BIRMINGHAM CITY COUNCIL

AUDIT COMMITTEE

MONDAY, 30 JULY 2018 AT 14:00 HOURS
IN COMMITTEE ROOM 6, COUNCIL HOUSE, VICTORIA SQUARE, BIRMINGHAM, B1 1BB

A G E N D A

1 **NOTICE OF RECORDING/WEBCAST**

The Chairman to advise/meeting to note that this meeting will be webcast for live or subsequent broadcast via the Council's Internet site (www.civico.net/birmingham) and that members of the press/public may record and take photographs except where there are confidential or exempt items.

2 **APOLOGIES**

To receive any apologies.

3 **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 - 8 4 **MINUTES**

To confirm and sign the Minutes of the last meeting held on 19 June 2018.

9 - 58 5 **CORPORATE RISK REGISTER UPDATE**

Report of the Assistant Director, Audit & Risk Management

59 - 360 6 **STATEMENT OF ACCOUNTS - 2017/18**

Report of the Corporate Director, Finance & Governance

7 **DATE OF NEXT MEETING**

The next meeting is scheduled to take place on Tuesday, 25 September 2018 at 1400 hours in Committee Room 6, Council House.

8 **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.

9 **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
19 JUNE 2018

<u>MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD ON TUESDAY, 19 JUNE 2018 AT 1400 HOURS IN COMMITTEE ROOM 6, COUNCIL HOUSE, BIRMINGHAM</u>

<u>PRESENT</u>:-

Councillor John O'Shea in the Chair;

Councillors Afzal, Bridle, Jenkins, Shah, Trickett, Webb and Tilsley

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<u>NOTICE OF RECORDING/WEBCAST</u>

31 The Chairman advised and the meeting noted that this meeting would be webcast for live or subsequent broadcast via the Council's Internet site (www.birminghamnewsroom.com) and 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.

<u>APPOINTMENT OF AUDIT COMMITTEE , CHAIR, DEPUTY CHAIR AND MEMBERS</u>

32 **<u>RESOLVED</u>**:-

(i) That the resolution of the City Council appointing the Committee and Chair, with membership set out below for the period ending with the Annual Meeting of the City Council in May 2019 be noted:-

<u>Labour Group</u>

Councillors Afzal, Bridle, O'Shea (Chair), Shah and Trickett

<u>Conservative Group</u>

Councillors M Jenkins and Webb

Liberal Democrat Group

Councillor Tilsley

(ii) that Councillor Trickett be elected Deputy Chair, for the purpose of substitution for the Chair if absent, for the period ending with the Annual Meeting of the Council in 2019.

FUNCTIONS – AUDIT COMMITTEE

The following schedule was submitted:-

(See document No. 1)

33 **RESOLVED:-**

That the schedule of functions be noted.

DECLARATIONS OF INTEREST

34 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. The following non-pecuniary interests were declared:-

Councillor O'Shea (Chair) previous Director of Service Birmingham.
Councillor Trickett previous Director of Innovation Birmingham.
Councillor Afzal previous Director Birmingham Museums Trust.

MINUTES

35 **RESOLVED:-**

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

ANNUAL GOVERNANCE STATEMENT OF ACCOUNTS 2017/18

The following report of the Corporate Director – Finance and Governance was submitted:-

(See document No. 2)

Martin Stevens, Head of City Finance Accounts, introduced the report and made particular reference to the seven governance issues identified for the inclusion in the Statement for the 2017/18 Financial Year together with the mitigation and proposed actions.

He confirmed that the Annual Governance Statement would be kept under review up to the point of signing the final version of the accounts that would be submitted to 30 July 2018 Audit Committee meeting, adding that any significant events or developments relating to the governance system, would be reported at the meeting.

36 **RESOLVED**:-

(i) That the Annual Governance Statement, which will be included in the 2017/18 Statement of Accounts, be approved

(ii) That it be noted that the arrangements for the management of the items included in Section 6 of the Annual Governance Statement are due to be reported to the Audit Committee during the year.

BIRMINGHAM AUDIT ANNUAL REPORT 2017/18

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

(See document No. 3)

Sarah Dunlavey, Assistant Director, Audit and Risk Management, Craig Price, Principal Group Auditor and Clive Heaphy, Strategic Director, responded to Members' comments including an explanation regarding the merits of purchase cards, the usage and the development of the audit data warehouse and the implementation and compliance with the General Data Protection Regulation (GDPR).

At this juncture, the Chair requested that a briefing on the data warehouse be scheduled as an agenda item for a future meeting.

37 **RESOLVED**:-

(i) That the report be noted and the annual assurance opinion for 2017/18 be accepted;

(ii) that approval be given to the 2018/19 Internal Audit Charter as set out in the report now submitted.

STATEMENT OF ACCOUNTS 2017/18

The following report of the Corporate Director – Finance and Governance was submitted:-

(See document No. 4)

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

At this juncture, it was highlighted that Members and officers had met prior to the meeting to discuss in more detail the Statement of Accounts, and as a result of this, any questions raised by members during this time had been answered by officers.

