing and Homes;
- Cabinet Member – Jobs and Skills;
- Cabinet Member – Transparency, Openness and Equality.

3.21. The Constitution sets out the terms of reference for each of the Committees and includes a schedule of matters reserved for decision by Full Council.

3.22. The 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.

3.23. 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.

3.24. CBMC also discharges the Council's functions in relation to parishes and parish councils.

3.25. The Council's Audit Committee provides independent assurance to the Council on financial management, risk management and control, and the effectiveness of the arrangements the Council has for these matters. The role of the Audit Committee includes active involvement in review of financial systems and procedures, close liaison with external audit and responsibility for the approval of the Annual Accounts.

Roles, Values and Standards of Conduct and Behaviour of Members and Officers

3.26. The Constitution sets out the respective roles and responsibilities of the Cabinet and other Members and Officers and how these are put into practice.

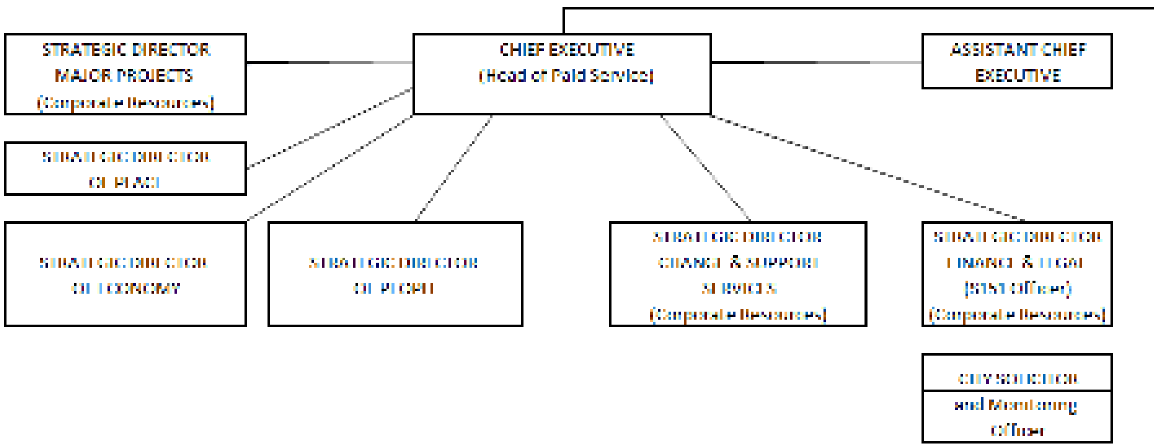
3.27. The Constitution also includes a Scheme of Delegation to Officers which sets out the powers of Corporate Directors.

3.28. The Council has a Code of Conduct for Members and a Code of Conduct for 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.

<u>Management Structure</u>

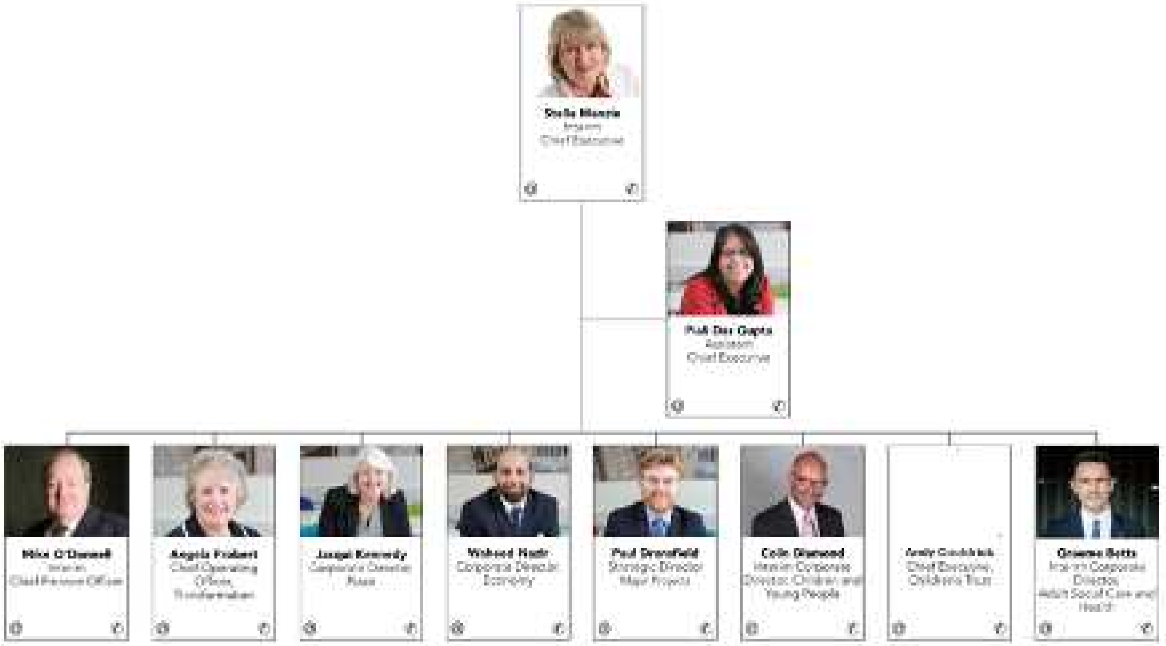
3.29. The Council operated within four Directorates during 2016/17, Economy, Corporate Resources, People and Place.

3.30. The Council's management structure in 2016/17 was as per the diagram below:



3.31. The Chief Executive left the Council on 28 February 2017 and an Interim Chief Executive was appointed by Full Council on 4 April 2017. The Strategic Director Finance and Legal left the Council on 28 March 2017. An Interim Chief Finance Officer was appointed on 21 March 2017. The Strategic Director - People stood down from his role on 31 March 2017. An Interim Corporate Director – Adults, Social Care and Health and Interim Corporate Director – Children and Young People will replace the Strategic Director - People role. The Assistant Chief Executive will be leaving the Council during early 2017/18. The appointment of the Chief Executive of the Children's Trust was announced in May 2017.

3.32. The new management structure for 2017/18 is as per the following diagram:



Financial Management Arrangements

3.33. The role of the Chief Finance Officer (CFO)/Section 151 Officer :

- The CFO is 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;
- The CFO is 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;
- The CFO leads 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.

