BIRMINGHAM CITY COUNCIL

AUDIT COMMITTEE

WEDNESDAY, 25 NOVEMBER 2020 AT 14:00 HOURS
IN ON-LINE MEETING, MICROSOFT TEAMS

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.civico.net/birmingham) and that members of the press/public may record and take photographs except where there are confidential or exempt items.

2 **DECLARATIONS OF INTERESTS**

Members are reminded that they must declare all relevant pecuniary and non pecuniary interests arising from any business to be discussed at this meeting. If a disclosable 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.

3 **APOLOGIES**

To receive any apologies.

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

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

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

- Item 7 – Private – Statement of Accounts (Appendix 2) - Exempt paragraph 3

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

To confirm and sign the minutes of the last meeting of the Committee held 20 October 2020.

(10 minutes allocated) (1405 - 1415)

Report of the Interim Chief Finance Officer

(30 minutes allocated) (1415 - 1445)

Report of the Interim Chief Finance Officer

8 **ASSURANCE SESSION - CABINET MEMBER FINANCE & RESOURCES PORTFOLIO**

(55 minutes allocated) (1445 - 1540)

The Cabinet Member of Finance & Resources with the Director of Human Resources

(5 minutes allocated) (1540 - 1545)

Report of the Interim Chief Finance Officer

(5 minutes allocated) (1545 - 1550)

Report of the Assistant Director, Audit & Risk Management

(5 minutes allocated) (1550 - 1555)

Report of the Assistant Director, Audit & Risk Management

345 - 404 12 **BIRMINGHAM AUDIT - HALF YEAR UPDATE REPORT 2020/21**

(5 minutes allocated) (1555 - 1600)

Report of the Assistant Director, Audit & Risk Management

405 - 406 13 **SCHEDULE OF OUTSTANDING MINUTES**

Information for noting.

14 **DATE AND TIME OF NEXT MEETING**

The next meeting is scheduled to take place on Tuesday, 26 January 2021 at 1400 hours via MS Teams (on-line).

15 **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.

16 **AUTHORITY TO CHAIRMAN AND OFFICERS**

Chairman to move:-

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

BIRMINGHAM CITY COUNCIL

AUDIT COMMITTEE
20 OCTOBER 2020

MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD ON TUESDAY, 20 OCTOBER 2020 AT 1400 HOURS - ONLINE MEETING

PRESENT:-

Councillor Grindrod in the Chair;

Councillors Tilsley, Morrall, and Quinnen

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NOTICE OF RECORDING/WEBCAST

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

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

DECLARATIONS OF INTEREST

242 Members were 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 was declared a Member must not speak or take part in that agenda item. Any declarations would be recorded in the minutes of the meeting.

It was noted the declarations of interest made by Councillor Tilsley at the 29 September Audit Committee were non-pecuniary interests.

APOLOGIES

243 Apologies were submitted on behalf of Councillor Bridle and Councillor Jenkins for their inability to attend the meeting.

EXEMPT INFORMATION – POSSIBLE EXCLUSION OF THE PRESS AND PUBLIC

244 **RESOLVED**:-

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

It was noted there were no items to discuss on a private agenda.

At this juncture, the Chair had technical issues with the online meeting. Councillor Tilsley (Vice Chair) continued to cover the Committee until the Chair was able to re-join.

MINUTES – AUDIT COMMITTEE – 29 SEPTMEBER 2020

245 **RESOLVED:-**

That the minutes of the last meeting were agreed.

ASSURANCE SESSION – DEPUTY LEADER'S PORTFOLIO

The Chair welcomed the Deputy Leader, Director of Digital and Customer Services, the Chief Executive and Interim Brexit Co-ordinator to the Assurance Session of the Committee.

Part 1: Issues related to the Corporate Risk Register

The Deputy Leader informed Members that there were five key areas in her portfolio that were reflected on the Corporate Risk Register. These were;

1) Improvement journey and Governance
2) Brexit
3) Emergency Planning
4) Data
5) Cyber Security

A summary of issues relating to items 3-5 above were given by the Deputy Leader, with support from the Director for Digital and Customer Services. Presentations were given by the Interim Chief Executive on the improvement journey and governance and by the Interim Co-ordinator for Brexit on issues related to Brexit.

The Deputy Leader noted:

Emergency Planning

Prior to Covid-19, the Deputy Leader had sought to undertake a peer assessment on emergency planning arrangements via the London Council's Framework, but the pandemic had caused this to be delayed. Within the last 2 years, external assurances had been received on the role of the Council which had also been noted by the Home Office.

Data

The Director of Digital and Customer Services reports on information risks on a quarterly basis to the Interim Chief Executive. 78% of council staff had been trained on how to handle data and there has been a focus on improving governance in this area during the pandemic, given the introduction of remote working from home.

Cyber Security

BCC has increased the number of officers working on cyber security from 1 ½ under the Capita contract to 7 given the increasing risk in this area and a Security Policy had been introduced. As Birmingham is hosting the Commonwealth Games the work around cyber security has increased. Internal testing is carried out routinely and advice and guidance on how to avoid becoming a victim of cyber-attacks.

Part 2: Issues related to the External Auditors Value for Money Indicators

The Deputy Leader went through her portfolio and explained to Members how the 'value for money' indicators set by the External Auditors were applied to her portfolio.

Council resilience and financial sustainability

The Deputy Leader reiterated that all cabinet members had a role to play to ensure spend within their portfolios is monitored effectively and saving targets are delivered on. The Deputy Leader attends a number of meetings on big ticket issues such as Paradise Circus, Commonwealth Games and Equal Pay which look to minimise risk to the Council, oversee the public spend and ensure correct governance is in place.

Industrial relations

The Leader, Deputy Leader and the Cabinet Member for Finance & Resources meet with local representatives on a regular basis to hear concerns and ensure these are escalated appropriately.

Contract management

All portfolio holders had to ensure any big-ticket items were managed properly, of which Service Birmingham had been the Deputy Leader's largest. The management of this was no longer an issue for the Council as this has been insourced from Capita.

Members response

The Committee then asked questions of the Deputy Leader and the following points were noted:

- The Director for Digital and Customer Services informed Members that approximately £400k was placed aside to support the development of the policies, procedures, training related to data and cyber security issues. This was set aside to ensure the Council was compliant with the law as well as the funds for to bring in the expertise required to build the appropriate policies and procedures.
- Cllr Morrall asked if the committee could be provided with the total cost so far for the work to make the Council GDPR compliant. It was agreed that this would be investigated and shared with members of the committee.
- Members questioned how decisions had been made during the pandemic. The Deputy Leader replied explaining how during the initial months of the pandemic, the Gold Command and Senior Officers made decisions on the immediate emergencies. A session had taken place with Senior Officers and Councillors to look at how the arrangements had worked to date and how the Council would need to adapt processes long term. Ideas were being explored to look at a sustainable way of delivering this going forward. A log of decisions made by Gold Command is being published throughout the Covid-19 emergency.
- Members of the Committee expressed concern that GDPR had been used a number of times for non-disclosure of information. The Deputy Leader replied that GDPR should not be used to prevent members having legitimate access to information i.e. for Audit Committee purposes, however, it should protect individuals on their personal data and not misused.
- Members asked questions related to the Council's engagement with regulators. The Deputy Leader noted that a new Performance Framework would be introduced in November. This would collate each portfolio with the view of the external regulators listed against them. Previous and recent judgements of the regulator would be listed in the Performance Framework to ensure there was visibility across the organisation.
- Members asked about how the Council was working to improve customer service given ongoing concerns about how effective the council is at managing resident expectations. The Deputy Leader noted that a Customer Services review was being undertaken through the Co-ordinating Overview and Scrutiny Committee. It was proposed the recommendations would be shared with full Council in November/ December 2020. This review would identify several recommendations,

including developing a standard procedure of how complaints are treated across the organisation.

- Members noted that Birmingham’s performance on complaints remains weak. The Director for Digital and Customer Services recognised that Birmingham had more complaints per head than other Core Cities and set out how the establishment of the Customer Service Programme would assist in reducing complaints and ensure there was a consistent approach across the organisation.

The Chair recommended that the Deputy Leader note the work that the Audit Committee is doing on assurance and asked that this be considered as part of the Performance Framework developments. He noted that the Deputy Leader and the Director for Digital and Customer Services would be invited on an annual basis to provide progress and updates on these areas. The Chair thanked the Director for Digital and Customer Services for the updates provided to the Committee.

Part 3: Improvement Journey and Governance

The Deputy Leader introduced the section on Governance of the Delivery Plan. She highlighted that this section was due to be shared earlier in the year however this was delayed due to the pandemic. The plan follows on from work undertaken with the Improvement Panel. Though Birmingham is now no longer under the intervention of the Improvement Panel, the Deputy Leader noted that it was important to keep the momentum going.

The Interim Chief Executive gave a presentation to outline on how the Delivery Plan 2020 – 2022 would be governed. He explained that the Delivery Plan would be agreed by Cabinet in November. He noted:

- The Cabinet would be agreeing the Delivery Plan 2020 – 2022 and update on the medium-term financial plan would be shared with members. The Delivery Plan and Medium-Term Financial Plan build upon the Corporate Plan for the Council

- It was important to ensure the right mechanisms were in place to fulfil the Delivery Plan, including a clear escalation route. The escalation route must be robust and managed in the correct way. The correct governance arrangements had to be in place especially when areas were not on track.

- The financial risk that the Council faces around Covid-19 is a key challenge for the Council. This would have a circa of £100m impact on the Council’s budget.

- The Corporate Leadership Team were working on ensuring the right arrangements were in place to manage and govern the major projects and programmes.

  On a monthly basis tracking would take place on Financial and Delivery Assessments, Management of issues, risks and dependencies, Design and Change Assessments and Senior Management Leadership Assessment areas.

Members response

The Committee then asked questions of the Chief Executive and the following points were noted by members:

- Members need to feel confident and assured on the delivery of the services. The Interim Chief Executive set out how this should happen by ensuring that the plan was monitored and scrutinised through Cabinet, Overview & Scrutiny, Audit Committee and other such committees where any issues would be escalated and resolved. It was important to ensure the officer governance arrangements were fit for purpose.
- The Chair added any reports from Cabinet Members and officers would be welcomed by the Committee in order to provide further confidence and assurances. It was crucial to have good governance arrangements in place for the Council to deliver large programmes.
- Project and Programmes was a key area that required immediate attention. The Interim Chief Executive was confident that each department would have the right mechanisms in place as CLT had visibility across the organisation.
- Members questioned how long it would take to see an improvement to the culture throughout the organisation. The Interim Chief Executive suggested it would take at least 2 – 5 years to see a change in culture throughout the organisation. He emphasised the Council must change going forward as it costs more to rectify issues.
- The Interim Chief Executive added further work would be explored around capacity and resources throughout the organisation. Attention would be given to frontline Management and Supervision to ensure that performance management was carried out correctly.
- Members queried how changes would be communicated in a simple and effective way across frontline of the organisation. The Interim Chief Executive informed Members that large projects and programmes were distilled onto a 'programme on a page' set up to ensure the understanding around each area was clear. In addition, once a month, CLT have focussed meetings which entails discussions around an area such as performance, finances, etc. This would enable officers throughout the organisation to approach CLT and raise any issues or concerns around the focussed areas.

The Chair thanked the Interim Chief Executive for the overview of the Governance on the Delivery Plan and welcomed future updates on progress. In addition, the Deputy Leader supported comments made by the Interim Chief Executive and reiterated it was important for officers to be open around performance and to seek assistance when issues arise. This would ensure matters were resolved promptly.

Part 4 - Implications of leaving the EU – BCC Brexit Readiness Programme

The Deputy Leader introduced the section on the Implications of leaving the EU – BCC Brexit Readiness Programme. Members were reminded the presentation on the Brexit was a modified version that went to the Economy & Skills Overview and Scrutiny. The version for this Committee was focused on the risk management aspect of Brexit.

The Deputy Leader highlighted three areas of concern:

- *Employment* - Currently, 1 in 5 residents under 25 in Birmingham are unemployed, and 1 in 4 people in Ladywood are claiming unemployment benefit. In addition, furlough would be finishing at the end of October. There were already concerns around huge number of job losses due to the pandemic, but the Deputy Leader set out her concern that Brexit would create further job losses. The extra capacity that was set aside for Brexit by businesses and organisations has been used towards Covid-19. In turn, this would have an impact on City finances, council tax, and business tax amounts.

- *Citizens* - Roadshows had been planned for citizens from the EU claiming right to remain in UK however, due to Covid-19 this was delayed.

- *Council Operations* - For the last 18 months, preparations were being undertaken for a no deal Brexit. Though planning around this had been thought out, the planning of the end of EU funding was not in place. Over the last 5 years, the City Council had received over £100m from the EU funds which had been utilised on education and skills initiatives. However, these funds were now coming to an end with no indication from Government how this would be replaced. This was concerning and clarity from Government was required.

The Interim Brexit Co-Ordinator then gave a presentation:

(See document No. 1) – (page 21 of the document pack)

Members response

The committee then asked questions of the Interim Brexit Co-ordinator and the following points were noted in response:

- The overall budget for the different EU Projects managed by the Council was referred to in the presentation. The ESIF budget for Birmingham was around £85m with an approximately and additional £10m from 2020.
- As a UK body, Birmingham could still apply for funding until the end of 2020 (transition period). This would enable extensions to most of the projects until 2023.
- The Council were awaiting information from the Government around the UK Shared Prosperity Fund.

- Funding received from Government around skills was likely to go West Midlands Combined Authority.
- 1 in 10 jobs were likely to be affected in a negative way by the consequences of a no deal Brexit. The economy in Birmingham heavily relies on manufacturing therefore any delays in borders would have a knock-on effect on supply chains. This information was taken from a detailed report on the impact of Brexit on the West Midlands which had been independently authored and researched by Universities in West Midlands. The information was presented to the Brexit Commission.

The Chair thanked the Deputy Leader and colleagues for their attendance.

Upon consideration, it was:

246 **RESOLVED:-**

i) That the Committee noted the updates received on the Deputy Leader's Portfolio.

ii) That the committee be provided with the total cost so far for the work to make the Council GDPR compliant.

At this juncture, the Chair proposed the remaining items on the agenda to be postponed to a later Committee.

Upon consideration, it was:

247 **RESOLVED: -**

That the Committee agreed the remaining items on the agenda; Retrospective Purchase Orders and Financial Statements – Senior Officers note to be placed on the November Committee's agenda.

SCHEDULE OF OUTSTANDING MINUTES

Information for noting.

- Minute 227 28/07/2020 – Other Urgent Business – Travel Assist – The Chair read a statement in response to Councillor Morrall's query around the avoidance of deed poll changes via DBS checks.

  "The Disclosure and Barring Service (DBS) ID Checking Guidelines provides guidance to help organisations validate the identity of a candidate as part of the countersignatory application process.
  If the candidate has changed their name (including via Deed Poll) and they cannot provide ID in the new name, then documents in the previous name can be accepted but only where a Deed Poll certificate is also provided.

  In those circumstances the organisation must return a continuation sheet (to the Disclosure and Barring Service), along with the application form clearly stating:

- current and previous names
- date of the change
- reason for the change
- the documents seen to support these changes

N.B. All information provided must include all 'previous names' and 'dates used' and these must be recorded on the submission".

DATE AND TIME OF NEXT MEETING

The next meeting is scheduled to take place on Wednesday, 25 November 2020 at 1400 hours via MS Teams (on-line).

OTHER URGENT BUSINESS

RESOLVED: -

248 No other urgent business was raised.

AUTHORITY TO CHAIRMAN AND OFFICERS

RESOLVED:-

249 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 1604 hours.

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CHAIR

BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to: AUDIT COMMITTEE

Report of: Interim Director for Finance & Governance

Date of Meeting: 25 November 2020

Subject: 2019/20 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 2019/20 and reports on the Council's internal control regime.

1.2. Section 6 of the AGS includes 8 key issues for the Council which may impact on the organisation's governance arrangements.

2. Recommendations

2.1. To approve the updated Annual Governance Statement that will be included in the 2019/20 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 One of the requirements for the Annual Governance Statement (AGS) is that it should reflect the governance arrangements for the financial year to which it relates, up to the date of approval of the Statement of Accounts. The AGS was originally reported to Audit Committee on 30 June 2020. It has been updated for minor amendments primarily relating to the Council's response to the Covid-19 pandemic.

3.2 The AGS forms part of the Council's annual Statement of Accounts. The Statement of Accounts will be available, post audit, at this meeting, on 25 November 2020.

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. The Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 were published on 30 April 2020. These regulations amend the publication dates of the draft accounts to no later than 31 August 2020 and the audited accounts to 30 November for local authorities. 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.

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Rebecca Hellard – Interim Director for Finance & Governance

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Appendix 1

Annual Governance Statement 2019/20

1 Scope of responsibility

1.1. Birmingham City Council (the Council) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency, and effectiveness.

1.2. In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and including arrangements for the management of risk.

1.3. The Council has approved and adopted a code of corporate governance which is consistent with the principles of the *Delivering Good Governance in Local Government: Framework* (CIPFA/Solace 2016). This statement explains how the Council has complied with the framework and also meets the requirements of *The Accounts and Audit Regulations 2015*, Regulation 6(1)(a), which requires an authority to conduct a review at least once a year of the effectiveness of its system of internal control and include a statement reporting on the review with any published Statement of Accounts and, Regulation 6(1)(b), which requires all relevant bodies to prepare an Annual Governance Statement (AGS).

1.4. The coronavirus pandemic has meant that we have had to make significant changes to our governance arrangements since the Council declared a major emergency on 23 March 2020. This governance statement provides assurance over the governance arrangements that have been in place for the majority of 2019/20 and it also identifies significant changes that have arisen as a result of the pandemic.

2 The purpose of the governance framework

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

2.2. Good governance for the Council is ensuring it is doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner and the Council seeks to achieve its objectives while acting in the public interest at all times.

2.3. The governance framework comprises the systems, processes, culture and values by which the Council directs and controls its activities and through which it accounts to, engages with and leads its communities. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of high quality services and value for money.

2.4. The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an on-going process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

2.5. The governance framework has been in place at the Council for the year ended 31 March 2020 and up to the date of approval of the Statement of Accounts, subject to changes highlighted relating to the pandemic.

3 The governance framework

3.1. The key elements of the systems and processes that comprise the Council's governance arrangements include the following:

<u>The Council's vision and priorities for Birmingham</u>

3.2. The Council has been on a journey to redefine its vision and purpose in serving the people of Birmingham, driving the necessary change to deliver a new Council role and relationship with the City, its citizens and its partners.

3.3. The Council's vision for the future of Birmingham is to create a city of growth, in which every child, citizen and place matters and to support this, the Council has set itself six clear priorities:

- **Birmingham - an entrepreneurial city to learn, work and invest in.**
- **Birmingham - an aspirational city to grow up in**
- **Birmingham - a fulfilling city to age well in**
- **Birmingham - a great city to live in.**
- **Birmingham residents gain the maximum benefit from hosting the Commonwealth Games.**
- **Birmingham - a city that takes a leading role in tackling climate change.**

The sixth priority was added to the Council Plan in June 2019 when the Council declared a climate emergency**.**

3.4. The Council's vision and priorities in terms of the contribution to strategic outcomes are set out in the Council Plan 2018-2022 Plan (the Plan). The Plan was updated in 2019/20 and is available on the Council's website.

3.5. 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, citizens and partners, surveys and consultations.

3.6. A set of service delivery measures, aligned to service plans and Council priorities have been put in place for 2019/20. These measures are designed to ensure improvement in service quality and outcomes for the citizens of Birmingham, some have a particular focus on disadvantaged groups. Regular monitoring and reporting against these measures ensures that weaknesses in performance are identified at an early stage and effective action to bring performance in line with targets is undertaken.

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

3.8. The Council ensures the economical, effective and efficient use of resources, and secures continuous improvement in the way in which its functions are exercised, by having regard to a combination of economy, efficiency and effectiveness as required by the Best Value duty. Achievement of value for money is a key part of the Council's long term financial strategy.

3.9. The Council continues to face significant funding reductions and challenges in achieving its budget plans, outlined in the Financial Plan 2020 – 2024.

3.10. A robust system to monitor the achievement of savings proposals and delivery of the base budget with scrutiny by Council Leadership Team (CLT), Budget Board and Cabinet is in place and actions were regularly undertaken throughout the financial year to control spend. During 2019/20, the Council has continued to overhaul and strengthen its financial monitoring and control framework and reasserted 'grip' of the financial position with a series of interventions. Where pressures were identified, Directors were required to find alternative solutions and actions to contain spending within cash limits where possible. The Council also held a Budget Delivery Contingency of £12m for 2019/20 to assist if there were any base budget or savings deliverability issues.

3.11. **The spread of Covid-19 has had, and continues to have, a significant impact across all local authorities. The Council has from early on been assessing the financial impact. The financial impact is based on a six-month crisis scenario with some ongoing costs (not factoring in a recovery or a new normal as yet) and is broken down into the following elements:**

- **Actual and expected expenditure**
- **Forecast of actual and likely lost income (including economic impact)**
- **Further areas of financial risk**
- **Cashflow monitoring**

3.12. Following the financial experiences over the last three years, highlighted by both the Birmingham Independent Improvement Panel (BIIP) and through Statutory Recommendations under Section 24 of the Local Audit and Accountability Act 2014, made by the external auditors in July 2018 and in March 2019, the extent of savings delivery risk is clearly recognised along with the potential impacts of unidentified pressures and other changes as the Council looks forward. In response, the Council has improved its controls to ensure that there are robust financial arrangements in place, recognising that it cannot continue to use reserves to balance the budget in the way that it has in the past. Nevertheless, it will continue to hold an element of its reserves as contingency funding in case of savings delivery difficulties. The Council set its 2019/20 and 2020/21 budgets without expecting to use any general reserves to mitigate the requirement to deliver savings; all uses of reserves were in line with the Council's reserves policy.

3.13. The Council also undertook a significant exercise across December 2019 and early January 2020 to identify anticipated savings non-delivery and base budget pressures in 2020/21 and beyond. Following challenge through the Star Chamber process, these were eliminated from the budget so that Directorates could begin 2020/21 with rebased budgets that should not have any underlying pressures. In order to fund this the Council no longer holds a Budget Delivery Contingency and Corporate Directors / Assistant Directors will be required to sign budget accountability agreements to confirm that they will operate within their budget envelope.

3.14. The Council's workforce has experienced many changes and challenges over the last 10 years as the workforce is modernised. From transforming the customer service function and developing a Citizen Access Strategy to facing some of the challenges driven by being a large employer such as equal pay cases and reviews of terms and conditions. The Council's workforce strategy was agreed by Cabinet in 2018.

3.15. The Council's planning framework is set in the context of the wider city leadership and governance, such as the West Midlands Combined Authority's (WMCA) Strategic Economic Plan (developed by the local enterprise partnerships in conjunction with the WMCA) and the Birmingham and Solihull Sustainability and Transformation Plan (to deliver better health and care for local people).

3.16. The Council has a strong public, third sector, and business engagement role. A new Community Cohesion Strategy has been launched and there is an established partnership toolkit setting out the governance and internal control arrangements which must be in place when the Council enters into partnership working. This includes arrangements for the roles of Members and Officers, and the implementation and monitoring of objectives and key targets.

3.17. Working with partners, the Council plays a strategic role for the Greater Birmingham area, working with the Greater Birmingham and Solihull Local Enterprise Partnership (LEP) and where applicable, jointly and in consultation with the West Midlands Combined Authority (WMCA). As Accountable Body and partner to the LEP, the council develops collaborative solutions to common problems, and facilitates coherent programmes with regional and international partners to deliver an economic strategy for the city and region. LEP projects are delivered within the LEP Assurance Framework, approved by the Council's governance processes as Accountable Body, managed and monitored through Programme Delivery Board and thematic "Pillar Boards", with regular reporting to the LEP Board. From 1 September 2019 the LEP transferred its revenue operations and full executive team to GBSLEP Limited. BCC remains the accountable body for all capital funds and retains its place on the LEP Board in respect to its s151 role over public funds.

3.18. Change across local government continues. A Mayor was elected on 6 May 2017 to head the WMCA. The WMCA uses devolved powers from central government to allow the Council, along with its regional counterparts, to drive economic growth, investment and the reform of public services. There will be continued innovative ways of delivering local services and for people to engage in their local community, such as through the local council for Sutton Coldfield

3.19. The Cabinet Committee - Group Company Governance works to improve the level of Council oversight of the activities of those companies that it either wholly owns, or in which it has an interest or a relationship through nominees.

3.20. In May 2016, the Council announced its intention to move towards a Children's Trust. The Council is sole member of the Trust and works in close partnership to continue to improve outcomes for disadvantaged children and young people in the City. In April

2018, the Children's Trust became operationally independent of the Council as part of an ongoing process of improvement.

3.21. The Council's Constitution which is reviewed annually by the Monitoring Officer with amendments agreed at the Annual General Meeting, is available on the Council's website. Any in-year changes are agreed by Cabinet and/or the Council Business Management Committee (CBMC).

3.22. The Council facilitates policy and decision–making via an Executive Structure. There were ten members of Cabinet for the 2019/20 financial year: The Leader, Deputy Leader and eight other Cabinet Members with the following portfolios:

- Cabinet Member – Children's Wellbeing;
- Cabinet Member – Street Scene and Parks
- Cabinet Member – Health and Social Care;
- Cabinet Member – Homes and Neighbourhoods;
- Cabinet Member – Finance and Resources;
- Cabinet Member – Social Inclusion, Community Safety and Equalities;
- Cabinet Member – Transportation and Environment;
- Cabinet Member – Education, Skills and Culture.

3.23. The Constitution sets out the terms of reference or function for each of the Committees and signposts to a schedule of matters reserved for decision by Full Council.

3.24. 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.

3.25. 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.

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

3.27. The purpose of the Audit Committee is to support the Council's Corporate Governance responsibilities and to provide independent assurance to the Council in relation to internal control, risk management and governance. The role of the Audit Committee includes active involvement in the review of financial systems and procedures, close liaison with external audit and responsibility for the approval of the Annual Accounts and to review and make recommendations to the executive regarding the effectiveness of internal audit on the Council's arrangements for deterring, preventing, detecting and investigating fraud.

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

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

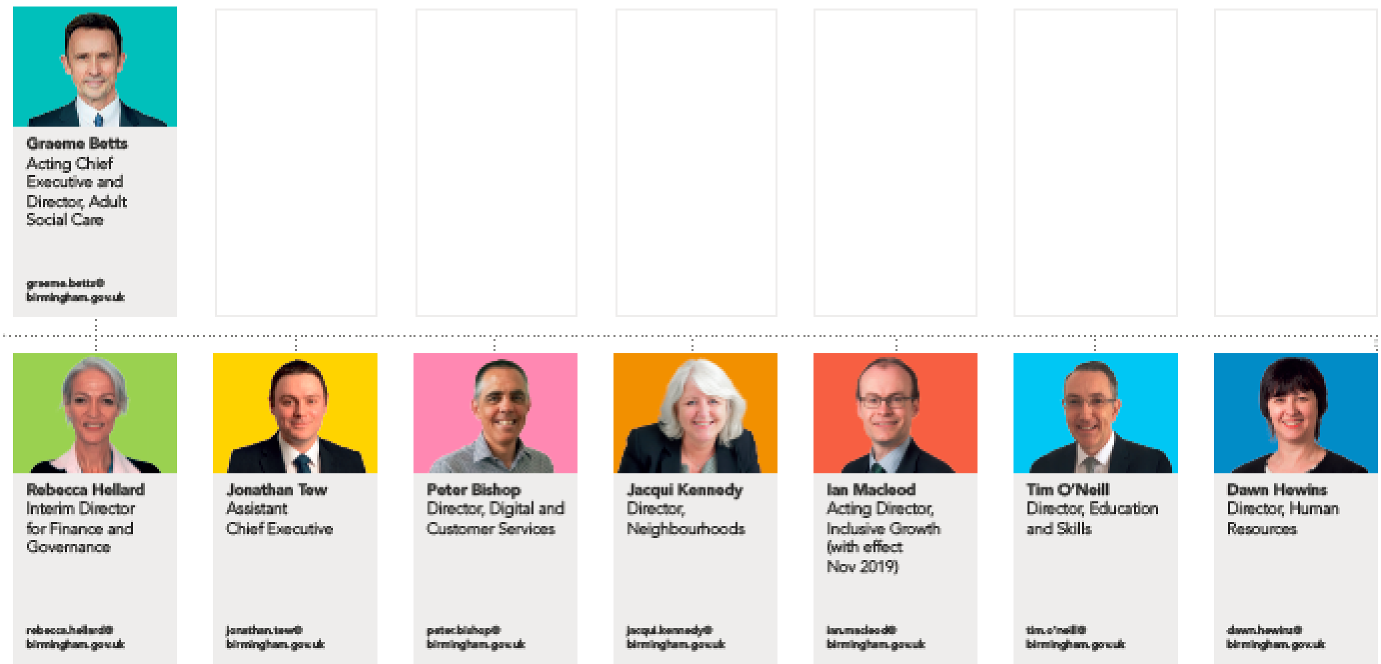
3.29. The Constitution also includes a Scheme of Delegation to Officers which sets out the powers of Corporate Directors.

3.30. The Council has Codes of Conduct for both Members and Officers which set out the standards of conduct and personal behaviour expected and the conduct of work between members and officers. In particular the Council has clear arrangements for declaration of interests and registering of gifts and hospitality offered and received.

Management Structure

3.31. During 2019/20, the Council operated through eight Directorates, Adult Social Care and Health, Education and Skills, Inclusive Growth, Finance and Governance, Neighbourhoods, Digital and Customer Services, Partnerships, Insight and Prevention, and Human Resources.

3.32. The Council's management structure as at 31 March 2020 was as per the diagram below:



3.33. In addition, during the year, the following key changes occurred

- Dawn Baxendale left the Council as Chief Executive on 9 October 2019.
- Clive Heaphy became Acting Chief Executive on 11 September 2019. Clive announced his intention to step down in March 2020
- Chris Naylor became Interim Chief Executive on 18 May 2020 following a period of Acting Chief Exec by Graeme Betts
- Rebecca Hellard took up the role of Interim Chief Finance Officer on 2 October 2019.
- Neil Carney, Programme Director, Commonwealth Games, left the Council on 1 January 2020 and was replaced on an interim basis by Mina Parmar and by Craig Cooper .
- Waheed Nazir left the post of Director, Inclusive Growth on 1 December 2019. Ian MacLeod became Acting Director on 4 November 2019.
- Peter Bishop was appointed as Director, Digital and Customer Services on 1 July 2019.
- Jacqui Kennedy announced her early retirement on 3 June 2020.

Financial Management Arrangements

3.34. The Council's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2016). The role of the Chief Finance Officer (CFO)/Section 151 Officer includes being:

- A key member of CMT, helping it to develop and implement strategy and to resource and deliver the Council's strategic objectives sustainably and in the public interest;
- Actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and alignment with the Council's financial strategy;
- Leading the promotion and delivery of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively;
- To deliver these responsibilities, the CFO leads and directs a finance function that is resourced to be fit for purpose; and is professionally qualified and suitably experienced.

Scrutiny, Accountability and Risk Management

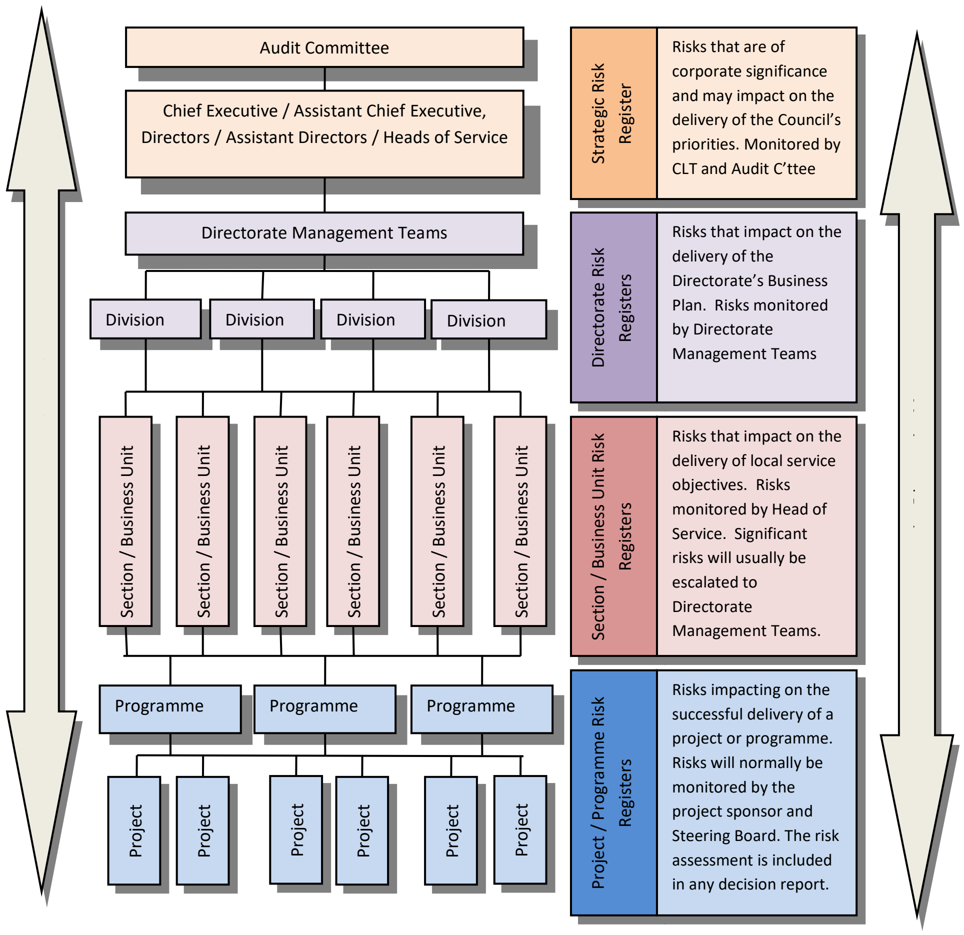
3.35. The Overview & Scrutiny Committees cover all Cabinet Member portfolios and the Districts collectively. All Executive decisions can be called in for Scrutiny to ensure that they are soundly based and consistent with Council policy.

3.36. The Council has a procedure for handling complaints, compliments, and comments that monitors formal contact with members of the public. Such enquiries are actively tracked through the process and independently reviewed and where appropriate, actions taken to improve service delivery.

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

Cabinet Members are required to include governance information relating to: Council policy, internal and external consultation, financial and legal implications and Public Sector Equalities Duty. All reports are required to be cleared by senior finance and legal officers.

3.38. Risk management continues to be embedded within the Council. The schematic diagram below illustrates how risk was managed during 2019/20:



3.39. The Risk Management Framework is available on the Council's website, and advice and support are provided on request. Updated information regarding the management of the risks within the Council's Strategic Risk Register continues to be reported to the Audit Committee three times per year. CLT identifies new risks to the Council, and the draft Strategic Risk Register update is reported to it monthly. CLT challenge the updated information provided and recommend re-wording or deletion of risks as appropriate. In addition, business plans at directorate and divisional level include key risks.

3.40. 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.

Progressive Assurance Model

3.41. The Kerslake Review of the Council's governance arrangements took place in 2014. Following this review the Birmingham Independent Improvement Panel was set up in 2015 to provide external challenge and support to the Council to effect the improvements recommended in the Kerslake report. The Panel provided challenge and support to the Council for four years and stood down at the end of March 2019.

3.42. In March 2019 Cabinet considered the stock-take report of the Council's improvement journey and also endorsed an outline plan of improvement areas for 2019-20 whilst also agreeing to report, voluntarily, to the Secretary of State in autumn 2019 and spring 2020.

3.43. Cabinet endorsed the adoption of an innovative new model of "progressive assurance." This model entailed the formation of a quarterly Strategic Programme Board (SPB) and the engagement of specialist Non-Executive Advisors (aligned to specific risk and professional areas of focus) to support the Council Management Team for twelve months from July 2019 to July 2020. It builds on analysis of assurance and improvement models across a range of different sectors and seeks to embed an innovative and novel model with wider applicability and learning for Local Government.

3.44. Membership of the SPB includes all members of the Council Management Team, external advisors (Non-Executive Advisors) in the priority areas and an external advisor of a peer local government Chief Executive.

3.45. The Non-Executive Advisors, in addition to sitting on the SPB, will also offer challenge and support outside the board meetings.

3.46. The model will be supported by the Council's Programme Management Office in support of lead Directors, with programme documentation and draft reports to the Secretary of State reviewed and endorsed by the SPB prior to submission.

External Audit

3.47. In March 2019 the external auditor considered it appropriate to issue further Section 24 recommendations in relation to Governance and the Waste Service and to Financial Management. The Council responded to the recommendations at a meeting of Full Council on 2nd April 2019.

3.48. In September 2019, the external auditor issued the Audit Findings Report (AFR) on conclusion of the audit of the 2018/19 financial statements. The AFR included no Statutory 24 recommendations and reduced the number of recommendations on value for money from six to one in respect of the governance of waste, with the conclusion that the issues on other areas had been sufficiently mitigated.

Member Development

3.49. The Member's Development Strategy 2018-2022 aims to provide a member development programme that will ensure all councillors have the opportunity to gain the knowledge and skills to fulfil their role as 21st Century Councillors; make a positive difference every day to the people of Birmingham; provide strategic leadership; working together with officers in the transformation and delivery of Council services.

Councillors are at the heart of the Council and the organisation as a whole will support the member development strategy. It will be overseen by CLT and the Member Development Steering Group; coordinated through the Members' Development Team, consisting of officers from Legal and Governance. This collaborative approach will ensure ownership of the strategy by the Council as a whole.

3.50. In addition to the Members' Development Programme, all Councillors have access to e-learning through the Members' portal on People Solutions and are regularly kept up to date on training and development via the City Councillor bulletin circulated by email. This gives details of legislation, training opportunities and other issues of importance to Members.

3.51. Regular monthly "market places" and briefing sessions are held to keep Councillors updated on Council services or services provided by partner organisations. The Members' Development Programme 2019/20 was delivered around:

- Role Specific Training, ensuring members have the knowledge and understanding of legal and governance requirements to carry out role on regulatory and scrutiny committees;

- On-going Member Development, to provide on-going development opportunities for members related to current and potential future roles and responsibilities.

Workforce

3.52. Having a flexible, skilled and mobile workforce is critical to the Council responding effectively to increasing demands placed on front line services and support functions and to the delivery of a long-term sustainable organisation. Financial reductions facing the Council are impacting significantly on its ability to recruit and retain the talent needed to ensure workforce capacity.

3.53. During 2019/20, the 'My Appraisal' review process continued, enabling a consistent means of assessing and rewarding performance. 'My Appraisal' is specifically designed to ensure that employees are supported to implement the Council's core values:

- We put citizens first
- We are true to our word
- We act courageously
- We achieve excellence

Engagement with the community and other stakeholders

3.54. 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 Plan and Budget 2019 to 2023 consultation process included public meetings led by the Council's Leader and Cabinet, an online Be Heard survey, an online communications campaign including webpages, news feeds, Facebook and Twitter, consultation via post and email, and consultation with the business community and the Chamber of Commerce.

3.55. 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.

3.56. Clear channels of communication are in place with service users, citizens and stakeholders. The Council holds meetings in public wherever possible and many formal meetings are also webcast. Directorates have extensive programmes of consultation and engagement activity for specific services.

4 Review of effectiveness

4.1. The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the CLT which has responsibility for the development and maintenance of the governance environment, Birmingham Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

4.2. The Council continues to assess how its overall corporate governance responsibilities are discharged. In particular, the Council has adopted the *'Delivering Good Governance in Local Government: Framework'* (2016 CIPFA/Solace) and continues to learn from experiences and makes necessary changes to improve its local code of governance.

4.3. The Council has a well-developed methodology for annual governance review which is reviewed and updated each year. The process requires each Directorate and significant areas of service delivery / business units within a Directorate to produce an Assurance Statement highlighting significant governance issues, and details of what action(s) are being taken to mitigate any risks.

4.4. The Council's review of the effectiveness of the system of internal control is informed by:

- Directorate assurance based on management information, performance information, officer assurance statements and Scrutiny reports;
- The work undertaken by Birmingham Audit during the year;
- The work undertaken by the external auditor reported in their annual audit letter and statutory recommendations; and
- Other work undertaken by independent inspection bodies.

4.5. **Business as usual activities were disrupted by the need for social distancing and self-isolation as a result of the Covid-19 pandemic. The Council operated a cell structure led by Strategic Cell (Gold Command) and supported by Tactical Cell. The Council's website was updated with information around access to its services as the pandemic emergency was escalated.**

New areas of activity as part of the national response to Covid-19 included food deliveries to shielded residents, distribution of small business grants and the Retail, Hospitality and Leisure Fund, vouchers for families in receipt of free school meals and distribution of personal protective equipment to care settings.

The funding and logistical consequences of delivering the local government response have been closely monitored. Assessment of the longer-term disruption and consequences arising from the coronavirus pandemic is an on-going process.

4.6. The arrangements for the provision of internal audit are contained within the Council's Financial Regulations which are included within the Constitution. The Chief Finance Officer is responsible for ensuring that there is an adequate and effective system of internal audit of the Council's accounting and other systems of internal control as required by the Accounts and Audit Regulations 2015. The internal audit provision operates in accordance with the Public Sector Internal Audit Standards.

4.7. As in previous years the Birmingham Audit plan was compiled on the basis of 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.

4.8. The resulting work plan is discussed and agreed with the Directors and Audit Committee and shared with the Council's external auditor. Birmingham Audit reports include an assessment of the adequacy of internal control and prioritised action plans to address any identified weaknesses and include a risk rating for the Council and the Service Area. These are submitted to Members, Corporate Directors and service managers as appropriate.

4.9. From the work undertaken by Birmingham Audit during 2019/20 and the outcomes from applying the model for formulating the end of year opinion the following assurance was able to be given: *"Based on the audit work undertaken I am able to provide a reasonable assurance for the core systems of internal controls evaluated. As in any large organisation, our work did identify some significant issues that required action.* 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 its Annual Accounts. All significant issues identified were reported to the appropriate Director during the year.

4.10. 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 2019/20'** below.

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

4.12. The Council's Overview and Scrutiny Committees received reports on key control issues throughout 2019/20 including the launch of the Birmingham Safeguarding Children's Partnership, the impact of Brexit on the City and the Commonwealth Games.

4.13. The Vision and Priorities Council Plan and organisational health targets were monitored through the Council Plan Measures by CLT, the Deputy Leader and Cabinet. Directorate and Business Unit business plans contain a variety of performance indicators and targets, which are regularly reviewed.

4.14. The Monitoring Officer advises that there were 73 concerns raised and considered under the Council's Whistleblowing & Serious Misconduct policy in the 2019/20 financial year.

5 Review of 2018/19 governance issues

5.1. The significant 2018/19 governance issues were considered by Audit Committee in June 2019, agreed as part of the Statement of Accounts in July 2019 and reviewed as part of the Corporate Risk Register updates in the 2019/20 financial year. In addition, this Committee received reports relating to Final Accounts, Fraud, Contract Monitoring (Early Years) and the Local Government Ombudsman Annual Review.

5.2. Schools, Children and Families O&S Scrutiny Committee received reports on the Annual review of the Children's Trust. This O&S Committee also considered issues such as Safeguarding in Education and Travel Assist.

5.3. Housing and Neighbourhoods O&S Committee reviewed progress of the Homelessness Prevention Strategy and the Commonwealth Games Village.

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

5.5. The Council worked closely with the non-Executive Advisors.

6 Significant governance issues 2019/20

6.1. The matters shown in this section have either been identified as having a significant or high likelihood in the Strategic Risk Register or have been highlighted as corporate issues in the annual assurance process. The Council actively addresses these matters and identifies areas where further improvements need to be made. In particular:

Issue No	Governance Issue	Mitigation Action / Proposed Action
1	**Covid-19 Pandemic** The Council declared a major emergency and the emergency plan was put into full effect. As of w/c 23 March, the council was operating under its Emergency Plan, with decisions being made on a 'command and control' basis. The pandemic poses unprecedented public health and operational challenges across many council services.	Strategic Cell (Gold Command) is supported by Tactical Cell and a number of thematic cells to manage the Council's emergency response. New legislation enabled democratic decision-making to resume remotely, with meetings web cast on a priority basis. City Council received a 68 page report detailing the initial response across services and scenario planning for recovery.

Issue No	Governance Issue	Mitigation Action / Proposed Action
2	**Financial Resilience** The Council faces continued pressure in its use of 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 impact of Covid-19 on our financial resilience is also of concern Given the Council is in the tenth year of budget constraints 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 savings. These include further assurances on the deliverability and impacts of proposals and a commitment from Cabinet to future budgeting. 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. We have now introduced monthly exception reporting to focus on significant pressures, key risks and emerging issues and to drive actions around these. This will enhance Star Chamber discussions with portfolio holders and improve overall scrutiny of financial issues. PWC has been commissioned to conduct an early review of the capital programme and improve the robustness of financial governance of major projects. The Council is engaged in ongoing discussions with the government around further funding support and additional freedoms and flexibilities that the government could provide to support the rectification of the budget gap caused by Covid-19.
3	**Major Projects and Partnership Working** The Council is involved in a range of major projects which include partnership working arrangements and sometimes complex legal agreements for example: • Working with neighbouring authorities in the West Midlands Combined Authority • Strengthening partnership working as Birmingham works	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. 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
	towards hosting the Commonwealth Games 2022. • Working with private sector partners on major developments in the City such as Paradise and Smithfield. • Birmingham Children's Trust. • Sustainability Transformation Programme	Children's Services moved to a Trust arrangement from April 2018. A clearly defined relationship between the Trust and the Council has been established based on service contracts. The contracts will be monitored throughout the year. Any transfer, commissioning or outsourcing of services is subject to the development and Cabinet approval of robust business cases and shadow working arrangements.
4	**Homelessness and Safety Implications for Tower Blocks** The implementation of the Homelessness Reduction Act from 1 April 2018 has seen an increase in households approaching the homelessness service. Impact of Grenfell Tower and subsequent implications for improving safety in tower blocks.	We have refurbished and opened two buildings for the use of temporary accommodation. Reduced B&B from a peak of 690 in May 2018 to 419 in December 2019. Work is underway with the repairs contractors to meet a new temporary accommodation specification to deliver 380 units. A Fire Safety Steering Group has been set up to lead on and coordinate BCC's response to the building a Safer Future report and the Grenfell Tower Inquiry Phase 1 Report. The project plan continues to be delivered through the fire safety steering group. Housing Management are leading on the strategy for engagement with tenants and developing a wider engagement strategy, picking up on the Dame Judith Hackitt recommendations in this regard.
5	**Asset Condition and Sufficiency** Many operational assets are in very poor condition following years of budget restrictions and lack of investment. There is an aging schools' estate with some assets that are beyond repair.	The Council approved a Property Strategy 2018/19 – 2023/24 to better join up decision making, realignment of assets and enable strategic development. Capital funding to meet basic need requirements is being effectively managed

Issue No	Governance Issue	Mitigation Action / Proposed Action
	The demand for secondary school places is beginning a period of sustained growth, requiring a large number of additional places to meet our statutory duty for sufficiency.	through our strategy to make best use of existing space.
6	**Commonwealth Games** Hosting the Commonwealth Games in 2022 brings with it significant delivery expectations (in terms of capital project management and delivery of legacy benefits) for the Council as well as significant financial commitments.	The Council is alive to the delivery, financial and reputational risks associated with the Games and has active risk management and programme management arrangements in place to ensure prompt and timely resolution of issues. The Council is working closely with strategic and regional partners.
7	**Commissioning and Contract Management** Intelligent Client Functions are not robust enough, leading to a number of contracts underperforming or developing risks to service provision.	Early identification of issues or problems, ensuring the contracts and output specifications are delivered to required standards and deliver continuous improvement – tailored to each contract as necessary. On-going identification of mitigating actions to reduce the level of risk.
8	**Birmingham SEND Inspection – Inadequate provision and Written Statement of Action required** Joint CQC and Ofsted inspection of Birmingham SEND provision raised significant concerns requiring the CCG and Council to provide a joint response in the form of a Written Statement of Action. This, in conjunction with the implementation of the SEND two-year improvement programme is making the necessary and important improvements for the current local offer for children and young people addressing the issues raised in the OFSTED and CQC inspection.	Monthly board meetings for inclusion take place with the CCG. Trust and the education and skills directorate, alongside quarterly review meetings with the DfE is closely monitoring progress and ensuring the authority is on track to make the expected progress and deliver the important improvement agenda.

6.2. These matters are monitored through the Strategic Risk Register, CLT and Directorate Service and operational plans as required. During the year the Audit Committee monitors progress against the issues identified in this statement.

6.3. We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed ………………………………	Signed …………………………
Councillor Ian Ward	Chris Naylor
Leader of the Council	Interim Chief Executive

Item 7

BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to:	**AUDIT COMMITTEE**
Report of:	**Interim Chief Finance Officer**
Date of Decision:	**25 November 2020**
Subject:	**STATEMENT OF ACCOUNTS 2019/20**
Wards affected: All	

1 Purpose

1.1 This report presents

- The 2019/20 Statement of Accounts;
- Grant Thornton's Audit Findings Report, which summarises the significant outcomes, conclusions and recommendations on the financial statements from their work on external audit for 2019/20;
- The Letter of Representation from the Interim Chief Finance Officer

1.2 Members are asked to approve the Statement of Accounts for 2019/20 subject to external audit clearance of any outstanding issues.

2 Decisions recommended:

2.1 Audit Committee is recommended to:

- Note the Audit Findings Report from Grant Thornton and accept the recommendations of that report;
- Approve the Letter of Representation from the Interim Chief Finance Officer;
- Approve the Statement of Accounts for 2019/20 subject to external audit clearance of any outstanding issues.

Contact Officer: Rebecca Hellard
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E-mail address: Rebecca.Hellard@birmingham.gov.uk

Contact Officer: Martin Stevens
Telephone No: 0121 303 4667
E-mail address: martin.stevens@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 Chair 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 2019/20, which is based on International Financial Reporting Standards (IFRS).

Section 151 of the Local Government Act 1972 requires the Chief Finance Officer (as responsible officer) to ensure the proper administration of the Council’s financial affairs.

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.

4 Relevant background/chronology of key events:

4.1 The draft Statement of Accounts was signed by the Interim Chief Finance Officer on 28 August 2020 and passed to the external auditors to enable them to undertake their audit work. With the current restrictions in place, Grant Thornton have undertaken their work remotely with contact generally through Teams and email.

4.2 The timetable for financial reporting was extended for the 2019/20 financial year; the deadline for producing the draft financial statements was moved to 30 August and the publication of the audited financial statements deadline was moved to 30 November.

4.3 The Financial Reporting Council requires that external auditors satisfy themselves that, in signing off financial statements, they provide safe opinions and satisfy themselves that, where there are estimates within the statements, figures used are reliable. For 2019/20, this has meant a continued focus on areas of high value and where there is an element of estimation. This has meant that there has been considerable focus on the valuations of non-current assets and of the net pension liability. There has also been considerable focus on cut-off testing to ensure that, within the levels of materiality, activity has been recorded in the correct financial year.

4.4 During the audit, the external auditors have identified areas where changes to the financial statements have needed to be made in respect of entries within the accounts or around disclosures. Details of the adjustments are set out in section 5 of this report and are included in Appendix C to the Audit Findings Report (AFR).

4.5 The AFR includes an action plan with a number of recommended actions which the Council needs to consider and address in the coming year. The AFR is attached as Appendix 1 and the recommendations are included in Appendix A of that report. The Council is required to respond formally to these recommendations and these will be the subject of a report to the next meeting of this Committee and followed up with further reports on the progress made in the implementation of management actions.

4.6 The Annual Governance Statement has been updated to reflect a small number of changes relating to Covid-19.

4.7 A Letter of Representation is required to be sent to the external auditor by the Interim Chief Finance Officer, in her role as Section 151 Officer. This advises the auditor of any material matters which have occurred since the draft Statement of Accounts was signed and which might impact on the accounts and the audit. The letter is attached as Appendix 2.

5 Audit Adjustments

5.1 There have been a small number of adjustments and disclosure changes to the accounts and the material adjustments are set out below.

a) Non-current asset valuations
There have been two errors identified in the production of the draft financial statements that have been amended. The errors related to:

- An incorrect valuation being entered in the calculation of 1 bed maisonettes within the HRA which led to an overstatement in the Council Dwellings valuation
- An incorrect value being entered in respect of Other Land & Buildings which led to an understatement in valuation

These adjustments have had no impact on the Council’s level of usable reserves.

b) Financial Outturn
At its meeting on 10 November 2020, Cabinet agreed to amend the revenue outturn for 2019/20 through the replacement of £8.7m of Direct Revenue Financing of Capital by increasing the Council’s Capital Financing Requirement, thereby increasing the level of usable reserves

available to the Council to provide additional resilience against the financial consequences of the actions taken to mitigate the impact of Covid-19.

5.2 There were also a number of minor amendments to the disclosures in the financial statements.

Signature:

…………………………………………………………………...
Rebecca Hellard, Interim Chief Finance Officer

Attachments:
Appendix 1: Audit Findings Report – Public
Appendix 2: Audit Findings Report - Private
Appendix 3: Letter of Representation to the External Auditor
Appendix 4: Annual Statement of Accounts

Grant Thornton

The Audit Findings for Birmingham City Council

Year ended 31 March 2020

November 2020

Contents

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Headlines

This table summarises the key findings and other matters arising from the statutory audit of Birmingham City Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2020 for those charged with governance.

Covid-19

The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the group and Council.

The Council have been significantly impacted by Covid-19, with front-line challenges, administration of significant volumes of grants to businesses, closure of schools and car parks, and the additional challenges of reopening services under new government guidelines.

The impact on the core finance team has been more limited with minimal changes to staff sickness rates. While arrangements for remote working were already in place, the wholesale move to home working has been a significant change for staff.

Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020.

We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an Audit Plan Addendum on 24 April 2020. In that addendum we reported an additional financial statement risk in respect of Covid-19 and highlighted the impact on our VfM approach. Further detail is set out on page 6.

Restrictions for non-essential travel have meant both Council and audit staff have had to work remotely throughout the audit visit, utilising screen-sharing software in order to gain sufficient assurance over the data being provided to the audit team. In addition, alternative procedures (such as the use of photographic evidence for physical verification of assets) have been used where necessary.

We have been in regular communication with key members of the finance team throughout the period of the pandemic, in order to ensure that the audit process remained as smooth as possible in these new circumstances.

The Council provided draft financial statements for audit on 28 August 2020, within the extended deadline and our audit work commenced in earnest from the beginning of September.

Financial Statements

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

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

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

Our audit work was completed remotely during July to November 2020. Our findings are summarised on pages 5 to 19. We have identified 3 adjustments to the financial statements that have resulted in a £20.8m adjustment to the Council's Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion or material changes to the financial statements, subject to the outstanding matters detailed on page 6;

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

Our anticipated financial statements audit opinion will be unqualified, but will include paragraphs highlighting the uncertainties that the Council has disclosed in Note 3 to the financial statements in relation to property valuations and the valuation of the property and infrastructure assets included within the net pension liability, as well as the uncertainties that the Council has disclosed in Note 34 in relation to the volume and timing of any future equal pay claims and the determination of any settlements.

Headlines

Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').	We have completed our risk based review of the Council's value for money arrangements. We have concluded that Birmingham City Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources, except for in relation to the specific weaknesses detailed in pages 20 to 38. We have updated our VfM risk assessment, and documented our understanding of your arrangements to ensure critical business continuity in the current environment. We have not identified any new VfM risks in relation to Covid-19. We therefore anticipate issuing a qualified 'except for' value for money conclusion.
Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • To certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties. We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion, subject to the completion of the work required on the Council's Whole of Government Accounts return.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times.

Audit approach

Overview of the scope of our audit

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

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

Audit approach

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

- An evaluation of the group's and Council's internal controls environment, including its IT systems and controls.
- An evaluation of the components of the group based on a measure of materiality and considering each as a percentage of the group's gross revenue expenditure to assess the significance of the component. This assessment was then used to determine the planned audit response. From this evaluation we determined that specified audit procedures were required for the following balances:
  - Net Pension Liability and Operating Expenditure of Birmingham Children's Trust, with work performed by Crowe UK LLP, as component auditor; and
  - Material transactions and balances within group entities other than the Authority and Birmingham Children's Trust, with procedures completed by the audit team.

  For other non-significant components included in the group financial statements, which make up the remainder of the group's income, expenditure and net assets, analytical procedures were performed to gain assurances for our audit.
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

We have had to alter our audit plan, as communicated to you on 24 April 2020, to reflect our response to the Covid-19 pandemic. In this Addendum, we detailed additional significant risks in relation to Covid-19 for the financial statements.

Our approach to materiality

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

We have revised our materiality levels from those reported in our Audit Plan to reflect the decrease in the Council's and group's gross expenditure on the provision of services for the 2019/20 year in the published draft financial statements.

Thresholds per our Audit Plan	Group Amount	Council Amount
Materiality for the financial statements	£37,000k	£36,950k
Performance materiality	£25,900k	£25,865k
Trivial matters	£1,800k	£1,800k

Revised thresholds based on draft accounts	Group Amount	Council Amount
Materiality for the financial statements	£34,400k	£34,350k
Performance materiality	£24,080k	£24,045k
Trivial matters	£1,700k	£1,700k

Audit approach

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 25 November 2020.

These outstanding items include:

- finalisation of sample testing in relation to the following areas:
  - capital additions;
  - operating expenditure;
  - completeness of both income and expenditure;
  - debtors and creditors;
  - journals highlighted as unusual through our risk-based review process;
- completion of detailed testing in relation to property valuations;
- confirmation of the existence of a sample of property, plant and equipment assets;
- receipt of outstanding confirmations for the Council's investment and borrowing balances;
- finalisation of our work in relation to the Council's PFI disclosures;
- review of the Council's accounting treatment for guarantees;
- completion of work on material items within the group, and review of the group consolidation schedules;
- agreement of disclosure-only elements of the financial statements;
- receipt and review of the assurance report provided by the auditor of the West Midlands Pension Fund;
- completion of final quality reviews by senior members of the audit team;
- receipt of management representation letter; and
- review of the final set of financial statements.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Covid-19 The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expected current circumstances would have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to: • Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation; • Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates; • Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and • Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have: • worked with management to understand the implications the response to the Covid-19 pandemic has had on the organisation's ability to prepare the financial statements and update financial forecasts, and assessed the implications for our materiality calculations; • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arose; • evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic; • evaluated whether sufficient audit evidence could be obtained through remote technology; • evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as asset valuations and pension fund liability valuations; and • evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment. The Council's valuer has prepared many of their valuations as at 31 March 2020. In their report, they have confirmed that the Covid-19 pandemic has created an element of uncertainty in determining valuations of non-current assets. As market activity is being impacted in many sectors, less weight can be given to market evidence for comparison purposes to inform opinions of value. The valuers' reports are on the basis of 'material uncertainty' in line with the RICS Valuation – Global Standards, effective from 31 January 2020. This does not mean that the valuations cannot be relied upon, merely that there is less certainty, and therefore a higher degree of caution attached to the valuations, than would normally occur. The Council has reflected this uncertainty in Note 4 to the financial statements. The Council has also included disclosures in Note 4 in relation to their pensions assets. As a result of the impact of Covid-19 on the global financial markets, the valuation of the Pension Fund's investment properties are also reported on the basis of material valuation uncertainty. The Council's share of these assets is £358.2m. We will refer to these material valuation uncertainties in our audit report. During our testing of a sample of the Council's expenditure transactions, we have selected several items relating to the Council's use of purchase cards. Due to the pandemic, the Council have been unable to access the supporting documentation for these transactions, which is kept in their offices. We have determined that the total value of similar transactions during the 2019/20 year was £11.5m, and so we do not consider that this gives rise to a risk of material misstatement in the financial statements. For the purposes of our audit, we have included this balance as an unadjusted error in Appendix C, as the Council cannot provide evidence to support these transactions. Our work to address the points above is substantially complete, and we have not identified any other issues or concerns to report.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Improper revenue recognition Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • There is little incentive to manipulate revenue recognition. • Opportunities to manipulate revenue recognition are very limited. • The culture and ethical frameworks of local authorities, including the Council and Fund, mean that all forms of fraud are seen as unacceptable. **Therefore we do not consider this to be a significant risk for Birmingham City Council.** We have however: • evaluated the Council's accounting policy for recognition of revenues for appropriateness; • performed substantive testing on material revenue streams; and • reviewed unusual significant transactions. Our audit work to date has not identified any issues in respect of improper revenue recognition, although we are currently in the process of finalising our detailed testing of sampled revenue transactions.
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have: • evaluated the design effectiveness of management controls over journals; • analysed the journals listing and determined the criteria for selecting high risk unusual journals; • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gained an understanding of the accounting estimates and critical judgements applied and made by management and considered their reasonableness with regard to corroborative evidence; • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions; and • reviewed and tested consolidation adjustments and intra-group elimination entries. At the time of writing this report, detailed testing of individual journals identified as being unusual is ongoing. Our audit work to date has not identified any issues in respect of management override of controls.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Valuation of land and buildings The Council revalues its land and buildings, including council housing, on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£4.8 billion at 31 March 2019) and the sensitivity of this estimate to changes in key assumptions Additionally, where a rolling programme is used, management will need to ensure the carrying value in the Council and group financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date. We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.	We have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work; • evaluated the competence, capabilities and objectivity of the valuation experts; • written to the valuer to confirm the basis on which the valuations were carried out, and challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding; • engaged our own valuer to assess the instructions issued by the Council to their valuers, the scope of the Council's valuers' work, the Council's valuers' reports and the assumptions that underpin the valuations; • tested, on a sample basis, revaluations of the Council's operational properties and HRA properties during the year to ensure they have been input correctly into the Council's asset register and financial statements; • evaluated the assumptions made by management for any assets not revalued at 31 March 2020, including those in the HRA, and how management has satisfied themselves that the carrying value of these assets in the balance sheet is not materially different to their current value at year end. Our audit work is ongoing at the time of writing this report, but thus far we have identified errors in the valuation of the Council's property, plant and equipment, as follows: – An error within the Council's valuation process for HRA Dwellings led to a beacon property which had been correctly valued as a 3 bed maisonette being incorrectly incorporated into the workings as a 1 bed maisonette. Correcting this error confirmed that the HRA Dwellings valuation was overstated by £23.2m; – Tyseley Energy Recovery Facility, within other land and buildings, was understated by £2.4m due to a transcription error between the valuation report and the fixed asset register; We note that the financial statements contain a prior period adjustment. The Council disposed of two assets in 2017/18, but did not derecognise these in the accounts. This issue was identified by officers during the 2019/20 financial year, and processed retrospectively. In our view, as the transaction was not material, the disposal should have been transacted within the 2019/20 year, and not as a prior period adjustment. For further detail in respect of these issues, and the adjustments made to the financial statements, see Appendix C. The Council's valuer has confirmed in their report that the Covid-19 pandemic has created an element of uncertainty in determining valuations of non-current assets. As market activity is being impacted in many sectors, less weight can be given to market evidence for comparison purposes to inform opinions of value. The valuers' reports are on the basis of 'material uncertainty' in line with the RICS Valuation – Global Standards, effective from 31 January 2020. The Council have reflected this uncertainty in Note 4 to the financial statements, and we will refer to these material valuation uncertainties in our audit report.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Valuation of pension fund net liability The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements and group accounts. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£2.6 billion in the Council's balance sheet at 31 March 2019) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.	We have: • updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluated the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; • assessed the accuracy and completeness of the information provided to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary, including consideration of the experience loss recognised in-year following the triennial valuation at 31 March 2019; • undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • obtained assurances from the auditor of the West Midlands Local Government Pension Fund as to the controls surrounding the validity and accuracy of membership data, contributions data and benefits data sent to the actuary by the pension fund, and the fund assets valuation in the pension fund financial statements. This assurance included the approach taken to the triennial valuation at 31 March 2019. During our work to assess the accuracy and completeness of the information provided to the actuary, we identified that the data initially submitted for April 2019 did not agree to payroll records. This was later corrected by the Council in a subsequent data submission to the actuary. During our work to confirm the consistency of disclosures in the notes to the actuarial report, it was identified that the pensions reserve note had omitted the unfunded teachers pension scheme benefits of £4.8m and contributions of £4.8m. This has no impact on the financial statements outside of this disclosure note. As a result of the impact of Covid-19 on the global financial markets, the valuation of the Pension Fund's investment properties are also reported on the basis of material valuation uncertainty. The Council's share of these assets is £358.2m. The Council have reflected this uncertainty in Note 4 to the financial statements. We will refer to this material valuation uncertainty in our audit report. Our audit work has not identified any other issues in respect of the valuation of the Council's pension fund net liability, however, at the time of writing this report, we have not yet received or considered the assurance report of the auditor of the West Midlands Pension Fund.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Valuation and completeness of equal pay liability Under ISA 540 (Auditing Accounting Estimates, including Fair Value Accounting Estimates and Related Disclosures) the auditor is required to make a judgement as to whether any accounting estimate with a high degree of estimation uncertainty gives rise to a significant risk. We identified the valuation and completeness of the Council's equal pay provision as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.	We have: • updated our understanding of the processes and controls put in place over the estimation of the equal pay liability, and evaluated the design of the controls in place; • evaluated the assumptions on which the estimate was based; • considered whether events or conditions exist that could have changed the basis of estimation; • on a sample basis, reperformed the calculation of the estimate; • assessed the accuracy and completeness of the information used to estimate the liability; • confirmed that the estimate has been determined and recognised in accordance with accounting standards; • determined how management have assessed the estimation uncertainty; and • considered the impact of any subsequent transactions or events. During our work we identified that the draft financial statements disclosed the net movement of the provision reversed unused of £7.0m and the additional provision made of £5.0m, rather than identifying these movements separately. This has been amended and has no impact on the provision value as at 31 March 2020. The Council has disclosed uncertainties in Note 33 in relation to the completeness of the equal pay provision. As in previous years, we will refer to this uncertainty in our audit report. Our audit work has not identified any other issues in respect of the valuation of the Council's equal pay liability.

Group audit

Risks identified in our Audit Plan	Auditor commentary
Along with full audit procedures on the Council's financial statements, we are required to complete specific procedures on transactions and balances within the financial statements of other bodies in the group, where those transactions and balances are material to the group's financial statements. We have not identified any significant risks in the group accounts that do not relate solely to the financial statements of the Council.	After preparation of the financial statements, the finance team identified that they had treated VAT amounts incorrectly within the intra-group adjustments in the consolidation process. The accounts have been amended for this, resulting in a reduction in group debtors and creditors of £3.8m, a reduction in group income and expenditure of £37.0m (the net impact of this was £nil), and a corresponding adjustment to the MIRS. For further detail see Appendix C. As set out in our audit plan, we have performed specified procedures on the following transactions and balances: • Expenditure and the Net Pension Liability of Birmingham Children's Trust CIC. We requested that specific audit procedures be completed by Crowe UK LLP, as component auditor. We have reviewed their findings and relevant audit documentation. No significant issues were noted. • Loan stock held by National Exhibition Centre (Developments) Plc. This work was completed by the audit team, with no issues noted. Upon receipt of the draft financial statements, we confirmed that audit procedures were not required on any specific balances in Acivico Limited's financial statements. For group entities other than Birmingham Children's Trust CIC and National Exhibition Centre (Developments) Plc, analytical procedures have been completed at a group level to give us the assurance required for our opinion on the group financial statements. Our work on the group accounts is ongoing, but we have not identified any other issues at the time of writing this report.

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Land and Buildings Council Housing Draft: £2,481.3m Final: £2,458.1m (TBC)	The Council owns 60,106 dwellings and is required to revalue these properties in accordance with DCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. The Council has engaged their internal valuer to complete the valuation of these properties, with all valuations being reviewed by Avison Young in order to ensure that the methodology used was reasonable. The year end valuation of Council Housing in the draft financial statements was £2,481.3m, a net increase of £36.3m from 2018/19 (£2,445.0m). Previously, the Council has instructed its valuer to provide valuations as at 1 April each year, and management have then considered the potential change over the course of the year to determine whether there has been a material change in the total value of these properties. For 2019/20, the Council changed this approach and instructed the valuer to provide valuations as at 10 January 2020, and has confirmed that these were materially accurate as at 31 March 2020. In line with RICS guidance, the Council's valuer has disclosed a material uncertainty in the valuation of the Council's land and buildings at 31 March 2020 as a result of Covid-19. The Council has included disclosures on this issue in Note 4.	• The assets have been valued on EUV-SH basis with a regional adjustment factor of 40%. This is in line with DCLG (now known as MHCLG) guidance. • The Council Dwellings have been grouped into archetypes which forms the basis of the beacon valuation method. The 28 Archetypes were determined by Savills. Two new Archetypes have been subsequently added in 2010/11 for the Birmingham Municipal Housing Trust (BMHT). • The Council has applied an archetype-specific adjustment to valuations in order to account for the number of bedrooms; • There have been no other changes to the valuation method this year. • We have considered the completeness and accuracy of the underlying information used to determine the estimate with no issues noted. • We have no concerns over the competence, capabilities and objectivity of the valuation expert used by the Council. Our consideration is supported by the use of an auditor's expert to review key documentation surrounding the valuation process. • We have considered the indices that the valuer has used in performing the valuation and have noted that the actual indices for February and March 2020 were significantly different to those assumed by the valuer in performing the valuation (extrapolated based on data from earlier in the year). Our work in this area is ongoing, we are actively engaging with the Council's valuer on these matters. • We are satisfied that the Council's judgement and estimation in relation to the valuation is adequate and is consistent with the requirements of the CIPFA Code and IAS 16. • Disclosure of the estimate in the financial statements is considered adequate. We will refer to the uncertainties disclosed in Note 4 in our audit report.	(TBC)

Assessment

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

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Other Land and Buildings and Surplus Assets Draft: £2,482.3m Final: £2,484.7m (TBC)	Other land and buildings comprises £1,294.5m of specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings and surplus assets (£1,187.8m) are not specialised in nature and are required to be valued at existing use value (EUV) (or Fair Value for surplus assets) at year end. The Council has engaged its internal valuer to complete the valuation of properties as at 1 April on a five yearly cyclical basis. 25% of total assets (by value) were revalued during 2019/20. Management have considered the year end value of non-valued properties, and the potential change in assets valued prior to 31 March 2020. Where significant changes may be expected, specific valuations have been completed on these assets at 31 March 2020. Management's assessment identified no material change to the properties' values. The total year end valuation of other land and buildings and surplus assets in the draft financial statements was £2,482.3m, a net decrease of £46.9m from 2018/19 (£2,529.2m). In line with RICS guidance, the Council's valuer disclosed a material uncertainty in the valuation of the Council's land and buildings at 31 March 2020 as a result of Covid-19. The Council has included disclosure of this in Note 4.	• For those buildings valued on a DRC valuation basis, both those last formally valued in a previous financial year and those valued at 1 April 2019, are uplifted by the BCIS indices to reflect changes in build costs to 31 March 2020. The valuation uplift has been agreed to indices provided by the Royal Institution of Chartered Surveyors (RICS). • Other land and buildings are valued at 1 April 2019 and have been assessed to be not materially different to the current value at 31 March 2020. This has been reviewed in line with market data and we are satisfied this is reasonable. • We have considered the movements in the valuations of individual assets and their consistency with indices provided by Gerald Eve as our auditor's expert. At the time of writing this report, we are still discussing the appropriateness of the indices used by the Council's valuer with the valuer. • We have no concerns over the competence, capabilities and objectivity of the valuation expert used by the Council. Our consideration is supported by the use of an auditor's expert to review key documentation surrounding the valuation process. • There have been no changes to the valuation method this year. • We have considered the completeness and accuracy of the underlying information used to determine the estimate with no issues noted. • We are satisfied that the Council's judgement and estimation in relation to the valuation is adequate and is consistent with the requirements of the CIPFA Code and IAS 16. • Disclosure of the estimate in the financial statements is considered adequate. We will refer to the uncertainties disclosed in Note 4 in our audit report.	● (green) (TBC)

Assessment
- ● (red) We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● (amber) We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● (yellow) We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● (green) We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Audit Comments	Assessment
Net pension liability Draft: £2,591.3m Final: £2,591.3m	Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £444.2m net actuarial gain during 2019/20. The Council's net pension liability at 31 March 2020 is £2,591.3m (PY £2,552.0m) comprising obligations under the West Midlands Pension Fund Local Government pension scheme. The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from these schemes. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. HM Treasury have undertaken a consultation following the legal ruling around age discrimination (McCloud) in the previous year. This consultation ran to 11 October 2020, and provides an indication of possible remedy. The Council have not amended their financial statements for the impact of this remedy, as a number of uncertainties remain. During the audit, the Council has added disclosures in Note 4 that as a result of the impact of Covid-19 on the global financial markets, the valuation of the Pension Fund's investment properties are reported on the basis of material valuation uncertainty. The Council's share of these assets is £358.2m.	• We have no concerns over the competence, capabilities and objectivity of the actuary used by the Council. • We have used the work of PwC, as auditor's expert, to assess the actuary and assumptions made by the actuary. See below for consideration of key assumptions in the West Midlands Pension Fund valuation: (see table below) • No issues were noted with the completeness and accuracy of the underlying information used to determine the estimate. The issue that we identified during our early testing was rectified. • There have been no changes to the valuation method since the previous year, other than the updating of key assumptions above. • We have confirmed that the Council's share of the pension scheme assets is in line with expectations. • We have considered the Council's treatment of the proposed McCloud remedy, and have no concerns to report. • The Council's disclosure of the estimate in the financial statements is considered adequate. We will refer to the uncertainty disclosed in Note 4 in our audit report.	(green)

Assumption	Actuary Value	PwC expected range	Assessment
Discount rate	2.35%	2.35%	(green)
Pension increase rate	1.90%	1.85% - 1.95%	(green)
Salary growth	2.90%	2.85% –2.95% scheme-specific	(green)
Life expectancy – Males currently aged 45 and 65	45: 23.8 65: 21.9	22.8 – 24.7 21.4 – 23.3	(green)
Life expectancy – Females currently aged 45 and 65	45: 26.0 65: 24.1	25.2 – 26.2 23.7 – 24.7	(green)

Assessment
- (red) We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- (amber) We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- (yellow) We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- (green) We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Equal Pay Provision Draft: £153.2m Final: £153.2m	Note 33 (Provisions) includes a £153.2m provision for the payment of Equal Pay claims. The Council has based its estimate on: • the number of claims received; • historical information on settlement of similar claims; and • the current negotiations of claimants' representatives.	We have challenged the Council on the judgement made to classify this liability as a provision, to ensure it met the definition under the accounting standards. We are satisfied that the Council has provided sufficient evidence to conclude this has been correctly recognised. We are satisfied that the Council's judgement and estimation in relation to Equal Pay is adequate and is consistent with the requirements of the CIPFA Code and IAS 37. Whilst the provision reflects the forecast impact of claims made to date, there remain a number of uncertainties regarding any additional liabilities that the Authority may face. There are uncertainties surrounding the volume and timing of any future claims and the determination of any settlements. We consider that this is appropriately disclosed in Note 34 – Contingent Liabilities and Contingent Assets. We will refer to this disclosure in our audit report. We have concluded that there is no other risk of material misstatement in relation to the Equal Pay provision.	(green)

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

Significant findings – going concern

Our responsibility

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

Going concern material uncertainty disclosures

It has been a challenging year due to the Covid-19 pandemic, with the Council encountering front-line challenges, administration of significant volumes of grants to businesses, closure of schools and car parks, and the additional challenges of reopening services under new government guidelines.

The Council is facing significant challenges, although it has reported an underspend for the 2019/20 year. Management have undertaken an analysis of the potential financial implications of Covid-19 together with additional funding being provided. The Council's forecasting contains indicative provisional funding gaps in the coming years and may therefore require further use of its financial reserves to pay its expenses. Given the sensitive nature of these disclosures, we have identified this as an area of focus in our audit.

Going concern commentary	Auditor commentary
Management's assessment process	Management have undertaken their own assessment of going concern, taking into account Paragraph 2.1.2.9 of the Code of Practice on Local Authority Accounting, which states that "*An authority's financial statements shall be prepared on a going concern basis; that is, the accounts should be prepared on the assumption that the functions of the authority will continue in operational existence forthe foreseeable future*". We have discussed the assessment with finance staff, and have been provided with the following to support the assessment: • Cash flow forecasts covering a period of 10 years from the end of 2019/20; • The Council's refreshed Medium Term Financial Plan, as at November 2020, which was a new development this year; • Detailed assessments of the financial viability of other significant entities in the group; and • Narrative commentary regarding the impact of Covid-19 on the Council and its operations. We will review the documentation referred to above, but we are satisfied that the Council's approach is reasonable.
Work performed	We are in the process of reviewing the Council's financial assessment of the impact of Covid-19, future financial plans and cash flow forecasts, and the Council's level of reserves. We have not identified any material uncertainties in relation to going concern at the time of writing this report.
Concluding comments	We expect to be able to conclude that we are satisfied that the Council's financial statements are appropriately prepared on a going concern basis, and that no further disclosure is required.