The Chair highlighted that he had spent a considerable amount of time with officers discussing the Statement of Accounts and subsequently thanked them for their support over the last few weeks.

38 **RESOLVED**:-

That the Draft Statement of Accounts for 2017/18 and the arrangements for the audit of the accounts and public inspection be noted.

GRANT THORNTON – PROGRESS REPORT

The following report of the External Auditor, Grant Thornton, was submitted:-

(See document No. 5)

Phil Jones, Grant Thornton introduced the report and responded to Members' comments including an explanation of the provisions that have been set aside and the need for the City Council to be less reliant on the use of reserves to balance the budget and savings delivery.

Clive Heaphy, Strategic Director, emphasised that it was not good practice to continue using reserves and highlighted that they were working with all groups to put together balanced budgets that were going to work and minimise the use of any future reserves.

39 **RESOLVED**:-

That the report be noted.

DATES AND TIME OF MEETINGS

40 **RESOLVED**:-

That the Committee meets on the following Tuesdays at 1400 hours in the Council House:-

2018	**2019**
30 July (Monday)	29 January
25 September	26 March
20 November	

AUTHORITY TO CHAIRMAN AND OFFICERS

41 **RESOLVED**:-

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

The meeting ended at 1450 hours.

……..…………………………….
CHAIRMAN

BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to:	**Audit Committee**
Report of:	**Assistant Director, Audit & Risk Management**
Date of Meeting:	**30th July 2018**
Subject:	**Corporate Risk Register Update**
Wards Affected:	**All**

1. Purpose of Report

To update the Audit Committee with information on the management of risks and issues within the Corporate Risk Register (CRR) at Appendix A. Also provided is an Index of the risks showing previous updates and a Risk Heat Map. The information has been compiled using updates received from directorates on all risks.

2. Recommendations

That the Audit Committee reviews the information provided and decide if the risk ratings are reasonable, if action being taken is effective, or if further explanation/information is required. Approval is sought for the following:-

2.1 Risk No18 (Alternative Delivery Models) has undergone a thorough review and has been reworded and re-risked.

2.2 The deletion of the following risk:

- No 3 (Schools PFI) as the immediate concern over PFI gap has been met. Longer term concerns are now being considered which will be managed locally or re-submitted onto the CRR.

2.3 The inclusion of the following 6 new risks:

- No 38 – Enterprise Zones – to manage in line with its delivery plan.
- No 39 – HS2 – BCC role to facilitate its delivery
- No 40 – Athletes Village - Commonwealth Games
- No 41 – School deficits – national funding arrangements have resulted in real term funding reductions & Dedicated Schools Grant – High Needs element.
- No 42 – Travel Assist – cost of provision and ability to deliver the

agreed level of service
- No 43 – Early years and Well Being Contract

2.4 Reinstate removed risk in March 2018 on Allowance Payments – New risk No 44.

2.5 A new category of risk – “Service Delivery” has been added.

3. Background Information

3.1 Members have a key role within the risk management and internal control processes.

3.2 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.

4. Corporate Risk Register Update

4.1 The CRR is aligned to the corporate objectives of the Council and identifies the key risks to be managed at a corporate level.

4.3 The Council Management Team (CMT) reviewed the CRR on 2nd July 2018 and have agreed to the above changes.

5. Embedding Risk Management

5.1 There are directorate risk registers in place supported by individual risk registers for service areas.

5.2 The current main route to provide risk management awareness is the e-learning package for managers, accessed via the internet and the risk management

Policy, Strategy and Methodology. Documents and web pages are currently being refreshed.

5.3 Service managers are asked about their risk management arrangements as part of routine audit work. In addition the mandatory Public Sector Internal Audit Standards include a requirement with regard to risk management.

5.4 Risk management is also covered within the Annual Governance Statement.

6. Legal and Resource Implications

6.1 The work carried out is within approved budgets.

7. Equality Impact Assessment Issues

7.1 Risk management forms an important part of the internal control framework within the Council.

7.2 The Council's risk management strategy has been Equality Impact Assessed and was found to have no adverse impacts.

8. Compliance Issues

8.1 Decisions are consistent with relevant Council Policies, Plans and Strategies.

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Sarah Dunlavey
Assistant Director, Audit & Risk Management

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e-mail address: sarah.dunlavey@birmingham.gov.uk