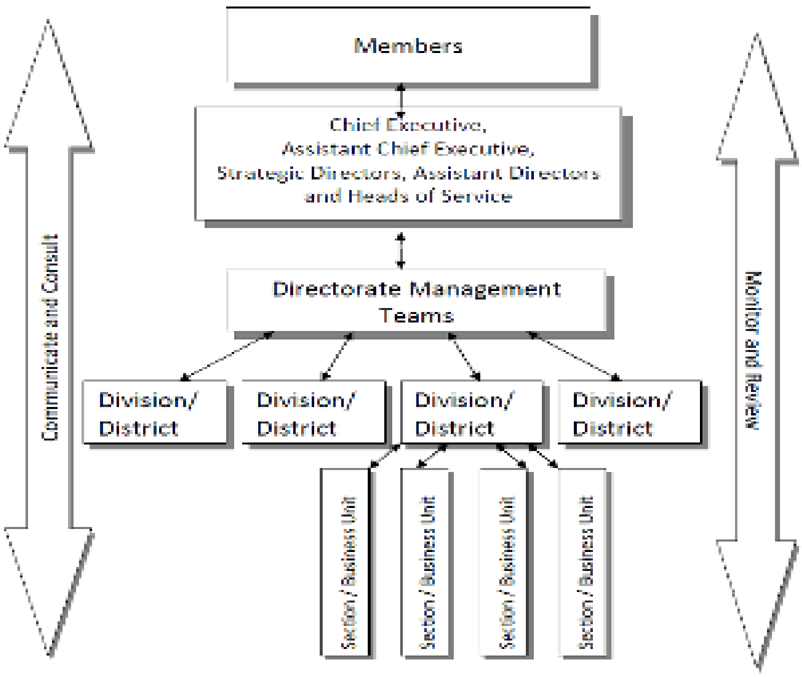
Scrutiny, Accountability and Risk Management

3.34. 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.

3.35. The Council has a procedure for handling complaints, compliments, and comments that monitors formal contact with members of the public. Complaints are actively tracked through the process and independently reviewed.

3.36. The Council ensures compliance with established policies, procedures, laws, and regulations - including risk management. For transparency, all reports to Cabinet, Cabinet Members and Districts 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.

3.37. Risk management continues to be embedded within the Council. The diagram below illustrates how risk was managed during 2016/17:



3.38. The Risk Management Policy Statement, Strategy and Methodology 2017 have been placed on the Council's website, and advice and support is provided as requested. Updated information regarding the management of the risks within the Council's Corporate Risk Register continues to be reported to the Audit Committee three times per year. CLT identifies new risks to the Council, and have the draft Corporate Risk Register update reported to it the month before it goes to the Audit Committee. CLT challenge the update information provided, and recommend re-wording or deletion of risks as appropriate. In addition business plans at directorate and divisional level include key risks.

3.39. Legal requirements and Council policy, together with guidance on their implementation, are set out in detail in the Policies, Standards, Procedures and Guidance database held on the Council's intranet for financial, information communications technology and business procedures, and People Solutions for Human Resources policies and procedures. Directorates maintain detailed delegations and guidance on specific legislative requirements which affect their service delivery. The Council has a strong Internal Audit function (Birmingham Audit) and 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.

Capacity and Capability

3.40. The financial reductions facing the Council are impacting on workforce capacity. Having a flexible, skilled and mobile workforce will be critical to the Council effectively responding to increasing demand and reducing resources.

3.41. The Council and BIIP jointly commissioned an independent review of the Council's revenue 2017/18 budget proposals and long term financial plans. The review considered whether the Council's proposals for 2017/18 and longer term financial plans were credible and robust and considered the Council's ability to deliver its financial plans.

3.42. An initial review was undertaken with a follow up visit in January 2017. The BIIP noted in the initial review that the Council had responded seriously to the financial challenge and had set about reassessing its financial bases to more realistic levels to address the financial gap. A number of areas of the financial plans were ambitious and some areas of risk were identified.

3.43. In the follow up visit, the BIIP concluded that the Council had responded well to the recommendations of the review team; that work was underway to review saving profiles of high-risk proposals where appropriate and the Council had established more robust governance arrangements to monitor the progress of the delivery of savings; the Council was reviewing its reserves strategy and giving consideration to a contingency plan; there was greater clarity and consistency in the delivery plans for main service areas and there had been a strengthening of capacity to support change corporately.

3.44. The BIIP did identify some risks on the deliverability of the Council's financial plans including that the implementation of the FOM will require bold, focused, suitably experienced and tenacious managerial leadership; that contingency savings plans be prepared at a very early stage of development; for the Council to assess the impact on corporate capacity to transfer children's services to a Children's Trust and for the Council to review its approach with partners as current ways of working could inhibit the development and achievement of new ways of working.

3.45. The Council has in place a strategy for facilitating the implementation of the savings proposals including managing significant workforce reductions through redundancy and potentially outsourcing. This includes an organisational design tool kit, training and online tools for managers along with a team of trained HR professionals to support the most complex projects.

3.46. In addition to the Members' Development Programme, Councillors have access to e-learning through the Members' portal on People Solutions and are regularly kept up to date on training and development via the City Councillor bulletin circulated by e-mail. This gives details of legislation, training opportunities and other issues of importance to Members. Regular monthly "market places" and briefing sessions are held to keep Councillors up-to-date with Council services or services provided by partner organisations.

3.47. The Members' Development Programme for 2016/17 was delivered around three areas as outlined in the table below:

New Member Induction	On-going Member Development
Aim: To give oversight of Council processes and procedures to enable new members to get quickly up to speed with their role	**Aim: to provide ongoing development opportunities for members related to current and potential future role and responsibilities**
Understand role and responsibilities, the Council's values & behaviours, define new development offer	Skill development (e.g. social media, public speaking); networks and external visits
Code of conduct and the constitution	On-going transformation (e.g. Children's Trust)
Who's who in Birmingham, customer intelligence and access to IT and council services	Community leadership including bid writing, local leadership, Neighbourhood and Community Planning Toolkit)
1-2-1's	

Member/Officer Relationship
Aim: members and officers share understanding about their roles and responsibilities and how they work together
Member & Officers – redefined roles & expectations, supported by development programme
Underpinning behavioural standards, the new constitution and community governance with outward place focus

3.48. During 2016/17, the 'My Appraisal' review process was consolidated. This streamlined the personal review process and enabled 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

3.49. The Council engages in a wide range of consultation and engagement activities to inform service delivery and decision making. These are summarised in an annual statement and on-line consultation database. The Council Financial Plan 2017+ consultation process included public meetings led by the Council's Leader and Cabinet, a series of question and answer sessions on Twitter hosted by all Cabinet Members, consultation via post, email, and through the Council's website and consultation with the business community and the Chamber of Commerce.

3.50. 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.

3.51. The Customer First programme and Communications Review ensures that clear channels of communication are in place with service users, citizens and stakeholders. The Council holds meetings in public wherever possible. 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 also by comments made by the external auditors, responding to the BIIP reports 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. The Council's review process uses the Core Principles and Sub Principles included in this framework and this Statement sets out how the Council meets these roles and principles in its control and governance arrangements.

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 and inspection letter; 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 Interim Chief Financial 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. As in previous years the Birmingham Audit plan was compiled using 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 is discussed and agreed with the Corporate Directors and Audit Committee and shared with the Council's external auditor. Regular meetings between the internal and external auditor ensure that duplication of effort is avoided. 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 2016/17 and the outcomes from applying the model for formulating the end of year opinion the following assurance was able to be given: "I am able to provide reasonable assurance." In this context 'reasonable assurance' means that the systems can be relied upon to prevent error, fraud or misappropriation occurring without detection, and that nothing was found that would materially affect the Council's standing or Annual Accounts. As in any large organisation, Internal Audit did identify a number of concerns that required remedial action and these were reported to the appropriate Strategic / Corporate Director or Senior Manager during the year. 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 2016/17'** below.