Other matters for communication

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

Issue	Auditor commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any incidents in the period and no issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which required disclosure in the financial statements but have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Council, including specific representations in respect of the group. Specific representations have been requested from management in respect of the significant assumptions used to make accounting estimates.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to each of the Council's counterparties. This permission was granted and the requests were sent. The majority of these requests were returned with positive confirmation, however some of these requests have not yet been received. We will work to gain the assurances that we required, and may undertake alternative procedures.
Disclosures	Our review found no material omissions in the financial statements.
Audit evidence and explanations/significant difficulties	All information and explanations requested from management was provided.

Other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect.
Matters on which we report by exception	We are required to report on a number of matters by exception in a numbers of areas: • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties We have nothing to report on these matters.
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. As the Council exceeds the specified group reporting threshold of £500m, we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. This work is not yet completed at the time of drafting this report, but we plan to finalise this prior to issuing our audit opinion.
Certification of the closure of the audit	We intend to certify the closure of the 2019/20 audit of Birmingham City Council in the audit report, subject to the completion of the work required on the Council's Whole of Government Accounts return.

Value for Money

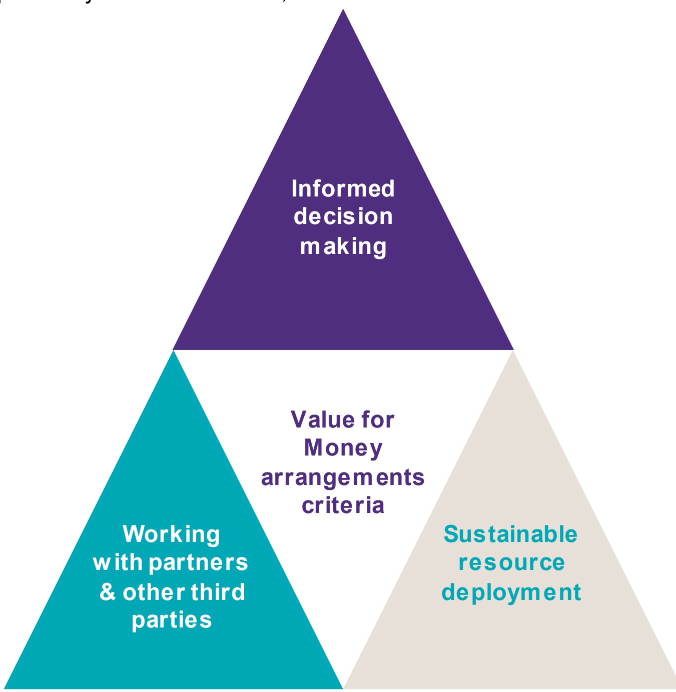
Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in April 2020. AGN 03 identifies one single criterion for auditors to evaluate:

"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in February and March 2020 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated March 2020.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Value for Money

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements.

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on pages 22 to 38.

Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendations for improvement.

Our recommendations and management's response to these can be found in the Action Plan at Appendix A.

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Overall conclusion

Based on the work we performed to address the significant risks, we have identified the following matters:

- During 2019/20 the Council has identified cost pressures of over £90m with regard to the Perry Barr Regeneration Scheme which had an original planned capital expenditure cost of £492.6m in June 2019. We have concluded that the projected cost overruns (more than 20% higher than the original planned cost) reported to Cabinet in March 2020, only nine months after the original FBC was approved, are demonstrative of inadequate financial planning in the development of the original FBC for the PBRS, which had been put together over a relatively short time period.

  In accordance with the definitions with the NAO's Code of Audit Practice, we have concluded that these matters are evidence of weaknesses in proper arrangements for understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management.

- During 2019/20 the Council has been working with Birmingham Highways Limited to progress the retendering of BHL's subcontract for service delivery relating to the Council's Highways PFI agreement. At the end of the financial year it was confirmed that the affordability gap in the contract was significantly more than had initially been thought. During 2019/20, and until the scale of the affordability gap was confirmed, the Council was making significant decisions regarding this issue knowing that the extent of the full financial challenge facing BHL was uncertain.

  In accordance with the definitions with the NAO's Code of Audit Practice, we have concluded that these matters are evidence of weaknesses in proper arrangements for understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management.

We are satisfied that, except for the matters we identified above, the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We therefore propose to give a qualified 'except for' conclusion.

Value for Money

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Work performed & Findings
Council resilience and financial sustainability	
At the time we completed our planning we considered that there was a risk that the proposed 2019/20 savings plans would not deliver the required recurrent savings, or would take longer to implement than planned. In addition, the Council's medium term financial plan for 2020-21 to 2023-24 needed to incorporate realistic and detailed savings plans, while at the same time maintaining an adequate level of reserves to mitigate the impact of risks including the PFI contract, Commonwealth Games, Equal Pay and Paradise Circus. Following years of budget restrictions and limited investment, many of the Council's operational assets are in poor condition. The Council's strategy to address this is key, and should link in to its capital plan. We also note that the Council has undergone a significant level of change in senior leadership positions in recent years. There is a risk that the governance arrangements in place have not kept up with the changes in management structure, and are no longer suitable.	<u>Work performed by the Council to address recommendations from previous years:</u> We have reviewed the Council's progress in addressing the weaknesses that were the subject of our Statutory Recommendation in March 2019. This included three elements which were as follows: • continue to reduce the likelihood of non-delivery of savings plans for 2019/20 and beyond through the delivery of clear plans and robust programme management arrangements. • broaden transformational work across the Council's financial plan for 2019/20 to 2022/23, to help deliver savings at scale to address the impact of the combined savings and budget pressure risks. • keep under close review the potential impact of one-off budget risks, such as the Commonwealth Games, Equal Pay and Amey, by: – continuing to strengthen its level of reserves; and – completing the development of contingency plans to minimise the effects of these risks should they crystalise. The third point above is considered through our work on other specific VFM risks, detailed in the following pages. We have reviewed the Council's progress in addressing the first two parts of the recommendation during the 2019/20 year, as part of our work on the Council's in-year financial monitoring, and forward planning arrangements, detailed on the following pages. In addition, we have considered the work that the Council has completed to address the findings of the financial management review that was completed by CIPFA during the latter part of the 2018/19 year. This review graded the Council's financial management arrangements as 1.9 out of 5 stars, where 2 stars equates to an organisation with "basic financial management capability" providing "functional capability in the short term, a minimum level of support in the delivery organisational outcomes but does not support organisational transformational change". Level 2 equates to our expectation of 'adequacy' under the Code. Following receipt of the draft CIPFA Financial Management Capability Review report in March 2019, the Council began a Finance Improvement Programme (FIP) in June 2019, tasked with addressing the Review findings and improving the Council's financial management capability. The Council's view is that significant progress was made during the 2019/20 financial year, with revised processes implemented in several key areas. Work on the remaining FIP measures is ongoing with further improvements planned for implementation in the next few months. In addition, the FIP is closely aligned with the Council's ERP Programme, in order to ensure that the issues identified are reflected in the design and implementation of the new ERP system. This view is supported by that of the Non-Executive Advisor for Financial Resilience, who stated in July 2020 "The Council is successfully delivering the Financial Improvement Plan with a dedicated team to support the implementation of the plan following the one-star rating from the CIPFA review, with a number of the improvements now transferred to Business as Usual"

Value for Money

Significant risk	Work performed & Findings
Council resilience and financial sustainability (continued…)	<u>In-year financial monitoring reports and year-end outturn report:</u> The Council set a net budget of £851.6m for 2019/20 at its meeting on 26 February 2019. This net budget was after assuming savings of £58.3m, which included approving a savings programme of £46.2m and required a further £12.1m savings to be delivered that were previously achieved on a one-off basis in 2018/19. The GF revenue outturn position for 2019/20 showed an underspend of £11.5m, however this included overspends in Neighbourhoods (£19.3m) and Education & Skills (£8.6m), with undelivered savings totalling £17.9m. These overspends were offset by areas of underspend and one-off cost mitigations. The outturn position also included a correction leading to the release of £12.8m from Earmarked Reserves. The Council is aware of Neighbourhoods and Education & Skills as two areas of recurrent overspend, and work is ongoing in the current financial year, and was incorporated into the 2020/21 financial plan, to address this. We have reviewed the Council's savings plans and savings trackers, and have not identified any other areas of concern or any pervasive issues that would indicate wider financial monitoring and management issues during the 2019/20 financial year. <u>2020/21 budget and 2020-24 Plan:</u> The 2020-24 Financial Plan and 2020/21 budget was approved by Council on 25th Feb 2020, prior to the UK government's actions in response to the Covid-19 pandemic. This approved budget was for net expenditure of £853m for 2020/21 inclusive of a savings requirement of £22m. The Non-Executive Advisor for Financial Resilience stated in July 2020 "The budget process itself has been strengthened with challenge on new and existing savings through Star Chambers. These require services to provide detailed savings implementation plans and remove undeliverable savings as well as the corresponding contingency." The budget for the 2020/21 year has considered the issues and known cost drivers within the Neighbourhoods directorate that resulted in the overspend in 2019/20, and has looked to resolve these by incorporating additional funding into the budget, increasing the planned spend for the 2020/21 year by £23.3m. Within the Education & Skills directorate, Birmingham Children's Trust continues to be a key driver of costs due to a significant increase in the number of children in care requiring support from the Trust (nearly a 7% increase between April 2018 and March 2020), however early reporting (Q2 2020/21) indicates that any areas of potential overspend are being actively managed and mitigated. <u>The impact of Covid-19:</u> Management consider that the Council has been pro-active in assessing and mitigating the impact of Covid-19, a view that was supported by the Non-Executive Advisor for Financial Resilience in July 2020, who said "In the immediate period comprehensive weekly reporting of the financial position with regard to the COVID19 Incident has been in progress from the start of the incident. These include expenditure, loss of income, impact on delivery of savings as well as fully costed financial risks with probability factors attached to these risks."

Value for Money

Conclusion

We have reviewed the Council's progress in addressing the weaknesses that were the subject of our Statutory Recommendation in March 2019, and the weaknesses identified by CIPFA in their Financial Management Capability Review, the draft report for which was issued in March 2019.

We have considered the progress made by the Finance Improvement Programme, and are satisfied that progress has been made during the 2019/20 year, and continues to be made beyond the end of the financial year.

We have considered the Council's outturn against its budget for the 2019/20 year, and the actions taken to address key areas of overspend and under-delivery of savings, as well as the impact of these findings on the Council's forward planning.

We have considered how the Council began responding to the impact of Covid-19 at the beginning of the pandemic, and have gained assurance that work in this area commenced as early as was reasonably possible.

We are satisfied that the Council has made sufficient progress in addressing the weaknesses relating to financial management that were the subject of both our Statutory Recommendation and CIPFA's Financial Management Capability Review in March 2019 to mitigate the risk in 2019/20.

Developments in 2020/21

We will consider the below, and subsequent developments, as part of our VFM work during the 2020/21 financial year. These developments do not form part of our conclusion for the 2019/20 year.

Work on the Finance Improvement Programme is ongoing. Elements of this, in particular those relating to the finance workforce, are being addressed through the implementation of the new Finance Target Operating Model. A delivery partner, KPMG, has recently been appointed to increase capacity to accelerate this work, with the aim of delivering all of the products within the FIP in the early part of 2021. This in turn will allow the Council to commission a further Financial Management Capability reassessment with confidence.

The Council is aware of Neighbourhoods and Education & Skills as two areas of recurrent overspend, which are being addressed as follows:

- Neighbourhoods – CIPFA have been commissioned to complete a review of the directorate's finances, in order to assess where the issues lie, and to enable better financial planning, monitoring and management in future years. The outcome of this review is expected shortly.
- Education & Skills – Overspends in 2019/20 predominantly related to Birmingham Children's Trust, due to its services being demand-led. The Council are looking to strengthen contract management arrangements in this area going forwards, to enable a greater understanding of the financial challenges being faced.

The Council refreshed its medium term financial plan, in light of the pandemic and we understand that this introduction of a mid-year MTFS update will now become an ongoing arrangement at the Council, to provide a valuable control to the Council's financial management and planning functions. The 2020 refresh was reported to Cabinet in November 2020, and identified funding gaps (after emergency government funding) of approximately £100m per year from 2021/22 onwards. The initial assessment of the funding gap in the 2020/21 year was £10.8m, and actions have already been identified to close this gap.

We recommend that the Council continue to plan for future years and proactively identify and mitigate cost pressures and financial risks as they arise.

Value for Money

Significant risk	Work performed & Findings
Financial impact of the Commonwealth Games	
In our 2018/19 VFM work, we identified the VFM risk that the cost of hosting the Commonwealth Games (the Games) could impact on the Council's future financial sustainability. At the time of giving our VFM conclusion in September 2019, we noted that the Council had strengthened its governance arrangements relating to the delivery of the Games over the previous 12 months, and had clarified the governance framework under which partner bodies would report and work. Work to identify sources of funding for the Council's share of the costs was ongoing at the time we completed our initial risk assessment. We therefore still considered this to be a significant risk for the purposes of our VFM work in 2019/20.	<u>Governance structure and supporting arrangements:</u> We have reviewed the Council's latest governance arrangements for the delivery of the XXII Commonwealth Games in 2022 and the associated funding arrangements, to establish how the Council is identifying, managing and monitoring the related risks. The Council issued the 2022 Commonwealth Games Cross Partner Governance Framework in February 2019. The framework sets out the reporting lines for the various Boards, Groups and indicative cross partner working groups. These include: the Commonwealth Games Strategic Board (CGSB); the Commonwealth Games Chief Executives Group (CGCEG), which reports to the CGSB; the Security Board, which reports to the CGSB; and the Finance Group, the Budget Oversight Group and the Cross Partner Programme Group (CPPG), which all report to the CGCEG. The 10 indicative cross partner working groups then report to the CPPG, or the CGCEG in the case of escalated issue resolution and setting of operational/tactical direction. We consider that this framework provides the Council with robust governance arrangements for the Games. The Games Project Director left the role in December 2019 and was replaced by an interim Games Project Director from January 2020 until May 2020 when a permanent replacement took over. In addition, we note that there have been two high profile departures from the CGSB since the year end, but neither of these individuals were executive decision makers. None of these changes have had an adverse impact on the adequacy of the overall governance arrangements during the year. The Council has continued to further develop its governance arrangements to support the delivery of the Games. This includes a greater focus on internal accountability and ownership across the whole of the Council's Executive team, driven by the terms of reference and Programme Board to ensure a collective sense of prioritisation and greater cohesion across the Council regarding the Games. Further evidence of the importance placed by Central Government on ensuring effective governance arrangements are in place is that the Secretary of State for the Department for Digital, Culture, Media and Sport (DCMS) is now a member of the CGSB. The Chief Executive of the Commonwealth Games Federation is also a member of the CGSB. <u>The funding arrangements for the Games:</u> Substantial work has been undertaken by the Council to secure the required partner contributions of £75.0m, with £50.0m secured to date including £25.0m from West Midlands Combined Authority (agreed at WMCA Board in November 2019) and £20.0m from Greater Birmingham and Solihull LEP (agreed by service-level agreement in April 2020). This funding is attached to the redevelopment of the Alexander Stadium. £5.0m of Community Infrastructure Levy was agreed in February 2020 for use on a suitable Games project, with Public Realm being the natural fit. The Council is continuing to work with various potential games partners to ensure that the remaining £25.0m of required partner contributions is secured. This includes ongoing discussions with the following: Coventry & Warwickshire LEP, Black Country LEP, Midlands Engine, local Universities and the NEC.

Value for Money

Significant risk	Work performed & Findings
Financial impact of the Commonwealth Games (continued…)	The Council's remaining share of £109.4m, which is built in to its Medium Term Financial Plan, is split: • £39.0m revenue funding, the majority of which (£36.8m) is due in 2022/23 • £70.4m capital funding, of which £13.0m (of existing capital resources) had been incurred by the end of 2019/20 and a further £29.2m is due to be incurred in 2020/21. This is split £22.6m corporately funded prudential borrowing and £6.6m existing capital resources. <u>Identifying, managing and monitoring risks relating to the financial impact of the Games:</u> Our work in this area has focussed upon the proposed Athletes Village for the Games, which was included in the Perry Barr Regeneration Scheme (PBRS). The Outline Business Case (OBC) was approved by Cabinet on 26 June 2018 and the Full Business Case (FBC) was approved through delegated authority by the Cabinet Member for Finance and Resources and Chief Officer on 6 June 2019. This FBC included the provision of 6,500 bed spaces for athletes and officials required by the Birmingham Organising Committee for the 2022 Commonwealth Games Limited (OC). The total of the capital expenditure programme for the PBRS was £492.6m and included the delivery of 1,415 residential units post-Games. In October 2019, the Financial Monitoring Report 2019/20 Quarter 2 flagged to Cabinet an unquantified potential risk of material cost increases to the PBRS. In December 2019, an Emergency Cabinet Report flagged a substantial increase in costs associated with the relocation of the National Express Bus Depot, and that the detailed prices for the construction of individual plots within the PBRS were higher than originally budgeted in the FBC. In February 2020, the Financial Monitoring Report 2019/20 Quarter 3 again highlighted to Cabinet the still unquantified risk of material costs pressures to the PBRS. An update on the PBRS FBC, including a revised FBC, was reported to Cabinet in March 2020 and the revised FBC was approved. Substantial progress had been made with the delivery of the PBRS, with more than 90% of the land required for either accommodation or wider infrastructure improvements under Council control. Contracts were also in place for the construction of 72% of the 6,500 bed spaces. However, cost pressures had emerged as a result of the overheated local market, through construction cost price inflation, the demand for construction workers in the Perry Barr area, and the fixed delivery date. To mitigate this, design changes had been made that would ensure that the scheme would deliver 97% of the bed spaces and the OC had stated that it should be possible to manage this small shortfall in beds through effective scheduling of sporting activities. The funding pressures before mitigation totalled £91.8m which included the increased cost of relocating the National Express bus depot (£15.7m), increased housing costs (£48.4m), increased contingency (£19.7m in addition to the £10.3m in the original FBC) and other minor variations (£8m). This was offset by removing £25m of the preparation for legacy retrofit and demolition / remediation costs from the scope of the PBRS core proposals, and funding this element post-Games from enhanced disposal proceeds. Further mitigation, and the redirection of other Council budgets, totalling £46.8m including de-scoping of plot 11 (£7.0m), funding National Express bus depot overspend from capital contingency (£15.7m), non-funded BCC items (£7.0m), use of contingency (£15.0m) and the consequential reduction in borrowing costs (£2.1m) resulted in a residual gap of £20.0m. The residual funding gap of £20.0m is planned to be covered by windfall capital receipts.

Value for Money

Significant risk	Work performed & Findings
Financial impact of the Commonwealth Games (continued…)	We note that the Council had a significantly shorter time period between the award of the Games to Birmingham and the date of the Games than would normally be the case for the lead time to deliver a project of this size. This resulted in the requirement to put approvals in place to be able to commence the developments for the PBRS, which is why an FBC was approved in June 2019. The revised FBC approved by the Cabinet in March 2020 included fully costed projections for the PBRS and had been subjected to considerable external stakeholder engagement and scrutiny during its development, including the Ministry of Housing, Communities and Local Government (MHCLG) and the DCMS. It also included plans for a reduction of one dwelling from 1,415 to 1,414 residential units post-Games. However, there have been some amendments to the planned development timetable which means that some of the residential units will now be developed later than originally planned. We are informed that currently 1,026 (of 1,414) residential and 4 (of 9) commercial units are planned to be completed to the Council's original timetable, with the remaining units being completed post-Games.

Conclusion

We have reviewed the Council's governance structure and arrangements in place to support the delivery of the Games to assess whether they are adequate. Despite some challenges during the last twelve months the Council has continued to develop its governance arrangements.

We are satisfied that the Council has put in place appropriate governance arrangements to oversee the delivery of the Games.

We have assessed the Council's progress to secure funding from games partners in order to mitigate the financial impact of the Games. The Council has been unable to confirm £25.0m of the total required partner funding of £75.0m. Whilst there is still some way to go to close the partner funding gap, the magnitude of the gap, the length of time available to achieve this and the availability of potential contingencies means we are not concerned at this stage that it will not be achieved. We will, however, continue to keep the matter under review in our subsequent audits, as the Games approach.

We are satisfied that the Council has secured sufficient funding from games partners in order to mitigate the financial impact of the Games.

During our initial risk assessment, we identified that the identification, management and monitoring of the costs of hosting the Games were a risk to the Council's arrangements for securing value for money. The FBC for the PBRS was approved in June 2019 setting out planned capital expenditure of £492.6m, with this FBC having been put together over a relatively short period (based on income and expenditure estimates from professional advisors) to reflect the limited time available to deliver the accommodation in time for the Games. Following the approval of the FBC, commercial negotiation in relation to both construction costs and land values resulted in the emergence of substantial cost pressures (of more than 20% of the original planned costs) that exceeded the level of contingency included within the FBC, resulting in the requirement for a revised FBC to be reported to Cabinet only nine months later, in March 2020. We have concluded that this is demonstrative of inadequate financial planning in the development of the original FBC for the PBRS and, as a result, we are not satisfied that the Council has fully mitigated this risk during 2019/20.

In accordance with the NAO's VFM sub-criteria, we have concluded that these matters are evidence of weaknesses in proper arrangements for "understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management" (IDM2).

We plan to qualify our Value for Money Conclusion in this regard.

Value for Money

Developments in 2020/21 (continued…)

We will consider the below, and subsequent developments, as part of our VFM work during the 2020/21 financial year. These developments do not form part of our conclusion for the 2019/20 year.

The impact of Covid-19 on the PBRS resulted in significant delays to development and meant that only c.2,700 bed spaces could be guaranteed in time for the Games. The OC approached local universities about their ability to provide the required bed spaces for the Games and in August 2020 the OC confirmed that this would be the approach taken. This decision was taken by the OC and supported by Central Government. We recognise the constructive engagement of all parties in securing this solution to the accommodation issue.

The Council inform us that progress with the PBRS has been regularly reported during 2020/21. We are told that the latest reporting framework include a project board with cross-partner representation including MHCLG, DCMS, Homes England and the Council. This meeting is held monthly and reporting includes financial and non-financial information.

The Council is still delivering the PBRS and is currently following the revised FBC agreed in March 2020, but as there are no longer plans to construct an Athletes Village this will not form part of the Games programme. An amended FBC is a work in progress and is planned to be submitted to Cabinet for approval in early 2021. A PBRS update report was presented to the Commonwealth Games, Culture and Physical Activity Overview and Scrutiny Committee in September 2020, including updates on Phase 1a, Phase 1b and Phase 2 of the project and reporting positive progress against the PBRS social value aspirational targets.

We are informed that currently 1,026 (of 1,414) residential and 4 (of 9) commercial units are planned to be completed to the Council's original timetable, with the remaining units being completed post-Games. The Council needs to effectively manage the PBRS construction programme to ensure that it is completed on time and is not detrimental to the delivery of the Games programme, which will be running in parallel.

The Council needs to continue to focus on the effective delivery of the Games by ensuring that it maintains the appropriate governance arrangements.

The Council still needs to take further action to address the current shortfall of £25.0m in partner funding due to fund the capital expenditure budget in the second half of 2021/22 and 2022/23, if it is going to fully mitigate the financial impact of the Games.

Value for Money

Significant risk	Work performed & Findings
Contractual arrangements relating to the highways PFI Scheme	
In our 2018/19 VFM work, we identified the risk that ongoing contractual disputes with Amey Local Government (Amey LG) (and other involved parties) in respect of the Highways PFI contract could have a significant impact on the Council's financial sustainability. At the time of giving our VFM conclusion in September 2019, a settlement agreement had been made between Birmingham Highways Ltd (BHL) and Amey LG, with financial risk to the Council. However, preparations were ongoing for Amey LG's exiting of the PFI contract. We therefore still considered this to be a significant risk for the purposes of our VFM work in 2019/20. In February, the Council announced the appointment of Kier as interim services provider, with work ongoing to identify a long-term maintenance and management partner to replace Amey LG.	<u>Settlement with Amey LG:</u> The Council was proactive in achieving a settlement which represented, in its opinion, the best possible outcome it could expect to receive, and mitigated its risks where possible. The majority of criteria set by Cabinet were achieved, while the remainder were in a position where they could be accepted with manageable risks and control measures. A report went to Cabinet on 25 June 2019 recommending that members approve the Council entering into a settlement agreement with Amey LG and BHL (formerly ABHL). This settlement agreement, for £215m, was accepted by all parties on 29 June 2019, and comprised the following payments from Amey LG to BHL: • £100m on agreement (paid 1 July 2019); • £30m by 30 September 2019; • £30m by 31 December 2019; • £55m deferred, payable on sale of Amey, or otherwise in five instalments between 2020 and 2025. The other key terms of the settlement were that Amey LG would exit the contract by 31 March 2020, and that BHL would procure an interim subcontractor to replace Amey LG as the service provider, while the remainder of the contract was re-tendered. At the end of the 2019/20 financial year, the balance owed by Amey LG to BHL was £55m. As part of the settlement arrangements, the Council's overpayment claim against BHL was converted into a loan agreement of £64m at an interest rate of 8% per annum, to be repaid over the remaining term of the contract. This loan ranks below BHL's lenders' secured amounts, meaning that if BHL becomes insolvent the other lenders would be repaid first, and the Council would only be repaid if sufficient funds remained. Whilst the risk remains that BHL's other lenders could withdraw their investment upon default, the Council has been working with BHL and these other lenders to reduce the number of ways that BHL could default on its loans, including reducing the amount of cash that BHL is required to maintain. <u>Short term sub-contractor procurement process:</u> We have been informed that the Council's objectives during the period between the settlement with Amey and the appointment of a long-term subcontractor by BHL were to ensure that service delivery continued (to meet statutory obligations) but with a focus on addressing any deterioration on the network, and on the successful procurement of a long-term subcontractor. The Council acknowledges that it is for BHL to procure a subcontractor, as the contract between the Council and BHL remains in place. There were disagreements between the Council and BHL relating to the form that the interim contract should take, but the structure of the resulting short term agreement is that the subcontracting has been split, with Kier taking the operational elements and the delivery of street lighting investment, and priority capital schemes and renewal works being subcontracted to Tarmac with novation of the rates provided for Amey LG.

Value for Money

Significant risk	Work performed & Findings
Contractual arrangements relating to the highways PFI Scheme (continued…)	Kier Highways was appointed in February 2020 and commenced mobilisation. The company took over provision of services on 1 April 2020 as planned, with no significant issues noted in the transfer process. <u>Long term sub-contractor procurement process:</u> No reports have been presented to Cabinet or Council since those relating to the settlement agreement in June 2019. Management's view is that, as the current position remains within the parameters approved by Cabinet at that time, no formal update is required. Initial discussions on the long-term re-procurement commenced in September 2019. Initial market feedback confirmed that BHL would be unable to attract a subcontractor on the same terms as the original contract with Amey. Discussions regarding the nature of the permanent agreement, and the relationship between the Council, BHL and a subcontractor, were in relatively early stages at the end of the 2019/20 financial year. <u>Affordability gap:</u> At the time of the Settlement Agreement in 2019, the estimated Core Investment Period (CIP) cost was considered to be affordable. The Council has explained that all parties knew that this was likely to be an inaccurate estimate, as it was based on a pavement model with known failings, which was the best information available at the time. From June 2019, the Council has continued to work with BHL to improve the accuracy of estimates of key elements of costs. There was a continual process of improving the accuracy of the pavement model through from the autumn of 2019 to the beginning of 2020. Once discussions on the form of the agreement going forward commenced in earnest in January 2020, the Council and BHL were still basing discussions on the original estimated cost. BHL presented the Council with a report dated 30 March 2020, setting out estimated costs that, due to condition information emerging over that period, were significantly higher than had previously been thought, creating an affordability gap. This estimate had been developed independently by BHL. The Council went on to review this estimate with its advisors, who concluded that, while there was disagreement on some assumptions made, the broad issue of the significant amount of work that was required and therefore the considerable increase to the affordability gap was agreed. The scale of the updated affordability gap has meant that the potential changes to the agreement between BCC and BHL are going to be more significant than had previously been thought. The Council has therefore had to move away from diluting the contractual requirements as a starting point for the procurement, as using the existing contractual standards would be unlikely to bridge a gap of that magnitude without resulting in unacceptably low standards and condition of the City's highways. Instead, a "bottom up" approach is being taken.

Value for Money

Conclusion

Overall, as in 2018/19, we are satisfied that the Council's arrangements for managing the PFI contract dispute and for securing the settlement between Amey LG and BHL were adequate. Whilst with any complex PFI contract settlement there will inevitably be financial and non-financial risks, the Council has mitigated these risks where possible and has managed the process effectively and with transparency between Officers and Members. From a financial perspective the Council has built up healthy reserve balances of £194.4m as a contingency plan and is prepared to step in as the interim PFI contractor if necessary under 'step in' rights.

We have noted no weaknesses in the arrangements surrounding the settlement with Amey LG and BHL for the 2019/20 year.

The Council's focus during 2019/20 has been on the continuity of delivery of statutory obligations and on the procurement of a long-term subcontractor. Kier was appointed as interim subcontractor by BHL for 15 months from 1 April 2020. We are not aware of any disruption due to the handover from Amey LG to Kier, and we are satisfied that an appropriate tendering process was followed, and the Council took appropriate advice on this.

The Council was proactive in confirming at an early stage in renegotiations that it would not be possible for BHL to attract a new subcontractor on the same terms as the original agreement with Amey, so discussions have been ongoing to work through the impact of this on the agreements between BCC and BHL and between BHL and a future subcontractor.

We have no concerns around the approach taken to these discussions. Whilst we have some concern regarding the significant length of time that discussions are taking, this is not considered an issue for our conclusion this year. At the end of the 2019/20 financial year, Kier's contract was in place for 15 months, and discussions have predominantly been held during the 2020/21 year.

We have noted no weaknesses in the arrangements in the 2019/20 year surrounding the retendering of the PFI subcontract.

Although the Council consider that issues with affordability of the PFI agreement are the responsibility of BHL, the fact remains that there is a significant financial gap in the contract, the full scale of which was not known to the Council until the very end of the 2019/20 financial year. After these figures were made available, the Council has had to fundamentally change its approach to discussions with BHL and is considering significant changes to the PFI arrangements going forward. In addition, this affordability gap has put additional strain on the finances of BHL, has made the original planned timeline of having a permanent subcontractor in place from July 2021 unachievable, and has contributed to the impairment of the Council's loan to BHL. During 2019/20, and until the scale of the affordability gap was confirmed, the Council was making significant decisions regarding this issue knowing that the extent of the full financial challenge facing BHL was uncertain.

In accordance with the NAO's VFM sub-criteria, we have concluded that these matters are evidence of weaknesses in proper arrangements for "understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management" (IDM2).

We plan to qualify our Value for Money Conclusion in this regard.

Developments in 2020/21

We will consider the below, and subsequent developments, as part of our VFM work during the 2020/21 financial year. These developments do not form part of our conclusion for the 2019/20 year.

The terms of the contract between the Council and BHL is now (since 1 April 2020) subject to a Supplementary Agreement, which 'switches off' some of the requirements of the original Project Agreement. This means that the focus of all parties to the agreement is on addressing the requirements of the settlement agreement in the short term.

An update taken to Overview and Scrutiny on 8 July 2020 confirms that the Cabinet Member has formed an informal member working group to review changes to the contract arrangements. All members have considerable experience of highway issues and have provided feedback on the priorities that they wish to see addressed in a future contract.

We note that the interim subcontract was completed on a 'cost reimbursable' basis meaning that the subcontractor takes little risk in relation to the contract, and the risk sits with BHL.

Value for Money

Developments in 2020/21 (continued…)

Subject to BHL agreeing its forecast cashflow and payments with the Council, the Council has agreed to ensure that BHL remains solvent by paying its reasonable operational costs during the interim period. Staff from the Council's corporate finance team are now embedded in the weekly management processes.

We recommend that the Council ensures proactive monitoring and management of the contract between BHL and Kier is taking place, in order to mitigate the financial risk to the Council created by their agreement to ensure that BHL remains solvent by paying its reasonable operational costs during the interim period.

Following the report from BHL at the end of March, we understand that the affordability gap continued to increase. A subsequent report issued by BHL in May 2020 showed a further increase to the estimated costs. Discussions between the Council and BHL have continued since this point, working to determine a level of service that is deliverable within affordability envelopes, but which is sufficient for the Council's purposes. Continued liaison with central government will be required.

Due to the extent of discussions still required between the Council and BHL, it looks increasingly unlikely that the subcontract can be re-tendered in June 2021, as originally planned, and so the Council and BHL are considering potential options to extend the interim agreement.

Kier's interim contract is for a 15 month period from 1 April 2020. This contract can be extended, on the same terms, for two 6-month periods. The second extension would require Kier's agreement. In addition, the current lending agreement between BHL and its investors expires on 30 June 2021, at which point the lenders may withdraw their investment. If this were to happen, BHL would fold, and the PFI agreement would cease, causing the Council to lose £51.9m of annual PFI grant. Discussions with the banks over the terms of an extension to their agreement have not yet commenced, neither have discussions with Kier regarding an extension to their contract. As such, there remains considerable risks in this area that we will continue to track as part of our future VFM audits.

Value for Money

Significant risk | **Work performed & Findings**

Waste service continuity and industrial relations

In our 2018/19 VFM work, we identified the VFM risk that the Council would fail to implement adequate governance arrangements in relation to the waste dispute. This had been the subject of previous Statutory Recommendations issued by Grant Thornton in July 2018 and March 2019.

At the time of giving our VFM conclusion in September 2019, the Council had commissioned an independent review of the Waste Service, but this had not concluded. The Council intended to wait for that report before making decisions about future options for the service. Our 2018/19 VFM conclusion was qualified on this basis.

This report has since been received by the Council, and the previous Memorandum of Understanding ended in November 2019. We therefore still consider this to be a significant risk for the purposes of our VFM work in 2019/20.

<u>Progress against the Statutory Recommendation issued in March 2019:</u>

We have reviewed the Council's progress in addressing the weaknesses that were the subject of our Statutory Recommendation in March 2019. This included three elements which were as follows:

- ensure that the terms of reference for the planned review of future options for the delivery of the refuse collection service, provide for the review to be carried out in a timely fashion, and include an examination of all options for delivering the refuse collection service going forward, in order that the service can demonstrate value for money in the delivery of its financial and service objectives; including, for instance:
  - looking to best practice models across the sector
  - examining different staffing and working arrangements
  - combining collection and disposal functions
  - other potential options, such as outsourcing.
- build industrial relations capability within the Council to ensure that it is able to maintain consistent and effective relations with its trade union partners.
- commission a review of the new working practices in place within the refuse service to ensure that they are embedded and monitored robustly to minimise the potential for further Equal Pay claims.

Our findings in each of these areas are reported below.

<u>The independent review of the Waste Service</u>

The Council produced a detailed project specification for an independent review of waste collection and disposal services which included all the points raised in our Statutory Recommendation. This included an indicative timetable for the receipt and evaluation of bids (17 May 2019), the appoint of a contractor to undertake the review (27 May 2019), the delivery period for Phase 1 of the review (27 May – 30 August 2019), the public reporting of Phase 1 deliverables and the Cabinet Approval 'gateway' to commence Phase 2 (September 2019) and the delivery of Phase 2 (October 2019 onwards).

Wood Environment and Infrastructure Solutions UK Ltd (Wood) were appointed to undertake the review on 28 June 2019, with the work to be undertaken and reported in two distinct phases:

- Phase 1 covered the following aspects: Data discovery and current state assessment; Best practice review and benchmarking; Identification of immediate improvements and efficiencies; and Future Strategic Operating Model Options; and
- Phase 2 of the review is focused on modelling (appraising) some potential strategic level changes to overall service delivery in Birmingham.

Value for Money

Significant risk	Work performed & Findings
Waste service continuity and industrial relations (continued…)	Wood issued a draft report for Phase 1 of the review in November 2019 which was finalised in January 2020 and a report summarising Phase 1 findings, data, and analysis was reported to Cabinet on 11 February 2020. This advised that the Waste Management Services (WMS) current Service Improvement Plan should be updated to include the recommendations that were made in the report, and that progress should be monitored by the Cabinet Member for Street Scene and Parks, and the Assistant Director for Street Scene. The report also clarified that Phase 2 of the review would be undertaken, and that the assessment of strategic level options would be the subject of a further report to Cabinet in Summer 2020, along with the final report. The Council's own report to Cabinet on 11 February 2020 recommended that its Service Improvement Plan was updated to include the recommendations in Wood's Phase 1 report and that Phase 2 of the review be undertaken by Wood to include the modelling of the following recommended options: • model existing baseline services along with the introduction of a separate weekly food waste collection; • weekly food waste collections along with fortnightly residual collections and fortnightly recycling collections; and • weekly food waste collections along with three weekly residual collections and fortnightly recycling collections. Phase 2 of the review was approved by Cabinet and commenced in March 2020. The data for Phase 2 has been produced and the findings need to be tested in consultation with key stakeholders. The consultation stage of key stakeholders has been put on hold due to Covid-19. <u>Update on industrial relations between the Council and its trade union partners</u> We have gained an understanding of the progress made during the 2019/20 financial year, and the current status of industrial relations. We have also considered the work of the Strategic Programme Board, as well as the updates to the Secretary of State from the Non-Executive Advisor for Waste Management and Industrial Relations. The Memorandum of Understanding (MOU) was due to end in November 2019 but it was agreed by all parties to continue to operate under the conditions of the MOU. All parties have continued to work closely together to improve industrial relations culminating in an agreement to relax the conditions of the MOU during March 2020 as result of the impact of Covid-19. The relaxation in conditions relates to the make up of a collection crew and was agreed to support the health and safety of staff whilst ensuring the effective provision of waste services during Covid-19. The MoU states that each collection crew should be made up of a grade 4, 3 and 2 but it was agreed to amend that to a collection crew of a grade 4, 2 and 2 if there were insufficient grade 3 staff available to enable waste collections to take place. The situation will continue to be monitored and, as soon as is practicable, the full principles as set out in the MOU will recommence. There have been a series of depot meetings led by the Assistant Director for Street Scene and the Cabinet Member for Street Scene and Parks. Discussions were held around moving from a four day to five day working week, which was expected to meet with resistance. However, staff were encouraged to embrace the change and have done so accordingly. Shorter working days have been identified by staff as one of the pros of the arrangement.

Value for Money

Significant risk	Work performed & Findings
Waste service continuity and industrial relations (continued…)	There have been significant improvements in the performance of the waste service, reductions in sickness absence levels and the public confidence in the waste service during the second half of 2019/20, which have continued to be the case throughout 2020/21 to date. The Non-Executive Adviser for Waste Management and Industrial Relations stated in July 2020 "Waste and street cleaning services have benefitted from improved relationships with trade unions and improved performance on the ground and in the depots, both before and during the recent Covid-19 crisis. The teams have relaxed the terms of their memorandum of understanding during the Covid-19 response period and this has resulted in much improved feedback from service users and residents. The work that has been done to improve relationships has included strong leadership and agility from the cabinet and the portfolio holder. There are, however, key decisions that remain to be made. The Council has not yet concluded its review of waste collection services and the independent review is long overdue. In addition, the Council needs to make decisions around its future capital programme in general and specifically in relation to its future waste disposal contracts and assets. The Council needs to ensure that the lessons that have been learned from closer collaboration are carried forward so that tensions that have been deferred do not reverse the good progress that has been made so far." These comments reflect the progress made by the Council during 2019/20 whilst acknowledging that there still some significant decisions which still need to be made in the near future about the provision of the waste service. <u>Effectiveness of new working practices</u> The Council changed its working practices in September 2018. Previously the Council operated a 4-day (nine hours and 15 minutes day) structure. The new approach operates a 5-day working structure, which includes collections being undertaken from Monday to Friday each week with staff working a seven hours and 18 minutes day. The Council also updated the job description for the role of the WRCO in July 2019. Wood's report for Phase 1 of the independent review concluded that the 4-3-2 staffing arrangement on the collection crews should not create a fundamental issue and, as a result, did not propose a change to this approach. Adding that the grade 3 member of the crew (WRCO) being responsible for the communications aspects of the rounds appeared to be a reasonable approach to resourcing assuming that: • any communication undertaken by the WRCO does not lead to the undue delay of the collections; • the WRCOs report any issues during the rounds in a timely and consistent manner; and • all collection crews still have the appropriate H&S training and are aware that they still retain H&S responsibilities. We consider that these findings coupled with the improvements in the performance of the waste service during the last twelve months are indicative of effective working practices during 2019/20.

Value for Money

Conclusion

We have reviewed the Council's progress in addressing the weaknesses that were the subject of our Statutory Recommendation in March 2019 and the qualified VFM conclusion in 2018/19.

We have assessed the progress made in Phase 1 of the independent review undertaken by Wood and we are satisfied that, as part of the options appraisal, this has taken in to account best practice models across the sector and considered combining collection and disposal functions. Phase 2 of the review, which is in progress, will examine different staffing and working arrangements.

We have considered the relationship between the Council and its trade union partners throughout 2019/20 and have concluded that there has been a significant improvement in the effectiveness of the arrangements. We also note there has been no industrial action during the year and there have been a number of improvements in key performance measures for the waste service.

We have considered the effectiveness of the new working practices implemented by the Council in September and taken in to account the findings of Phase 1 of the independent review by Wood. These findings coupled with the improvements in the performance of the waste service during the last twelve months are indicative of effective working practices during 2019/20.

We are satisfied that the Council has made sufficient progress in addressing the weaknesses relating to waste service continuity and industrial relations that were the subject of our Statutory Recommendation in March 2019 and the qualified VFM conclusion in our previous audit to mitigate the risk in 2019/20.

Developments in 2020/21

We will consider the below, and subsequent developments, as part of our VFM work during the 2020/21 financial year. These developments do not form part of our conclusion for the 2019/20 year.

Phase 2 of the independent review by Wood commenced in March 2020 and is currently ongoing. The majority of data has been produced but the consultation stage of key stakeholders has been put on hold due to Covid-19. Whilst Covid-19 has been a major contributor for the delay to Phase 2, the consultation stage is essential to inform any changes. Given the importance of getting Phase 2 of the review completed a consultation package is now being developed by Wood. This will be delivered through technology and the meetings are proposed to be held virtually. Wood are looking at making this as interactive as possible and are considering the possibility of having polls and weightings to questions to allow everyone to have an input. The proposal is to schedule these meetings early in the new year.

The other reason for the delay is the lack of information from Central Government with regard to food waste collections. There were indications that food waste collection was going to be mandatory by 2023. If food waste is mandatory then any associated support costs will have a significant impact on predicted models.

We recommend that the Council continues to work closely with Wood to ensure that Phase 2 of the independent review is completed as soon as is practically possible and ensures that it can maintain effective and consistent relations with its trade union partners regardless of any future changes to the waste service delivery model.

Value for Money

Significant risk	Work performed & Findings
Contract monitoring and management	
During our initial risk assessment, we noted that the Council's internal audit function, Birmingham Audit, issued two separate reports that highlighted substantial issues and weaknesses relating to the management and monitoring of significant contracts.	<u>Work done by the Council to address the findings raised by Birmingham Audit:</u> In July 2019, Birmingham Audit issued (in draft) a 'red rated' report on the Travel Assist programme. This report identified significant issues in relation to the monitoring and management of this contract. Key recommendations from this report were given short implementation dates, with many being prior to the finalisation of the report due to their significance. In the previous financial year, another red rated report had been issued on the Early Years Health and Wellbeing Contract. Through discussion with Birmingham Audit, and review of formal Progress Review documents, we have confirmed that key contract management recommendations from these reports had been addressed by the end of the 2019/20 financial year, but as a result of Covid-19, Birmingham Audit had been unable to verify this for all recommendations. We are therefore satisfied that these findings were addressed in a timely manner. <u>Consideration of any potential wider impacts of the weaknesses identified:</u> We considered that there was a risk that the issues identified were indicative of wider contract management and monitoring issues. We therefore discussed general contract management arrangements with Birmingham Audit and separately with finance staff, and identified no such concerns. We met with members of finance staff and discussed the significant work that was undertaken during the 2019/20 year in relation to contracts and procurement. This has included a thorough review of the Council's contract register, and development of the contract 'pipeline', with procurement officers working more closely with directorates to improve understanding of procurement processes. A review of the procurement practices across the Council was completed, including a maturity assessment of the arrangements in place. This review of efficiency and effectiveness then fed into a piece of work at the beginning of 2020 to identify possible future operating models for the service. We are aware that Birmingham Audit issued a further red rated report in July 2020 in relation to contract extensions, highlighting instances of contracts being extended without evidence of appropriate authorisation. We have considered this report for the purposes of our conclusion as, despite it being issued in the 2020/21 year, it reflects the arrangements that would have been in place during 2019/20.

Conclusion

Through discussions with Birmingham Audit, and review of its progress reporting, we are satisfied that all key contract management and monitoring recommendations in the two reports identified in our initial risk assessment had been addressed by the end of the financial year.

Value for Money

Conclusion (continued…)

The Council is actively working to improve the quality and efficiency of its procurement service, with significant work having been completed during the 2019/20 financial year to improve this going forward. We consider that the work that the Council has undertaken demonstrates a good awareness of the issues in this area.

We note that a further red rated report has been issued by Birmingham Audit in July 2020, in relation to contract extensions, however we consider that the speed at which Birmingham Audit's previous recommendations were addressed, and the proactive attempts to improve these areas, demonstrate adequate mitigation of this risk

We have concluded that the Council has mitigated this risk and has worked proactively to improve both its procurement processes and contract monitoring and management, in order to effectively support informed decision making.

We are satisfied that the arrangements in place during the 2019/20 year were adequate, and are not qualifying our Value for Money Conclusion in this regard.

Developments in 2020/21

We will consider the below, and subsequent developments, as part of our VFM work during the 2020/21 financial year. These developments do not form part of our conclusion for the 2019/20 year.

We are aware that work relating to the possible future operating models for the procurement service was halted due to the Covid-19 pandemic, but has recently recommenced. Management should ensure that unnecessary delays to this review are avoided. We also recommend that the findings of Birmingham Audit's reviews in recent years are taken into consideration when any operational changes are made.

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. The firm, its partners, senior managers, managers and network firms have complied with the Financial Reporting Council's Ethical Standard and confirm that we are independent and are able to expressan objective opinion on the financial statements.

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

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

Details of fees charged are detailed in Appendix D.

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified which were charged from the beginning of the financial year to October 2020, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	£ Fee	Threats	Safeguards
Audit related:			
Certification of 2018/19 Housing Benefits Subsidy claim	29,500	For these three audit-related services, we consider that the following perceived threats may apply: • Self-Interest (because this is a recurring fee) • Self Review • Management	The level of recurring fees taken on their own are not significant in comparison to the confirmed scale fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, each is a fixed fee and there is no contingent element to any of them. These factors mitigate the perceived self-interest threat to an acceptable level.
Certification of 2018/19 Teachers' Pension return	7,250		Our team have no involvement in the preparation of the form which is certified, and do not expect material misstatements in the financial statements to arise from the performance of the certification work. Although related income and expenditure is included within the financial statements, the work required in respect of certification is separate from the work required to audit the financial statements, and is performed after the audit of the financial statements has been completed.
Certification of 2018/19 Housing capital receipts grant	5,250		The scope of the work does not include making decisions on behalf of management or recommending or suggesting a particular course of action for management to follow. Our team perform these engagements in line with set instructions and reporting frameworks. Any amendments made as a result of our work are the responsibility of informed management.
Education Skills Funding Agency agreed upon procedures 2018-19	5,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £5,000 in comparison to the confirmed scale fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level.

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Independence and ethics

Service	£ Fee	Threats	Safeguards
Audit related (continued):			
AMSCI reasonable assurance engagements (undertaken in August and December 2019)	15,800	Self-Interest (because this is a recurring fee)	The level of recurring fees on their own is not considered a significant threat to independence as the fee for this work is £15,800 in comparison to the confirmed scale fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level.
Certification of 2019/20 Housing Benefits Subsidy claim	27,500	For these two audit-related services, we consider that the following perceived threats may apply:	The level of recurring fees taken on their own are not significant in comparison to the confirmed scale fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, each is a fixed fee and there is no contingent element to any of them. These factors mitigate the perceived self-interest threat to an acceptable level. Our team have no involvement in the preparation of the form which is certified, and do not expect material misstatements in the financial statements to arise from the performance of the certification work. Although related income and expenditure is included within the financial statements, the work required in respect of certification is separate from the work required to audit the financial statements, and is performed after the audit of the financial statements has been completed. The scope of the work does not include making decisions on behalf of management or recommending or suggesting a particular course of action for management to follow. Our team perform these engagements in line with set instructions and reporting frameworks. Any amendments made as a result of our work are the responsibility of informed management.
Certification of 2019/20 Teachers' Pension return	7,500	• Self-Interest (because this is a recurring fee) • Self Review • Management	
Non-audit related:			
CFO insights subscription (2018/19)	10,000	Self-Interest (because this was a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £10,000 in comparison to the confirmed scale fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level. This service ceased from March 2020 following the introduction of the 2019 FRC Ethical Standard.
CFO insights subscription (2019/20)	10,000		
CASS reporting 2019 (Finance Birmingham)	7,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee is lower than the audit fee for this entity. The service is an audit related service which is permitted for the subsidiary of a public interest entity under ES 5.40, and does not cover the same ground as the audit of this entity. Any findings in our report will be agreed with management before we issue it to the FCA.

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

Action plan

Controls

- ● High – Significant effect on control system
- ● Medium – Effect on control system
- ● Low – Best practice

We have identified recommendations for the group as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2020/21 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
● (high)	**Council resilience and financial sustainability** The Council's forecasting contains significant indicative provisional funding gaps in the coming years (approximately £100m per year after the 2020/21 year). Although the Council has identified actions to close the funding gap in the 2020/21 year, work in this area is likely to continue as councils across the country adjust to the true impacts of the Covid-19 pandemic.	The Council need to continue to plan for future years and proactively identify and mitigate cost pressures and financial risks as they arise. **Management response** TBC
● (high)	**Independent review of the Council's waste service** The Non-Executive Adviser for Waste Management and Industrial Relations stated in July 2020 "The Council has not yet concluded its review of waste collection services and the independent review is long overdue." Although progress has been made by the Council during 2019/20, there still some significant decisions which still need to be made in the near future about the provision of the waste service.	We recommend that the Council continues to work closely with Wood to ensure that Phase 2 of the independent review is completed as soon as is practically possible and ensures that it can maintain effective and consistent relations with its trade union partners regardless of any future changes to the waste service delivery model. **Management response** TBC
● (high)	**Long term Highways PFI solution** The scale of the affordability gap in the long term PFI arrangements may lead to delays in agreeing revised arrangements between the Council and BHL, and therefore may lead to delays in BHL securing a new, permanent subcontractor. There is a risk that the current arrangements are not delivering the best possible value for money, and that these arrangements may need extending beyond the term of the current agreement.	The Council should work towards completing negotiations with BHL as a matter of priority, in order to ensure that a new, permanent solution can be put in place as soon as reasonably possible to achieve best value for money. **Management response** TBC

Action plan

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

Assessment	Issue and risk	Recommendations
(medium)	**Interim Highways PFI subcontracting arrangements** The interim subcontract was completed on a 'cost reimbursable' basis, meaning that the subcontractor takes little risk in relation to the contract, and the risk sits with BHL. Subject to BHL agreeing its forecast cashflow and payments with the Council, the Council has agreed to ensure that BHL remains solvent by paying its reasonable operational costs during the interim period.	We recommend that the Council ensures proactive monitoring and management of the contract between BHL and Kier is taking place, in order to mitigate the financial risk to the Council created by their agreement to ensure that BHL remains solvent by paying its reasonable operational costs during the interim period. **Management response** TBC
(medium)	**Partner funding for the Commonwealth Games** Substantial work has been undertaken by the Council to secure the required partner contributions of £75.0m, with £50.0m secured to date. The Council is continuing to work with various potential games partners to ensure that the remaining £25.0m of required partner contributions is secured, but this is not currently in place.	The Council should take further action to address the current shortfall of £25.0m in partner funding due to fund the capital expenditure budget in the second half of 2021/22 and 2022/23, if it is going to fully mitigate the financial impact of the Games. **Management response** TBC
(medium)	**Pensions data provided to the actuary** During our work to assess the accuracy and completeness of the information provided to the actuary, we identified that the data initially submitted for April 2019 did not agree to payroll records. There is a risk that providing incorrect information to the actuary will impact on the actuarial valuation provided for the financial statements, and lead to a misstatement of the Council's liabilities.	This was later corrected by the Council in a subsequent data submission to the actuary. We recommend that management put controls in place to ensure that data issues such as this are picked up prior to submission in future. **Management response** TBC
(medium)	**Incorrect capitalisation of revenue expenditure funded by capital under statute (REFCUS)** Our testing of items within Property, Plant and Equipment during 2019/20 identified items of REFCUS spend that had been incorrectly included in Assets Under Construction in the draft financial statements. While we have gained assurance that this does not represent a material risk to the financial statements in for 2019/20, incorrect treatment of the Council's spend will have a knock-on impact on budget monitoring activity if it is inaccurate.	Management should ensure that processes are in place to differentiate between spend that can be capitalised and spend that is being treated as REFCUS. **Management response** TBC

Action plan

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

Assessment	Issue and risk	Recommendations
● (medium)	**Incorrect capitalisation of revenue spend by schools** Our testing of items within Property, Plant and Equipment during 2019/20 identified items of revenue spend that had been incorrectly capitalised by schools in the draft financial statements. While we have gained assurance that this does not represent a material risk to the financial statements in for 2019/20, incorrect treatment of the Council's spend will have a knock-on impact on budget monitoring activity if it is inaccurate.	Management should ensure that processes are in place to ensure that the capital spend submitted by schools is reviewed for accuracy before it is incorporated into the Council's financial records. **Management response** TBC
● (low)	**Intra-group consolidation adjustments** After preparation of the financial statements, the finance team identified that they had treated VAT amounts incorrectly within the intra-group adjustments in the consolidation process. This led to material misstatement of the group financial statements.	Management should ensure that sufficient time is built into the closedown processes to enable a robust management and quality review to be completed prior to the financial statements being submitted for audit. **Management response** TBC
● (low)	**Open purchase orders in the general ledger** During our work on the completeness of the Council's expenditure in the 2019/20 year, we have identified that there are a significant number of open purchase orders in the general ledger that relate to previous years. Some of these date back to prior to the implementation of the current ledger system. The volume of open orders on the system means that management cannot glean any useful information from this data for their monitoring purposes.	We recommend that management look to reduce the number of historic purchase orders still open in the general ledger system, in order to make this a useful report for their consideration of the completeness of expenditure within the financial year. **Management response** TBC

Follow up of prior year recommendations

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

We identified the following issues in the audit of Birmingham City Council's 2018/19 financial statements, which resulted in recommendations being reported in our 2018/19 Audit Findings report. We have followed up on the implementation of our recommendations below.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
WIP	**Under-accrual of expenditure** Our testing of the completeness of expenditure in 2018/19 identified several items which were paid after 31 March 2019 but should have been accrued into the 2018/19 financial year. The Council performed extended analysis covering payments made during the period to 22 August 2019 which identified £9.6m of invoices (inclusive of associated VAT) which relate to 2018/19 but were not accrued. In previous years, similar issues around the completeness of expenditure had been noted.	**Recommendation** The Council should investigate why these invoices were not appropriately accrued and implement additional controls to reduce the risk of such omissions in the future. **Update 2019/20** As part of the Council's closedown process, in advance of preparing the outturn report and the financial statements, a review of outstanding purchase orders and invoice clearance was undertaken to ensure appropriate entry into the accounts. Major payments made in April and May 2020 were reviewed to check the financial year in which the expenditure should be recorded and whether accruals had been made. As part of our testing in the 2019/20 year, we again identified transactions that had not been recorded in the correct year, and additional testing has had to be performed. We will continue to follow up on this recommendation in future years.
✓	**Feeder systems posting into the wrong financial year** The Council identified that eight separate feeder files from two subsidiary systems relating to 2019/20 were posted in period 16 of the 2018/19 general ledger in error. These entries were not reflected in the accounts and have been appropriately reversed out of the ledger, so there was no impact on the 2018/19 or the 2019/20 accounts.	**Recommendation** The Council should investigate this incident and implement appropriate controls to ensure a similar situation cannot occur again in the future. **Update 2019/20** The Council has concluded that an automatic solution to prevent this issue from reoccurring isn't viable, as it increases the risk of process failures in other aspects of the feeder file process. Monitoring of files will therefore continue as before. Transactions through the ledger after the year end are monitored to ensure that only journal transactions are recorded. The Council did not identify any such transactions in relation to the 2019/20 year, and no issues have been noted through the completion of our audit.

Follow up of prior year recommendations

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

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
WIP	**Errors noted in property valuations** We identified errors in the work of the valuer relating to the valuation of secondary schools, and a valuation where expenditure was used instead of profit as the basis of the valuation.	**Recommendation** Appropriate review should be included as part of the valuation process to ensure that any errors in valuation are identified and resolved. **Update 2019/20** A two-tier checking system has been put in place with a peer review by an appropriately qualified surveyor followed by a management review by the Head of Service. An independent professional review of all cyclical valuations undertaken by in-house valuers has been carried out by Avison Young's valuation team who specialise in valuations of this nature. Our audit work in 2019/20 has again identified issues in relation to the valuations performed for the purposes of the financial statements. We will continue to follow up on this recommendation in future years, as the steps that the Council has taken to address this risk have not been completely effective.
WIP	**Disposals omitted from the prior year** An asset with a net book value of £9.4m was disposed of in 2017/18 but this was not accounted for until 2018/19. We were satisfied that this was an isolated incident due to the unusual nature of the arrangement, and there was no material risk to the 2018/19 accounts.	**Recommendation** The Council should ensure there are appropriate controls in place to ensure all disposals are accounted for in the correct year. **Update 2019/20** The Council informed us that the Legal, Finance and Property teams have met, with a view to tightening procedures and the sharing of information. Processes have been implemented to ensure that completion memos are recorded on IPMS and subsequently reconciled with cash receipts, with any differences highlighted at the earliest opportunity. Where external legal support is used the agreement will include the requirement to provide a completion memo for ensuring property records are maintained appropriately. All transactions are monitored on a monthly basis by Property Services Officers at each Capital Receipts meeting. Our testing of disposals recorded in the 2019/20 financial statements has again identified an asset that should have been derecognised in the previous financial year. At the time of writing this report, further testing is in progress to assess the potential impact of this on the financial statements. We will continue to follow up on this recommendation in future years, as the steps that the Council has taken to address this risk have not been completely effective.

Follow up of prior year recommendations

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

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	**Adjustments to Council Dwelling valuations** As part of the valuation of Council Dwellings we identified that the valuer applied a £5k adjustment rate for bedrooms to the majority of archetypes. On further review, the £5k was based on the approach taken in previous years and it was not clear that a review had been carried out to check if this value was still appropriate.	**Recommendation** The Council should ensure that assumptions used in the valuation of property, plant and equipment, including council dwellings, are reviewed for appropriateness each year and updated where appropriate. In particular, a review of the actual impact of the number of bedrooms on the valuation of council dwellings should be carried out in order to support the value of the adjustment. **Update 2019/20** A full beacon review has been undertaken for 2019/20, including a review of the valuation methodology adopted. Beacon properties for 2019/20 have been identified to ensure a fair representation of the City area, and a more nuanced approach has been taken to adjusting the valuations for the number of bedrooms in a property. Based on our testing of the Council's HRA Dwelling valuations, we are satisfied that this approach is appropriate.
WIP	**Multiple accounts assigned to a single user** We identified a high number of users with multiple accounts within SAP. Whilst some of these are required for FireFighter ID purposes, it appears that some are unnecessary.	**Recommendation** Management should consider which users need multiple accounts within SAP and remove access to those where this function where is it not required. **Update 2019/20** The Council's view is that the level of access identified in the recommendation is required to ensure that system functionality can be maintained. Regular reviews of access are undertaken and the new Governance, Risk and Compliance tool is being used to support the monitoring of access.
WIP	**General IT controls** As part of our review of IT controls, we identified an excessive number of users with inappropriate access to high risk T-codes within SAP. Our IT audit identified 109 users with potentially inappropriate access out of 668 users tested due their higher risk nature. The risk is that an excessive number of users have access to critical transactions at high level of authorisation, which we would normally expect to be restricted to system administrators. We noted this is primarily due to the current Firefighter setup and the fact that 8 users have SAP ALL access.	**Recommendation** Management should review all access and reassign the relevant transactions in accordance with business need and current job duties only. **Update 2019/20** The Council's view is that the level of access identified in the recommendation is required to ensure that system functionality can be maintained. Regular reviews of access are undertaken and the new Governance, Risk and Compliance tool is being used to support the monitoring of access.

Audit adjustments

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

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2020.

Detail	Comprehensive Income and Expenditure Statement £m	Balance Sheet £m
Valuation of HRA Dwellings		
An error within the Council's valuation process for HRA Dwellings led to a beacon property which had been correctly valued as a 3 bed maisonette being incorrectly incorporated into the workings as a 1 bed maisonette. Correcting this error confirmed that the HRA Dwellings valuation was overstated by £23.2m, and the financial statements have been amended as follows:		
Dr Revaluation decrease recognised in the Revaluation Reserve	23.2	
Cr Gross book value of Council Dwellings		(23.2)
This adjustment has no impact on the Council's general fund balance.		
Valuation of Other Land and Buildings		
Tyseley Energy Recovery Facility, within other land and buildings, was understated by £2.4m due to a transcription error between the valuation report and the fixed asset register. The financial statements have been amended to show the correct valuation, with the impact as follows:		
Dr Gross book value of Other Land and Buildings		2.4
Cr Revaluation increase recognised in the Revaluation Reserve	(2.4)	
This adjustment has no impact on the Council's general fund balance.		
Adjustment to the Financial Outturn		
At its meeting on 10 November 2020, Cabinet agreed an amendment to its previously reported outturn report to reflect the replacement of £8.7m of Direct Revenue Financing of Capital by increasing the Council's Capital Financing Requirement. This amendment had the following impact on the financial statements:		
Dr Unearmarked Reserves (Usable Reserves)		8.7
Cr Capital Adjustment Account (Unusable Reserves)		(8.7)
Overall impact	**£20.8m**	**(£20.8m)**

Audit adjustments

Misclassification and disclosure changes

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

Disclosure Reference	Detail	Adjusted?
Balance Sheet	The Council has a net deficit balance of £8.5m on its non-schools Dedicated Schools Grant. Our view is that this balance should form part of the unearmarked general fund balance. The Council has accounted for this balance in line with our expectations, however this amount has then been disclosed separately on the face of the Balance Sheet. We have requested that the reserves be rearranged on the face of the Balance Sheet so that this DSG balance is more clearly linked to the other unearmarked reserves. The balance is not material to the financial statements.	✓
Standards Issued but Not Adopted (Note 3)	Additional information has been added to the narrative around IFRS 16 for clarity. The new standard will come into effect on 1 April 2021 for Local Government bodies, including the Council.	✓
Sources of Estimation Uncertainty (Note 4)	The Council has included disclosures in Note 4 in relation to its pensions assets. As a result of the impact of Covid-19 on the global financial markets, the valuation of the Pension Fund's investment properties are also reported on the basis of material valuation uncertainty. The Council's share of these assets is £358.2m.	✓
Events after the Reporting Period (Note 5)	Additional disclosures have been added to Note 5 with regards to the following: • The outturn amendment agreed by Cabinet to reflect the replacement of £8.7m of Direct Revenue Financing of Capital by increasing the Council's Capital Financing Requirement; and • The impact of the Covid-19 pandemic on Birmingham Airport Holdings Limited, in which the Council owns a 18.68% share.	✓
Pensions Reserve (Note 20)	In the draft financial statements, the figures for 'reversal of items relating to retirement benefits debited or credited to the surplus/deficit on the provision of services in the CIES' and 'employer's pensions contributions and direct payments to retirees payable in the year' were both understated by £4.8m, due to the omission of the unfunded element of the pension liability. These balances should have been £206.7m and £153.9m respectively. The net impact on the pension reserve is £nil, and this is the only place in the financial statements where these figures are shown separately rather than being shown net.	✓
Provisions (Note 33)	The narrative around Equal Pay claims has been updated to reflect the wording agreed in previous years, and clarify that the position is as at 31 March 2020 rather than 28 February 2020.	✓
Borrowing (Note 35)	£2.0m of borrowing has been moved from long-term to short-term to correctly reflect the position at 31 March 2020. This adjustment has no impact on the Council's overall borrowing balance.	✓

Audit adjustments

Disclosure Reference	Detail	Adjusted?
Financial Instruments (Note 40)	The following amendments have been made to the Council's disclosures: Categories of Financial Instruments: • £8.5m of debtor balances have been reclassified from 'fair value at amortised cost' to 'debtors that are not financial instruments'. This balance relates to housing benefits, and does not meet the definition of a financial instrument. • Amendments have been made to the split of short term and long term borrowings to reflect the adjustment included on the previous page of this report. Income, Expenses, Gains and Losses: • The total shown for 2019/20 in the draft accounts was £204.7m but should have been £187.9m to accurately reflect the balances above. Financial Liabilities – Fair Value Hierarchy: • The fair value of the PFI/leasing element of other long term labilities has been decreased by £61.2m to £618.1m. • The fair value of the bonds has been decreased by £13.6m to £496.5m. • The fair value of the PWLB liability has been amended to disclose a fair value of £3,203.8m, instead of the £3,408.4m disclosed in the draft financial statements. Financial Assets – Fair Value Hierarchy: • Balance in relation to long term debtors have been corrected to show a carrying amount of £90.4m and a fair value of £98.6m. These figures were inconsistent with other disclosures in the draft financial statements. None of the above adjustments have any impact on other areas of the financial statements.	✓
Financial Instruments (Note 41)	Disclosure of the sensitivity analysis in relation to the fair value of fixed rate borrowing liabilities has been corrected to show an impact of (£517.7m). This figure was inconsistent with other disclosures in the draft financial statements.	✓
Service Concessions (Note 44)	Disclosure of contingent rentals has been added, as this was omitted from the draft financial statements.	✓
Officers' Remuneration (Note 46)	Additional narrative has been added to Note 46, in order to provide the reader of the accounts with more clarity regarding the disclosures that are being made.	✓
Related Parties & Pooled Budgets (Note 49)	Disclosure of the contributions made to aligned budgets by both the Council and the CCGs have been updated to reflect more accurate information. The CCGs' contributions in particular were estimated based on data from several years ago. At the time of writing this report, our work to consider the revised figures is ongoing.	✓

Audit adjustments

Disclosure Reference	Detail	Adjusted?
Collection Fund (Note C1)	The tax base information disclosed in the draft financial statements was the information that is relevant to the 2020/21 financial year, not the 2019/20 financial year. This has been amended to show the tax base at January 2019, on which the Council Tax for 2019/20 was set.	✓
Various	A number of other minor changes have been made to disclosure notes and accounting policies throughout the financial statements to improve accuracy, clarity and user understanding.	✓

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2019/20 audit which have not been made within the final set of financial statements. The Audit and Performance Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Statement £m	Balance Sheet £m	Reason for not adjusting
Incorrect capitalisation of spend Our testing of a sample of assets transferred out of Assets Under Construction and into operational categories of Property, Plant and Equipment identified assets that should never have been recorded as capital spend, as they should have been treated as either revenue expenditure or REFCUS. We have extrapolated the errors that we identified in order to arrive at an estimated impact of similar transactions. The extrapolated error would impact on the financial statements as follows:			Adjustment is an estimate, and was not material to the financial statements.
Dr Expenditure	7.7		
Cr Property, Plant and Equipment		(7.7)	
Expenditure for which the Council was unable to provide supporting documentation During testing of a sample of the Council's expenditure transactions, we selected several items relating to the Council's use of purchase cards. Due to the pandemic, the Council have been unable to access the supporting documentation for these transactions, which is kept in their offices. We have determined that the total value of similar transactions in the 2019/20 year was £11.5m, and so we do not consider that this gives rise to a risk of material misstatement in the financial statements If all such expenditure did not occur, the resulting adjustment would be			This is not necessarily an error in the financial statements, but instead is documentation that was inaccessible due to Covid-19.
Dr Cash and Cash Equivalents		11.5	
Cr Expenditure	(11.5)		
Overall impact	**(£3.8m)**	**£3.8m**	

Audit adjustments

Unadjusted misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have not been made in the final set of financial statements.

Disclosure Reference	Detail	Reason for not adjusting
Material IAS 19 entries (Note 10)	The CIPFA Code requires expenditure to be allocated to service segments. The Council has made a judgment that material one-off changes to pension costs in 2018/19, mainly due to settlements and the impact of the McCloud judgement, should be shown separately on the face of the Comprehensive Income and Expenditure Statement as a 'superannuation adjustment'. The Council has included additional disclosures within Note 10 to explain the nature of this entry and ensure that the judgement regarding presentation has been made clear to the reader of the accounts. Our view is that the past service cost should be allocated to the Council's individual service segments, as presented in the Comprehensive Income and Expenditure Statement, however we are satisfied that the Council's judgement does not result in a material misstatement to the accounts.	The Council is of view that this is a material item that should be reported separately.
Prior Period Restatement (Note 23)	The Council has completed a retrospective adjustment to the financial statements, to incorporate the disposal of two assets during 2017/18 which had not previously been processed. In our view, this adjustment was not necessary, as the accounting standards only require the correction of material errors in prior periods. We therefore consider that the correct treatment would be to dispose of these items in the year in which the issue was noted, being the 2019/20 financial year. The treatment has no impact on the Council's balances as at 31 March 2020.	Restatement is material to the Council using its own internal materiality threshold
Debtors (Note 30) and Creditors (Note 32)	There was a change in the Code from 2018/19 to remove the requirement to disclose debtors and creditors by type of counterparty, but the Council has adopted the previous format based on a judgement that an analysis by customer is most appropriate for the nature of the Council's balances. This does not strictly meet the IAS 1 requirement to disclose based on size, nature and function. We are satisfied this would not make a material difference to the reader of the accounts.	The Council's view is that their presentation provides the best information for readers to draw judgements on the recoverability of debt.
Provisions (Note 33)	The Council has assessed its pension guarantees under IAS 37, IFRS 4 and IFRS 9. The Council has made a judgement that its current pension guarantees relating to contribution rates should be accounted for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets and have recognised a provision of £8.9m, as well as a related contingent liability. We are satisfied that the valuation basis is reasonable, but in our view IAS 37 is not applicable to these contractual guarantees and so they would be more appropriately disclosed as an 'other liability' within the Balance Sheet. This is a presentation issue only and is immaterial to the financial statements.	The Council's view is that these guarantees are onerous elements of a contract and therefore covered by IAS 37.

Audit adjustments

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2018/19 financial statements.

Detail	Comprehensive Income and Expenditure Statement £m	Balance Sheet £m	Reason for not adjusting
Equal Pay Provision The differential used in an element of the calculation was incorrect, so the provision was overstated. Correcting this would have had the following impact:			Adjustment was not material to the financial statements.
Dr Provisions		4.3	
Cr Unusable Reserves		(4.3)	
Completeness of expenditure (capital and revenue) Following errors identified in sample testing, the Council reviewed payments made between 1 April 2019 and 22 August 2019, and identified £5.2m of capital expenditure and £4.6m of revenue expenditure which related to 2018/19 but was not appropriately accrued. Linked to this the council also identified £1.3m of income which related to some of these invoices and was also not accrued. Note that these figures include associated VAT so the actual impact on the Council's accounts is likely to be lower, but the impact was assessed as follows:			Adjustment was not accurate, and was not material to the financial statements.
Dr Debtors		1.3	
Cr Cost of Services	(1.3)		
Dr Property, plant and equipment		5.2	
Dr Cost of Services	4.4		
Cr Creditors		(9.6)	
Overall impact	**£3.1m**	**(£3.1m)**	

Fees

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

Audit fees	Proposed fee	Final fee
Council Audit	333,659	*TBC*
Audit of subsidiary companies:		
• Acivico Limited	35,000	35,000
• NEC (Developments) plc	35,000	35,000
• PETPS subsidiaries	37,500	37,500
Total audit fees (excluding VAT)	**£404,909**	***TBC***

We have given consideration to additional fees for the impact of Covid-19 on our audit processes, and have determined that an additional fee of £36,250 is appropriate.

Note that at the time of writing this report, neither this, nor the additional audit fees of £55,500 initially proposed for the 2019/20 year (per our Audit Plan) have been agreed. All fee variations are subject to approval by PSAA in line with the Terms of Appointment.

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

- **Fees disclosed per financial statements** **£289k** (rounded to £0.2m)
- Less fee variation in relation to 2018/19 (£47k)
- **2019/20 fees per financial statements** **£242k** **(PSAA Scale Fee)**
- Additional fees for 2019/20 per our Audit Plan £56k
- Additional fees for 2019/20 due to Covid-19 £36k
- **Total Council fees per table to the left** **£334k**

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services:		
• Certification of 2018/19 Housing Benefits Subsidy claim (undertaken June-November 2019)	22,000	29,500
• Certification of 2018/19 Teachers' Pension return (undertaken October-November 2019)	7,250	7,250
• Certification of 2018/19 Housing capital receipts grant (undertaken January 2020)	5,250	5,250
• Education Skills Funding Agency agreed upon procedures 2018-19 (undertaken July 2019)	5,000	5,000
• AMSCI reasonable assurance engagements (undertaken in August and December 2019)	15,800	15,800
• Certification of 2019/20 Housing Benefits Subsidy claim (commenced August 2020)	27,500	*TBC*
• Certification of 2019/20 Teachers' Pension return (commenced October 2020)	7,500	*TBC*
Non-Audit Related Services:		
• CFO insights subscription (2018/19)	10,000	10,000
• CFO insights subscription (2019/20 - to 31 March 2020 only)	10,000	10,000
• CASS reporting for Finance Birmingham 2019 (undertaken April-July 2019)	7,000	7,000
Total non-audit fees (excluding VAT)	**£117,300**	***£TBC***

Grant Thornton

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Birmingham City Council

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25 November 2020

Dear Sirs

Birmingham City Council
Financial Statements for the year ended 31 March 2020

This representation letter is provided in connection with the audit of the financial statements of Birmingham City Council and its subsidiary undertakings, (as listed in note 49 of the Council's financial statements) for the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the group and Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

i. We have fulfilled our responsibilities for the preparation of the group and Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

ii. We have complied with the requirements of all statutory directions affecting the group and Council and these matters have been appropriately reflected and disclosed in the financial statements.

iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the group and Council financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements.

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vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

vii. Except as disclosed in the group and Council financial statements:

   a. there are no unrecorded liabilities, actual or contingent

   b. none of the assets of the group and Council has been assigned, pledged or mortgaged

   c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The group and Council financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

xi. We have considered the unadjusted misstatements schedule included in your Audit Findings Report and attached. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Council and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.

xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

xiii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xiv. The prior period adjustments disclosed in Notes 8 and 23 to the financial statements are accurate and complete. There are no other prior period errors to bring to your attention.

xv. We have updated our going concern assessment and cashflow forecasts in light of the Covid-19 pandemic. We continue to believe that the group and Council’s financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that current and future sources of funding or support will be more than adequate for the Council’s needs. We believe that no further disclosures relating to the group and Council's ability to continue as a going concern need to be made in the financial statements.

Rebecca Hellard
Chief Finance Officer
Birmingham City Council
Ground Floor, Zone 2
10 Woodcock Street
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xvi. We have considered the impact of the Council's Equal Pay liability and we are satisfied that the Council can manage its cash flow through the receipts from the sale of assets to meet all of its current Equal Pay Liabilities

Information Provided

xvii. We have provided you with:

a. access to all information of which we are aware that is relevant to the preparation of the group and Council's financial statements such as records, documentation and other matters;

b. additional information that you have requested from us for the purpose of your audit; and

c. access to persons within the Council via remote arrangements, in compliance with the nationally specified social distancing requirements established by the government in response to the Covid-19 pandemic. from whom you determined it necessary to obtain audit evidence.

xviii. We have communicated to you all deficiencies in internal control of which management is aware.

xix. All transactions have been recorded in the accounting records and are reflected in the financial statements.

xx. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xxi. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the group and Council, and involves:

a. management;

b. employees who have significant roles in internal control; or

c. others where the fraud could have a material effect on the financial statements.

xxii. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

xxiii. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xxiv. We have disclosed to you the identity of the group and Council's related parties and all the related party relationships and transactions of which we are aware.

xxv. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

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xxvi. We confirm the reasonableness of significant assumptions used in making accounting estimates, including those measured at fair value. We also confirm the following:

a. Property, Plant and Equipment. We confirm that the controls operated over the recognition, valuation, presentation and disclosure of Property, Plant and Equipment are appropriate and materially accurate estimates of the Council's non-current assets. We also confirm that the reporting of Property, Plant and Equipment complies with the relevant frameworks

b. HMMPFI – We confirm that the risks in relation to service delivery of highways through the special purpose vehicle do not pose a going concern threat to the Council.

c. Equal Pay – measurement. We confirm that the measurement methods including related assumptions and models are appropriate and have been consistently applied. We also confirm that we have provided you with all information available to us that could impact on the estimated value of the Council's liability.

d. Equal Pay – recognition. We confirm that the receipt of an Equal Pay claim is the appropriate point at which to recognise the Council's liability and these recognition criteria have been consistently applied. We also confirm that it is not possible to accurately estimate the volume, type or value of future Equal Pay claims. We have reached this conclusion due to the number of variables impacting on the claims including future court judgement, the number of claims the Council receives, the settlement amount for claims, and any costs in respect to taxation.

e. Academy Schools subject to PFI. We confirm that no onerous contracts as defined by IAS 37 exist.

f. Group boundaries. We confirm that we do not have control as defined by IFRS 10 of Performances Birmingham Limited and Birmingham Museums Trust Limited and they are therefore not consolidated.

g. Completeness of expenditure. We confirm that expenditure invoices have been appropriately accrued for in the correct financial year and expenditure is not materially misstated.