INDEX OF RISKS – PREVIOUS UPDATES

Safeguarding / Welfare

Risk No.	Short Description	Target rating Likelihood / Impact July 2018	Actual Risk rating Likelihood / Impact July 2018	Change in residual risk 07/18	Actual risk levels in previous updates to Audit Committee				
					Mar 2018	Change in residual risk	Nov 2017	Change in residual risk	Jul 2017
2	Not responding fully and effectively to the improvement agenda for children - Failure to improve children's safeguarding and children's social care.	**M/H**	**S/H**	Reduced	**H/H**	Same	**H/H**	Same	**H/H**
32	Risk of significant disruption to Council services and failure to effectively manage and respond to emergency incidents, including acts of terrorism.	**M/S**	**S/H**	Same	**S/H**	Same	**S/H**	Same	**S/H**
33	Failure of the Council to make its contribution to deliver a step change to the Health and Social Care system resulting in an improvement to the health and well-being of Birmingham citizens.	**L/M**	**S/S**	Same	**S/S**	Same	**S/S**	Same	**S/S**
42 New risk	Travel Assist There are risks within the service over the cost of the provision and ability to deliver the agreed level of service within the agreed budget.	**M/S**	**S/H**						
43 New Risk	Early Years Health and Well Being contract There are risks that the assumed financial savings from the contract will not be fully realised due to unforeseen costs and possible grant claw backs.	**S/M**	**H/S**						

Statutory Responsibilities / Compliance with Statutory Responsibilities

Risk No.	Short Description	Target rating Likelihood / Impact July 2018	Actual Risk rating Likelihood / Impact July 2018	Change in residual risk 07/18	Actual risk levels in previous updates to Audit Committee				
					Mar 2018	Change in residual risk	Nov 2017	Change in residual risk	Jul 2017
1	Management of equal pay claims.	**M/S**	**S/S**	Same	**S/S**	Reduced	**H/H**	Same	**H/H**
26	Failure to comply with all of the requirements of the Counter Terrorism and Security Act (2015) and the Prevent Duty.	**M/S**	**H/H**	Same	**H/H**	Same	**H/H**	Same	**H/H**
31	Increased pressure on the statutory homeless service.	**M/M**	**H/H**	Same	**H/H**	Same	**H/H**	Same	**H/H**
34	Risk of fines being passed down to Local Authorities in relation to air quality / ongoing fines related to not meeting air quality compliance.	**M/L**	**H/M**	Same	**H/M**	Same	**H/M**	Same	**H/M**
12	Failure to comply with all the requirements of the Equality Act 2012 and the Public Sector Equality Duty.	**M/S**	**M/S**	Same	**M/S**	Same	**M/S**	Same	**M/S**
25	Failure to comply with statutory timescales in relation to DoLS (Deprivation of Liberty) referrals, which could lead to legal challenge and result in financial loss to the Council.	**M/S**	**M/S**	Same	**M/S**	Same	**M/S**	Reduced	**M/H**
11	a) Risk to individual privacy through the loss of significant personal or other sensitive data. b) Risk of fines from the information	**L/H**	**L/H**	Same	**L/H**	Same	**L/H**	Reduced	**M/S**

Risk No.	Short Description	Target rating Likelihood / Impact July 2018	Actual Risk rating Likelihood / Impact July 2018	Change in residual risk 07/18	Actual risk levels in previous updates to Audit Committee				
					Mar 2018	Change in residual risk	Nov 2017	Change in residual risk	Jul 2017
	commissioner								
35	Risk of failure to implement GDPR.	M/M	H/H	Same	H/H				
36	Failure to respond positively and effectively to the required outcomes of the Grenfell Tower enquiry once known.	L/L	L/M	Same	L/M				
37	Homelessness Reduction Act – Insufficient council resources to meet the requirements of the Act fully.	M/H	M/H	Same	M/H				

Financial Resilience

Risk No.	Short Description	Target rating Likelihood / Impact July 2018	Actual Risk rating Likelihood / Impact July 2018	Change in residual risk 07/18	Actual risk level in previous updates to Audit Committee				
					Mar 2018	Change in residual risk	Nov 2017	Change in residual risk	Jul 2017
3	Failure to identify alternative funding stream for school PFI contracts revenue pressure, impacting on availability for essential management of the LA schools estate. Nominated for deletion	M/S	H/S	Same	H/S	Same	H/S	Same	H/S

Risk No.	Short Description	Target rating Likelihood / Impact July 2018	Actual Risk rating Likelihood / Impact July 2018	Change in residual risk 07/18	Actual risk level in previous updates to Audit Committee				
					Mar 2018	Change in residual risk	Nov 2017	Change in residual risk	Jul 2017
29	Not developing sufficiently robust plans to support setting a balanced budget (including in the medium term), and not containing net spending within the approved budget.	L/S	H/H	Increased	S/S	Same	S/S	Increased	M/S
15	Not recognising the need to divest of costly property assets in radical new solutions to reframe service delivery.	M/L	S/M	Same	S/M	Same	S/M	Same	S/M
38 New Risk	Management of the Enterprise Zone Programme in line with ita delivery plan	M/S	H/H						
41 New Risk	School Deficits National funding arrangements have resulted in real term funding reductions	S/M	H/H						

Political

Risk No.	Short Description	Target rating Likelihood / Impact July 2018	Actual Risk rating Likelihood / Impact July 2018	Change in residual risk 07/18	Actual risk levels in previous updates to Audit Committee				
					Mar 2018	Change in residual risk	Nov 2017	Change in residual risk	Jul 2017

None.