4.9. The internal audit function is monitored and reviewed regularly by the Audit Committee. The Committee also reviews management progress against issues raised in the AGS and in implementing recommendations made in significant, high risk audit reports.

4.10. The Council's Overview and Scrutiny Committees received reports on key control issues throughout 2016/17 including budget monitoring, the big challenges for Health and Social Care, maximising jobs and skills opportunities in the City and corporate parenting.

4.11. The Council Plan is monitored through the Council Financial Plan Measures on a quarterly basis both by the Executive and Overview and Scrutiny Committees. Directorate, Divisional, and Service unit business plans contain a variety of performance indicators and targets, which are regularly reviewed.

4.12. The Monitoring Officer advises that there were 128 concerns raised and considered under the Council's Whistleblowing & Serious Misconduct policy in the 2016/17 financial year.

5. Review of 2015/16 governance issues

5.1. The significant 2015/16 governance issues were considered by Audit Committee in June 2016, agreed as part of the Statement of Accounts in September 2016, with updates in November 2016 and March 2017. In addition, this Committee received reports relating to the Corporate Risk Register, Final Accounts, Financial Resilience, West Midlands Pension Fund and Equal Pay.

5.2. Children's Safeguarding issues were considered by Cabinet and the Education and Vulnerable Children O&S Scrutiny Committee. The Educational and Vulnerable Children O&S Committee also considered issues such as the Children's Trust, governance and improving schools and child poverty.

5.3. Regular Revenue Budget Monitoring reports and quarterly Capital Budget Monitoring reports were considered by Cabinet.

5.4. The Council worked closely with the BIIP to formulate and implement action plans in response to the Kerslake review. Work continues to embed the processes into 2017/18 and beyond.

6. Significant governance issues 2016/17

6.1. The matters shown in this section have either been identified as having a significant or high likelihood in the Corporate 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	**Safeguarding** Safeguarding for both children and adults remains a priority. Work will continue to review the action plans in place as a result of the review by Commissioner Lord Warner and producing a robust Business Plan for 2017/18 and future years. The Care Act 2014 sets out the legal requirements for adult safeguarding.	The Council has launched an operating model which sets out the vision, values, direction and shape of the service. A clear performance framework that provides challenge and accountability at all levels has been introduced. The Care Act established the requirement to set up an independent Safeguarding Board for Adults. Arrangements are in place to work alongside the existing membership of the Birmingham Adults Safeguarding Board (BASB) with a view to ensuring that local arrangements are compliant with the Care Act.
2	**Financial Resilience** The Council faces continued reducing resources. This poses challenges to the financial resilience of the Council. Financial resilience continues to be a focus for the external auditors, with continued demands to evidence 'Going Concern'. The auditor noted in his Annual Audit Letter that there was considerable challenge for the Council to deliver its savings plans for 2016/17; and the potential impact on future years' savings plans. A statutory recommendation was made by the external auditor under Section 24 of the Local Audit and Accountability Act 2014; to ensure there was Council-wide commitment to deliver alternative savings plans to mitigate the impact of the combined savings and budget pressure risks in 2016/17 and for the Council to	Proactive actions are in place to plan and monitor the delivery of the savings programme including the delivery of workforce (including FOM) savings. Governance processes have been reviewed and significantly enhanced to improve the production of implementation plans and monitoring of the most significant savings proposals at the highest level. The Council will also pursue a contingency programme to identify and develop alternative savings proposals to address new pressures or help mitigate any savings deliverability issues.

Issue No	Governance Issue	Mitigation Action / Proposed Action
	demonstrate it is implementing achievable actions to deliver the cumulative savings programme in the Financial Plan 2017+. Should the issues raised in the Statutory Recommendation not be fully addressed, the external auditors may issue a Public Interest Report. Given the Council is in the seventh year of budget reductions the possibility of Judicial Review challenge to the budget or elements of it, remains high.	
3	**Partnership Working and Alternative Service Delivery Vehicles** The Council is seeking ways to improve effective partnership working, including working with neighbouring authorities in the newly established West Midlands Combined Authority. It is intended that Children's Services will move to a Trust arrangement from April 2018. The main driver for change is to improve the outcomes for disadvantaged children and young people through stronger practice led family support and social work service. The Council is looking at ways of working together across a range of agencies, to improve services outcomes and reduce costs. Options may include: • Using or considering alternative delivery vehicles. • Outsourcing of services. • Commissioning services.	The partnership with neighbouring authorities through the West Midlands Combined Authority continues to develop. The next stages are vital as devolution is implemented, making sure that work leads to permanent benefits for the region. Any transfer, commissioning or outsourcing of services is subject to the development and Cabinet approval of robust business cases and shadow working arrangements. The Council is reviewing the way it works with its partners - working equally to a common shared purpose.

Issue No	Governance Issue	Mitigation Action / Proposed Action
4	**Equal Pay Claims** The risk of Equal Pay Claims remains significant and is being actively managed by a joint team from Legal Services and Human Resources.	The law in respect of equal pay is complex and has developed over the past 10 years. Any entitlement to compensation has to be justified in accordance with the legal position. Equal pay claims issued against the Council are subject to detailed analysis and robust legal challenge. The Council has sought to secure settlements that represented the best outcome for the taxpayer.
5	**Organisational Changes** The current challenging financial environment has required significant organisational upheaval as well as workforce reductions and compulsory redundancies. The implementation of the FOM will require significant and substantial changes to current job roles and responsibilities which the Council will be consulting affected staff on. The changes will include: • Rationalisation of support services • Review of spans and layers across the whole Council.	In the forthcoming year the significant budget reductions including the proposals for the FOM may strain industrial relations. However, positive local relationships with the trades unions and their understanding of the challenges will contribute to mitigating and managing this.
6.	**Homelessness** The costs of homelessness are rising, primarily through the use of B & B accommodation to house homeless households. Temporary accommodation use is at its highest recorded numbers in Birmingham and this rise reflects the national increase of 43%. There are proposed reductions in funding in Supporting People and other external providers.	The Housing Transformation Programme continues to review the service and financial impact for the homelessness service. This issue has been recognised as a budget pressure in the 2017/18 budget. Options to work with the third sector for alternative service provision are being explored.

6.2. These matters are monitored through the Corporate 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 John Clancy
Leader of the Council

Signed …………………………..
Stella Manzie
Interim Chief Executive
(& Head of Paid Service)

Signed ………………………………
Mike O'Donnell
Interim Chief Finance Officer
(Chief Finance Officer & Section 151 Officer)

Signed ………………………..
Kate Charlton
City Solicitor
(& Monitoring Officer)

Audit Committee
Birmingham City Council
Progress Report and Update
Year ended 31 March 2017

20 June 2017

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Contents

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 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 your business or any 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.