Annual Governance Statement

xxvii. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

xxviii. The disclosures within the Narrative Report fairly reflect our understanding of the group and Council's financial and operating performance over the period covered by the financial statements.

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Approval

The approval of this letter of representation was minuted by the Council's Audit Committee at its meeting on 25 November 2020.

Yours faithfully

Name……………………………

Position………………………….

Date…………………………….

Name……………………………

Position………………………….

Date…………………………….

Signed on behalf of the Council

Rebecca Hellard
Chief Finance Officer
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Birmingham
City Council

Statement of Accounts 2019/20

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NARRATIVE REPORT

KEY FACTS ABOUT BIRMINGHAM

Birmingham lies at the heart of the West Midlands with a population of 1.2 million that is forecast to increase by 7.7% to 2032. Birmingham's population is the most diverse of any major city outside London and it is also a young city with a relatively high proportion of young people and a lower proportion of working age and older people.

However, Birmingham faces a number of key challenges with:

- Being ranked the 7th most deprived local authority in England and the most deprived in the West Midlands with 43% of its population living in the 10% most deprived areas;
- An employment rate of 63.4% compared to the UK average of 73.9%;
- 28% of children and 26% of over 60's are in income deprived households.

Other key factors that drive the Council's activities and its need to spend include:

- The City is home to 440,000 households with an average occupancy of 2.6 people;
- There are some 34,600 local enterprises within the local economy;
- Some 200,000 pupils attending schools within the City;
- 16.9% projected increase between 2017 and 2022 in the number of people aged 90 or over. Increases are also forecast in the 65-69, 70-74,75-79, 80-84 and 85-89 age bands.

KEY FACTS ABOUT THE COUNCIL

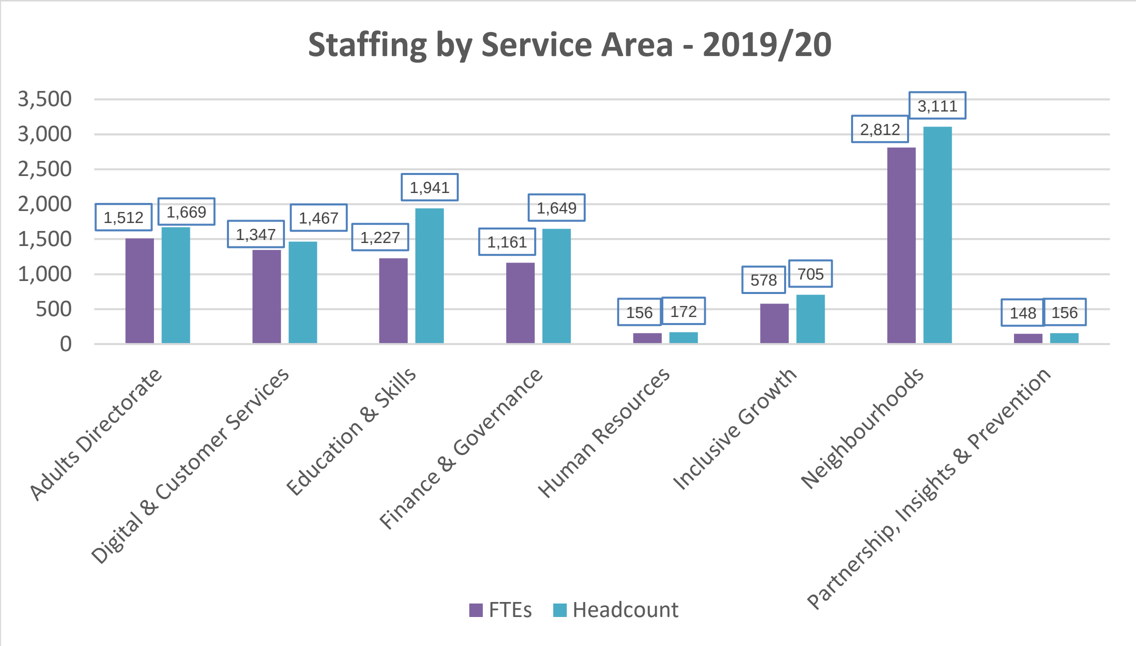
The Council elections held in May 2018 were on the basis of all 101 seats being contested, with Councillors elected for a four year term. The political composition of the Council following the election was:

Party	Councillors
Labour	67
Conservative	25
Liberal Democrat	8
Green	1
Total Councillors	101

The vision and strategies shape the services that the Council delivers for the citizens of Birmingham, which include:

- Provision of 60,185 Council dwellings
- Provision of education through 238 funded schools with the balance of provision through 186 academy schools and 19 free schools
- Maintenance of more than 2,500 km of roads
- Collection of household waste equivalent to 354kg per person per annum
- Provision of 39 libraries
- Processing of some 3,500 planning applications per annum

In supporting the delivery of services, the Council employed, as at 31 March 2020, 25,628 staff (31 March 2019: 27,349) which equated to 19,441 full time equivalents (fte) (31 March 2019: 20,475). If schools' staff are excluded, the Council employed 10,870 staff (31 March 2019: 10,985) which equated to 8,941 fte (31 March 2019: 8,783 fte). The chart below shows the Council's staffing, excluding school staff, by service area for 31 March 2020.



THE COUNCIL'S AIMS AND PRIORITIES

The Council's aim is to transform and modernise services in response to changing demand from a growing population. The Council has determined to focus resources on six key priorities:

- Birmingham - an entrepreneurial city to learn, work and invest in.
- Birmingham - an aspirational city to grow up in
- Birmingham - a fulfilling city to age well in
- Birmingham - a great city to live in
- Birmingham residents gaining the maximum benefit from hosting the Commonwealth Games
- Birmingham - a city that takes a leading role in tackling climate change.

The Challenge of Climate Change

The Council has committed to take a leading role in dealing with the significant challenges arising from climate change.

On 11 June 2019 the Council declared a climate emergency and made the commitment to take action to reduce the city's carbon emissions and limit climate change. The ambition was set for the Council and city to become net zero carbon by 2030, or as soon as possible thereafter as a 'just transition' allows – ensuring we protect and bring our communities with us. This is the city's 'route to zero' (R20).

On 25 June 2019 the Council's Cabinet agreed to add a new priority to the Council Plan which states that Birmingham will be a city that takes a leading role in tackling climate change. This commitment will embed climate action in the Council's decision-making process to make sure that all service areas contribute to the R20 journey.

The Route to Zero (R20) Taskforce was created in autumn 2019 and brings together Members and officers from the Council and representatives from the West Midlands Combined Authority, the NHS, higher education, business, faith communities, the third sector, youth climate strikers, climate campaigners, and other key stakeholders and partners.

Members of the Taskforce will work together to provide a voice for the city and inform the development of an action plan for how Birmingham can tackle climate change and become net zero carbon by 2030. This will ensure individuals, communities, businesses, partners, and others are empowered to tackle the climate emergency together and ensure Birmingham is a city in which all residents can lead sustainable, healthy, safe, and fulfilling lives. The Taskforce is currently working to develop recommendations for how everyone in Birmingham can contribute to tackling climate change and benefit from a safer, fairer, and more sustainable city.

The Council takes its environmental responsibilities seriously and its work to ensure Birmingham is a great, clean and green city to live in was ongoing prior to the June 2019 declaration of a climate emergency.

In 2013 the Council set a target to reduce carbon emissions in the city by 60% by 2027. The most up to date national data (from 2017) shows that good progress is being made: Birmingham's direct carbon emissions have decreased by 38.6% against 1990 levels. Some of this work includes:

- The Birmingham Clean Air Strategy which sets out a series of pledges as to how the Council and others in the city can support the journey towards cleaner air, including creating a Clean Air Zone. The Clean Air Zone was scheduled to come into effect by the end of summer 2020, however, the Council has requested to delay its launch due to the profound impact of Covid-19 on the economy. The Clean Air Zone has been given an approved launch date by government and it will now go live on 1 June 2021.

- The Natural Rivers and Green Corridors project will improve woodlands, grasslands, wetlands, and watercourses along the River Rea and its tributaries in south-west Birmingham and the River Tame in west Birmingham

- The Naturally Birmingham Project will enhance the city's parks and green spaces while also focussing on children, housing, health and wellbeing, and jobs and skills

- The draft Birmingham Transport Plan (January 2020) set out a bold approach to reduce transport emissions by reallocating road space, transforming the city centre, promoting active travel, and managing demand through parking. Towards the end of the public consultation on that plan, the country was placed in lockdown. An Emergency Birmingham Transport Plan was published in May 2020, setting out the short, medium and longer-term actions Birmingham can take to enable a low carbon, clean air recovery from Covid-19. The Emergency Birmingham Transport Plan will be replaced by the Birmingham Transport Plan 2031, which is due to be published later in 2020.

- The Birmingham District Energy Scheme is the largest low carbon heating network in Birmingham and is owned and operated by ENGIE through a partnership with Birmingham City Council, Aston University, and Birmingham Children's Hospital under the name of Birmingham District Energy Company (BDEC). BDEC supplies low carbon, low cost energy to major energy consumers across the city centre

- Birmingham Municipal Housing Trust (BMHT) develops affordable social housing in the city. Under the current programme, the BMHT Building Specification includes energy and water saving measures for new developments, and BMHT are also exploring options for using more sustainable construction methods to reduce the impact on the environment

Commonwealth Games 2022

The 2022 Commonwealth Games were awarded to Birmingham in December 2017. This has given the city a lead time of some 4½ years to develop the facilities and relevant infrastructure to host the Games compared to the more usual time frame of 7 years. The Commonwealth Games will include the participation of more than 6,500 athletes and officials from up to 71 Commonwealth Nations and territories, with an expected influx to Birmingham of more than 400,000 individual visitors.

Whilst the Commonwealth Games sporting action will be centred in and around Birmingham, a number of events will be held at venues outside of the city, including a new Aquatics Centre in Sandwell, Mountain Biking at Cannock Chase, Lawn Bowls at the home of Bowls England in Leamington Spa, multiple sports at the NEC and Track Cycling at the Olympic Velodrome, in London's Queen Elizabeth II Park.

The funding of the Commonwealth Games overall is complex and includes a substantial contribution from commercial revenues such as TV rights. The remaining balance of costs are shared between Central Government and the Council, with around 75% of costs net of commercial revenues funded by Central Government, whilst the balance of 25% will be funded by the Council including contributions from key local and regional partners, representing an investment of £3 from the Government for every £1 of local investment. Based on estimates at the time of the Commonwealth Games bid, the Council's contribution was estimated at a total of £184.6m but leveraging in some £594m of government funding. In addition, the Council will be providing sufficient capacity to accommodate a minimum of 6,500 athletes and team officials during Games Time and to deliver a range of services to the Games as outlined in the Host City Contract. The hosting of the games will leave a substantial legacy to the City and region through the enhanced sporting facilities and infrastructure.

The impact of Covid-19 on the Council is discussed more fully below but in respect of the Commonwealth Games, construction was paused at the end of March 2020 whilst safe working practices were introduced on major projects. Construction was resumed on all paused sites by mid-April 2020. A detailed review of plans is taking place to consider delivery timelines, costs and any mitigating actions that can be put in place. It is considered that all sporting venues continue to be on track to be available in time for the Games in 2022.

GOVERNANCE ARRANGEMENTS

Strategic Programme Board

The Kerslake Review of the Council's governance arrangements took place in 2014. Following this review the Birmingham Independent Improvement Panel was set up in 2015 to provide external challenge and support to the Council to effect the improvements recommended in the Kerslake report. The Panel provided challenge and support to the Council for four years and stood down at the end of March 2019.

In March 2019 Cabinet considered the stock-take report of the Council's improvement journey and endorsed an outline plan of improvement areas for 2019-20 whilst also agreeing to report, voluntarily, to the Secretary of State in autumn 2019 and spring 2020.

Cabinet endorsed the adoption of an innovative new model of "progressive assurance." This model entailed the formation of a quarterly Strategic Programme Board and the engagement of specialist Non-Executive Advisors (NEAs) aligned to specific risk and professional areas of focus to support the Council Management Team for twelve months from July 2019 to July 2020. The NEAs offer external perspectives, challenge and peer support to help drive forward the Council's improvement and modernisation journey.

'Progressive assurance' builds on analysis of assurance and improvement models across a range of different sectors and seeks to embed an innovative and novel model with wider applicability and learning for Local Government.

Covid -19

The Covid-19 pandemic, whilst only impacting in the latter part of the financial year covered by these statements, has had a profound effect on the wellbeing of the citizens and economy of Birmingham.

The Council activated its Business Continuity and Emergency Plans on 18 March 2020. This meant that all normal reporting structures and approval pathways were replaced by the Strategic Tactical and Operational Groups in addition to the Corporate Business Continuity, Economic and Recovery Groups with the Acting Chief Executive, Professor Graeme Betts, as Gold Commander and other senior officers in support. Named officers had full authorisation to invoke and direct all activities across the Council to manage its response in line with the agreed Aims and Objectives.

On 27 March 2020, the Council formally declared a Major Incident which required any activity or impact related to Covid-19 had to be passed and co-ordinated through the Command Team. This was necessary to ensure that the Council could deal with the unprecedented pressures in dealing with the impact of Covid-19 and ensuring that services were able to be continued to support the City's most vulnerable citizens.

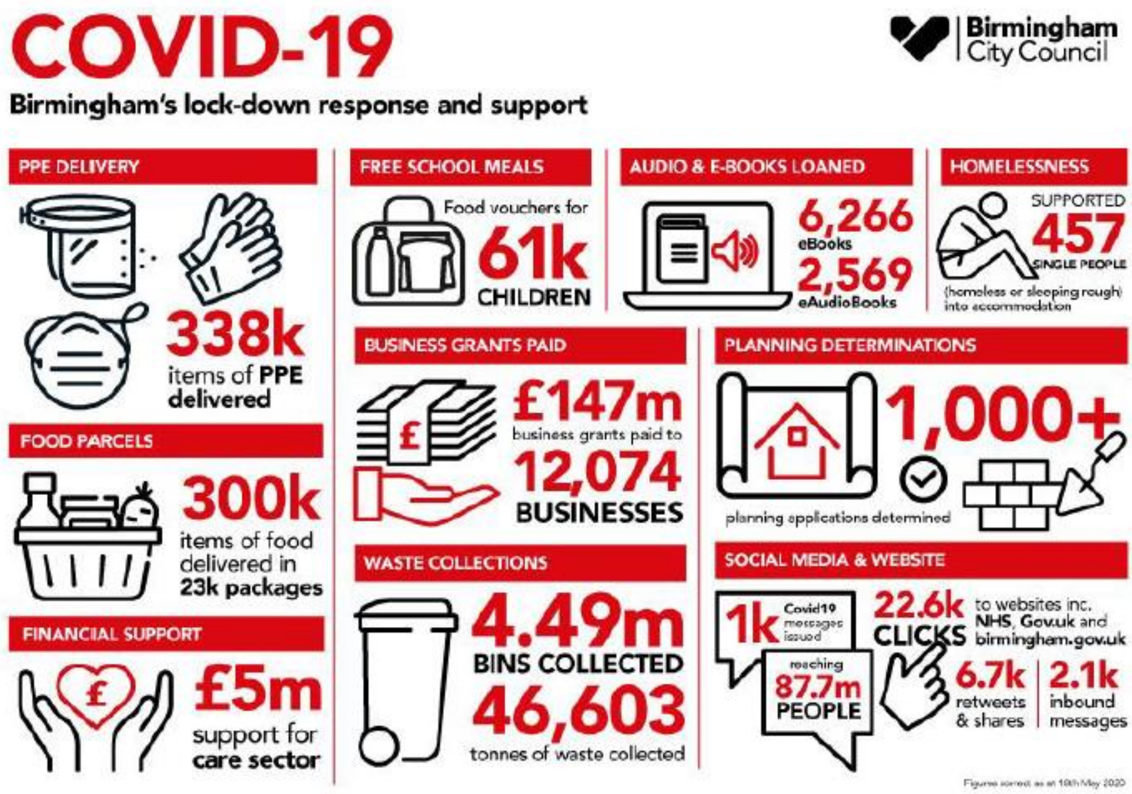
The pandemic has had a significant financial impact on the Council through the changes that have had to be made in service delivery and support offered and through loss of income. The full impact may not be known for some time as the time and the extent to which the local economy manages to recover cannot yet be determined. Whilst government financial support has been made available to the Council, the amounts announced to date do not fully cover the anticipated costs borne by the Council but further announcements are expected in the future. The financial impact is more fully covered in the section on Future Revenue and Capital Expenditure Plans of this narrative report.

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

The Council has focused its response to the current situation in the following areas.

- Health and Wellbeing
- Education and Skills
- Communities, including Housing and Bereavement Services
- Street Scene and Parks, including Waste Management
- Transport
- Business Support
- Council Tax Support and Covid-19 Hardship Fund
- Council Finances

The infographic below gives a brief overview of some of the activity that the Council has delivered. A full briefing of the impact of Covid-19 on the Council was considered at its meeting on 9 June 2020.



Highways PFI Arrangements

The Council entered into a Highways Management and Maintenance Private Finance Initiative (HMMPFI) contract with Amey Birmingham Highways Ltd (ABHL) to improve the city's highway infrastructure and provide operational services on the highway network over the 25 year period of the contract. The contract commenced on 7 June 2010. ABHL appointed Amey LG Ltd (ALG) to be the main subcontractor for the provision of services on behalf of ABHL.

Whilst the contract was delivered in the early part of the term, the Council identified concerns regarding:

- The delivery of improvements during the Core Investment Period, principally on roads and pavements, and
- Inconsistent and poor operational performance.

The principal dispute began in 2014 and went through:

- Adjudication in June 2015
- The High Court in February 2016, and
- The Court of Appeal in January 2018.

The Council won the case at the Court of Appeal and, in July 2018, the Supreme Court refused ABHL leave to appeal, ending the dispute in the Council's favour.

At its meeting on 22 May 2019, Cabinet agreed that the Council should enter into negotiation to finalise a settlement agreement in respect of all disputes under the HMMPFI contract. This would enable a managed transition to new arrangements for provision within the existing contract together with an appropriate negotiated settlement.

Following negotiations, a joint statement of the Council and Amey PLC was issued on 1 July 2019 which stated that agreement had been reached for Amey PLC to exit the Birmingham Highways PFI contract. The joint statement added that Amey would continue to provide services until a replacement contractor was found to deliver services on an interim basis, with the interim contractor in place no later than 31 March 2020. Kier Highways Ltd was appointed as sub-contractor to BHL for a 15 month period to 30 June 2021.

A full retendering of the contractual arrangement to find a permanent replacement will take place during the current financial year.

ICT Services

The Council entered into a contract with Capita for the provision of ICT services commencing in 2006 for a period of 10 years with an option to extend for a maximum of a further five years until 31 March 2021. At its meeting on 16 April 2019, Cabinet agreed to the partial termination of Capita ICT Services contract with proposed implementation from August 2019.

Cabinet agreed to return the management of its ICT services back to the Council but, to minimise risk, a number of specific services remained with Capita ICT Services until the end of the contract. The services retained by Capita include data centres, offshore SAP support, corporate telephony and some IT support. Services to schools continued to be delivered directly through Capita ICT services.

A SUMMARY OF THE COUNCIL'S FINANCIAL PERFORMANCE FOR THE YEAR ENDED 31 MARCH 2020

Covid-19

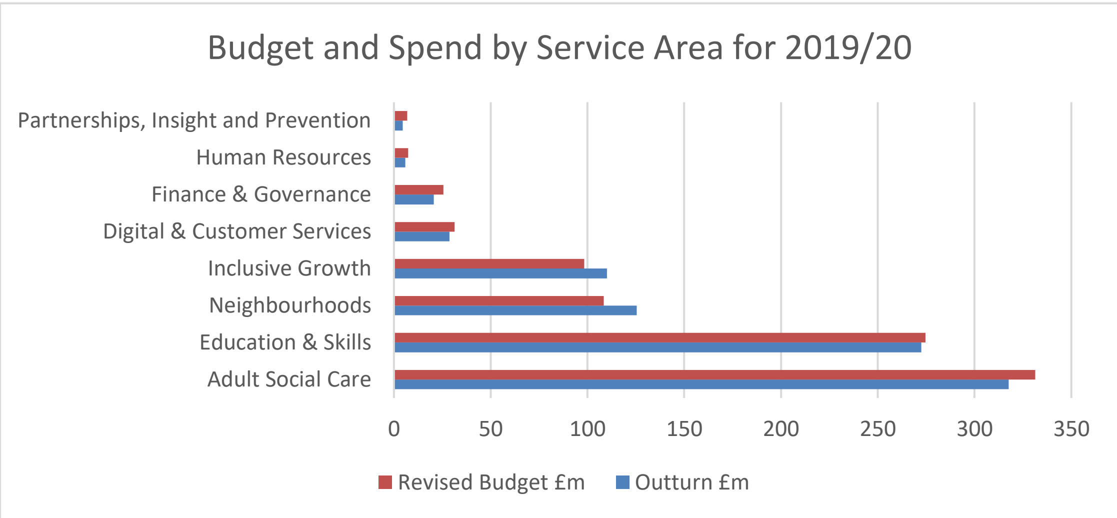
Whilst the Covid-19 pandemic only became a major issue in the latter stages of the financial year, it has had an impact on the financial performance of the Council. Whilst the majority of the impact will be felt in the 2020/21 and following years and which is discussed more fully in the section *Future Revenue and Capital Plans* in this narrative report, there are some impacts that have directly affected the financial performance of the Council in 2019/20.

In the 2019/20 financial year, the Council has had to incur additional expenditure, for example on activities directly supporting the community, or has lost income from, for example, less use of car parking as lockdown was implemented. However, there may also be areas where the actual impact will not be known for some time, for example, on the increased difficulty in recovering sums due where estimates have had to be made or where asset valuations are subject to a higher level of uncertainty. These impacts are set out more fully in the relevant notes to the accounts.

Revenue Expenditure

The Council's revenue and capital budgets were allocated between eight Directorates with other budgets being managed corporately. Spending against these budgets was carefully monitored throughout the year and reported to Cabinet regularly. The year-end outturn position was reported to Cabinet on 23 June 2020.

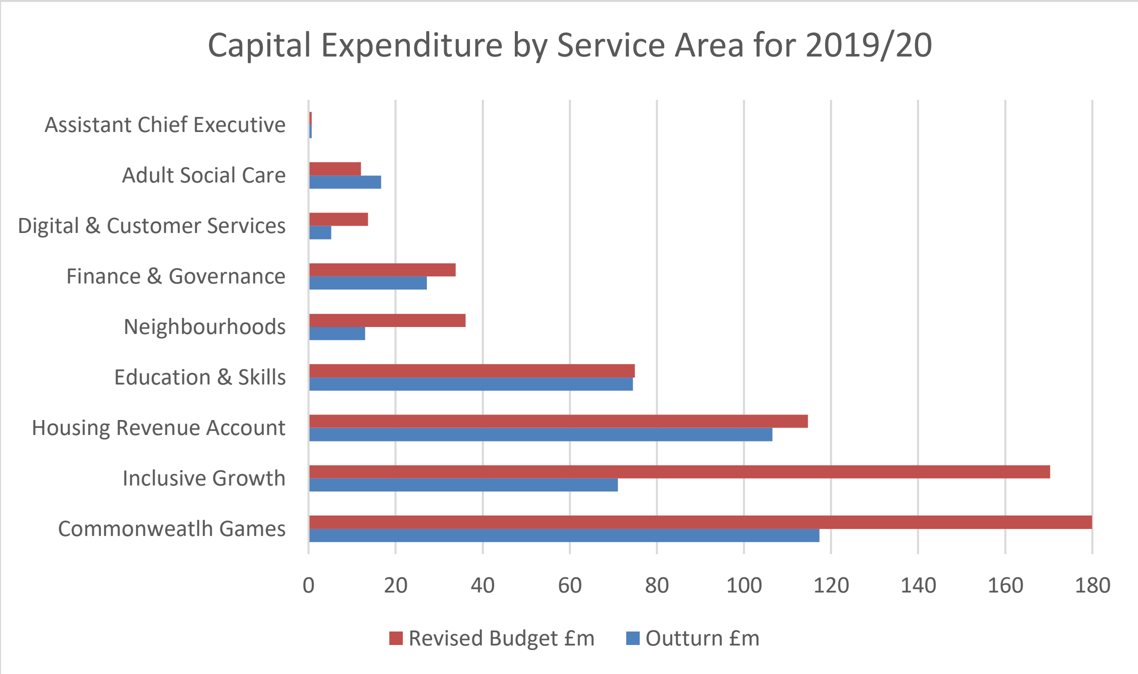
The Directorates' final revenue outturn was a net overspend of £1.3m and with a Corporate underspend of £24.9m gave a total net underspend of £23.6m. This underspend reduced to £11.5m after a net transfer to reserves of £12.1m. Details of the Council's financial outturn position was considered by Cabinet at its meeting on 23 June 2020 and further details of reserve transfers are set out in Note 19 to these financial statements. The chart below shows the budget and spend by Directorate for 2019/20 as reported to Cabinet on 23 June.



At its meeting on 10 November 2020, Cabinet agreed to amend the revenue outturn for 2019/20 through the replacement of £8.7m of Direct Revenue Financing of Capital by increasing the Council's Capital Financing Requirement, thereby increasing the level of usable reserves available to the Council to provide additional resilience against the financial consequences of the actions taken to mitigate the impact of Covid-19.

Capital Expenditure

Total expenditure on Directorate capital schemes in 2019/20, reported to Cabinet on 23 June 2020, was £432.3m (2018/19: £344.7m), compared to the revised capital budget of £636.2m (2018/19: £524.3m). The reported variance of £203.9m was mainly as a result of delays in expenditure on a number of capital schemes. Details of this slippage are given in the Council's Capital Outturn report for 2019/20. 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.



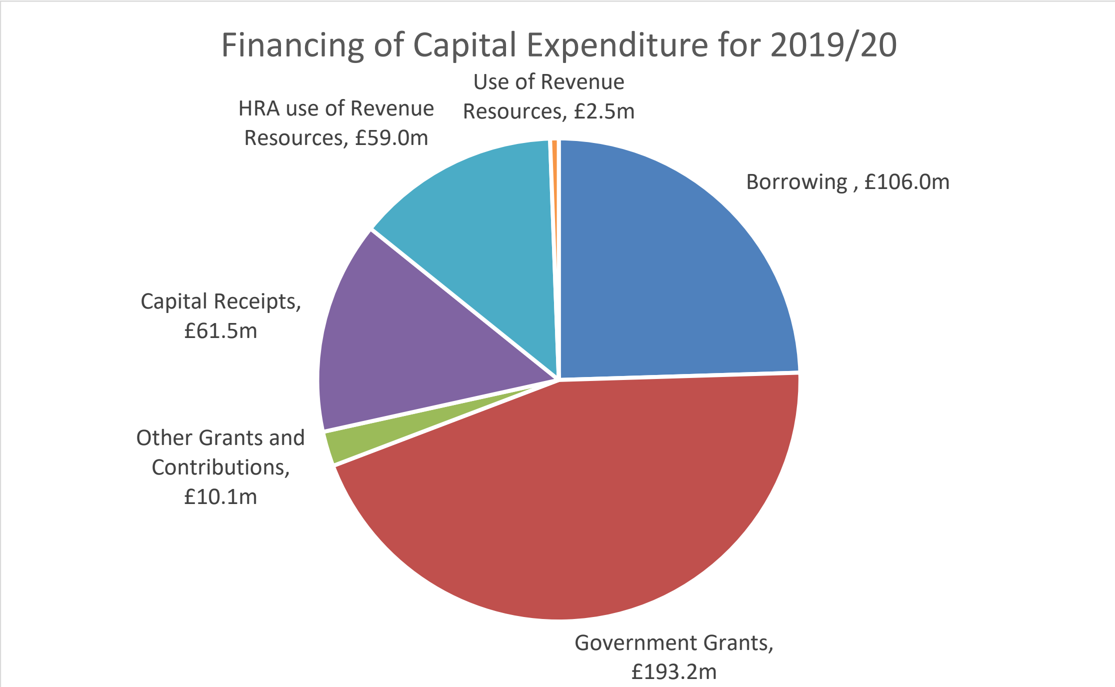
Material Assets Acquired

During the year a number of major projects have progressed including the Paradise Circus redevelopment, the creation of additional school places at a number of schools, transport and highways infrastructure works including walking and cycling paths, housing improvements and work in the Perry Barr area as part of the legacy of the 2022 Commonwealth Games.

Capital Financing

The financing arrangements in respect of capital expenditure in 2019/20 were reported to Cabinet on 23 June 2020.

Cabinet, at its meeting on 10 November 2020, agreed to amend the Capital Financing arrangements for 2019/20 through the reduction of Direct Revenue Financing by £8.7m and increasing the amount to be funded through borrowing by £8.7m. Details of the final capital financing arrangements are summarised below:



During the financial year ended 31 March 2020, the Council took £190m of long term loans, £30m of which was used to refinance the early repayment of LOBO 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.

Further details of the Council's financial liabilities are given in Notes 40 and 41 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 24 to 26 to these financial statements.

Service Concession Arrangements and Similar Contracts

The Council has entered into a number of Service Concession Arrangements, formerly classed as Private Finance Initiatives and similar contracts across Schools, Waste Management and Highways Services to deliver improvements in infrastructure and future service delivery. As a result of the schemes, the Council has a future liability to the end of the contracts of £392.4m as at 31 March 2020.

Pension Liabilities

For the Local Government Pension Scheme there is currently a net pension liability that is reviewed periodically by the West Midlands Metropolitan Authorities Pension Fund Actuary. The Council's share of the total pension shortfall is £2,591.3m at 31 March 2020 (31 March 2019: £2,552.0m). Whilst the figure is substantial it should be noted that:

- Pension liabilities are based on the requirements of IAS 19, Employee Benefits, which use a discount rate based on high quality corporate bonds, 2.35% as at 31 March 2020.

- 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 16 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 21 and 22 to these financial statements.

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

Provisions

Equal Pay

The Council has continued to receive equal pay claims up to the sign off of these financial statements and has, as a result, made provision in its accounts for these potential future liabilities. The Council has continued to negotiate with claimants' representatives and settle where it is recognised that a claim would be successful. These accounts include the expected costs of settlement for claims received and all negotiations agreed as at 31 March 2020.

Business Rates

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.

The Council, as Billing Authority, is required to make a provision for this liability. These 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 2020 but which remained unsettled. From 1 April 2017, the Council has been piloting a 100% Local Business Rates Retention scheme which has meant that its share of any provision outstanding relating to appeals is now 99% with the remaining 1% attributable to the Fire and Rescue Authority.

Guarantees to Third Parties

The Council has provided guarantees to the West Midlands Pension Fund in a number of cases where Council staff have transferred to external employers. These guarantees have been given in order that transferring staff can continue to access the Local Government Pension Scheme. The guarantees given cover changes in future service contribution rates or where there is a deficit on termination of a contract with an external provider.

The Council has also provided a guarantee to the Trustees of the National Exhibition Centre Limited Pension Fund and Pension Scheme to meet the current and future funding obligations that may arise in respect of liabilities following the disposal of the NEC Group on 1 May 2015. In 2017/18, the Council set up an arrangement through PETPS (Birmingham)

Capital Limited, PETPS (Birmingham) General Partner Limited and PETPS (Birmingham) Pension Funding SLP that will enable the Council to spread the implications of the guarantee across the anticipated deficit recovery period.

Reserves

The Council maintains two types of reserves:

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

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

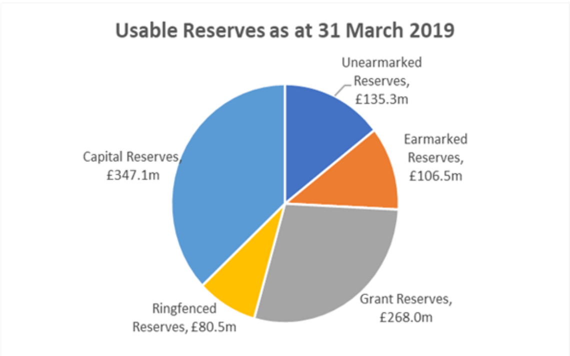
  - Unrealised gains and losses, particularly in relation to changes in valuation of non-current assets;
  - Adjustment accounts that absorb the difference between the outcome of applying proper accounting practices and the requirements of statutory arrangements for funding expenditure.

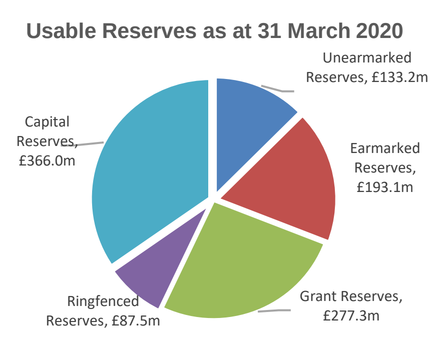
The level of reserves held at the year-end are set out below.

	31 March 2019 (Restated) £m	31 March 2020 £m
Usable Reserves	937.4	1,057.1
Unusable Reserves	(1,207.9)	(1,067.9)
Total Reserves	**(270.5)**	**(10.8)**

Details of the restatement of unusable reserves is set out in Note 23

An analysis of the level of usable reserves is set out below





Note: Within the graphs, the deficit balance on unearmarked dedicated schools grant reserves has been included in the unearmarked reserves total.

The net increase in the level of usable reserves is mainly as a result of an increase in the level of earmarked reserves where the Council has received government funding to provide support in mitigating the impact of Covid-19 and resources set aside for the Commonwealth Games.

The net reduction in the level of unusable reserves is mainly as a result of:

- A reduction in the pensions reserve deficit as a result of the latest actuarial report
- A reduction in the capital adjustment account deficit largely as a result of the sums set aside from revenue and capital receipts to finance capital expenditure.

The Council's net liabilities at 31 March 2020 have reduced by £259.7m to £10.8m from the prior year being represented by the usable and unusable reserves.

The Financial Statements

The Council's Financial Statements for 2019/20 have been prepared on the basis of the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the Code).

The financial statements have been prepared in the shadow of Covid-19 which has had a significant impact on normal life and on the whole world economy. Some of the impact may not be felt for some time and the financial statements are based on the best estimates available at the time of their preparation. Where the Council has exercised any judgement in the preparation of these financial statements details of those judgements are set out in Note 2, Critical Judgements in Applying Accounting Policies. Where estimates have been used in the determination of any material figures, an explanation of the estimation technique and the impact of variances from the estimate are set out in Note 4, Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty.

The pages which follow contain the Council's Financial Statements for the year ended 31 March 2020, with comparative figures for the previous financial year, and comprise:
The Core Financial Statements

<u>The Comprehensive Income and Expenditure Statement (CIES)</u> – provides the in-year cost of providing services in accordance with generally accepted accounting practices, rather than the amount reported monthly to the Council which is based on an agreed budget to be funded from taxation, grants or from rents for council dwellings.

In line with proper accounting practices under the Code the CIES incorporates transactions relating to:

- movements in the value of Property, Plant & Equipment and other non-current assets,
- the impact of updates in the valuation of pension liabilities under defined benefit arrangements
- changes in provisions set aside for the future, for example, for the costs of Equal Pay.

The CIES shows a surplus on the Provision of Services of £83.4m, with the impact of the items detailed above being less than the reductions in the cost of services as a result of savings plans implemented by the Council. The factors highlighted above do not impact on Council Tax or housing rents as they are reversed out through the Movement in Reserves Statement.

Supporting the CIES is the Expenditure and Funding Analysis (EFA) (Note 6), which shows the basis of the Council's annual expenditure and how it is funded from resources compared to how the resources are consumed and earned in line with generally accepted accounting practices. The EFA also shows how expenditure is allocated by the Council between directorates.

Movement in Reserves Statement (MiRS) – provides a reconciliation of the movement in year on the different reserves of the Council. The MiRS shows how the movements in the Council's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to Council Tax or housing rents for the year.

Balance Sheet – shows the value of assets and liabilities recognised by the Council as at 31 March 2020 and the level of reserves, split between usable and unusable.

The Council's net liabilities at 31 March 2020 have reduced by £259.7m to £10.8m, mainly as a result of:

- an increase of £27.2m in the carrying value of long term assets and assets held for sale following revaluation
- an increase in the level of short term investments of £158.7m
- an increase in the level of short term debtors of £54.3m
- a reduction in borrowing of £62.6m

  offset by
- an increase in the net pension liability of £39.3m

Cash Flow Statement – shows how the Council generates and uses cash during the year and the impact this has on the balances of cash and cash equivalents. Cash flows are classified into operating, investing and financing activities.
Supplementary Statements

Notes to the Accounts – additional detail supporting the information provided in the core financial statements is provided in the Notes to the Accounts.

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

Collection Fund – a statutory account that records the transactions in respect of the collection and distribution of Business Rates and Council Tax for which the Council acts as agent.

Group Accounts

The Council operates through a variety of undertakings, through either majority shareholding or sole membership of companies with the current ability to appoint the majority of directors (subsidiary undertakings) or in partnership with other organisations (associate undertakings and joint ventures). To provide a full picture of the activities of the Council, Group Accounts have been prepared which include those organisations where the interest and level of activity is considered material. The Group Accounts consolidate the Council's accounts with those of:

Subsidiaries
Acivico Limited
Birmingham Children's Trust Community Interest Company
Birmingham City Propco Limited
Innovation Birmingham Limited – sold on 18 April 2018
InReach (Birmingham) Limited
National Exhibition Centre (Developments) Plc
PETPS (Birmingham) Limited
PETPS (Birmingham) Pension Funding Scottish Limited Partnership

Associate
Birmingham Airport Holdings Limited

Joint Venture
Paradise Circus General Partner Limited

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 49, Related Parties.

Accountable Body Roles

In addition to the activities reflected in the Council's CIES and Balance Sheet, the Council also acts as an agent for 30 organisations with gross expenditure of some £175m, the most significant being the Greater Birmingham and Solihull Local Enterprise Partnership. Further details are contained in Note 50.

Future Revenue and Capital Expenditure Plans

The Council's Financial Plan 2020 - 2024 was set in the context of current national policies and funding, pressures on services arising from demographic changes and increasing and changing needs, working with partners and the Council's own priorities and objectives. 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.

The Council has recognised the need for the effective management of savings programmes and has implemented a clear process for decision-making and monitoring delivery. There is active engagement by both Members and senior officers, including monthly meetings co-chaired by the Cabinet Member for Finance and Resources and the Chief Finance Officer, as well as formal revenue budget monitoring reports considered by Cabinet. Additionally, the Council has instilled strict project discipline and a robust approach to tracking and monitoring delivery of the savings programme through the Project Management Office (PMO).

The Council's key capital priorities are addressed through the four-year capital programme, totalling £1,742m in the Financial Plan 2020 - 2024. The Council continues to pursue major initiatives taking advantage of the availability of external capital resources, with the programme including £419m 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.

Whilst the Council's Financial Plan sets out the financial consequences to the Council of its planned activity during the year, the impact of Covid-19 has had a significant impact on the financial position of the Council. In assessing the financial performance for the four month period ending 30 September 2020, the Council has estimated that the impact of Covid-19 will result in additional expenditure or lost income of £111.3m. The Council's net pressure is currently forecast to be £11.9m, utilising offsetting unringfenced government funding of £84.3m and a forecast £19.6m from the government's income loss scheme; where after 5% deductible, the Council will be compensated for 75p in every pound in sales, fees and charges losses due to Covid - 19. The current estimates of the impact are based on a six month forecast for the duration of the incident along with some residual costs.

As the 2020/21 financial year has progressed, the Council has had better information to support forecasts of financial pressures arising from Covid–19. This has resulted in a reduction in the level of pressures forecast compared to those identified earlier in the financial year. To ensure the downward trajectory in forecast Covid-19 expenditure continues, Directors have been being asked to review their Covid-19 decisions and assumptions and where there is choice, look to curb expenditure.

The government has also provided several ring-fenced grants for additional reliefs and support schemes.

The above estimates do not include any impact from lower levels of income from Council Tax or Business Rates which will have an effect in the 2021/22 and subsequent financial years. It is anticipated that the Council's share of the deficit on the Collection Fund in 2020/21 will be some £215m as a result of additional Small Business Reliefs, lower growth than originally forecast and an increase in bad debt provision. Additional grants of £169.5m are anticipated to partially offset this deficit.

The Council also operates through companies within its group structure and the impact of Covid -19 on their trading activities is also being monitored to assess whether there are any potential implications for the Council.

The Council is currently discussing other mitigating measures with government that may be put in place, either through additional funding or through additional freedoms and flexibilities that would enable costs incurred in respect of Covid-19 to be spread over the longer term.

The full impact of Covid-19 to the Council may not be known for some years as the crisis is continuing and the Council may need to continue its increased level of support to local citizens and the impact on the local and national economy cannot yet be determined. Whilst the Council has a significant level of reserves it will have to continue to monitor its financial commitments closely to ensure that it remains within its available resources.

Longer Term Financial Matters

The United Kingdom formally left the European Union on 31 January 2020 with a transition period to 31 December 2020 to enable both parties to negotiate their future relationship. The decision to leave the EU could impact on the Council in a number of ways, for example, through:

- the loss of European support for specific projects;
- an impact on the local or national economy which would lead to an increase in need for Council services;
- changes in legislation, for example, in respect of employment, procurement and customer protection.

The Council has initiated a Brexit readiness programme that is overseen by the Corporate Leadership with a Director acting as the Brexit Lead Officer. The programme has eight workstreams: Trading Standards, Environmental Health, EU Funding, EU settlement scheme, supply chain & procurement, economic impacts on revenues and services, communications, and regulatory change. On a number of the workstreams the Council is working with partner organisations.

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 as at 31 March 2020 and of its income and expenditure for the year ended 31 March 2020.

……………………………………………………………………………………….
Rebecca Hellard, Interim Chief Finance Officer and Section 151 Officer
25 November 2020

Approval of Accounts

In accordance with the Accounts and Audit Regulations 2015, I certify that the Statement of Accounts was approved by Audit Committee on 25 November 2020.

…………………………………………………………………..
Councillor Fred Grindrod, Chair of Audit Committee
25 November 2020

CORE FINANCIAL STATEMENTS 2019/20

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 2018/19 have been restated to reflect the change in Directorate structure. Details of the restatement are set out in Note 8.

2018/19 (Restated) Gross Expenditure	Gross Income	Net Expenditure		Note	2019/20 Gross Expenditure	Gross Income	Net Expenditure
£m	£m	£m	**Continuing Operations**		£m	£m	£m
452.2	(122.5)	329.7	Adult Social Care & Health		461.3	(121.4)	339.9
1,304.6	(826.6)	478.0	Education & Skills		1,166.1	(808.7)	357.4
235.8	(69.9)	165.9	Neighbourhoods		207.1	(74.1)	133.0
173.4	(87.8)	85.6	Inclusive Growth		121.3	(89.0)	32.3
8.0	(1.7)	6.3	Human Resources		8.0	(2.0)	6.0
591.4	(548.6)	42.8	Digital & Customer Services		564.5	(528.9)	35.6
97.7	(93.7)	4.0	Partnerships, Insight and Prevention		97.6	(92.0)	5.6
19.5	(11.0)	8.5	Finance & Governance		11.7	(14.4)	(2.7)
6.2	(65.7)	(59.5)	Centrally Managed		19.4	(71.6)	(52.2)
(34.9)	-	(34.9)	Superannuation - Extraordinary Items	10	11.8		11.8
194.2	(284.8)	(90.6)	Housing Revenue Account		195.0	(278.2)	(83.2)
3,048.1	**(2,112.3)**	**935.8**	**Total Cost Of Services**		**2,863.8**	**(2,080.3)**	**783.5**
65.1	-	65.1	Other Operating Expenditure	11	146.2	-	146.2
296.5	(61.1)	235.4	Financing and Investment Income and Expenditure	12	314.1	(68.3)	245.8
2.4	(1,126.3)	(1,123.9)	Taxation and Non-Specific Grant Income	13	13.9	(1,272.8)	(1,258.9)
		112.4	**(Surplus) / Deficit on Provision of Services**				**(83.4)**
			Items that will not be reclassified to the (Surplus)/Deficit on the Provision of Services				
		(230.9)	(Surplus) / deficit on revaluation of Property, Plant and Equipment assets	24,25,26			(38.7)
		-	Impairment losses on non-current assets charged to the revaluation reserve	24,25,26			-
		(187.4)	Remeasurement of the net defined benefit liability	22			(137.6)
		(418.3)					**(176.3)**
		(418.3)	**Other Comprehensive (Income) / Expenditure**				**(176.3)**
		(305.9)	**Total Comprehensive (Income) / Expenditure**				**(259.7)**

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. The opening balances for 2018/19 have been adjusted in line with the Code guidance following the implementation of IFRS 9, Financial Instruments.

	Total General Fund Balance	Total HRA Reserves	Capital Receipts	Major Repairs Reserve	Capital Grants Unapplied Account	**Total Usable Reserves**	Unusable Reserves	**Total Council Reserves**
	£m	£m	£m	£m	£m	£m	£m	£m
Balance at 31 March 2018	**509.1**	**4.8**	**320.4**	**28.6**	**107.0**	**969.9**	**(1,517.7)**	**(547.8)**
Movement in Reserves during 2018/19								
Prior period adjustment	-		-	-	-	-	(27.6)	(27.6)
Adjustment for the Restatement of Financial Instruments	(0.5)		-	-	-	(0.5)	(0.5)	(1.0)
Restated Balance brought forward at 1 April 2018	**508.6**	**4.8**	**320.4**	**28.6**	**107.0**	**969.4**	**(1,545.8)**	**(576.4)**
Surplus/(Deficit) on the provision of services	(164.1)	51.7	-	-	-	(112.4)	-	(112.4)
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	418.3	418.3
Total Comprehensive Income and Expenditure	**(164.1)**	**51.7**	**-**	**-**	**-**	**(112.4)**	**418.3**	**305.9**
Adjustments between accounting basis and funding basis under regulations (Note 18)	215.6	(51.1)	(80.1)	(3.7)	(0.3)	80.4	(80.4)	-
Increase/(Decrease) in 2018/19	**51.5**	**0.6**	**(80.1)**	**(3.7)**	**(0.3)**	**(32.0)**	**337.9**	**305.9**
Balance at 31 March 2019	**560.1**	**5.4**	**240.3**	**24.9**	**106.7**	**937.4**	**(1,207.9)**	**(270.5)**
Movement in Reserves during 2019/20								
Surplus/(Deficit) on the provision of services	41.1	42.3	-	-	-	83.4	-	83.4
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	176.3	176.3
Total Comprehensive Income and Expenditure	**41.1**	**42.3**	**-**	**-**	**-**	**83.4**	**176.3**	**259.7**
Adjustments between accounting basis and funding basis under regulations (Note 18)	55.6	(37.7)	(17.0)	(0.5)	35.9	36.3	(36.3)	-
Increase/(Decrease) in 2019/20	**96.7**	**4.6**	**(17.0)**	**(0.5)**	**35.9**	**119.7**	**140.0**	**259.7**
Balance at 31 March 2020	**656.8**	**10.0**	**223.3**	**24.4**	**142.6**	**1,057.1**	**(1,067.9)**	**(10.8)**

Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The figures for prior years have been restated to reflect the derecognition of lease assets as detailed in Note 23.

1 April 2018 (Restated) £m	31 March 2019 (Restated) £m		Note	31 March 2020 £m
5,692.3	5,801.3	Property, Plant and Equipment	24	5,839.7
251.6	249.8	Heritage Assets	25	249.9
11.3	12.7	Investment Property		13.2
13.7	7.4	Intangible Assets	26	7.1
41.7	41.2	Long Term Investments	40	37.3
125.2	115.4	Long Term Debtors	27	114.5
6,135.8	**6,227.8**	**Total Long Term Assets**		**6,261.7**
72.6	69.6	Short Term Investments	28	228.3
0.9	23.4	Assets Held for Sale	29	16.7
1.3	1.5	Inventories		1.8
329.4	330.6	Short Term Debtors	30	384.9
55.5	46.2	Cash and Cash Equivalents	31	62.0
459.7	**471.3**	**Total Current Assets**		**693.7**
(35.4)	(15.2)	Cash and Cash Equivalents	31	(0.7)
(799.8)	(583.1)	Short Term Borrowing	35	(406.5)
(333.7)	(295.8)	Short Term Creditors	32	(380.8)
(188.1)	(205.4)	Short Term Provisions	33	(175.0)
(1,357.0)	**(1,099.5)**	**Total Current Liabilities**		**(963.0)**
(1.5)	(2.3)	Long Term Creditors		(0.7)
(23.5)	(15.9)	Long Term Provisions	33	(13.8)
(2,740.0)	(2,855.5)	Long Term Borrowing	35	(2,969.5)
(462.0)	(444.4)	Other Long Term Liabilities	40	(427.9)
(2,587.9)	(2,552.0)	Net liability on defined benefit pension scheme	22	(2,591.3)
(5,814.9)	**(5,870.1)**	**Total Long Term Liabilities**		**(6,003.2)**
(576.4)	**(270.5)**	**Net Assets/(Liabilities)**		**(10.8)**
		Usable Reserves	19	
169.9	144.0	Unearmarked Reserves		141.7
(11.5)	(8.7)	Unearmarked Non-Schools DSG		(8.5)
130.9	106.5	Earmarked Reserves		193.1
169.7	268.0	Grant Reserves		277.3
83.0	80.5	Ringfenced Reserves		87.5
427.4	347.1	Capital Reserves		366.0
969.4	**937.4**	**Total Usable Reserves**		**1,057.1**
(1,545.8)	(1,207.9)	Unusable Reserves	20	(1,067.9)
(576.4)	**(270.5)**	**Total Reserves**		**(10.8)**

Cash Flow Statement

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

2018/19 £m		Note	2019/20 £m
(112.4)	Net Surplus/(Deficit) on the provision of services		83.4
(1.0)	Opening Adjustment for IFRS9 implementation		
497.4	Adjustments to net Surplus/Deficit on the provision of services for non-cash movements	39	523.3
(209.0)	Adjustments for items included in the net Surplus/(Deficit) on the provision of services that are investing and financing activities	39	(299.2)
175.0	**Net cash flows from Operating Activities**		**307.5**
(137.6)	Investing Activities	37	(427.1)
(26.5)	Financing Activities	38	149.9
10.9	**Net increase/(decrease) in cash and cash equivalents**		**30.3**
20.1	Cash and cash equivalents at the beginning of the reporting period		31.0
31.0	**Cash and cash equivalents at the end of the reporting period**	**31**	**61.3**

Note 1
Accounting Policies

i. General Principles

The Statement of Accounts summarises the Council's transactions for the 2019/20 financial year and its position at the year-end of 31 March 2020. The Accounts and Audit Regulations 2015 as amended by the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 require the Council to prepare an annual statement of accounts in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the Code) supported by International Financial Reporting Standards (IFRS).

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

ii. Accruals of Income and Expenditure

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

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

iii. Fair Value Measurement

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

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

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

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

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

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

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

iv. 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.

The Local Government Pension Scheme

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

- The liabilities of the West Midlands Local Government Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – that is, an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of earnings for current employees;
- Liabilities are discounted to their value at current prices, using a discount rate of 2.35% based on the indicative rate of return on high quality corporate bond yields;
- The assets of the West Midlands Local Government Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:
    - quoted securities – current bid price;
    - unquoted securities – professional estimate;
    - unitised securities – current bid price;
    - property – market value.

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

  Service cost comprising:
    - current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the Directorates for which the employees worked;
    - past service cost – the increase in liabilities arising from current year decisions whose effect related to years of service earned in earlier years – debited to the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement;
    - net interest on the net defined benefit liability/(asset), that is the net interest expense for the Council – the change during the reporting period in the net defined benefit liability/(asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability/(asset) at the

beginning of the period – taking into account any changes in the net defined benefit liability/(asset) during the period as a result of contribution and benefit payments.

Re-measurements comprising:

- the return on plan assets – excluding amounts included in net interest on the net defined benefit liability/(asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure;
- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.

Contributions paid to the West Midlands Local Government Pension Fund:

- cash paid as employer's contributions to the pension fund; not accounted for as an expense.

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

Discretionary Benefits

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

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 18, 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

Government grants, third party contributions and donations are recognised as due to the Council when there is assurance that:

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

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

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

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

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.

<u>Recognition</u>

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.

<u>Measurement</u>

Assets are initially measured at cost, comprising:

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

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

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

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

- infrastructure assets, vehicles, plant, furniture and equipment (excluding Tyseley Energy Recovery Facility) – depreciated historical cost;
- community assets and assets under construction – historical cost;
- dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH);

- where cleared land has been designated for social housing use, that land is valued using the basis of EUV-SH;
- surplus assets – fair value; assessed in their highest and best use
- all other assets – current value, determined as the price that would be received to sell an asset in its existing use. Where there is no market based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value.

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. Increases in asset valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account. Upon revaluation, where the current value of a property has been assessed by the value as being below £50k, the Council applies a de minimis approach and determines the asset as having a nil current value on the basis of materiality.

Impairment

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

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

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

Useful Life

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

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

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

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

Depreciation

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

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

Componentisation

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

Disposals and Non-Current Assets Held for Sale

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

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

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

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

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

Amounts, in excess of £10,000, received from a disposal are categorised as capital receipts. A proportion of receipts relating to housing disposals (for 2019/20, 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.

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.

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

The Council considers that heritage assets will have indeterminate lives and a high residual value; and therefore does not consider it appropriate to charge depreciation on the assets. Any impairment or disposal of heritage assets is recognised and measured in accordance with the Council's relevant policies (see section 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 and the depreciable amount is amortised over the useful life of the asset on a straight-line basis and charges to the relevant Directorate in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account.

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

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

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

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

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

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.

<u>The Council as Lessee</u>

<u>Finance Leases</u>

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

Lease payments are apportioned between:

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

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

Operating Leases

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

The Council as Lessor

Finance Leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet is written off to Other Operating Expenditure in the Comprehensive Income and Expenditure Statement as part of the gain/loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain/loss on disposal, matched by a lease (long term debtor) asset in the Balance Sheet

Lease rentals receivable are apportioned between:

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

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

Operating Leases

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

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

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

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

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

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

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

Financial Assets

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

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

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

Financial Assets Measured at Amortised Cost

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

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

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

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

Expected Credit Loss Model

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

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

Financial Assets Measured at Fair Value through Profit of Loss

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

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

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

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

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

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

Instruments Entered Into Before 1 April 2006

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

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.

Onerous Contracts

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

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

Provision for Back Pay Arising from Equal Pay Claims

The 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 34 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 34 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.

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 2019/20.

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

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

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. Joint Operations and Jointly Controlled Assets

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

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

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.

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 2019/20 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's Financial Plan 2020 -24, and is meeting these budget challenges by developing multi-year savings plans and by 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 any shortfall. On this basis, the Council considers that it can continue to meet its liabilities as they fall due, supporting the preparation of the financial statements on a going concern basis irrespective of the statutory requirements.

The full financial impact of Covid-19 on the Council's resources may not be known for some time as it will be dependent on the future actions taken to mitigate the virus and also on the level of funding provided by the government or any mitigating actions allowed. The Council monitors its financial performance on a regular basis so that any compensating action can be taken at the earliest opportunity.

Schools
The Council has assessed the legal framework underlying each type of school and determined the treatment of non-current assets within the financial statements on the basis of whether it owns or has some responsibility for, control over or benefit from the service potential of the premises and land occupied. The Council has considered its accounting arrangements for each school, on a case by case basis, under the terms of:

- IAS 16, Property, Plant and Equipment
- IAS 17, Leases
- IFRIC 4, Determining Whether an Arrangement Contains a Lease; and
- LAAP Bulletin 101, Accounting for Non-Current Assets Used by Local Authority Maintained Schools

The Council has determined that, within its Balance Sheet, for:

- Community Schools - all land and buildings should be recognised;
- Voluntary Controlled, Voluntary Aided and Foundation Schools - all buildings should be recognised and that land should be recognised where the Council can demonstrate that it has control over the asset through restrictive covenants within site deeds or there is reasonable evidence that restrictive covenants are in place;

- Academy Schools - no non-current assets should be recognised as they maintain their own financial records.

Local authority maintained schools, as independent entities, have responsibility for the management of their own resources. However, as their transactions are consolidated into the Council's financial statements, the Council has reviewed their activity to ensure consistency of accounting treatment. The Council has identified activity incurred as revenue expenditure by local authority maintained schools, which under the Council's policies would be considered to be capital expenditure. The Council has, therefore, treated expenditure which it can reasonably identify as being capital in nature as capital expenditure financed from revenue, which is then depreciated over an average useful economic life. Where it is not clear whether expenditure incurred relates specifically to capital, it has been left as revenue expenditure.

Whilst the Council is required to report the transactions of local authority maintained schools within its entity financial statements, it has not included details of employees of Voluntary Aided and Foundation Trust schools in Note 46, 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 2020.

Type of School	Nursery	Primary	Secondary	All Through	Alternative	Special	Pupil Referral Unit	**Total**
Community	27	107	9	1		12	1	**157**
Voluntary Controlled		4						**4**
Voluntary Aided		50	4					**54**
Foundation Trust		9	5			9		**23**
Academy		123	53	4		6		**186**
Free School		2	9	2	6			**19**
Total	**27**	**295**	**80**	**7**	**6**	**27**	**1**	**443**

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.

Pension Guarantees

The Council has, over a number of years, changed its way of operating from being a direct provider of services to one where it purchases a number of services from third parties. As part of this change in service delivery model, the Council has transferred staff from the Council to the external provider under Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE). The Council has agreed that staff transferring to an external provider should continue to have the right to access equivalent pension benefits to that provided whilst employed by the Council. To ensure the smooth transfer of staff, the Council has provided guarantees for contribution rates and pension deficits in respect of continuing pension provision.

In determining a deficit on pension funds there are two different models used, namely:

- The funding basis, where post-employment benefit obligations are discounted to a present value based on the anticipated return from pension fund assets, or
- The accounting basis, where post-employment benefit obligations are discounted to a present value based on market yields for high quality corporate bonds as required by International Accounting Standard 19, Employee Benefits (IAS19).

In the event of a guarantee being called in respect of a pension deficit, the actual amount that the Council would have to meet would be determined using the funding basis. The Council has therefore assessed any provision for future pension deficit liabilities on this basis. Details of provisions are set out in Note 33 of these Financial Statements.

Service Concession Arrangements – Highways PFI

On entering into the Highways PFI contract, the contractor's operational model of planned spend formed the basis of identifying levels of investment in the highways infrastructure, lifecycle and service costs from the unitary charge payable. This model would be used to identify capital additions and associated liabilities that were reflected on the Council's Balance Sheet.

As part of the settlement agreement with Birmingham Highways Limited (BHL) on 29 June 2019, the subcontractor, Amey LG Limited were to exit the contract by 31 March 2020 being replaced by a new subcontractor from 1 April 2020. However, the contract with BHL remains in place with the associated risk transfer from a PFI arrangement. Assumptions within the original contract model have continued to be used with the model updated to reflect actual lifecycle costs incurred during the year. The model will be amended each year to reflect the up to date contract performance.

Leases

Leases are categorised between operating and finance leases according to management judgement on the basis of relevant accounting standards, with the premise that long term land leases, typically greater than 110 years, and long term building leases, typically greater than 50 years, are accounted for on the basis of finance leases.

The Better Care Fund (including the improved Better Care Fund)

The Better Care Fund was announced in June 2013 with the intention to drive the transformation of local services and was to be operated through pooled budget arrangements between the Council and local Clinical Commissioning Groups. Specific resources were earmarked for the Better Care Fund by NHS England in its allocation to Clinical Commissioning Groups. The remainder of the fund was made up of the Social Care Capital Grant and the Disabled Facilities Grant which were paid to local authorities.

In accounting for the pooled resources, in agreement with the Clinical Commissioning Groups:

- Activity where funding was received and expended under the control of Clinical Commissioning Groups has been accounted for in their accounts
- Activity where funding was received and expended under the control of the Council has been accounted for in its accounts
- Activity where funding was under joint control has been accounted for on the basis of the share for each organisation.

Further details on the Better Care Fund are provided in Note 49, 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 50 to these financial statements.

Early Payment to the Local Government Pension Scheme

The Council made a payment of £373.2m on 30 April 2017 to the Local Government Pension Scheme being the estimated sum due for the three year period 1 April 2017 to 31 March 2020 in respect of employer contributions. The Council has determined that the application of section 30 of The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, as amended, requires the Council to charge to its revenue accounts the amount payable for the financial year for retirement benefit payments and contributions to the pension fund as set out in the actuary's certificate following the triennial valuation of 31 March 2016, namely 18.3% of pensionable pay plus £61.5m which was calculated to total £124.2m for 2019/20.

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 does not apply.

Note 3
Accounting Standards That Have Been Issued but Have Not Yet Been Adopted

Impact of the adoption of new standards on the 2019/20 financial statements.

The Council is required to disclose information relating to the impact of the accounting change on the financial statements as a result of the adoption by the Code of a new or amended standard that has been issued, but is not required to be adopted by the Council for the 2019/20 accounting period. For these financial statements the relevant standards are detailed:

- IFRS 16 - Leases
- Amendments to IAS 28 - Investments in Associates and Joint Ventures: Long Term Interests in Associates and Joint Ventures
- Amendments to IAS 19 Employee Benefits – Plan Amendment, Curtailment or Settlement

IFRS 16 - Leases

IFRS 16 replaces IAS17 and changes the way entities account for leases in their financial statements. The standard requires that, for a lessee, the operating lease classification is removed that all leases, with the exception of low value or short term arrangements, are to be classified and accounted for as finance leases.

The introduction of the standard will create a Right Of Use (ROU) asset that will be presented separately on the Balance Sheet with a corresponding liability. The value of the ROU assets will be subject to regular valuation as for Property, Plant & Equipment.

A depreciation charge for leased assets will be including within the Operating Expenditure and Income line of the Comprehensive Income and Expenditure Statement (CIES). Interest expenses for lease liabilities will be reported within the Financing and Investments Income line of the CIES.

The Code requires implementation of the standard from the financial year beginning 1 April 2021. The impact of this implementation is not yet known.

Amendments to IAS 28 – Investments in Associates and Joint Ventures - Long-Term Interest in Associates and Joint Ventures

The International Accounting Standards Board (IASB) has issued narrow scope amendments to IFRS 9 Financial Instruments and to IAS 28 Investments in Associates and Joint Ventures.

IAS 28 identifies the interest in an associate or a joint venture as the carrying amount of the investment determined using the equity method, plus any long-term interests that, in substance, form part of the entity's net investment. Such interests include preference shares and long-term receivables or loans for which settlement is neither planned nor likely to occur in the foreseeable future.

The amendments to IAS 28 clarify that companies should apply IFRS 9 (including its impairment requirements) to account for long-term interests in an associate or a joint venture to which the equity method is not applied.

The amendments to IFRS 9 and IAS 28 apply retrospectively (subject to some exceptions) and are effective from 1 January 2019, with early application permitted.

This standard is not anticipated to have a material impact on the Council's Statement of Accounts.

Amendments to IAS 19 – Employee Benefits, Plan Amendments, Curtailments or Settlements.

Previously, the International Accounting Standards Board (IASB) noted that the current IAS 19 standard implies that entities should not revise the assumptions for the calculation of current service cost and net interest during the period, even if an entity remeasures the net defined benefit liability (asset) in the event of a plan amendment, curtailment or settlement.

That is, this calculation should be based on the assumptions as at the start of the annual reporting period.

However, the IASB concluded that it is inappropriate to ignore the updated assumptions when determining current service cost and net interest for the remainder of the annual reporting period. In the Board's view, using updated assumptions in this situation provides more useful information to users of financial statements and enhances the understandability of financial statements.

The change to the Standard requires the remeasurement of net pensions assets/liabilities following any plan amendments, curtailments or settlements within an annual reporting period.

These remeasurements will be used to determine current service costs and net interest for the remainder of the annual reporting period after the change to the plan.

The updating of the standard is applied prospectively from 1 April 2020; therefore, the Council should not be affected by these amendments upon transition. In the future, these changes could result in positive or negative movement or no movement at all, therefore it is not possible to predict what impact this could have on the financial statements.

Note 4
Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, 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 2020 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	The Covid-19 pandemic has created an element of uncertainty in determining valuations of non-current assets. As market activity is being impacted in many sectors, less weight can be given to market evidence for comparison purposes to inform opinions of value. The valuers' reports are on the basis of 'material uncertainty' in line with the RICS Valuation – Global Standards, effective from 31 January 2020. This does not mean that the valuations cannot be relied upon, merely that there is less certainty, and therefore a higher degree of caution attached to the valuations, than would normally occur. Valuations for non-HRA assets are undertaken on the basis of a five year rolling programme, which is supplemented by annual reviews to reflect significant changes in market values. Valuation uncertainty has increased this year due to the Covid-19 pandemic and has been recognised by the Royal Institute for Chartered Surveyors (RICS). Therefore, any property valuations must be viewed within the context of these unique circumstances. Council Dwellings are subject to a full revaluation every five years, following MHCLG guidance, with a desktop review in the intervening years. A beacon method of valuation is undertaken for the housing stock portfolio based on properties that constitute a representative sample of the Council's properties across the city. The beacon value relates to the sale of a single owner-occupied dwelling and is derived from the sales of similar ex-council or comparable properties, suitably adjusted by the valuer taking into account information from the land registry, changes in income flow and management and maintenance costs for high rise blocks of flats and any relevant regional or national indices.	For those non-HRA 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 gross carrying value of these assets by £4.5m, with a corresponding increase in the level of unusable reserves. For those non-HRA assets revalued during 2019/20, a 1% variation in these valuations would amount to £20.8m The carrying value of Council dwellings has increased by £36.3m since 31 March 2019. A 1% movement in the total value of Council dwellings would be equivalent to a change in carrying value of £24.8m

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Heritage Asset Valuations (Museum's and Libraries' Archive Collections)	In the absence of recent transactions in a number of assets held in the Museum's 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 level of 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 carrying 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 £17.1m in 2020/21, and a further £321.9m over the remaining life of the contracts.
Equal Pay	The Council has included a provision of £153.2m 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 £2.2m 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 2019/20.	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 22 of these financial statements.
Defined Benefit Pension Assets	As a result of the impact of Covid-19 on the global financial markets, the valuation of the Pension Fund's investment properties is reported on the basis of material valuation uncertainty. The Council's/Authority's share of these assets is £358.2m.	A decrease of 1% in the value of investment property valuations would have the impact of increasing the net liability of the pension fund by £3.6m.
Covid-19	The long term implications of Covid-19 are currently uncertain and there may be a number of impacts on estimates that have been used in compiling the financial statements. Estimates are used in a number of areas, for example, in asset valuations, the assessment of recovery of debts.	Where the actual experience is different to that forecast in assessing relevant values then the changes will impact on the Council's available reserves. Disclosures have been made in Notes where applicable.

Note 5
Events After the Reporting Period

The draft Statement of Accounts was authorised for issue by the Chief Finance Officer and Section 151 Officer on 28 August 2020. 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 2020, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

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 2020 – 2024 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 2020/21.

Whilst the Council's Financial Plan sets out the financial consequences to the Council of its planned activity during the year, Covid-19 and the actions taken to mitigate its spread has had a significant impact of the financial position of the Council. To meet the needs of the citizens and of the economy of Birmingham, the Council has undertaken a significant number of activities to mitigate and it is forecast that the Council will spend an additional £138.0m in the 2020/21 financial year. Additional government funding has been made available to limit the adverse financial impact on the Council through grant aid for expenditure incurred and for income losses. However, the current forecast budget pressure is expected to be £38.1m based on a six month forecast for the duration of the incident along with some residual costs.

Should the effects of the pandemic continue for longer than forecast or should there be additional lockdowns then the Council may face additional pressures. The longer term consequences cannot yet be determined and the Council will review its medium term financial plans in the light of circumstances.

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 2020 and 10 August 2020, no schools have transferred to Academy School Trust status. To date 6 schools, with assets having a net book value of £46.4m at 31 March 2020, have confirmed their proposals to transfer to Academy School Trust status during 2020/21, together with a further school in 2021/22 with a net book value of £10.0m.

Payment to Local Government Pension Scheme

The Council made a payment of £369.2m on 27 April 2020 to the West Midlands Pension Fund for the Local Government Pension Scheme, being the estimated sum due for the next three years in respect of employer contributions due to the favourable discount offered for early payment.

Highways Maintenance and Management PFI

At its meeting on 22 May 2019, Cabinet authorised the Council:

- to negotiate terms within acceptable parameters for a settlement agreement in respect of all disputes under the Highways Maintenance and Management PFI (HMMPFI) contract with Birmingham Highways Limited (BHL), and

- to procure a replacement of its operating subcontractor subject to approval under a future report to Cabinet and the approval of the Department for Transport.

On 25 June 2019, Cabinet approved heads of terms for a settlement agreement and authorised officers to finalise this. A settlement agreement was concluded on 29 June 2019 within the parameters agreed and heads of terms. As well as resolving disputes, this settlement enabled a managed exit of Amey LG Limited as a subcontractor of BHL by 31 March 2020.

Kier Highways Ltd was appointed as sub-contractor to BHL for an initial period of 15 months with effect from 1 April 2020.

Chief Executive

On 18 May 2020, Chris Naylor took up the role of Interim Chief Executive. Chris has been seconded for a period of up to 12 months from Barking and Dagenham Council where he was Chief Executive.

Commonwealth Games

On 11 August 2020, the Birmingham 2022 Organising Committee announced that, due to the impact of the global health pandemic, the housing of athletes during the Commonwealth Games in 2022 would be through three campus villages rather than the single site originally planned. The Council will continue to deliver a substantial housing led regeneration scheme on the site from the legacy of the Games and as part of its wider plan to deliver homes in that area of the City.

Adjustment to the Financial Outturn

At its meeting on 10 November 2020, Cabinet agreed an amendment to its previously reported outturn report to reflect the replacement of £8.7m of Direct Revenue Financing of Capital by increasing the Council's Capital Financing Requirement. This amendment increased the level of usable reserves available to meet future funding pressures, particularly in the light of impact of Covid-19.

Birmingham Airport Holdings Limited

Together, the seven West Midlands Authorities own 49% of Birmingham Airport Holdings Limited (BAHL), and vote in one block at meetings. Birmingham City Council holds 18.68% of BAHL's ordinary shares which are held at historic cost of £5.9m as at 31 March 2020.

Subsequent to the Balance Sheet date, the Covid-19 pandemic and continued related Government restrictions on travel have had a significant impact on BAHL's trading. BAHL has proactively reduced cashflows and, therefore, still retains a strong liquidity position.

Going forward, BAHL forecasts to retain a satisfactory cash balance, but will not comply with the June 2021 covenants relating to the financing arrangements, unless passenger volumes and revenues recover quickly. The impact of the Covid-19 pandemic on BAHL's ability to meet its covenant tests and to take corrective measures should it not be able to do so is a material uncertainty for BAHL that may cast significant doubt on its ability to continue as a going concern.

BAHL shareholders, including the seven West Midland Authorities collectively, have stated their intention to engage in further discussion should tangible support be required. Such corrective action could have a significant impact on the valuation of the Council's investment in BAHL.

Other Events

There were no other significant events after the reporting period.

Note 6
Expenditure and Funding Analysis

The Expenditure and Funding Analysis shows how the Council allocates expenditure for decision making purposes between the Council's Directorates. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement. Figures for 2018/19 have been restated to reflect the change in Directorate structure.

2018/19 (restated)	Net Expenditure Reported to Cabinet	Adjustment to arrive at the Net Amount Chargeable to the General Fund and HRA Balances (Note 7)	**Net Expenditure Chargeable to the General Fund and HRA Balances**	Adjustments between Funding and Accounting Basis (Note 7)	Net Expenditure in the Comprehensive Income and Expenditure Statement
	£m	£m	**£m**	£m	£m
Adult Social Care	325.6	(1.8)	**323.8**	5.9	329.7
Education and Skills	264.6	154.8	**419.4**	58.6	478.0
Neighbourhoods	129.1	30.5	**159.6**	6.3	165.9
Inclusive Growth	96.5	(40.5)	**56.0**	29.6	85.6
Human Resources	5.4	0.9	**6.3**	0.0	6.3
Digital & Customer Services	25.9	15.1	**41.0**	1.8	42.8
Partnerships, Insight & Prevention	6.0	(2.0)	**4.0**	0.0	4.0
Finance & Governance	26.0	(18.5)	**7.5**	1.0	8.5
Centrally Managed	(23.9)	(213.4)	**(237.3)**	177.8	(59.5)
Superannuation Adjustment	-	10.3	**10.3**	(45.2)	(34.9)
Housing Revenue Account	-	(39.5)	**(39.5)**	(51.1)	(90.6)
Net Cost of Services	**855.2**	**(104.1)**	**751.1**	**184.7**	**935.8**
Other Income and Expenditure	(855.2)	52.0	**(803.2)**	(20.2)	**(823.4)**
(Surplus)/Deficit	**-**	**(52.1)**	**(52.1)**	**164.5**	**112.4**
Opening General Fund and HRA Balance			**513.9**		
IFRS9 Opening Balance Adjustment			(0.5)		
Surplus/(Deficit) for the Year			52.1		
Closing General Fund and HRA Balance			**565.5**		

2019/20	Net Expenditure Reported to Cabinet	Adjustment to arrive at the Net Amount Chargeable to the General Fund and HRA Balances (Note 7)	**Net Expenditure Chargeable to the General Fund and HRA Balances**	Adjustments between Funding and Accounting Basis (Note 7)	Net Expenditure in the Comprehensive Income and Expenditure Statement
	£m	£m	**£m**	£m	£m
Adult Social Care	318.7	11.0	**329.7**	10.2	**339.9**
Education and Skills	275.1	(3.7)	**271.4**	86.0	**357.4**
Neighbourhoods	127.7	(4.7)	**123.0**	10.0	**133.0**
Inclusive Growth	98.7	(86.6)	**12.1**	20.2	**32.3**
Human Resources	6.3	(0.1)	**6.2**	(0.2)	**6.0**
Digital & Customer Services	31.4	1.5	**32.9**	2.7	**35.6**
Partnerships, Insight & Prevention	6.6	(0.8)	**5.8**	(0.2)	**5.6**
Finance & Governance	24.6	(33.3)	**(8.7)**	6.0	**(2.7)**
Centrally Managed	(37.5)	16.0	**(21.5)**	(30.7)	**(52.2)**
Superannuation adjustment	-	-	**-**	11.8	**11.8**
Housing Revenue Account	-	(45.5)	**(45.5)**	(37.7)	**(83.2)**
Net Cost of Services	**851.6**	**(146.2)**	**705.4**	**78.1**	**783.5**
Other Income and Expenditure	(851.6)	44.9	**(806.7)**	(60.2)	**(866.9)**
(Surplus)/Deficit	**-**	**(101.3)**	**(101.3)**	**17.9**	**(83.4)**
Opening General Fund and HRA Balance			**565.5**		
Surplus/(Deficit) for the Year			101.3		
Closing General Fund and HRA Balance			**666.8**		

Note 7
Note to the Expenditure and Funding Analysis

This analysis provides detail of the main adjustments from the Net Expenditure Chargeable to the General Fund and HRA balances to the Comprehensive Income and Expenditure Statement. Figures for 2018/19 have been restated to reflect the change in Directorate structure.