Technology

Risk No.	Short Description	Target rating Likelihood / Impact July 2018	Actual Risk rating Likelihood / Impact July 2018	Change in residual risk 07/18	Actual risk levels in previous updates to Audit Committee				
					Mar 2018	Change in residual risk	Nov 2017	Change in residual risk	Jul 2017
16	That web services to customers or work with partners may be disrupted by malicious attacks on the City Council's web based services.	L/M	S/M	Same	S/M	Same	S/M	Same	S/M
17	Ineffective Corporate Risk Marker IT solution.	L/M	L/M	Same	L/M	Same	L/M	Same	L/M

Transformation

Risk No.	Short Description	Target rating Likelihood / Impact July 2018	Actual Risk rating Likelihood / Impact July 2018	Change in residual risk 07/18	Actual risk levels in previous updates to Audit Committee				
					Mar 2018	Change in residual risk	Nov 2017	Change in residual risk	Jul 2017
7	Lack of capacity and capability to respond to employee relations tensions, poor service, performance issues, sickness absence levels and poor morale due to organisational downsizing and pay freezes.	L/M	S/S	Same	S/S	Same	S/S	Same	S/S

Risk No.	Short Description	Target rating Likelihood / Impact July 2018	Actual Risk rating Likelihood / Impact July 2018	Change in residual risk 07/18	Actual risk levels in previous updates to Audit Committee				
					Mar 2018	Change in residual risk	Nov 2017	Change in residual risk	Jul 2017
10	Not building on the recently agreed collaborative approach with the Improvement Panel to deliver change following the Kerslake Report	**L/S**	**M/S**	Same	**M/S**	Same	**M/S**	Same	**M/S**
18	Failure to adequately evaluate the costs and benefits of alternative delivery models. Failure to fully implement the decisions made to change policy and service delivery.	**M/L**	**H/H**	Increased	**M/M**	Same	**M/M**	Same	**M/M**
45	Allowance payments **Reinstated risk**	**M/M**	**M/M**						

Service Delivery New Catergory

Risk No.	Short Description	Target rating Likelihood / Impact July 2018	Actual Risk rating Likelihood / Impact July 2018	Change in residual risk 07/18	Actual risk levels in previous updates to Audit Committee				
					Mar 2018	Change in residual risk	Nov 2017	Change in residual risk	Jul 2017
6 New Risk	Failure to achieve all of the services required including delivery of significant investment into the Highway network within the first five years of the contract.	**L/S**	**H/S**	Same	**H/S**	Same	**H/S**	Same	**H/S**
39 New Risk	HS2 Delivery of HS2 following Royal Assent pf HS2 Act. BCC role to help facilitate delivery of new railway (including Curzon Station and depot). Maximise benefits for City and minimise/mitigate impact during construction.	**M/M**	**S/S**						
40 New Risk	Commonwealth Games – Athletes Village Delivery of the Athletes Village dependant on the funding & acquisition of land in addition to potential changes to sporting schedules affecting the village's capacity to accommodate athletes.	M/M	**M/M**						

Risk Map – July 2018

Likelihood	Low	Medium	Significant	High
High	Loss of personal/ sensitive data (R11)		Responding to emergency incidents including acts of terrorism (R32)	GDPR Implementation (R35); Improving children's safeguarding (R2); Statutory homeless service (R31); Compliance re Counter Terrorism & Security Act (R26); Evaluation of service deliver options (R18); Equal Pay claims (R1); Containing expenditure within approved budget (R29); School Funding Issues (R41)
Significant		Responding to Kerslake Report (R10); Compliance to Equality Act 2010 & PSED (R12)	Failure of STP to deliver change/improve health & wellbeing (R33); Employee relations/ sickness absence levels (R7); HS2 delivery (R39	Highways PFI – Core Investment deliverables (R6)
Medium	Ineffective Corporate Risk Marker IT solution (R17)	Compliance to timescales for DoLS referrals (R25)	Not divesting of property assets (R15); Malicious attacks of web based services (R16)	Homeless Reduction Act (R37); Risk of fines re air quality (R34)
Low		Grenfell Tower Enquiry (R36)		
	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.