Introduction

This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

Members of the Audit Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications and articles, including the reports mentioned in this update along with other items:

- Income generation is an increasingly essential part of providing sustainable local services (March 2016); http://www.grantthornton.co.uk/en/insights/the-income-generation-report-local-leaders-are-ready-to-be-more-commercial/
- CFO Insights – reviewing council's 2015/16 spend (December 2016); http://www.grantthornton.co.uk/en/insights/cfo-insights-reviewing-councils-201516-spend/
- Fraud risk, 'adequate procedures', and local authorities (December 2016); http://www.grantthornton.co.uk/en/insights/fraud-risk-adequate-procedures-and-local-authorities/
- Brexit and local government; (April 2017) http://www.grantthornton.co.uk/en/insights/a-global-britain-needs-more-local-government-not-less/ and (December 2016) http://www.grantthornton.co.uk/en/insights/brexit-local-government--transitioning-successfully/

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

Progress at 20 June 2017

2016/17 work	Progress	Comments
Fee Letter We are required to issue a 'Planned fee letter for 2016/17' by the end of April 2016	Issued April 2016	The 2016/17 scale audit fee is £314,168. This is set by Public Sector Audit Appointments. We have also recently issued the fee letter for 2017/18, with no change to the fee proposed. This is reported to this meeting of the Audit Committee.
Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2016/17 financial statements.	Issued March 2017	This was presented to the Audit Committee in March 2017. A separate Value for Money Conclusion Plan identifying significant risks was presented to the January Audit Committee.
Interim accounts audit Our interim fieldwork visit plan included: • updated review of the Council's control environment • updated understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • Value for Money conclusion risk assessment.	Completed March 2017	We reported audit findings from our first block of fieldwork in our Audit Plan in March. No significant issues were raised to bring to your attention. As part of our formal communication between auditors and the Council's Audit Committee, as 'those charged with governance' we prepare a specific report which covers some important areas of the auditor risk assessment where we are required to make inquiries of management and the Audit Committee under auditing standards. This was also presented to the Audit and Governance Committee in March.
Final accounts audit Including: • audit of the 2016/17 financial statements • proposed opinion on the Council's accounts • proposed Value for Money conclusion • review of the Council's disclosures in the consolidated accounts against the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17	*Planned for June*	We are planning to complete our fieldwork and report our findings to management by the end of August as part of the transition to the earlier closedown and audit cycle that is required from 2018. To help the Council prepare appropriate evidence to support the financial statements, we have provided a schedule of the working papers that we expect and we will discuss the implications of any emerging accounting matters with finance staff. The Audit Committee is to meet to approve the financial statements and to consider our Audit Findings Report in September.

Progress at 20 June 2017

2016/17 work	Progress	Comments
Value for Money (VfM) conclusion The scope of our work is unchanged to 2015/16 and is set out in the final guidance issued by the National Audit Office in November 2016. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources". The guidance confirmed the overall criterion as; "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people". The three sub criteria for assessment to be able to give a conclusion overall are: • Informed decision making • Sustainable resource deployment • Working with partners and other third parties	*Planned for June*	We set out the result of our risk assessment and the proposed focus of our work in our Value for Money (VfM) audit plan in January. We have substantially completed our detailed procedures and will keep abreast of any emerging issues to sign off date. The results of our VfM audit work and the key messages arising will be reported in our Audit Findings Report. We qualified our 2015/16 conclusion in relation to the following risks: • Savings challenge – due to the impact of non-recurrent savings in 2015/16 and the weaknesses in the People Directorate's savings plan delivery • Services for vulnerable children – due to the concerns reported by Ofsted following their monitoring visit and the continuing need for the Council to have external oversight of its arrangement by the Children's Commissioner • Management of schools – due to Ofsted feedback indicating that there are significant governance issues in some schools and concerns reported by Ofsted on the pace of change • Improvement Panel – due to continuation of the Panel's appointment We are required to bring these matters forward as part of our 2016/17 audit work. We will include our conclusion as part of our report on your financial statements.
Other Areas of Work Statutory recommendations under s24 of the Local Audit and Accountability Act 2014	*Ongoing*	We included a statutory recommendation in or 2015/16 Annual Audit Letter. This recommendation and the Councils formal response was considered at the Council meeting on 10 January 2017. We also wrote to the Acting Chief Executive of the Council on March 15 2017 expressing concern about the Council's ability to deliver its challenging savings programme, particularly given gaps in senior management capacity (at the time) and proposals to reduce senior management capacity in the finance department. The Council has subsequently responded to the issues of capacity set out in our letter and a report is to be presented to this Audit Committee by the Council describing its response.

Technical Matters

Telling the story – Changes in 2016/17 CIPFA Code

CIPFA has been working on the 'Telling the Story' project, which aims to streamline the financial statements and improve accessibility to the user. This has resulted in changes to CIPFA's 2016/17 Code of Practice on Local Authority Accounting in the United Kingdom ('the Code').

The main changes affect the presentation of the Comprehensive Income and Expenditure Statement ('CIES'), the Movement in Reserves Statement ('MIRS') and segmental reporting disclosures. A new Expenditure and Funding Analysis has been introduced.

The key changes are:

- the cost of services in the CIES is to be reported on basis of the local authority's organisational structure rather than the Service Reporting Code of Practice (SERCOP) headings
- an 'Expenditure & Funding Analysis' note to the financial statements provides a reconciliation between the way local authorities are funded and the accounting measures of financial performance in the CIES
- the changes will remove some of the complexities of the current segmental note
- other changes to streamline the current MIRS providing options to report Total Comprehensive Income and Expenditure (previously shown as Surplus and Deficit on the Provision of Services and Other Comprehensive Income and Expenditure lines) and removal of earmarked reserves columns.

Delivering Good Governance

In April 2016, CIPFA and SOLACE published 'Delivering Good Governance in Local Government: Framework (2016)' and this applies to annual governance statements prepared for the 2016/17 financial year. The key focus of the framework is on sustainability – economic, social and environmental – and the need to focus on the longer term and the impact actions may have on future generations.

Local authorities should be:

- reviewing existing governance arrangements against the principles set out in the Framework
- developing and maintaining an up-to-date local code of governance, including arrangements for ensuring on-going effectiveness
- reporting publicly on compliance with their own code on an annual basis and on how they have monitored the effectiveness of their governance arrangements in the year and on planned changes.

The framework applies to all parts of local government and its partnerships and should be applied using the spirit and ethos of the Framework rather than just rules and procedures

Highways network asset

Statement issued by CIPFA/LASAAC on the Implementation of the Highways Network Asset Code into the Financial Reporting Requirements of Local Authorities:

At it's meeting on the March 8th, the CIPFA/LASAAC Code Board decided not to proceed with the introduction of the Highways Network Asset Code into the financial reporting requirements for local authorities. The Board decided that, currently and in particular in the absence of central support for key elements of the valuation, the benefits are outweighed by the costs of implementation for local authorities. The Board determined that it will give further consideration to this issue only if provided with clear evidence that benefits outweigh costs for local authorities.
The Board recognises the work undertaken by accounts preparers, auditors and highways engineers in preparing for the planned changes and would encourage continued improvement of the management of the highways network asset through better inventory and cost information.

Local Government finance settlement

National developments

The final local government settlement for 2017/18 was published on 20 February. The settlement reflects the Government's aim that all councils will become self funding, with central government grants being phased out. This is year two of the four year offer, which has been accepted by 97% of councils.