2018/19 (Restated)	Depreciation reported at Directorate Level	Reserve Appropriation	Other Adjustments (Note (a))	Total to arrive at amount charged to the General Fund and HRA	Adjustments for Capital Purposes	Net Change for the Pensions Adjustment	Other Adjustments (Note (b))	Total Adjustment Between Funding and Accounting Basis
	£m	£m	£m	£m	£m	£m	£m	£m
Adult Social Care	7.8	(6.3)	(3.3)	**(1.8)**	6.0	-	(0.1)	**5.9**
Education and Skills	137.6	9.0	8.2	**154.8**	70.4	-	(11.8)	**58.6**
Neighbourhoods	33.0	(2.2)	(0.3)	**30.5**	12.6	-	(6.3)	**6.3**
Inclusive Growth	68.4	(83.9)	(25.0)	**(40.5)**	30.4	-	(0.8)	**29.6**
Human Resources	-	0.2	0.7	**0.9**	-	-	-	**-**
Digital & Customer Services	6.5	3.9	4.7	**15.1**	1.8	-	-	**1.8**
Partnerships, Insight & Prevention	0.1	(2.4)	0.3	**(2.0)**	-	-	-	**-**
Finance & Governance	6.8	1.1	(26.4)	**(18.5)**	1.4	-	(0.4)	**1.0**
Centrally Managed	0.1	28.8	(242.3)	**(213.4)**	181.3	(1.2)	(2.3)	**177.8**
Superannuation adjustment			10.3	**10.3**		(45.2)	-	**(45.2)**
Housing Revenue Account	52.3	(0.3)	(91.5)	**(39.5)**	79.5	10.3	(140.9)	**(51.1)**
Net Cost of Services	**312.6**	**(52.1)**	**(364.6)**	**(104.1)**	**383.4**	**(36.1)**	**(162.6)**	**184.7**
Other Income and Expenditure	(312.6)	-	364.6	**52.0**	(65.5)	63.6	(18.3)	**(20.2)**
(Surplus)/Deficit	**-**	**(52.1)**	**-**	**(52.1)**	**317.9**	**27.5**	**(180.9)**	**164.5**

2019/20	Depreciation reported at Directorate Level	Reserve Appropriation	Other Adjustments (Note (a))	Total to arrive at amount charged to the General Fund and HRA	Adjustments for Capital Purposes	Net Change for the Pensions Adjustment	Other Adjustments (Note (b))	Total Adjustment Between Funding and Accounting Basis
	£m	£m	£m	£m	£m	£m	£m	£m
Adult Social Care	(3.6)	17.2	(2.6)	**11.0**	12.3	(2.1)	-	**10.2**
Education and Skills	(77.9)	(8.5)	82.7	**(3.7)**	89.1	(6.5)	3.4	**86.0**
Neighbourhoods	(18.3)	(1.3)	14.9	**(4.7)**	13.6	(2.6)	(1.0)	**10.0**
Inclusive Growth	(37.6)	(26.5)	(22.5)	**(86.6)**	27.1	(0.9)	(6.0)	**20.2**
Human Resources	-	(0.4)	0.3	**(0.1)**	-	(0.2)	-	**(0.2)**
Digital & Customer Services	(2.7)	(0.9)	5.1	**1.5**	4.4	(1.7)	-	**2.7**
Partnerships, Insight & Prevention	-	(0.8)	-	**(0.8)**	-	(0.2)	-	**(0.2)**
Finance & Governance	(1.5)	(3.0)	(28.8)	**(33.3)**	7.6	(1.4)	(0.2)	**6.0**
Centrally Managed	(0.1)	(75.5)	91.6	**16.0**	69.5	(3.2)	(97.0)	**(30.7)**
Superannuation adjustment	-		-	**-**		11.8		**11.8**
Housing Revenue Account	(54.3)	(1.6)	10.4	**(45.5)**	91.1	2.7	(131.5)	**(37.7)**
Net Cost of Services	**(196.0)**	**(101.3)**	**151.1**	**(146.2)**	**314.7**	**(4.3)**	**(232.3)**	**78.1**
Other Income and Expenditure	196.0	-	(151.1)	**44.9**	(101.5)	57.1	(15.8)	**(60.2)**
(Surplus)/Deficit	**-**	**(101.3)**	**-**	**(101.3)**	**213.2**	**52.8**	**(248.1)**	**17.9**

Notes

(a) – includes levies, PFI grants and interest receipts and payments that are reported as part of Outturn but not included in Net Cost of Services within the CIES

(b) – includes employee benefits accruals, the difference between amounts charged to the CIES for equal pay claims and the cost of settlements chargeable in year in accordance with statutory requirements; timing differences between what is chargeable under statutory regulation for Council Tax and Business Rates that were forecast to be received at the start of the year and the income recognised under generally accepted accounting practice.

Note 8
Prior Period Restatement of Service Expenditure and Income

The Council realigned its reporting structure in 2019/20. The implications of the realignment on the CIES are detailed below.

Directorate Reporting 2018/19	As Reported in the Comprehensive Income and Expenditure Statement 2018/19	Adjustments in Internal Directorate Reporting Classifications between years	As Restated in 2018/19	New Directorate Reporting 2018/19
	£m	£m	£m	
Net Expenditure				
Continuing Operations				
Adult Social Care & Health	333.4	(3.7)	329.7	Adult Social Care
Children & Young People	440.8	37.2	478.0	Education and Skills
Place	210.2	(44.3)	165.9	Neighbourhoods
Economy	82.6	3.0	85.6	Inclusive Growth
Human Resources	17.1	(10.8)	6.3	Human Resources
Strategic Services	40.2	(40.2)	-	
		42.8	42.8	Digital & Customer Services
		4.0	4.0	Partnerships, Insight & Prevention
Finance & Governance	(10.6)	19.1	8.5	Finance & Governance
Centrally Managed	(54.9)	(4.6)	(59.5)	Centrally Managed
Superannuation adjustment	(34.9)	-	(34.9)	Superannuation adjustment
Chief Executive & Assistant Chief Executive	2.5	(2.5)	-	
Housing Revenue Account	(90.6)	-	(90.6)	Housing Revenue Account
Net Cost of Services	**935.8**	**-**	**935.8**	
Gross Expenditure				
Continuing Operations				
Adult Social Care & Health	547.0	(94.8)	452.2	Adult Social Care
Children & Young People	1,248.0	56.6	1,304.6	Education and Skills
Place	294.0	(58.2)	235.8	Neighbourhoods
Economy	179.8	(6.4)	173.4	Inclusive Growth
Human Resources	18.8	(10.8)	8.0	Human Resources
Strategic Services	591.1	(591.1)	-	
		591.4	591.4	Digital & Customer Services
		97.7	97.7	Partnerships, Insight & Prevention
Finance & Governance	3.6	15.9	19.5	Finance & Governance
Centrally Managed	3.7	2.5	6.2	Centrally Managed
Superannuation adjustment	(34.9)	-	(34.9)	Superannuation adjustment
Chief Executive & Assistant Chief Executive	2.8	(2.8)	-	
Housing Revenue Account	194.2	-	194.2	Housing Revenue Account
Gross Cost of Services	**3,048.1**	**-**	**3,048.1**	
Gross Income				
Continuing Operations	£m	£m	£m	
Adult Social Care & Health	(213.6)	91.1	(122.5)	Adult Social Care
Children & Young People	(807.2)	(19.4)	(826.6)	Education and Skills
Place	(83.8)	13.9	(69.9)	Neighbourhoods
Economy	(97.2)	9.4	(87.8)	Inclusive Growth
Human Resources	(1.7)	-	(1.7)	Human Resources
Strategic Services	(550.9)	550.9	-	
		(548.6)	(548.6)	Digital & Customer Services
		(93.7)	(93.7)	Partnerships, Insight & Prevention
Finance & Governance	(14.2)	3.2	(11.0)	Finance & Governance
Centrally Managed	(58.6)	(7.1)	(65.7)	Centrally Managed
Superannuation adjustment	-	-	-	Superannuation adjustment
Chief Executive & Assistant Chief Executive	(0.3)	0.3	-	
Housing Revenue Account	(284.8)	-	(284.8)	Housing Revenue Account
Gross Income of Services	**(2,112.3)**	**-**	**(2,112.3)**	

Note 9
Expenditure and Funding Analysis by Nature of Activity

This analysis provides detail of the expenditure and income of the Council on a subjective basis.

2018/19 £m	Expenditure	2019/20 £m
973.6	Employee Benefits Expenses	890.5
1,798.7	Other Service Expenses	1,826.1
312.6	Depreciation, Amortisation and Impairment	194.5
245.6	Interest Payments	256.8
19.8	Movement in the value of financial assets	28.7
50.0	Precepts and Levies	49.9
6.3	Payments to Housing Capital Receipts Pool	6.2
5.5	Loss on Disposal of Non-Current Assets	85.3
3,412.1	**Total Expenditure**	**3,338.0**
	Income	
(611.5)	Fees, Charges and Other Services Income	(594.1)
(763.0)	Income from Council Tax and Business Rates	(793.3)
(1,897.9)	Government Grants and Contributions	(1,996.7)
(27.3)	Interest and Investment Income	(37.3)
(3,299.7)	**Total Income**	**(3,421.4)**
112.4	**(Surplus)/Deficit on Provision of Services**	**(83.4)**

Note 10
Material Items of Income and Expense

The International Accounting Standard 19, *Employee Benefits* (IAS 19) definition of current service (pensions) cost is that the operating costs of providing retirement benefits to employees is recognised in the accounting period(s) in which the benefits are earned. IAS19 defines current service (pensions) costs as having three components:

- Current service cost
- Past service cost
- Gains and losses on settlements.

The Service Reporting Code of Practice for Local Authorities 2019/20 (SeRCOP) recommends current service costs are attributable to the individually defined services of local authorities, with past service costs and gains and losses on settlements charged to Non-Distributed Costs/Corporately.

Following SeRCOP guidance, the Council considers that to leave past service costs and settlement costs within the Directorate analysis would distort the presentation of segmental costs within the Comprehensive Income and Expenditure Statement. The values of past service costs and the costs of settlement were considered material in 2018/19 due to the assessed impact of the McCloud/Sergeant judgement and the transfer of staff from the

Council to external providers, including to Birmingham Children's Trust CIC and shown separately on the face of the Comprehensive Income and Expenditure Statement, with a net value of £11.8m in 2019/20 (2018/19, (£34.9m)).

The Council will continue to charge past service costs and the cost of settlements corporately in line with SeRCOP guidance to enable the cost of individual services to be compared more easily between years and between local authorities as the actuarial assessment can vary significantly from year to year.

Note 11
Other Operating Expenditure

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

2018/19		2019/20
£m		£m
1.9	Parish Council Precepts	1.9
3.4	Enterprise Zone Growth Payment	4.8
45.0	Integrated Transport Authority Levy	45.0
0.3	Environment Agency Levy	0.3
2.7	Apprenticeship Levy	2.7
6.3	Payments re: Housing Capital Receipt Pool	6.2
5.5	(Gains)/Losses on the Disposal of non-current assets	85.3
65.1	**Total**	**146.2**

The Loss on the disposal of non-current assets recognises the difference between the payment for the sale of a non-current asset and the carrying value of that asset within the accounts, which may not be the same as the market value or the historical cost of that asset.

Note 12
Financing and Investment Income and Expenditure

Financing and Investment Income and Expenditure disclosed in the Comprehensive Income and Expenditure Statement (CIES) is detailed below.

2018/19				2019/20		
Gross Expenditure £m	Income £m	Net £m		Gross Expenditure £m	Income £m	Net £m
182.0	-	182.0	Interest Payable and similar charges	196.0	-	196.0
63.6	-	63.6	Net Interest on the Net Defined Benefit Liability	60.8	-	60.8
-	(21.6)	(21.6)	Interest Receivable and similar income	-	(31.4)	(31.4)
-	(1.4)	(1.4)	Income and expenditure in relation to investment properties and changes in their fair value	-	(0.5)	(0.5)
17.1	-	17.1	(Gains)/Losses on financial assets at amortised cost	24.6	-	24.6
0.5	-	0.5	(Gains)/Losses on financial assets at fair value through profit and loss	4.1	-	4.1
2.2	-	2.2	(Gains)/Losses on the Disposal of Financial Instruments	-	-	-
31.1	(32.4)	(1.3)	(Surplus)/Deficit on trading operations not consolidated within Service Expenditure Analysis in Comprehensive Income and Expenditure Statement	28.6	(31.0)	(2.4)
-	(5.7)	(5.7)	Other investment income and expenditure	-	(5.4)	(5.4)
296.5	**(61.1)**	**235.4**	**Total**	**314.1**	**(68.3)**	**245.8**

Note 13
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:

2018/19				2019/20		
Gross Expenditure £m	Income £m	Net £m		Gross Expenditure £m	Income £m	Net £m
-	(329.2)	(329.2)	Council Tax Income - Collection Fund	-	(349.3)	(349.3)
-	(421.5)	(421.5)	Business Rates - Collection Fund	-	(441.8)	(441.8)
-	(4.4)	(4.4)	Share of Collection Fund - Council Tax	0.9	-	0.9
2.2	(7.9)	(5.7)	Share of Collection Fund - Business Rates	13.0	(2.2)	10.8
-	(236.8)	(236.8)	Non Ring Fenced Government Grants	-	(253.6)	(253.6)
-	(126.5)	(126.5)	Capital Grants and Contributions	-	(225.9)	(225.9)
0.2	-	0.2	Capital Grants Repaid	-	-	-
2.4	**(1,126.3)**	**(1,123.9)**	**Total**	**13.9**	**(1,272.8)**	**(1,258.9)**

Further information on grant income received is provided in Note 16.

Note 14
Trading Operations

Trading operations are those activities where the service is required to operate in a commercial environment and balance their budget by generating income from other parts of the Council or other organisations.

The internal trading expenditure and income is incorporated within the relevant service line in the Comprehensive Income and Expenditure Statement. External trading income and expenditure is identified in Note 12, Financing and Investment Income and Expenditure. Details of units with significant trading activity are as follows. The figures for 2018/19 have been restated to reflect the change in Birmingham Parks and Nurseries as detailed below in this note.

2018/19 (Restated)				2019/20		
Turnover £m	Expenditure £m	(Surplus) / Deficit £m	**Trading activity**	Turnover £m	Expenditure £m	(Surplus) / Deficit £m
(33.3)	31.2	(2.1)	Cityserve (Direct Services)	(30.4)	27.7	(2.7)
(10.2)	9.3	(0.9)	Trade Refuse	(10.0)	9.3	(0.7)
(13.3)	13.8	0.5	Birmingham Parks and Nurseries	(13.7)	13.6	(0.1)
(0.7)	1.2	0.5	Pest Control	(1.1)	1.2	0.1
(2.6)	3.4	0.8	Procurement	(1.6)	1.7	0.1
(3.2)	3.5	0.3	Schools' Human Resources	(3.2)	2.6	(0.6)
(1.9)	1.7	(0.2)	Central Payroll	(1.8)	1.6	(0.2)
(4.6)	4.4	(0.2)	Other Trading Activities	(5.9)	5.7	(0.2)
(69.8)	**68.5**	**(1.3)**		**(67.7)**	**63.4**	**(4.3)**
			Allocation of Surplus/Deficit on Trading Operations			
(37.4)	37.4	-	- consolidated in CIES	(36.7)	34.8	(1.9)
(32.4)	31.1	(1.3)	- consolidated in Note 12, Financing and Investment Income and Expenditure	(31.0)	28.6	(2.4)
(69.8)	**68.5**	**(1.3)**		**(67.7)**	**63.4**	**(4.3)**

<u>Details of Trading Activities</u>

Cityserve
During 2019/20, Cityserve provided facilities management services to primary, secondary and special schools, plus community day nurseries and children's centres. The core services provided are now limited to Education Catering, having disposed of both the Educational Cleaning business and the Mobile Caretaking Services in December 2018.

Education Catering provides a range of menus to schools across the City of Birmingham which support the nutritional wellbeing of students whilst meeting the Government's mandatory Nutritional Standards for School Food compliance. Due to the diverse nature of the pupil base across the city, the provision for each school is tailored to meet the individual needs of the school and pupil.

In response to the declining market of school catering due to budget pressures on schools, Cityserve has developed an alternative business model that looks to support those schools who choose to take the service “in-house”. This business model (Cityserve Select) provides a much more scaled-back service, consisting of the procurement of all food and beverages, the provision of bespoke menus aligned to the supply chain, and a cashless payment system called Cityserve Pay. This product is designed to operate within a virtual landscape, offering services to all schools and Education establishments across the UK, supported by the in-house procurement team.

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.

Birmingham Parks and Nurseries trading expenditure and income has been restated in 2018/19. In excess of £7.6m internally charged income and the associated expenditure previously included within Neighbourhoods Directorate, has been consolidated within the trading service.

Pest Control
The Pest Control service provides treatment to commercial and domestic properties for rats, mice, insect control including wasps, fleas and ants and control of squirrels and pigeons. Rat pest control services are free for domestic users.

Procurement Services
In addition to providing the Council’s in-house procurement service, schools may choose to subscribe to utilise the procurement service and are charged for work undertaken.

Schools’ Human Resources
Schools have a choice to make in deciding who will support them with a Human Resources function. The Schools’ Human Resources team has won competitive contracts to provide a range of schools with this function.

Payroll Services
In addition to providing the Council’s payroll service, SLAs or contracts are in place to provide payroll & pensions services to schools, academies and other external bodies.

Other
Other trading activities include Shelforce, Civic Catering, Birmingham City Laboratories and Schools’ Management. Shelforce is part of the Council’s employment support services to registered disabled people and through the direct employment of registered disabled people in the manufacture of PVCu windows and doors.

Note 15
Revenue from Contracts with Service Recipients

The Council contracts with service recipients as part of its normal operating activities in the following areas:

- Performing a contractually agreed task for a service recipient;
- Granting licences; and
- The resale of goods purchased by the Council.

Details of the amounts included in the Comprehensive Income and Expenditure Statement for contracts with service recipients are set out below.

2018/19 £m		2019/20 £m
81.0	Revenue from contracts with service recipients	88.7
-	Impairment of receivables or contract assets	-
81.0	**Total Included in Comprehensive Income and Expenditure Statement**	**88.7**

Details of the amounts included in the Balance Sheet for contracts with service recipients

2018/19 £m		2019/20 £m
6.3	Receivables, which are included in debtors (Note 30)	12.0
-	Contract Assets	-
-	Contract Liabilities	-
6.3	**Total Included in Net Assets**	**12.0**

The Council has reviewed, and does not receive, any revenue income from service recipients in respect of the following:

- Constructing, manufacturing or developing an asset on behalf of a service recipient; or
- Sale of goods produced by the Council.

These elements are, therefore, excluded from the detail in this note.

All contracts with service recipients are complete and, therefore, no contract obligations, assets or liabilities continue beyond this financial year.

Note 16
Grant Income

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

2018/19 £m		2019/20 £m
	Credited to Taxation and Non Specific Grant Income	
89.9	Business Rates Top Up Grant	54.4
8.8	New Homes Bonus Grant	7.6
18.2	Schools PFI Grant	18.2
50.3	Highways Management and Maintenance PFI Grant	50.3
-	Covid-19 Local Authority Support Grant	38.7
4.3	Troubled Families Grant	6.1
4.8	Housing Benefit Administration Grant	4.6
4.8	Discretionary Housing Payment	4.3
29.9	Small Business Rate Relief Grant	32.3
9.7	Business Rates S31 Grant	21.3
5.4	Returned Levy Funding	1.2
3.5	Adult Social Care Support Grant	9.6
7.2	Other	5.0
236.8	**Revenue Grants credited to Taxation and Non Specific Grant Income**	**253.6**
	Credited to Cost of Services	
10.6	Adult Education (Skills Funding Agency)	10.6
506.4	Housing Benefit Subsidy	491.3
660.7	Dedicated Schools Grant	636.2
12.4	Education Funding Agency	9.3
46.9	Pupil Premium Grant	44.4
3.8	Illegal Money Lending	4.0
10.3	Universal Infants Free School Meals Grant	9.4
12.5	NHS Clinical Commissioning Group contributions	10.5
90.8	Public Health Grant	88.4
83.1	Better Care Fund (including improved Better Care Fund)	103.3
4.2	Independent Living Fund Grant	4.1
4.4	Youth Promise	3.6
5.5	Asylum Seekers	5.8
5.3	Flexible Homeless Support	4.7
3.8	Enterprise Zone - Projects	4.1
6.2	Primary PE and Sport Grant	3.6
5.6	Adult Social Care - Winter Pressures	-
-	NO2 Plan Clean Air Zone	10.2
-	Teachers Pensions Grant	9.5
-	Teachers Pay Grant	4.9
2.0	Vulnerable Persons Resettlement Grant	3.2
44.3	Grants and contributions of less than £3m	42.8
1,518.8	**Total Revenue Grants Credited to Cost of Services**	**1,503.9**
1,755.6	**Total Revenue Grants**	**1,757.5**

2018/19		2019/20
£m		£m
	Capital Grants	
53.5	Education Funding Agency	70.1
23.2	Commonwealth Games - MHCLG	82.2
10.6	Commonwealth Games - West Midlands Combined Authority	4.8
6.0	Department of Health - Better Care Fund	6.9
5.2	Integrated Transport Block	5.2
6.2	Homes & Community Agency - New Build Programme	-
-	Department for Transport - Clean Air Grant	41.9
12.5	Local Growth Fund	6.9
9.3	Other Grants and Contributions	7.9
126.5	**Capital Grants credited to Taxation and Non Specific Grant Income**	**225.9**
	Capital Grants funding Revenue Expenditure under Statute credited to Cost of Services	
5.9	Department of Health - Better Care Fund	4.5
7.6	European Regional Development Fund	2.1
2.3	Other Grants and Contributions	6.7
15.8	**Total Capital Grants funding Revenue Expenditure Under Statute**	**13.3**
142.3	**Total Capital Grants Received**	**239.2**

All Capital Grants received are either non-conditional or the conditions have been met, therefore there are no entries to the Capital Grants Receipts in Advance Account for 2019/20. 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 17
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 2018. 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 2019/20 are as follows:

	Central Expenditure £m	Individual Schools Budget £m	**Total** **£m**
Final DSG for 2019/20 before academy recoupment	127.4	1,060.6	**1,188.0**
Academy figure recouped for 2019/20	-	(551.4)	**(551.4)**
Total DSG after academy recoupment for 2019/20	**127.4**	**509.2**	**636.6**
Brought forward from 2018/19	(8.7)		**(8.7)**
Less: Carry forward to 2020/21 agreed in advance	-		**-**
Agreed initial budgeted distribution in 2019/20	**118.7**	**509.2**	**627.9**
In-year adjustments	(0.5)	-	**(0.5)**
Final budgeted distribution for 2019/20	**118.2**	**509.2**	**627.4**
Less: Actual Central Expenditure	(126.7)		**(126.7)**
Less: Actual ISB deployed to schools		(509.2)	**(509.2)**
Plus: Council contribution for 2019/20	-	-	**-**
Carry forward to 2020/21	**(8.5)**	**-**	**(8.5)**

The year-end net deficit of £8.5m is composed of four elements:

- A net deficit of £14.0m 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 has obtained Schools Forum agreement to repay the deficit back at £5.0m a year starting in 2020/21 followed by a further £5.0m in 2021/22 with the remainder being repaid in 2022/23.

- A surplus of £3.0m on the Schools Block funding is primarily composed of lower than anticipated commitments against prescribed centrally managed DSG budgets, specifically the pupil growth fund and falling pupils fund.

- A surplus of £0.6m on the Central Schools Services Block funding is primarily composed of lower than anticipated commitments against prescribed centrally managed DSG budgets, specifically expenditure on Schools Admissions and Placements, Schools Forum and School Improvement.

- A surplus of £1.9m on the Early Years block is primarily due to lower take up of 3 & 4 year old provision, including additional funding for working parents.

Note 18
Adjustments Between Accounting Basis and Funding Basis Under Regulations

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

The following sets out a description of the reserves that the adjustments are made against.

General Fund Balance

The General Fund is the statutory fund into which all the receipts of the Council are required to be paid and out of which all liabilities of the Council are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund Balance, which is not necessarily in accordance with proper accounting practice. The General Fund Balance therefore summarises the resources that the Council is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the Council is required to recover) at the end of the financial year. However, the balance is not available to be applied to fund Housing Revenue Account (HRA) services.

Housing Revenue Account Balance

The HRA Balance reflects the statutory obligation to maintain a revenue account for local authority council housing provision in accordance with Part VI of the Local Government and Housing Act 1989. It contains the balance of income and expenditure as defined by the 1989 Act that is available to fund future expenditure in connection with the Council's landlord function or, where in deficit, that is required to be recovered from tenants in future years.

Major Repairs Reserve

The Council is required to maintain the Major Repairs Reserve (MRR), which controls an element of the capital resources limited to being used on capital expenditure on HRA assets or the financing of historical capital expenditure by the HRA. The balance on the reserve shows the resources that have yet to be applied at the year-end.

Capital Receipts Reserve

The Capital Receipts Reserve holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year-end.

Capital Grants Unapplied

The Capital Grants Unapplied Account (Reserve) holds the grants and contributions received towards capital projects for which the Council has met or is expected to meet the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and/or the financial year in which this can take place.

2019/20	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied
	£m	£m	£m	£m	£m
Adjustments to Revenue Resources					
Adjustments by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:					
Pension costs (transferred to/from the Pensions Reserve)	50.1	2.7	-	-	-
Financial Instruments (transferred to/from the Financial Instrument Adjustments Account)	18.7	-	-	-	-
Council Tax and Business Rates (transfers to/from the Collection Fund)	24.6	-	-	-	-
Holiday Pay (transferred to/from the Accumulated Absences Reserve)	2.8	-	-	-	-
Equal pay settlements (transferred to/from the Unequal Pay Backpay Account)	(20.0)	(1.3)	-	-	-
Reversal of entries included in the Surplus/Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	126.3	91.1	-	-	111.0
Total Adjustments to Revenue Resources	**202.5**	**92.5**	**-**	**-**	**111.0**
Adjustments between Revenue and Capital Resources					
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(27.2)	(49.9)	64.6	-	-
Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)	1.0	-	(1.0)	-	-
Contribution to the costs of Equal Pay (funded by the Capital Receipts Reserve)	18.3	-	(18.3)	-	-
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	6.2	-	(6.2)	-	-
Posting of HRA resources from revenue to the Major Repairs Reserve	-	(53.8)	-	53.8	-
Provision for the repayment of debt (transfer to the Capital Adjustment Account)	(145.2)	(18.2)	-	-	-
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	-	(8.3)	-	-	-
Total Adjustments between Revenue and Capital Resources	**(146.9)**	**(130.2)**	**39.1**	**53.8**	**-**
Adjustments to Capital Resources					
Use of the Capital Receipts Reserve to finance capital expenditure	-	-	(61.5)	-	-
Use of the Capital Receipts Reserve to repay debt	-	-	(1.9)	-	-
Use of the Major Repairs Reserve to finance capital expenditure	-	-	-	(54.2)	-
Application of capital grants to finance capital expenditure	-	-	-	-	(75.1)
Cash payments in relation to deferred capital receipts	-	-	7.2	-	-
Other	-	-	0.1	-	-
Total Adjustments to Capital Resources	**-**	**-**	**(56.1)**	**(54.2)**	**(75.1)**
Total Adjustments	**55.6**	**(37.7)**	**(17.0)**	**(0.5)**	**35.9**

2018/19	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied
	£m	£m	£m	£m	£m
Adjustments to Revenue Resources					
Adjustments by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:					
Pension costs (transferred to/from the Pensions Reserve)	17.2	10.3	-	-	-
Financial Instruments (transferred to/from the Financial Instrument Adjustments Account)	22.4	-	-	-	-
Council Tax and Business Rates (transfers to/from the Collection Fund)	8.0	-	-	-	-
Holiday Pay (transferred to/from the Accumulated Absences Reserve)	(5.9)	-	-	-	-
Equal pay settlements (transferred to/from the Unequal Pay Backpay Account)	20.7	2.0	-	-	-
Reversal of entries included in the Surplus/Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	241.0	79.5	-	-	72.0
Total Adjustments to Revenue Resources	**303.4**	**91.8**	**-**	**-**	**72.0**
Adjustments between Revenue and Capital Resources					
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(28.8)	(55.6)	83.4	-	-
Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)	1.6	-	(1.6)	-	-
Contribution to the costs of Equal Pay (funded by the Capital Receipts Reserve)	86.2	-	(86.2)	-	-
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	-	(51.7)	-	51.7	-
Provision for the repayment of debt (transfer to the Capital Adjustment Account)	(139.8)	(35.4)	-	-	-
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	(13.3)	(0.2)	-	-	-
Total Adjustments between Revenue and Capital Resources	**(87.8)**	**(142.9)**	**(10.7)**	**51.7**	**-**
Adjustments to Capital Resources					
Use of the Capital Receipts Reserve to finance capital expenditure	-	-	(57.8)	-	-
Use of the Capital Receipts Reserve to repay debt	-	-	(53.1)	-	-
Use of the Major Repairs Reserve to finance capital expenditure	-	-	-	(55.4)	-
Application of capital grants to finance capital expenditure	-	-	-	-	(72.2)
Cash payments in relation to deferred capital receipts	-	-	3.9	-	-
Other	-	-	37.6	-	(0.1)
Total Adjustments to Capital Resources	**-**	**-**	**(69.4)**	**(55.4)**	**(72.3)**
Total Adjustments	**215.6**	**(51.1)**	**(80.1)**	**(3.7)**	**(0.3)**

Note 19
Usable Reserves

Details of the major reserves held by the Council are set out below. Further information on the movements in reserves is shown in the Movement in Reserves Statement and Note 18.

The Reserves have been split into the following major categories:

- Unearmarked Reserves – Reserves that the Council can use for any purpose within the General Fund
- Earmarked Reserves – Reserves that the Council has set aside to meet specific future liabilities
- Grant Reserves – Reserves arising as a result of revenue grants received by the Council for specific projects that haven't been fully utilised by 31 March 2020 but will be used to offset expenditure incurred in subsequent years
- Ringfenced Reserves – Reserves that are required to be used for specific activities undertaken by the Council. These are mainly for schools or for the Housing Revenue Account and cannot be used to support general Council activity
- Unearmarked Non-Schools DSG – See Note 17
- Capital Reserves – Reserves that have been set aside to finance capital schemes. These reserves cannot be used to support revenue expenditure without the consent of the Secretary of State.

Usable Reserves	Balance at 31 March 2019	Transfers out 2019/20	Transfers In 2019/20	Balance at 31 March 2020
	£m	£m	£m	£m
Unearmarked Reserves				
General Fund Balances	35.4	(3.1)	-	32.3
Organisation Transition Reserve	41.7	(17.2)	-	24.5
Financial Resilience Reserve	66.9	(14.5)	32.5	84.9
Total Unearmarked Reserves	**144.0**	**(34.8)**	**32.5**	**141.7**
Earmarked Reserves				
Insurance Fund	9.8	(2.3)	1.9	9.4
Sums set aside to finance Capital Expenditure	46.0	(0.2)	3.8	49.6
Housing Benefit Subsidy Reserve	4.2	-	-	4.2
Cyclical Maintenance Reserve	10.7	-	3.1	13.8
Equipment Renewal Reserve	5.9	(1.9)	2.2	6.2
Management Capacity for Change	2.8	(0.4)	1.1	3.5
Business Rates	12.3	(5.3)	14.3	21.3
Covid-19 Support	-	-	38.7	38.7
Education PFI	-	-	3.4	3.4
Other Earmarked Reserves	14.8	(5.8)	34.0	43.0
Total Reserves Earmarked by the Council	**106.5**	**(15.9)**	**102.5**	**193.1**

Usable Reserves	Balance at 31 March 2019	Transfers out 2019/20	Transfers In 2019/20	Balance at 31 March 2020
	£m	£m	£m	£m
Revenue Grant Reserves				
Section 256 Grant from the NHS	1.1	-	-	1.1
Public Health	5.2	(4.7)	4.6	5.1
Better Care Fund	25.0	(24.2)	5.1	5.9
Highways PFI Grant	180.8	(53.6)	67.2	194.4
Section 106 Grants - General Fund	26.0	(5.4)	7.1	27.7
Section 106 Grants - Housing Revenue Account	-	-	1.5	1.5
Community Infrastructure Levy	9.6	-	4.2	13.8
National Business Rate Levy	5.4	(5.4)	0.8	0.8
Other Grant Reserves	14.9	(8.2)	20.3	27.0
Total Revenue Grant Reserves	**268.0**	**(101.5)**	**110.8**	**277.3**
Unearmarked Non-Schools DSG				
Unearmarked Non-Schools DSG	(8.7)	(4.6)	4.8	(8.5)
Total Unearmarked Non-Schools DSG	**(8.7)**	**(4.6)**	**4.8**	**(8.5)**
Ringfenced Reserves				
Schools' Balances	50.3	(2.6)	6.9	54.6
Housing Revenue Account	5.4	-	3.1	8.5
HRA Major Repairs Reserve	24.8	(54.2)	53.8	24.4
Total Ringfenced Reserves	**80.5**	**(56.8)**	**63.8**	**87.5**
Capital Reserves				
Capital Receipts Reserve	240.4	(89.0)	72.0	223.4
Capital Grants Unapplied	106.7	(75.1)	111.0	142.6
Total Capital Reserves	**347.1**	**(164.1)**	**183.0**	**366.0**
Total Usable Reserves	**937.4**	**(377.7)**	**497.4**	**1,057.1**

Details of the major usable reserves as at 31 March 2020 are set out below.

Unearmarked Reserves comprising:

General Fund Balances - reflects the accumulated surpluses of income over expenditure from previous years and any resources set aside as general contingency against adverse future events.

Invest to Save Reserve - the reserve incorporates the Organisation Transition Reserve and is used to make funding available to assist in making changes to the way services are provided and ultimately reduce costs in the long term.   Usage of this fund will require repayment in the future through a planned repayment profile linked to specific savings proposals.

Financial Resilience Reserve (FRR) – created in 2017/18 to provide contingency funding in case the Council faces financial difficulties in the future.

Earmarked Reserves comprising:

Insurance Fund – the Council is sufficiently large to be able to self-insure against all bar the most catastrophic business risks. A budget is held to cover insurance losses in-year and the Insurance Fund exists to act as a buffer should losses exceed budgeted expectations in any given financial year. The fund increases in those years where losses incurred do not exceed the budget and decreases where losses incurred exceed the budget.

Sums set aside to finance Capital Expenditure – has arisen from revenue contributions set aside to fund budgeted capital expenditure, Equal Pay settlements and associated costs in line with the Council's Capital Financing and Equal Pay funding plans.

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

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

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

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

Business Rates – An overall reserve for Business Rates related activities, including:

- A contingency in case there is a requirement to make a payment under the Council's "no detriment" agreement with the other West Midlands Business Rates Retention Pilot authorities.

- To address the timing difference between grant received and when the Council has assumed it will be required.

Covid-19 Support – reflects the remaining balance of government funding received in the 2019/20 financial year to offset the additional costs incurred by the Council as a result of the Covid-19 pandemic.

Education PFI – reflects the sum set aside to meet the profiled schedule of future years payments.

Other Earmarked Reserves – there are a large number of small value reserves which cover a wide range of services that have been set aside to support future years' service delivery. The reserves cover a wide range of areas and include, for example, resources earmarked for special educational needs reform, a local innovations fund, highways initiatives, subvention for major events including the Commonwealth Games, replacement IT systems and repairs and maintenance for specific service chargeable buildings in support of the Financial Plan.

Revenue Grant reserves comprising:

Grant Reserves – relate to the unused element of grant support for which the conditions of the grant are expected to be met or for which there are no conditions of grant. The reserves will be used to meet future years' expenditure for the service for which the grant was awarded.

In addition to the resources set aside in the Council's budget to meet the costs of the Highways PFI scheme, grant support is also received on an equal annual basis over the life of the contract. There was expected to be a budget surplus in the early years of the contract as the unitary charge payable to the contractor would increase during the initial core investment period until all milestones had been completed. The excess of available resources together with any deductions from unitary charge payments as a result of poor performance against the contract have been set aside in the Highways PFI reserve and will be used in the later period of the contract where the unitary charge payable is expected to exceed the budgeted resources and grant support. The reserve is expected to be fully utilised by the end of the contract.

The increase in reserve in 2019/20 is partly due to the full repayment of resources that had previously been used on a short term repayable basis to support budget pressures and transformation plans within the Council.

Ringfenced reserves comprising:

Schools' Balances - are the net cumulative balances held by the local authority maintained schools which, under national school funding regulations, the schools are entitled to retain for unexpected commitments and/or for planned school curriculum/infrastructure improvements and investment. Within the total Schools' Balances there are 40 (2018/19:53) schools with deficit balances totalling £9.2m (2018/19: £12.6m) and a deficit balance on the Non-Schools Dedicated Schools Grant of £14.1m (2018/19: £15.5m) as a result of the impact of increasing numbers of pupils with Special Educational Needs.

Housing Revenue Account (HRA) – the HRA is a statutory account, ringfenced from the rest of Council funds, so that rents charged to tenants in respect of dwellings cannot be subsidised from Council Tax. Similarly, rents collected from HRA tenants cannot be used to subsidise the General Fund. The balances on the HRA reflect the accumulated surpluses of income over expenditure.

HRA Major Repairs Reserve – the Council is required by The Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 to maintain the Major Repairs Reserve. The reserve controls an element of the capital resources required to be used on HRA assets or for capital financing purposes.

Capital reserves comprising:

Capital Receipts Reserve – reflects the income received from the disposal of capital assets prior to being used to fund future capital expenditure or for the redemption of debt. Capital receipts cannot be used to fund revenue expenditure except where allowed by statue, for example to meet costs of Equal Pay.

Capital Grants Unapplied – reflect the unused element of capital grants or capital contributions awarded to the Council, for which the conditions of the grant support are expected to be met or for which there are no conditions. The reserve will be used to meet future years' capital expenditure.

Note 20
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.

The figure of the Revaluation Reserve for 2018/19 has been restated to reflect the prior period adjustment as detailed in Note 23 and under the Revaluation Reserve detail below.

31 March 2019 £m (Restated)		31 March 2020 £m
1,996.9	Revaluation Reserve	1,955.6
(339.7)	Capital Adjustment Account	(223.1)
(48.1)	Financial Instruments Adjustment Account	(67.0)
(2,676.2)	Pensions Reserve	(2,591.3)
37.7	Deferred Capital Receipts Reserve	42.4
10.0	Collection Fund Adjustment Account	(14.6)
(174.5)	Equal Pay Back Pay Account	(153.2)
(14.0)	Accumulated Absences Account	(16.7)
(1,207.9)	**Total Unusable Reserves**	**(1,067.9)**

Revaluation Reserve

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

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

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

The Reserve balance has been reduced by £27.6m as at 1 April 2018 as a result of the prior period adjustment relating to the leasehold disposal of the Council’s interest in the Crowne Plaza NEC and Hilton Metropole NEC hotels as detailed in Note 23, Prior Period Adjustment.

2018/19 (Restated) £m	£m		2019/20 £m	£m
	1,885.4	**Balance at 1 April**		**1,996.9**
	(27.6)	Adjustment to Opening Balance (Note 23)		-
	1,857.8	**Restated Balance at 1 April**		**1,996.9**
430.4		Upward revaluation of assets	359.7	
(199.5)		Downward revaluation of assets and impairment losses not charged to the Surplus/(Deficit) on the Provision of Services	(321.0)	
-		Impairment (losses)/reversals not charged to the Surplus/(Deficit) on the Provision of Services	-	
	230.9	Surplus/(Deficit) on revaluation of non-current assets not posted to the Surplus/(Deficit) on the Provision of Services		38.7
(51.1)		Difference between fair value depreciation and historical cost depreciation	(36.4)	
(40.7)		Accumulated gains on assets sold or scrapped	(43.6)	
-		Adjustment for Transfer of land to Investment Property	-	
	(91.8)	Amount written off to the Capital Adjustment Account		(80.0)
	1,996.9	**Balance at 31 March**		**1,955.6**

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 18 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

2018/19 £m	2018/19 £m		2019/20 £m	2019/20 £m
	(428.9)	**Balance at 1 April**		**(339.7)**
	(0.5)	Adjustment for the Restatement of Financial Instruments		-
	(0.3)	Transfer from Available for Sale Reserve		-
	(429.7)	**Restated Opening Balance at 1 April**		**(339.7)**
		Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement (CIES):		
(305.5)		Charges for depreciation and impairment of non current assets	(127.5)	
1.4		Revaluation losses on Property, Plant and Equipment	(63.6)	
(8.2)		Amortisation and impairment of intangible assets	(3.2)	
1.4		Changes in the Fair Value of Investment Properties	0.5	
(2.8)		Changes in the Fair Value of Financial Instruments	(4.1)	
(0.4)		Impairment of Capital Debtors/Grants	0.2	
(59.5)		Revenue expenditure funded from capital under statute	(96.8)	
(88.3)		Amounts of non current assets written off on disposal or sale as part of the gain/(loss) on disposal to the CIES	(161.4)	
	(461.9)			(455.9)
	91.8	Adjusting amounts written out of the Revaluation Reserve		80.0
	(370.1)	Net written out amount of the cost of non-current assets consumed in the year		(375.9)
		Capital financing applied in the year:		
57.8		Use of the Capital Receipts Reserve to finance new capital expenditure	61.5	
55.4		Use of the Major Repairs Reserve to finance new capital expenditure	54.2	
70.3		Capital grants and contributions credited to the CIES that have been applied to capital financing	128.2	
72.2		Application of grants to capital financing from the Capital Grants Unapplied Account	75.1	
53.1		Application of capital receipts to repay debt	1.9	
175.2		Provision for the financing of capital investment charged against the General Fund and HRA balances	163.4	
13.5		Capital expenditure charged against the General Fund and HRA balances	8.3	
	497.5			492.6
	0.2	Financing of capital grant repayment		-
	(37.6)	Repayment of long term debtors		(0.1)
	(339.7)	**Balance at 31 March**		**(223.1)**

Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains in accordance with statutory provisions. The Council uses this account to manage premia paid and discounts received on the early redemption of loans and the recognised losses on loans advanced at less than a commercial interest rate. These values are debited or credited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, these values are posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on Council Tax. For premia and discounts, this period is the unexpired term that was outstanding on the loans when they were redeemed.

In the 2019/20 financial year, the Council agreed the early repayment of three long term loans with the lenders, at a total premium of £18.0m (2018/19: £23.4m).

2018/19			2019/20	
£m	£m		£m	£m
	(25.9)	**Balance at 1 April**		**(48.1)**
(23.4)		Premia incurred in the year and charged to the Comprehensive Income and Expenditure Statement	(18.0)	
1.2		Proportion of premia incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	(0.9)	
	(22.2)	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		(18.9)
	(48.1)	**Balance at 31 March**		**(67.0)**

Pensions Reserve

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

Generally, the Pensions Reserve will match exactly the Pension Liabilities recorded on the Balance Sheet at the end of each year. However, the Council made an advance payment of £373.2m in April 2017 to cover its estimated contributions for the three-year period to 31 March 2020. However, as indicated above, the Council is only required to account for the amount payable in year. The difference of £124.0m at 31 March 2019 between the Pensions Reserve and the Pension Liabilities has been eliminated as at 31 March 2020 reflecting the contributions in 2019/20.

2018/19 £m		2019/20 £m
(2,836.1)	**Balance at 1 April**	**(2,676.2)**
187.4	Remeasurement of the net defined benefit liability	137.6
(169.5)	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	(206.6)
142.0	Employer's pensions contributions and direct payments to retirees payable in the year	153.9
(2,676.2)	**Balance at 31 March**	**(2,591.3)**

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.

2018/19 £m		2019/20 £m
41.8	**Balance at 1 April**	**37.7**
(1.2)	Transfer of deferred sale proceeds credited to the General Fund under capital finance regulations	(0.5)
1.0	Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	12.5
(3.9)	Transfer to the Capital Receipts Reserve upon receipt of cash	(7.3)
37.7	**Balance at 31 March**	**42.4**

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.

2018/19 £m		2019/20 £m
18.0	**Balance at 1 April**	**10.0**
(8.0)	Amount by which Council Tax/Business Rates income credited to the Comprehensive Income and Expenditure Statement is different from Council Tax/Business Rates income calculated for the year in accordance with statutory requirements	(24.6)
10.0	**Balance at 31 March**	**(14.6)**

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.

2018/19 £m		2019/20 £m
(151.8)	**Balance at 1 April**	**(174.5)**
(110.5)	(Increase)/reduction in provision for back pay in relation to Equal Pay cases	2.0
87.8	Cash settlements paid in the year	19.3
(22.7)	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	21.3
(174.5)	**Balance at 31 March**	**(153.2)**

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.

2018/19 £m		2019/20 £m
(19.9)	**Balance at 1 April**	**(14.0)**
-	Settlement or cancellation of accrual made at the end of the preceding year	-
5.9	Amounts accrued at the end of the current year	(2.7)
5.9	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(2.7)
(14.0)	**Balance at 31 March**	**(16.7)**

Note 21
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 2019/20, the Council paid £41.3m (2018/19: £34.7m) to the Teachers' Pensions Scheme in respect of teachers' retirement benefits, representing 16.48% from 1 April 2019 and 23.68% from 1 September 2019 (2018/19 16.48%) of pensionable pay. The contributions due to be paid in the 2020/21 financial year are estimated to be £47.3m on the basis of employer contributions of 23.68%.

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and detailed in Note 22.

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

NHS Pension Scheme

Staff who joined the Council on 1 April 2014 upon the transfer of Public Health responsibilities from the National Health Service were members of the NHS Pension Scheme. The scheme provides its members with specified benefits upon their retirement and the Council has taken responsibility for making contributions based on a percentage of members' pensionable salaries.

The scheme is a multi-employer defined benefit scheme covering NHS employers, GP practices and other bodies allowed under the direction of the Secretary of State in England and Wales. The scheme is unfunded and is not designed to be run in a way that would enable member organisations to identify their share of the underlying assets and liabilities. Actuarial valuations of the scheme are undertaken every four years with a valuation of the scheme liability carried out on an annual basis by the scheme actuary through an update of the result of the full actuarial valuation. For the purposes of this Statement of Accounts, the scheme is accounted for on the same basis as a defined contribution scheme.

In 2019/20, the Council paid £0.84m (2018/19: £0.12m) to the NHS Pensions Scheme in respect of employees' retirement benefits, representing 14.68% (2018/19: 14.38%) of pensionable pay. There were £0.2m of contributions remaining payable at the year end. The contributions due to be paid in the 2020/21 financial year are estimated to be £0.12m on the basis of an employer contribution rate of 20.68%.

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the NHS pension scheme. These costs are accounted for on a defined benefit basis and detailed in Note 22.

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

Note 22
Defined Benefit Pension Schemes

Participation in Pension Schemes

As part of the terms and conditions of employment of its officers, the Council makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments, which needs to be disclosed at the time that employees earn their future entitlement.

The Council participates in two post-employment schemes accounted for as defined benefit schemes:

- The Local Government Pension Scheme, administered locally by the West Midlands Pension Fund offices at Wolverhampton City Council – this is a funded defined benefit career average salary scheme for benefits accrued since 1 April 2014, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets. Benefits accrued to 31 March 2014 are based on final salary. An employer's future service contribution rate of 18.3% was set for the Council for 2019/20 (2018/19: 16.8%).

- Arrangements for the award of discretionary post-retirement benefits upon early retirement – this is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pensions liabilities, and cash has to be generated to meet actual pension payments as they eventually fall due.

The pension scheme is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the scheme is the responsibility of the pensions committee of Wolverhampton City Council. Policy is determined in accordance with the Pensions Fund Regulations.

The principal risks to the Council of the scheme are:

- the longevity assumptions
- statutory changes to the scheme
- structural changes to the scheme (for example, large-scale withdrawals)
- changes to inflation
- bond yields, and
- the performance of the equity investments held by the scheme.

These risks are mitigated, to a certain extent, by the statutory requirements to charge to the General Fund and the Housing Revenue Account the amounts required by statute as described in the accounting policies note.

Transactions relating to Post-employment benefits

The Council recognises the cost of retirement benefits in the reported Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge the Council is required to make against Council Tax is based on the cash payable in the year, so the real cost of post-employment/retirement benefits is reversed out of the General Fund and Housing Revenue Account via the Movement in Reserves Statement.

The table below shows the transactions that have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year. The major movements from 2018/19 to 2019/20 in the table relate to:

- Effect of past service costs/curtailments – the reduction from 2018/19 to 2019/20 is mainly as a result of the initial recognition last year of the assessed impact arising from the McCloud/Sargeant judgement regarding age discrimination arising from public sector transition arrangements put in place when moving from final salary to average salary scheme arrangements.

- Effect of settlements – on 1 April 2018 the transfer of staff from the Council to Birmingham Children's Trust CIC formed a major element of the settlement costs for that financial year. In 2019/20, the level of staff transfers has been lower.

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2018/19	2019/20	2018/19	2019/20
	£m	£m	£m	£m
Comprehensive Income and Expenditure Statement				
Cost of Services:				
current service cost	128.3	131.3		
past service costs, including curtailments	55.3	19.4		
effect of settlements	(79.7)	(7.6)		
administration expenses	2.0	2.7		
Financing and investment income and expenditure:				
Net interest expense	62.0	59.5	1.6	1.3
Total post-employment benefit charged to the (Surplus)/Deficit on the provision of services	**167.9**	**205.3**	**1.6**	**1.3**
Movement in Reserves Statement				
Reversal of net charges made to the Surplus/Deficit on the provision of services for post-employment benefits in accordance with the Code	(155.9)	(180.4)	4.4	3.5
Release from pension reserve re:prepayment	124.0	124.2		
Net charge against the General Fund Balance for pensions in the year comprising:				
employer's contributions payable to scheme	**136.0**	**149.1**		
retirement benefits payable to retirees			**6.0**	**4.8**

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2018/19	2019/20	2018/19	2019/20
	£m	£m	£m	£m
Comprehensive Income and Expenditure Statement				
Total post-employment benefit charged to the (Surplus)/Deficit on the provision of services	167.9	205.3	1.6	1.3
Other post-employment benefit charged to the Comprehensive Income and Expenditure Statement				
remeasurements (liabilities and assets)	(185.6)	(139.2)	(1.8)	1.6
Total Post Employment Benefits charged to the Comprehensive Income and Expenditure Statement	(17.7)	66.1	(0.2)	2.9

	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Present Value of Liabilities					
- Local Government Pension Scheme	(5,284.8)	(6,863.0)	(6,919.7)	(6,706.6)	(6,552.9)
- Unfunded Teachers' Scheme	(68.5)	(64.2)	(68.5)	(62.2)	(60.4)
Total Present Value of Liabilities	**(5,353.3)**	**(6,927.2)**	**(6,988.2)**	**(6,768.8)**	**(6,613.3)**
Fair Value of Assets in the Local Government Pension Scheme	3,265.6	4,056.6	4,400.3	4,216.8	4,022.0
Surplus/(Deficit) in the scheme					
- Local Government Pension Scheme	(2,019.2)	(2,806.4)	(2,519.4)	(2,489.7)	(2,530.9)
- Unfunded Teachers' Scheme	(68.5)	(64.2)	(68.5)	(62.2)	(60.4)
Net Liability arising from defined benefit obligation	**(2,087.7)**	**(2,870.7)**	**(2,587.9)**	**(2,552.0)**	**(2,591.3)**

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 Funded		Local Government Pension Scheme Unfunded		Unfunded Teachers' Pension Scheme		**Total**	
	2018/19 £m	2019/20 £m	2018/19 £m	2019/20 £m	2018/19 £m	2019/20 £m	**2018/19 £m**	**2019/20 £m**
Benefit Obligation at 1 April	6,854.8	6,647.4	64.9	59,2	68.4	62.2	**6,988.2**	**6,768.8**
Current Service Cost	128.3	131.3					**128.3**	**131.3**
Interest on Pension Liabilities	166.4	157.4	1.6	1.4	1.6	1.3	**169.5**	**160.1**
Member Contributions	23.0	22.3					**23.0**	**22.3**
Actuarial (gains)/losses arising from changes in financial assumptions	231.3	(641.8)	1.1	(2.8)	2.0	(3.5)	**234.3**	**(648.0)**
Actuarial (gains)/losses arising from changes in demographic assumptions	(366.9)	195.9	(3.1)	2.9	(3.8)	5.0	**(373.8)**	**203.8**
Experience (gains)/losses on liabilities		166.6		11.9				**178.5**
Past Service Cost/ Curtailments	55.3	19.4					**55.3**	**19.4**
Settlements	(249.9)	(12.0)					**(249.9)**	**(12.0)**
Unfunded Pension Payments			(5.3)	(5.5)			**(5.3)**	**(5.5)**
Benefits/Transfers paid	(194.9)	(200.5)			(6.0)	(4.6)	**(200.9)**	**(205.1)**
Benefit Obligation at 31 March	**6,647.4**	**6,485.9**	**59.2**	**67.0**	**62.2**	**60.4**	**6,768.8**	**6,613.3**

Reconciliation of the Movements in the Fair Value of Scheme Assets

	Local Government Pension Scheme				Unfunded Teachers' Pension Scheme		**Total**	
	Funded		Unfunded					
	2018/19 £m	2019/20 £m	2018/19 £m	2019/20 £m	2018/19 £m	2019/20 £m	**2018/19 £m**	**2019/20 £m**
Fair Value of Assets at 1 April	4,400.3	4,216.8	-	-			**4,400.3**	**4,216.8**
Interest on Plan Assets	105.9	99.3	-	-			**105.9**	**99.3**
Remeasurements (assets)	47.9	(269.5)	-	-			**47.9**	**(269.5)**
Other actuarial gains/losses	-	141.4	-	-				**141.4**
Administration expenses	(1.9)	(2.7)	-	-			**(1.9)**	**(2.7)**
Settlements	(170.1)	(4.5)	-	-			**(170.1)**	**(4.5)**
Employer contributions	6.7	19.4	5.3	5.5	6.0	4.8	**18.0**	**29.7**
Member contributions	23.0	22.3		-			**23.0**	**22.3**
Benefits/transfers paid	(195.0)	(200.5)	(5.3)	(5.5)	(6.0)	(4.8)	**(206.3)**	**(210.8)**
Fair Value of Assets at 31 March	**4,216.8**	**4,022.0**	**-**	**-**	**-**	**-**	**4,216.8**	**4,022.0**

Local Government Pension Scheme assets

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

	31 March 2019				31 March 2020			
	Quoted £m	Unquoted £m	Total £m	Percentage of Total %	Quoted £m	Unquoted £m	Total £m	Percentage of Total %
Equity Instruments								
UK Quoted	413.4		413.4	9.8%	438.5		438.5	10.9%
UK Unquoted		58.5	58.5	1.4%		1.0	1.0	0.0%
Global Quoted	399.9		399.9	9.5%	1,083.0		1,083.0	26.9%
Global Unquoted		272.0	272.0	6.5%		148.0	148.0	3.7%
Europe	366.1		366.1	8.7%				
Japan	183.0		183.0	4.3%				
Pacific Basin	188.5		188.5	4.5%	0.2		0.2	0.0%
Asia Pacific					2.3		2.3	0.1%
North America	373.2		373.2	8.9%				
Emerging Markets	341.9		341.9	8.1%	285.3		285.3	7.1%
Sub-total Equity	**2,266.1**	**330.5**	**2,596.6**	**61.6%**	**1,809.3**	**149.0**	**1,958.3**	**48.7%**
Bonds								
UK Government		288.3	288.3	6.8%	257.5	52.0	309.5	7.7%
Other	190.1	199.9	390.0	9.2%	127.5	456.1	583.6	14.6%
Sub-total Bonds	**190.1**	**488.2**	**678.3**	**16.1%**	**385.0**	**508.1**	**893.1**	**22.3%**
Property								
UK		239.5	239.5	5.7%	264.2		264.2	6.6%
Overseas								
Property Funds		95.2	95.2	2.3%	94.0		94.0	2.3%
Sub-total Property		**334.7**	**334.7**	**7.9%**	**358.2**		**358.2**	**8.9%**
Alternatives								
Infrastructure		175.2	175.2	4.1%	7.4	211.5	218.9	5.4%
Private Equity						334.0	334.0	8.3%
Long Term Debtors						28.3	28.3	0.7%
Absolute Return		166.9	166.9	4.0%		119.8	119.8	3.0%
Sub-total Alternatives		**342.2**	**342.2**	**8.1%**	**7.4**	**693.6**	**701.0**	**17.4%**
Cash								
Cash Instruments		228.8	228.8	5.4%		127.2	127.2	3.2%
Cash Accounts		36.2	36.2	0.9%		5.3	5.3	0.1%
Sub-total Cash		**265.0**	**265.0**	**6.3%**		**132.4**	**132.4**	**3.3%**
Forward Currency Contract						(21.0)	(21.0)	(0.6)%
Total Assets	**2,456.2**	**1,760.6**	**4,216.8**	**100.0%**	**2,559.9**	**1,462.1**	**4,022.0**	**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 2019. The principal assumptions used by the actuary have been:

Assumptions	Local Government Pension Scheme		Discretionary Benefits	
	2018/19	2019/20	2018/19	2019/20
Mortality assumptions:				
Longevity at 65 for current pensioners:				
Men (years)	20.9	21.9	20.9	21.9
Women (years)	23.2	24.1	23.2	24.1
Longevity at 65 for future pensioners retiring in 20 years:				
Men (years)	22.6	23.8	n/a	n/a
Women (years)	25.0	26.0	n/a	n/a
Rate of CPI inflation	2.4%	1.9%	2.5%	1.95%
Rate of increase in salaries	3.9%	2.9%	n/a	n/a
Rate of increase in pensions	2.4%	1.9%	2.5%	1.95%
Rate for discounting of scheme liabilities	2.4%	2.35%	2.2%	2.25%

The duration of the Council's past service liability duration is estimated to be 20 years based on the membership data used for the most recent full valuation undertaken as at 31 March 2019.

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

	Impact on the Defined Benefit Obligation in the Scheme		
	Change in assumption	Impact on Council Liability	Impact on Council Deficit
	£m	%	%
Longevity assumptions (increase by 1 year)	294.5	4.5%	11.4%
Pension increase assumptions (increase by 0.1%)	117.8	1.8%	4.5%
Salary increase assumption (increase by 0.1%)	10.3	0.2%	0.4%
Discount scheme liability assumptions (increase by 0.1%)	(125.1)	(1.9%)	(4.8%)

<u>Impact on the Council's Cash Flows</u>

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 16 years. Funding levels are monitored on an annual basis. The next triennial valuation will be carried out as at 31 March 2022 and will set contributions for the period for 1 April 2023 to 31 March 2026.

The Council has made a one-off contribution of £369.2m to the scheme in 2020/21 to cover the anticipated contributions for the three year period from 1 April 2020 to 31 March 2023 on the basis of the equivalent employer's contribution rates plus additional payments to fund the pension deficit in respect of past service costs. Set out below are the contribution rates for the period to 31 March 2023.

Financial Year	Employer's Future Service Contribution Rate	Past Service Cost Deficit Payment
	%	£m
2020/21	21.3	48.2
2021/22	21.3	49.9
2022/23	21.3	51.8

Note 23
Prior Period Restatement

In 2017/18 the Council set up Birmingham City Propco Limited, a wholly owned subsidiary of the Council, to provide a vehicle for commercial investment. The initial transactions of the company were to purchase the leasehold interests of the Council in the Crowne Plaza NEC and Hilton Metropole NEC Hotels. The sale was completed on 15 March 2018.

Prior to March 2018, the leasehold interest in the two hotels had 83 and 57 years to run respectively, but upon completion, the leases were granted to Propco for 122 years, to be co-terminus with the leasehold disposal of the main NEC site, which expires in 2140.

At the time, the leasehold interests in the hotels were accounted for as operating leases granted, with the land assets retained on the Council's Balance Sheet as non-current assets at a value of £27.6m. However, with the assignment of the extended interest to Birmingham City Propco Ltd, the leases were deemed to be finance lease disposals, in line with the Council's accounting policies, and as a result requiring the removal of the non-current assets from the Balance Sheet. Whilst the leases were removed from the entity accounts, the non-current assets were retained on the Balance Sheet in error, thereby overstating the value of non-current assets in the 2017/18 and 2018/19 Financial Statements.

The impact of the disposal is to reduce the value non-current assets within the Balance Sheet, offset by a reduction in the Revaluation Reserve, the unusable reserve which contains the gain made by the Council upon revaluation of these assets.

Details of the impact of the prior year adjustment within the Balance Sheet are set out below:

	Original Opening Balance as at 1 April 2018 £m	Prior Period Adjustment £m	Restated Opening Balance as at 1 April 2018 £m
Assets and Liabilities			
Property, Plant & Equipment	5,719.9	(27.6)	5,692.3
Total Long Term Assets	**6,163.4**	**(27.6)**	**6,135.8**
Net Assets/Liabilities	**(548.8)**	**(27.6)**	**(576.4)**
Balanced by:			
Revaluation Reserve	1,885.4	(27.6)	1,857.8
Total Unusable Reserves	**(1,518.2)**	**(27.6)**	**(1,545.8)**
Total Reserves	**(548.8)**	**(27.6)**	**(576.4)**

As land assets are not subject to depreciation, there has been no impact on the Comprehensive Income and Expenditure Statement for 2018/19. The impact of the adjustment on the published 2018/19 Financial Statements is set out below:

	Original Closing Balance as at 31 March 2019 £m	Prior Period Adjustment £m	Restated Closing Balance as at 31 March 2019 £m
Assets and Liabilities			
Property, Plant & Equipment	5,828.9	(27.6)	5,801.3
Total Long Term Assets	**6,255.4**	**(27.6)**	**6,227.8**
Net Assets/Liabilities	**(242.9)**	**(27.6)**	**(270.5)**
Balanced by:			
Revaluation Reserve	2,024.5	(27.6)	1,996.9
Total Unusable Reserves	**(1,180.3)**	**(27.6)**	**(1,207.9)**
Total Reserves	**(242.9)**	**(27.6)**	**(270.5)**

Note 24
Property, Plant and Equipment

The following tables analyse movements in the carrying values of non-current assets during the year.

Movements in Balances: 2019/20

	Council dwellings £m	Other land and buildings £m	Vehicles, plant, furniture & equipment £m	Infrastructure assets £m	Community assets £m	Surplus assets £m	Assets under construction £m	Total Property, Plant and Equipment £m	PFI / Service Concession assets Included in Property, Plant and Equipment £m
Cost or Valuation									
At 1 April 2019	**2,445.0**	**2,385.4**	**162.8**	**660.9**	**63.4**	**172.7**	**200.0**	**6,090.2**	**843.7**
Additions	102.1	78.7	10.3	14.1	4.0	0.8	136.8	**346.8**	36.4
Donations	-	-	-	-	-	-	-	**-**	
Assets reclassified between categories	8.3	19.1	0.1	20.8	11.9	16.5	(78.2)	**(1.5)**	
Assets reclassified (to)/from Held for Sale	-	(3.2)	-	-	-	5.3	-	**2.1**	
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	(61.4)	32.2	(6.4)	-	-	(23.8)	-	**(59.4)**	(2.7)
Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	-	(47.4)	(16.0)	-	-	(0.7)	-	**(64.1)**	-
Other Movements		-							(61.9)
Derecognition - Disposals	(35.9)	(125.5)	(21.6)	-	-	-	-	**(183.0)**	(0.6)
At 31 March 2020	**2,458.1**	**2,339.3**	**129.2**	**695.8**	**79.3**	**170.8**	**258.6**	**6,131.1**	**814.9**
Accumulated Depreciation and Impairment									
At 1 April 2019	**-**	**(28.9)**	**(70.6)**	**(189.4)**	**-**	**-**	**-**	**(288.9)**	**(201.6)**
Depreciation charge	(53.8)	(53.3)	(15.0)	(25.3)	-	(0.4)	-	**(147.8)**	(31.7)
Depreciation written out to the Revaluation Reserve	53.1	39.1	3.4	-	-	2.4	-	**98.0**	3.1
Depreciation written out to the Surplus/Deficit on the Provision of Services	-	12.1	8.6	-	-	0.4	-	**21.1**	0.2
Revaluation (losses)/reversals recognised in the Revaluation Reserve	-	-	-	-	-	-	-	**-**	
Impairment (losses)/reversals recognised in the Surplus/Deficit on the Provision of Services	-	-	-	-	-	-	-	**-**	
Derecognition - Disposals	0.7	2.6	22.4	-	-	-	-	**25.7**	-
Assets reclassified (to)/from Held for Sale	-	0.7	-	-	-	(0.2)	-	**0.5**	
Other movements in depreciation and impairment	-	2.2	-	-	-	(2.2)	-	**-**	**14.7**
At 31 March 2020	**-**	**(25.5)**	**(51.2)**	**(214.7)**	**-**	**-**	**-**	**(291.4)**	**(215.3)**
Net Book Value									
At 31 March 2020	**2,458.1**	**2,313.8**	**78.0**	**481.1**	**79.3**	**170.8**	**258.6**	**5,839.7**	**599.6**
At 31 March 2019	**2,445.0**	**2,356.5**	**92.2**	**471.5**	**63.4**	**172.7**	**200.0**	**5,801.3**	**642.1**

Movements in Balances: 2018/19

	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 2018	**2,283.8**	**2,472.6**	**176.5**	**629.6**	**62.2**	**112.2**	**196.7**	**5,933.6**	**811.9**
Adjustment to Opening Balance	-	(27.6)	-	-	-	-	-	**(27.6)**	-
Restated Opening Balance at 1 April 2018	**2,283.8**	**2,445.0**	**176.5**	**629.6**	**62.2**	**112.2**	**196.7**	**5,906.0**	**811.9**
Additions	102.8	51.9	4.8	30.0	2.3	-	100.3	**292.1**	32.6
Donations	-	-	-	-	-	-	-	**-**	
Assets reclassified between categories	16.7	76.6	1.1	1.3	(1.1)	1.4	(96.8)	**(0.8)**	
Assets reclassified (to)/from Held for Sale	-	(11.9)	-	-	-	(12.2)	-	**(24.1)**	
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	76.5	(12.7)	-	-	-	73.3	-	**137.1**	(0.9)
Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	-	(110.2)	-	-	-	-	(0.2)	**(110.4)**	0.4
Derecognition - Disposals	(34.8)	(53.3)	(19.6)	-	-	(2.0)	-	**(109.7)**	(0.3)
At 31 March 2019	**2,445.0**	**2,385.4**	**162.8**	**660.9**	**63.4**	**172.7**	**200.0**	**6,090.2**	**843.7**
Accumulated Depreciation and Impairment									
At 1 April 2018	**-**	**(28.1)**	**(73.7)**	**(111.9)**	**-**	**-**	**-**	**(213.7)**	**(121.1)**
Depreciation charge	(51.7)	(59.8)	(16.0)	(26.2)	-	(0.6)	-	**(154.3)**	(32.4)
Depreciation written out to the Revaluation Reserve	51.0	41.5	-	-	-	0.1	-	**92.6**	2.2
Depreciation written out to the Surplus/Deficit on the Provision of Services	-	13.2	-	-	-	-	-	**13.2**	0.9
Revaluation (losses)/reversals recognised in the Revaluation Reserve	-	0.8	-	-	-	-	-	**0.8**	
Impairment (losses)/reversals recognised in the Surplus/Deficit on the Provision of Services	-	0.8	-	(51.3)	-	-	-	**(50.5)**	(51.3)
Derecognition - Disposals	0.7	2.2	19.1	-	-	0.1	-	**22.1**	0.1
Assets reclassified (to)/from Held for Sale	-	0.5	-	-	-	0.4	-	**0.9**	
Other movements in depreciation and impairment	-	-	-	-	-	-	-	**-**	
At 31 March 2019	**-**	**(28.9)**	**(70.6)**	**(189.4)**	**-**	**-**	**-**	**(288.9)**	**(201.6)**
Net Book Value									
At 31 March 2019	**2,445.0**	**2,356.5**	**92.2**	**471.5**	**63.4**	**172.7**	**200.0**	**5,801.3**	**642.1**
At 31 March 2018	**2,283.8**	**2,444.5**	**102.8**	**517.7**	**62.2**	**112.2**	**196.7**	**5,719.9**	**690.8**

Revaluations

The outbreak of Covid-19, declared as a Global Pandemic on 11 March 2020, has had significant impact on global financial markets post March 2020. The valuation has considered material uncertainty as a matter of course and, whilst there will be a significant impact on the real estate market during 2020/21, it is difficult to determine the impact of the virus on asset values at 31 March 2020. At the valuation date there was a shortage of market evidence for comparison purposes, leading to the need for a greater degree of caution to be applied to the valuation than would normally be the case.

Operational Land and Buildings (other than Housing)

The Council carries out valuations of its property assets over a five year cycle and reviews those assets that are not in the valuation cycle for the year to ensure that carrying values remain materially correct at the Balance Sheet date. Azmat Mir, Member of the Royal Institution of Chartered Surveyors (MRICS), Head of Property Consultancy and other similarly qualified staff within the Council's Property Services section carried out the valuations. A Valuation Certificate was issued on 13 August 2020 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 2019, 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 marginal reduction in building costs during the year to 31 March 2020.

A review was undertaken to assess the impact of the movement in building costs on the value of those assets not subject to revaluation in 2019/20. 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 2020, resulting in a small increase in relevant asset values.

Housing

The Council's housing stock was valued as at 10 January 2020 by Azmat Mir MRICS, and similarly qualified staff within the Council's Property Services section in line with the Ministry of Housing, Communities and Local Government's Guidance on Stock Valuation for Resource Accounting published in November 2016. The basis of the valuation for the housing stock element is in accordance with the Royal Institution of Chartered Surveyors using the Existing Use Value – Social Housing basis, which takes open market value for the underlying dwellings and applies a multiplier to reflect the reduced value as a result of the use for social housing for 2019/20 of 40% (2018/19: 40%). A review was undertaken to consider any material movement between 10 January and 31 March 2020, but no increase in value has been applied due to the uncertainty of global markets as a result of the Covid-19 pandemic.

HRA dwellings have seen a net increase in value of £13.1m since 31 March 2019. Details are included in Notes H1 and H3 of the Supplementary Statements.

Surplus Assets

A small number of assets have been deemed surplus to the requirement of the Council but do not yet meet the criteria to be classified as Assets Held for Sale. As such they have been reclassified as surplus assets, and revalued at 31 March 2020 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 2019 Fair Value £m	31 March 2020 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.	172.7	170.8

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					79.3		258.6	**337.9**
Carried at Depreciated Historical Cost			101.2	695.8				**797.0**
Valued at current value as at:								
31 March 2020	2,458.1	1,886.6	28.0			170.8		**4,543.5**
31 March 2019		104.5						**104.5**
31 March 2018		78.2						**78.2**
31 March 2017		161.1						**161.1**
31 March 2016		108.9						**108.9**
Total cost or valuation	**2,458.1**	**2,339.3**	**129.2**	**695.8**	**79.3**	**170.8**	**258.6**	**6,131.1**

Capital Commitments

At 31 March 2020, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2020/21 and future years budgeted to cost £1,018.4m. Similar contracts at 31 March 2019 were £1,009.4m. The major commitments are:

	£m
PFI Lifecycle Costs	522.5
Commonwealth Games	299.0
HRA New Build & Investment	86.7
Paradise Circus Enterprise Zone	43.0
Additional School Places	27.6
Works to Tyseley Energy Renewal Plant	18.2
Iron Lane Highway Improvements	6.0
Snow Hill Public Realm	7.1
Other Projects <£5m	8.3
Total Capital Commitments	**1,018.4**

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 2019/20 the amount of borrowing costs capitalised during the period was £4.0m (2018/19: £3.0m). The interest does not relate to a specific loan and was calculated using the Council's average borrowing rate in the year expenditure was incurred. This was 4.45% in 2019/20 (2018/19: 4.36%). For 2019/20, interest capitalised by scheme was as follows:

	£m
Enterprise Zone	3.3
Commonwealth Games	0.7

Note 25
Heritage Assets

The Council has significant collections of assets that contribute towards the rich and diverse heritage of the City, reflecting two thousand years of historic development, across Museums, Historic Buildings, Public Art, Libraries and Civic collections.

Where historical cost information is available, the Council has used this when compiling the Balance Sheet; otherwise insurance valuations, reviewed annually, have been used, where applicable. Where there is evidence of a movement in valuations as a result of material acquisitions or disposals, or a significant movement in comparable market values, a revaluation will be considered.

Heritage Assets held by the Council:

	Museum Collections	Historic Buildings	Public Art	Libraries and Archive collections	Civic Regalia and Plate	Total Assets
	£m	£m	£m	£m	£m	£m
01 April 2018						
- At Cost	3.9	11.1	0.5	-	-	15.5
- At Valuation	215.9	-	-	18.4	1.8	236.1
Additions	0.1	-	-	-	-	0.1
Impairment losses /(reversals) recognised in the Revaluation Reserve	0.3	-	-	-	-	0.3
Impairment losses /(reversals) recognised in the Surplus or Deficit on the Provision of Services	(2.2)	-	-	-	-	(2.2)
31 March 2019	**218.0**	**11.1**	**0.5**	**18.4**	**1.8**	**249.8**
- At Cost	*1.8*	*11.1*	*0.5*	*-*		*13.4*
- At Valuation	*216.2*	*-*	*-*	*18.4*	*1.8*	*236.4*
31 March 2019	***218.0***	***11.1***	***0.5***	***18.4***	***1.8***	***249.8***
01 April 2019						
- At Cost	1.8	11.1	0.5	-	-	13.4
- At Valuation	216.2	-	-	18.4	1.8	236.4
Additions	0.2	-	-	-	-	0.2
Revaluations	0.1	-	-	-	-	0.1
Impairment losses /(reversals) recognised in the Surplus or Deficit on the Provision of Services	(0.2)	-	-	-	-	(0.2)
31 March 2020	**218.1**	**11.1**	**0.5**	**18.4**	**1.8**	**249.9**
- At Cost	*1.8*	*11.1*	*0.5*	*-*		*13.4*
- At Valuation	*216.3*	*-*	*-*	*18.4*	*1.8*	*236.5*
31 March 2020	***218.1***	***11.1***	***0.5***	***18.4***	***1.8***	***249.9***

Museum Collections

The Council holds collections of artworks, ceramics, jewellery and items of archaeological and scientific significance. The vast majority of the Museum's Loan collection is held within the Birmingham Museum and Art Gallery, which holds one of the finest collections of art, history and science in the UK and the best collection of Pre-Raphaelite works in the world. There are significant exhibits and artwork comprising the Permanent Collection on display in community museums, for example Aston Hall and Soho House, together with items held in storage at the Museum's Collection Centre. The value of the collection has been adjusted to reflect updated insurance valuations. In addition, there is a collection of Boulton silverware, a set of 24 pieces in silver jointly owned by the Council and the Birmingham Assay Office.

Historic Buildings and the Historical Environment

The Council either owns or holds on trust in excess of 150 listed buildings and structures, with Grade I and Grade II properties being the most significant. These include Aston Hall, a Grade I listed Jacobean manor house completed in 1635, Blakesley Hall, an Elizabethan timber house built by a local merchant in 1590 and Soho House, home of Birmingham industrialist and entrepreneur Matthew Boulton, all of which are included as Heritage Assets.

Public Art

The Council owns over 80 pieces of public art, including statues, sculpture and fountains, some of which are listed structures. Victoria Square fountain and the King Edward VII statue are included in the Balance Sheet as reliable information is available for these works of art.

Libraries and Archive Collections

The Library of Birmingham is unique amongst UK public libraries for the range and depth of the collections it houses. The library houses a large photography collection and the Council also holds over 6,000 archive collections including major collections of national importance, such as those relating to the industrial innovators James Watt and Matthew Boulton. There are significant collections of early and fine printing, incorporating over 8,000 books printed before 1701, and an extensive collection of literature and rare books, including 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 detail how the service manages and cares for the collections. These are all available on the Council's website, or via the relevant service area. Both Libraries and Museums use database systems to manage their collections.

Access to heritage assets is provided through permanent displays of historical material, temporary exhibitions and events, publications, catalogues and digital and web-based resources. In addition the Museum’s Collection Centre schedules occasional open days allowing public access to some of the Museum’s stored historical artefacts. For the wider historical environment guided tours, printed leaflets and publications, heritage trails and interpretive panels are effective in enabling intellectual access.

Birmingham Museums Trust exists to promote heritage within Birmingham, with the aims of advancing education through the operation, maintenance, development and promotion of museums, galleries and libraries in Birmingham. The Council continues to retain ownership of the buildings and collections.

Note 26
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:

	2018/19			2019/20		
	Internally Generated Assets £m	Other Assets £m	Total £m	Internally Generated Assets £m	Other Assets £m	Total £m
Balance at start of year:						
- Gross carrying amounts	-	41.4	41.4	-	42.1	42.1
- Accumulated amortisation	-	(27.7)	(27.7)	-	(34.7)	(34.7)
Net carrying amount at start of year	**-**	**13.7**	**13.7**	**-**	**7.4**	**7.4**
Additions:						
- Internal development	-	1.1	1.1	-	1.4	1.4
Assets reclassified between asset categories	-	0.8	0.8	-	1.5	1.5
Other disposals	-	(1.2)	(1.2)	-	(31.8)	(31.8)
Amortisation for the period	-	(8.2)	(8.2)	-	(3.2)	(3.2)
Amortisation written out for disposals/transfers	-	1.2	1.2	-	31.8	31.8
Net carrying amount at end of year	-	7.4	7.4	-	7.1	7.1
Comprising:						
Gross carrying amounts	-	42.1	42.1	-	13.2	13.2
Accumulated amortisation	-	(34.7)	(34.7)	-	(6.1)	(6.1)
	-	7.4	7.4	-	7.1	7.1

Note 27
Long Term Debtors

The table below shows amounts owed to the Council that are due for payment more than 12 months after the Balance Sheet date. Covid-19 has had a significant impact on the economy, the extent of which may not be known for some time. An estimate has been made on the collectability of outstanding debt and a further explanation is set out in Note 4, Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty The outstanding balances have been split by type of debt.

31 March 2019 £m		31 March 2020 £m
83.8	External Loans	88.3
0.7	Employee Loans	0.2
0.3	Mortgages: former Council House Tenants	0.3
30.6	Other Debtors	25.7
115.4	**Total**	**114.5**

Note 28
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. Whilst the impact of Covid-19 is likely to have a significant impact on the economy, it is not expected that there would be a significant impact on short term investments.