Index by Risk / Issue Number

No	Short Description of Risk / Issue	Page
18	Evaluation of cost & benefits of alternative delivery models & failure to fully implement the decisions made to change policy / service delivery	28
44 Reinstate risk	Allowance Payments	29
6	Failure to achieve all of the services required (including delivery of significant investment into the Highway network), within the first five years of the contract.	30
39 Nominate new risk	Delivery of HS2 following Royal Assent of the HS2 Act	31
40 Nominate new risk	Commonwealth Games – Athletes Village	32

Key:

Safeguarding / Welfare
Statutory Responsibilities / Compliance with Statutory Responsibilities
Financial Resilience - Risk associated with austerity and the financial challenges facing BCC
Political - Risks driven by the political agenda
Technology
Transformation
Service Delivery – New Category

Safeguarding / Welfare					
No.	**Description - risk / issue**	**Current level of risk L/I**	**Current actions / Comments**	**Long term aim for the risk - including actions, timescales and target risk rating**	**Overview & Scrutiny (O&S)Review / Work & Internal Audit (IA) Work**
2	Not responding fully and effectively to the improvement agenda for Children - Failure to improve children's safeguarding and children's social care. Lead: Corporate Director Children & Young People **Owner: Colin Diamond** **Owner: Assistant Director Commissioning – Sarah Sinclair**	**Significant** / High	**Lead Director comment** **In April 2018 Birmingham Children's Trust became operationally independent of the council as part of the ongoing process of improvement. The Trust is a wholly-owned company of the council, and works in close partnership to continue to improve outcomes for disadvantaged children and young people in the city.** **The Director of Children's Services duties still remain within the Council and sit with the Corporate Director for Children and Young People** The service is subject to regular Monitoring Visits by Ofsted. Positive progress was observed in the September and December visits. Further visits are scheduled for May and August, after which a full inspection is anticipated.	**Target risk rating:** Medium / High **Anticipated date of attainment of the target risk rating:** April **2019** **Source(s) of assurance regarding progress with mitigating the risk:** **Service Delivery Contract is in place and Commissioning arrangements are being developed to manage the Contract with the Trust.** **A monthly Operational Commissioning Group meets to consider performance and contract issues, this will also include risk updates.** **The Lead Member for Children's Services will meet regularly with the Chief Executive of the Trust to be briefed on progress.** **The Trust will continue to deliver improvement based on the four pillars of** - **Leadership, Management and Governance** - **Support for Practice & Management** - **Quality and Assurance** - **Engagement and Involvement**	O&S - Schools, Children and Families O&S Cttee: The following discussions, reviews and updates have taken place:- The Inquiry into Corporate Parenting was undertaken to improve the Cllrs role as Corporate Parents for Children in Care. This was agreed at Council on 4th April 2017 Continued with scrutinising the progress with the improvement journey at the July 2017 committee meeting with the Cabinet member and Corporate Director. A number of briefings and updates on the Children's Trust (11 July 17 briefing, 13th September 2017 item at committee meeting and 22nd November 2017 workshop). In addition the committee have continued to scrutinise arrangements for children missing from home and care and Child Sexual Exploitation (18th October 2017).

Safeguarding / Welfare					
No.	**Description - risk / issue**	**Current level of risk L/I**	**Current actions / Comments**	**Long term aim for the risk - including actions, timescales and target risk rating**	**Overview & Scrutiny (O&S)Review / Work & Internal Audit (IA) Work**
					IA Review 2018/19: Contract monitoring framework, Service Delivery Framework, Operational review, Client contract monitoring, Correspondence management, Performance framework – high level review and Ofsted Inspection Framework.
32	Risk of significant disruption to Council services and failure to effectively manage and respond to emergency incidents, including acts of terrorism. Lead: Chief Executive Owner: Jacqui Kennedy	Significant / High	**Lead Director comment** • Project Argus briefing to CLT undertaken during summer 2017. • Major incident exercise (Assured) November 2017. • Protect and prepare meetings programmed quarterly for 2017. Action tracker in place. • Corporate and LRF emergency plans in place. • Working with LRF partners on exercising 24/7 out of hours emergency duty officer service in place including emergency control room. • Security awareness briefings held with Council House Staff and elected members. • Work progressing with Prevent Community Reference Group to incorporate community responses into wider resilience plan • **Recruitment of Experienced Emergency Planning Professional**	**Target risk rating:** Medium / Significant **Anticipated date of attainment of the target risk rating:** Ongoing. **Source(s) of assurance regarding progress with mitigating the risk:** Cooperation with WMP CTU on their proposed Birmingham Protect and Prepare Board. Meeting to discuss this and wider issues 14th July 2017. Consolidate BCC and WMP P&P Processes **Active BCC engagement in the new Regional Multi-Agency sharing pilot with Home Office, MI6 and CTU colleagues in the Weat Midlands.**	O&S - None. IA Review - None.