There is an expectation that councils will continue to improve efficiencies with measures including further developments in digital technology, new delivery models and innovative partnership arrangements.

100% business rates retention

The announcement has an increased focus on business rates, with the expectation that local government will, at some point in the future, keep 100% of the income raised through business rates. The exact details of the reforms are yet to be determined. This includes confirming which additional responsibilities will be devolved to local government and funded through these retained rates. Pilots of the reforms are taking place across the country from April 2017.

The results of a recent Municipal Journal survey ***2017 State of Local Government Finance*** were published in February . http://downloads2.dodsmonitoring.com/downloads/Misc_Files/LocalGovFinance.pdf

Respondents expressed concern about the lack of detail in the proposals, uncertainty around equalisation measures and the scale of appeals.

Nearly 50% of Councils responding believe they will lose from the transition to 100% retention of business rates. Views were evenly split as to whether the proposals would incentivise local economic growth.

Social Care Funding

Funding allocations reflect increased funding of social care with a stated £3.5 billion of funding for social care by 2019/2020.

In this year's settlement £240 million of new homes bonus has been redirected into the adult social care grant. In addition councils are once again be able to raise the precept by up to 3% for funding of social care.

Recognising that funding is not the only answer, further reforms are to be brought forward to support the provision of a sustainable market for social care. There is an expectation that all areas of the country move towards the integration of health and social care services by 2020.

Paul Dossett Head of Local Government in Grant Thornton LLP has commented on the Government proposals for social care funding (see link for full article).

"The government's changes to council tax and the social care precept, announced by the Secretary of State for DCLG as part of the latest local government finance settlement, will seem to many as nothing more than a temporary fix. There is real concern about the postcode lottery nature of these tax-raising powers that are intended to fund our ailing social care system."

"Our analysis on social care shows that the most deprived areas in the UK derive the lowest proportion of their income from council tax. …Conversely, more affluent areas collecting more council tax will potentially receive a bigger financial benefit from these measures."

"Our analysis shows that the impact and effectiveness of the existing social care precept is not equal across authorities. So any further changes to tax raising powers for local government will not tackle the crisis of social care in our most disadvantaged communities and arguably make only make a small dent in the cost demands in our more affluent communities."

"Social care precept changes will not help those living in more deprived areas"

"The UK has a long tradition of providing care to those who need it most. If that is to continue, the government must invest in a robust social care system that can cater for all based on needs and not on geography. From a taxpayer's perspective this is a zero sum game. For every £1 not invested in social care, the cost to the NHS is considerably more"

Links:

https://www.gov.uk/government/speeches/final-local-government-finance-settlement-2017-to-2018

http://www.grantthornton.co.uk/en/news-centre/local-government-financial-settlement-comment-social-care-precept-changes-will-not-help-those-living-in-more-deprived-areas/

http://www.grantthornton.co.uk/en/insights/council-tax-alone-wont-solve-the-social-care-crisis/

Pooling of LGPS

National developments

From 1 April 2018 £200bn of assets from 90 LGPS funds across England and Wales will be merged into six 'British Wealth Funds'. By pooling investment, costs can be reduced through economies of scale and through sharing of expertise, while the schemes can maintain overall investment performance. Pension funds will continue to be managed and maintained by the separate administering authorities. The selection of fund managers will be made by the investment pool operator on behalf of a pool of co-operating administrative authorities, while individual investment strategies, including asset allocation, will remain the responsibility of the individual administrative authority.

Potentially eight pools are to be established across the country with total assets ranging from £13bn in both the LPP and Wales pool, to £36bn in the Border to Coast pool. It is expected that assets will be transferred to the pools as soon as practicable after 1 April 2018.

Tasks to be completed by April 2018 include:

- creating legal structures for pools
- transferring staff
- creating supervisory boards/ committees
- obtaining FCA authorisations
- appointing providers
- assessing MiFID II implications
- determining pool structures for each asset type

The funds themselves will retain responsibility for:

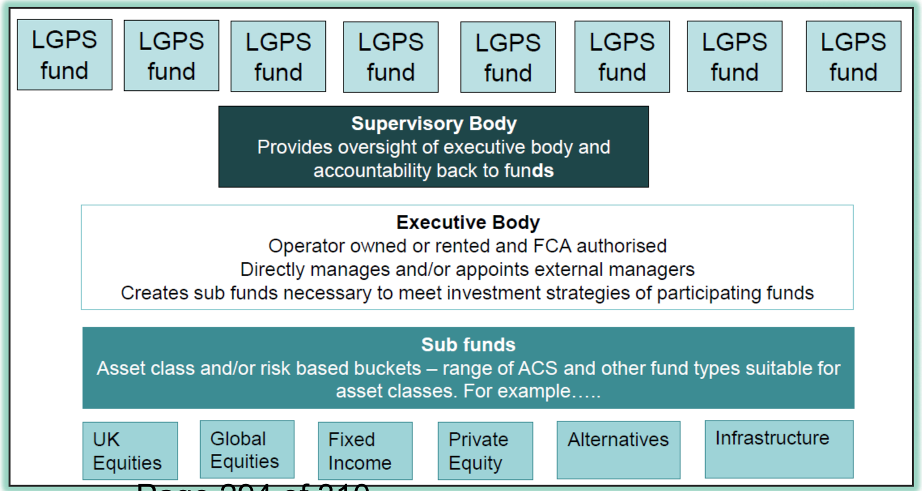
- investment strategy
- asset allocation
- having a responsible investment strategy
- reporting to employers and members

Governance arrangements

There is no mandatory membership of oversight structures. It is for each pool to develop the proposals they consider appropriate. The majority of decision making remains at the local level and therefore the involvement of local pension boards in those areas would not change. Scheme managers should consider how best to involve their pension boards in ensuring the effective implementation of investment and responsible investment strategies by pools, which could include representation on oversight structures.

CIPFA in the recent article *Clear pools: the future of the LGPS* highlights the need for good governance particularly in view of the complex web of stakeholders involved in investment pooling. Robust governance will be vital to ensuring a smooth transition and continuing operation of the funds

The CIPFA article is available at: Link: http://www.cipfa.org/cipfa-thinks/cipfa-thinks-articles/clear-pools-the-future-of-the-lgps?



typical structure of LGPS Pool

Fixing our broken housing market

DCLG published its housing White Paper on 7 February 2017. It opens with the statement:

"The housing market in this country is broken, and the cause is very simple: for too long, we haven't built enough homes."

It goes on to summarise three key challenges in the housing market.

1. Over 40 per cent of local planning authorities do not have a plan that meets the projected growth in households in their area.
2. The pace of development is too slow. There is a large gap between permissions granted and new homes built. More than a third of new homes that were granted planning permission between 2010/11 and 2015/16 have yet to be built.
3. The structure of the housing market makes it harder to increase supply. Housing associations have been doing well – they're behind around a third of all new housing completed over the past five years – but the commercial developers still dominate the market.