31 March 2019 £m		31 March 2020 £m
56.3	Money Market Funds	22.5
3.2	Financial Institutions	1.8
10.1	Other Investments	204.0
69.6	**Total**	**228.3**

Note 29
Assets Held for Sale

The table below details the value of assets whose carrying amount will be recovered principally through a sale transaction rather than through their continuing use.

	Current	
	2018/19	2019/20
	£m	£m
Balance outstanding at start of year	**0.9**	**23.4**
Assets newly classified as held for sale:		
- Property, Plant and Equipment	23.3	9.4
Assets declassified as held for sale:		
- Property, plant and equipment	-	(12.2)
Assets sold	(0.7)	(4.1)
Other Movements	(0.1)	0.2
Balance outstanding at year end	**23.4**	**16.7**

At 31 March 2020, 12 assets have been classified as held for sale. In the normal course of business, it would be expected that disposal of those assets would take place in the following 12 months. However, the Covid-19 pandemic has had a significant impact on the UK's commercial and economic activity since lockdown began in March 2020, creating a degree of uncertainty around future asset disposals, the scale of which is as yet unknown.

Assets carried within the Council's financial statements are valued using either Depreciated Replacement Cost (DRC) in the case of specialist assets or the value to the Council of the asset in existing use. The value of capital receipts may differ from the carrying value of the assets and is heavily dependent on how much the market is willing to pay for a particular asset at any one time and this can fluctuate. The potential difference in values cannot be quantified as those assets which may be disposed of may change and a 'fair' market valuation cannot be quantified with any accuracy. Given the size of the assets on the Council's Balance Sheet the sale of a small percentage of these could still result in a material difference.

In addition, there are eight assets that have been reclassified to either surplus or to land and buildings assets as they no longer fulfil the criteria to be deemed as assets held for sale.

Note 30
Short Term Debtors

The table below shows the amounts owed to the Council at the end of the year that are due for payment within 12 months. An allowance has been made, within the overall level of debt due, to reflect an element of non-recovery. Whilst the allowance for non-recovery has included an additional element to reflect the impact of Covid-19 on the economy, the full impact may not be known for some time.

The amounts owed have been analysed by type of debtor to allow an assessment of the risk of non-recovery.

31 March 2019 £m		31 March 2020 £m
68.6	Central government bodies	110.2
21.2	Other local authorities	29.3
8.3	NHS bodies	7.4
2.5	Public corporations and trading funds	3.5
230.0	Other entities and individuals	234.5
330.6	**Total**	**384.9**

Note 31
Cash and Cash Equivalents

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

31 March 2019 £m		31 March 2020 £m
3.1	Cash held by the Council	2.8
43.1	Bank current accounts	59.2
(15.2)	Bank Overdrafts	(0.7)
31.0	**Total**	**61.3**

Note 32
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 2019 £m		31 March 2020 £m
(26.2)	Central government bodies	(83.5)
(6.7)	Other local authorities	(7.2)
(1.3)	NHS bodies	(3.5)
(64.1)	Public corporations and trading funds	(50.5)
(197.5)	Other entities and individuals	(236.1)
(295.8)	**Total**	**(380.8)**

Note 33
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 2018		**Balance at 1 April 2019**	Additional provisions made in 2019/20	Amounts used in 2019/20	Transfer between current and non-current provision	Unused amounts reversed in 2019/20	Unwinding of discounting in 2019/20	**Balance at 31 March 2020**
£m		£m	£m	£m	£m	£m	£m	£m
	Short Term							
151.8	Equal Pay	174.5	5.0	(19.4)	-	(7.0)	0.1	**153.2**
22.8	Business Rates Appeals	13.7	9.8	(12.1)	-	-	-	**11.4**
1.6	Pension Guarantees	1.4	0.4	(1.4)	0.9	-	-	**1.3**
11.9	Other Provisions	15.8	0.9	(2.5)	-	(5.0)	(0.1)	**9.1**
188.1	**Total**	**205.4**	**16.1**	**(35.4)**	**0.9**	**(12.0)**	**-**	**175.0**
	Long Term							
12.3	Business Rates Appeals	7.4	5.3	(6.5)	-	-	-	**6.2**
11.2	Pension Guarantees	8.5	0.4	-	(0.9)	(0.4)	-	**7.6**
23.5	**Total**	**15.9**	**5.7**	**(6.5)**	**(0.9)**	**(0.4)**	**-**	**13.8**

Equal Pay

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

The Council has set aside a provision of £153.2m (2018/19: £174.5m) in respect of its estimate of liability for Equal Pay. The provision reflects the assessed position as at 31 March 2020.

The Secretary of State for Communities and Local Government issued regulations allowing Local Authorities to use capital receipts received on or after 1 April 2013 to meet back payments associated with issued and valid equal pay claims. The Council has included both the capital and revenue impacts of equal pay claims in the Council’s Financial Plan 2020 - 2024.

Business Rates Appeals

As a result of the change in the funding of Local Government in 2013/14, local authorities have assumed part of the liability for refunding Business Rates payers who have successfully appealed against the rateable value of their properties in the rating list. This liability includes amounts that were collected in respect of both the current year and prior years.

The Council, as Billing Authority, is required to make a provision for this liability on behalf of the major preceptors and itself. From 1st April 2017 the Council is part of a 100% Local Business Rates Retention Pilot. Under the pilot the Council retains 99% of the Business Rates it collects including 99% of any amounts due to be collected in future. The other 1% is retained by the West Midlands Fire and Rescue Authority (WMFRA). Prior to 1 April 2017 the Council's share was 49% with 1% due to the WMFRA and the other 50% being due to Central Government. Under the pilot the Council has assumed responsibility to pay for 99% of backdated appeals, even those prior to 1 April 2017. However, the Council has also been allowed to take the Government's 50% share of the provision set aside for backdated appeals prior to 1 April 2017.

These accounts include a provision of £17.6m representing 99% of the total provision (2018/19: £21.1m representing 99% of the total provision) set aside to cover the Council's share of the total estimated unpaid liability relating to the settlement of all appeals received up to 31 March 2020. The remaining 1% share of the liability is attributable to the WMFRA.

The Council has assessed the likely cost of settling appeals, based upon the history of appeals settled to date and details of those appeals that are still outstanding. The information used in this modelling has been provided by the Valuations Office Agency (VOA).

Pensions Guarantees
The Council has, over a number of years, changed its way of operating from being one of a direct provider of a number of services to one where it purchases services from third parties. As part of this change in service delivery model, the Council has transferred staff from the Council to external providers under Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE). The Council has agreed that staff transferring to an external provider should continue to have the right to access equivalent pension benefits to that provided whilst employed by the Council. To ensure the smooth transfer of staff, the Council has provided guarantees for contribution rates and pension deficits in respect of continuing pension provision. As a result of the guarantees given, the Council has set aside a provision of £8.9m (2018/19: £9.9m) to meet future liabilities under these arrangements.

Other Provisions
Details of the major items included in other provisions are:

Subsidiaries
As part of the relationship with its subsidiary companies, the Council may have to provide a guarantee that it will support a company to enable it to continue meeting its liabilities as they fall due. The Council continues to review the likelihood of any call on the guarantees that it has given to determine whether it needs to set aside resources to meet any future liabilities. The Council has set aside a provision of £4.1m in 2019/20 (2018/19: £8.7m).

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.

Sleep-In Allowance
The Council, like other care providers/commissioners, has a risk of potential back pay liability as a result of developments in the legal system in relation to sleep-in shifts. The Mencap vs Tomlinson-Blake EAT ruling found that care providers must pay the National Minimum Wage throughout a sleep-in shift rather than the fixed allowance that is currently paid. The current case law is complex, and currently subject to appeal.

Note 34
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 2020 as £443.1m and has identified future commitments of £20.3m.

   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 2020 as £653.0m and has identified future expenditure commitments of £712.3m.

   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 2019/20 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 reduce the General Fund balance carried forward.

3. Under the Equality Act 2010, employees are entitled to equal pay for work of equal value. The Council has received a number of claims under the Equality Act and, as a result, has set aside a provision of £153.2m (31 March 2019: £174.5m) which incorporates all claims received and negotiations agreed by 31 March 2020.

   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 2020 – 2024 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 2020 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 uses a number of different arrangements in the delivery of services in addition to the services it provides itself. Alternative methods of service delivery may include the use of subsidiary companies where the Council has majority control or partnership arrangements with third parties through associate companies and joint ventures where the Council has joint control or a significant influence. To ensure continuity of service delivery, the Council may provide guarantees or letters of assurance to these companies so that they can give assurance to third party suppliers that they can continue to meet their liabilities as they fall due. The Council has set aside a provision of £4.1m in 2019/20 in recognition of its current commitments under these arrangements. The trading position of companies may change and the Council may be required to provide for further support in the future.

6. The Council enters into a number of arrangements with external partners for the delivery of services or as part of infrastructure developments within the city. There are occasions where the Council faces claims from external partners where it is believed that specific outcomes have not been delivered. Currently the validity of any outstanding claims is being assessed.

7. The Council received insurance services from Municipal Mutual Insurance (MMI). Due to financial difficulties, MMI ceased trading in October 1993 and entered into a solvent run off. MMI entered into a Scheme of Arrangement with its creditors, namely the Councils which were owed claim settlements. The Scheme of Arrangement stated that MMI would be able to claw back any claim settlements paid on behalf of its creditors after 1 October 1993 if a solvent run off was not likely to be achieved.

   Following a decision of the Supreme Court in March 2012 regarding Employers' Liability Policy Trigger Litigation, MMI's liability in respect of asbestos related claims has increased substantially. As a result, the Scheme of Arrangement was enacted in 2012/13 and an Administrator was appointed.

   At present, the Administrator has announced a levy of 25% on claims paid since 1 October 1993 and the Council has incurred costs of £0.7m to cover its share together with a share, based on population, of the claims paid in respect of the former West Midlands County Council. The maximum remaining liability faced by the Council, less the payments already made, is £2.3m.

8. A number of NHS Trusts across the country submitted applications, under Section 47 of the Local Government Finance Act 1988, to re-classify their Business Rates assessments as charitable and therefore claim mandatory charitable relief, equivalent to an 80% reduction in the amount payable. The NHS Trusts were also seeking repayment of Business Rates paid in previous years. The High Court considered the position and issued its decision on 12 December 2019 that Derby Teaching Hospitals NHS Foundation Trust was not a charity for the purposes of S43(6) of the Local Government Finance Act 1988 which meant that mandatory rate

relief was not appropriate.

It is now understood that eleven hospital trusts are continuing a High Court action against Local Authorities by seeking to appeal the ruling of 12 December 2019. Should the NHS Trust applications be successful there would be a significant impact to the Council, in excess of £10m per annum.

9. In the delivery of services, the Council may transfer staff to external organisations rather than directly deliver those services itself. As part of the staff transfer arrangements, continued access to the Local Government Pension Scheme may still be permitted. Where these arrangements exist, the Council has given guarantees in respect of pension liabilities to the West Midlands Pension Fund and to companies in respect of contribution rates. Where the Council has an expectation that there will be a call on the guarantee, provision has been made as detailed in Note 33. At present the Council has set aside a provision of £9.0m in respect of its guarantees to companies. However, there may be further calls on guarantees which will need to be considered in the future.

10. The Council, as with other care providers/commissioners, has a risk of potential back pay liability as a result of outcomes from Employment Tribunals in relation to sleep-in shifts. In the Employment Appeal Tribunal of Mencap vs Tomlinson-Blake, the judgement was that care providers must pay the National Minimum Wage throughout a sleep-in shift rather than a fixed allowance as is currently the case. However, the Court of Appeal Judgement overturned that decision by deciding that the minimum wage does not have to be paid for all sleeping hours, only for those who undertake actual work rather than those who are simply available for work. The current case law is complex and is subject to appeal.

Contingent Assets

At 31 March 2020 the Council has identified the following material contingent assets.

1. When disposing of non-current assets which may be the subject of further development by the purchaser, the Council may include clauses within the disposal agreement that require the purchaser to make additional payments to the Council depending on the outcome of the development. The Council 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 35
Council Borrowing

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

2018/19			2019/20	
Long Term £m	Short Term £m		Long Term £m	Short Term £m
(60.4)	(42.6)	Lender's Option Borrower's Option (LOBO) loans	(30.4)	(42.1)
(476.3)	(7.6)	Local Bonds	(469.6)	(7.9)
(2,311.0)	(66.3)	Public Works Loan Board	(2,454.1)	(61.5)
(7.8)	(466.6)	Other Borrowing (mainly Other Local Authorities)	(15.4)	(295.0)
(2,855.5)	**(583.1)**	**Total**	**(2,969.5)**	**(406.5)**

Note 36
Cash Flow Statement - Operating Activities

The cash flows from operating activities include the following items:

2018/19 £m		2019/20 £m
(21.6)	Interest received	(31.4)
182.0	Interest paid	196.0
(5.7)	Dividends received	(5.4)
154.7		**159.2**

Note 37
Cash Flow Statement - Investing Activities

The cash flows from investing activities include the following:

2018/19 £m		2019/20 £m
(261.9)	Purchase of property, plant and equipment, investment property and intangible assets	(334.9)
(1,115.9)	Purchase of short-term and long-term investments	(2,087.2)
87.4	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	71.9
1,152.8	Proceeds from short-term and long-term investments	1,923.1
(137.6)	**Net cash flows from investing activities**	**(427.1)**

Note 38
Cash Flow Statement - Financing Activities

The cash flows from financing activities include the following:

2018/19 £m		2019/20 £m
126.5	Other receipts from financing activities	225.9
2,171.8	Cash receipts of short-term and long-term borrowing	1,851.2
(47.3)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(23.0)
(2,272.6)	Repayments of short-term and long-term borrowing	(1,905.7)
(4.9)	Other payments for financing activities	1.5
(26.5)	**Net cash flows from financing activities**	**149.9**

Details of the reconciliation of liabilities arising from financing activities is set out below.

	01 April 2019	Financing Cash Flows	Non-Cash Changes		31 March 2020
			Acquisition	Other Non-Cash Changes	
	£	£	£	£	£
Long-Term Borrowings	2,855.5	116.0			2,971.5
Short-Term Borrowings	583.1	(178.6)			404.5
Lease liabilities	1.7	(0.4)	1.6		2.9
On Balance Sheet PFI Liabilities	404.3	(23.0)	11.1		392.4
Total Liabilities from Financing Activities	**3,844.6**	**(86.0)**	**12.7**	**-**	**3,771.3**

	01 April 2018	Financing Cash Flows	Non-Cash Changes		31 March 2019
			Acquisition	Other Non-Cash Changes	
	£	£	£	£	£
Long-Term Borrowings	2,740.0	115.5			2,855.5
Short-Term Borrowings	799.8	(216.4)		(0.3)	583.1
Lease liabilities	2.2	(1.1)	0.6	-	1.7
On Balance Sheet PFI Liabilities	421.8	(47.3)	29.8	-	404.3
Total Liabilities from Financing Activities	**3,963.8**	**(149.3)**	**30.4**	**(0.3)**	**3,844.6**

Note 39
Cash Flow Statement – Other Adjustments

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

2018/19 £m		2019/20 £m
154.3	Depreciation/Impairment charge	147.9
8.2	Amortisation of Intangible Assets	3.2
0.5	Derecognition of Available for Sale Assets	3.9
148.4	Revaluation of Non-Current Assets	42.7
88.3	Derecognition of Non-Current Assets	161.4
(24.3)	(Increase)/Decrease in Debtors	(48.0)
(39.1)	Increase/(Decrease) in Creditors	68.2
(0.1)	(Increase)/Decrease in Inventories	(0.4)
9.7	Increase/(Decrease) in Provisions	(32.5)
151.5	Pensions Liability	176.9
497.4	**Net Cash Flow - Other Adjustments**	**523.3**

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

2018/19 £m		2019/20 £m
(126.5)	Capital Grants	(225.9)
(87.4)	Capital Receipts	(71.9)
4.9	Council Tax and Business Rates Adjustments	(1.4)
(209.0)		**(299.2)**

Note 40
Financial Instruments

Categories of Financial Instruments

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

	Long Term		Short Term	
	31 March 2019 £m	31 March 2020 £m	31 March 2019 £m	31 March 2020 £m
Investments				
Fair Value through Profit or Loss	3.9	3.1	56.3	-
Amortised Cost	-	-	13.3	228.3
Fair Value through Other Comprehensive Income - designated equity instruments	-	-	-	-
Investments in subsidiaries, associates and joint ventures	37.3	34.2	-	-
Total	**41.2**	**37.3**	**69.6**	**228.3**
Investments that are not financial instruments	-	-	-	-
Total investments	**41.2**	**37.3**	**69.6**	**228.3**
Debtors				
Fair Value through Profit or Loss	-	-	-	-
Amortised Cost	88.8	90.4	216.5	254.4
Fair Value through Other Comprehensive Income - designated equity instruments	-	-	-	-
Financial assets carried at contract amounts	-	-	-	-
Total	**88.8**	**90.4**	**216.5**	**254.4**
Debtors that are not financial instruments	26.6	24.1	114.1	130.5
Total debtors	**115.4**	**114.5**	**330.6**	**384.9**
Cash				
Cash in Hand			46.2	62.0
Total cash: asset			46.2	62.0
Cash Overdrawn			(15.2)	(0.7)
Total cash: liability			(15.2)	(0.7)
Borrowings				
Fair Value through Profit or Loss	-	-	-	-
Amortised Cost	(2,855.5)	(2,969.5)	(583.1)	(406.5)
Total	(2,855.5)	(2,969.5)	(583.1)	(406.5)
Borrowings that are not financial instruments	-	-	-	-
Total borrowings	**(2,855.5)**	**(2,969.5)**	**(583.1)**	**(406.5)**
Other Long Term Liabilities				
PFI and finance lease liabilities	(393.4)	(382.2)		
Total	(393.4)	(382.2)		
Transferred Debt and Other Liabilities	(51.0)	(45.7)		
Total long term liabilities	**(444.4)**	**(427.9)**		
Creditors				
Fair Value through Profit or Loss	-	-	-	-
Amortised Cost	(2.3)	(0.7)	(217.7)	(243.6)
Total	(2.3)	(0.7)	(217.7)	(243.6)
Creditors that are not financial instruments	-	-	(78.1)	(137.2)
Total creditors	**(2.3)**	**(0.7)**	**(295.8)**	**(380.8)**

Material Soft Loans Made by the Council

The Council has made the following material soft loans:

Warwickshire County Cricket Club was granted a loan of £20m in 2009 to support the major ground refurbishment undertaken. The loan is deemed to be a material soft loan and is carried in the accounts at £17.5m, paying a fixed interest rate of 5%. During the development phase of the project, interest was rolled up in the loan. In 2016/17, Warwickshire County Cricket Club exercised its right, under the terms of the loan agreement, to defer interest and principal repayment for two quarters from March 2013 and extend the loan maturity to make these payments. The club applied for a further 18 month interest and principal deferral, which was granted by the Council. All interest on the deferred payments is rolled up and the term of the loan has been extended to 2045.

West Midlands Growth Company (formerly Marketing Birmingham) received a loan of £1.1m in 2012 to support the creation of the Birmingham Business Hub at Baskerville House. The loan is deemed to be a material soft loan and is carried in the accounts at £0.3m, pays an interest rate of 2.2% and matures in 2022.

On the creation of Birmingham Children's Trust CIC was offered loan facilities to ensure that it had sufficient cash resources to operate efficiently given that the company was a company limited by guarantee and had no equity. The Council took up a loan of £4m in April 2018 at an interest rate of 2.41% and a loan of £6m in April 2019 at an interest rate of 1.87%. The loans are due to be repaid as a single repayment in March 2028 but the Trust has the right to repay at an earlier date. The loan is deemed to be a material soft loan and is carried in the accounts at £7.5m

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

	2018/19 £m	2019/20 £m
Opening balance at 1 April	**17.9**	**17.7**
Adjustment to Opening Balance	(0.5)	-
Nominal value of new loans		10.0
Fair value adjustment of new loan		(2.5)
Loans repaid	(0.1)	-
Movement in Expected Credit Loss per IFRS9	0.1	0.1
(Increase)/Reduction in discount	0.3	-
Closing Balance at 31 March	**17.7**	**25.3**
Nominal value at 31 March	22.2	32.2

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.

The Opening Balance Adjustment on the loans in 2018/19 relates to the implementation of IFRS9, Financial Instruments, and the requirement to determine Expected Credit Losses on financial assets. The net Expected Credit Losses estimate has reduced during the year as the date for repayment of the loan facilities is now one year closer.

As with all loans made by the Council, reviews of the repayment schedule is undertaken with the borrowing counterparties, particularly in the light of the impact of Covid-19 to determine whether the level of risk has increased sufficiently to make any changes to the assessment the carrying value of the loans.

Income, Expenses, Gains and Losses

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments are shown in the following table. The losses on financial instruments recognise that some debts will not be recovered and includes an allowance for an increase as a result of the difficulties arising from the spread of Covid-19.

	2018/19		2019/20	
	Surplus/Deficit on the Provision of Services	Other Comprehensive Income and Expenditure	Surplus/Deficit on the Provision of Services	Other Comprehensive Income and Expenditure
	£m	£m	£m	£m
Net (Gains)/Losses on financial instruments:				
• financial assets measured at fair value through profit/loss	2.7	-	4.1	-
• financial assets measured at amortised costs	17.1	-	24.6	-
Total Net (Gains)/Losses on financial instruments	**19.8**	**-**	**28.7**	**-**
Income/Expenditure in (Surplus)/Deficit on the Provision of Services				
Interest Receivable from financial assets measured at amortised costs	(21.6)	-	(31.4)	-
Investment income from financial assets measured through profit and loss	(5.7)	-	(5.4)	-
Interest Expense	182.0	-	196.0	-
Net Income/Expenditure in (Surplus)/Deficit on the Provision of Services	154.7	-	159.2	-
Net (gain)/loss for the year	**174.5**	**-**	**187.9**	**-**

Fair Value of Financial Instruments

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.

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, using the following 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 2019 Carrying Amount £m	31 March 2019 Fair Value £m	31 March 2020 Carrying Amount £m	31 March 2020 Fair Value £m
Listed Bonds	Level 1	Quoted prices (unadjusted) in active markets for identical assets	84.5	103.1	82.2	103.4
Public Works Loan Board (PWLB)	Level 2	PWLB new loan at certainty rate based on published PWLB rates	2,377.2	3,130.7	2,515.6	3,203.8
Other Long Term Loans		An estimate of the rate payable for a new loan on the same terms, based on published gilt yields	399.4	507.9	395.1	496.5
Other Market Loans - LOBOs			102.9	190.6	72.5	129.6
Other Long Term Loans – Quasi Loans			0.8	0.7	0.6	0.6
Other Long Term Loans - PETPS			11.4	11.6	7.3	7.4
Other Long Term Loans - Local Authorities		Market indicative interest rates	45.0	45.2	10.0	10.1
Other Long Term Liabilities (PFI/ leasing)		PWLB new loan at certainty rate based on published PWLB rates	405.0	661.4	393.6	618.1
Other Long Term Liabilities (Transferred Debt)*		An estimate of the rate payable for a new loan on the same terms	39.4	45.0	34.2	38.4
Other Market Loans - Short Term	N/A	Fair value is approximated at their carrying amount	417.8	417.8	292.4	292.4
Short term creditors (including PFI/finance leases/operating lease/transferred debt)	N/A	Fair value is approximated at their carrying amount	217.7	217.7	243.6	243.6
TOTAL			**4,101.1**	**5,331.7**	**4,047.1**	**5,143.9**

*The Transferred Debt information is provided by Dudley Metropolitan Borough Council, who have responsibility for the West Midlands County Council Debt Administration Fund. The fair values were provided to them by their Treasury Advisors.

The fair market value of some of the Council’s bonds has been set through Bloomberg. These assets are considered to have readily observable prices and therefore a reliable, fair market value.

Details of the impact of fair value assessments on specific categories of assets are set out below.

An assessment of the impact of Covid-19 has been undertaken. Whilst the full impact cannot be fully determined as there may be some consequences that will only become evident in the medium to long term. Additional provision has been set aside in respect of increased expected credit losses for debtors and this will continue to be reviewed during the year as activity begins returning to a more normal way of working.

The Council has reviewed the fair value of its investments, including in its subsidiary companies, to determine whether there should be any impairment in light of changes to their expected levels of trading activity and profitability.
As part of the Highways PFI settlement arrangements with Birmingham Highways Limited (BHL), the Council's overpayment claim against BHL was converted into a loan agreement of £64m at an interest rate of 8% per annum. It is expected that the value of the loan will only be recognised towards the end of the Highways PFI contract in June 2035 and will be dependent on the successful restructuring of the project, the continuance of the PFI contract and the successful performance of the contract over the remaining term.

Financial Assets	**Input level in Fair Value Hierarchy**	**Valuation inputs and assumptions used to measure Fair Value**	**31 March 2019**		**31 March 2020**	
			Carrying Amount £m	Fair Value £m	Carrying Amount £m	Fair Value £m
Fair value through profit and loss assets (long term investments)	Level 2	With significant unobservable inputs	3.9	3.9	3.1	3.1
Amortised Cost (long term debtors)	Level 2	An estimate of the rate payable for a new loan on the same terms, based on published PWLB rates	88.8	90.9	90.4	98.6
Fair value through profit and loss (short term investments)	N/A	Fair value is approximated at their carrying amount	56.3	56.3	-	-
Amortised cost (short term investments)	N/A	Fair value is approximated at their carrying amount	13.3	13.3	228.3	228.3
Amortised cost (short term debtors)	N/A	Fair value is approximated at their carrying amount	216.5	216.5	254.4	254.4
TOTAL			**378.8**	**380.9**	**576.2**	**584.4**

The fair value of the liabilities and assets at 31 March 2020 is higher than the carrying amount because the Council's portfolio of loans and investments includes fixed rate loans where the interest rate receivable 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 2020) 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 2020) attributable to the commitment to receive interest below current market rates.

PWLB Loans

The fair value of Public Works Loan Board (PWLB) loans of £3,408.4m 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 £2,515.6m would be valued at £3,203.8m. But, if the Council were to seek to avoid the projected loss by repaying the loans to the PWLB, the PWLB would raise a penalty charge for early redemption in addition to charging a premium for the additional interest that will not now be paid. The exit price for the PWLB loans including the penalty charge would be £4,387.4m.

Note 41
Nature and Extent of Risks Arising from Financial Instruments

The Council's activities expose it to a variety of risks relating to its financial instruments, including:

- Credit risk – the possibility that other parties might fail to pay amounts due to the Council;
- Liquidity risk – the possibility that the Council may not have funds available to meet its payment commitments;
- Market risk – the possibility of financial loss due to changes in interest rates and market prices.

These risks are mainly managed by a central Treasury Management team in accordance with policies and approvals set by the Council in its annual Budget Report, Treasury Management Strategy, and Treasury Management Practices in particular. The Council complies with CIPFA's Code of Practice for Treasury Management in the Public Services and the Prudential Code for Capital Finance in Local Authorities, both of which regulate the use of financial instruments and establish a treasury risk management framework.

<u>Credit Risk</u>
Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers.

This risk is measured and managed primarily through the investment policies and strategy in the approved Budget, which requires that deposits are made in accordance with approved credit criteria and limits, including minimum credit ratings as follows:

'Specified' short term 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 rating indicating lowest level of volatility where applicable)		£40m
Local authorities	n/a	n/a	£25m
UK Government and supranational bonds	n/a	n/a	none
UK Nationalised Banks and Government controlled agencies	n/a	n/a	£25m
Secured investments including repo and covered bonds	Lending limits determined as for banks (above) using the rating of the individual investment		

* Fitch / S&P / and Moody's rating Agencies respectively. Institutions must be rated by at least two of the Agencies, and the lowest rating will be taken into account.

This risk is minimised through the Treasury Management Policy, which requires that deposits are not made with financial institutions unless they meet minimum credit ratings from the three major credit ratings agencies. The Treasury Management Policy also imposes a maximum sum to be invested with a financial institution located within each rating category and country. The Treasury Management Policy is contained within the Council's approved Financial Plan.

The Council will not invest more than £400m in long term investments as follows:

- Government stocks (or "Gilts") and other supranational bonds, with a maturity of less than five years.
- Corporate Bonds, Certificates of Deposit (CD) or Commercial Paper (CP) with a maturity of less than three years, subject to a long term credit rating of not less than AA (in addition to the restrictions in the table above). CD or CP shall not exceed 20% of long-term investments (i.e. those maturing in one year or more).

The Council also uses information from a variety of other sources in reaching a view about the suitability of particular investments.

The Council also makes a variety of investments in support of its service objectives. These investments are not subject to the above credit quality requirements, but are individually appraised and approved in relation to their support for service outcomes as well as their financial consequences and risks.

The Council's maximum exposure to credit risk, in relation to its investments in financial institutions, cannot be assessed generally, as the risk of any institution failing to make due payments will be specific to each individual institution. In relation to the Council's outstanding treasury deposits with financial institutions, local authorities and other institutions, no such deposits have defaulted in the year or are impaired. A risk of irrecoverability applies to all deposits, but there was no evidence at 31 March 2020 that this was likely to crystallise.

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

Liquidity Risk

Liquidity risk arises from the need to borrow to finance capital expenditure, loan maturities and other payments. The Council has a comprehensive cash flow management system that measures liquidity and seeks to ensure that cash is available as needed. The Council has ready access to loans from the Public Works Loan Board (PWLB) in accordance with the PWLB circulars currently in force, and there is no significant risk that it will be unable to raise finance to meet its commitments. The Council sets limits on the proportion of its fixed rate borrowing maturing in specified periods. The maturity analysis of financial liabilities is as follows:

	31 March 2019 £m	31 March 2020 £m
Less than 1 year	(894.1)	(788.0)
Between 1 and 2 years	(63.8)	(72.0)
Between 2 and 5 years	(257.2)	(287.8)
Between 5 and 20 years	(1,569.1)	(1,628.3)
Between 20 and 40 years	(1,232.1)	(1,250.0)
Over 40 years	(180.0)	(160.0)
Total	**(4,196.3)**	**(4,186.1)**

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.

The Council is exposed to changes in interest rates as a result of its borrowings being at long-term fixed rates and investment being short-term or at variable rates of interest. Consequently, falls in interest rates will have an adverse impact on the Council's finances.

For instance, a rise in interest rates would have the following effects:

- Borrowings at variable rates – the interest expense charged to the Surplus/(Deficit) on the Provision of Services will rise
- Borrowings at fixed rates – the fair value of the liabilities for borrowings will fall
- Investments at variable rates – the interest income credited to the Surplus/(Deficit) on the Provision of Services will rise
- Investments at fixed rates – the fair value of the assets will fall.

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus/(Deficit) on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus/(Deficit) on the Provision of Services and affect the General Fund Balance. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in Other Comprehensive Income and Expenditure.

These risks are measured and managed in accordance with the Council's Treasury Management Strategy, including the setting and monitoring of risk limits on the level of variable rate instruments and on the amount of borrowing maturing in future years.

At 31 March 2020, 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	4.0
Increase in interest receivable on variable rate investments	(2.5)
Impact on Surplus/(Deficit) on the Provision of Services	1.6
Share of overall impact charged to the HRA	0.4
Decrease in fair value of fixed rate investment assets	6.6
Decrease in fair value of fixed rate borrowing liabilities (no impact on the Surplus/(Deficit) on the Provision of Services or Other Comprehensive Income and Expenditure)	(517.7)

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 2020.

Price Risk

The Council's holdings of shares are all unquoted shares held primarily to support service objectives rather than as financial investments. The financial value of these shares will vary according to general market conditions and the particular circumstances of the share issuers. Active prices for these investments are not available. Any temporary fluctuations in the market value of such investments would have no significant impact on the Council's finances.

Note 42
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 2019 £m	31 March 2020 £m
Opening Capital Financing Requirement	4,670.5	4,549.1
Capital Investment		
Property, Plant and Equipment	291.3	345.2
Heritage Assets	0.1	0.2
Intangible Assets	1.9	2.9
Revenue Expenditure funded from Capital under Statute	45.0	68.6
Secretary of State Direction - Flexible use of Capital Receipts	14.5	28.2
Capital Grant Repayment	0.2	-
Long Term Loans	20.8	0.1
Increase in Share Equity	2.3	0.2
Sources of Finance		
Capital Receipts	(57.8)	(61.5)
Government Grants and other Contributions	(142.5)	(203.3)
Sums set aside from Revenue:		
- Direct Revenue Contributions	(13.5)	(8.3)
- Use of Major Repairs Reserve	(55.4)	(54.2)
- Revenue Provision for Debt Redemption	(175.2)	(163.4)
- Capital Receipts set aside for debt redemption	(53.1)	(1.9)
Closing Capital Financing Requirement	**4,549.1**	**4,501.9**
Explanation of Movements in Year		
Movement in underlying need to borrow	(151.8)	(59.7)
Assets acquired under finance leases	0.6	1.4
Assets acquired under PFI contracts	29.8	11.1
Increase/(decrease) in Capital Financing Requirement	**(121.4)**	**(47.2)**
Movement in Year	**(121.4)**	**(47.2)**

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

Note 43
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 2019 £m		31 March 2020 £m
19.3	Other Land and Buildings	26.6
2.3	Vehicles, Plant, Furniture & Equipment	3.3
21.6	**Total**	**29.9**

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 2019 £m		31 March 2020 £m
	Finance lease liabilities (net present value of minimum lease payments):	
0.8	- current (not later than 1 year)	1.3
0.9	- non-current (later than 1 year)	1.2
1.5	Finance costs payable in future years	1.9
3.2	**Minimum Lease Payments**	**4.4**

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

	Minimum lease payments		Finance lease liabilities	
	31 March 2019 £m	31 March 2020 £m	31 March 2019 £m	31 March 2020 £m
Not later than 1 year	0.9	1.4	0.8	1.3
Later than 1 year and not later than 5 years	1.0	1.1	0.8	1.0
Later than 5 years	1.3	1.9	0.1	0.2
Total	**3.2**	**4.4**	**1.7**	**2.5**

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 2019/20 contingent rents of £nil were payable (2018/19: £nil).

The Council has not sublet any of the assets held under these finance leases.

Operating leases
The Council has acquired a number of administrative buildings under operating leases. The future minimum lease payments due under non-cancellable leases where the length of lease was greater than 1 year at inception are:

31 March 2019 £m		31 March 2020 £m
0.3	Not later than 1 year	0.3
0.5	Later than 1 year and not later than 5 years	0.5
1.2	Later than 5 years	1.3
2.0	**Total**	**2.1**

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 2019 £m		31 March 2020 £m
0.4	Minimum lease payments	0.2
-	Contingent rents	0.1
0.4	**Total**	**0.3**

Council as the lessor

Finance leases
The Council has leased out property to a number of parties on finance leases. The Council has a gross investment in the lease, made up of the minimum lease payments expected to be received over the remaining term and the residual value anticipated for the property when the lease comes to an end. The minimum lease payments comprise settlement of the long-term debtor for the interest in the property acquired by the lessee, and finance income that will be earned by the Council in future years whilst the debtor remains outstanding. The gross investment is made up of the following amounts:

31 March 2019 £m		31 March 2020 £m
	Finance lease debtor (net present value of minimum lease payments):	
0.2	- current (not later than 1 year)	0.2
26.7	- non-current (later than 1 year)	24.1
210.4	Unearned finance income	204.7
(27.7)	Less – Unguaranteed residual value of property	(28.2)
209.6	**Gross investment in the lease**	**200.8**

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 2019	31 March 2020	31 March 2019	31 March 2020
	£m	£m	£m	£m
Not later than 1 year	0.2	0.2	2.0	1.8
Later than 1 year and not later than 5 years	1.8	0.1	8.4	6.3
Later than 5 years	24.9	24.0	199.2	192.7
Total	**26.9**	**24.3**	**209.6**	**200.8**

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 2019/20 £1.4m contingent rents were receivable by the Council (2018/19 £1.5m).

Operating leases

The Council has leased out property to a number of parties as operating leases.

The future minimum lease payments receivable under non-cancellable leases where the length of lease was greater than 1 year at inception are:

31 March 2019 £m		31 March 2020 £m
9.7	Not later than 1 year	9.5
28.1	Later than 1 year and not later than 5 years	27.9
73.8	Later than 5 years	66.5
111.6	**Total**	**103.9**

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2019/20 £2.5m contingent rents were receivable by the Council (2018/19 £2.5m).

Leases - contingent rent

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

Note 44
Service Concession Arrangements

The Council has entered into a number of Service Concession arrangements, formerly classed as Private Finance Initiative (PFI), through which assets are constructed or refurbished and services are provided under long-term contracts with private sector firms. The main contracts cover Schools and Highways Management and Maintenance.

The main terms of the material arrangements are as follows:

- Schools. There are four separate arrangements in place for the rebuild / refurbishment and management of a total of 26 schools within Birmingham. These arrangements are of varying duration and service providers: 10 schools from 2001/02 (for 32 years), 11 schools from 2004/05 (for 35 years), four schools from 2011/12 (for 25 years) and a single secondary school from 2013/14 ending 2038/39. The service provider is paid a Unitary Charge monthly for the duration of the contracts, with indexation applied annually as per the terms of each contract. Within each contract the Council retains both the schools' assets and the liability for future contract commitments in the Balance Sheet, with the exception of when schools gain Academy status. There are a number of PFI managed schools that have gained Academy status, a total of eight schools to date across the four separate school PFI contracts. Whilst the assets no longer belong to the Council and are thus removed from the Balance Sheet, the ongoing liability remains as a Council responsibility.

- Birmingham Highways Management and Maintenance 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.

Indexation is applied annually on 1 April by reference to movements in the Retail Price Index. Deductions can be levied for non-performance of the contractual deliverables as specified within the contract. As the size and scale of the highway network varies, the contract provides for these changes to be accrued into the network maintained by the Service Provider, Birmingham Highways Limited, attracting an increase/decrease in payments made as appropriate.

The Council continues to have full use of the roads and roadside furniture during the period of the arrangement, at the end of which all rights revert to the Council. There are no early terminations or period clauses within the PFI arrangement.

However, as the Council had major concerns regarding the fulfilment of the contract, following negotiations, a settlement agreement was reached and a joint statement was issued on behalf of the Council and Amey Plc, confirming that Amey Plc would exit the contract by 31 March 2020. From 1 April 2020, Kier Highways Limited has been appointed as sub-contractor to BHL for a 15 month period during which time a full retendering of the sub-contract is scheduled to take place.

On the basis of a transfer of responsibilities under the contract to a new provider, these financial statements are based on a continuance of the current contract arrangements.

Payments remaining as at 31 March 2020	Interest	Repayment of liability	Payment for services	**Total**
	£m	£m	£m	**£m**
Payable in 2020/21	30.9	11.4	42.8	**85.1**
Payable within 2 to 5 years	112.8	67.0	185.4	**365.2**
Payable within 6 to 10 years	106.3	114.4	270.8	**491.5**
Payable within 11 to 15 years	54.1	158.4	300.1	**512.6**
Payable within 16 to 20 years	5.6	41.2	48.4	**95.2**
Total	**309.7**	**392.4**	**847.5**	**1,549.6**

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:

2018/19		2019/20
£m		£m
421.8	**Liability outstanding at the start of the year**	**404.3**
(47.3)	Repayment of liability	(23.0)
29.8	Lifecycle and further capital expenditure	11.1
404.3	**Liability outstanding at the year end**	**392.4**

Service Concessions - contingent rent
Contingent rents in respect of service concession arrangements total £11.3m.

Note 45
Members' Allowances

Allowances paid to Members of the Council in 2019/20 totalled £2.3m (2018/19: £2.2m). These figures include Members' allowances and expenses. Further information can be found on the Council's website.

Note 46
Officers' Remuneration

The remuneration paid to or receivable by the Council's senior employees is detailed in the table below.

		Salary, fees and allowances	Compensation for loss of office	Expense allowances	Pension contributions	Total
		£	£	£	£	£
Professor Graeme Betts, Chief Executive (Acting) & Head of Paid Service, and Director Adult Social Care (1)	2018/19	162,548	-	8,000	-	170,548
	2019/20	166,167	-	-	-	166,167
Clive Heaphy, Chief Executive (Acting) and Head of Paid Service, and Chief Finance Officer (& S151 Officer) (2)	2018/19	172,548	-	429	-	172,977
	2019/20	194,229	35,206	6,229	-	235,664
Dawn Baxendale, Chief Executive (& Head of Paid Service)(3)	2018/19	214,200	-	4,388	35,986	254,574
	2019/20	114,528	-	-	20,959	135,487
Assistant Chief Executive	2018/19	114,368	-	-	19,214	133,582
	2019/20	116,451	-	-	21,311	137,762
Interim Chief Finance Officer (& S151 Officer)(4)	2018/19	N/A	N/A	N/A	N/A	N/A
	2019/20	N/A	N/A	N/A	N/A	N/A
Acting Director Inclusive Growth (5)	2018/19	N/A	N/A	N/A	N/A	N/A
	2019/20	55,266	-	315	10,114	65,695
Director Inclusive Growth (6)	2018/19	143,730	-	-	24,147	167,877
	2019/20	98,131	-	-	17,958	116,089
Director Education and Skills(7)	2018/19	32,742	-	-	5,501	38,243
	2019/20	142,800	-	-	26,132	168,932
Jacqui Kennedy, Director Place	2018/19	149,054	-	-	25,041	174,095
	2019/20	152,035	-	-	27,822	179,857
Acting Director Neighbourhoods(8)	2018/19	105,416	-	-	17,710	123,126
	2019/20	135,346	-	-	24,768	160,114
Director Public Health(9)	2018/19	11,515	-	940	1,935	14,390
	2019/20	101,192	-	17,434	18,518	137,144
Director Human Resources(10)	2018/19	73,253	-	-	12,307	85,560
	2019/20	105,222	-	-	19,256	124,478

		Salary, fees and allowances	Compensation for loss of office	Expense allowances	Pension contributions	Total
		£	£	£	£	£
Director Digital and Customer Services(11)	2018/19	N/A	-	-	N/A	N/A
	2019/20	77,250	-	-	14,137	91,387
Acting Strategic Director Strategic Services(12)	2018/19	88,818	-	-	14,921	103,739
	2019/20	28,179	87,031	-	305,692	420,902

Notes:

(1) Professor Graeme Betts, Director Adult Social Care took responsibility for the post of Chief Executive (Acting) (& Head of Paid Service) on 23 March 2020 until 17 May 2020.

(2) Clive Heaphy took up the role as Chief Executive (Acting) (& Head of Paid Service) on 11 September 2019 until he left the Council on 31 March 2020. The compensation for loss of office relates to payment for the remainder of the contract notice period on leaving the Council. The expenses and allowances relate to reimbursement of expenditure incurred.

(3) Dawn Baxendale took up the role of Chief Executive (& Head of Paid Service) on 1 April 2018 until 9 October 2019. The expense allowance in 2018/19 relates to relocation expenses incurred.

(4) The Interim Chief Finance Officer (& Section 151 Officer) took up the role on 2 October 2019 and was employed through a third party, the costs of which were £155,841 in 2019/20.

(5) The Acting Director Inclusive Growth took up the role on 4 November 2019. The expenses incurred relate to reimbursement of expenditure incurred.

(6) The Director Inclusive Growth left the Council on 1 December 2019.

(7) The Director Education and Skills took up the role on 7 January 2019.

(8) The Acting Director Neighbourhoods took up the role on 15 June 2018.

(9) The Director Public Health took up the role on 18 February 2019. The expense allowances relate to a one-off payment for relocation expenses incurred.

(10) The Director Human Resources became a Senior Officer on 18 July 2018.

(11) The Director Digital and Customer Services took up the role on 1 July 2019.

(12) The Acting Strategic Director Strategic Services held the post from 31 July 2018 until 30 June 2019. The compensation for loss of office relate to redundancy payments in line with the Council's standard policy. The pension contributions include an element to meet the cost of pension fund strain, payable to the West Midlands Pension Fund, where employees who are 55 or over and can access their pension benefits on being made redundant in line with pension regulations.

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

Other Council employees receiving more than £50,000 remuneration for the year (excluding employer's pension contributions) were paid the amounts detailed in the table below. Staff within Voluntary Aided and Foundation schools are employed by the governing body of the school and have therefore been excluded from the table below.

2018/19 Teaching Staff & Staff in Schools No	2018/19 Other Council Employees No	**Total No**	Remuneration band	2019/20 Teaching Staff & Staff in Schools No	2019/20 Other Council Employees No	**Total No**
155	163	**318**	£50,000 - £54,999	151	166	**317**
105	61	**166**	£55,000 - £59,999	104	75	**179**
61	45	**106**	£60,000 - £64,999	78	41	**119**
45	18	**63**	£65,000 - £69,999	52	22	**74**
37	29	**66**	£70,000 - £74,999	25	28	**53**
16	5	**21**	£75,000 - £79,999	23	8	**31**
13	11	**24**	£80,000 - £84,999	14	8	**22**
6	3	**9**	£85,000 - £89,999	6	6	**12**
4	6	**10**	£90,000 - £94,999	6	4	**10**
5	3	**8**	£95,000 - £99,999	3	2	**5**
2	3	**5**	£100,000 - £104,999	4	6	**10**
1	4	**5**	£105,000 - £109,999	-	-	**-**
-	2	**2**	£110,000 - £114,999	1	1	**2**
-	-	**-**	£115,000 - £119,999	-	-	**-**
-	2	**2**	£120,000 +	1	1	**2**
450	**355**	**805**		**468**	**368**	**836**

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

The figures for both years include those employees with planned termination payments, 37 in 2019/20 (38 in 2018/19). Excluding employees in receipt of planned termination payments, 331 employees in 2019/20 (317 in 2018/19) received remuneration of £50,000 or more.

The number of Teaching Staff and Staff in Schools reflect those staff employed by the Council and has been affected by the conversion of a number of schools to Academy Status. Academy schools are independent of the Council and their employees are therefore excluded from the Council's financial statements.

The number of staff in Voluntary Aided and Foundation Schools, with a remuneration of more than £50,000 per annum, was 192 in 2019/20 (2018/19: 225).

Note 47
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.

2018/19							2019/20					
Compulsory		Voluntary		**Total**		Value of individual package	Compulsory		Voluntary		**Total**	
No	£m	No	£m	**No**	**£m**	£000	No	£m	No	£m	**No**	**£m**
3	0.8	-	-	**3**	**0.8**	£250+	-	-	4	1.3	**4**	**1.3**
2	0.5	2	0.4	**4**	**0.9**	£200 - £250	-	-	1	0.2	**1**	**0.2**
-	-	11	1.8	**11**	**1.8**	£150 - £200	-	-	14	2.3	**14**	**2.3**
-	-	17	2.0	**17**	**2.0**	£100 - £150	-	-	16	1.9	**16**	**1.9**
3	0.3	9	0.8	**12**	**1.1**	£80 - £100	-	-	5	0.5	**5**	**0.5**
1	0.1	7	0.5	**8**	**0.6**	£60 - £80	4	0.3	8	0.5	**12**	**0.8**
7	0.4	14	0.6	**21**	**1.0**	£40 - £60	4	0.2	18	0.9	**22**	**1.1**
21	0.5	51	1.5	**72**	**2.0**	£20 - £40	11	0.3	25	0.7	**36**	**1.0**
116	0.6	245	1.7	**361**	**2.3**	less than £20	77	0.5	206	1.6	**283**	**2.1**
153	**3.2**	**356**	**9.3**	**509**	**12.5**	**Total**	**96**	**1.3**	**297**	**9.9**	**393**	**11.2**

In addition to the costs of exit packages identified above, the Council incurred costs of £0.1m in 2019/20 (£0.2m in 2018/19) 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 48
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.

2018/19 £m		2019/20 £m
0.2	Fees payable to Grant Thornton UK LLP with regard to external audit services carried out by the appointed auditor for the year	0.2
0.1	Fees payable to Grant Thornton UK LLP for the certification of grant claims and returns for the year	0.1
0.3	**Total**	**0.3**

Note 49
Related Parties

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

Central Government

Central Government has effective control over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (for example, Council Tax bills, Business Rates, Housing Benefits). Grants received from Government departments are set out in Note 16. Grant receipts outstanding at 31 March 2020 are included in the balances within Note 30.

Members

Members of the Council have direct control over the Council's financial and operational policies. The total of Members' allowances paid in 2019/20 is shown in Note 45.

Officers

There were no transactions between Senior Officers of the Council and the Council and its related parties, other than the receipt of emoluments due as employees of the Council and payments of Council Tax due as appropriate.

School Governors

All school governors and staff should complete the school's Register of Business Interests. This register should be kept up-to-date and be freely available for inspection by governors, staff and parents.

Greater Birmingham and Solihull Business Rates Pooling Arrangement

The Greater Birmingham and Solihull (GBS) 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, following the introduction of the Business Rates Retention Scheme.

Following the decision by six members of the GBS Pool to enter into Business Rates Pilots and form new and separate Business Rates Pools attached to those Pilots, outside of the current set up, the Greater Birmingham and Solihull Business Rates Pool ended on 31 March 2019 and ceased to exist with effect from 1 April 2019.

Other Public Bodies

Aligned Budgets

The Council is party to an aligned commissioning agreement with the Clinical Commissioning Groups (CCGs) covering the Birmingham area, namely, Birmingham & Solihull CCG and Sandwell and West Birmingham CCG. The Adults with Learning Disabilities (LD) Integrated Commissioning Board has representation from the City Council and NHS bodies and reviews the expenditure plans for the services but there is no arrangement in place to pool City Council and NHS budgets for the services. The objective of the arrangement is to improve services for users through closer working and co-operation in the commissioning of services and have been established pursuant to Section 75 of the NHS Act 2006 and related Regulations. The table below summarises the financial activity relating to Adults with a Learning Disability element for the year.

	2018/19		2019/20	
	£m	£m	£m	£m
Funding provided to the aligned budget				
Birmingham City Council	108.2		109.0	
Combined Clinical Commissioning Groups	174.7		53.3	
		282.9		**162.3**
Expenditure met from the aligned budget				
Birmingham City Council	108.2		109.0	
Combined Clinical Commissioning Groups	174.7		53.3	
		282.9		**162.3**
Net surplus arising from the pooled budget during the year		**-**		**-**

The Better Care Fund (including the improved Better Care Fund)

The Better Care Fund (BCF) was announced in June 2013 with the intention of driving the transformation of local care services and is operated through pooled budget arrangements between the Council and local Clinical Commissioning Groups (CCGs). Specific resources were earmarked for the BCF by NHS England in its allocation to CCGs. The remainder of the fund was made up of the Social Care Capital Grant and the Disabled Facilities Grant which were paid to local authorities. No new money was made available at the time to the health and care system but the BCF provided an opportunity for joint working between local authorities and health organisations to deliver better outcomes for service users. The funding the Council receives through the BCF replaces the Section 256 transfer from the NHS that had been made in previous years.

The improved Better Care Fund (iBCF) was introduced in 2016/17. It was implemented through two statements, the first – iBCF1 in November 2016 and the second - iBCF2 in Spring 2017. This Section 31 Grant is received by local authorities and is included in the BCF Pool. For Birmingham this represents a cumulative increase in funds of £33.8m in 2017/18, £47.3m in 2018/19 and £60.3m in 2019/20.

The Council endorsed the principle of a BCF joint pooled budget for Older Adult Social Care and Health integrated provision between the Council and local CCGs, namely Birmingham &

Solihull CCG and Sandwell and West Birmingham CCG. Joint proposals were developed during 2014/15 for implementation from 1 April 2015, which included the Council acting as host for the BCF.

In 2019/20 funding of £92.6m (2018/19: £89.1m) 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 and iBCF.

Contribution to the BCF Pooled Fund	2018/19 £m	2019/20 £m
Birmingham & Solihull CCG	77.7	80.5
Sandwell and West Birmingham CCG	11.4	12.1
NHS Contribution	**89.1**	**92.6**
Birmingham City Council	11.7	13.6
iBCF Section 31 Grant	47.3	60.3
Total BCF Pooled Fund	**148.1**	**166.5**

The BCF is used to fund various schemes as identified in the agreed joint plan. The management arrangements for the individual projects depend on the services being provided and include:

- Sole control of the activities by CCGs;
- Sole control of the activities by the Council;
- Joint control of the activities with CCGs or the Council acting as host;
- Lead commissioning by CCGs or the Council on behalf of the other organisations.

Details of the specific projects are set out below.

Service Provision	**Budgeted Activity**		**Nature of Arrangement**
	2018/19 £m	**2019/20 £m**	
Bed Based Additional Provision	1.4	1.6	Lead Commissioning – Council
Social Care Based Additional Provision	1.6	1.6	Sole Control – Council
Reablement – Kenrick Centre	1.5	1.6	Sole Control – Council
Care Act	3.1	3.2	Lead Commissioning – Council
Carers Strategy	1.4	1.3	Joint Control
Eligibility Criteria	21.2	21.6	Sole Control – Council
Management of Programme	0.1	0.1	Joint Control
Community Services	47.2	48.8	Sole Control – CCGs
Reablement	1.7	1.7	Sole Control – CCGs
Planned Community/Intermediate Care	0.1	0.4	Sole Control – CCGs
Dementia	2.6	2.7	Sole Control – CCGs
Assertive Outreach	0.3	0.3	Sole Control – CCGs
Enhanced Assessment Bed Support	-	0.5	Sole Control – CCGs
Equipment Contracts	4.5	5.5	Lead Commissioning – Council
Disabled Facilities Grant and Capital	10.6	11.4	Sole Control – Council
Health & Social Care System Improvements	3.5	3.9	Sole Control - Council
	100.8	**106.2**	
Balance of funding			
iBCF	47.3	60.3	Sole Control – Council
Total BCF	**148.1**	**166.5**	

Other Related Parties

During 2019/20 payments, to the value of £421.3m, inclusive of VAT, were payable to related parties of which £24.5m remained outstanding at 31 March 2020. Additionally £58.7m inclusive of VAT, was receivable during 2019/20 from companies in which the Council had a related party interest of which £44.7m remained outstanding at 31 March 2020. The majority of the value of expenditure is in relation to companies where elected members are acting in their official capacity within the Group.

Other balances at 31 March 2020 are: assets of £37.3m of investments and £81.5m of loans (of which £78.2m is repayable after 31 March 2021); liabilities of £83.4m of funding guarantee (NEC Developments Plc), £21.5m held as cash invested by Birmingham Children's Trust and £7.2m of borrowings (of which £4.9m is repayable after 31 March 2021).

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 2019/20.

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

			Loans Council as Grantor		Council	Council
	Exp. £m	Income £m	Granted £m	Repaid £m	Assets at year end £m	Liabilities at year end £m
Acivico Limited	23.3	1.8	1.2	0.1	7.0	2.9
Birmingham Children's Trust CIC	207.7	17.1	6.0	-	15.5	32.8
Birmingham City Propco Limited	-	1.1	-	-	20.2	0.1
InReach (Birmingham) Limited	-	0.8	0.9	0.7	13.9	-
National Exhibition Centre (Developments) Plc	5.6	-	-	0.1	-	83.4
PETPS (Birmingham) Limited	-	-	-	-	-	-
PETPS (Birmingham) Pension Funding Scottish Limited Partnership	3.5	-	-	-	-	7.3

Separate to the numbers in the table above the Council has made a provision of £4.1m in its accounts for potential reimbursement right support to its subsidiaries.

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

	Expenditure £m	Income £m	Council Assets at year end £m	Council Liabilities at year end £m
Birmingham Airport Holdings Limited (BAH)	-	7.2	2.0	-
Paradise Circus General Partner Limited	23.7	0.6	0.4	2.0

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 2019/20.

Birmingham Business Support Centre Limited	Fields Millennium Green Trust (Kings Norton)
Birmingham Charities Limited	Finance Birmingham Limited
Birmingham Curzon Regeneration Company Limited	Forward Homes (Birmingham) Limited
Birmingham Endeavour Limited	Frontier Development Holding Limited
Birmingham Municipal Housing Limited	Gallery 37 Foundation
Birmingham Museums Trust*	Greater Birmingham and West Midlands Brussels Office
Birmingham Venture Capital Limited*	NEC Pension Trustee Company Limited*
Birmingham Wheels Ltd	NEC Pension Trustee Company No.2 Limited
Creative Advantage West Midlands Limited	Performances (Birmingham) Limited*

Entities where the Council has some influence

Organisations, including associated subsidiaries, where the Council is a minority shareholder of the company and the level of activity is not material to the Council's Group Accounts are detailed below. Those organisations highlighted with an asterisk had transactions with the Council in excess of £0.1m in 2019/20.

Ascarii Limited	Frontier Development Capital Limited*
Ascension Ventures	Goodfish Limited
Auctus	Icknield Port Loop LLP
Big Button*	Inceptum Development Limited
Birmingham LEP Company (also known as Birmingham Lend Lease Partnership)*	Info-Ctrl Limited
Birmingham Schools SPC Phase 1A Limited*	Learning Labs Limited
Birmingham Schools SPC Phase 1B Limited*	Midlands Industrial Association Ltd
Birmingham Wholesale Market Company Limited*	Mutt Motorcycles Limited
Bridge Street Management Ltd	Natural HR Limited
Central Technology Belt	Obillex Limited*
Crowd Technologies	Opinsta Limited
CSR City Limited	Owned It
Droplet Online	Pure Business Services Limited
Ex Cathedra	Stockfield Community Association
Eyoto Group Limited	UK Municipal Bonds Agency Plc
Foodient T/A Whisk	Veolia Environmental Services Birmingham Ltd*
Formatzone Limited	Vision Technologies
Friends of Rectory Park	West Midlands Growth Company Limited*
	Wetakestock Limited

The Council also has representation on the board of a number of organisations but has no associated shareholding or entitlement to returns from the organisation. Details of the relevant companies are detailed below. Those organisations highlighted with an asterisk had transactions with the Council in excess of £0.1m in 2019/20.

Acocks Green Primary School Academy*
Active Wellbeing Society Limited*
Bartley Green School Academy*
Birmingham Asian Resource Centre
Birmingham Citizens Advice Bureau Service Ltd*
Birmingham Disability Resource Centre*
Birmingham Opera Company
Birmingham Organising Committee for the 2022 Commonwealth Games Limited*
Birmingham Repertory Theatre*
Birmingham Royal Ballet*
Birmingham Settlement Ltd*
Birmingham Voluntary Service Council*
Bournville Village Trust*
Canal & River Trust
Castle Vale Neighbourhood Partnership Board
City of Birmingham Symphony Orchestra*
Clifton Road Youth Centre
Cottesbrooke Infant and Nursery School Academy*
Dance Xchange*
Greater Birmingham and Solihull LEP Ltd.
Gurdwara Baba Deep Singh Ji Shaheed
Harborne Parish Lands Charity
Heathfield Primary School Academy*
King Edward VI Academy Trust*
Leigh Trust*
Midlands Arts Centre*
Millennium Point Property Ltd*
Millennium Point Trust
Rowheath Pavilion
Sikh Council UK
St Barnabas Sch (Academy)
St. Basil's*
St. Michael's Primary School Academy*
St. Paul's Community Development Trust*
Thorns Collegiate Academy
Warwickshire County Cricket Club*
Waverley School Academy*
West Midlands Ambulance Service
West Midlands Combined Authority*
West Midlands Fire and Rescue Authority
Wilson Stuart School Academy*
Witton Lodge Community Association Ltd*
Yenton Primary School (Academy)*

Business Improvement Districts (BID) are business led partnerships, created to deliver additional services to local businesses. A BID covers a defined area in which a levy is charged on all business rate payers, which is then used to develop projects that will benefit business within the area. The Council has representation on BID boards within the Birmingham area as detailed below. Those organisations highlighted with an asterisk had transactions with the Council in excess of £0.1m in 2019/20.

Acocks Green Village BID
Colmore Business District BID
Erdington Town Centre Partnership
Harborne Village BID Limited
Jewellery Quarter Development Trust CIC
Kings Heath BID
Northfield Town Centre BID
Retail Birmingham Limited*
Soho Road BID
Southside BID
Sutton Coldfield Town Centre BID
Westside Partnership Limited

Tenant Management Organisations (TMO) – The Council, whilst not having shareholding, entitlement to returns, nor board representation, does still hold significant influence over these bodies. Those highlighted with an asterisk had transactions with the Council in excess of £0.1m in 2019/20.

Bloomsbury Estate Management Board*
Four Towers TMO*
Holly Rise Housing Co-operative
Manor Close Residents' Management Organisation
Roman Way Estate Community Interest Company*

Other Related Parties

In addition to the companies where the Council has influence through its share ownership or representation on the board, set out above, the Council has had transactions of over £0.1m within 2019/20 with the following organisations which fall within the definition of related parties:

Accessible Transport Group Limited	Penderels Trust Limited
Birmingham and Solihull Mental Health Trust	Sandwell and West Birmingham Hospitals NHST
Birmingham and Solihull Women's Aid	Sandwell College
Birmingham Community Healthcare NHSFT	Sir Josiah Mason Trust
Birmingham Women's and Children's NHSFT	South and City College (Birmingham) Limited
Birmingham YMCA	St. Anne's Hostel
Norton Hall Children and Family Centre	Thompsons Solicitors
	Yardley Great Trust

The value of transactions for other, non-consolidated, related parties, individually less than £0.1m within 2019/20 was net expenditure of £0.3m (£0.8m expenditure and £0.5m income).

Note 50
The Council Acting as Agent

The Council acts as an intermediary in its role as agent for a number of external bodies. The Council processes transactions through its financial ledger but does not include them in its financial statements as there is no exposure to significant risk or reward associated with the transactions. Details of the major activities where the Council acts as agent are detailed below:

Agency Role	**No**	**Level of Reserve** £m	**Gross Expenditure** £m
Accountable Body	26	186.0	237.6
Provision of External Payrolls	105		285.3
Arrangements supporting Housing activities	1	1.7	9.7
Reporting of Trust activities	17	25.1	0.7
Subsidiary Companies	5	24.8	3.4
Other transactions	10	0.7	0.3

External Payrolls

The Council provides payroll services to external organisations, including Academy Schools and Colleges of Further Education, using capacity within its payroll system. Whilst the cost of providing the service is charged to the external organisation and forms part of the CIES, the payroll records for the external organisations do not form part of the Council's financial statements.

Accountable Body Role

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

The Council records and reports the financial activities of the bodies for which it is accountable and may receive directly the funds allocated to the activities and incur expenditure as directed by the external party. The Council may also receive funds in its own right from the arrangement to support eligible projects, which will form part of the Council's financial statements.

Greater Birmingham & Solihull Local Enterprise Partnership

Resources have been made available through a number of Government sources, including the Regional Growth Fund where the Council has been identified as the accountable body. In its role as accountable body, under the terms and conditions of the funding arrangements, the Council has no entitlement to:

- retain any interest generated as a result of the provision of state funds;
- use the state funds in any way other than as provided for in the offer letter.

The Council acts as accountable body for the resources provided on behalf of the LEP. The Council may receive direct funding to support eligible projects as determined by the LEP's independent investment boards and committees.

Enterprise Zones

The Council provides accountancy support, collecting Business Rate contributions through its role as agent for the Collection Fund and making payments on its behalf against LEP approved projects as contained in the Enterprise Zone Investment Programme.

England Illegal Money Lending Team

The England Illegal Money Lending Team seizes and holds cash from third parties temporarily as part of its accountable body activities on behalf of the Courts.

Housing Activities

For a number of mixed tenure housing developments on Council owned land, the Council receives payment for any market sales prior to distribution between the Council and the developer.

Trusts

The Council provides administrative and accountancy support to a number of trusts and some of those are transacted through the Council's bank accounts. Included within this group are activities related to the collection of rent and management of properties on behalf of Housing Trusts and Community Associations.

Subsidiary Companies

Following the disposal of the Council's interests in NEC Group Limited, NEC (Developments) Plc has a minimal number of transactions going through it in respect of its loan stock. The company is consolidated into the Council's Group Accounts. The Council provided guarantees to the Trustees of the Fund and the Scheme to meet the current and future funding obligations that may arise in respect of the liabilities. In 2017/18, the Council has set up an arrangement through PETPS (Birmingham) Capital, PETPS (Birmingham) General Partner Limited and their joint partnership, PETPS (Birmingham) Pension Funding Scottish Limited Partnership that will enable the Council to spread the implications of the guarantee across the anticipated deficit recovery period.

Other

The Council provides accountancy support to:

- a number of National and Regional bodies, collecting contributions and making payments on their behalf
- service users who require support in managing their resources.

Note 51
Trust Funds

The Council administers a number of trust funds which have been established from donations and bequests made to it to meet a variety of objectives and purposes. The total funds held at 31 March 2020 were £29.7m (2018/19: £30.0m). The trust funds do not represent assets of the Council and have not been included in the Consolidated Balance Sheet. The major trust funds are detailed below.

	Balance at 31 March 2019 £m	Income £m	Expenditure £m	Balance at 31 March 2020 £m
Council acting as Sole Trustee				
Birmingham Municipal Charity - general charitable objectives	0.7	-	-	0.7
Charles Baker Trust – for the elderly and disabled	0.3	-	-	0.3
Cropwood Estate – management of the estate	14.9			14.9
Elford Trust – healthy recreation for Birmingham citizens	4.2			4.2
Harriet Louisa Loxton Charity – for the aged and infirm	1.9	0.1	0.3	1.7
Highbury Trust – for the benefit of the citizens of Birmingham	2.0	0.1	0.1	2.0
Other	0.2	-	-	0.2
Total Council acting as Sole Trustee	**24.2**	**0.2**	**0.4**	**24.0**
Council acting as Custodian				
Alderson – to let dwelling houses to ex-servicemen and other persons in need	0.5	0.1	0.1	0.5
Bodenham Trust – for children with special educational needs	0.7	0.1	-	0.8
Clara Martineau Trust – for children with special educational needs	4.4	0.1	0.3	4.2
Moseley Road Friends Institute – provision and maintenance	0.2	0.1	0.1	0.2
Total Council acting as Custodian	**5.8**	**0.4**	**0.5**	**5.7**
Total Trust Balances	**30.0**	**0.6**	**0.9**	**29.7**

Analysis of the assets of the main funds:

	Restricted Funds at 31 March 2020 £m	Unrestricted Funds at 31 March 2020 £m	Total Funds at 31 March 2020 £m
Council acting as Sole Trustee			
Birmingham Municipal Charity - general charitable objectives	0.7	-	0.7
Charles Baker Trust – for the elderly and disabled	0.1	0.2	0.3
Cropwood Estate – management of the estate	0.5	14.4	14.9
Elford Trust – healthy recreation for Birmingham citizens	3.8	0.4	4.2
Harriet Louisa Loxton Charity – for the aged and infirm	1.6	0.1	1.7
Highbury Trust – for the benefit of the citizens of Birmingham	1.8	0.2	2.0
Other	0.1	0.1	0.2
Total Council acting as Sole Trustee	**8.6**	**15.4**	**24.0**
Council acting as Custodian			
Alderson – to let dwelling houses to ex-servicemen and other persons in need	-	0.5	0.5
Bodenham Trust – for children with special educational needs	0.7	-	0.7
Clara Martineau Trust – for children with special educational needs	3.8	0.5	4.3
Moseley Road Friends Institute – provision and maintenance	0.2	-	0.2
Other			
Total Council acting as Custodian	**4.7**	**1.0**	**5.7**
Total Assets	**13.3**	**16.4**	**29.7**

SUPPLEMENTARY FINANCIAL STATEMENTS 2019/20

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.

2018/19 £m		Note	2019/20 £m
	Income		
(253.6)	Dwellings rents		(249.7)
(11.4)	Non-dwellings rents		(9.3)
(19.8)	Charges for services and facilities		(19.2)
(284.8)	**Total Income**		**(278.2)**
	Expenditure		
50.3	Repairs and maintenance		55.7
86.1	Supervision and management		80.0
5.5	Rent, rates, taxes and other charges		5.0
52.0	Depreciation and impairment charge	H3 & H6	54.0
0.3	Debt management costs		0.3
194.2	**Total Expenditure**		**195.0**
(90.6)	**Net Expenditure/(Income) of HRA Services as included in the whole authority Comprehensive Income and Expenditure Statement and Net (Income) / Cost of HRA Services**		**(83.2)**
	HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement:		
4.4	Change in fair value of financial instruments		4.3
50.4	Interest payable and similar charges		48.9
0.5	Amortisation of premia and discounts		0.7
(0.6)	HRA interest and investment income		(0.9)
(20.9)	(Gains)/ Losses on the disposal of HRA non-current assets		(13.7)
8.1	Pensions interest cost and expected return on pensions assets		3.7
(3.0)	Capital Grants and Contributions Receivable		(2.1)
(51.7)	**(Surplus)/Deficit for the Year on HRA Services**		**(42.3)**

Movement on the Housing Revenue Account Statement

2018/19 £m		2019/20 £m
(51.7)	(Surplus)/Deficit for the year on the HRA Income and Expenditure Account	(42.3)
46.8	Adjustments between accounting basis and funding basis under statute (Note 18)	37.7
(4.9)	Net (increase) / decrease before transfers to / (from) reserves	**(4.6)**
4.3	Transfers to / (from) reserves	1.5
(0.6)	(Increase) / decrease for the year on HRA balance	**(3.1)**
(4.8)	HRA Balance Brought Forward	(5.4)
(5.4)	HRA Balance Carried Forward	**(8.5)**
	Total HRA Reserves	
5.4	HRA Balance	8.5
-	HRA Earmarked Reserves	1.5
5.4	**Total HRA Reserves**	**10.0**

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 2019		31 March 2020
3,712	1 bedroom bungalows	3,706
14,947	1 bedroom flats	14,853
58	1 bedroom houses	59
294	2 bedroom bungalows	295
10,586	2 bedroom flats	10,490
8,393	2 bedroom houses	8,327
30	3 or more bedroom bungalows	30
3,937	3 or more bedroom flats	3,860
18,879	3 or more bedroom houses	18,565
60,836	**Total housing stock**	**60,185**

The change in the property numbers is analysed below:

2018/19		2019/20
61,453	Stock at 1 April	60,836
(680)	Sales	(694)
(118)	Demolitions / transfers	(88)
181	Acquisitions	131
60,836	**Stock at 31 March**	**60,185**

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

31 March 2019		31 March 2020
£m		£m
2,445.0	Council dwellings/garages	2,458.1
12.7	Assets under Construction	14.9
44.2	Other land and buildings	54.7
2,501.9	**Total operational assets**	**2,527.7**
19.6	Non-operational assets	12.9
2,521.5	**Total**	**2,540.6**

The housing stock, land and other property within the HRA are valued in line with the MHCLG Guidance on Stock Valuation for Resource Accounting published in November 2016. The basis of the valuation for the housing stock element is in accordance with the Royal Institution of Chartered Surveyors using the Existing Use Value - Social Housing basis, which takes open market value for the underlying dwellings and applies a discount factor to reflect the reduced value as a result of use for social housing for 2019/20 of 40%.

The change reflects properties lost through sales, demolitions, acquisitions, and revaluation of Beacon Values and depreciation. £106.6m was spent on HRA dwellings during the year.

As at 31 March 2020, the Council also owned 126 dwellings (31 March 2019: 118) 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 £5.1m (31 March 2019: £4.7m).

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

31 March 2019	`	31 March 2020
£m		£m
595.7	Land	608.1
18.2	Kitchens	16.4
22.7	Bathrooms	21.4
34.9	Windows	29.9
51.4	Heating	47.4
11.2	Roofs	11.9
1,710.9	Remaining Structure	1,723.0
2,445.0	**Total**	**2,458.1**

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 2020 is £5,962.0m.

(b) The difference between the above figure and the figure of £2,458.1m in the Balance Sheet notionally represents diminution in the value of assets caused by their being let at social housing rents, according to the MHCLG's stock valuation model as explained in Supplementary Note H1.

H3. Revaluations and Impairment Charges

Revaluations and impairment charges reflect an increase or reduction in the value of property due to the economic environment or an event that has occurred to the assets. This could include a decline in demand, obsolescence, and commitments to make significant changes to housing. There has been no identified impairment in HRA asset values in 2019/20 (2018/19: £nil). The net value of HRA dwellings has increased by £13.1m to £2,458.1m.

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

2018/19		2019/20
£m		£m
28.6	Balance on Major Repairs Reserve at 1 April	24.9
51.7	Amount transferred to Major Repairs Reserve during the year	53.7
(55.4)	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	(54.2)
24.9	**Balance on Major Repairs Reserve at 31 March**	**24.4**

H5. Capital Expenditure on HRA Assets

Expenditure on HRA assets was funded from the following sources:

2018/19		2019/20
£m		£m
43.4	Usable Capital Receipts (Right to Buy/Land)	33.4
55.4	Major Repairs Reserve	54.2
0.2	HRA Revenue contributions	4.8
1.0	Prudential Borrowing	8.5
8.6	Other resources	5.7
108.6		**106.6**

The total capital receipts from disposals of land, houses and other property within the HRA during the financial year was £49.8m (land £7.1m, houses £42.7m). The values for 2018/19 were £54.5m (land £14.9m and houses £39.6m). The Government operates a capital receipts pooling framework and of these amounts £6.2m was paid to Central Government (2018/19: £6.3m).

H6. Depreciation Charges

The total charge for depreciation for the houses and other property within the Council's HRA is £54.0m (2018/19: £51.7m). The depreciation charge is calculated by reference to an assessment of the remaining useful life of the key components of each individual dwelling valued on a depreciated replacement cost basis.

H7. Contribution from Pension Reserve

The Comprehensive Income and Expenditure Statement includes pension costs calculated in accordance with International Accounting Standard 19 as described in detail in Note 22 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 2020 totalled £13.7m (2018/19: £12.5m). Other arrears including Housing Benefit overpayments, leaseholder major works and miscellaneous services totalled £24.9m at 31 March 2020 (2018/19: £28.3m).

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 £32.8m at 31 March 2020 (2018/19: £31.5m) and has been calculated based on value/aged analysis in accordance with Government guidelines.

31 March 2019		31 March 2020
£m		£m
12.5	Current tenants	13.7
13.4	Housing benefit overpayment	12.8
14.9	Other debt (services/leaseholders)	12.1
40.8	**Total arrears**	**38.6**
31.5	Provision for bad debts	32.8

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.

2018/19				2019/20		
Council Tax	**NNDR**	**Total**		**Council Tax**	**NNDR**	**Total**
£m	**£m**	**£m**	**Income**	**£m**	**£m**	**£m**
(387.1)		(387.1)	Collectable Council Tax	(415.3)		(415.3)
(387.1)		**(387.1)**		**(415.3)**		**(415.3)**
	(448.5)	(448.5)	Collectable Business Rates		(461.5)	(461.5)
	1.8	1.8	Transitional Payment Payable to Government		0.9	0.9
	(446.7)	**(446.7)**			**(460.6)**	**(460.6)**
	(2.6)	**(2.6)**	**Enterprise Zone Deficit Repayable to the Collection Fund**		**(1.6)**	**(1.6)**
			Apportionment of Prior Year Deficit:			
-	-	-	Birmingham City Council	-	-	-
	(1.8)	(1.8)	Central Government		-	-
-	-	-	West Midlands Fire & Rescue Authority	-	-	-
-		-	West Midlands Police and Crime Comm.	-		-
-	**(1.8)**	**(1.8)**	**Total Apportionment of Prior Year Deficit**	**-**	**-**	**-**
(387.1)	**(451.1)**	**(838.2)**	**TOTAL INCOME**	**(415.3)**	**(462.2)**	**(877.5)**
2018/19				**2019/20**		
Council Tax	**NNDR**	**Total**		**Council Tax**	**NNDR**	**Total**
£m	**£m**	**£m**	Expenditure	**£m**	**£m**	**£m**
			Precepts Demands & Shares Incl Prior Years Surplus:			
329.3	436.9	766.2	Birmingham City Council	347.4	453.7	801.1
0.1		0.1	New Frankley in Birmingham Parish Council	0.0		0.0
1.9		1.9	Sutton Coldfield Town Council	1.9		1.9
	-	-	Central Government		-	-
14.7	4.4	19.1	West Midlands Fire & Rescue Authority	15.2	4.5	19.7
32.2		32.2	West Midlands Police and Crime Comm.	38.4		38.4
			Charges:			
6.1	11.1	17.2	Increase/(Decrease) in Provision for Bad and Doubtful Debts	13.4	15.6	29.0
	5.1	5.1	Increase/(Decrease) in Provision for Appeals		11.1	11.1
	1.8	1.8	Cost of Collection		1.8	1.8
384.3	**459.3**	**843.6**	**TOTAL EXPENDITURE**	**416.3**	**486.7**	**903.0**
(2.8)	**8.2**	**5.4**	**(Surplus)/Deficit for the year**	**1.0**	**24.5**	**25.5**
(2.1)	**(15.7)**	**(17.8)**	**(Surplus)/Deficit brought forward**	**(4.9)**	**(7.5)**	**(12.4)**
(4.9)	**(7.5)**	**(12.4)**	**(Surplus)/Deficit carried forward**	**(3.9)**	**17.0**	**13.1**

Notes to the Collection Fund
C1. Contributions from Council Taxpayers

The Council's tax base at January 2019 (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	182	5/9	101
A	87,572	6/9	58,381
B	89,529	7/9	69,634
C	61,009	8/9	54,230
D	32,123	1	32,123
E	18,165	11/9	22,202
F	8,161	13/9	11,788
G	5,445	15/9	9,075
H	780	18/9	1,560
Total	**302,966**		**259,094**
Less adjustment for collection rate			(7,514)
			251,580

The level of Council Tax is calculated at the beginning of the year and is calculated so as to ensure that the Council has enough money to pay for the services it provides. The amount of tax paid by local residents is based on how much it is estimated that the property they live in would have been worth in 1991. There are nine property valuation bands, AR to H.