Safeguarding / Welfare					
No.	**Description - risk / issue**	**Current level of risk L/I**	**Current actions / Comments**	**Long term aim for the risk - including actions, timescales and target risk rating**	**Overview & Scrutiny (O&S)Review / Work & Internal Audit (IA) Work**
33	Failure of the STP to deliver a step change to the Health and Social Care system resulting in an improvement to the health and well-being of Birmingham citizens. Lead: Interim Corporate Director Adults Social Care & Health Owner: Graeme Betts	Significant / Significant	**Lead Director comment** The leadership of the STP has changed. The STP board has agreed a revised purpose which will mitigate this risk. However, the scale of the challenge including meaningful public and staff engagement will mean this process will not be fast. Additionally there are "task" requirements of NHSE which may deflect attention this year. The STP "purpose" is evolving under new leadership. A draft vision and values has been developed and under consideration by the STP Board. **The revised STP purpose has been accepted by the STP Board**	**Target risk rating:** Low / Medium **Anticipated date of attainment of the target risk rating:** March 2019. **Source(s) of assurance regarding progress with mitigating the risk:** STP board which is represented by the Leader / Cllr Hamilton, CEO and Graeme Betts.	O&S - Health & Social Care O&S Committee have had regular updates on the STP both in main committee and Joint Birmingham / Solihull Health Scrutiny Committee. On 8th March 2017, Andrew McKirgan, who was then the Director BSol STP and Judith Davis, Programme Director, Better Care Fund attended Birmingham / Solihull JHOSC to present a progress report. The new BSOL STP lead Dame Julie Moore, Andrew McKirgan, Director of Partnerships UHB and Graeme Betts attended the 21st November HOSC to update Members. IA Reviews - None.
42	**New Risk** **Travel Assist** **There are risks within the service over the cost of provision and ability to deliver**	Significant / High	**Birmingham has a higher than average number of children with SEN (17.8% in the city; 15.5% nationally).** **Travel Assist supports over 5,700 children and young people to an educational setting. Of these, over 4,200 are on some form of specialised transport (mini-bus/coach/one-to-one transport). It is a huge logistical operation on a daily basis.**	**Target Risk Rating: Medium/ Significant** **Anticipated date of attainment of target risk rating:** **Sept 2019** **Source of assurance regarding progress with**	**IA 2018/19:** **Work completed last year looking at contract arrangements. Work currently taking place in terms of assessment and allocation process which includes impact**

Safeguarding / Welfare					
No.	Description - risk / issue	Current level of risk L/I	Current actions / Comments	Long term aim for the risk - including actions, timescales and target risk rating	Overview & Scrutiny (O&S)Review / Work & Internal Audit (IA) Work
	the agreed level of service within the agreed budget. There are also wider service risks about the capacity of the market to deliver this service and the reliance upon a single provider due to limited minibus capacity with. Lead: Corporate Director Colin Diamond Owner: Interim Assistant Director, SEND – Austin McNamara		The TA budget for the last few years has been artificially low. It was significantly reduced to £13.6m in 2016/17 based on a consultancy report. This resulted in 2016/17 in a £5.3m overspend (£18.9m), and an unprecedented number of complaints and negative attention placed on the service and BCC. Over the course of the academic year 2016/17 90% of the change programme was delivered. While the TA budget has been increased for 2018/19 the service still faces an potential anticipated deficit of up to £3,000k covering both contract hire and Guides	mitigating the risk: • Plans are being developed to remodel and re-procure the service. As part of the planned procurement new models of delivery with less reliance on minibuses are being developed to provide greater choice with regards to the delivery of the service. • A new 0-25 Transport Policy will be drafted for consultation in 2018 which will review the criteria for service provision. • SENAR and Travel Assist will work more closely to consider the combined cost of an education placement and the cost of transport In the longer term the implementation of the SEND and Inclusion Strategy will bring places back into the city closer to where the children who need them live, thus reducing transport costs.	on cost of delivering service.
43	New Risk Early Years Heath and Well Being contract There are risks that the assumed financial savings from the contract will not be fully realised due to unforeseen costs and possible grant claw backs. Previous unforeseen costs have been identified in	High/ Significant	In January 2018 the EYHWB Contract was issued to BCHC and a Secondment Agreement put in place between all Parties. Contract mobilisation date was the 8 January 2018. Programme management arrangements were fully stood down in March 2018. In mid-April it was clear that there were a number of outstanding risks and issues in relation to this contract. The following actions have been taken/are planned; - Interim AD capacity in place to oversee the programme - Urgent review of the Contract, Secondment Agreement and contract management arrangements completed	Target Risk Rating: Significant/medium Anticipated date of attainment of target risk rating: January 2019 Source of assurance regarding progress with mitigating the risk - Newly established Children's and Young People's Commissioning Board which has cross directorate senior representation	IA 2018/19: Job planned for January 2019 looking at commissioning and contract management.