The proposals in the White Paper set out how the Government intends to boost housing supply and, over the long term, create a more efficient housing market whose outcomes more closely match the needs and aspirations of all households and which supports wider economic prosperity.

It states that the challenge of increasing housing supply cannot be met by the government acting alone and summarises how the government will work with local authorities, private developers, local communities, housing associations and not for profit developers, lenders, and utility companies and infrastructure providers.

For local authorities, the government is:

- offering higher fees and new capacity funding to develop planning departments, simplified plan-making, and more funding for infrastructure;
- will make it easier for local authorities to take action against those who do not build out once permissions have been granted; and
- is interested in the scope for bespoke housing deals to make the most of local innovation.

The government is looking to local authorities to be as ambitious and innovative as possible to get homes built in their area. It is asking all local authorities to:

- develop an up-to-date plan with their communities that meets their housing requirement (or, if that is not possible, to work with neighbouring authorities to ensure it is met);
- decide applications for development promptly; and
- ensure the homes they have planned for are built out on time.

The White Paper states that it is crucial that local authorities hold up their end of the bargain. It goes on to say that where local authorities are not making sufficient progress on producing or reviewing their plans, the Government will intervene. It also notes that where the number of homes being built is below expectations, the new housing delivery test will ensure that action is taken.

The White Paper goes on to consider in more detail:

- Planning for the right homes in the right places
- Building homes faster
- Diversifying the market
- Helping people now

National developments

- Have members been briefed on the White Paper and the implications for your statutory housing function?

Consultation on the White Paper recently closed on 2 May 2017.

The White Paper is available at:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/590464/Fixing_our_broken_housing_market_-_print_ready_version.pdf

Integrated thinking and reporting

CIPFA Publications

- Have you reviewed the CIPFA guide to Integrated Reporting in the public sector?

Focusing on value creation in the public sector

Grant Thornton has seconded staff to the International Integrated Reporting Council on a pro bono basis for a number of years.

They have been working on making the principles of Integrated Reporting <IR> relevant to the public sector and co-authored a recent report by CIPFA and the World Bank: *Integrated thinking and reporting: focusing on value creation in the public sector - an introduction for leaders.*

Around one third of global gross domestic product (GDP) is made up by the public sector and this is being invested in ensuring there is effective infrastructure, good educational opportunities and reliable health care. In many ways, it is this investment by the public sector that is helping to create the conditions for wealth creation and preparing the way for the success of this and future generations.

Traditional reporting frameworks, focussed only on historic financial information, are not fit-for-purpose for modern, multi-dimensional public sector organisations.

Integrated Reporting supports sustainable development and financial stability and enables public sector organisations to broaden the conversation about the services they provide and the value they create.

The public sector faces multiple challenges, including:

- Serving and being accountable to a wide stakeholder base;
- Providing integrated services with sustainable outcomes;
- Maintaining a longer-term perspective, whilst delivering in the short term; and
- Demonstrating the sustainable value of services provided beyond the financial.

The <IR> Framework is principle based and enables organisations to tailor their reporting to reflect their own thinking and strategies and to demonstrate they are delivering the outcomes they were aiming for.

Integrated Reporting can help public sector organisations deal with the above challenges by:

- Addressing diverse and often conflicting public accountability requirements;
- Focussing on the internal and external consequences of an organisation's activities;
- Looking beyond the 'now' to the 'near' and then the 'far';
- Considering the resources used other than just the financial.

The report includes examples of how organisations have benefitted from Integrated Reporting.

Income generation

This report shares the insights into how and why local authorities are reviewing and developing their approach to income generation.

Local government is under immense financial pressure to do more with less. The 2015/16 spending review is forecast to result in a £13 billion funding hole by 2020 that requires With further funding deficits still looming, income generation is increasingly an essential part of the solution to providing sustainable local services, alongside managing demand reduction and cost efficiency of service delivery.

Local leaders are ready to be more commercial, and our report gives them the tools to maximise their ability to generate income and develop their income generation strategies by providing the following:

- Case study examples
- Local authority spend analysis, Councils' business case for change - Amidst financial pressures, councils must generate income to keep delivering the best services for their area.
- Examples of innovative financial mechanisms , learning from innovative income generation practices - Innovation is key to addressing the public sector's challenges and making the most of the available opportunities.
- Critical success factors to consider - Local authorities have opportunities to generate additional income in many ways. However, understanding the needs of the area and the capabilities of their authority to ensure they select the most suitable option is key.

Our new research on income generation suggests that:

- councils are increasingly using income generation to diversify their funding base, and are commercialising in a variety of ways. This ranges from fees and charges (household garden waste, car parking, private use of public spaces), asset management (utilities, personnel, advertising, wifi concession license) and company spin-offs (housing, energy, local challenger banks), through to treasury investments (real estate development, solar farms, equity investment).
- the ideal scenario to commercialise is investing to earn with a financial and social return. Councils are now striving to generate income in way which achieves multiple strategic outcomes for the same spend; examining options to balance budgets while simultaneously boosting growth, supporting vulnerable communities and protecting the environment.
- stronger commercialisation offers real potential for councils to meet revenue and strategic challenges for 2020 onwards. Whilst there are examples of good practice and innovation, this opportunity is not being fully exploited across the sector due to an absence of a holistic and integrated approach to corporate strategy development (a common vision for success, understanding current performance, selecting appropriate new opportunities, the capacity and culture to deliver change).

Grant Thornton update

Download the income generation report here

http://www.grantthornton.co.uk/en/insights/the-income-generation-report-local-leaders-are-ready-to-be-more-commercial/

Apprentice levy-Are you prepared?

Grant Thornton update

What is the levy?

The UK has been struggling on productivity, now estimated to be 20% behind the G7 average. Developing apprenticeships is set to play a key part in tackling this and bridging the skills gap.

Announced by government in July 2015, the levy is to encourage employers to offer apprenticeships in meeting their skill, workforce and training needs, developing talent internally. The levy is designed to give more control to employers, through direct access to training funds and creation of apprenticeships through the Trailblazer process.

What is the levy?

From April 2017, the way the government funds apprenticeships in England has changed. Some employers are required to pay a new apprenticeship levy, and there are changes to the funding for apprenticeship training for all employers.

All employers will receive an allowance of £15,000 to offset against payment of the levy. This effectively means that the levy will only be payable on paybill in excess of £3 million per year.

The levy will be payable through Pay As You Earn (PAYE) and will be payable alongside income tax and National Insurance.

Each employer will receive one allowance to offset against their levy payment. There will be a connected persons rule, similar the Employment Allowance connected persons rule, so employers who operate multiple payrolls will only be able to claim one allowance.

Employers in England are also able to get 'more out than they put in', through an additional government top-up of 10% to their levy contribution.

When employers want to spend above their total levy amount, government will fund 90% of the cost for training and assessment within the funding bands.

The existing funding model will continue until the levy comes into effect May 2017. The levy will apply to employers across all sectors.

Paybill will be calculated based on total employee earnings subject to Class1 National Insurance Contributions. It will not include other payments such as benefits in kind. It will apply to total employee earnings in respect of all employees.