The total required by the Collection Fund is divided by the Council Tax base. The Tax base represents the number of properties in the City, expressed as equivalent Band D properties. The level of Council Tax paid for a Band D property is the total income required divided by the Council Tax base, subject to any discounts to which a Council Tax payer may be entitled. The amount is adjusted for discounts and exemptions that particular residents in the City are entitled to.

The figures for the New Frankley in Birmingham Parish are:

Band	Number of Properties	Ratio	Band D equivalent dwellings
AR	1	5/9	1
A	717	6/9	478
B	1,007	7/9	783
C	86	8/9	76
D	52	1	52
E	1	11/9	1
F	0	13/9	0
G	0	15/9	0
H	1	18/9	2
Total	**1,865**		**1,393**
Less adjustment for collection rate			(41)
			1,352

The figures for Sutton Coldfield Town Council are:

Band	Number of Properties	Ratio	Band D equivalent dwellings
AR	1	5/9	1
A	1,702	6/9	1,135
B	3,989	7/9	3,103
C	6,229	8/9	5,537
D	8,375	1	8,375
E	7,872	11/9	9,621
F	3,876	13/9	5,599
G	2,453	15/9	4,088
H	352	18/9	704
Total	**34,849**		**38,163**
Less adjustment for collection rate			(1,107)
			37,056

C2. Business Ratepayers

The Council collects Business Rates (NNDR) receipts for its area, which are based on local rateable values multiplied by a uniform rate which is set by the Government (49.1p for 2019/20: 48.0p for 2018/19). The total non-domestic rateable value at 31 March 2020 was £1,141.6m (31 March 2019: £1,125.0m).

Since 1 April 2017, the Council is included in a 100% Local Business Rates Retention pilot. The amount raised each year, less certain reliefs and adjustments, is distributed on the following basis:

- 99% - Birmingham City Council
- 1% - The West Midlands Fire and Rescue Authority.

Previously Business Rates was distributed on the following basis:

- 50% - Central Government
- 49% - Birmingham City Council
- 1% - The West Midlands Fire and Rescue Authority.

C3. Precept Payments

The preceptors on the Council Tax element of the Collection Fund are the City Council, New Frankley in Birmingham Parish Council, Sutton Coldfield Town Council, the West Midlands Fire and Rescue Authority and the West Midlands Police and Crime Commissioner.

The preceptors on the NNDR element of the Collection Fund are the City Council and the West Midlands Fire and Rescue Authority.

C4. Debtors Outstanding but not Impaired

Balances outstanding for both Council Tax and Business Rates including amounts net of an allowance for impairment are apportioned between the Council and its major preceptors as follows:

Analysis of Council Tax debtors past due but not impaired

	31 March 2019			31 March 2020		
	BCC	Fire	Police	BCC	Fire	Police
	£m	£m	£m	£m	£m	£m
Council Tax Arrears	91.1	4.0	10.0	95.8	4.1	10.8
Impairment Allowance for doubtful debts	(27.2)	(1.2)	(3.0)	(31.0)	(1.3)	(3.5)
Amounts Past Due but not Impaired	**63.9**	**2.8**	**7.0**	**64.8**	**2.8**	**7.3**
Represented by Amounts:						
Less than 1 Year	22.8	1.0	2.5	24.0	1.0	2.7
1-2 Years	11.0	0.5	1.2	11.0	0.5	1.3
2-6 Years	25.0	1.1	2.8	23.3	1.0	2.6
Over 6 Years	5.1	0.2	0.6	6.5	0.3	0.7
TOTAL	**63.9**	**2.8**	**7.0**	**64.8**	**2.8**	**7.3**

Analysis of Business Rates debtors past due but not impaired

	31 March 2019			31 March 2020		
	BCC	Fire	MHCLG	BCC	Fire	MHCLG
	£m	£m	£m	£m	£m	£m
Business Ratepayer Arrears	95.0	1.0	-	95.4	1.0	-
Impairment Allowance for doubtful debts	(52.0)	(0.5)	-	(47.1)	(0.5)	-
Amounts Past Due but not Impaired	**43.0**	**0.5**	**-**	**48.3**	**0.5**	**-**
Represented by Amounts:						
Less than 1 Year	20.0	0.2	-	29.3	0.3	-
1-2 Years	7.0	0.1	-	8.8	0.1	-
2-6 Years	16.0	0.2	-	10.2	0.1	-
Over 6 Years	-	-	-	-	-	-
TOTAL	**43.0**	**0.5**	**-**	**48.3**	**0.5**	**-**

Birmingham City Council

Statement of GROUP Accounts 2019/20

NARRATIVE REPORT

Introduction

In common with many other local authorities, the Council uses different forms of service delivery, where this is appropriate. In some cases, it has created separate companies with its partners to deliver those services. The use of separate companies means that the Council's single entity financial statements on their own do not fully reflect the assets and liabilities or income and expenditure associated with all of its activities. The Group Accounts more fully reflect the overall financial picture of the Council's activities.

This section presents the statutory financial statements for Birmingham City Council Group (the Group) for the period from 1 April 2019 to 31 March 2020. The financial statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (The Code) published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The aim of the Group Accounts is to provide the reader with an overall view of the material economic activities of the Council.

These Group Accounts have been prepared using uniform accounting policies for like transactions and other events in similar circumstances. The accounting policies of its subsidiaries, associates and joint ventures have been aligned with the policies of the Council, for the purposes of Group Accounts, where materially different. Such adjustments as are necessary to align the Group Accounting Policies are made as consolidation adjustments.

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

The financial statements contain a number of technical accounting terms and concepts. A glossary of the major accounting terms has been provided at the end of the financial statements to help the reader's understanding.

The pages which follow contain the Group's Financial Statements for the year ended 31 March 2020, with comparative figures for the previous financial year.

Consolidation of Subsidiaries, Associate Companies and Joint Ventures

The Council operates through a variety of undertakings, either exercising full control of an organisation (subsidiary undertakings) or in partnership with other organisations (associate undertakings or joint ventures). To provide a full picture of the activities of the Council, Group Accounts have been prepared which include those organisations where the interest and the level of activity is considered material to the Group as a whole.

There have been no changes to the Group structure within the financial year 2019/20.

The entities consolidated into the Council's Group Accounts are:

<u>Subsidiaries</u>
Acivico Limited
Birmingham Children's Trust CIC
Birmingham City Propco Limited
InReach (Birmingham) Limited
National Exhibition Centre (Developments) Plc
PETPS (Birmingham) Limited
PETPS (Birmingham) Pension Funding Scottish Limited Partnership

Associate
Birmingham Airport Holdings Limited

Joint Venture
Paradise Circus General Partner Limited

Innovation Birmingham Limited was disposed of on 18 April 2018 and appears as a discontinued operation in 2018/19.

Further detail regarding the Council's relationship with the above companies is given in notes G23 and G24

The Council maintains involvement with a number of other related entities where the assets and liabilities of the companies are not included in these Group Financial Statements, either on the basis of materiality or that the Council does not exercise control or has no significant influence over the operation of the entity. Further details are set out in Note 49, Related Parties to the Council entity accounts.

Covid-19

The Covid-19 pandemic only became a major issue in the latter stages of the financial year and therefore the financial performance of the Council's companies would have been unaffected for a substantial part of the year. The continued impact of the activities undertaken to mitigate the spread of the virus may affect the financial performance of the companies in 2020/21 and potentially beyond depending on how long it takes sectors within the economy to recover.

There has been a direct impact of the current situation on asset values within certain companies and details of the performance are set out in more detail in the following notes.

The Council will continue to monitor the performance of its companies. The Council has given no additional letters of comfort to its companies as a result of Covid-19.

The Main Financial Statements

The following statements consolidate the accounts of the Council with those of its subsidiaries, associates and joint venture. Transactions between the Council and its Group entities are eliminated on consolidation. Details of the inter-company transactions are set out in Note 49, Related Parties, to the entity accounts.

The Group Comprehensive Income and Expenditure Statement (GCIES) – provides the accounting cost in year recognised by the Group, in a specified format, in accordance with generally accepted accounting practices. Details of the net surplus/ (deficit) on the provision of services is detailed below.

	2018/19		2019/20	
	Entity £m	Group £m	Entity £m	Group £m
Surplus/(Deficit) on Provision of Services	(112.4)	(178.8)	83.4	70.3

The 2019/20 GCIES shows a favourable movement of £249.1m in the movement on the net Surplus/(Deficit) on Provision of Services compared to 2018/19. Details of the major movements are set out in the Narrative Report in the Council entity accounts.

Group Movement in Reserves Statement (GMiRS) – provides a reconciliation of the movement in year on the different reserves held and how the balance of resources generated or used in the year reconciles to the Council's statutory requirements for raising Council Tax.

Group Balance Sheet – shows the value of assets and liabilities recognised by the Group at 31 March 2020 and the level of reserves, split into usable and unusable.

	2018/19		2019/20	
	Entity	Group	Entity	Group
	£m	£m	£m	£m
Long Term Assets	6,227.8	6,228.2	6,261.7	6,265.2
Current Assets	471.3	467.5	693.7	687.3
Current Liabilities	(1,099.5)	(1,086.0)	(963.0)	(951.3)
Long Term Liabilities	(5,870.1)	(5,956.7)	(6,003.2)	(6,063.9)
Net Assets/(Liabilities)	**(270.5)**	**(347.0)**	**(10.8)**	**(62.7)**
Represented by:				
Usable Reserves	937.4	852.9	1,057.1	989.2
Unusable Reserves	(1,207.9)	(1,199.9)	(1,067.9)	(1,051.9)
Total Reserves	**(270.5)**	**(347.0)**	**(10.8)**	**(62.7)**

The net liability has decreased by £284.3m to £62.7m. The major improvement is as a result of the Council entity improvement and also as a result of the reduction in pension deficits in Acivico Ltd and Birmingham Children's Trust CIC.

The difference in the level of usable reserves attributable to group entities has improved by £16.6m, with the company deficit falling from £84.5m to £67.9m. This is again mainly as a result of the reduction in pension deficits reported.

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 Innovation Birmingham which was disposed of on 18 April 2018. The details for 2018/19 have been restated following the Council restructure, details of which are set out in Note 8 in the entity accounts and in Note G3.

2018/19 (Restated) Gross Expenditure	2018/19 (Restated) Gross Income	2018/19 (Restated) Net Expenditure		Note	2019/20 Gross Expenditure	2019/20 Gross Income	2019/20 Net Expenditure
£m	£m	£m	**Continuing Operations**		£m	£m	£m
452.2	(122.5)	329.7	Adult Social Care & Health		461.3	(121.4)	339.9
1,292.5	(811.9)	480.6	Education and Skills		1,161.9	(796.3)	365.6
236.2	(70.4)	165.8	Neighbourhoods		207.6	(75.0)	132.6
171.3	(89.7)	81.6	Inclusive Growth		121.1	(86.0)	35.1
8.0	(1.7)	6.3	Human Resources		8.0	(2.0)	6.0
591.4	(548.6)	42.8	Digital & Customer Services		564.5	(528.9)	35.6
97.7	(93.7)	4.0	Partnership Insights & Prevention		97.6	(92.0)	5.6
21.0	(11.0)	10.0	Finance & Governance		11.7	(14.4)	(2.7)
6.2	(65.8)	(59.6)	Centrally Managed		19.4	(71.6)	(52.2)
46.8	-	46.8	Superannuation Adjustment		11.8	-	11.8
194.2	(284.8)	(90.6)	Housing Revenue Account		195.0	(278.2)	(83.2)
3,117.5	**(2,100.1)**	**1,017.4**	**Total Cost of Continuing Operations**		**2,859.9**	**(2,065.8)**	**794.1**
0.2	(0.2)	-	Discontinued Operations	G5	-	-	-
3,117.7	**(2,100.3)**	**1,017.4**	**Total Cost of Services**		**2,859.9**	**(2,065.8)**	**794.1**
65.1	-	65.1	Other Operating Expenditure		146.2	-	146.2
300.4	(80.1)	220.3	Financing and Investment Income and Expenditure	G6	313.6	(65.3)	248.3
2.4	(1,126.4)	(1,124.0)	Taxation and Non-Specific Grant Income		13.9	(1,272.8)	(1,258.9)
		178.8	**(Surplus)/Deficit on Provision of Services**				**(70.3)**
		(2.3)	Share of the (surplus)/deficit on the Provision of Services of Associates				(2.9)
		-	Tax Expense of Subsidiaries				1.8
		1.2	Tax Expense of Associates				1.2
		177.7	**Group (Surplus)/Deficit**				**(70.2)**
			Items that will not be reclassified to the (Surplus)/Deficit on the Provision of Services				
		(230.9)	(Surplus) / deficit on revaluation of Property, Plant and Equipment assets	G7			(38.7)
		4.0	Changes in non-current assets charged to the revaluation reserve				(2.3)
		(203.8)	Remeasurement of the net defined benefit liability	G21			(178.5)
		4.8	Share of Other Comprehensive Income and Expenditure of Associates and Joint Ventures				5.4
		(425.9)					**(214.1)**
			Items that may be reclassified to the (Surplus)/Deficit on the Provision of Services				
		-	(Surplus) / deficit on revaluation of available for sale financial assets				-
		-					**-**
		(425.9)	**Other Comprehensive (Income) / Expenditure**				**(214.1)**
		(248.2)	**Total Comprehensive (Income) / Expenditure**				**(284.3)**

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 2018	**509.1**	**4.8**	**320.4**	**28.6**	**107.0**	**969.9**	**(1,517.7)**	**(547.8)**	**(19.8)**	**(567.6)**
Movement in Reserves during 2018/19										
Prior Period Adjustment (Note 23)						**-**	(27.6)	**(27.6)**	-	**(27.6)**
Adjustment for the Restatement of Financial Instruments	(0.5)					**(0.5)**	(0.5)	**(1.0)**	-	**(1.0)**
Restated Balance brought forward at 1 April 2018	**508.6**	**4.8**	**320.4**	**28.6**	**107.0**	**969.4**	**(1,545.8)**	**(576.4)**	**(19.8)**	**(596.2)**
Surplus/(Deficit) on the provision of services	40.7	51.7				**92.4**		**92.4**	(270.1)	**(177.7)**
Other Comprehensive Income and Expenditure						**-**	418.3	**418.3**	7.6	**425.9**
Total Comprehensive Income and Expenditure	**40.7**	**51.7**	**-**	**-**	**-**	**92.4**	**418.3**	**510.7**	(262.5)	**248.2**
Adjustments between Group Accounts and Council Accounts	(204.8)					(204.8)		(204.8)	204.8	-
Changes in Group Reserves accounted for through equity (G22)									1.0	1.0
Net Increase/(Decrease) before Transfers	**(164.1)**	**51.7**	**-**	**-**	**-**	**(112.4)**	**418.3**	**305.9**	**(56.7)**	**249.2**
Adjustments between accounting basis and funding basis under regulations (Note 18)	215.6	(51.1)	(80.1)	(3.7)	(0.3)	**80.4**	(80.4)	**-**		**-**
Increase/(Decrease) in 2018/19	**51.5**	**0.6**	**(80.1)**	**(3.7)**	**(0.3)**	**(32.0)**	**337.9**	**305.9**	**(56.7)**	**249.2**
Balance at 31 March 2019	**560.1**	**5.4**	**240.3**	**24.9**	**106.7**	**937.4**	**(1,207.9)**	**(270.5)**	**(76.5)**	**(347.0)**
Movement in Reserves during 2019/20										
Surplus/(Deficit) on the provision of services	243.7	42.3				**286.0**		**286.0**	(215.8)	**70.2**
Other Comprehensive Income and Expenditure						**-**	176.3	**176.3**	37.8	**214.1**
Total Comprehensive Income and Expenditure	**243.7**	**42.3**	**-**	**-**	**-**	**286.0**	**176.3**	**462.3**	**(178.0)**	**284.3**
Adjustments between Group Accounts and Council Accounts	(202.6)					(202.6)		(202.6)	202.6	-
Changes in Group Reserves accounted for through equity (G22)									-	-
Net Increase/(Decrease) before Transfers	**41.1**	**42.3**	**-**	**-**	**-**	**83.4**	**176.3**	**259.7**	**24.6**	**284.3**
Adjustments between accounting basis and funding basis under regulations (Note 18)	55.6	(37.7)	(17.0)	(0.5)	35.9	**36.3**	(36.3)	**-**		**-**
Increase/(Decrease) in 2019/20	**96.7**	**4.6**	**(17.0)**	**(0.5)**	**35.9**	**119.7**	**140.0**	**259.7**	**24.6**	**284.3**
Balance at 31 March 2020	**656.8**	**10.0**	**223.3**	**24.4**	**142.6**	**1,057.1**	**(1,067.9)**	**(10.8)**	**(51.9)**	**(62.7)**

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. The figures for prior years have been restated to reflect the derecognition of lease assets as detailed in Note 23 of the core financial statements.

1 April 2018 (Restated) £m	31 March 2019 (Restated) £m		Note	31 March 2020 £m
5,707.4	5,804.7	Property, Plant and Equipment	G7	5,841.5
251.6	249.8	Heritage Assets		249.9
20.2	44.6	Investment Properties	G8	45.4
13.7	7.4	Intangible Assets		12.7
3.8	4.0	Long Term Investments		3.2
113.6	97.7	Long Term Debtors		90.3
20.5	20.0	Investments in Associates and Joint Ventures	G24	22.2
6,130.8	**6,228.2**	**Total Long Term Assets**		**6,265.2**
72.6	69.7	Short Term Investments		228.3
15.3	23.4	Assets Held for Sale		16.7
1.4	1.4	Inventories		1.8
321.4	324.5	Short Term Debtors	G10	376.6
56.3	48.5	Cash and Cash Equivalents		63.9
467.0	**467.5**	**Total Current Assets**		**687.3**
(35.4)	(15.2)	Cash and Cash Equivalents		(1.7)
(796.6)	(552.8)	Short Term Borrowing		(392.4)
(333.1)	(321.3)	Short Term Creditors	G11	(396.2)
(20.7)	-	Liabilities in Disposal Groups		-
(188.1)	(196.7)	Provisions		(172.2)
(1,373.9)	**(1,086.0)**	**Total Current Liabilities**		**(951.3)**
(74.5)	(75.3)	Long Term Creditors	G9	(73.7)
(23.5)	(16.6)	Provisions		(13.8)
(2,644.0)	(2,763.9)	Long Term Borrowing		(2,878.8)
(462.1)	(444.4)	Other Long-Term Liabilities		(427.9)
(2,616.0)	(2,656.5)	Net Liability on Defined Benefit Pension Scheme	G21	(2,669.7)
(5,820.1)	**(5,956.7)**	**Total Long-Term Liabilities**		**(6,063.9)**
(596.2)	**(347.0)**	**Net Assets/(Liabilities)**		**(62.7)**
937.6	852.9	Usable Reserves	G12	989.2
(1,533.8)	(1,199.9)	Unusable Reserves	G13	(1,051.9)
(595.2)	**(347.0)**	**Total Reserves**		**(62.7)**

Group Cash Flow Statement

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

2018/19		Note	2019/20
£m			£m
(177.7)	Net Surplus/(Deficit) on Continuing Operations		70.2
-	Net Surplus/(Deficit) on Discontinued Operations	G5	-
(177.7)	**Net Surplus/(Deficit) on the provision of services**		**70.2**
623.5	Adjustments to net Surplus/(Deficit) on the provision of services for non-cash movements	G17	519.4
(262.1)	Adjustments for items included in the net Surplus/(Deficit) on the provision of services that are investing and financing activities	G17	(299.1)
183.7	**Net cash flows from Operating Activities**		**290.5**
(121.7)	Investing Activities	G15	(421.1)
(49.6)	Financing Activities	G16	159.5
12.4	**Net increase/(decrease) in cash and cash equivalents**		**28.9**
20.9	Cash and cash equivalents at the beginning of the reporting period		33.3
33.3	**Cash and cash equivalents at the end of the reporting period**		**62.2**

NOTES TO THE GROUP ACCOUNTS

Note G1
Accounting Policies

The Group Financial Statements summarise the Council's and its Group's transactions for the 2019/20 financial year. The Group Financial Statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, 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 G23 and G24. Subsidiaries have been consolidated into the Group Financial Statements on a line by line basis, with associates and joint ventures consolidated under the equity method.

Investments in subsidiaries and associates in the Council's entity accounts are carried at cost rather than fair value less any provision for losses unless there is evidence of impairment.

Notes to the Group Financial Statements have been presented where the figures are materially different from those of the Council entity accounts. Where there are no material differences, the Notes to the Council entity accounts provide the required disclosures.

Accounting policies of the individual members of the Group have been aligned to the Council's accounting policies.

The accounting policies applied to the Group Financial Statements are consistent with those set out in Note 1 to the Council entity accounts, with additional policies specific to the Group set out below.

Disposal of a Subsidiary Company

When a subsidiary company is disposed of, the assets and liabilities of the subsidiary are derecognised at their carrying value at the time of disposal and the value of any consideration received is recognised. The transactions plus any resulting differences are identified in the Profit/Loss on disposal of a subsidiary and form part of the Surplus/Deficit on Provision of Services within the Group Comprehensive Income and Expenditure Statement.

Defined Contribution Pension Schemes

The NEC Limited Group funded two defined benefit schemes, which ceased to provide future service accrual with effect from 30 June 2010 and operated two contributory benefit schemes comprising a Stakeholder Scheme to which only members contribute, and a Group Personal Pension Plan where the company matched member contributions to an agreed maximum. The schemes transferred to PETPS (Birmingham) Limited on 1 May 2015 on the Council's disposal of NEC Ltd. Further information may be found in Note G21.

Defined Benefit Pension Scheme

Acivico Limited and Birmingham Children's Trust CIC participate in the Local Government Pension Scheme (LGPS). The scheme is a funded defined benefit scheme based upon career average salary for benefits accrued since 1 April 2014 and on final pensionable salary for benefits accrued to 31 March 2014. Further information may be found within the Council's entity accounting policies and Note G21.

Note G2
Critical Judgements in Applying Accounting Policies

In addition to the Critical Judgements, set out in Note 2 of the entity accounts, the Council has considered the following judgement in respect of the application of its accounting policies.

The Council has created a number of companies that are limited by guarantee that are also charitable companies. In such cases the Council is sole member on creation of the company.

The Trustees of a charity have the responsibility for determining the policies and the activities of the company in line with the specific remit of the charity. Where the Council is sole member of the charitable company, it also has, through the Articles of Association, the right to appoint Directors or Trustees to sit on the company board. Whilst the Council has the right to appoint Directors, this right is limited to appointing a minority of Directors such that they have less than 20% of the voting rights. The charitable company board is responsible for the day to day management and for setting the direction of the company. Trustees of charities must always act in the best interest of the charity and not in the interests of the body that appointed them.

Whilst the Council is sole member of charitable companies and whilst it may pass resolutions to impact on the operation of the companies, to date it has not done so. There are also financial barriers to the Council exercising any form of control as this may jeopardise the charitable nature of the organisations which would lead to financial detriment.

On the basis of the above factors, the Council considers that it does not have the current ability to direct the relevant activities of charitable companies given its minority level of representation, the Trustees must act independently of the Council in the best interest of the charity and should the Council exercise any rights through its role as sole member, it is considered that this would have an adverse financial impact. Therefore, the Council does not consider that it should consolidate any charitable companies into the Council's Group Accounts.

Note G3
Prior Period Adjustment

The Council has realigned its reporting structure and the Group Comprehensive Income and Expenditure Statement has been adjusted to reflect the new arrangements. Details of the prior period adjustments are set out in Note 8 of the entity accounts.

Directorate Reporting 2018/19	As Reported in the Comprehensive Income and Expenditure Statement 2018/19	Adjustments in Internal Directorate Reporting Classifications between years	As Restated in 2018/19	New Directorate Reporting 2018/19
	£m	£m	£m	
Net Expenditure				
Continuing Operations				
Adult Social Care & Health	333.4	(3.7)	329.7	Adult Social Care
Children & Young People	443.4	37.2	480.6	Education and Skills
Place	210.1	(44.3)	165.8	Neighbourhoods
Economy	78.6	3.0	81.6	Inclusive Growth
Human Resources	17.1	(10.8)	6.3	Human Resources
Strategic Services	40.2	(40.2)	-	
	-	42.8	42.8	Digital & Customer Services
	-	4.0	4.0	Partnerships, Insight & Prevention
Finance & Governance	(9.1)	19.1	10.0	Finance & Governance
Centrally Managed	(55.0)	(4.6)	(59.6)	Centrally Managed
Superannuation adjustment	46.8	-	46.8	Superannuation adjustment
Chief Executive & Assistant Chief Executive	2.5	(2.5)	-	
Housing Revenue Account	(90.6)	-	(90.6)	Housing Revenue Account
Net Cost of Services	**1,017.4**	**-**	**1,017.4**	
Gross Expenditure				
Continuing Operations				
Adult Social Care & Health	547.0	(94.8)	452.2	Adult Social Care
Children & Young People	1,235.9	56.6	1,292.5	Education and Skills
Place	294.4	(58.2)	236.2	Neighbourhoods
Economy	177.7	(6.4)	171.3	Inclusive Growth
Human Resources	18.8	(10.8)	8.0	Human Resources
Strategic Services	591.1	(591.1)	-	
	-	591.4	591.4	Digital & Customer Services
	-	97.7	97.7	Partnerships, Insight & Prevention
Finance & Governance	5.1	15.9	21.0	Finance & Governance
Centrally Managed	3.7	2.5	6.2	Centrally Managed
Superannuation adjustment	46.8	-	46.8	Superannuation adjustment
Chief Executive & Assistant Chief Executive	2.8	(2.8)	-	
Housing Revenue Account	194.2	-	194.2	Housing Revenue Account
Gross Cost of Services	**3,117.5**	**-**	**3,117.5**	
Gross Income				
Continuing Operations	£m	£m	£m	
Adult Social Care & Health	(213.6)	91.1	(122.5)	Adult Social Care
Children & Young People	(792.5)	(19.4)	(811.9)	Education and Skills
Place	(84.3)	13.9	(70.4)	Neighbourhoods
Economy	(99.1)	9.4	(89.7)	Inclusive Growth
Human Resources	(1.7)	-	(1.7)	Human Resources
Strategic Services	(550.9)	550.9	-	
		(548.6)	(548.6)	Digital & Customer Services
		(93.7)	(93.7)	Partnerships, Insight & Prevention
Finance & Governance	(14.2)	3.2	(11.0)	Finance & Governance
Centrally Managed	(58.7)	(7.1)	(65.8)	Centrally Managed
Superannuation adjustment	-	-	-	Superannuation adjustment
Chief Executive & Assistant Chief Executive	(0.3)	0.3	-	
Housing Revenue Account	(284.8)	-	(284.8)	Housing Revenue Account
Gross Income of Services	**(2,100.1)**	**-**	**(2,100.1)**	

Note G4
Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

The Covid-19 pandemic has created an element of uncertainty in determining valuations, particularly of non-current assets. A valuer has advised that, as market activity is being impacted in many sectors, less weight can be given to market evidence for comparison purposes to inform opinions of value.

As a result of the uncertainty surrounding valuations, the valuers report is on the basis of 'material uncertainty' in line with VPS 3 and VPGA 10 of the RICS Valuation – Global Standards that is effective from 31 January 2020. This means that there is less certainty, and a corresponding higher degree of caution, attached to valuations than would normally be the case. However, the valuer's report adds that, despite the inclusion of the 'Material Valuation Uncertainty, declaration does not mean that the valuation cannot be relied upon but that there is less certainty about the valuation. The clause represents a disclosure and not a disclaimer.

A 1% reduction in the valuation of the Council's group properties would reduce the carrying value on the balance sheet by £59m.

Information on pension valuations has been provided by actuaries supporting the relevant funds based on the best information available at the time of producing the reports. Details of the pension funds and their sensitivity to changes in determinants of the funds assets and obligations are set out in Note 22 in the Council entity Financial Statements and Note G21 of the Group Financial Statements

Other assumptions made about the future and other major sources of estimation and uncertainty are provided in Note 4 to the Council entity Financial Statements.

Note G5
Discontinued Operations

The Council continues to review its partnership arrangements to determine whether there are alternative approaches that may provide a more effective means of delivering services.

As a result of its review, the Council disposed of its interest in Innovation Birmingham Limited on 18 April 2018 through the disposal of head leases in the properties used by the company. Innovation Birmingham Limited was a company, limited by guarantee, with the Council as sole member and was consolidated into the Council's Group Accounts as a subsidiary company. The company's Articles of Association prohibited the distribution of profits.

Innovation Birmingham

Comprehensive Income and Expenditure Statement

	2018/19 £m
Turnover	0.2
Cost of Sales	(0.2)
Gross Profit/(Loss)	**-**
Other Operating Income	
Other Operating Expenditure	-
Operating Profit/(Loss)	**-**
Interest Payable	-
Profit/(Loss) before Taxation	**-**

Cash Flow
Details of the discontinued operations' cash flow are included in the Cash Flow Statement.

Note G6
Financing and Investment Income and Expenditure

Financing and Investment Income and Expenditure disclosed in the Group CIES are detailed below.

2018/19				2019/20		
Gross Expenditure £m	Income £m	Net £m		Gross Expenditure £m	Income £m	Net £m
183.2	-	183.2	Interest Payable and similar charges	196.3	-	196.3
65.7	-	65.7	Net interest on the net defined benefit liability	62.8	-	62.8
18.2	-	18.2	(Gain)/Loss on financial assets at amortised cost	21.5	-	21.5
-	(9.5)	(9.5)	(Gain)/Loss on financial assets at Fair Value through Profit & Loss	4.4	-	4.4
2.2	-	2.2	(Gain)/Loss on the Disposal of Financial Instruments	-	-	-
-	(21.6)	(21.6)	Interest Receivable and similar income	-	(28.3)	(28.3)
-	(10.9)	(10.9)	Changes in the Fair Value of Investment Properties	-	(0.5)	(0.5)
31.1	(32.4)	(1.3)	(Surplus)/Deficit on trading operations not consolidated within Service Expenditure Analysis in Comprehensive Income and Expenditure Statement	28.6	(31.0)	(2.4)
-	(5.7)	(5.7)	Other investment income and expenditure	-	(5.5)	(5.5)
300.4	**(80.1)**	**220.3**	**Sub Total**	**313.6**	**(65.3)**	**248.3**

Note G7
Property, Plant and Equipment

Details of the Group Property, Plant and Equipment are set out below.

Movement in Balances 2019/20

	Council Dwellings £m	Other land and buildings £m	Vehicles, plant, furniture & equipment £m	Infrastructure assets £m	Community assets £m	Surplus assets £m	Assets under construction £m	**Total Property, Plant and Equipment £m**	Service Concession Assets included in Property, Plant & Equipment £m
Cost or Valuation									
At 1 April 2019	**2,445.0**	**2,386.7**	**165.6**	**660.9**	**63.4**	**172.7**	**200.0**	**6,094.3**	**843.7**
Additions	102.1	78.7	10.4	14.1	4.0	0.8	136.8	**346.9**	36.4
Assets reclassified between categories	8.3	17.8	0.1	20.8	11.9	16.5	(78.2)	**(2.8)**	-
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(61.4)	32.1	(6.4)	-	-	(23.8)	-	**(59.5)**	(2.7)
Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	-	(47.4)	(16.0)	-	-	(0.7)	-	**(64.1)**	(61.9)
Derecognition - Disposals	(35.9)	(125.4)	(21.8)	-	-	-	-	**(183.1)**	(0.6)
Derecognition - Other	-	-	-	-	-	-	-	**-**	-
Assets reclassified (to)/from Held for Sale	-	(3.2)	-	-	-	5.3	-	**2.1**	-
Other movements in Cost or Valuation	-	-	-	-	-	-	-	**-**	-
At 31 March 2020	**2,458.1**	**2,339.3**	**131.9**	**695.8**	**79.3**	**170.8**	**258.6**	**6,133.8**	**814.9**
Accumulated Depreciation and Impairment									
At 1 April 2019	**-**	**(28.9)**	**(71.3)**	**(189.4)**	**-**	**-**	**-**	**(289.6)**	**(201.6)**
Depreciation charge	(53.8)	(53.3)	(15.3)	(25.3)	-	(0.4)	-	**(148.1)**	(31.7)
Depreciation written out to the Revaluation Reserve	53.1	39.1	3.4	-	-	2.4	-	**98.0**	3.1
Depreciation written out to the Surplus/Deficit on the Provision of Services	-	12.1	8.6	-	-	0.4	-	**21.1**	0.2
Impairment losses/(reversals) recognised in the Revaluation Reserve	-	-	-	-	-	-	-	**-**	-
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	-	-	-	-	-	-	-	**-**	-
Derecognition - Disposals	0.7	2.6	22.5	-	-	-	-	**25.8**	-
Derecognition - Other	-	-	-	-	-	-	-	**-**	-
Assets reclassified to/(from) Held for Sale	-	0.7	-	-	-	(0.2)	-	**0.5**	-
Other movements in Depreciation and Impairment	-	2.2	-	-	-	(2.2)	-	**-**	14.6
At 31 March 2020	**-**	**(25.5)**	**(52.1)**	**(214.7)**	**-**	**-**	**-**	**(292.3)**	**(215.3)**
Net Book Value									
At 31 March 2020	**2,458.1**	**2,313.8**	**79.8**	**481.1**	**79.3**	**170.8**	**258.6**	**5,841.5**	**599.6**
At 31 March 2019	**2,445.0**	**2,357.8**	**94.3**	**471.5**	**63.4**	**172.7**	**200.0**	**5,804.7**	**693.5**

Movement in Balances 2018/19

	Council Dwellings £m	Other land and buildings £m	Vehicles, plant, furniture & equipment £m	Infrastructure assets £m	Community assets £m	Surplus assets £m	Assets under construction £m	**Total Property, Plant and Equipment £m**	Service Concession Assets included in Property, Plant & Equipment £m
Cost or Valuation									
At 1 April 2018	**2,283.8**	**2,485.6**	**178.9**	**629.6**	**62.2**	**112.2**	**196.7**	**5,949.0**	**811.9**
Adjustment to Opening Balance		(27.6)						**(27.6)**	
Restated Opening Balance 1 April 2019	**2,283.8**	**2,458.0**	**178.9**	**629.6**	**62.2**	**112.2**	**196.7**	**5,921.4**	**811.9**
Additions	102.8	53.7	5.2	30.0	2.3	-	100.3	**294.3**	32.6
Assets reclassified between categories	16.7	63.1	1.1	1.3	(1.1)	1.4	(96.8)	**(14.3)**	
Revaluation increases/(decreases) recognised in the Revaluation Reserve	76.5	(12.7)	-	-	-	73.3	-	**137.1**	(0.9)
Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	-	(110.2)	-	-	-	-	(0.2)	**(110.4)**	0.4
Derecognition - Disposals	(34.8)	(53.3)	(19.6)	-	-	(2.0)	-	**(109.7)**	(0.3)
Derecognition - Other	-	-	-	-	-	-	-	**-**	
Assets reclassified (to)/from Held for Sale	-	(11.9)	-	-	-	(12.2)	-	**(24.1)**	
Other movements in Cost or Valuation	-	-	-	-	-	-	-	**-**	
At 31 March 2019	**2,445.0**	**2,386.7**	**165.7**	**660.9**	**63.4**	**172.7**	**200.0**	**6,094.3**	**843.7**
Accumulated Depreciation and Impairment									
At 1 April 2018	**-**	**(28.1)**	**(74.0)**	**(111.9)**	**-**	**-**	**-**	**(214.0)**	**(121.1)**
Depreciation charge	(51.7)	(59.8)	(16.4)	(26.2)	-	(0.6)	-	**(154.7)**	(32.4)
Depreciation written out to the Revaluation Reserve	51.0	41.5	-	-	-	0.1	-	**92.6**	2.3
Depreciation written out to the Surplus/Deficit on the Provision of Services	-	13.2	-	-	-	-	-	**13.2**	0.9
Impairment losses/(reversals) recognised in the Revaluation Reserve	-	0.8	-	-	-	-	-	**0.8**	
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	-	0.8	-	(51.3)	-	-	-	**(50.5)**	
Derecognition - Disposals	0.7	2.2	19.1	-	-	0.1	-	**22.1**	0.1
Derecognition - Other	-	0.5	-	-	-	0.4	-	**0.9**	
Assets reclassified to/(from) Held for Sale	-	-	-	-	-	-	-	**-**	
Other movements in Depreciation and Impairment	-	-	-	-	-	-	-	**-**	
At 31 March 2019	**-**	**(28.9)**	**(71.3)**	**(189.4)**	**-**	**-**	**-**	**(289.6)**	**(150.2)**
Net Book Value									
At 31 March 2019	**2,445.0**	**2,357.8**	**94.3**	**471.5**	**63.4**	**172.7**	**200.0**	**5,804.7**	**693.5**
At 31 March 2018	**2,283.8**	**2,457.5**	**104.9**	**517.7**	**62.2**	**112.2**	**196.7**	**5,735.0**	**690.8**

Further details on the Council's policies for fixed asset revaluations and depreciation are provided in Note 1 to the Council entity accounts.

Note G8
Investment Properties

The Council, Birmingham City PropCo Limited and InReach Limited have non-current assets that meet the criteria for treatment as investment properties. Details of the financial impact of Investment Properties are set out below.

	2018/19	2019/20
	£m	£m
Cost or Valuation		
At 1 April	**20.2**	**44.6**
Assets reclassified between categories	13.5	-
Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	10.9	0.8
At 31 March	**44.6**	**45.4**

Recurring Fair Value Measurement	Input Level in Fair Value Hierarchy	Valuation Technique used to measure Fair Value	Fair Value 31 March 2019	Fair Value 31 March 2020
			£m	£m
Highest and Best Use	Level 2	The fair value has been measured using a market approach, taking into account quoted prices for similar assets in active markets and data and market knowledge.	35.7	37.5
Highest and Best Use	Level 3	The fair value has been measured using a market approach taking into account yields from rental compared to similar assets.	8.9	7.9

The fair value of the Council's Group Investment Properties is measured annually at each reporting date. Valuations are carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors (RICS). The valuations were undertaken by appropriately qualified valuers as detailed below:

- For the Council, Azmat Mir MRICS, Head of Property Consultancy within the Council's Property Services section
- For InReach (Birmingham) Limited, David Farrow MRICS and Daniel Winter MRICS of Savills (UK) Limited
- For Birmingham City PropCo Limited, James Williamson MRCIS and Ian Elliot MRCIS of Avison Young (UK) Ltd

Note G9
Financial Instruments

This note sets out the differences from the information contained in Note 40 of the Council entity accounts to enable the reader to determine, more clearly, the impact of group company transactions.

Debtors and Cash
Debtors and cash consolidated as part of the Group Financial Statements are classified as loans and receivables. Further information on Group debtors is provided in Note G10.

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 G11.

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 2019	31 March 2020
	£m	£m
Creditors		
NEC 7.56% Loan Stock – maturity 30 September 2027	(73.0)	(73.0)

The fair value of the loan stock is based on the Market Value as quoted by Bloomberg on 31 March 2020.

Financial Liabilities	**Input level in Fair Value Hierarchy**	**Valuation inputs and assumptions used to measure Fair Value**	**31 March 2019**		**31 March 2020**	
			Carrying Amount £m	Fair Value £m	Carrying Amount £m	Fair Value £m
NEC Loan Stock	Level 1	Stock Market valuation	73.0	102.6	73.0	103.1

Within the Council entity accounts, the guarantee given to NEC Developments (NECD) for the repayment of the Loan Stock is treated as borrowing and as a reimbursement right within NECD. The guarantee was determined at fair value on the disposal of the NEC in 2015 and is accounted for using the Effective Interest Rate method.

Long Term Borrowing
The reduction in long term borrowing at 31 March 2020 between the Council entity accounts, £2,969.5m and the group accounts, £2,878.8m, is largely represented by the borrowing recognised by the Council associated with group entities, namely NECD and PETPS SLP. These transactions are eliminated on consolidation.

Income, Expense, Gains and Losses
These amounts in the Group Financial Statements are not considered materially different from those in the Council entity accounts.

<u>Fair Values of Assets and Liabilities</u>
The amounts consolidated as part of the Group Financial Statements are not considered significantly different from the carrying amounts.

<u>Nature and extent of risks arising from financial instruments</u>
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 G10
Short Term Debtors

The table below shows amounts owed to the Council's Group undertakings at the end of the year that are due within 12 months. These balances have been split by type of organisation to reflect the potential relative risks that the Council faces. In determining the level of debtors, an additional assessment has been made of the likelihood of recoverability in light of the impact of Covid-19 on the economy. The actual level of recovery will continue to be monitored to ensure that the recovery rate is as high as practicable.

31 March 2019 £m		31 March 2020 £m
68.6	Central government bodies	110.2
21.2	Other local authorities	29.3
8.3	NHS bodies	7.4
2.5	Public corporations and trading funds	3.5
223.9	Other entities and individuals	226.2
324.5	**Total**	**376.6**

Note G11
Short Term Creditors

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

31 March 2019 £m		31 March 2020 £m
(26.2)	Central government bodies	(83.5)
(6.7)	Other local authorities	(7.2)
(1.3)	NHS bodies	(3.5)
(64.1)	Public corporations and trading funds	(50.5)
(223.0)	Other entities and individuals	(247.7)
(321.3)	**Total**	**(392.4)**

Note G12
Usable Reserves

Details of the Group's usable reserves are set out below.

31 March 2019 £m		31 March 2020 £m
560.1	General Fund Balances	656.8
5.4	Housing Revenue Account (HRA)	10.0
240.3	Capital Receipts Reserve	223.3
24.9	Major Repairs Reserve	24.4
106.7	Capital Grants Unapplied	142.6
(89.3)	Company Profit & Loss	(72.7)
4.8	Merger Reserve	4.8
852.9	**Total**	**989.2**

Details of General Fund Balances are set out in Note 19 of the entity accounts.

Note G13
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. The unusable reserves have been restated as detailed in Notes 20 and 23.

31 March 2019 (Restated) £m		31 March 2020 £m
2,004.3	Revaluation Reserve	1,965.3
(339.7)	Capital Adjustment Account	(220.0)
(48.1)	Financial Instruments Adjustment Account	(64.3)
37.7	Deferred Capital Receipts	42.4
(2,676.2)	Pensions Reserve	(2,591.3)
10.0	Collection Fund Adjustment Account	(14.6)
(174.5)	Equal Pay Back Pay Account	(153.2)
(14.0)	Accumulated Absences Account	(16.8)
0.6	Called up Share Capital	0.6
(1,199.9)	**Total**	**(1,051.9)**

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.

2018/19 £m		2019/20 £m
1,896.8	**Balance at 1 April**	**2,004.3**
(27.6)	Adjustment to Opening Balance (Note 23)	-
1,869.2	**Revised Balance at 1 April**	**2,004.3**
	Revaluations not posted to (Surplus)/Deficit on the Provision of Services	
430.4	Council: Upward revaluation of assets	359.7
(199.5)	Council: Downward revaluation of assets	(321.0)
-	Council: Impairment (losses)/reversals not charged to the Surplus/Deficit on the Provision of Services	-
230.9	**Council: Surplus/(Deficit) on revaluation of non-current assets not posted to the (Surplus)/Deficit on the Provision of Services**	**38.7**
	Amounts written off to the Capital Adjustment Account	
(51.1)	Council: Difference between fair value depreciation and historical cost depreciation	(36.4)
(40.7)	Council: Accumulated gains on assets sold or scrapped	(43.6)
-	Council: Adjustment for transfer of land to Investment Property	-
(91.8)	**Council: Amount written off to the Capital Adjustment Account**	**(80.0)**
	Group Movements	
(4.0)	Other movements in reserve in Group entities	2.3
(4.0)	**Total Group Movements**	**2.3**
2,004.3	**Balance at 31 March**	**1,965.3**

The Council is allowed under statute to reverse out the financial impact from its Comprehensive Income and Expenditure Statement where it has impaired or revalued equity in a company or where it has given a 'soft' loan to another organisation. The impact of adjustments form part of the unusable reserves.

In consolidating group accounts, inter company transactions are eliminated. However, where the Council has either revalued assets or has given a soft loan to a group entity then the carrying values in the two organisations would be different. For consolidation, the entries in the Council Financial Statements, reducing the carrying value of assets, would need to be reversed prior to elimination. Details of the impacts are detailed below.

Capital Adjustment Account

31 March 2019 £m		31 March 2020 £m
(339.7)	**Carrying Value in Council Financial Statements**	**(223.1)**
-	Reversal of downward revaluation of equity	3.1
(339.7)	**Revised Value in Group Financial Statements**	**(220.0)**

Financial Instruments Adjustment Account

31 March 2019 £m		31 March 2020 £m
(48.1)	**Carrying Value in Council Financial Statements**	**(67.0)**
-	Reversal of impact of 'soft' loan given to group entity	2.7
(48.1)	**Revised Value in Group Financial Statements**	**(64.3)**

Note G14
Cash Flow Statement - Operating Activities

The cash flows from operating activities include the items set out below.

2018/19 £m		2019/20 £m
(21.6)	Interest Received	(28.3)
183.2	Interest Paid	196.3
(5.7)	Dividends Received	(5.5)

Note G15
Cash Flow Statement - Investing Activities

The cash flows from investing activities are set out below.

2018/19 £m		2019/20 £m
(264.9)	Purchase of property, plant and equipment, investment property and intangible assets	(334.8)
(1,081.1)	Purchase of short-term and long-term investments	(2,081.1)
-	Investing Activities of Discontinued Operations	-
87.4	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	71.8
1,083.8	Proceeds from short-term and long-term investments	1,923.0
53.1	Other receipts from investing activities	-
(121.7)	**Net cash flows from investing activities**	**(421.1)**

Note G16
Cash Flow Statement - Financing Activities

The cash flows from financing activities are set out below.

2018/19 £m		2019/20 £m
126.5	Other receipts from financing activities	225.9
1,962.8	Cash Receipts from short-term and long-term borrowing	1,629.3
(47.4)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(23.0)
(2,086.6)	Repayments of short-term and long-term borrowing	(1,674.1)
(4.9)	Other payments for financing activities	1.4
(49.6)	**Net cash flows from financing activities**	**159.5**

Note G17
Group Cash Flow Statement – Other Adjustments

The cash flow adjustments to the net surplus/deficit on the provision of services are set out below.

2018/19 £m		2019/20 £m
154.6	Depreciation/Impairment charge	148.2
8.2	Amortisation of Intangible Assets	4.5
-	Movement in Intangible Assets	(1.6)
-	Movement in Investment Properties	(0.9)
78.6	Derecognition of Non-Current Assets	158.4
(4.3)	(Increase)/Decrease in Investments	0.8
160.0	Revaluation of Non-Current Assets	36.1
13.9	(Increase)/Decrease in Debtors	(44.6)
(33.5)	Increase/(Decrease) in Creditors	54.5
(0.1)	(Increase)/Decrease in Inventories	(0.4)
1.7	Increase/(Decrease) in Provisions	(27.3)
244.4	Pensions Liability	191.7
623.5		**519.4**

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

2018/19 £m		2019/20 £m
(126.5)	Capital Grants	(225.9)
(140.5)	Capital Receipts	(71.8)
4.9	Council Tax and Business Rates Adjustments	(1.4)
(262.1)		**(299.1)**

Note G18
Group Expenditure and Funding by Nature of Activity

Detail of the Council's Expenditure and Funding by Nature of Activity is provided in Note 9 to the entity accounts.

2018/19		2019/20
£m	Expenditure	£m
1,147.9	Employee Benefits Expenses	975.9
1,703.5	Other Service Expenses	1,739.5
312.6	Depreciation, Amortisation and Impairment	194.5
248.9	Interest Payments	259.4
10.9	Movement in the valuation of financial assets	22.9
50.0	Precepts and Levies	49.9
6.3	Payments to Housing Capital Receipts Pool	6.2
5.5	Loss on Disposal of Non-Current Assets	85.3
3,485.6	**Total Expenditure**	**3,333.6**
	Income	
(618.7)	Fees, Charges and Other Services Income	(579.6)
(762.9)	Income from Council Tax and Business Rates	(793.3)
(1,897.9)	Government Grants and Contributions	(1,996.7)
(27.3)	Interest and Investment Income	(34.3)
(3,306.8)	**Total Income**	**(3,403.9)**
178.8	**(Surplus)/Deficit on Provision of Services**	**(70.3)**

Note G19
Related Parties

Details of the Council's material transactions with related parties are provided in Note 49 to the Council entity accounts. Details of the subsidiary companies of group entities are detailed in the relevant Notes G23 and G24 to these group financial statements.

In addition to the related parties detailed within Note 49 to the Council entity accounts, Birmingham Airport Holdings Limited transacts business with the shareholding West Midlands District Councils with Solihull MBC acting as the lead authority. Transactions would be undertaken in a number of areas and include business rates, planning applications and building control services. All of these transactions are carried out on an arms-length basis at full commercial rate.

Birmingham Airport Limited entered into a lease arrangement with Solihull MBC, on behalf of all the Districts, which has been treated as a finance lease in its accounts by the company. The total amount payable in the year under the arrangement was £0.8m with an amount due at the year-end of £4.7m.

Note G20
Leases

Group as the lessee

Details of the Council's finance and operating leases are included in Note 43 to the Council entity accounts.

Group as the lessor

Within the Group there are leases between Group entities and also leases from Group entities to external organisations. Details of the Council's finance leases are provided in Note 43 to the Council entity accounts. This note sets out the impact of intra-Group leases and leases of Group entities to external organisations.

Leases by Group entities to External Organisations

Finance leases

Details of the Council's finance leases are provided in Note 43 to the Council entity accounts.

The Council created Birmingham City Propco Limited in 2017/18 to provide a vehicle for commercial investment. The company purchased the leasehold interests of the Council in respect of the Crowne Plaza NEC and Hilton Metropole NEC Hotels. Details of the leases are set out below.

31 March 2019 £m		31 March 2020 £m
	Finance lease debtor (net present value of minimum lease payments):	
0.1	- Current	0.1
20.1	- Non current	20.1
46.1	Unearned finance income	45.1
-	Unguaranteed residual value of property	-
66.3	**Gross investment in the lease**	**65.3**

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

	Finance lease debtor		Minimum lease payments	
	31 March 2019 £m	31 March 2020 £m	31 March 2019 £m	31 March 2020 £m
Not later than one year	0.1	0.1	1.0	1.1
Later than one year and not later than five years	0.2	0.2	4.1	4.1
Later than five years	19.9	19.8	61.2	60.1
Total	**20.2**	**20.1**	**66.3**	**65.3**

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 2019 £m		31 March 2020 £m
0.4	Not later than one year	0.4
1.7	Later than one year and not later than five years	1.7
26.1	Later than five years	25.9
28.2	**Gross investment in the lease**	**28.0**

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews.

Note G21
Defined Benefit Pension Schemes

Details of the Council's involvement in the Teachers' Pensions Scheme and Local Government Pension Scheme are provided in Notes 21 and 22 to the Council entity accounts.

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

A ruling was made regarding age discrimination arising from public sector pension scheme transition arrangements put in place when moving from final salary to average salary scheme arrangements. Court of Appeal judgements were made in cases affecting judges' pensions (the McCloud Judgement) and firefighter pensions. Allowance has been made for the potential impact in the results reported.

The information disclosed below is in respect of the whole of the plans for which the Company is either the sponsoring employer or has been allocated a share of cost under an agreed group policy throughout the periods shown.

	2018/19 £m	2019/20 £m
Present value of funded defined benefit obligations	(89.4)	(70.8)
Fair value of plan assets	79.3	71.9
Adjustment for pension surplus in Acivico (Building Consultancy)		(1.7)
Net (Liability)/Asset	**(10.1)**	**(0.6)**

Movements in the present value of defined benefit obligation:

	2018/19 £m	2019/20 £m
Balance at beginning of period	87.0	89.4
Current service cost	2.8	1.3
Interest cost	2.2	1.9
Actuarial (gains)/losses	(0.8)	(11.5)
Contributions by members	0.5	0.3
Liabilities Extinguished on Settlement	-	(9.9)
Past Service cost including Curtailments	0.6	1.0
Benefits paid	(2.9)	(1.7)
31 March	**89.4**	**70.8**

Movements in the fair value of plan assets:

	2018/19 £m	2019/20 £m
Balance at beginning of period	77.7	79.3
Interest on assets	2.0	1.8
Actuarial (losses)/gains	0.8	(2.7)
Settlements		(6.2)
Contributions	1.6	1.5
Benefits paid	(2.8)	(1.7)
31 March	**79.3**	**71.9**

Expense recognised in the profit and loss account:

	2018/19 £m	2019/20 £m
Operating Costs:		
Current Service Cost	2.8	(1.4)
Included in Operating Cost	2.8	(1.4)
Financing Costs:		
Interest cost on pension scheme liabilities	2.2	1.9
Interest income on plan assets	(2.0)	(1.8)
Net interest cost	0.2	0.1
Total income statement expense/(income)	**3.0**	**(1.3)**

Other Comprehensive Income

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

	2018/19 £m	2019/20 £m
Actuarial (gain)/loss on liabilities	(0.8)	(11.5)
Actuarial (gain)/loss on plan assets	(0.8)	2.7
Remeasurement (gain)/loss recognised during the period	**(1.6)**	**(8.8)**

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

	2018/19 Fair Value		2019/20 Fair Value	
	£m	%	£m	%
Equities	46.9	59	42.4	59
Government Bonds	7.7	10	7.1	10
Other Bonds	3.0	4	2.8	4
Property	6.7	8	5.7	8
Cash/Liquidity	2.5	3	3.7	5
Other	12.5	16	10.2	14
Total	**79.3**	**100**	**71.9**	**100**

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

	2018/19	2019/20
	%	%
Discount rate	2.4	2.35
Future salary increases	3.9	2.9
Future pension increases	2.4	1.9
CPI increases	2.4	1.9

In valuing the liabilities of the pension fund at 31 March 2020, mortality assumptions have been made as indicated below.

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

	31 March 2019	31 March 2020
Male: member aged 65 (current life expectancy)	20.9	21.9
Female: member aged 65 (current life expectancy)	23.2	24.1
Male: member aged 45 (life expectancy at age 65)	22.6	23.8
Female: member aged 45 (life expectancy at age 65)	25.0	26.0

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	(1.4)

Birmingham Children's Trust CIC

Birmingham Children's Trust CIC participates in the West Midlands Pension Fund, a Local Government Pension Scheme. The scheme is a defined benefit scheme, which pays out pensions at retirement based on length of service and final pay for service earned up to 31 March 2014 and on a career salary average for service earned from 1 April 2014.

The information disclosed below is in respect of the whole of the plans for which the Company is either the sponsoring employer or has been allocated a share of cost under an agreed group policy throughout the periods shown.

A ruling was made regarding age discrimination arising from public sector pension scheme transition arrangements put in place when moving from final salary to average salary scheme arrangements. Court of Appeal judgements were made in cases affecting judges' pensions (the McCloud Judgement) and firefighter pensions. An additional liability of £4.3m has been recognised in the 2019/20 financial statements.

	2018/19 £m	2019/20 £m
Present value of funded defined benefit obligations	(258.7)	(252.2)
Fair value of plan assets	182.4	179.6
Net (Liability)/Asset	**(76.3)**	**(72.6)**

Movements in the present value of defined benefit obligation:

	2018/19 £m	2019/20 £m
Balance at beginning of period	-	258.7
Transfer on creation of Trust	231.2	-
Current service cost	20.0	21.3
Interest cost	6.0	6.5
Past Service Cost		4.3
Change in financial assumptions	13.1	(37.0)
Change in demographic assumptions	(13.9)	7.0
Contributions by scheme members	3.0	3.4
Experience/(gain) on defined benefit obligation	-	(10.9)
Benefits paid	(0.7)	(1.1)
31 March	**258.7**	**252.2**

Movements in the fair value of plan assets:

	2018/19 £m	2019/20 £m
Balance at beginning of period	-	182.4
Transfer on creation of Trust	155.5	-
Return on assets (less interest)	8.8	(13.1)
Other actuarial losses		(8.3)
Interest on assets	4.2	4.6
Administrative expenses	(0.1)	(0.1)
Settlement prices received/(paid)	11.7	11.8
Contributions by scheme members	3.0	3.4
Benefits paid	(0.7)	(1.1)
31 March	**182.4**	**179.6**

Expense recognised in the profit and loss account:

	2018/19 £m	2019/20 £m
Operating Costs:		
Current Service Cost	8.3	9.5
Administrative Expenses	0.1	0.1
Included in Operating Cost	8.4	9.6
Financing Costs:		
Interest cost on pension scheme liabilities	6.0	6.5
Interest income on plan assets	(4.2)	(4.6)
Net interest cost	1.8	1.9
Total Income Statement expense	**10.2**	**11.5**

Other Comprehensive Income

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

	2018/19 £m	2019/20 £m
Return on plan assets in excess of interest income	(8.8)	(13.1)
Actuarial gain/(loss) on liabilities due to changes in financial assumptions	13.0	37.0
Actuarial gain/(loss) on liabilities due to changes in demographic assumptions	(13.9)	(7.0)
Other actuarial losses on assets	-	(8.3)
Experience gain on defined benefit obligation	-	10.9
Remeasurement gain/(loss) recognised during the period	**(9.7)**	**19.4**

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

	2018/19 Fair Value		2019/20 Fair Value	
	£m	%	£m	%
Equities	105.6	58	102.2	57
Gilts	13.7	8	20.9	12
Other Bonds	7.0	4	7.5	4
Property	16.3	9	16.0	9
Cash/Liquidity	9.5	5	6.4	4
Other	30.3	16	26.6	14
Total	**182.4**	**100**	**179.6**	**100**

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

	2018/19 %	2019/20 %
Discount rate	2.45	2.35
Future salary increases	3.85	2.8
Future pension increases	2.35	1.8
CPI increases	2.35	1.8

In valuing the liabilities of the pension fund at 31 March 2020, mortality assumptions have been made as indicated below.

The life expectancy for members as at the Balance Sheet date:

	31 March 2019	31 March 2020
Male: member aged 65 (current life expectancy)	20.9	21.9
Female: member aged 65 (current life expectancy)	23.2	24.1
Male: member aged 45 (life expectancy at age 65)	22.6	23.8
Female: member aged 45 (life expectancy at age 65)	25.0	26.0

The valuation of the defined benefit obligation and the impact on current service cost are sensitive to a number of factors. Details of the impact of changes to relevant factors are set out below.

	Impact of Change	
	Defined Benefit Obligation £m	Current Service Cost £m
An increase in the discount rate of 0.1%	(6.2)	(0.4)
An increase in long term salary estimate of 0.1%	1.2	-
An increase in the rate of pension increases of 0.1%	5.3	0.4
An increase in anticipated life expectancy of 1 year	8.3	0.6

PETPS (Birmingham) Limited

Following completion of the sale of the NEC Group by the Council on 1 May 2015, NEC Limited was replaced as principal employer by PETPS (Birmingham) Limited (PETPS), a wholly owned subsidiary of the Council, which assumed the ongoing funding obligation of the NEC Limited Pension Fund (the Fund) and the NEC Executive Pension Scheme (the Scheme) with the agreement of the pension trustees. The Fund and the Scheme had ceased to provide future service accrual with effect from 30 June 2010.

The Fund and the Scheme are defined benefit schemes, operating under UK trust law, which pay out pensions at retirement based on service and final pay. The trustee boards of the Fund and the Scheme are independent of the Council and are responsible for setting certain policies (for example, investment and contribution policies).

Under guarantees provided, the Council is responsible for meeting the current and future contingent funding obligations. The Fund and the Scheme therefore expose the Council to actuarial risks, such as longevity, currency, interest rate and market (investment) risk.

The assets of the Fund and the Scheme are held separately from those of PETPS and the Council. On the advice of an independent qualified actuary, contribution payments are made to the Fund and the Scheme by the Council to ensure that the assets are sufficient to cover future liabilities. Assets of the Fund and the Scheme are measured using fair market values.

The most recently completed formal actuarial valuations of the Fund and the Scheme were at 5 April 2019. The funding requirements are based on the Statements of Funding Principles of the Fund and the Scheme. The funding is based on a separate actuarial valuation for funding purposes, for which assumptions may differ from the assumptions set out in these disclosures. The defined benefit obligations are measured using the projected unit 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 2018/19 for the Fund and the Scheme have been provided.

Balance Sheet

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

	31 March 2019 £m	31 March 2020 £m
Present value of funded obligations	(206.8)	(194.0)
Fair value of plan assets	190.2	190.7
Deficit for funded plans	(16.6)	(3.3)
Unrecognised asset due to the asset ceiling	(1.4)	-
Retirement Benefit Obligation	**(18.0)**	**(3.3)**

Income Statement

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

	2018/19 £m	2019/20 £m
Operating Costs:		
Administration Expenses	0.7	0.9
Past Service Cost	0.8	-
Included in Operating Cost	1.5	0.9
Financing Costs:		
Interest cost on pension scheme liabilities	4.9	4.9
Interest income on plan assets	(4.5)	(4.6)
Net interest cost	0.4	0.3
Total income statement expense	**1.9**	**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. The figures for 2018/19 have been restated to reflect an increase in the return on plan assets in excess of interest income by £0.2m.

	2018/19 (Restated) £m	2019/20 £m
Return on plan assets in excess of interest income	5.4	(1.7)
Actuarial gain/(loss) on liabilities due to changes in financial assumptions	(10.2)	9.5
Actuarial gain/(loss) on liabilities due to changes in demographic assumptions	4.0	(3.0)
Actuarial gain/(loss) on liabilities due to experience	(1.3)	5.6
Remeasurement gain/(loss) recognised during the period	**(2.1)**	**10.4**

Reconciliation of Liabilities and Assets

Movements in the retirement benefit obligations are as follows:

	2018/19 £m	2019/20 £m
Beginning of Period	(200.6)	(206.8)
Past Service Cost	(0.8)	-
Interest Cost	(4.9)	(4.9)
Actuarial gain/(loss) on liabilities due to changes in financial assumptions	(10.2)	9.5
Actuarial gain/(loss) on liabilities due to changes in demographic assumptions	4.0	(3.0)
Actuarial gain/(loss) on liabilities due to experience	(1.3)	5.6
Benefits Paid	7.0	5.6
Present value of obligation at 31 March	**(206.8)**	**(194.0)**

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

	2018/19 £m	2019/20 £m
Beginning of Period	183.0	190.2
Interest income on plan assets	4.6	4.5
Return on plan assets in excess of interest income	5.4	(1.7)
Contributions by employer	4.9	4.2
Administration expenses paid	(0.7)	(0.9)
Benefits paid	(7.0)	(5.6)
Fair value of plan assets at 31 March	**190.2**	**190.7**

Plan Assets

The major categories of plan assets are as follows:

	31 March 2019		31 March 2020	
	£m	%	£m	%
Equities, GTAA and Hedge Funds	76.7	40	70.2	37
Bonds and Cash	89.6	47	96.9	51
Property	16.9	9	17.2	9
Gilts	7.0	4	6.4	3
	190.2	**100**	**190.7**	**100**

Assumptions

The principal assumptions made by the actuary were:

	31 March 2019 %	31 March 2020 %
Discount rate – Fund/Scheme	2.4/2.35	2.20/2.25
RPI Inflation rate	3.25	2.55/2.70
CPI Inflation rate	2.35	1.85/1.90
Future Pension increases		
- pension accrued prior to 5 April 2005	3.1	2.55/2.70
- pension accrued after 5 April 2005	2.1	1.95/2.05

The base mortality assumptions for the Fund are based on SAPS tables (S3 series). Adjustments were applied to reflect the Scheme's populations with future improvements based on the CMI 2019 projection with a long term rate of improvement of 1.25% p.a. (2018/19: 1.25%).

The life expectancy for members as at the Balance Sheet date:

	31 March 2019 Years		31 March 2020 Years	
	Fund	Scheme	Fund	Scheme
Male: member aged 65 (current life expectancy)	21.6	24.0	22.0	23.4
Female: member aged 65 (current life expectancy)	24.2	26.4	25.1	26.3
Male: member aged 45 (life expectancy at age 65)	22.5	25.4	22.8	24.7
Female: member aged 45 (life expectancy at age 65)	25.7	27.8	26.5	27.7

Sensitivity Analysis

An increase of 0.25% in the discount rate would decrease the retirement benefit obligations by £10.0m
An increase of 0.25% in the inflation rate would increase the retirement benefit obligations by £9.0m
An increase of one year to life expectancy would increase the retirement benefit obligations by £8.2m

The duration of the NEC Limited Pension liabilities is around 22 years, and the duration of the NEC Executive Pension Scheme liabilities is around 14 years.

Expected Contributions for 2020/21

The contribution schedule in force sets out contributions of £2.5m that will be paid into the Fund in the 2020/21 financial year. The contribution into the Fund will be paid from the Asset Backed Funding arrangement that was put in place in 2017. No contributions are expected to be paid to the Scheme in the 2020/21 financial year.

Note G22
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
2018/19										
Provision of goods and services to subsidiaries	20.3					20.3		20.3	(20.3)	-
Purchases of goods and services from subsidiaries	(225.1)					(225.1)		(225.1)	225.1	-
Total adjustments between Group accounts and Council accounts	**(204.8)**	**-**	**-**	**-**	**-**	**(204.8)**	**-**	**(204.8)**	**204.8**	**-**
2019/20										
Provision of goods and services to subsidiaries	19.1					19.1		19.1	(19.1)	-
Purchases of goods and services from subsidiaries	(221.7)					(221.7)		(221.7)	221.7	-
Total adjustments between Group accounts and Council accounts	**(202.6)**	**-**	**-**	**-**	**-**	**(202.6)**	**-**	**(202.6)**	**202.6**	**-**

Note G23
Subsidiary Companies

I. Acivico Limited

Acivico Limited is a registered company, which is wholly owned by the Council. The company was launched in April 2012, with three special purpose vehicles: one holding company and two trading companies. The two trading companies, Acivico (Design Construction and Facilities Management) Limited and Acivico (Building Consultancy) Limited, have been operational since April 2012 and provide a range of statutory and non-statutory services on behalf of and to the Council and to other public and private sector clients. The Council has held the £1 issued ordinary share (100%) for the whole of the reporting period covered by these financial statements.

The Council issued a letter of assurance to the company, in May 2020, to ensure that it was able to meet its liabilities as they fell due as detailed in Note 33 of the entity accounts.

The year-end of the company is 31 March and for the purposes of consolidation the accounts for the period to 31 March 2020 have been used, as amended for alignment of accounting policies and the guarantee given by the Council.

	2018/19 £m	2019/20 £m
Total Comprehensive Income for the Year	4.5	6.4
Net Assets/(Liabilities) at the year-end	(7.7)	(1.3)

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 49 of the Council entity accounts.

II. Birmingham Children’s Trust CIC

Birmingham Children’s Trust CIC was incorporated on 17 May 2017 and became independently operational on 1 April 2018. The Council is sole member of the company. However, as the company is an asset locked entity, the Council has no entitlement to any assets of the company. For the purposes of consolidation, the Council has used the Trust’s draft accounts for 2019/20, as amended for alignment of accounting policies. Details of the outturn, before elimination of intra-group transactions, are set out below.

	2018/19 £m	2019/20 £m
Comprehensive Income and Expenditure		
Turnover	202.0	212.4
Other Income	8.9	
Operating Expenses	(295.2)	(223.4)
Operating Profit/(Loss)	**(84.3)**	**(11.0)**
Interest Receivable	4.4	0.2
Interest Payable	(6.1)	(1.9)
Profit/(Loss) for the Year	**(86.0)**	**(12.7)**
Other Comprehensive Income		
Actuarial Gain/(Loss) on defined benefit scheme	15.7	19.4
Total Comprehensive Income for the Year	**(70.3)**	**6.7**
Balance Sheet		
Intangible Asset	-	5.3
Total Non-Current Assets	**-**	**5.3**
Debtors	8.5	13.7
Short Term Investments	27.0	21.5
Cash and Cash Equivalents	0.3	-
Total Current Assets	**35.8**	**35.2**
Cash Overdrawn	-	(1.0)
Creditors due within one year	(25.8)	(20.5)
Total Current Liabilities	**(25.8)**	**(21.5)**
Long Term Borrowing	(4.0)	(10.0)
Pension Liabilities	(76.3)	(72.6)
Total Long Term Liabilities	**(80.3)**	**(82.6)**
Total Assets/(Liabilities)	**(70.3)**	**(63.6)**
Reserves	(70.3)	(63.6)
Total Reserves	**(70.3)**	**(63.6)**

III. The National Exhibition Centre (Developments) Plc

The company was set up to provide an additional 30,000 square metres of exhibition space in four halls. The building was financed by a loan stock issue of £73 million, at 7.5625%, by the company and is guaranteed by the Council and which is due for repayment in 2027.

The Council has held all 1,000 issued ordinary shares of £1 each and all 100,000 £1 preference shares throughout the reporting period covered by these financial statements.

The position at the year end is detailed below.

	2018/19 £m	2019/20 £m
Profit/(Loss) for the year	(1.0)	(1.0)
Net Assets/(Liabilities) at the year-end	7.7	6.9

The year end of the company is 31 March 2020. For the purposes of consolidation these accounts have been used. There was no qualification to the audit opinion on the last audited accounts of the company.

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

IV. PETPS (Birmingham) Limited

PETPS (Birmingham) Limited, a company limited by guarantee, was incorporated on 14 November 2014. The company is a wholly owned subsidiary of the Council.

Following completion of the sale of the National Exhibition Centre Limited Group (NEC Limited) on 1 May 2015, PETPS (Birmingham) Limited replaced NEC Limited as the principal employer and assumed the ongoing funding obligation of two defined benefit pension schemes with the agreement of the pension trustees.

	2018/19 £m	2019/20 £m
Profit/(Loss) for the year	-	-
Net Assets/(Liabilities) at the year-end	-	-

The year-end of the company is 31 March 2020 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 49 of the Council entity accounts.

V. PETPS (Birmingham) Pension Funding Scottish Limited Partnership

PETPS (Birmingham) Pension Funding Scottish Limited Partnership (SLP) was formed by PETPS (Birmingham) Capital Limited (PETPS Capital) and PETPS (Birmingham) General Partner Limited (PETPS General), which are both wholly owned subsidiaries of the Council.

The arrangement was created in 2017/18 to enable the Council to manage the funding implications of its guarantee in respect of the pensions from the NEC Group Limited following its disposal. The Council has invested equity in PETPS Capital which it has subsequently invested in SLP. The rights of the investment in SLP have been assigned to the NEC Pension Fund Trustees whilst the pension fund is in deficit. At 31 March 2020, the level of investment in SLP that is currently assigned to the NEC Pension Fund Trustees was £7.3m (31 March 2019: £10.6m).

At 31 March 2020, there were nominal balances in PETPS Capital and PETPS General with the major transactions in SLP.

	2018/19 £m	2019/20 £m
Profit/(Loss) for the year	-	-
Net Assets/(Liabilities) at the year-end	-	-

The year-end of the company is 31 March 2020 and for the purposes of consolidation these accounts have been used. Advantage has been taken of the exemption not to produce partnership accounts under regulation 7 of The Partnerships (Accounts) Regulations 2008 as the financial information for the partnership has been consolidated into these group accounts.

Information regarding transactions during the year and balances held at the year-end between the Council and PETPS (Birmingham) Pension Funding Scottish Limited Partnership can be found within Note 49 of the Council entity accounts.

VI. InReach (Birmingham) Limited

The Council set up InReach (Birmingham) Limited, a wholly owned subsidiary of the Council, in 2015/16 to facilitate the development of new private rented homes for market rent at St Vincent Street, Ladywood.

Throughout the whole of the reporting periods considered in these financial statements, the Council has held 100% of the £2,000,100 share capital of the company.

	2018/19 £m	2019/20 £m
Operating Profit/(Loss) for the year	-	0.4
Change in value of Investment Property	9.5	-
Interest Payable		(0.7)
Tax		(1.8)
Total Comprehensive Income for the Year	9.5	(2.1)
Net Assets/(Liabilities) at the year-end	10.8	8.7

The year end of the company is 31 March and for the purposes of consolidation the draft accounts for the 12 month period ending 31 March 2020 have been used. There was no qualification to the audit opinion on the last audited accounts of the group.

VII. Birmingham City Propco Limited

The Council set up Birmingham City Propco Limited, a wholly owned subsidiary of the Council, in 2018/19 to provide a vehicle for commercial investment. The initial transactions of the company were to purchase the leasehold interests of the Council in respect of the Crowne Plaza NEC and Hilton Metropole NEC Hotels, which were completed on 15 March 2018.

	2018/19	2019/20
	£m	£m
Profit/(Loss) for the year	0.1	(2.6)
Net Assets/(Liabilities) at the year-end	9.0	6.4

The year end of the company is 31 March and for the purposes of consolidation the draft accounts for the 12 month period ending 31 March 2020 have been used. There was no qualification to the audit opinion on the last audited accounts of the group.

Information regarding transactions during the year and balances held at the year-end between the Council and Birmingham City Propco Limited can be found within Note 49 of the Council entity accounts.

Note G24
Associate and Joint Venture

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

I. Birmingham Airport Holdings Limited

The seven West Midlands District Councils together own 49% of Birmingham Airport Holdings Limited (BAH) (the Council holds 18.68% of the total shareholding). The remaining shares of the company are held by Airport Group Investments Limited, 48.25%, and 2.75% is held for the benefit of employees. The Shareholders' Agreement provides for the District Councils to cast their 49% vote in all circumstances in one consolidated block. The vote of 75% of ordinary shareholders is required for certain major decisions of the company.

The seven West Midland Districts together own all £15.4m of BAH's 6.31% preference shares (the Council owns £5.9m) which are cumulative and redeemable.

The BAH Group Accounts incorporate:
- Birmingham Airport Limited;
- Birmingham Airport Air Traffic Limited;
- Birmingham Airport Developments Limited;
- Birmingham Airport (Finance) Plc;
- Birmingham Airport Operations Limited;
- Birmingham Airport Services Limited;
- BHX Fire and Rescue Limited;
- BHX (Scotland) Limited;
- BHX Limited Partnership;
- Euro-Hub (Birmingham) Limited; and
- First Castle Developments Limited.

The principal activity of the group is the operation and management of Birmingham Airport and the provision of facilities and services associated with those operations.

The year-end of the company is 31 March 2020. For the purposes of consolidation these accounts have been used. There was no qualification to the audit opinion on the last audited accounts of the group.

BAH is accounted for as an associate for the following reasons:

- The Shareholders' Agreement provides for the Districts to cast their 49% vote in all circumstances in one consolidated block. As the Council holds 18.68% within this 49% it is considered that the Council has greater power to influence the voting of the block;

- Between 1 April 2019 and 5 November 2019, 4 of the 16 Directors were Council officers or councillors and from 6 November 2019 to 31 March 2020 this was amended to 3 of the 15 Directors.

Following adjustments to the financial information to align accounting policies with those of the Council, in accordance with the principal of equity accounting under the Code, the summarised financial information for the associate for the year ended 31 March is detailed below:

31 March 2019 £m		31 March 2020 £m
467.7	Non-Current Assets	496.7
152.5	Current Assets	239.6
(73.9)	Current Liabilities	(176.7)
(439.4)	Non-Current Liabilities	(440.8)
106.9	Net Assets	118.8
20.0	**Council Interest in Net Assets @ 18.68%**	**22.2**
160.8	**Revenue**	**171.1**
25.6	Post-Tax Profit/(Loss)	16.4
(3.0)	Other Comprehensive Income/(Expenditure)	24.6
22.6	Total Comprehensive Income/(Expenditure)	41.0
(25.5)	Less Dividends paid	(29.1)
(2.9)	**Change in Net Assets**	**11.9**
4.2	**Council Interest in Total Comprehensive Income/(Expenditure) @ 18.68%**	**7.7**

The carrying value of the Council's interest in this entity is £22.2m (2018/19: £20.0m), which is included within Investments in Associates and Joint Ventures in the Group Balance Sheet.

Birmingham Airport Holdings Limited at 31 March 2020 has disclosed the following 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 a fixed interest rate of 4.472% per annum. Series B senior notes of £45m are for a period of 15 years maturing on 3 December 2028 and carry a fixed interest rate of 4.557% per annum;

- On 30 March 2016 the company along with other group members of Birmingham Airport Holdings Limited, provided guarantees in support of £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 16 January 2019 the company along with other group members of Birmingham Airport Holdings Limited, provided guarantees to the Royal Bank of Scotland Plc in support of a £25m banking facility made available to Birmingham Airport Holdings Limited. The facility is for a period of five years with an expiry date of 16 January 2024, with an option to extend by two further 12 month periods. At the date of the signing of its financial statements, the total amount outstanding under the facility has been drawndown.

- On 24 January 2019, the company, along with other group members of Birmingham Airport Holdings Limited, provided guarantees in support of £90m private placement senior notes issued by Birmingham Airport (Finance) Plc on 24 January 2019. The senior notes are for a period of 30 years maturing on 24 January 2050 and carry a fixed interest rate of 2.44% per annum.