Safeguarding / Welfare					
No.	**Description - risk / issue**	**Current level of risk L/I**	**Current actions / Comments**	**Long term aim for the risk - including actions, timescales and target risk rating**	**Overview & Scrutiny (O&S)Review / Work & Internal Audit (IA) Work**
	relation to estates and staffing issues There are also wider risks relating to the construction of the contract itself and the lack of robust contract management arrangements. All risks have been increased due to a lack of permanent commissioning and contract management arrangements Lead: Corporate Director Colin Diamond Owner: Assistant Director Commissioning – Sarah Sinclair		- Stocktake report being developed - Programme management arrangements being reinstated with cross directorate representation - Risk and issues log reviewed and updated - Key actions identified in relation to finance, HR, estates, performance management, contract mobilisation, IT - Developing 1.0 fte grade 6 commissioning capacity as part of an overall Early Years re-structure - Preparing for TUPE transfer of staff by 8 January 2019	- Contract management arrangements in place to effectively monitor - Financial monitoring and reporting	

Statutory Responsibilities / Compliance with Statutory Responsibilities					
No.	**Description - risk / issue**	**Current level of risk L/I**	**Current actions / Comments**	**Long term aim for the risk - including actions, timescales and target risk rating**	**Overview & Scrutiny (O&S)Review / Work & Internal Audit (IA) Work**
1	Management of Equal Pay Claims Lead: Chief Finance Officer Owner: Kate Charlton	Significant / Significant	**Lead Director comment** Since 2007 to date a significant number of claims have been issued against the Council. The predominance of these claims relates to liability pre implementation of single status, which took place in 2008 and also liability post implementation of single status. The time limit for issuing further claims for both these types of claims has now expired. The Council has also received claims for post implementation of the Birmingham Contract (November 2011); some with limited pleadings. The recent industrial action in waste management (July – November 2017) has increased the profile of Equal Pay. There remain considerable unknowns as to how many further claims might be brought and what risk or level of liability these claims might attract~~.~~ Significant progress has been made in terms of defending equal pay claims and managing settlement negotiations, where approved by the Council. The settlement strategy is based on level of assessed risks in relation to the likely success of claims through the tribunal/court process and the availability of financial resources. The validity of all equal pay claims is constantly challenged by Legal Services. Each claim is subject to robust legal challenge before any offer to settle is made.	**Target risk rating:** Medium / Significant **Anticipated date of attainment of the target risk rating:** March 2019. **Source(s) of assurance regarding progress with mitigating the risk:** Management assurance - reporting to **Equal Pay Executive Cabinet Sub Group and to** Corporate Governance Group, Audit Committee and District Auditor.. With a view to preventing any discriminatory working practices, robust review of processes and checks and balances to mitigate against / prevent further liability where evidence of potential risk(s) is known / identified.	O&S - None. IA - Payroll review work undertaken annually.

Statutory Responsibilities / Compliance with Statutory Responsibilities					
No.	**Description - risk / issue**	**Current level of risk L/I**	**Current actions / Comments**	**Long term aim for the risk - including actions, timescales and target risk rating**	**Overview & Scrutiny (O&S)Review / Work & Internal Audit (IA) Work**
26	Failure to comply with all of the requirements of the Counter Terrorism and Security Act (2015) and the Prevent Duty. Lead: Corporate Director, Place Owner: Jacqui Kennedy	High / High	**Lead Director comment** The threat and vulnerability risk assessment of a terrorist attack in the UK places Birmingham as the most vulnerable city after London. In 2015 the Council and partners reviewed its infrastructure around this risk to take into account the Counter-Terrorism and Security Act 2015, that includes a duty on certain bodies ('specified authorities' listed in Schedule 6 to the Act), in the exercise of their functions to have 'due regard to the need to prevent people from being drawn into terrorism'. The duty does not confer new functions on any specified authority. The term 'due regard' means that the authorities should place an appropriate amount of weight on the need to prevent people being drawn into terrorism when they consider all the other factors relevant to how they carry out their usual functions. The Council has applied a partnership and mainstreaming approach to mitigate the risks associated with the threat. Governance for the Prevent programme has been strengthened with the Prevent coordinator now reporting directly to the Strategic Director and Assistant Chief Executive increasing visibility across the Council.	**Target risk rating**: Medium / Significant **Anticipated date of review/attainment of the target risk rating:** Ongoing **Source(s) of assurance regarding progress with mitigating the risk:** Delivery continues to be monitored by the CONTEST Board Chaired by the Deputy Leader. Prevent Delivery Plan in place driven by Counter Terrorism Local Profile, monitored by the Prevent Executive Board, chaired by Jacqui Kennedy. Security briefings to Council House staff & Members. Training for front line staff moved to a 'train the trainer' model - 600 trainers having been trained to deliver future WRAP awareness training to schools alleviating capacity issues within the local authority. Support continues to be provided to schools around Prevent via the Schools Resilience Officer and officer has been recruited. Prevent is embedded within CASS/MASH arrangements and within the Right Services, Right Time safeguarding procedures. A new screening tool has been developed to support the request for support form and has been circulated to front line practitioners.	O&S - Waqar Ahmed, Prevent Manager reported to Scrutiny on 26th April 2017 alongside Chief Social Worker Tony Stanley to discuss safeguarding arrangements for Prevent and radicalisation. **Waqar Ahmed and colleagues reported to the Schools, Children and Families O&S Committee on 21/3/18.** Birmingham contributing to the Home Office Audit on national Prevent activity.