What will the levy mean in practice

Employer of 250 employees, each with a gross salary of £20,000:

Paybill: 250 x £20,000 = £5,000,000

Levy sum: 0.5% x = £25,000

Allowance: £25,000 - £15,000 = £10,000 annual levy

How can we spend the levy funds?

The funding can only be used to fund training and assessment under approved apprenticeship schemes. It cannot be used on other costs associated with apprentices, including wages and remuneration, or training spend for the wider-team.

Through the Digital Apprenticeship Service (DAS), set up by government, employers will have access to their funding in the form of digital vouchers to spend on training.

Training can be designed to suit the needs of your organisation and the requirements of the individual in that role, in addition to specified training for that apprenticeship. Training providers must all be registered with the Skills Funding Agency (SFA).

Issues to consider:

- How much is the levy going to cost and have we budgeted for it?
- How do we ensure compliance with the new system?
- Which parts of the current spend on training are applicable to apprenticeships?
- Are there opportunities to mitigate additional cost presented by the levy?
- How is training in the organisation structured?
- How do we develop and align to our workforce development strategy

The Board: creating and protecting value
Our new cross sector Board Effectiveness Report

In all sectors, boards are increasingly coming under pressure from both the market and regulators in terms of effectiveness and accountability. Building on the success of our cross sector audit committee effectiveness survey- Knowing The Ropes, the Grant Thornton Governance Institute extended its research to look at the effectiveness of boards across the corporate, public and not for profit sectors.

This report raise key questions that all boards should ask themselves to challenge their effectiveness. Their organisations may operate in different sectors and be subject to a variety of statutory and governance requirements, but they all share a common overriding principle: the governing body is a collective charged with developing the organisation's purpose.

Key messages:

- There is a strong future focus on boards
- Executive behaviours tend to dominate - not the best scenario for good governance or an organisation's future focus
- There are strongly held opinions about the relationship between the board and the executive which will impact on efficiency
- More than 88% of respondents see their executives as being strong leaders of the organisation
- There is a clear focus on organisational culture and values across all sectors – 93% see the executive board members modelling the values of the organisation
- Over 60% of board members believe that are adequate processes in place to evaluate performance

This report uses the DLMA analysis which categorises skills into four areas: Directorship, Leadership, Management and Assurance. This framework allows organisations to have a better understanding about where they are focusing their energies.

Download the report here: http://www.grantthornton.co.uk/en/insights/the-board-creating-and-protecting-value/

Grant Thornton Reports

Challenge question:

Are you familiar with this report?

Grant Thornton

grant-thornton.co.uk

BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to:	**AUDIT COMMITTEE**
Report of:	**Interim Chief Finance Officer**
Date of Decision:	**20 June 2017**
Subject:	**EXTERNAL AUDITOR'S STATUTORY RECOMMENDATION – FOLLOW-UP LETTER**
Wards affected: All	

1 Purpose

1.1 This report sets out an update in the light of the External Auditor's letter to the Acting Chief Executive on 15 March 2017, which followed on from his statutory recommendation included within his Annual Audit Letter in relation to the 2015/16 accounts. The report summarises the current arrangements for the management of the Council's finances and also describes the actions which have been taken to address the need to ensure that there is sufficient senior management capacity.

2 Decisions recommended:

2.1 To note the letter received from the External Auditor, dated 15 March 2017.

2.2 To note the current arrangements for the management of the City Council's finances, including plans for further reporting.

Contact Officer: Steve Powell
Telephone No: 0121 303 4087
E-mail address: steve.powell@birmingham.gov.uk

3 Compliance Issues:

3.1 Are Decisions consistent with relevant Council Policies, Plans or Strategies?:
The effective management of the Council's finances is a critical element in the delivery of the Council's policies and plans, within the resources available.

3.2 Relevant Ward and other Members/Officers etc. consulted on this matter:
The Chief Executive has been consulted.

3.3 Relevant legal powers, personnel, equalities and other relevant implications (if any):
The statutory recommendation by the External Auditor was made under section 24 of the Local Audit & Accountability Act 2014. The Council has had a responsibility to consider the recommendation, and decide whether it is to be accepted and what, if any, action to take in response.

Section 151 of the Local Government Act 1972 requires each local authority to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has responsibility for the administration of those affairs (the Chief Finance Officer)

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 need to balance the Council's budget and, therefore, to deliver the savings programme contained within it, is a key risk which must be managed. This is clearly recognised in the authority's risk register.

4 Relevant background/chronology of key events:

4.1 In his Annual Audit Letter for 2015/16, the External Auditor included a statutory recommendation under section 24 of the Local Audit and Accountability Act 2014, which stated that the Council needed to:

- *Ensure that there is Council-wide commitment to delivering alternative savings plans to mitigate the impact of the combined savings and budget pressure risks in 2016/17.*
- *Demonstrate that it is implementing achievable actions to deliver its cumulative savings programme in the Business Plan 2017+ by:*
    - ➢ *Revising savings programme from 2017/18 onwards to reflect the delayed or non-delivery of savings plans in 2016/17; and*
    - ➢ *Ensuring that all savings plans are assessed for both lead time to implement and delivery risk.*
- *Re-assess the impact of the combined savings and budget pressure risks on the planned use of reserves in 2016/17 and the impact of this on the reserves position from 2017/18 onwards.*

4.2 In accordance with its responsibilities, the Council considered its response at the City Council meeting on 10 January 2017.

4.3 Subsequently, on 15 March 2017, the External Auditor wrote to the Acting Chief Executive in relation to the Council's Financial Capacity and Resilience. A copy of this letter is attached as an Appendix.

4.4 Clearly some time has passed since this letter and as the letter noted, the Council took swift action to make substantive appointments to the posts of Corporate Director Place, Corporate Director Economy and Chief Operating Officer and to appoint to a range of senior management posts on an interim basis. This includes the Chief Executive, Chief Finance Officer, Corporate Director Adults & Health and Corporate Director Children & Young People.

4.5 In relation to the Auditor's comments on the finance function of the authority, the Chief Finance Officer is considering structural proposals which will, in due course, be the subject of proper consultation.

4.6 There is a requirement to deliver savings of £70.895m in the current year, rising to savings of £171.356m by 2020/21. This is summarised as follows:

Savings Programme				
Status	**2017/18 £m**	**2018/19 £m**	**2019/20 £m**	**2020/21 £m**
Adults	(15.236)	(21.119)	(20.374)	(20.386)
Children	(8.463)	(11.993)	(25.886)	(27.039)
Economy	(8.024)	(13.248)	(12.798)	(12.808)
Place	(12.900)	(24.266)	(34.661)	(35.731)
Transformation	(10.882)	(11.088)	(11.188)	(12.048)
Cross-cutting	(15.390)	(51.891)	(59.931)	(63.344)
Total	**(70.895)**	**(133.605)**	**(164.838)**	**(171.356)**
Existing	(27.560)	(50.535)	(75.829)	(82.072)
New	(43.335)	(83.070)	(89.009)	(89.284)
Total	**(70.895)**	**(133.605)**	**(164.838)**	**(171.356)**

4.7 The savings programme approved by the City Council in February was re-cast to take account of non-deliverable savings as identified in last year's Mid-Year Review. The savings are in addition to the savings programme of approaching £600m for the period up to 2016/17.