- On 23 January 2020, the company, along with other group members of Birmingham Airport Holdings Limited, provided guarantees in support of £85m private placement senior notes issued by Birmingham Airport (Finance) Plc on 24 January 2020. The senior notes are for a period of 30 years maturing on 24 January 2049 and carry a fixed interest rate of 3.21% per annum.

- The company, in its role as parent company to the group, has provided a statutory guarantee to certain subsidiaries for all outstanding liabilities as at 31 March 2020. This guarantee allows the subsidiary companies to take the audit exemption form obtaining a signed statutory audit opinion under section 479A of the Companies Act 2006. The subsidiaries provided with the guarantee were:

    - Birmingham Airport Air Traffic Limited;
    - Birmingham Airport Developments Limited;
    - Birmingham Airport Operations Limited;
    - Birmingham Airport Services Limited;
    - BHX Fire and Rescue Limited;
    - Euro-Hub (Birmingham) Limited; and
    - First Castle Developments Limited.

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

II. Paradise Circus Limited Partnership

Paradise Circus Limited Partnership (the partnership) is a joint venture arrangement between the Council, BriTel Funds Trustees Limited (BriTel) and Paradise Circus General Partner Limited, which is itself formed through a partnership of the Council and BriTel. The Council and BriTel share control of the joint venture on a 50/50 basis.

The partnership is facilitating the development of the area known as Paradise Circus, supporting delivery against one of the Council's strategic aims of making Birmingham an entrepreneurial city to learn, work and invest in. The entity was incorporated on 11 September 2013, with operational activity commencing in January 2015.

The year-end of the company was 30 June 2019. For the purposes of consolidation these accounts have been used and supplemented by management accounts information for the nine month period to 31 March 2020. There was no qualification on the audit opinion for the last audited accounts of the company.

Following adjustments to the financial information to align accounting policies with those of the Council, in accordance with the principles of equity accounting under the Code, the summarised financial information for the joint venture for the year ended 31 March is as follows:

31 March 2019 £m		31 March 2020 £m
17.7	Non-Current Assets	20.3
14.3	Current Assets	14.3
(4.9)	Current Liabilities	(5.6)
(37.4)	Non-Current Liabilities	(41.9)
(10.3)	Net Assets/(Liabilities)	(12.9)
(5.2)	**Council Interest in Net Liabilities @ 50%**	**(6.5)**
7.3	**Revenue**	**19.3**
(7.1)	Post-Tax Profit/(Loss)	(2.6)
-	Other Comprehensive Income/(Expenditure)	-
(7.1)	Total Comprehensive Income/(Expenditure)	(2.6)
(3.6)	**Council Interest in Total Comprehensive Income/(Expenditure) @ 50%**	**(1.3)**

The carrying value of the Council’s interest in this entity is a net deficit of £6.5m (2018/19: £5.2m deficit), which is included within the current liabilities in the Group Balance Sheet.

Annual Governance Statement 2019/20

Annual Governance Statement 2019/20

1 Scope of responsibility

1.1. Birmingham City Council (the Council) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency, and effectiveness.

1.2. In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and including arrangements for the management of risk.

1.3. The Council has approved and adopted a code of corporate governance which is consistent with the principles of the *Delivering Good Governance in Local Government: Framework* (CIPFA/Solace 2016). This statement explains how the Council has complied with the framework and also meets the requirements of *The Accounts and Audit Regulations 2015*, Regulation 6(1)(a), which requires an authority to conduct a review at least once a year of the effectiveness of its system of internal control and include a statement reporting on the review with any published Statement of Accounts and, Regulation 6(1)(b), which requires all relevant bodies to prepare an Annual Governance Statement (AGS).

1.4. The coronavirus pandemic has meant that we have had to make significant changes to our governance arrangements since the Council declared a major emergency on 23 March 2020. This governance statement provides assurance over the governance arrangements that have been in place for the majority of 2019/20 and it also identifies significant changes that have arisen as a result of the pandemic.

2 The purpose of the governance framework

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

2.2. Good governance for the Council is ensuring it is doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner and the Council seeks to achieve its objectives while acting in the public interest at all times.

2.3. The governance framework comprises the systems, processes, culture and values by which the Council directs and controls its activities and through which it accounts to, engages with and leads its communities. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of high quality services and value for money.

2.4. The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an on-going process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

2.5. The governance framework has been in place at the Council for the year ended 31 March 2020 and up to the date of approval of the Statement of Accounts, subject to changes highlighted relating to the pandemic.

3 The governance framework

3.1. The key elements of the systems and processes that comprise the Council's governance arrangements include the following:

The Council's vision and priorities for Birmingham

3.2. The Council has been on a journey to redefine its vision and purpose in serving the people of Birmingham, driving the necessary change to deliver a new Council role and relationship with the City, its citizens and its partners.

3.3. The Council's vision for the future of Birmingham is to create a city of growth, in which every child, citizen and place matters and to support this, the Council has set itself six clear priorities:

- **Birmingham - an entrepreneurial city to learn, work and invest in.**
- **Birmingham - an aspirational city to grow up in**
- **Birmingham - a fulfilling city to age well in**
- **Birmingham - a great city to live in.**
- **Birmingham residents gain the maximum benefit from hosting the Commonwealth Games.**
- **Birmingham - a city that takes a leading role in tackling climate change.**

The sixth priority was added to the Council Plan in June 2019 when the Council declared a climate emergency**.**

3.4. The Council's vision and priorities in terms of the contribution to strategic outcomes are set out in the Council Plan 2018-2022 Plan (the Plan). The Plan was updated in 2019/20 and is available on the Council's website.

3.5. 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, citizens and partners, surveys and consultations.

3.6. A set of service delivery measures, aligned to service plans and Council priorities have been put in place for 2019/20. These measures are designed to ensure improvement in service quality and outcomes for the citizens of Birmingham, some have a particular focus on disadvantaged groups. Regular monitoring and reporting against these measures ensures that weaknesses in performance are identified at an early stage and effective action to bring performance in line with targets is undertaken.

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

3.8. The Council ensures the economical, effective and efficient use of resources, and secures continuous improvement in the way in which its functions are exercised, by having regard to a combination of economy, efficiency and effectiveness as required by the Best Value duty. Achievement of value for money is a key part of the Council's long term financial strategy.

3.9. The Council continues to face significant funding reductions and challenges in achieving its budget plans, outlined in the Financial Plan 2020 – 2024.

3.10. A robust system to monitor the achievement of savings proposals and delivery of the base budget with scrutiny by Council Leadership Team (CLT), Budget Board and Cabinet is in place and actions were regularly undertaken throughout the financial year to control spend. During 2019/20, the Council has continued to overhaul and strengthen its financial monitoring and control framework and reasserted 'grip' of the financial position with a series of interventions. Where pressures were identified, Directors were required to find alternative solutions and actions to contain spending within cash limits where possible. The Council also held a Budget Delivery Contingency of £12m for 2019/20 to assist if there were any base budget or savings deliverability issues.

3.11. **The spread of Covid-19 has had, and continues to have, a significant impact across all local authorities. The Council has from early on been assessing the financial impact. The financial impact is based on a six-month crisis scenario with some ongoing costs (not factoring in a recovery or a new normal as yet) and is broken down into the following elements:**

- **Actual and expected expenditure**
- **Forecast of actual and likely lost income (including economic impact)**
- **Further areas of financial risk**
- **Cashflow monitoring**

3.12. Following the financial experiences over the last three years, highlighted by both the Birmingham Independent Improvement Panel (BIIP) and through Statutory Recommendations under Section 24 of the Local Audit and Accountability Act 2014, made by the external auditors in July 2018 and in March 2019, the extent of savings delivery risk is clearly recognised along with the potential impacts of unidentified pressures and other changes as the Council looks forward. In response, the Council has improved its controls to ensure that there are robust financial arrangements in place, recognising that it cannot continue to use reserves to balance the budget in the way that it has in the past. Nevertheless, it will continue to hold an element of its reserves as contingency funding in case of savings delivery difficulties. The Council set its 2019/20 and 2020/21 budgets without expecting to use any general reserves to mitigate the requirement to deliver savings; all uses of reserves were in line with the Council's reserves policy.

3.13. The Council also undertook a significant exercise across December 2019 and early January 2020 to identify anticipated savings non-delivery and base budget pressures in 2020/21 and beyond. Following challenge through the Star Chamber process, these were eliminated from the budget so that Directorates could begin 2020/21 with rebased budgets that should not have any underlying pressures. In order to fund this the Council no longer holds a Budget Delivery Contingency and Corporate Directors / Assistant Directors will be required to sign budget accountability agreements to confirm that they will operate within their budget envelope.

3.14. The Council's workforce has experienced many changes and challenges over the last 10 years as the workforce is modernised. From transforming the customer service function and developing a Citizen Access Strategy to facing some of the challenges driven by being a large employer such as equal pay cases and reviews of terms and conditions. The Council's workforce strategy was agreed by Cabinet in 2018.

3.15. The Council's planning framework is set in the context of the wider city leadership and governance, such as the West Midlands Combined Authority's (WMCA) Strategic Economic Plan (developed by the local enterprise partnerships in conjunction with the WMCA) and the Birmingham and Solihull Sustainability and Transformation Plan (to deliver better health and care for local people).

3.16. The Council has a strong public, third sector, and business engagement role. A new Community Cohesion Strategy has been launched and there is an established partnership toolkit setting out the governance and internal control arrangements which must be in place when the Council enters into partnership working. This includes arrangements for the roles of Members and Officers, and the implementation and monitoring of objectives and key targets.

3.17. Working with partners, the Council plays a strategic role for the Greater Birmingham area, working with the Greater Birmingham and Solihull Local Enterprise Partnership (LEP) and where applicable, jointly and in consultation with the West Midlands Combined Authority (WMCA). As Accountable Body and partner to the LEP, the council develops collaborative solutions to common problems, and facilitates coherent programmes with regional and international partners to deliver an economic strategy for the city and region. LEP projects are delivered within the LEP Assurance Framework, approved by the Council's governance processes as Accountable Body, managed and monitored through Programme Delivery Board and thematic "Pillar Boards", with regular reporting to the LEP Board. From 1 September 2019 the LEP transferred its revenue operations and full executive team to GBSLEP Limited. BCC remains the accountable body for all capital funds and retains its place on the LEP Board in respect to its s151 role over public funds.

3.18. Change across local government continues. A Mayor was elected on 6 May 2017 to head the WMCA. The WMCA uses devolved powers from central government to allow the Council, along with its regional counterparts, to drive economic growth, investment and the reform of public services. There will be continued innovative ways of delivering local services and for people to engage in their local community, such as through the local council for Sutton Coldfield

3.19. The Cabinet Committee - Group Company Governance works to improve the level of Council oversight of the activities of those companies that it either wholly owns, or in which it has an interest or a relationship through nominees.

3.20. In May 2016, the Council announced its intention to move towards a Children's Trust. The Council is sole member of the Trust and works in close partnership to continue to improve outcomes for disadvantaged children and young people in the City. In April 2018, the Children's Trust became operationally independent of the Council as part of an ongoing process of improvement.

3.21. The Council's Constitution which is reviewed annually by the Monitoring Officer with amendments agreed at the Annual General Meeting, is available on the Council's website. Any in-year changes are agreed by Cabinet and/or the Council Business Management Committee (CBMC).

3.22. The Council facilitates policy and decision–making via an Executive Structure. There were ten members of Cabinet for the 2019/20 financial year: The Leader, Deputy Leader and eight other Cabinet Members with the following portfolios:

- Cabinet Member – Children's Wellbeing;
- Cabinet Member – Street Scene and Parks
- Cabinet Member – Health and Social Care;
- Cabinet Member – Homes and Neighbourhoods;
- Cabinet Member – Finance and Resources;
- Cabinet Member – Social Inclusion, Community Safety and Equalities;
- Cabinet Member – Transportation and Environment;
- Cabinet Member – Education, Skills and Culture.

3.23. The Constitution sets out the terms of reference or function for each of the Committees and signposts to a schedule of matters reserved for decision by Full Council.

3.24. 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.

3.25. 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.

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

3.27. The purpose of the Audit Committee is to support the Council's Corporate Governance responsibilities and to provide independent assurance to the Council in relation to internal control, risk management and governance. The role of the Audit Committee includes active involvement in the review of financial systems and procedures, close liaison with external audit and responsibility for the approval of the Annual Accounts and to review and make recommendations to the executive regarding the effectiveness of internal audit on the Council's arrangements for deterring, preventing, detecting and investigating fraud.

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

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

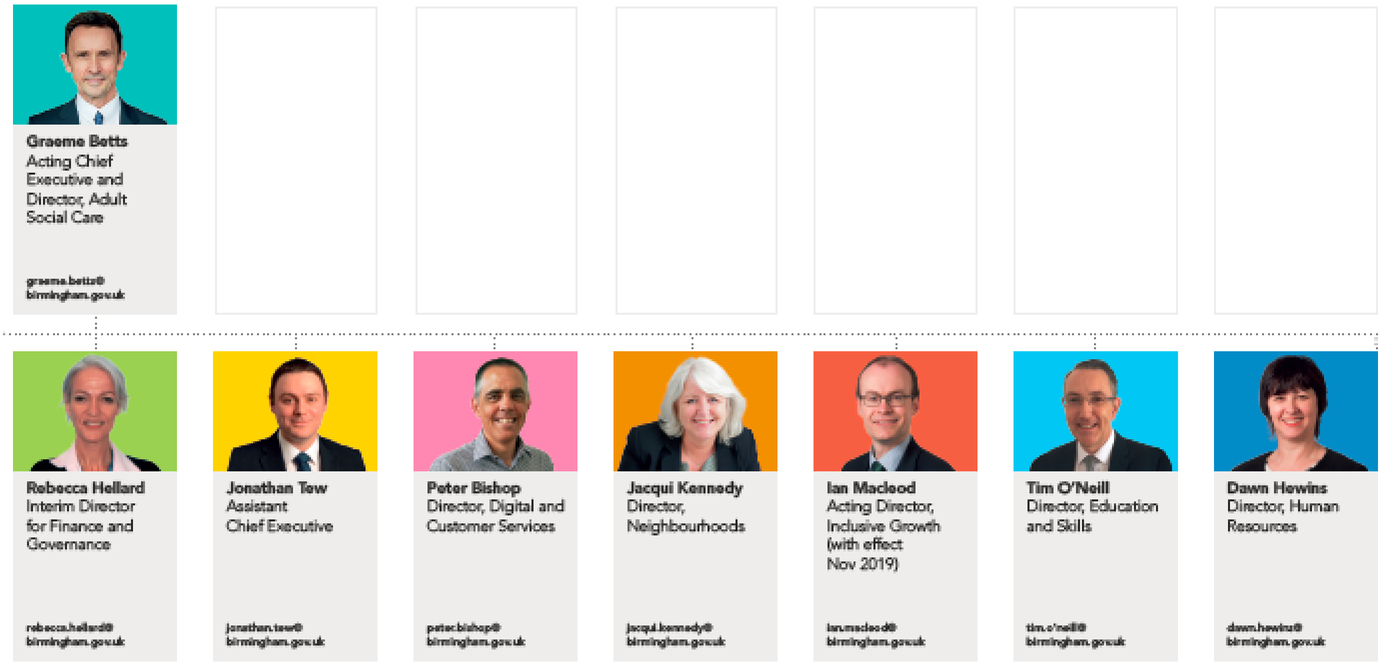
3.29. The Constitution also includes a Scheme of Delegation to Officers which sets out the powers of Corporate Directors.

3.30. The Council has Codes of Conduct for both Members and Officers which set out the standards of conduct and personal behaviour expected and the conduct of work between members and officers. In particular the Council has clear arrangements for declaration of interests and registering of gifts and hospitality offered and received.

Management Structure

3.31. During 2019/20, the Council operated through eight Directorates, Adult Social Care and Health, Education and Skills, Inclusive Growth, Finance and Governance, Neighbourhoods, Digital and Customer Services, Partnerships, Insight and Prevention, and Human Resources.

3.32. The Council's management structure as at 31 March 2020 was as per the diagram below:



3.33. In addition, during the year, the following key changes occurred

- Dawn Baxendale left the Council as Chief Executive on 9 October 2019.
- Clive Heaphy became Acting Chief Executive on 11 September 2019. Clive announced his intention to step down in March 2020
- Chris Naylor became Interim Chief Executive on 18 May 2020 following a period of Acting Chief Exec by Graeme Betts
- Rebecca Hellard took up the role of Interim Chief Finance Officer on 2 October 2019.
- Neil Carney, Programme Director, Commonwealth Games, left the Council on 1 January 2020 and was replaced on an interim basis by Mina Parmar and by Craig Cooper .
- Waheed Nazir left the post of Director, Inclusive Growth on 1 December 2019. Ian MacLeod became Acting Director on 4 November 2019.
- Peter Bishop was appointed as Director, Digital and Customer Services on 1 July 2019.
- Jacqui Kennedy announced her early retirement on 3 June 2020.

Financial Management Arrangements

3.34. The Council's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2016). The role of the Chief Finance Officer (CFO)/Section 151 Officer includes being:

- A key member of CMT, helping it to develop and implement strategy and to resource and deliver the Council's strategic objectives sustainably and in the public interest;
- Actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and alignment with the Council's financial strategy;
- Leading the promotion and delivery of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively;
- To deliver these responsibilities, the CFO leads and directs a finance function that is resourced to be fit for purpose; and is professionally qualified and suitably experienced.

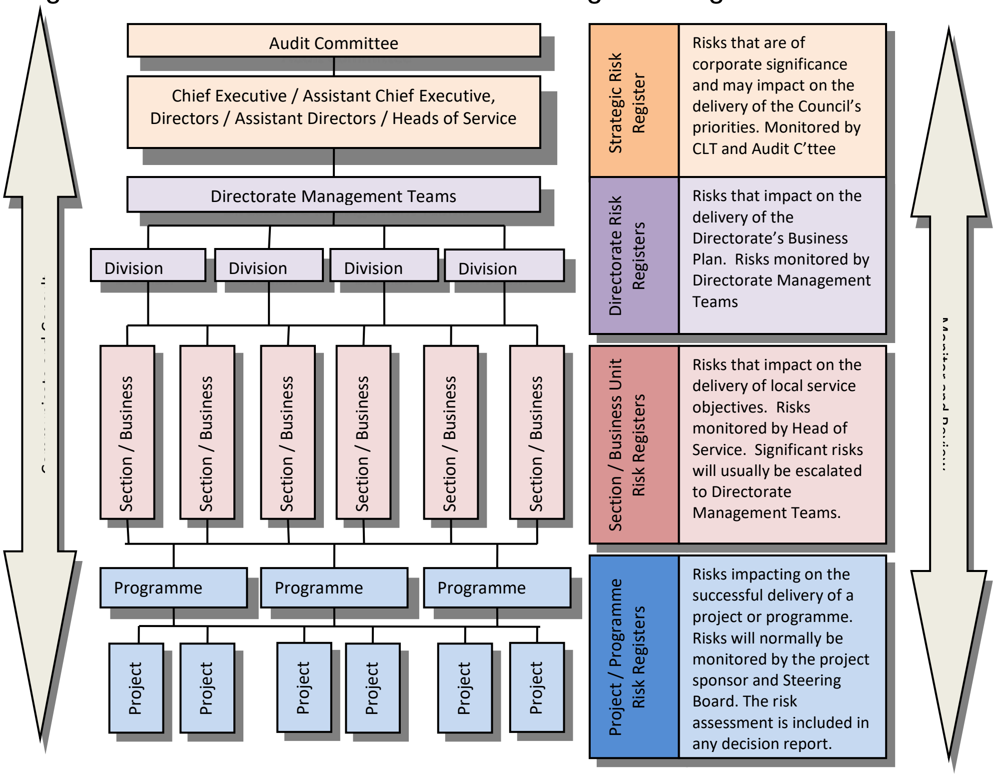
Scrutiny, Accountability and Risk Management

3.35. 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.

3.36. The Council has a procedure for handling complaints, compliments, and comments that monitors formal contact with members of the public. Such enquiries are actively tracked through the process and independently reviewed and where appropriate, actions taken to improve service delivery.

3.37. The Council ensures compliance with established policies, procedures, laws, and regulations - including risk management. For transparency, all reports to Cabinet and Cabinet Members are required to include governance information relating to: Council policy, internal and external consultation, financial and legal implications and Public Sector Equalities Duty. All reports are required to be cleared by senior finance and legal officers.

3.38. Risk management continues to be embedded within the Council. The schematic diagram below illustrates how risk was managed during 2019/20:



3.39. The Risk Management Framework is available on the Council's website, and advice and support are provided on request. Updated information regarding the management of the risks within the Council's Strategic Risk Register continues to be reported to the Audit Committee three times per year. CLT identifies new risks to the Council, and the draft Strategic Risk Register update is reported to it monthly. CLT challenge the updated information provided and recommend re-wording or deletion of risks as appropriate. In addition, business plans at directorate and divisional level include key risks.

3.40. 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.

Progressive Assurance Model

3.41. The Kerslake Review of the Council's governance arrangements took place in 2014. Following this review the Birmingham Independent Improvement Panel was set up in 2015 to provide external challenge and support to the Council to effect the improvements recommended in the Kerslake report. The Panel provided challenge and support to the Council for four years and stood down at the end of March 2019.

3.42. In March 2019 Cabinet considered the stock-take report of the Council's improvement journey and also endorsed an outline plan of improvement areas for 2019-20 whilst also agreeing to report, voluntarily, to the Secretary of State in autumn 2019 and spring 2020.

3.43. Cabinet endorsed the adoption of an innovative new model of "progressive assurance." This model entailed the formation of a quarterly Strategic Programme Board (SPB) and the engagement of specialist Non-Executive Advisors (aligned to specific risk and professional areas of focus) to support the Council Management Team for twelve months from July 2019 to July 2020. It builds on analysis of assurance and improvement models across a range of different sectors and seeks to embed an innovative and novel model with wider applicability and learning for Local Government.

3.44. Membership of the SPB includes all members of the Council Management Team, external advisors (Non-Executive Advisors) in the priority areas and an external advisor of a peer local government Chief Executive.

3.45. The Non-Executive Advisors, in addition to sitting on the SPB, will also offer challenge and support outside the board meetings.

3.46. The model will be supported by the Council's Programme Management Office in support of lead Directors, with programme documentation and draft reports to the Secretary of State reviewed and endorsed by the SPB prior to submission.

External Audit

3.47. In March 2019 the external auditor considered it appropriate to issue further Section 24 recommendations in relation to Governance and the Waste Service and to Financial Management. The Council responded to the recommendations at a meeting of Full Council on 2nd April 2019.

3.48. In September 2019, the external auditor issued the Audit Findings Report (AFR) on conclusion of the audit of the 2018/19 financial statements. The AFR included no Statutory 24 recommendations and reduced the number of recommendations on value for money from six to one in respect of the governance of waste, with the conclusion that the issues on other areas had been sufficiently mitigated.

Member Development

3.49. The Member's Development Strategy 2018-2022 aims to provide a member development programme that will ensure all councillors have the opportunity to gain the knowledge and skills to fulfil their role as 21st Century Councillors; make a positive difference every day to the people of Birmingham; provide strategic leadership; working together with officers in the transformation and delivery of Council services. Councillors are at the heart of the Council and the organisation as a whole will support the member development strategy. It will be overseen by CLT and the Member Development Steering Group; coordinated through the Members' Development Team, consisting of officers from Legal and Governance. This collaborative approach will ensure ownership of the strategy by the Council as a whole.

3.50. In addition to the Members' Development Programme, all Councillors have access to e-learning through the Members' portal on People Solutions and are regularly kept up to date on training and development via the City Councillor bulletin circulated by email. This gives details of legislation, training opportunities and other issues of importance to Members.

3.51. Regular monthly "market places" and briefing sessions are held to keep Councillors updated on Council services or services provided by partner organisations. The Members' Development Programme 2019/20 was delivered around:

- Role Specific Training, ensuring members have the knowledge and understanding of legal and governance requirements to carry out role on regulatory and scrutiny committees;
- On-going Member Development, to provide on-going development opportunities for members related to current and potential future roles and responsibilities.

Workforce

3.52. Having a flexible, skilled and mobile workforce is critical to the Council responding effectively to increasing demands placed on front line services and support functions and to the delivery of a long-term sustainable organisation. Financial reductions facing the Council are impacting significantly on its ability to recruit and retain the talent needed to ensure workforce capacity.

3.53. During 2019/20, the 'My Appraisal' review process continued, enabling a consistent means of assessing and rewarding performance. 'My Appraisal' is specifically designed to ensure that employees are supported to implement the Council's core values:

- We put citizens first
- We are true to our word
- We act courageously
- We achieve excellence

Engagement with the community and other stakeholders

3.54. 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 Plan and Budget 2019 to 2023 consultation process included public meetings led by the Council's Leader and Cabinet, an online Be Heard survey, an online communications campaign including webpages, news feeds, Facebook and Twitter, consultation via post and email, and consultation with the business community and the Chamber of Commerce.

3.55. 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.

3.56. Clear channels of communication are in place with service users, citizens and stakeholders. The Council holds meetings in public wherever possible and many formal meetings are also webcast. Directorates have extensive programmes of consultation and engagement activity for specific services.

4 Review of effectiveness

4.1. The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the CLT which has responsibility for the development and maintenance of the governance environment, Birmingham Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

4.2. The Council continues to assess how its overall corporate governance responsibilities are discharged. In particular, the Council has adopted the *'Delivering Good Governance in Local Government: Framework'* (2016 CIPFA/Solace) and continues to learn from experiences and makes necessary changes to improve its local code of governance.

4.3. The Council has a well-developed methodology for annual governance review which is reviewed and updated each year. The process requires each Directorate and significant areas of service delivery / business units within a Directorate to produce an Assurance Statement highlighting significant governance issues, and details of what action(s) are being taken to mitigate any risks.

4.4. The Council's review of the effectiveness of the system of internal control is informed by:

- Directorate assurance based on management information, performance information, officer assurance statements and Scrutiny reports;
- The work undertaken by Birmingham Audit during the year;
- The work undertaken by the external auditor reported in their annual audit letter and statutory recommendations; and
- Other work undertaken by independent inspection bodies.

4.5. **Business as usual activities were disrupted by the need for social distancing and self-isolation as a result of the Covid-19 pandemic. The Council operated a cell structure led by Strategic Cell (Gold Command) and supported by Tactical Cell. The Council's website was updated with information around access to its services as the pandemic emergency was escalated.**

New areas of activity as part of the national response to Covid-19 included food deliveries to shielded residents, distribution of small business grants and the Retail, Hospitality and Leisure Fund, vouchers for families in receipt of free school meals and distribution of personal protective equipment to care settings.

The funding and logistical consequences of delivering the local government response have been closely monitored. Assessment of the longer-term disruption and consequences arising from the coronavirus pandemic is an on-going process.

4.6. The arrangements for the provision of internal audit are contained within the Council's Financial Regulations which are included within the Constitution. The Chief Finance Officer is responsible for ensuring that there is an adequate and effective system of internal audit of the Council's accounting and other systems of internal control as required by the Accounts and Audit Regulations 2015. The internal audit provision operates in accordance with the Public Sector Internal Audit Standards.

4.7. As in previous years the Birmingham Audit plan was compiled on the basis of 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.

4.8. The resulting work plan is discussed and agreed with the Directors and Audit Committee and shared with the Council's external auditor. Birmingham Audit reports include an assessment of the adequacy of internal control and prioritised action plans to address any identified weaknesses and include a risk rating for the Council and the Service Area. These are submitted to Members, Corporate Directors and service managers as appropriate.

4.9. From the work undertaken by Birmingham Audit during 2019/20 and the outcomes from applying the model for formulating the end of year opinion the following assurance was able to be given: *"Based on the audit work undertaken I am able to provide a reasonable assurance for the core systems of internal controls evaluated. As in any large organisation, our work did identify some significant issues that required action.* 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 its Annual Accounts. All significant issues identified were reported to the appropriate Director during the year.

4.10. 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 2019/20'** below.

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

4.12. The Council's Overview and Scrutiny Committees received reports on key control issues throughout 2019/20 including the launch of the Birmingham Safeguarding Children's Partnership, the impact of Brexit on the City and the Commonwealth Games.

4.13. The Vision and Priorities Council Plan and organisational health targets were monitored through the Council Plan Measures by CLT, the Deputy Leader and Cabinet. Directorate and Business Unit business plans contain a variety of performance indicators and targets, which are regularly reviewed.

4.14. The Monitoring Officer advises that there were 73 concerns raised and considered under the Council's Whistleblowing & Serious Misconduct policy in the 2019/20 financial year.

5 Review of 2018/19 governance issues

5.1. The significant 2018/19 governance issues were considered by Audit Committee in June 2019, agreed as part of the Statement of Accounts in July 2019 and reviewed as part of the Corporate Risk Register updates in the 2019/20 financial year. In addition, this Committee received reports relating to Final Accounts, Fraud, Contract Monitoring (Early Years) and the Local Government Ombudsman Annual Review.

5.2. Schools, Children and Families O&S Scrutiny Committee received reports on the Annual review of the Children's Trust. This O&S Committee also considered issues such as Safeguarding in Education and Travel Assist.

5.3. Housing and Neighbourhoods O&S Committee reviewed progress of the Homelessness Prevention Strategy and the Commonwealth Games Village.

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

5.5. The Council worked closely with the non-Executive Advisors.

6 Significant governance issues 2019/20

6.1. The matters shown in this section have either been identified as having a significant or high likelihood in the Strategic Risk Register or have been highlighted as corporate issues in the annual assurance process. The Council actively addresses these matters and identifies areas where further improvements need to be made. In particular:

Issue No	Governance Issue	Mitigation Action / Proposed Action
1	**Covid-19 Pandemic** The Council declared a major emergency and the emergency plan was put into full effect. As of w/c 23 March, the council was operating under its Emergency Plan, with decisions being made on a 'command and control' basis. The pandemic poses unprecedented public health and operational challenges across many council services.	Strategic Cell (Gold Command) is supported by Tactical Cell and a number of thematic cells to manage the Council's emergency response. New legislation enabled democratic decision-making to resume remotely, with meetings web cast on a priority basis. City Council received a 68 page report detailing the initial response across services and scenario planning for recovery.
2	**Financial Resilience** The Council faces continued pressure in its use of 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 impact of Covid-19 on our financial resilience is also of concern Given the Council is in the tenth year of budget constraints the possibility of Judicial Review challenge to the	Proactive actions are in place to plan and monitor the delivery of the savings programme including the delivery of workforce savings. These include further assurances on the deliverability and impacts of proposals and a commitment from Cabinet to future budgeting. 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. We have now introduced monthly exception reporting to focus on significant pressures, key risks and emerging issues and to drive actions

Issue No	Governance Issue	Mitigation Action / Proposed Action
	budget or elements of it, remains high.	around these. This will enhance Star Chamber discussions with portfolio holders and improve overall scrutiny of financial issues. PWC has been commissioned to conduct an early review of the capital programme and improve the robustness of financial governance of major projects. The Council is engaged in ongoing discussions with the government around further funding support and additional freedoms and flexibilities that the government could provide to support the rectification of the budget gap caused by Covid-19.
3	**Major Projects and Partnership Working** The Council is involved in a range of major projects which include partnership working arrangements and sometimes complex legal agreements for example: • Working with neighbouring authorities in the West Midlands Combined Authority • Strengthening partnership working as Birmingham works towards hosting the Commonwealth Games 2022. • Working with private sector partners on major developments in the City such as Paradise and Smithfield. • Birmingham Children's Trust. • Sustainability Transformation Programme	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. The Council is reviewing the way it works with its partners - working equally to a common shared purpose. Children's Services moved to a Trust arrangement from April 2018. A clearly defined relationship between the Trust and the Council has been established based on service contracts. The contracts will be monitored throughout the year. Any transfer, commissioning or outsourcing of services is subject to the development and Cabinet approval of robust business cases and shadow working arrangements.
4	**Homelessness and Safety Implications for Tower Blocks** The implementation of the Homelessness Reduction Act from 1 April 2018 has seen an increase in	We have refurbished and opened two buildings for the use of temporary accommodation. Reduced B&B from a

Issue No	Governance Issue	Mitigation Action / Proposed Action
	households approaching the homelessness service. Impact of Grenfell Tower and subsequent implications for improving safety in tower blocks.	peak of 690 in May 2018 to 419 in December 2019. Work is underway with the repairs contractors to meet a new temporary accommodation specification to deliver 380 units. A Fire Safety Steering Group has been set up to lead on and coordinate BCC's response to the building a Safer Future report and the Grenfell Tower Inquiry Phase 1 Report. The project plan continues to be delivered through the fire safety steering group. Housing Management are leading on the strategy for engagement with tenants and developing a wider engagement strategy, picking up on the Dame Judith Hackitt recommendations in this regard.
5	**Asset Condition and Sufficiency** Many operational assets are in very poor condition following years of budget restrictions and lack of investment. There is an aging schools' estate with some assets that are beyond repair. The demand for secondary school places is beginning a period of sustained growth, requiring a large number of additional places to meet our statutory duty for sufficiency.	The Council approved a Property Strategy 2018/19 – 2023/24 to better join up decision making, realignment of assets and enable strategic development. Capital funding to meet basic need requirements is being effectively managed through our strategy to make best use of existing space.
6	**Commonwealth Games** Hosting the Commonwealth Games in 2022 brings with it significant delivery expectations (in terms of capital project management and delivery of legacy benefits) for the Council as well as significant financial commitments.	The Council is alive to the delivery, financial and reputational risks associated with the Games and has active risk management and programme management arrangements in place to ensure prompt and timely resolution of issues. The Council is working closely with strategic and regional partners.

Issue No	Governance Issue	Mitigation Action / Proposed Action
7	**Commissioning and Contract Management** Intelligent Client Functions are not robust enough, leading to a number of contracts underperforming or developing risks to service provision.	Early identification of issues or problems, ensuring the contracts and output specifications are delivered to required standards and deliver continuous improvement – tailored to each contract as necessary. On-going identification of mitigating actions to reduce the level of risk.
8	**Birmingham SEND Inspection – Inadequate provision and Written Statement of Action required** Joint CQC and Ofsted inspection of Birmingham SEND provision raised significant concerns requiring the CCG and Council to provide a joint response in the form of a Written Statement of Action. This, in conjunction with the implementation of the SEND two-year improvement programme is making the necessary and important improvements for the current local offer for children and young people addressing the issues raised in the OFSTED and CQC inspection.	Monthly board meetings for inclusion take place with the CCG. Trust and the education and skills directorate, alongside quarterly review meetings with the DfE is closely monitoring progress and ensuring the authority is on track to make the expected progress and deliver the important improvement agenda.

6.2. These matters are monitored through the Strategic Risk Register, CLT and Directorate Service and operational plans as required. During the year the Audit Committee monitors progress against the issues identified in this statement.

6.3. We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed ………………………………
Councillor Ian Ward
Leader of the Council

Signed …………………………
Chris Naylor
Interim Chief Executive

Glossary

Academy School
A school that chooses to opt out of Local Authority control and receive its funding from the Education Funding Agency directly.

Accounting Policies
The rules and practices adopted by the Council that determine how the transactions and events are reflected in the Accounts.

Accruals
Income and expenditure are recognised as they are earned or incurred, not as money is received or paid (see Debtors and Creditors).

Amortised Cost
Some financial assets and liabilities are carried at amortised cost, where part of their carrying amount in the Balance Sheet will be either written down or written up via the Comprehensive Income and Expenditure Statement over the term of the instrument.

Annual Governance Statement
The Annual Governance Statement is a statutory document that explains the processes and procedures in place to enable the Council to carry out its functions effectively.

Balance Sheet
The Balance Sheet shows the value, as at the Balance Sheet date, of the assets, liabilities and other balances recognised by the Council.

Balances
The total level of funds an authority has accumulated over the years, available to support expenditure within the year.

Beacon Properties
In valuing the Housing Stock the Council's properties are grouped into types of a similar nature. A sample from each type, known as beacon properties, are valued with the results being multiplied up to give a total value for each type.

Business Rates
A local tax paid by businesses to their local authority, based on the value of their premises as assessed by the Government Valuation Office Agency (VOA).

Capital Charge
A charge to service revenue accounts to reflect the cost of non-current assets used in the provision of services.

Capital Expenditure
Expenditure on the acquisition of a non-current asset, or expenditure which adds to, and not merely maintains, the value of an existing non-current asset. The Government has also enacted regulations which result in certain other types of spending being treated as capital expenditure.

Capital Financing Requirement (CFR)
A measure of an authority's cumulative need to borrow to finance capital expenditure, or to meet the costs of other long-term liabilities.

Capital Receipt
Cash received from the disposal of land and other non-current assets, and from the repayment of grants and loans of a capital nature made by the Council.

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

CIPFA/SOLACE Framework
The CIPFA/SOLACE Framework helps local authorities to develop and maintain their own codes of governance and discharge their accountability for the proper conduct of public business.

Collection Fund
A separate account administered by the Council collecting receipts from Council Tax and Business Rates and paying it on to the General Fund and other public authorities.

Community Assets
Assets that the local authority intends to hold in perpetuity, that have no determinable useful life and that may have restrictions on their disposal. Examples of community assets are parks and historic buildings.

Comprehensive Income and Expenditure Statement (CIES)
This Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation.

Consistency
The concept that the accounting treatment of like items within an accounting period and from one period to the next is the same.

Creditors
Amounts owed by the Council for work done, goods received or services rendered or taxation owed, but for which payment has not been made by the end of the year.

Current Value
Current Value is a measurement base which reflects the economic environment prevailing for the service or function that an asset supports when valuing the asset. The Current Value measurement bases include Existing Use Value, Depreciated Replacement Cost and Fair Value (see below).

Debtors
Amounts owed to the Council for work done, goods received, services rendered or taxation due but not received by the end of the year.

Deferred Capital Receipts
Income that is still due following disposal of a non-current asset.

Defined Benefit Pension Scheme
Pension schemes in which the benefits received by the participants are independent of the contributions paid and are not directly related to the investments of the scheme.

Defined Contribution Pension Scheme
Pension schemes or other retirement benefit schemes in which the employer pays regular fixed contributions as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Depreciated Replacement Cost
A method of valuation which provides the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and obsolescence.

Depreciation
The measure of the wearing out, consumption or other reduction in the useful economic life of a non-current asset.

Earmarked Reserve
A reserve which has been set aside for a specific purpose.

Effective Interest Rate
The rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument.

Emoluments
Payments received in cash and benefits for employment.

Events After the Reporting Period
Those events, both favourable and adverse, that occur between the Balance Sheet date and the date on which the Statement of Accounts is signed by the Responsible Financial Officer.

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

Expenditure and Funding Analysis
The Expenditure and Funding Analysis shows how the Council allocates between the Council's Directorates, expenditure for decision making purposes. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

Fair Value
Fair Value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fees and Charges
Income arising from the provision of services, for example, the use of car parks.

Finance Lease
A lease that transfers substantially all of the risks and rewards of ownership of a non-current asset to the lessee. The payments usually cover the full cost of the asset together with a return for the cost of finance.

Financial Instruments
Financial Instruments are financial assets that can be traded. They can also be seen as packages of capital that may be traded. Most types of Financial Instruments provide an efficient flow and transfer of capital throughout all the world's investors. These assets can be cash, a contractual right to deliver or receive cash or another type of Financial Instrument, or evidence of one's ownership of an entity.

General Fund
The account which records income and expenditure for all the services of the Council except for the Housing Revenue Account and the Collection Fund, the net costs of which is met by Council Tax, Business Rates and Government grants.

Government Grants
Financial assistance from Government or other external bodies as a contribution towards the costs of services. Some grants may be accompanied by strict conditions relating to how the money can be spent. These are referred to as ring-fenced grants.

Heritage Assets
Assets that the Council intends to hold for the purpose of informing or educating the public about their heritage and which are not held for their investment value. Examples include collections of antiques in museums.

Housing Revenue Account (HRA)
A separate account detailing the expenditure and income arising from the provision of council housing. Local authorities are required to maintain this separately from the General Fund.

Impairment
A diminution in value of a fixed asset resulting from, for example, obsolescence or physical damage. To comply with accounting standards the Council undertakes annual reviews of its assets to identify any assets which have been impaired.

Infrastructure Assets
These are inalienable assets, the value of which is recognised only by continued use of the asset created. Examples of such assets are highways and footpaths.

Intangible Assets
An intangible (non-physical) item may be defined as an asset when access to the future economic benefits it represents is controlled by the reporting entity.

International Financial Reporting Standards
International Financial Reporting Standards (IFRS) are a set of accounting standards developed by an independent, not for profit organisation called the International Accounting Standards Board (IASB). These are the standards which local authorities adhere to as interpreted for the public sector by the Chartered Institute of Public Finance and Accountancy (CIPFA).

Investment Properties
Interest in land and/or buildings in respect of which construction work and development have been completed, or which is held for its investment potential with rental income being negotiated at arm's length.

Investments – long term
A long-term investment is an investment that is intended to be held for use on a continuing basis in the activities of the Council. Investments should be so classified only where an intention to hold the investment for the long term can clearly be demonstrated or where there are restrictions as to the investor's ability to dispose of the investment.

Investments - short term
A short-term investment is an investment that will mature to cash within a one-year time period and is considered liquid. An asset is liquid if the owner can readily access it.

Lender Option Borrower Option (LOBO)
A LOBO is a type of loan instrument where borrowing is undertaken, initially at a fixed rate of interest. Periodically, at specific points, the lender has the option to alter the interest rate charged. Should the lender exercise the option to alter the interest rate, the borrower then has the option to continue with the loan instrument at the new rate or alternatively to terminate the agreement and pay back the sum borrowed with no other penalty.

Liabilities
Amounts due to individuals or organisations, at the Balance Sheet date, which will have to be paid at some time in the future. Current liabilities are payable within one year of the Balance Sheet date.

Long Term Creditors
These creditors represent existing liabilities to be settled beyond 12 months of the Balance Sheet date.

Long Term Debtors
These debtors represent income still to be received beyond 12 months of the Balance Sheet date, for example on the sale of an asset or granting of a loan.

Market Value
The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Materiality
An item is material if its omission, non-disclosure or mis-statement in the financial statements could be expected to lead to a distortion of the view given by the financial statements.

Minimum Revenue Provision (MRP)
Minimum Revenue Provision is a charge to the revenue account in relation to capital expenditure financed from borrowing or credit arrangements. The Council is required by law to make an annual determination of MRP that it considers to be prudent.

Movement in Reserves Statement (MiRS)
This Statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (that is, those that can be applied to fund expenditure or reduce local taxation) and other reserves.

Net Book Value
The amount at which non-current assets are included in the Balance Sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation.

Operating Lease
A lease other than a finance lease.

Operational Assets
Non-current assets held, occupied, used or consumed in the direct delivery of services for which the Council has a statutory duty or discretionary power to provide.

Precept
Amounts levied on the Council by other councils or public bodies (Police and Crime Commissioners, Fire and Rescue Authorities and Parish Councils), which the Council collects on their behalf.

Prior Period Adjustments
Those material adjustments applicable to prior years, arising from changes in accounting policies or from the correction of fundamental errors. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

Private Finance Initiative (PFI)
A form of contract involving an external company providing services for a fixed period, using facilities that they have inherited/provided/constructed.

Property, Plant and Equipment
Tangible assets that yield benefits to the Council and the services it provides for a period of more than one year. Examples include land, buildings and vehicles.

Provisions
Contributions to provisions are amounts charged to the revenue account during the year for costs, resulting from a past event and with uncertain timing of payment and where a reliable estimate of the cost involved can be made.

Related Parties
There is a detailed definition of related parties in FRS8, Related Party Disclosures. For the Council's purposes, related parties are deemed to include the elected Members of the Council and their partners; the Chief Officers of the Council and the companies in which the Council has an interest.

Reserves
Reserves are reported in two categories.

<u>Usable Reserves</u>
Usable reserves are reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt).

<u>Unusable Reserves</u>
Unusable reserves are reserves that the Council is not able to use to provide services. This category includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in

Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

Revenue Expenditure
Expenditure on the day-to-day running costs of services e.g. employees, premises, supplies and services.

Revenue Expenditure Funded from Capital under Statute (REFCUS)
Expenditure incurred during the year that is treated as capital expenditure under statutory provision but does not result in a non-current asset owned by the Council. Examples of these are expenditure on items such as improvement grants.

Right to Buy (RTB) Capital Receipts
Capital receipts generated from the sale of council housing under the national scheme available to existing tenants. These receipts can only be used in ways determined by the Government, for example to pay for further capital expenditure on council housing.

Soft Loan
Loans at nil or below prevailing interest rates are often referred to as soft loans.

Top-up Grant
Additional grant which the Government provides to reflect the difference between Business Rates income that the Council can generate and the amount which the Government has calculated it needs to spend on services.

Voluntary Revenue Provision (VRP)
Voluntary Revenue Provision is a charge to the revenue account in relation to capital expenditure financed from borrowing or credit arrangements that the Council chooses to make over and above Minimum Revenue Provision.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BIRMINGHAM CITY COUNCIL

Report on the Audit of the Financial Statements

BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to:	**AUDIT COMMITTEE**
Report of:	**Interim Chief Finance Officer**
Date of Decision:	**25 November 2020**
Subject:	**RETROSPECTIVE PURCHASE ORDERS**
Wards affected: All	

1 Purpose

1.1 Members have asked for a report setting out details in respect of retrospective purchase orders.

2 **Decisions recommended:**

2.1 Members are asked to note the information provided and the actions being taken to reduce the use of retrospective purchase orders.

Contact Officer: Rebecca Hellard
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Contact Officer: Martin Stevens
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3 Compliance Issues:

3.1 Are Decisions consistent with relevant Council Policies, Plans or Strategies?: The Council has set out the procedures to be followed in the procurement of and paying for goods and services to ensure compliance with statutory requirements.

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

3.3 Relevant legal powers, personnel, equalities and other relevant implications (if any): Under Section 151 of the Local Government Act 1972, the Council is required 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. Within the Council the appointed Section 151 Officer is 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 failure to follow the Council's procedures in the procurement of goods and services may lead to additional costs or to legal challenge.

4 Relevant background/chronology of key events:

4.1 In the audit of the Council's Financial Statements 2018/19, the external auditor identified, in their testing for the completeness of expenditure, activity that was recorded in the 2019/20 financial statements which should have been accrued in 2018/19. The auditors made a recommendation in their Audit Findings Report that:

'The Council should investigate why these invoices were not appropriately accrued and implement additional controls to reduce the risk of such omissions in the future'

4.2 In following up the external audit recommendation it was noted that:

'The current audit and follow up investigation has identified a number of areas where the Council process for procurement and receipting of goods and services and payment of invoices are not being followed appropriately.'

4.3 The process for procurement requires that purchase orders for goods or services, unless they fall in an exempt category, should be raised before delivery. Once the goods or services have been delivered they should be goods receipted and the invoice forwarded by the supplier directly to the Accounts Payable team. Once the items are matched in Voyager then payment is released to the supplier

4.4 Reports are provided to Directorates on a monthly basis on a number of matters regarding procurement processes, which include details on the volume of purchase orders raised retrospectively.

4.5 Overall, purchase order compliance for August 2020 was 97%. Within this total there was some 4% of purchase orders, based on total value, that were retrospectively raised. Details of the volume of retrospective orders, by Directorate, are set out in the table below.

Directorate	**Number Raised**	**Value Raised £000**
Adult Social Care	13	23.2
Digital & Customer Services	13	206.2
Education & Skills	28	62.0
Finance & Governance	38	160.8
Human Resources	2	50.5
Inclusive Growth	27	212.5
Neighbourhoods	236	1,620.1
Partnerships, Insight & Prevention	1	30.5

4.6 The table has been based on those purchase orders raised at least one day after the date of the invoice. Orders raised with the same date as the invoice have been excluded as a number of orders are in respect of same day delivery.

4.7 Within the figures for Neighbourhoods some 73%, by value of the retrospective purchase orders, relate to purchase of services for homelessness through a number of different suppliers.

4.8 Details on the level of retrospective orders are discussed each month at the Purchasing & Information, Communication and Technology Operation Group (PICTOG). Support and advice is given to service areas to try and reduce the level of retrospective purchase orders.

Signature:

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

Dated: ……………………………………………………………………………

BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to: AUDIT COMMITTEE **Report of: Assistant Director, Audit & Risk Management** **Date of Meeting: 20 October 2020** **Subject: Independent Advisor to the Audit Committee**
Wards Affected: All
1. Purpose of Report 1.1. At the July Committee, Members agreed to develop proposals for an independent advisor(s) to supplement existing skills and abilities. 1.2. A suggested role description is attached as Appendix 1.
2. Recommendations 2.1. To review the attached Role Specification. 2.2. To agree the selection process.

3. Background

3.1 An Audit Committee Effectiveness Review was completed earlier this year and published in July 2020. The review reported that it was atypical for a modern audit committee to have no independent membership and noted that:

"There were differing views as to whether independent support is best provided in the form of an independent member, and independent chair or from more specialist support without requiring AC membership, such as by the appointment of an independent advisor who could join the AC for the pre-meeting to coach members what to consider "

3.2 The report went on to recommend
"Supplement the skills and independence of the AC through the appointment of an independent Chair, Member, or advisor. An advisor could attend the AC pre-meet to help coach and advise Members on key topics ahead and how best to approach discussions on areas of concern ahead of the AC meetings. "

3.3 The Committee gave feedback at the July Committee regarding the appointment of an independent advisor to the Committee. Building on those discussions, a role description is attached as Appendix 1

3.4 Feedback from Core City auditors has been sought where independent members are in place. There are no committees with an independent advisor although most have independent members / chairs. The feedback was that they offer valuable challenge and contributions.

3.5 Procurement of advisers will be carried out in accordance with the council's standing orders and procurement governance arrangements and approved under Chief Officer delegation.

Given the unique blend of skills and experience required of the Non-Executive Advisor, procurement is anticipated to be through a single contractor negotiation with the identified advisor. The contract will cover confidentiality arrangements

3.6 There will need to be a selection process to ensure that the Committee finds a suitable advisor. The Chair has been consulted and is keen that there is cross-party representation on the panel.

4. Legal and Resource Implications

4.1 The purpose and role of the Audit Committee's is set out within the Council's Constitution - Part B Roles, Functions and Rules of Procedure.

4.2 "Audit Committees - Practical Guidance for Local Authorities and Police 2018" – CIPFA represents best practice for audit committees in local authorities throughout the UK.

4.3 The financial implications of offering remuneration will be contained within the Finance & Governance budget.

5. Risk Management & Equality Impact Assessment Issues

5.1 Risk Management and Equality Analysis are important parts of the internal control framework. The Audit Committee require assurance on their effectiveness.

6. Compliance Issues

6.1 The Council policies, plans, and procedures set out the rules that govern the organisation. The Audit Committee require assurance that these are up to date and being applied on a consistent basis.

6.2 The advisor will be required to declare any conflicts of interest and abide by Council policies where relevant e.g. confidentiality.

……………………………………..

Sarah Dunlavey – Assistant Director, Audit & Risk Management

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e-mail address: **sarah.dunlavey@birmingham.gov.uk**

Appendix 1

Person Specification – Independent Advisor to Audit Committee

Experience	Working to high standard of behaviour, demonstrating honesty, probity and the highest level of integrity in conduct. Knowledge / experience in matters of an audit nature. Knowledge / experience of risk management, performance management and corporate and financial governance and controls. Experience gained working in or with a large, or public sector, organisation. Serving on a Committee or Board, preferably Audit Committees.	Essential Essential Essential Essential Essential
Skills	Ability to be objective, independent and impartial. Strong strategic awareness and ability to identify emerging external factors that may impact on strategy, implementation of plans, or reputation with key stakeholders. A good communicator with excellent leadership and interpersonal skills, able to both empower and challenge supportively. Digitally aware, with good IT skills and the ability to access reports, information and communication electronically.	Essential Essential Essential Essential
Knowledge	Knowledge of the challenges facing Birmingham City Council and wider	Essential

	public services and understanding of its communities.	
	Knowledge of the major functions of Birmingham City Council.	Desirable
	Knowledge of the Birmingham City Council's vision and priorities.	Desirable
	Understanding of the complexity of issues surrounding audit, finance and risk management in local government.	Desirable
	Understanding of Committee procedures.	Desirable
	Understanding of the role of internal and external audit.	Desirable
	Awareness of the risks of fraud and the controls to limit fraud.	Desirable
Other	Qualified auditor/accountant	Desirable
	Be over 18.	Essential
	Live in, work in or have close affinity to the area.	Essential
	Commitment to the needs of the local community.	Essential
	Affinity with the values of public service.	Essential
	Must have no personal, legal or contractual relationship with Birmingham City Council (including employees or members or former staff), or any other relationship / activity which might represent a conflict of interest.	Essential
	Able and willing to devote the necessary time to the role.	Essential
	Candidates should be able to demonstrate their political independence.	Essential

BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to:	**Audit Committee**
Report of:	**Assistant Director, Audit & Risk Management**
Date of Meeting:	**25th November 2020**
Subject:	**Risk Management Update**
Wards Affected:	**All**

1. Purpose of Report

1.1 To update Members on the management of strategic risks and implementation of the Risk Management Framework.

2. Recommendation

Audit Committee Members:

2.1 Note the progress in implementing the Risk Management Framework and the assurance and oversight provided by the Council Leadership Team (CLT).

2.2 Review the strategic risks and assess whether further explanation / information is required from risk owners in order to satisfy itself that the Risk Management Framework has been consistently applied.

3. Risk Management Framework

3.1 The Risk Management Framework sets out the processes for identifying, categorising, monitoring, reporting and mitigating risk at all organisational levels.

3.2 The framework is implemented through a network of Directorate Risk Representatives. Risk representatives assist directorate management teams in producing and maintaining up-to-date risk registers and supporting action plans.

3.3 Strategic risks are reviewed and challenged through the Corporate Leadership Team.

4. Strategic Risk Register

4.1 The strategic risks have been piloted on a heat map within Appendix A and are summarised within Appendix B. The profile of the strategic risks, against each 'PESTLE' category is given below:

	High	Medium	Low	Total
SR1 - Political	1	2		3
SR2 - Economical	4	2		6
SR3 - Social	5	3		8
SR4 - Technological	1	2		3
SR5 - Legal	4	1	1	6
SR6 - Environmental	2	0		2
SR7 - Cross Cutting	1	2		3
Total	18	12	1	31

4.2 Three strategic risks have been identified with a high residual impact and likelihood score:

SR3.4	Risk of significant disruption to Council services and failure to effectively manage and respond to emergency incidents, including acts of terrorism
SR4.3	Risk of Cyber Attacks
SR5.1	Inadequate Property Portfolio (including Health & Safety and Working conditions)

Assurance on the management of these risk has been provided, or is scheduled on the Committee's work programme, via the Cabinet Member Assurance Sessions.

4.3 One strategic risk has been flagged for deletion:

SR1.2 Officer / Member Roles

4.4 During the period there has been no change to the identified inherent, residual, or target risk prioritisation ratings.

4.5 The strategic risk register is updated and reviewed on a monthly basis by CLT to ensure robust oversight and that appropriate action is being taken.

5. Directorate Risks

5.1 Each Directorate maintains their own risk registers. These Directorate risk registers contain the operational risks facing the Council and are managed at a local level.

5.2 The top operational risks are being captured as part of the ongoing corporate business planning process and will be subject to a similar level of scrutiny as Strategic Risks. This will include reporting all significant operational risks to the Audit Committee.

6. Role of the Audit Committee

6.1 Members have a key role within the risk management and internal control processes.

6.2 The Audit Committee terms of reference, sets out its responsibilities and in relation to risk management these are:

- providing independent assurance to the Council on the effectiveness of the risk management framework and the associated control environment;
- whether there is an appropriate culture of risk management and related control throughout the Council;
- to review and advise the Executive on the embedding and maintenance of an effective system of corporate governance including internal control and risk management; and
- to give an assurance to the Council that there is a sufficient and systematic review of the corporate governance, internal control and risk management arrangements within the Council.

7. Legal and Resource Implications

7.1 The work carried out is within approved budgets.

8. Equality Impact Assessment Issues

8.1 Risk management forms an important part of the internal control framework within the Council.

8.2 The Council's risk management framework has been Equality Impact Assessed and was found to have no adverse impacts.

9. Compliance Issues

9.1 Decisions are consistent with relevant Council Policies, Plans and Strategies.

Sarah Dunlavey
Assistant Director, Audit & Risk Management

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Appendix A

Risk Heat Map

Strategic Risk Map – November 2020

Likelihood	Low	Medium	Significant	High
High			SR1.1 Relevance to citizens	SR3.4 Counter Terrorism / emergency incidents SR5.1 Health & Safety / Inadequate property portfolio SR4.3 Cyber attacks
Significant		SR3.3 Equality representation SR4.1 Loss of personal/sensitive data SR2.6 Future Financial Resilience S3.8 Effective Public Hubs	SR6.2 Health & wellbeing SR3.7 Public Health interventions SR6.1 Climate change / air pollution SR7.2 Rising pressure of demand	SR2.2 Homelessness & housing SR2.3 Financial insecurity for citizens SR3.2 Localisation / personalisation SR3.5 Lack of engagement SR3.1 Community Leadership quality SR5.6 Safeguarding Children
Medium		SR5.3 Brexit impact on legislation SR7.3 Achieving desired culture change	SR4.2 Harnessing technology opportunities SR2.4 Leading the regional agenda SR2.5 Development of local urban centres SR1.3 Opportunities of devolution	SR5.5 View of BCC by regulators SR5.4 Meeting social care requirements SR2.1 National politics SR7.1 Service Improvement
Low		SR5.2 Approach to equalities	SR3.6 Preventing crime agenda	
	Low	**Medium**	**Significant**	**High**
	Impact			

Key	
Severe	Immediate control improvement to be made to enable business goals to be met and service delivery maintained/improved.
Material	Close monitoring to be carried out and cost effective control improvements sought to ensure service delivery is maintained
Tolerable	Regular review, low cost control improvements sought if possible.

Appendix B

Strategic Risk Register Summary

Risk No.	Risk	Risk Owner	Inherent Risk	Residual Risk	Target Risk	Action Plan	Direction of Travel
SR1 Political							
SR1.1	The Quality of Services impacting on the relevance of the Council to the Citizens of Birmingham	Director of Digital & Customer Services	Severe	Severe	Tolerable	Yes	↔
SR1.3	Failure to realise the opportunities of devolution and the Combined Authority	Assistant Chief Executive	Severe	Material	Tolerable	Yes	↔
SR2 Economic							
SR2.1	Impact of National politics on jobs	Acting Director – Inclusive Growth	Severe	Severe	Tolerable	Yes	↔
SR2.2	Homelessness and less affordable housing with rising housing requirements	Acting Director – Inclusive Growth & Acting Director -Neighbourhoods	Severe	Severe	Material	Yes	↔
SR2.3	Increased financial insecurity and inequality for citizens	Assistant Chief Executive	Severe	Severe	Tolerable	Yes	↔
SR2.4	Leading on the Regional Agenda	Acting Director – Inclusive Growth	Severe	Material	Tolerable	Yes	↔
SR2.5	Development of Local Urban Centres	Acting Director – Inclusive Growth	Material	Material	Tolerable	Yes	↔
SR2.6	Future Financial Resilience	Interim Chief Finance Officer	Severe	Material	Tolerable	Yes	↔
SR3 Social							
SR3.1	Quality of Community Leadership, at Member and Officer level	Director of Neighbourhoods	Severe	Severe	Tolerable	Yes	↔
SR3.2	Localisation and personalisation being delivered effectively	Director of Neighbourhoods	Severe	Severe	Tolerable	Yes	↔
SR3.3	Equality representation within the Council does not represent the city	Director of Human Resources	Severe	Material	Tolerable	Yes	↔
SR3.4	Risk of significant disruption to Council services and failure to effectively manage and respond to emergency incidents, including acts of terrorism	Assistant Chief Executive	Severe	Severe	Tolerable	Yes	↔

Risk No.	Risk	Risk Owner	Inherent Risk	Residual Risk	Target Risk	Action Plan	Direction of Travel
SR3.5	Lack of Engagement	Directors of Adult Social Care and Education and Skills	Severe	Severe	Tolerable	Yes	⇔
SR3.6	Inability to effectively influence the preventing crime agenda	Assistant Chief Executive	Severe	Material	Tolerable	Yes	⇔
SR3.7	Public Health approach to early interventions ineffective	Director of Public Health	Severe	Severe	Tolerable	Yes	⇔
SR3.8	Creation of effective public hubs in line with local needs	Director of Inclusive Growth	Severe	Material	Material	Yes	⇔
SR4 Technological							
SR4.1	Loss of personal and sensitive data	Assistant Director for IT&D & CIO	Severe	Material	Tolerable	Yes	⇔
SR4.2	Failure to take advantage of new ways of working enabled by technology	Assistant Director for IT&D & CIO	Severe	Material	Tolerable	Yes	⇔
SR4.3	Risk of Cyber Attacks	Assistant Director for IT&D & CIO	Severe	Severe	Material	Yes	⇔
SR5 Legal							
SR5.1	Inadequate Property Portfolio (including Health & Safety and Working conditions)	Assistant Director Property Services	Severe	Severe	Material	Yes	⇔
SR5.2	Ineffective approach to Equalities	Assistant Chief Executive	Severe	Tolerable	Tolerable	Yes	⇔
SR5.3	Future Brexit agenda and impact on legislation	Director of Legal Services	Severe	Material	Material	Yes	⇔
SR5.4	Inability to fully meet social care requirements	Director of Adult Social Care	Severe	Severe	Tolerable	Yes	⇔
SR5.5	View of BCC by Regulators	Directors of Adult Social Care and Education and Skills	Severe	Severe	Tolerable	Yes	⇔
SR5.6	Safeguarding Children	Directors of Education and Skills	Severe	Severe	Tolerable	Yes	⇔
SR6 Environmental							
SR6.1	Ability to address air pollution and full delivery of the climate change agenda	Acting Director, Inclusive Growth	Severe	Severe	Material	Yes	⇔

Risk No.	Risk	Risk Owner	Inherent Risk	Residual Risk	Target Risk	Action Plan	Direction of Travel
SR6.2	Health & Wellbeing	Director HR	Severe	Severe	Tolerable	Yes	⟺
SR7 Cross Cutting							
SR7.1	Service Improvement	Assistant Chief Executive	Severe	Material	Tolerable	Yes	⟺
SR7.2	Rising pressure of demand	Directors of Adults Social Care / Education and Skills	Severe	Severe	Tolerable	Yes	⟺
SR7.3	The organisational culture change needed to become a modern council is not achieved	Chief Executive re organisational culture	Severe	Material	Tolerable	Yes	⟺

Item 12

BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to:	**AUDIT COMMITTEE**
Report of:	**Assistant Director, Audit & Risk Management**
Date of Meeting:	**25 November 2020**
Subject:	**Birmingham Audit - Half Year Update Report 2020/21**
Wards Affected:	**All**

1. PURPOSE OF REPORT

1.1 The attached report provides Members with information on outputs and performance measures in relation to the provision of the internal audit service during the first half of 2020/21. Together with an update on the Internal Audit Total Impact Review and proposed Public Sector Internal Audit Standards compliance requirements.

2. RECOMMENDATIONS

2.1 Members note the:

- level of audit work undertaken, and assurances provided;
- implications of COVID-19 and the potential limitation in audit opinion at the end of the financial year; and
- findings from the Internal Audit Total Audit Impact Review.

2.2 Members approve the proposed approach to the Public Sector Internal Audit Standards compliance review, i.e. a Core Cities peer review, together with the Terms of Reference.

3. BACKGROUND

3.1 COVID-19 has had a significant impact on the ability of the Internal Audit to progress the Audit Plan in the first few months of the current financial year. Several Council services were involved in the emergency response and had no capacity to review draft audit reports. The schools audit team was unable to undertake visits and working from home restricted access to documents.

3.2 As at the end of September 2020 we had completed 25% of the original planned jobs which is below our target of 40%. It is unlikely that we will be able to deliver the full programme of audit reviews that have been set out. However, we are continuing to strive to deliver all reviews that have been allocated a 'must do' priority.

3.3 We have continued to seek to add value and support the Council's response to the pandemic and in maintaining critical services to the citizens of Birmingham.

3.4 An Internal Audit Total Impact Review has been undertaken to help in developing the effectiveness of the Internal Audit Service and maximising insight and added value.

3.5 The Public Sector Internal Audit Standards set out the fundamental requirements for the professional practice of internal auditing within the public sector. An external assessment, to measure compliance against these standards, is due during 2021. A Core Cities Peer Review approach is recommended.

4. LEGAL AND RESOURCE IMPLICATIONS

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

5. RISK MANAGEMENT & EQUALITY ANALYSIS ISSUES

5.1 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.

5.2 Equality Analysis has been undertaken on all strategies, policies, functions and services used within Birmingham Audit.

6. COMPLIANCE ISSUES

6.1 City Council policies, plans, and strategies have been complied with.

Sarah Dunlavey
Assistant Director, Audit & Risk Management

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Birmingham City Council

Birmingham Audit Half Year Report 2020/21

25th November 2020

Contents

1. **Background / Annual Opinion**

1.1 The 2020/21 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 COVID-19 had a significant impact on the ability of the team to progress the Audit Plan in the first few months of the current financial year. A number of Council services were involved in the emergency response and had no capacity to review draft audit reports. The schools audit team was unable to undertake visits and working from home restricted access to documents.

1.3 The Council continues to go through significant change and pursue an ambitious agenda. The drivers for change being both organisational and financial. During a period of change it is important that any increased business risks are identified and managed in an effective manner. The audit plan is prepared using a risk-based methodology and is continually updated throughout the year, this helps to ensure that we concentrate on the most significant areas. The plan is prepared and delivered 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). In addition to audit reviews, the model used to formulate the end of year opinion, places reliance on assurance provided from other parties and processes. The opinion for 2020/21 will be based on the following sources of assurance:

1.4 The 2020/21 audit plan was approved by the Audit Committee at its June 2020 meeting. This report provides a summary of the progress made in delivering the agreed plan.

2. Added Value Services

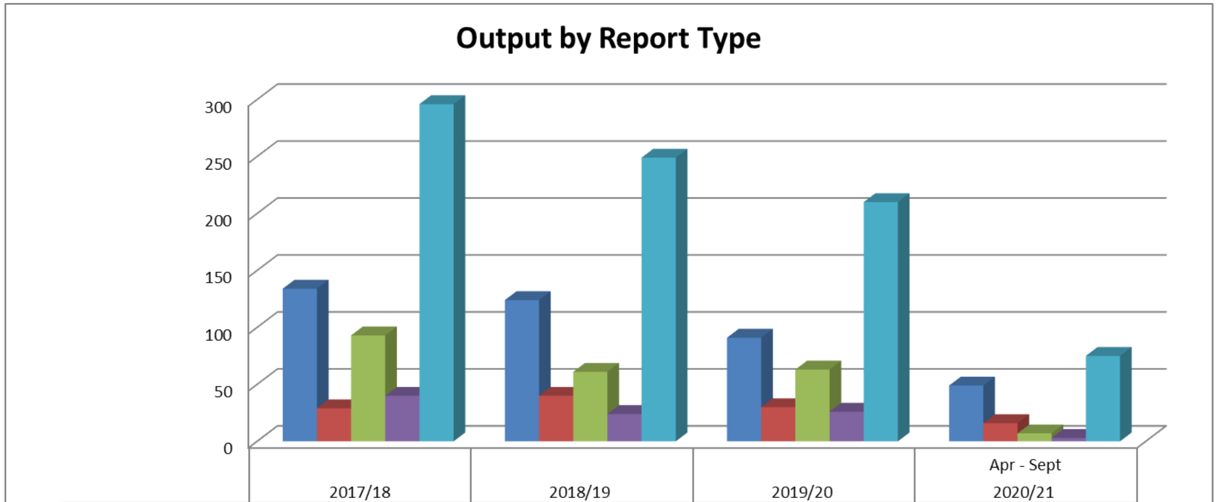
2.1 Although my primary responsibility is to give an annual assurance opinion, I am also aware that for the Internal Audit service to be valued by the organisation it needs to do much more than that. There needs to be a firm focus on assisting the organisation to meet its aims and objectives. This is particularly true in the current uncertain times where everyone needs to provide support and help the Council in providing critical services to the citizens of Birmingham. Examples of how we have done this during the first half of 2020/21 include:

- Seconding audit resources to support the COVID-19 Track and Trace team.
- Providing advice and guidance on emergency / revised operating procedures.
- Providing resources to support the COVID-19 Test Drop and Collect initiative.
- Undertaking pre and post due diligence checks on COVID-19 support grant payments; investigating any anomalies that are identified.

3. Performance

3.1 Outputs

3.1.1 During the first half of 2020/21 we issued 75 final reports. A comparison to the last 3 years (full years) is given in the chart below:



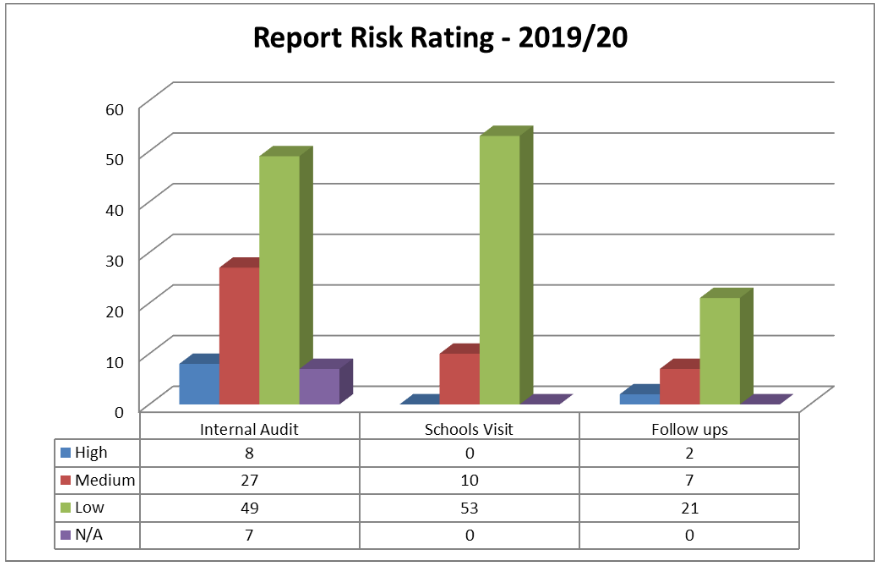
	2017/18	2018/19	2019/20	Apr - Sept 2020/21
Internal Audit Reviews	134	124	91	49
Follow up Reviews	29	40	30	16
School Visits	93	61	63	7
Investigations	40	24	26	3
Total	296	249	210	75

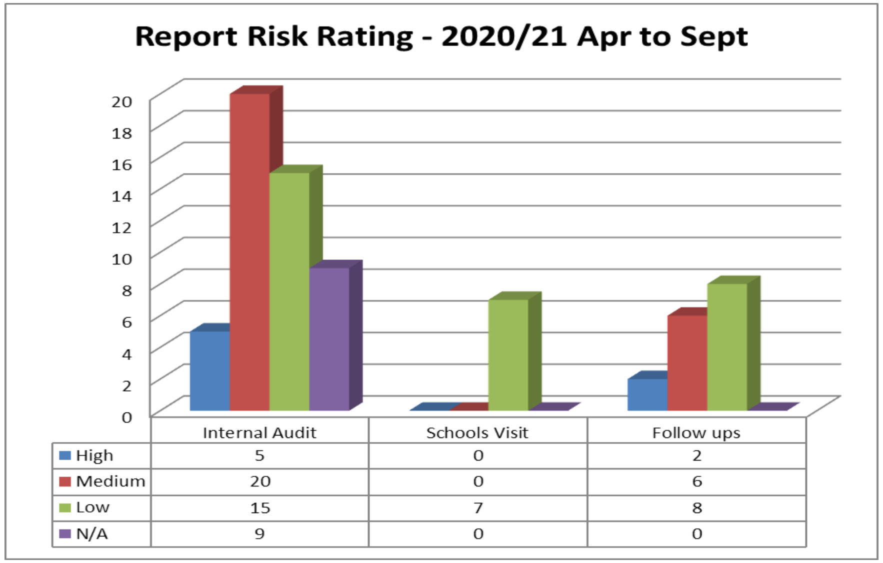
3.1.2 In accordance with the procedure for sharing Internal Audit reports, all Audit Committee Members are provided with a list of final audit reports issued each month, together with details of risk and assurance ratings. Members can request copies of reports and receive further information. A full list of the reports issued during the first half year, including details of how the reviews link to the Council's priority outcomes, core objective of good governance, the Corporate Risk Register, financial and business controls assurances is detailed in Appendix A.

3.1.3 Audit, school visit and follow up reports are generally given a risk rating to assist in the identification of the level of corporate significance. The key to the ratings given is:

1. Low - Nonmaterial 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 reputational risk, likelihood of generating adverse media attention or of potential of interest to Members etc.

3.1.4 From the 72 reports issued (49 Internal Audit, 7 School Visits, and 16 Follow up reviews) issued, 7 were given a high risk rating, 26 had a medium rating, 30 had a low rating, and 9 (relating to advice and guidance or monitoring improvement progress) were not assigned a rating. An analysis of the report risk ratings, together with a comparison to 2019/20 is given in the charts below. A summary of the significant findings from our work is detailed in Appendix B.

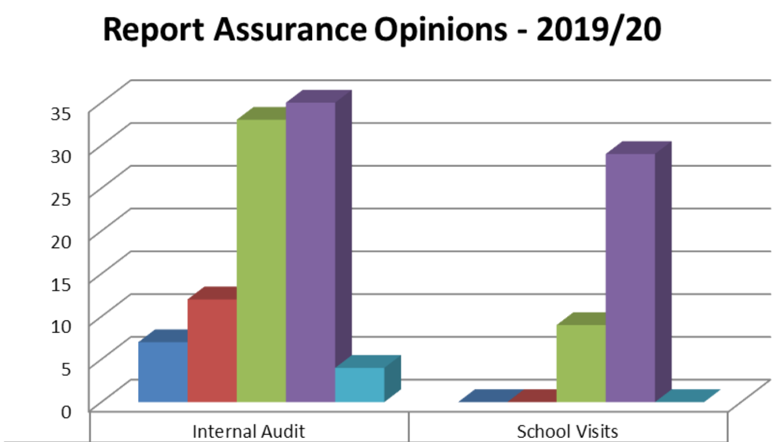




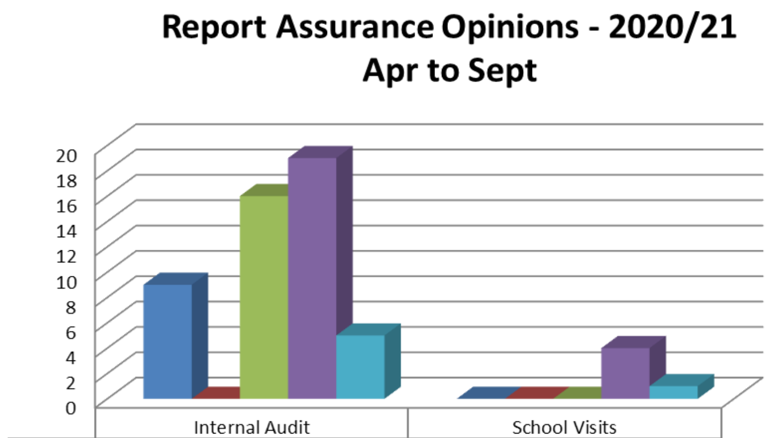
3.1.5 In addition to a risk rating, audit and school reports are given an opinion rating on the effectiveness of the control environment. The audit opinion ratings are:

Level 1 - Controls evaluated are adequate, appropriate and are operating effectively to ensure that risks are being managed and objectives achieved.
Level 2 - Specific control weaknesses were noted. However, generally the controls evaluated are adequate, appropriate and effective to ensure that risks are being managed and objectives achieved.
Level 3 - Specific control weaknesses of a significant nature were noted, or the number of minor weaknesses noted was considerable. The ability to manage the relevant risks and achieve objectives is compromised.
Level 4 - Controls evaluated are not adequate, appropriate or effective. Risks are not being managed and it is unlikely that objectives will be met.

3.1.6 An analysis of the opinion ratings (excluding follow ups), together with a comparison with 2019/20 is given in the charts below. To date 53% of reports issued (including schools) this year have contained a negative assurance (Level 3 or 4) this is comparable to the whole of last year (i.e. 52%).



	Internal Audit	School Visits
N/A	7	0
Level 1	12	0
Level 2	33	9
Level 3	35	29
Level 4	4	0



	Internal Audit	School Visits
N/A	9	0
Level 1	0	0
Level 2	16	0
Level 3	19	4
Level 4	5	1

3.2 Plan Completion

3.2.1 The approved 2020/21 plan contains 4,664 productive days. The table below details completion as at 30th September 2020 and provides a comparison to 2019/20.