4.8 The budgets set out above also reflect the Council's investment in priority services, including providing resources to facilitate the improvement plan for Children's Services, to meet demographic pressures in Adult Social Care, and to recognise the operational costs of waste management services and homelessness services, together also with recognising the budgetary consequences of specific Government grant reductions and to meet the Council's pensions liability.

4.9 The Council's ten year financial plan includes removing the reliance on the strategic use of reserves after 2017/18.

4.10 The Interim Chief Executive and Interim Chief Financial Officer have worked with Directorate management teams to do a baseline review of progress on delivery of savings.

4.11 The baselining exercise found that the council's budget planning had been considerably strengthened compared with previous years with good progress on savings delivery. We are currently working on contingency plans (alternative savings proposals) so as to tackle any risk that there might be unplanned uses of reserves this year, as well as looking forward to the plans for future years. This is part of the process of managing the budget in year.

4.12 On some specific issues newly appointed substantive and interim senior officers have jointly reviewed issues which had previously been agreed eg. Support Services Future Operating Model and reductions in grants to the Third Sector, with some resulting repositioning both operational and financial. This has been a necessary adjustment and is likely to lead to making savings in a more realistic way. In some cases it has led to a need to rethink the making of savings but the Corporate Leadership Team is focused on delivering these changes.

4.13 The detailed position on individual savings continues to be closely monitored by both CLT and Members (through the Budget Board savings tracker). Work is currently underway on the month two monitoring report (to be reported to Cabinet in July). This report will pull together an updated position on savings delivery, a review of base budget pressures and decisions on additional savings initiatives to deal with any on-going 2017/18 gap.

4.14 A further round of budget baselining meetings of Interim Chief Executive and Interim Chief Finance Officer will also be scheduled to look at base budgets and further savings. .

4.15 CLT has also been giving some consideration to options for strengthening our financial management arrangements through the development of a Budget Management Framework. As a starting point, a Budget Management Framework could include, for example:

- Strengthening accountability for budget management and delivering within budget through codifying objectives, behaviours, performance management, etc.
- Greater clarity for the regular monitoring process and, in particular, greater clarity as to the role of budget holders and finance colleagues.
- Clearer expectations that directorates will manage within budget with an initial expectation that, in cases of overspending and/or non-delivery of agreed savings, that the initial assumption is that compensating savings are found in year by the responsible service or department.
- A clear but relatively stringent process for pressures/overspends to be accepted as "corporate pressures" – this would be the exception.
- Where overspends occur at the year end, to be made good by the responsible department in the following year.

4.16 A further report will be presented to the next meeting of this Committee on 25 July 2017, setting out the updated position in the light of the actions set out above, and informed by the position, as at Month 2, which will be reported to the Cabinet meeting which will also be held on 25 July 2017.

Signature:

Interim Chief Finance Officer: ………………………………………………….

Dated: 19 June 2017

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March 15 2017

Dear Angela

Birmingham City Council: Financial Capacity and Resilience

Following our discussion on 8 March 2017 we said that we would write to you setting out our views as external auditors in relation to progress made by the Council at this stage in responding to our statutory section 24 (and schedule 7) recommendations, which were issued to the Council in November 2016 under the Local Audit and Accountability Act 2014.

The Council has experienced considerable change in recent months and now would seem an opportune moment to take stock. The Council published its draft Financial Plan 2017+ in February 2017. This envisaged the need to secure savings of £71m in 2017/18 and cumulative savings of £171m by 2020/11 in order to achieve a balanced position into the medium term. The scale of savings required over the next few years is considerable and will be supported by the use of £40.5m of corporate reserves in 2017/18. The Council's general funds reserves amount to some £111m and it also has other earmarked reserves. Our concern is that, following the delivery of an estimated £35m overspend in 2016/17, the Council must substantially deliver its savings plans in 2017/18 and succeeding years, in order to sustain financial resilience but also to preserve an adequate level of reserves to support contingencies.

The savings target in 2017/18 looks challenging and remains challenging in succeeding years. The independent Improvement Panel, appointed by Government, concluded on 24 February 2017 in its letter to the Secretary of State for Communities and Local Government, that the Council's financial plans were now 'more robust and credible' but argued that:

'The plans and strategies however will not be easy to implement. Some implementation timetables are still extremely ambitious and the risks to achieving duly effective delivery are high.'

We concur with the Panel's conclusions in this regard.

Recent changes in senior management have included the retirement of the Council's Chief Executive, the imminent retirement of the Strategic Director of People, and the absence of one corporate Director at present through sickness absence. The Council's senior management capacity is therefore considerably reduced at a time when such capacity is key to delivering the transformational change required to achieve the 2017/18 savings programme.

We are concerned that these changes could hinder progress. We are pleased however to note that the Council has acted quickly by seeking to put in place interim arrangements to bolster senior management capacity. To that end, you have been appointed as Acting Chief Executive and we understand that interim replacements will be in place shortly to address other gaps in the corporate management team. An experienced interim Chief Finance Officer has now been appointed as Section 151 Officer and an interim Chief Executive is to be appointed in early April. Arrangements are also underway to make permanent appointments to all first and second tier positions where there is not currently a permanent incumbent. Whilst this is to be welcomed, the quality of the interim appointments and the commitment that they can instil in the staff that they will be leading, will be key in determining whether the ambitious savings programme is delivered or not. Delivery of that programme is inherently challenging. Changes in senior management capacity at this juncture increase the risks associated with delivery of the programme. We are also concerned that the timing of the proposed changes to senior management capacity within the finance department may impact on:

- the Council's ability to deliver financial savings
- the quality of in-year reporting
- the production of the Council's annual accounts

We will discuss with the interim Director of Finance how the above risks will be mitigated. Whilst significant savings clearly need to be delivered by the Council, reducing senior financial management capacity at this juncture could inhibit the Council's ability to monitor and deliver those savings. The Council's finance department has delivered significant improvements in relation to the production of the annual accounts in recent years, addressing a previous history of significant problems in this area. We would not wish to see those improvements put at risk, particularly with the accounts closure timeline coming forward in 2017/18.

It is also important that Members play an active role in supporting the change programme, which will involve taking tough decisions and supporting officers to implement those decisions.

We aim to work constructively with the Council and in order to do this we shall be carrying out a piece of work over the coming months to assess what progress is being made in relation to our statutory section 24 recommendations. This will broadly cover budget delivery and monitoring arrangements. We will reflect progress made in our Audit Findings Report in September 2017, but if insufficient progress is made, we would consider at that stage what other formal auditor action might be appropriate, whether by the issue of a report in the public interest or other audit action. In our view, the financial situation of the Council is grave and we would reserve the right to comment at an earlier stage should that be warranted.

In our earlier discussion, we agreed that this letter would be shared with the Council's Leader and that it would be considered by one of the Council's public committees. We look forward to your early confirmation that this has happened.

Yours sincerely

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cc. John Clancy, Leader, Birmingham City Council