	2019/20				2020/21			
	Planned Days	**%**	**Actuals**	**%**	**Planned Days**	**%**	**Half Year Actuals (Apr – Sept)**	**% (Apr – Sept)**
Number of audit days in approved plan @ 1st April.	**4691**	**100%**	**4316**	**100%**	**4664**	**100%**	**1687**	**100%**
Main financial systems	725	15%	719	17%	705	15%	258	15%
Business controls assurance	1770	38%	1343	31%	1780	38%	725	43%
Investigations	830	18%	900	21%	830	18%	313	19%
Schools (Non-Visits)	60	1%	108	2%	30	1%	13	1%
Schools (Visits)	720	15%	544	13%	720	15%	103	6%
Follow up work	175	4%	264	6%	175	4%	71	4%
Ad-hoc work	286	6%	268	6%	299	6%	100	6%
Planning & reporting	120	3%	164	4%	120	3%	104	6%
City initiatives	5	0%	6	0%	5	0%	0	0%

3.2.2 COVID-19 restrictions have had a significant impact on a global basis. The Council has had to respond to the pandemic, continuing to maintain critical services to the citizens of Birmingham. This inevitably has had, and will continue to have, an adverse impact on the delivery of the audit plan. As at 30th September 2020 we had completed 25% of the original planned jobs which is below our target of 40%. Ultimately there will be some restriction and limitation to the scope of the annual opinion that I am able to deliver at the end of the financial year. In order to minimise this limitation, the plan agreed in June was prioritised on a Must / Should / Could basis:

- Must – minimum work required to support the annual opinion (i.e. financial, governance, risk management).
- Should – would significantly add to the opinion, systems and processes may have changed as a result of COVID-19.
- Could – would add to the opinion and the management of risks and issues.

We are continuing to work to this prioritisation.

3.3 Corporate Fraud Team

3.3.1 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.

3.3.2 The table below summarises the reactive investigations activity of the Team (excluding Application Fraud) for the year to date:

	2018/19	**2019/20**	**2020/21 (Apr – Sept)**
Number of outstanding investigations at the beginning of the year	28	14	30
Number of fraud referrals received during the year	109	105	50
Number of cases concluded during the year	123	89	42
Number of investigations outstanding	14	30	38

3.3.3 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.

3.3.4 Within the CFT there is a sub-team specifically established to tackle ‘application based’ fraud, primarily related to Social Housing and Council Tax. Their results are summarised in the table below:

	2018/19	**2019/20**	**2020/21 (Apr – Sept)**
Properties Recovered	64	59	9
Applications Cancelled	212	667*	348
Housing Benefit Overpayment	£858,202	£473,794	£171,773
Council Tax Change	£559,534	£429,144	£220,393

* increase achieved through the near real time matching of applications with other Council held data. This has been key in helping to ensure that scarce social housing is correctly allocated.

4. Grant Certification

4.1 In addition to controls assurance reviews I am required to provide audit certificates, verifying the expenditure incurred, for a number of grants that have been awarded to the Council.

Grant Certificates Issued
Troubled Families
Scambuster
Local Transport Capital Grant
Collaborative Fund Grant: Teaching School Core Grant Funding
Greater Birmingham and Solihull Local Enterprise Partnership

4.2 I have also been formally appointed as the First Level Controller for several European Grants. The First Level Controller is a formally appointed independent role that is required to provide a guarantee that the expenditure incurred under the programme is eligible and correctly accounted for.

European Grants – First Level Controller
Pure COSMOS – Public Authorities enhancing competitiveness of SMEs
Urban M – Stimulating Innovation through Collaborative Maker Spaces
TRIS – Transition Regions towards Industrial Symbiosis
BETTER

5. Total Impact Review

5.1 It is imperative that the Internal Audit functions provides an effective service, that responds to the assurance needs of the organisation, demonstrates insight, and adds value. In order to help us in maximising insight and added value we have undertaken, with support from an external partner, an Internal Audit Total Impact Review has been completed. The review captured independent feedback from across key stakeholders, to identify the current impact and value of the Internal Audit service, and areas for development. The independent report is attached, Appendix C. The findings from the review are currently being considered and a road map developed. This roadmap, together with implementation progress, will be reported to Audit Committee.

6. Public Sector Internal Audit Standards

6.1 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. The requirements of an effective system of Internal Audit are laid out within the Public Sector Internal Audit Standards (PSIAS). 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.

6.2 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 demonstrate compliance with the standard. External assessments are required to be undertaken on a five year cyclye. Our next external assessment is due for completion during 2021.

6.3 Following market research and discussion with Core City colleagues it is proposed that our next PSIAS review be undertaken on a Core Cities peer review basis. A terms of reference for the peer review is attached in Appendix D. Members of the Audit Committee are asked to approve this approach.

Appendix A

Reports Issued During the First Half of 2020/21

Audit Reviews (49 Reports):

Key to linkages to the Council's priority outcomes, core objective of good governance, Corporate Risk Register, Financial Assurance and Business Control Assurance:

<u>Outcomes</u>
1. Birmingham is an entrepreneurial city to learn, work and invest in.
2. Birmingham is an aspirational city to grow up in.
3. Birmingham is a fulfilling city to age well in.
4. Birmingham is a great city to live in.
5. Birmingham residents gain the maximum benefit from hosting the Commonwealth Games.
6. Birmingham is a city that takes a leading role in tackling climate change.

<u>Assurance Type</u>
7. Good Governance.
8. Corporate Risk Register.
9. Financial Assurance.
10. Business Control Assurance.

Title	Council Risk Rating	Assurance	RAG	1	2	3	4	5	6	7	8	9	10
Birmingham Adult Education Service	High	Level 4		✓	✓					✓		✓	
Supplier Financial Risk - Embedding the Methodology	High	Level 4		✓	✓	✓	✓	✓	✓	✓		✓	✓
Contract Extensions	High	Level 4		✓	✓	✓	✓	✓	✓	✓		✓	
High Value Payment Report	High	Level 4		✓	✓	✓	✓	✓	✓	✓		✓	
Direct Payments - Progress of Completing Reviews Overdue by 12 Months	High	Level 3				✓						✓	✓
Heartlands Day Centre	Medium	Level 4			✓					✓		✓	✓
Corporate Payroll - IR35 Compliance	Medium	Level 3		✓	✓	✓	✓	✓		✓		✓	
CityServe Contracts Review	Medium	Level 3			✓					✓		✓	
Direct Payments - Impact and Outcomes	Medium	Level 3			✓	✓						✓	✓

Title	Council Risk Rating	Assurance	RAG	1	2	3	4	5	6	7	8	9	10
Revaluation of Assets	Medium	Level 3		✓	✓	✓	✓	✓				✓	
Major Capital Projects - Compliance with the Financial Control Standard	Medium	Level 3		✓	✓	✓	✓	✓				✓	
Non-Treasury Investments	Medium	Level 3		✓	✓	✓	✓	✓				✓	
Ethic 2020 - Gifts & Hospitality	Medium	Level 3		✓	✓	✓	✓	✓	✓	✓			
Enablement	Medium	Level 3				✓							✓
Safeguarding Adults	Medium	Level 3				✓				✓			✓
IT Emerging Issues - User Account Management and Provisioning	Medium	Level 3		✓	✓	✓	✓	✓	✓				✓
Financial Savings Plan	Medium	Level 3		✓	✓	✓	✓	✓	✓			✓	
Civic Cleaning	Medium	Level 3					✓						✓
Information Governance - Information Asset Register	Medium	Level 2		✓	✓	✓	✓	✓	✓				✓
Hospital Discharges	Medium	Level 2				✓	✓						✓
Web Services	Medium	Level 2		✓	✓	✓	✓	✓	✓				✓
Council Tax - Recovery & Enforcement	Medium	Level 2					✓					✓	
NDR - Recovery and Enforcement	Medium	Level 2		✓								✓	
Anti-Virus – Malware	Medium	Level 2		✓	✓	✓	✓	✓	✓				✓
Financial Control Review	Medium	Level 3		✓	✓	✓	✓	✓	✓			✓	
School Themed Work - Income Control	Low	Level 3		✓	✓							✓	

Title	Council Risk Rating	Assurance	RAG	1	2	3	4	5	6	7	8	9	10
Non-Invoiced Income - Pause Cafes	Low	Level 3		✓								✓	
Birmingham Municipal Housing Trust - Procurement	Low	Level 3			✓		✓			✓			✓
School Visits Follow up City wide	Low	Level 3		✓	✓					✓	✓	✓	✓
Treasury Management	Low	Level 3		✓	✓	✓	✓	✓	✓			✓	
Rent Collection & Charges - Income Collection & Sundry Debts	Low	Level 2		✓			✓					✓	
Payroll Allowances	Low	Level 2		✓	✓	✓	✓	✓	✓			✓	
Payment Card Industry (PCI) Compliance - Planning Applications	Low	Level 2		✓								✓	
Ability to pay suppliers compliance	Low	Level 2		✓	✓	✓	✓	✓	✓			✓	
Information Assurance Maturity	Low	Level 2		✓	✓	✓	✓	✓	✓				✓
SAP	Low	Level 2		✓	✓	✓	✓	✓	✓			✓	
Non-Invoiced Income - Register Office	Low	Level 2				✓						✓	
Public Health - Supporting Clinical Commissioning Groups	Low	Level 2					✓					✓	
Council Tax - Exemptions and Discounts	Low	Level 2					✓					✓	
Neighbourhoods Directorate Risk Management Arrangements	Low	Level 2					✓				✓		
BCT Client Annual Review	N/A	N/A					✓			✓			✓
BCT Client Focussed Governance	N/A	N/A					✓			✓			✓
BCT Client Service Delivery Performance Framework	N/A	N/A					✓			✓			✓

Title	Council Risk Rating	Assurance	RAG	1	2	3	4	5	6	7	8	9	10
Home to School Transport 3rd Progress Review	N/A	N/A		✓	✓					✓			✓
Early Years Health and Well being	N/A	N/A		✓	✓					✓		✓	✓
Residential Care Services - Progress Review	N/A	N/A				✓				✓			✓
Funeral and Property Protection Progress Review	N/A	N/A				✓				✓			✓
Kings Norton - Second Progress Review	N/A	N/A		✓	✓					✓	✓	✓	✓
Finance Team Processes Review	N/A	N/A		✓	✓	✓	✓	✓	✓	✓		✓	

Follow up Reviews (16 Reports):

Title	Risk Rating Council	RAG
Adult Education IT Systems Replacement Follow up	High	
General Data Protection Regulation - Procurement and Contract Management – Follow up	High	
Strategic Management of Non HRA Property Follow up	Medium	
Northgate Housing Data Quality Follow up	Medium	
Use of Shared Drives Follow up	Medium	
Information Governance - Access to Information Follow up	Medium	
Interim Executive Board Follow up	Medium	

Title	Risk Rating Council	RAG
Company Assets and Relationship Management Follow up	Medium	
Information Governance - Tenant Management Organisations (TMO's) Follow up	Low	
Council Tax - Student Discount 2nd Follow up	Low	
Payroll Overtime Follow up	Low	
Information Governance - Environmental Health 2nd Follow up	Low	
Third Party Governance - Information Security Follow up	Low	
Information Governance - Transparency Code Follow up	Low	
Accounts Receivable - Adults Aged Debts Follow up	Low	
IT Governance - Housing Repairs Follow up	Low	

Investigations (3 Reports)

School Visits (7 Reports, including 2 school follow up reports)

Appendix B

Summary of Significant Findings

Red High Risk Reports

During the first half of 2020/21 we issued 7 red reports (including 2 follow up reports), where we identified a 'high' risk rating for the Council. Brief details of the issues highlighted in these reports are detailed below:

Birmingham Adult Education Service **Council Risk Rating: High** **Assurance: Level 4** **RAG:**

Our review identified significant deficiencies within the financial control environment during the period from October 2017 to August 2019. This situation potentially means that significant financial and reputational risks could arise for the Council.

It is recognised that the issues identified, have been inherited by the Education and Skills Directorate and that the actions subsequently taken by Assistant Director – Skills and Employability since April 2019, which has included the appointment of a new Head of Service have resulted in more stringent measures being introduced to control expenditure and ensure the long-term financial viability of the service; and thereby addressing the wide range of issues arising from the previous management arrangements.

We are encouraged to note that the Directorate has been very pro-active in taking action to strengthen operational controls. The issues identified and highlighted help to ensure strong governance arrangements and that key lessons are learnt for the future.

Supplier Financial Risk - Embedding the Methodology **Council Risk Rating: High** **Assurance: Level 4** **RAG:**

In undertaking this review, we discussed the Supply Chain Risk Methodology (SCRM) with officers across the Council and sought examples from directorates of where the SCRM had been used. Only limited evidence of its use was identified. Whilst, the methodology only needs to be applied to contracts that are deemed critical and therefore, management need to make this judgement, given the nature of services provided by the Council, it is likely that there are critical contracts where the SCRM should have been applied.

Adults Social Care use a different methodology which includes the use of credit alerts from Experian; from our discussions with management this risk management approach appeared effective.

Contract Extensions **Council Risk Rating: High** **Assurance: Level 4** **RAG:**

Our audit identified a high incidence of non-compliance with the Council's Standing Orders relating to contract extensions. The rules are also unclear, particularly as there are inconsistencies between Standing Orders and Operation of Procurement Governance Arrangements (OPGA).

High Value Payment **Council Risk Rating: High** **Assurance: Level 4** **RAG:**

On 1st June 2020 we were notified that a high value payment error had occurred. The details from a non-purchase order invoice had been incorrectly scanned and paid. We concluded that the overpayment was an error and not an attempt to divert funds. The initial error was following by a series of further errors and breakdown of controls. The overpaid funds have been recovered from the vendor.

Direct Payments - Progress of Completing Reviews Overdue by 12 Months **Council Risk Rating: High** **Assurance: Level 3** **RAG:**

Timely actions are not being taken to progress the review of Direct Payments (DP) and packages of care. As at the beginning of July there were a total of 434 cases which had not been reviewed for over 12 months. The oldest of these cases had a last reported review date of the end November 2010. The ineffective completion of reviews presents a number of risks to the directorate, including, provision of an inappropriate package of care to the citizen, inconsistent service provision, and an increase in complaints and Ombudsman enquiries.

Adult Education IT Systems Replacement **Council Risk Rating: High** **Follow up** **RAG:**

The recommendations contained in our original report were not implemented by the previous Head of Service (BAES), who has since left the Council. Whilst the project has delivered business benefits it has been at a cost. Key elements of the planned improvements are yet to materialise e.g. performance reporting dashboards and the curriculum learning package. The recent departure of the Interim IT Manager brought some support difficulties to the service due to this lack of documentation and knowledge transfer. The new Head of Service has a structured plan to address and resolve the issues identified.

General Data Protection Regulation - Procurement and Contract Management **Council Risk Rating: High** **Follow up** **RAG:**

A number of recommendations have still not been implemented following our original audit. The high-risk rating therefore remains, and significant work is still required to ensure the Council is compliant with GDPR.

The following documents had not been updated to reflect GDPR requirements:

- The Council's standard terms and conditions associated with purchase orders (held on the website);
- Selection Questionnaire (SQ) used to procure contractors;
- Procurement Toolkit;
- Contract Management Toolkit.

School Visits

The school audit visit programme was suspended in March 2020 due to the coronavirus pandemic and first lock down and was not resumed until October following consultation with the Education & Skills Directorate and schools. The approach to each visit will be agreed with the school involved and will include the opportunity for remote auditing and on-site work where appropriate.

During October we recommenced our 'real time follow up' reviews for schools that had received a Level 3 Assurance/High risk rating in the last academic year. This includes two short management assurance discussions followed by a validation review. Early indications are that the more intensive 'real time follow up' process is having a positive impact.

The delay in the start of the audit visits for this financial year will result in fewer school audits and will impact on the extent of the overall assurance we can provide for 2020/21 financial year. However, schools are still required to complete their annual 'Schools Financial Value Standard' submission to the Local Authority and this will continue to support the Section 151 officer's annual assurance statement. We continue to work with the Education & Skills Directorate and school colleagues to ensure we deliver robust and added value audits that respond to the financial challenges faced by schools. Visits are selected through a risk-based plan and our work programme is constantly reviewed to meet key priorities and issues.

The outcomes from the audit completed continued to reflect the general trends from the previous year. Overall, we continue to find schools visited have effective systems of control in place, and staff and Governors are complying with key processes. However, there are still areas for development which would improve strategic and operational delivery - notably Financial Governance, Budget Planning, Financial Management and Purchasing. There are known financial challenges across the maintained school sector resulting mainly from reduced funding and increased staffing costs and we have therefore identified a continued increase in schools relying on previous years' carry forward surplus balances to achieve balanced budgets along with predicted deficits in future years for a majority of the schools visited.

Birmingham City Council

Internal Audit effectiveness review
Final Report

Private and Confidential

July 2020

Contents

1

Executive summary

1.1 Executive Summary

Background

Internal audit is provided 100% in house by Birmingham Audit (BA). BA are a well-established function that is deemed PSIAS compliant and delivers a large audit plan of over 4,500 days a year. The function has started to consider a number of initiatives that will further enhance its operating model but these need to be considered in the wider context of the Council's overall risk, assurance and audit framework These initiatives also need to be developed based on a solid understanding of areas of strength and areas for improvement as considered by key stakeholders.

Summary of work performed

We carried out an independent review of the effectiveness of internal audit using PwC's Total Impact of Internal Audit (TIIA) framework; more details of which can be found in Appendix 1. TIIA was used to capture and measure the holistic contribution of Internal Audit and key areas for development. Our findings are based on the views expressed by internal audit and stakeholders supplemented by a desktop review of key documents. A summary of scores under the framework can be found within Section 2.

Summary of findings

There were fairly consistent views on the strengths, weaknesses, areas for development and barriers for improvement for BA. Stakeholders all recognised the function has taken positive steps during the last 12 months to improve their effectiveness.

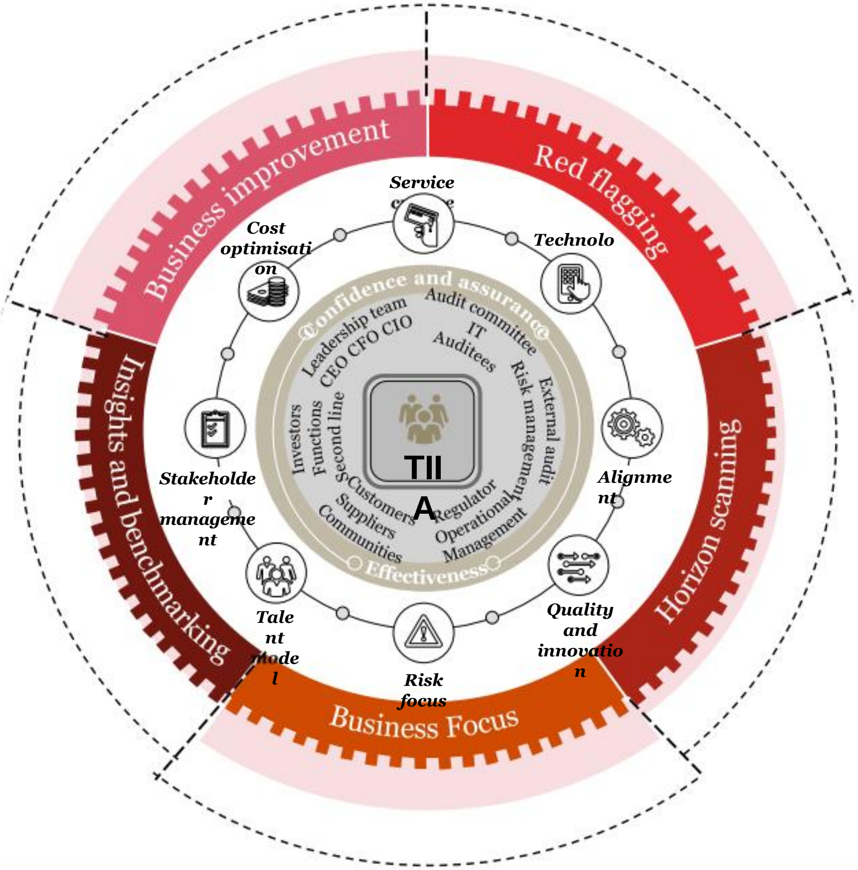
Our key findings and recommendations are:

- BA are a well respected function, recognised as being experienced, professional and easy to deal with. Their current strengths (data, fraud and partnership working with Adult Social Care) will need to be supplemented to enable the step change required to meet their TIIA aspirations. A more integrated and collaborative approach should be considered to facilitate greater use of specialist knowledge within directorates to support the audit work and encourage greater insight being used to drive BA work.
- Stakeholders valued their collaborative approach to the development of the audit plan, which contained sufficient contingency and flexibility to adapt to changing priorities.
- BA are seen as a traditional function focusing on tactical rather than strategic issues and historic rather than emerging challenges. The internal audit plan is not mapped to the three lines of defence (LOD) and did not include any testing of the adequacy of second line assurance activity. A large proportion of the audit plan is devoted to low risk or well controlled operational areas. A change in focus is needed but this requires CLT support although stakeholders recognised that frequent changes in senior officers impacted the ability of BA to closely focus on a consistent set of priorities.
- BA have relatively limited involvement in some of the Council's key challenges and initiatives; involvement in key projects at an early stage could help the Council to identify potential issues and advise on the design of controls.
- Audit reports were generally well written with practical and realistic recommendations which reflected the situation.
- Where significant issues were raised and for more complex audits, BA may lack the skills required to identify the root cause of issues and to articulate the actions needed to support improvement. Stakeholders commented that reports didn't tell the story of the audit and recommendations needed to be more insightful.
- Feedback from Members indicated that there was more to do in helping them feel engaged with the audit process; particularly Members that do not attend Audit Committee. BA should consider how it can more effectively engage Members; both in terms of engaging Members with responsibility for topics subject to individual reviews, and more broadly through the year. A quarterly bulletin would be a reasonable measure.

On the next page we have included a summary of findings and a high level assessment of BA's contribution against each attribute in the TIIA framework.

1.2 Executive summary – TIIA results

Below is a summary of our findings against each TIIA attribute. The diagram shows BA's current contribution as assessed by the stakeholders interviewed and the dotted line shows the aspiration for the function. In Section 2 we have provided a more detailed summary of the areas of good practice and areas for improvement.



Business improvement

- ✓ Business improvement was generally seen as a relative strength of BA with the increasing use of technology to identify and quantify findings.
- ‼ Reports didn't always tell the story of the audit and findings and recommendations needed to be more insightful to help bring about noticeable improvement.
- ‼ Stakeholders commented that there needs to be an assessment as to whether BA has the right skills, culture and ways of working to achieve the aspiration to be 'best in class' in this area.

Insights and Benchmarking

- ✓ The projects where BA have used benchmarking have been really well received by the directorates.
- ‼ Stakeholders felt this is an area where BA could add value to the organisation, but it is not something routinely considered in the scope of each audit review.

Red Flagging

- ✓ BA does a good job of flagging issues, although escalation processes and presentation could potentially hamper how quickly they are flagged.
- ‼ BA were seen as quite traditional, focusing on tactical rather than strategic issues with a large proportion of their plan focused on low risk or well controlled areas. Involvement in key projects at an early stage could help the Council to identify potential issues and advise on the design of control improvement.

Horizon Scanning

- ✓ BA use a number of forums to keep up to date with trends within internal audit and with other Councils.
- ‼ BA's work has not been forward looking or focused on predicting future areas of risk, where this has occurred it is usually directorate rather than BA led.

Business focus

- ✓ BA does a good job of consulting with directorates when pulling together the internal audit plan and there is sufficient contingency/flexibility in the plan to adapt to changing priorities.
- ✓ The COVID 19 support provided by BA was valued by the Council particularly in relation to the validation of small business grants and new PPE suppliers
- ‼ Stakeholders were not able to see a clear link from the Council's greatest priorities and business risks through to internal audit activity although it was noted that frequent changes in senior officers impacted the ability of BA to closely focus on a consistent set of priorities.

2

TIIA results

2. Summary of TIIA review

Summary of methodology

PwC's Total Impact of Internal Audit (TIIA) framework was used to direct and measure the holistic contribution of the Birmingham Audit (BA) team to the organisation. Details of the framework can be found in Appendix 1 but, in summary, our review was focussed on the outcomes and value-add of BA rather than on the inputs of a function that have been used historically in the sector to assess internal audit functions.

The key to an audit function's *Impact* is its *Contribution* which is recognised and categorised in the framework into the following five attributes:

- **Business improvement**: Making recommendations that are practical and deliver business improvement.
- **Insights and benchmarking**: Telling the business something that they did not already know and would not have easily identified without internal audit involvement.
- **Red flagging**: Telling the business something that they should be worried about and should act upon.
- **Horizon scanning**: Predicting future areas of risk, concern and non-compliance.
- **Business focus**: Ensuring internal audit's activities are focussed on areas that are most important to the organisational strategy.

Each attribute has a set of criteria which we have used to review the contribution made by BA based on the existence and nature of examples from their work and feedback received from interviews with stakeholders.

Summary of the work performed for the TIIA review

We used our the TIIA framework and criteria throughout our review to rate contributions on a 0-3 scale; with three being assessed as 'best in class' and zero meaning the attribute is never demonstrated. The TIIA review included:

- Workshop with the Internal Audit team to determine their aspirations for the function (Target score) as well as a self-assessment of their current contribution;
- Meetings with the Audit senior management team;
- Interviews with 12 stakeholders including service users, Audit Committee (AC) members and senior management (see Appendix 2). All stakeholders were asked to provide their assessment of the contribution of BA;
- Review of audit working papers, reports and TIIA-related documents created by BA. We assessed the quality of these deliverables against the TIIA framework and validated our assessment of a sample of deliverables during stakeholder interviews;
- Consideration of other assurance activity within the Council and assessed how the work of Internal Audit contributes to the overall assurance provision in accordance with the three lines of defence model (see Appendix 3);
- Provision of feedback to the audit management team; and
- Suggestions on how to improve arrangements going forward.

Below is a summary of the results from our assessment (rating):

A more detailed summary of the TIIA methodology is included in Appendix 1.

2. Summary of TIIA review

Summary of findings

There were fairly consistent views on the strengths, weaknesses, areas for development and barriers for improvement for Birmingham Audit (BA) and stakeholders recognised the function has taken positive steps during the last 12 months to improve their effectiveness.

The gap between stakeholders view of BA and its own self-assessment is due to a combination of the following key findings:

- BA are a well respected function, recognised as being experienced, professional and easy to deal with. Their data and fraud skills were noted as key strengths and for the majority of the audits they carry out they have the right skillset.
- BA could be more effective at promoting their successes across the Council and most directors were only aware of the audits carried out in their directorate.
- The audit plan was discussed and agreed with the CLT and the Audit Committee. Directorates were given the opportunity to contribute and challenge the plan. BA are seen as being flexible and will adapt to changing priorities, but stakeholders felt that the annual process of allocating resources to activities based on a budgeted number of days was out of date and wanted a more regular process of allocation according to emerging risks..
- BA are seen as a traditional function focusing on tactical rather than strategic issues and historic rather than emerging challenges. The internal audit plan is not mapped to the three lines of defence (LOD) and did not include any testing of the adequacy of second line assurance activity. A large proportion of the audit plan is devoted to low risk or well controlled operational areas. A change in focus is needed but this requires CLT support although stakeholders recognised that frequent changes in senior officers impacted the ability of BA to closely focus on a consistent set of priorities.
- Stakeholders felt the function was more likely to get involved when something has gone wrong. They could have a valuable contribution to projects if they were involved at their outset.
- Audit reports were generally well written with practical and realistic recommendations which reflected the situation.
- Where significant issues were raised and for more complex audits, BA may lack the skills required to identify the root cause of issues and to articulate the actions needed to support improvement. Stakeholders commented that reports didn't tell the story of the audit and recommendations needed to be more insightful.
- Feedback from Members indicated that there was more to do in helping them feel engaged with the audit process; particularly Members that do not attend Audit Committee. There was an appetite to learn more both on individual reviews in their areas of responsibility and more broadly in terms of the audit plan and emerging findings

Key recommendations

Below we have provided a summary of the key recommendations:

- BA should assess whether they have got the right skills, culture and ways of working to enable the step change required to meet their TIIA aspiration and to deliver a more strategic internal audit plan. A more integrated and collaborative approach should be considered to facilitate greater use of specialist knowledge within directorates to support the audit work and encourage greater insight being used to drive BA work.
- Carry out a detailed mapping exercise of the three lines of defence linked to the key areas of risk to the Council. This would help the CLT and the Audit Committee understand where there are potential gaps and where they are placing significant reliance on first and second line activity with no independent assurance.
- BA should work more closely with CLT to facilitate more regular involvement of BA in key improvement initiatives, steering committees and transformation projects. Good practice examples of where this has gone well should be shared in order to help CLT see the potential value of BA's involvement.
- BA should consider issuing discussion papers and other thought leadership on trends it identifies in the sector or in governance, risk and control issues more broadly. This activity could feed into their work and help to raise their profile.
- They should be involved at the outset of key projects to help identify potential issues and advise on how design and controls could be improved.. Where BA are not involved they should work with the other lines of defence to ensure key risks are adequately mitigated.
- BA should review the format of its reports, particularly where there are significant issues, to draw the readers attention to the key issues, their cause and consequence. Recommendations need to be more insightful to help bring about noticeable improvement.
- BA should consider how it can more effectively engage Members not on the Audit Committee; both in terms of engaging Members with responsibility for topics subject to individual reviews, and more broadly through the year. A quarterly bulletin would be a reasonable measure.

2.1 Business improvement (1)

Making recommendations that are practical and deliver business improvement.

Business improvement | Red Flagging | Horizon scanning | Business focus | Insights and benchmarking

Description and recommendations

Summary

Business improvement was cited as a strength of the internal audit function by many stakeholders; particularly the use of technology to identify and quantify findings.

The TIIA ratings indicated a gap between stakeholders perception of the function and BA's self-assessment. This was mainly because stakeholders felt recommendations for significant issues were not sufficiently insightful to support business improvement. Some stakeholders also commented that there could be a capability gap if the function is to achieve its aspiration to be 'best in class' in this area. BA need to assess whether they have got the right skills, culture and ways of working to deliver a more strategic internal audit plan which helps the Council on its improvement journey.

TIIA Rating

Aspiration	3
IA assessment	2.5
TIIA evidence	2.3
Stakeholder assessment	1.5

Areas of good practice

- BA uses quantifiable evidence to support findings, through the use of data analytics. This was recognised as a core strength by a number of stakeholders interviewed.
- Some stakeholders commented positively on the quality of reporting, with realistic findings which reflected the situation and well thought out, practical recommendations. The tracking and chasing of actions also works well.
- Internal audit reviews look at compliance with key control objectives which include KPIs/performance measures.
- The team were recognised as very experienced, professional and easy to deal with.
- The team has a good understanding of risk and the details of many of the subject areas being reviewed. They also flag relevant and important points. It was also noted by a number of stakeholders that there has been an improvement recently in this area.
- There are a few examples where internal audit was recognised as playing a critical part in important projects both through key roles on steering committees and strategic reviews/pre-implementation reviews.
- BA has supported the insight team in establishing AI pilots across the Council to help directorates to access and understand the data held by the Council and how it can help them more efficiently deliver their services.
- Not all recommendations get implemented but Directorates acknowledged that it is not solely the fault of BA and their teams can be the barrier.

2.1 Business improvement (2)

Making recommendations that are practical and deliver business improvement.

Business improvement | Red Flagging | Horizon scanning | Business focus | Insights and benchmarking

Findings	Recommendations
• The function are rarely visible in key improvement initiatives. Stakeholders voiced differences of opinion as to whether that was due to BA not seeking to be involved or Officers not inviting BA to take a seat at the table. • BA reports need to be stand alone documents which tell the story of the audit clearly to all readers (directorate, CLT and the Audit Committee). It was not always evident the extent of work that had been performed (interviews, sample testing etc.) nor the implications to the Council of key findings. Also the rating scale is contained in a separate document rather than an appendix. • The 'look and feel' of audit reports did not help facilitate the readers understanding; for example the separate sections for issues (control objectives) and recommendations was quite disjointed. • For any significant findings these needed precise actions containing a greater level of thought/insight to help the directorate with improvement. Stakeholders commented that in some cases if all actions suggested by BA were implemented it would not result in any significant change to the service/process. Some interviewees felt there is a difference between policy risks and audit risks but that the two were sometimes confused in the approach taken by audit. • Given the broad range of activities and risks at the Council and the relative stability of the BA team there was a perception of a potential capability gap if the function is to achieve their aspiration to be 'best in class' in this area. In technical areas it is extremely difficult for the in-house audit team to be true specialists that can go beyond what they are told. One Officer was particularly keen to explore how BA and his team could be more joined up in order to share specialist knowledge that would support BA's work in a mutually beneficial, cyclical way. • Many users of internal audit felt that the function did not regularly seek feedback in order to improve. Instances were identified where feedback given had been acted upon but there is not a regular mechanism for getting feedback that is enforced consistently.	2.1.1 The CLT should be encouraged to facilitate and support the visible involvement of BA in key improvement initiatives. Good practice examples of where this has gone well should be shared in order to help CLT see the potential value of BA's involvement. 2.1.2 BA should review the format of its reports to draw the readers attention to the key issues, their cause and consequence: • Each finding should be clearly set out with a title, the root cause, implication, rating and recommendations in one place not in separate sections. • Issues of a similar nature or with the same action and/action owner could be grouped together. • Details of the depth and breath of testing needs to be documented. • The rating scale should be included as an appendix to help contextualise the findings. • A distinction should be made between audit risks and policy risks; at planning and reporting stages. 2.1.3. BA need to assess whether they have got the right skills, culture and ways of working to deliver a more strategic internal audit plan which helps the Council on its improvement journey (see recommendation 2.5.1). 2.1.4 The use of internal or external subject matter experts could help to provide a greater level of insight to reviews. 2.1.5. A more integrated and collaborative approach should be considered to facilitate greater use of specialist knowledge within directorates to support the audit work and encourage greater insight being used to drive BA work. 2.1.6 BA should introduce and strictly apply a feedback mechanism to cover individual reviews and, on a more cyclical basis, broader feedback from Directorates. This feedback should be used to drive continuous improvement.

2.2 Red Flagging (1)

Telling the business something that they should be worried about and should act upon.

Business improvement | **Red Flagging** | Horizon scanning | Business focus | Insights and benchmarking

Description and recommendations

Summary

It was recognised by most stakeholders that BA does a good job of flagging issues when they are identified, although some felt that their escalation processes were quite cumbersome and could hamper issues being flagged quickly enough.

The TIIA ratings indicated a gap between stakeholders perception of the function and BA's self-assessment. This was mainly because stakeholders felt that BA was not involved sufficiently in key business issues and that they should be involved more at the outset of key projects, to help identify potential pitfalls and advise on how the design of controls could be improved, rather than coming in when things have gone wrong. Both the FY2019 and FY2020 audit plans confirmed this view with only a small percentage of the plans devoted to high risk areas and a large proportion of reports rated as low with no material issues.

TIIA Rating

Aspiration	3
IA assessment	2.5
TIIA evidence	2.0
Stakeholder assessment	1.4

Areas of good practice

- When things go wrong most stakeholders felt that BA does flag the issues; through the CLT meetings, monthly reports to the Audit Committee and escalation processes which are in place for 'Red Flag' issues.
- BA is seen by many stakeholders as a key ally during times of organisation disruption and/or crisis as demonstrated by their fraud advice and support during Covid 19.
- There are some areas where BA has reviewed business readiness for new regulatory requirements and business change like IR35.
- Internal Audit are working with the CLT to improve the risk register and align their plan to some key risks, this was noted as a recent improvement that has made a difference.

2.2 Red Flagging (2)

Telling the business something that they should be worried about and should act upon.

Business improvement | **Red Flagging** | Horizon scanning | Business focus | Insights and benchmarking

Findings

- Although BA have been involved at the outset of some projects, this was not standard across the Council and most stakeholders thought BA are more likely to get involved when something has gone wrong. Stakeholders felt BA could have a valuable contribution to projects if they were involved at their outset.
- Some stakeholders felt that BA could be slow to flag issues and are hampered by their escalation processes. BA could adopt a more flexible approach to Red Flagging depending on the style of the Directorate. A number of interviewees references examples of lengthy delays between starting a review and final reports being issued.
- The 2020/21 internal audit plan included only 255 out of 4656 days (5%) on what could be seen as the highest risk areas and of the 121 audits carried out in 2019/20, 70 were rated as low with no material issues. The Council has been reluctant in the past to reduce the level of effort devoted to key financial system which account for 705 days (15%) of the plan, even though there are very few findings in these areas. There has also been push back from some directorates on their involvement in key risk areas.
- The Head of Internal Audit is an Assistant Director and although she has direct access to the CEO and the CFO, stakeholders commented that her position in the organisation can make it more difficult to be heard and to receive directly information regarding strategic priorities.
- Feedback from Members indicated that there was more to do in helping them feel engaged with the audit process; particularly Members that do not attend Audit Committee. There was an appetite to learn more both on individual reviews in their areas of responsibility and more broadly in terms of the audit plan and emerging findings. Reference was made to historically receiving regular bulletins of completed reviews which would allow Members to request further information but that this had ceased.

Recommendations

2.2.1 BA should work more closely with CLT to facilitate more regular involvement of BA in key improvement initiatives. They should be involved at the outset of key projects to help identify potential issues and advise on how design and controls could be improved.

2.2.2 BA should review their escalation processes to ensure they are fit for purpose and do not cause delays in the flagging of key issues, they should consider adopting a more informal/ flexible approach to Red Flagging depending on the style of the Directorate.

2.2.3 BA need to highlight more clearly the split of their work between high and low risk areas to Cabinet, the CLT and the Audit Committee to ensure the Council as a whole is satisfied that their work is focused on the key priorities for the Council (see recommendation 2.4.1)

2.2.4 The Council should consider how the internal audit function is positioned within the Council and whether there are opportunities to raise its profile.

2.2.5 BA should consider how it can more effectively engage Members not on the Audit Committee; both in terms of engaging Members with responsibility for topics subject to individual reviews, and more broadly through the year. A quarterly bulletin would be a reasonable measure.

2.3 Horizon Scanning (1)

Predicting future areas of risk, concern and non-compliance.

•

Business improvement | Red Flagging | **Horizon scanning** | Business focus | Insights and benchmarking

Description and recommendations

TIIA Rating

Aspiration	2.0
IA assessment	1.5
TIIA Evidence	1.0
Stakeholder assessment	1.1

Summary

Historically the main focus of BA's work has not been forward looking or focused on predicting future areas of risk, concern and non compliance.

There are a few examples of audits which are more forward focused but this is usually directorate-led rather than driven by BA. Most stakeholders felt that the Council was generally less mature in this area.

Areas of good practice

- BA use a number of forums to keep up to date with new regulatory requirements and to understand what other functions are including in their audit plans. These include attendance at events organised by CIPFA, participation in special interest groups, Core Cities discussions, webinars and a number of fraud events.
- There is contingency in the internal audit plan to enable BA to be flexible to any new areas of risk or concern as demonstrated by their support during Covid 19.
- Stakeholders generally felt that there has been a change in style over recent months with BA improving the effectiveness of the function. The input BA had to create the new strategic risk register has helped to raise their profile and lift their work out of some operational areas into more strategic priorities.
- Subject/functional leads have been established and regular meetings take place with key contact officers. This approach was working particularly well within Adult Social Care.

2.3 Horizon Scanning (2)

Predicting future areas of risk, concern and non-compliance.

•

Business improvement | Red Flagging | **Horizon scanning** | Business focus | Insights and benchmarking

Findings

- The current audit plan is viewed as more of a formulaic/cyclical plan than forward looking. There are examples of audits which are more forward focused but this is usually directorate-led rather than BA driven. Most stakeholders felt that the Council was generally less mature in this area.
- A number of interviewees felt that the annual process of allocating resources to activities based on a budgeted number of days was out of date and wanted a more regular process of allocation according to emerging risks.
- There is no reference or debate about sector trends or internal audit trends in BA's discussions with stakeholders and although BA are linked into a number of forums these do not seem to have contributed to new areas of focus for the annual plan.
- BA do not, as a matter of course, sit on committees focussing on transformation or steering committees to hear what is happening on a real-time basis and influence plans as they emerge.

Recommendations

If the Council's aspiration for this attribute is to be closer to best practice the introduction of new processes would be beneficial:

2.3.1 The balance of the audit plan would need to change and both BA and the directorates need to work more closely together to identify areas of future risk which can be considered for inclusion in the plan.

2.3.2 BA, working with CLT and AC, should consider introducing a more extensive quarterly process to the audit planning cycle. An annual plan would be still be appropriate but more contingency and a greater expectation of flexing the plan would be beneficial.

2.3.3 The CLT could facilitate BA's involvement on key steering committees and transformation projects. BA will also need to secure a seat at the table in the post Covid-19 lessons learned work and use that to influence their future work programme.

2.3.4 BA should consider widening their network internally and linking up with organisations from other sectors.

2.3.5 BA should consider issuing discussion papers and other thought leadership on trends it identifies in the sector or in governance, risk and control issues more broadly.

2.4 Business Focus (1)

Internal audit's activities are focussed on areas that are most important to the organisational strategy.

Business improvement | Red Flagging | Horizon scanning | **Business focus** | Insights and benchmarking

Description and recommendations

Summary

Business Focus was the highest rated attribute by many stakeholders.

The internal audit plan was developed in consultation with the CLT and stakeholders valued the flexibility in the plan to adapt to changing priorities. This was seen in relation to COVID 19 where internal audit devoted considerable support to the Council particularly in relation to the validation checks for the small business grant scheme and new PPE suppliers.

Stakeholders would like BA to be more strategic in their approach and the work they deliver but recognised that it is hard for the function to be as strategic as they might wish as frequent changes in senior officers impacted the ability of BA to closely focus on a consistent set of priorities, and there has historically been inconsistent support from the whole CLT and varying levels of engagement from Directors.

TIIA Rating

Aspiration	3.0
BA assessment	1.5
TIIA Evidence	2.3
Stakeholder assessment	1.7

Areas of good practice

- The internal audit plan was discussed and agreed with the CLT and the Audit Committee and Stakeholders valued the opportunity they were given to input and challenge the plan.
- Stakeholders noted that BA were very responsive and quick to change priorities if needed. Their response to the Covid 19 challenges and support with developing the strategic risk register were recognised by a number of stakeholders, one commented – "the team are very switched on and can turn things around quickly".
- BA have regular liaison meeting with audit contact officers to discuss progress on planned jobs, emerging risk and any issues encountered.
- The stability of staff and continuity of staff working with the same teams within the directorates was valued by some stakeholders.
- The partnership way of working with Adult Social Care (ASC) works well. In addition to the liaison meetings with contact officers BA:
  - maintain awareness of changes to legislation.
  - held monthly meetings with the ASC Project Lead for the implementation of Eclipse.
  - developed a quarterly Emerging Issues report for ASC which includes highlighted findings from completed audits. This report is provided to the chair of the ASC risk Board for discussion, acceptance and distribution to ASC management.

2.4 Business Focus (2)

Internal audit's activities are focussed on areas that are most important to the organisational strategy.

Business improvement | Red Flagging | Horizon scanning | **Business focus** | Insights and benchmarking

Findings

- Currently the working style of BA is viewed as quite traditional and their activities more focused on tactical issues rather than strategic areas. Stakeholders commented that there was limited coverage of more significant areas which could have a greater impact. There was surprise noted amongst some interviewees that BA had not been more central to some of the Council's major historic or current challenges (such as Commonwealth Games capital projects, waste dispute) or some of its major partnerships (such as LEP activity).
- The internal audit plan is not mapped to the three lines of defence (LOD) and did not include any testing of the adequacy of second line assurance activity so BA are not currently leveraging the work of other LODs so may be undertaking work on risks that are well managed or may not be focussing enough effort on risks that are not being adequately managed or mitigated within the Council.
- BA came across as passionate about the work they have done and its impact in the TIIA workshop, but many stakeholders commented that this enthusiasm is not coming across strongly enough in the CLT, the Audit Committee or within the interactions with each Directorate.
- BA's relationships with each directorate varied considerably; this was reflected in the range of scores for 'Business Focus'. The successful partnership they have developed with ASC was not replicated across the other directorates.
- The function don't get regular feedback and the metrics reported to Audit Committee are focused on audits completed and volume of recommendations.

Recommendations

2.4.1 See findings 2.2.3 and 2.3.1 for recommendations on redressing the balance between historic and tactical work to forward-looking and strategic work.

2.4.2 Carry out a detailed mapping exercise of the three lines of defence linked to the key areas of risk to the Council. This would help the CLT and the Audit Committee understand where there are potential gaps and where they are placing significant reliance on first and second line activity with no independent assurance.

2.4.3 Where BA are not involved in transformational activities/steering committees they should work with the other lines of defence to ensure key risks are adequately mitigated.

2.4.4 Use the positive outputs from the TIIA project to promote what they have achieved and use the TIIA methodology to regularly test and report on the value of their contributions, using the current scores as a benchmark.

2.4.5 Use their promoters to help raise their profile with the less engaged directorates. A number of directors commented that they would be supportive of this approach

2.4.6 Set up regular meetings with each directorate to obtain feedback on key projects, discussion on 'contribution' and 'impact' for the previous period, update on changes to significant risks and to discuss the audit plan for the next period.

2.5 Insights and Benchmarking (1)

Telling the business something that they did not already know and would not have easily identified without internal audit involvement.

Business improvement | Red Flagging | Horizon scanning | Business focus | **Insights and benchmarking**

Description and recommendations

TIIA Rating

Aspiration	2.0
IA assessment	1.0
TIIA evidence	1.5
Stakeholder assessment	0.8

Summary

Insights and benchmarking was seen by most stakeholders and BA as the weakest of the five TIIA attributes.

It was an area where stakeholders felt BA could add real value to the organisation and where BA have used benchmarking these projects have been really valued by the directorates (which is why the TIIA evidence rating is above the other ratings) but that it was not being done consistently enough.

Areas of good practice

- The team use technology to provide a greater level of insight to their findings, stakeholders commented that the use of data analytics and the data warehouse is good and recognised as being much better than average for an in-house function in the sector.
- In relation to fraud, BA have developed a schedule of routine data extraction reports to proactively detect potential error or anomies (e.g. benefit fund and duplicate payments) and internal audit contribute to thought leadership across a number of directorates.
- All reports are rated using the same scale to provide more context and impact analysis.
- There were two examples noted from our meetings where using benchmarking and was valued:
  - BA benchmarked current processes against the Information Assurance Maturity Model Assessment Framework (a good practice guide published by National Cyber Security Centre (NCSC)). This identified significant weaknesses in the Council's current processes and lead to an improvement programme to address significant weaknesses.
  - The audit of Enablement Services for the Adult Social Care director was cited as a particularly valued piece of benchmarking. The audit was undertaken to assist management in identifying the current service delivery working patterns to assess whether they met the needs of the business and support the delivery of an efficient value for money service.

2.5 Insights and Benchmarking (2)

Telling the business something that they did not already know and would not have easily identified without internal audit involvement.

Business improvement | Red Flagging | Horizon scanning | Business focus | **Insights and benchmarking**

Findings

- BA are good at spotting issues but they can be more focused on the detail and do not necessarily see the 'real big picture'. Stakeholders commented that they typically playback what they have been told rather than provide robust and insightful findings.
- Stakeholders valued the function's data warehouse skills but commented that this is also a single point of failure and should be shared and accessed more broadly.
- The team don't use external 'Subject Matter Experts' or specialists to supplement the skills within the team when needed (such as GPDR, Cyber, Health and Safety, Supply Chain Risk, Emerging Technology). This is increasingly common in the sector given the complexity of emerging risks.
- Although some stakeholders valued the consistency of staff others felt that BA would benefit from more churn within the function which would bring fresh thinking, new insight and new skills. There was a concern that the team was too indoctrinated in 'the Birmingham way' or the way that individual Directorates did things.
- Some interviewees articulated that they did not know if BA had a methodology and, if they did, were not aware of it or how that drives the audit approach for individual reviews which could vary significantly.

Recommendations

If the Council's aspiration for this attribute is to be closer to best practice BA should look at the skills within the team and:

2.5.1 Consider using subject matter experts (either internal or external), particularly for high risk reviews where they don't have the best skills within the team. This will improve the quality of deliverables.

2.5.2 Devote more time to report writing to better articulate the root cause and impact of every finding. Peer review of reports would also help.

2.5.3 Work more closely with the directorate to develop robust findings which will deliver tangible improvement to the function or process.

2.5.4. Consider rotation of staff (particularly in directorates with less engagement) and how to bring in new resources to the function on a more regular basis.

2.5.5 Consider how the benefits of the data warehouse can be shared and accessed more broadly.

2.5.6 Include benchmarking as a regular part of each audit review (where appropriate) to provide additional insight to the review. This could be against an external standard or another organisation/s or between council directorates

2.5.7 Roll out a campaign to increase awareness of the function's methodology and operating protocol. This could involve a one-off element and be incorporated into induction training and refresher training for particular roles.

Appendices:

Appendix 1: TIIA methodology

Bringing it together
The Total Impact of Internal Audit

Total
Impact

Total Impact = Effectiveness + Contribution

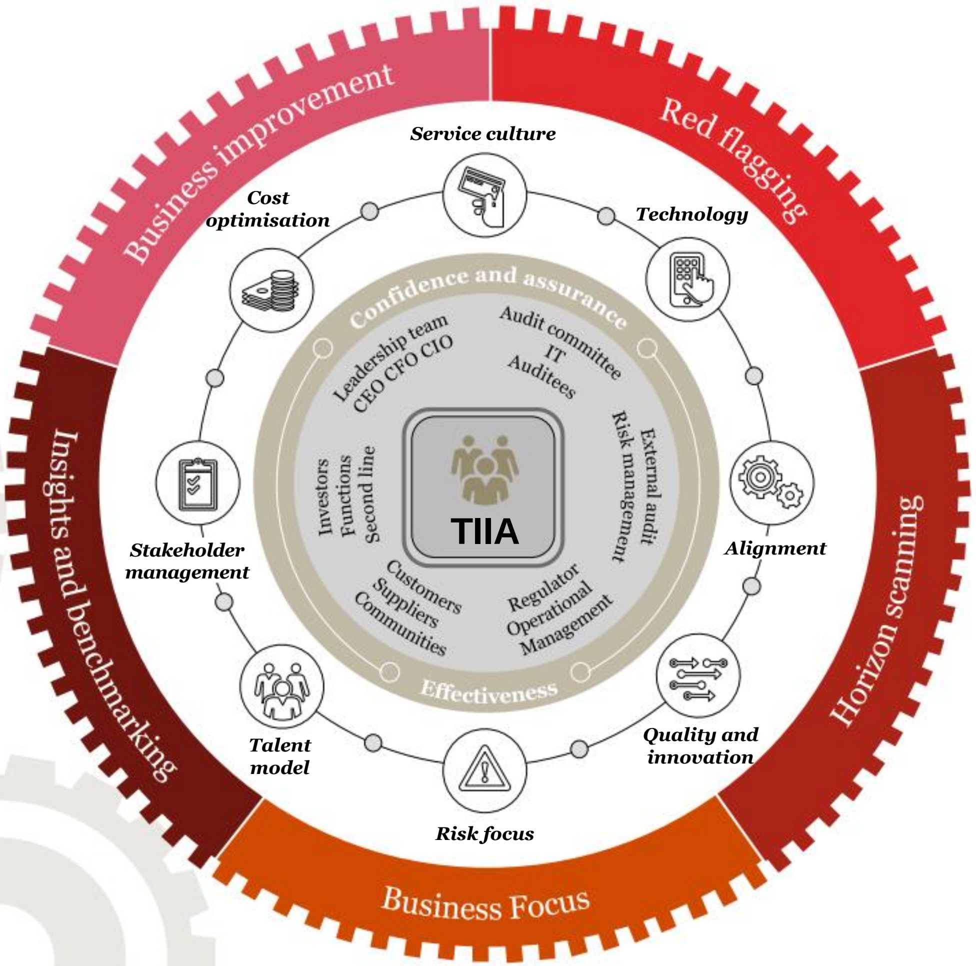
TIIA is a PwC framework for directing and measuring the holistic contribution of Internal Audit.

Typical reviews of an internal audit function focus on the measurable 'inputs' for the function such as the existence of policies, procedures, quality standards, qualifications.

We considered the existence and effectiveness of the areas set out overleaf as the 'effectiveness' element of the Total Impact of Internal Audit.

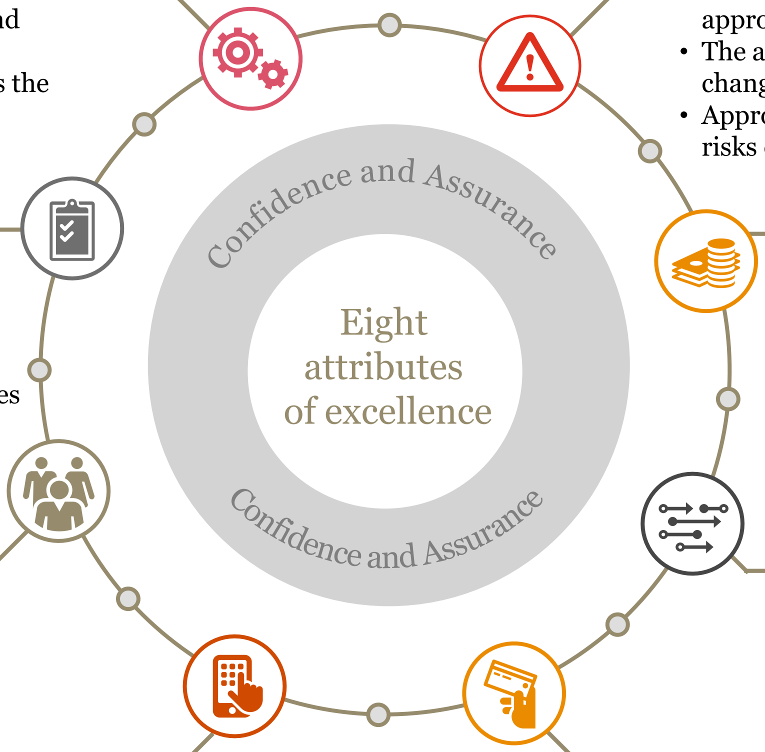
However, in accordance with our scope of work we focussed the greater part of our efforts on considering the **outputs, outcomes and value-added contribution** of the audit function. This is described in the following page on 'Contribution'. The following pages set out the five key elements used to assess the audit function's contribution.

Together the elements informed our view of the Total Impact of Internal Audit.



Delivering the IA mandate

Effectiveness



Business alignment

- Expectations are clearly articulated and communicated
- Internal audit defines and articulates its mission and value
- Metrics are developed to measure progress towards the stated mission and vision

Stakeholder management

- Stakeholders perceive IA as operationally excellent and, where appropriate, as a provider of strategic support
- An IA strategic plan exists that captures expectations, communication strategy, and timelines
- IA coordinates with business units to define expectations and share audit scopes and seeks function-specific feedback regularly

Talent model

- An appropriate mix of core internal audit and subject matter specialists (including those with business acumen)
- A continual learning and development model exists

Technology

- Data analytics/continuous auditing are deployed, allowing for alignment with business areas, providing efficiency/increased coverage in testing and early warning of risk indicators
- Data is utilised to provide deep and persuasive intelligence on business issues and observations/recommendations

Risk focus

- The audit plan is based on both a top-down, strategic approach and bottom-up approach to business risks
- The audit plan is continuously updated to respond to changes in the company and the external environment
- Appropriate time and effort are spent on assessing the key risks of the enterprise

Cost effectiveness

- Use of internal and external resources, varying staff levels and geographical locations to increase efficiency
- Productivity is actively measured and managed
- Audit methodology and processes are standardised and simplified to be cost effective

Quality and innovation

- Quality standards have been defined
- Formal quality reviews are regularly completed to identify improvement opportunities
- Innovation is embedded in the culture of internal audit and is consistently fostered and rewarded

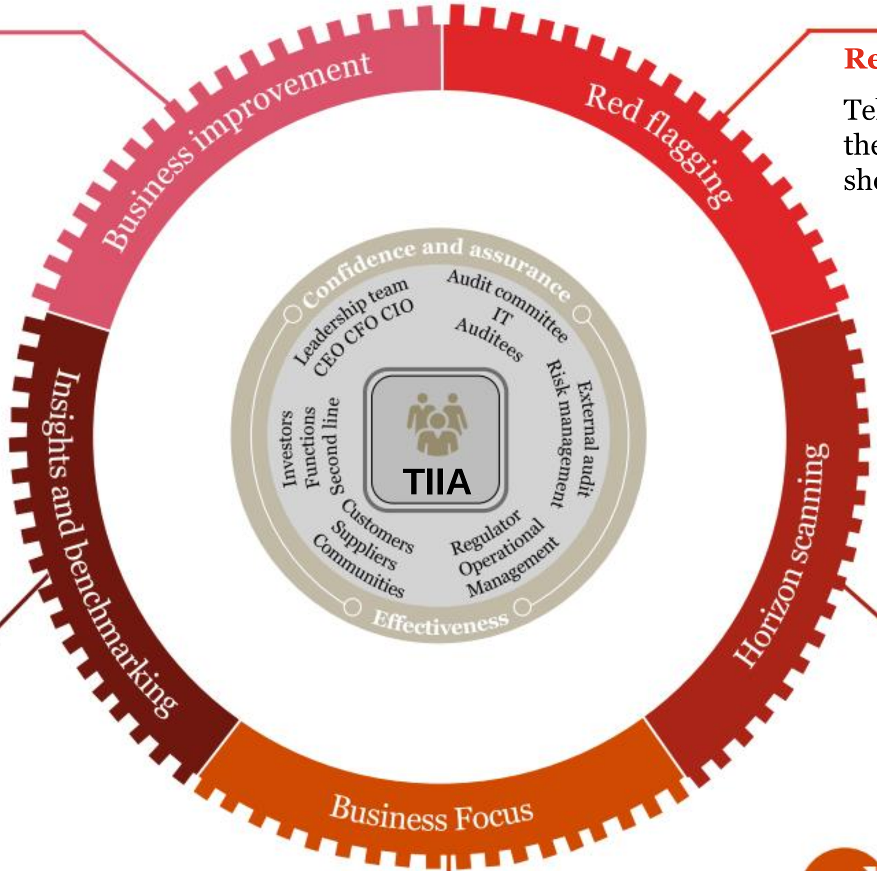
Service culture

- Metrics measure customer satisfaction based on stakeholder expectation
- All services provide balance of objectivity and value

Introducing Contribution

Contribution

Total Impact = Effectiveness + Contribution



Business improvement

Ensuring that recommendations are practical and deliver business improvement.

Red flagging

Telling the business something that they should be worried about and should act upon.

Insights and benchmarking

Telling the business something that they did not already know and could not find out without internal audit involvement.

Horizon scanning

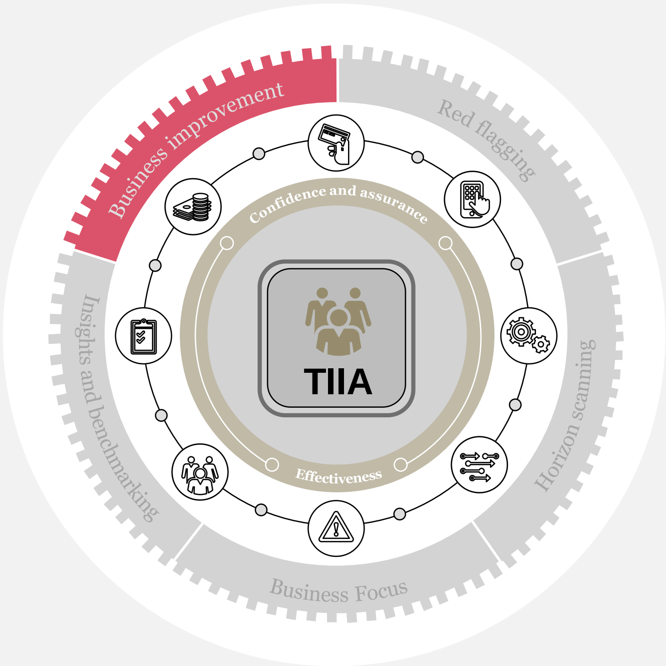
Predicting future areas of risk, concern and non compliance.

Business focus

Ensuring internal audit's activities are focussed on areas that are most important to the organisational strategy

Business improvement

Total impact of Internal Audit



Business improvement

Agree actions that are practical and provide support to deliver business improvement

Measures

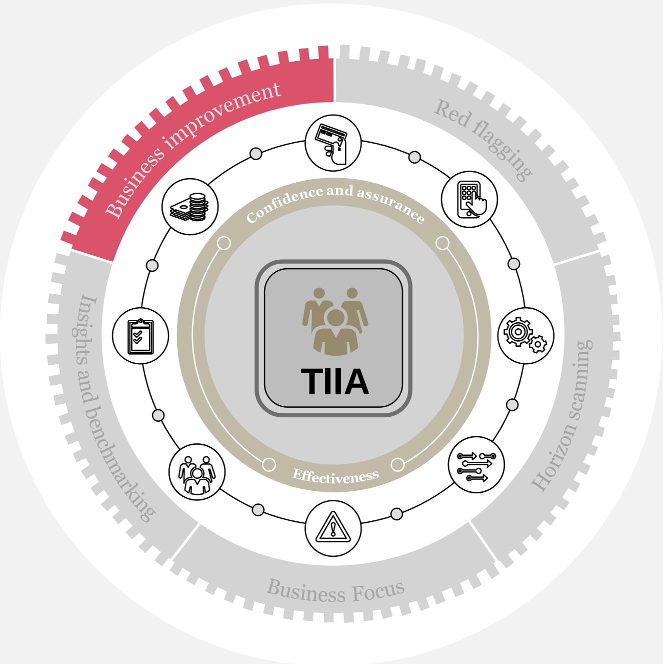
- Protect and improve business value
- Engage successfully
- Impact KPIs
- Qualify and quantify

Types of Evidence

- Engagement scores / feedback
- Visible involvement in improvement initiatives
- Feedback and commentary on business KPIs
- Internal Audit findings which are accepted and actioned by the business
- Use of high quality SME support
- Data analytical / other analytical outputs

Business improvement

Total impact of Internal Audit



Business improvement

Agree actions that are practical and provide support to deliver business improvement

Measures

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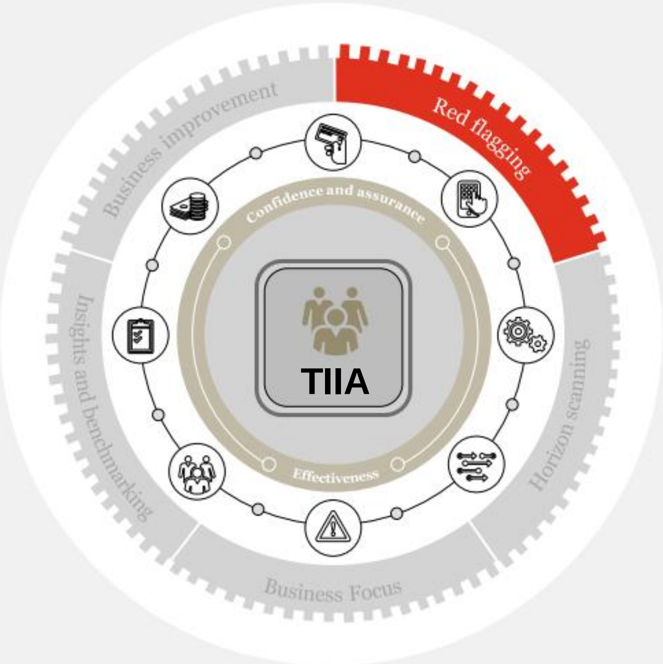
- Engage successfully
- Impact KPIs
- Qualify and quantify

Types of Evidence

- Engagement scores / feedback
- Visible involvement in improvement initiatives
- Feedback and commentary on business KPIs
- Internal Audit findings which are accepted and actioned by the business
- Use of high quality SME support
- Data analytical / other analytical outputs

Red Flagging

Total impact of Internal Audit



Red flagging

Assessing the current business and telling them in a timely manner something that they should be worried about and should act upon

Measures

- Detect
- Validate
- Support
- Escalate
- Learn

Types of Evidence

- Escalations
- Critical audit findings / red reports
- Data analytical outputs
- Board / AC briefings and papers
- Change initiatives
- GRC technology audit trails
- Remediation support for the implementation of critical findings

Horizon Scanning

Total impact of Internal Audit

Horizon scanning

Forward looking to predict future areas of risk, concern and non compliance

Measures

- Predict
- Navigate
- Equip and prepare
- Exploit

Types of Evidence

- Producing discussion papers/white papers
- Audit planning takes account of external megatrends
- Connections with other organisations with similar characteristics
- Attendance/contributions at steering committees / transformation roles

Business focus

Total impact of Internal Audit

Business focus

Aligning Internal Audit activities to the areas that are most important to the business

Measures

- Transformation
- Principal risks
- Coordinated Assurance (3LoD)
- Business partner

Types of Evidence

- Alignment of activities and IA plan to Principal Risks
- Involvement in key strategic activities, such as business planning, deals etc.
- Feedback from stakeholders
- Engagement activities showing dialogue with business stakeholders
- Coordinating work with other lines of defence/ integrated assurance activities
- Transformation / steering committee roles

Insights and benchmarking

Total impact of Internal Audit

Insights and benchmarking

Telling the business something that they did not already know about the organisation and its people to create transparency

Measures

- Discover
- Diagnose
- Illuminate
- Prioritise (Macro focus not micro)

Types of Evidence

- Anecdotal evidence of use of external benchmarks
- Feedback from stakeholders
- Data analytical outputs / technology use
- Discussion papers
- Accepted suggestions
- Comparisons between business units/directorates

Appendix 2: Stakeholder interviews

Stakeholder interviews

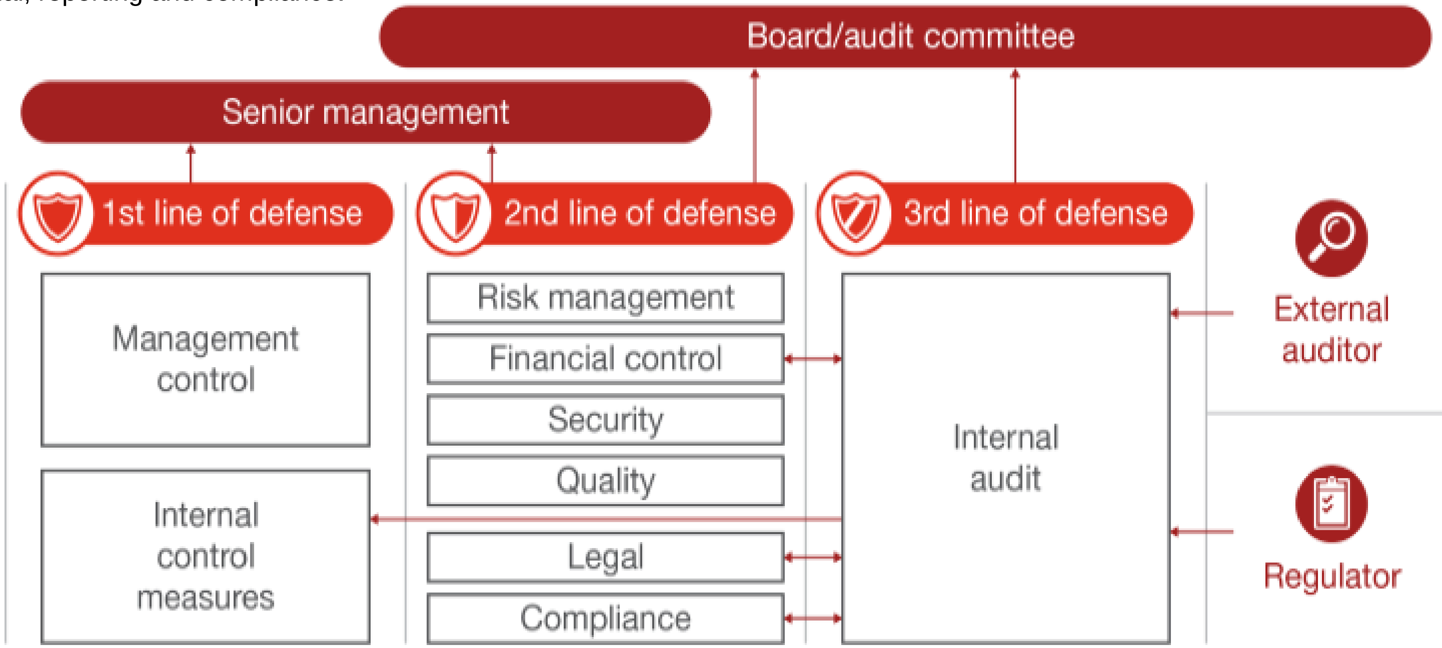
Name of Attendee	Stakeholder	Role
Graham Betts	Council Leadership Team	Acting Chief Executive and Adullt Social Care
Rebecca Hellard	Council Leadership Team	Chief Financial Officer
Tim O'Neil	Council Leadership Team	Director Education and Skills
Peter Bishop	Council Leadership Team	Director, Digital and Customer Services
Ian Macleod	Council Leadership Team	Director, Inclusive growth
Dawn Hewins	Council Leadership Team	Director, Human Resources
Jonathon Tew	Council Leadership Team	Assistant Chief Executive
Robert James/Chris Jordan	Council Leadership Team	Director, Neighbourhoods
Sarah Dunlavey	Other Stakeholders	Assistant Director Audit and Risk Management
Fred Grindrod	Audit Committee	Chairman Audit Committee - Labour
Paul Tilsley	Audit Committee	Audit Committee – Liberal Democrat
Merion Jenkins	Audit Committee	Audit Committee - Conservative
Brigid Jones	Cabinet	Deputy Leader

Appendix 3: The three lines of defence

The Three Lines of Defence (3LoD) summarised

To ensure the effectiveness of an organisation's risk management framework, those charged with governance need to be able to rely on adequate line functions – including monitoring and assurance functions – within the organisation. PwC and the Institute of Internal Auditors endorse the 'Three Lines of Defence' model as a way of explaining the relationship between these functions and as a guide to how responsibilities should be divided:

1. The first line of defence – functions that own and manage risk. Under the first line of defence, operational management has ownership, responsibility and accountability for directly assessing, controlling and mitigating risks and controls.
2. The second line of defence – functions that oversee or specialise in risk management and compliance. The second line of defence consists of activities covered by several components of internal governance (compliance, risk management, quality, IT and other control departments). This line of defence monitors and facilitates the implementation of effective risk management practices by operational management and assists the risk owners in reporting adequate risk related information up and down the organisation.
3. The third line of defence – functions that provide independent assurance, above all internal audit. Internal audit (though increasingly other external providers of assurance too) form the organisation's third line of defence. An independent internal audit function will, through a risk-based approach to its work, provide assurance to those charged with governance. This assurance will cover how effectively the organisation assesses and manages its risks and will include assurance on the effectiveness of the first and second lines of defence. It encompasses all elements of an institution's risk management framework (from risk identification, risk assessment and response, to communication of risk related information) and all categories of organisational objectives: strategic, ethical, operational, reporting and compliance.



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Appendix D

Core Cities Chief Internal Auditor Group

External Assessment – Peer Review

Terms of Reference

Background Information

External Assessments:

The Public Sector Internal Audit Standard (PSIAS) introduced a requirement for an external assessment to be conducted at least once every five years by a qualified, independent reviewer from outside of the organisation as part of an ongoing quality assurance and improvement programme.

There are two possible approaches to external assessments outlined in the standard: a full external assessment; or an internal self-assessment which is validated by an external reviewer.

External reviewers should:

- possess a recognised professional qualification;
- have appropriate experience of internal audit within the public sector / local government;
- have detailed knowledge of leading practices in internal audit; and
- have current, in-depth knowledge of the Definition, the Code of Ethics and the International Standards.

The Head of Internal Audit should discuss the proposed form of the external assessment with their line manager (where relevant) or Section 151 Officer (or equivalent) or Chief Executive prior to making recommendations to the Audit Committee regarding the nature of the assessment. The scope of the external assessment should have an appropriate sponsor, such as the Chair of the Audit Committee or Section 151 Officer.

The Head of Internal Audit should report the results of their quality assurance improvement programme (ongoing activity, internal and external assessments) to stakeholders. Such stakeholders should monitor the implementation of actions arising from internal and external assessments.

Purpose of the Review

The purpose of the external assessment is to help improve delivery of the audit service and establish whether governance requirements relating to the provision of service are embedded. The assessment should be a supportive process that identifies opportunities for development and enhances the value of the audit service to the authority.

Proposed Approach

Members of the Core Cities group have elected to adopt the internal self-assessment approach validated by an external peer reviewer. The key benefit to this approach is cost. The Chartered Institute of Public Finance (CIPFA) offer a service to provide external assessments and can undertake a full quality assessment at an approximate cost of £30K. The Chartered Institute of Internal Auditors (CIIA) also offer a similar service at an approximate cost of £14k. They also provide a validated assessment, similar to the approach agreed by the core cities group, which takes around 5 working days and costs approximately £12.5k (costs based on quotes obtained for PSIAS reviews at Birmingham City Council).

There are clear financial savings to members of the Core Cities group by adopting a peer review approach. In addition, the approach is in keeping with the promotion of collaborative working arrangements.

Each authority will determine an appropriate member of their team to conduct the external assessment, taking into account qualifications and relevant experience.

Upon conclusion of the external assessment, the reviewer will offer a 'true and fair' judgement and it is proposed that each authority will be appraised as **Conforms**, **Partially Conforms** or **Does Not Conform** to the PSIAS.

Independence and Objectivity

Prior to the assessments taking place all parties will agree the programme of peer reviews and an appropriate timetable, including the number of days required to undertake the reviews. It is important to ensure the independence of the auditor undertaking the peer assessment. Any known or perceived conflicts of interest should be disclosed. It should be acknowledged at the outset that all Core City Internal Audit services have some knowledge of each other.

The Assessment Process and Indicative Timescales

Completion of the Checklist:

Each Head of Internal Audit must complete the Checklist for Conformance with the PSIAS which is attached to the Local Government Application Note in advance of the external assessment. It is essential that the basis of the assessment is documented.

Pre Assessment Phase (2 days):

- Confirm the terms of reference for the review, timescales and dates for the review – this should include any specific issues that the authority may want to be considered as part of their quality assessment.
- Obtain:
  - relevant background information to gain an understanding of the service. This should include the Internal Audit Charter / Strategy or Terms of Reference (independence, scope authority, purpose and the relationship with the Audit Committee and senior executives);
  - details of responsibilities, resources, structure and activities;
  - details of any external client organisations e.g. Joint Authorities and consider whether such organisations may have different outcomes in terms of compliance with the PSIAS and whether separate assessments may be required;
  - the completed self-assessment and supporting evidence; and
  - evidence of how quality is maintained, and performance measured and reported.
- Issue a questionnaire to key stakeholders at the Council to obtain feedback on the internal audit procedures and process.
- Evaluate all documentation supporting the self-assessment prior to the on-site visit.

Assessment Phase (on-site visit) (1day):

- Raise and resolve any queries arising from the review of the self-assessment.
- Examine a sample of audit engagements to verify compliance to the PSIAS and procedures.
- Interview key staff and stakeholders to confirm audit procedures and process.
- Undertake an exit meeting with the Head of Internal Audit.

Post Assessment Phase (1 day):

The review should conclude with a detailed report providing an evaluation of the team's conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards. The report should highlight areas of partial conformance / non-conformance and include suggested actions for improvement, as appropriate.

Reporting Phase (1 day):

- Discussion of the draft report with the Head of Internal Audit.
- Issue of draft final report and agreed actions to the Head of Internal Audit to confirm accuracy.
- Issue final report to the Head of Internal Audit and Sponsor.
- Head of Internal Audit / Sponsor to report outcomes to their Audit Committee, together with an action plan and proposed implementation date(s).

It is envisaged that the assessment process should approximately 5 days in total.

Proposed schedule

Liverpool review Birmingham

Bristol review Liverpool

Manchester review Sheffield

Glasgow review Leeds

Leeds review Manchester

Sheffield review Nottingham

Nottingham review Bristol

Birmingham review Glasgow

BIRMINGHAM CITY COUNCIL

AUDIT COMMITTEE

25 NOVEMBER 2020

SCHEDULE OF OUTSTANDING MINUTES

MINUTE NO./DATE	SUBJECT MATTER	COMMENTS
193 28/01/2020	**Travel Assist** The Director of Education & Skills to provide an update report to Members of the Committee following outcomes of investigations including DBS checks queries**.**	Report due in 26 Jan 2021.
223 28/07/2020	**Audit Findings Report Recommendations – Progress Report (Retrospective Purchase Orders)** Additional recommendation added following discussions. iii) A report to be provided to the Committee on retrospective purchase orders and Directorates not complying with procedures.	Deferred to 25 November Committee.
227 28/07/2020	**Other urgent business - (Travel Assist)** A written response to be provided by Officers to the Committee related to the avoidance of deed poll changes via DBS checks.	A statement was shared at the 20 October Committee. Any further queries can be sent in writing to the Chair. Completed & discharged
235 29/09/2020	**Statement of Accounts 2019/20 (Financial Statement - Senior Officers Note)** Additional recommendation added following discussions. ii) A revised version of the Officers' Remuneration table to be presented at the next committee with clear references indicated.	Deferred to 25 November Committee.

246 20/10/2020	**<u>Assurance Session – Deputy Leader's Portfolio</u>** Additional recommendation added following discussions. ii) That the committee be provided with the total cost so far for the work to make the Council GDPR compliant.	