Statutory Responsibilities / Compliance with Statutory Responsibilities					
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				CHANNEL is in place as a multi-agency pre-criminal space platform to support vulnerable people; and chaired by the DWPs Think Family Lead. Community initiatives in place commissioned by the Home Officer to provide community solutions and are regarded by the Home Office as national best practice with scaling up plans initiated to extend into other regional areas. Funding for a second community engagement worker has been secured; a secondment arrangement with the youth service is being agreed. BCC Resilience Team continues to lead on the Prepare and Protect strand of the counter-terrorism strategy. CTLP for 2018 delivered to the Chief Executive in January 2018 and the Prevent Executive Board in early February. **Recruitment of Michael Enderby as Head of Resilience. Experienced professional in Emergency Planning, Prepare and Protect.**	

Statutory Responsibilities / Compliance with Statutory Responsibilities					
No.	**Description - risk / issue**	**Current level of risk L/I**	**Current actions / Comments**	**Long term aim for the risk - including actions, timescales and target risk rating**	**Overview & Scrutiny (O&S)Review / Work & Internal Audit (IA) Work**
31	Increased pressure on the statutory homeless service in regards to volume of customers, which leads to significant financial pressure on the general fund due to increased use of B&B. Lead: Corporate Director, Place Owner: Rob James	High / High	Although the service was forecast to be overspent by over £4.7 million in 2016/17, the final outturn was £2.6 million. To mitigate the financial pressure on the service, several management interventions have been put in place. These include a report to Cabinet in August 2017 to increase the number of homeless centres owned and managed by Birmingham City Council. Properties are to be refurbished for use as temporary accommodation, which avoids use of Bed and Breakfast (the most expensive). The report sets out: • Proposals for the creation of two additional homeless centres for use as temporary accommodation as part of the Council's statutory duty to provide temporary accommodation; and • The approach and procurement strategy for the refurbishment of two Council owned properties for use as temporary accommodation. In addition, a homeless prevention strategy is currently being consulted on, which aims to prevent people becoming homeless and assisting in sustaining tenancies. The strategy is to be reported to Cabinet in January 2018 and to full Council in February 2018. The Homeless Reduction Act is due to come into force in 2018, which will place additional burdens on the City to prevent homelessness and reduce the use of temporary accommodation. We are currently working with the Department of Communities and Local Government to produce an implementation plan for the City. **The strategy has been launched and commitments gained from partners on how they will collaborate to prevent homelessness. The**	**Target risk rating:** Medium / Medium **Anticipated date of attainment of the target risk rating:** March 2019. **Source(s) of assurance regarding progress with mitigating the risk:** Management assurance - regular reporting to Cabinet Member, monthly meetings with finance, discussions at Housing DMT, 1to1s with Head of Service. Reduce known risks at fortnightly meetings with all partners and manage risk to reduce these through pro-active work	O&S -The Housing and Homes O&S Committee inquiry into rough sleeping was presented to City Council in June 2017, and progress on implementation of the recommendations was tracked for the first time by the committee at its December 2017 meeting. The Committee will continue to track this until all recommendations are achieved and a further report back is scheduled for February 2018. It is also proposed that at the same meeting the Committee be briefed on the implementation of the Homelessness Reduction Act. Members received an update on the implementation of the new Housing Allocations Scheme at their October 2017 meeting. The Committee has also held an informal meeting to consider the Budget Consultation 2018+ where Members were able to question the Cabinet Member about the proposal to make savings by providing other less costly accommodation options instead of using Bed & Breakfasts.

Statutory Responsibilities / Compliance with Statutory Responsibilities					
No.	**Description - risk / issue**	**Current level of risk L/I**	**Current actions / Comments**	**Long term aim for the risk - including actions, timescales and target risk rating**	**Overview & Scrutiny (O&S)Review / Work & Internal Audit (IA) Work**
			commitments will form the action plan which will be monitored through the homelessness partnership board. As of 22 January 2018 Preparatory works remain ongoing at both locations. Tentative timeline has been provided by Acivico for Magnolia House and briefed to the Service Director. Acivico has been asked to reconsider this timeline and to bring occupancy dates forward. Risk is being managed by Acivico and the Service at fortnightly meetings. Costs as of 9 January 2018 were on budget. Work continues at Barry Jackson to remove asbestos and prepare the site for refurbishments works to begin this financial year. A detailed timeline will be provided 12 January 2018. Risk is being managed by Capital Investment Team, the Service and contractors at fortnightly meetings. There is considerable pressure from and opposition to the proposal from the local community. A plan has been agreed to address concerns however the risk remains very high that this project may be withdrawn as a result of community activity and pressure. Costs have exceeded agreed budget as a result of additional capital works agreed. **Barry Jackson Tower remains a high risk due to it not yet receiving planning permission.** The requirement to install sprinklers at both locations, further to the Leaders commitment, will push the full occupancy dates back to yet to be confirmed dates. Targeting of readily available void dwellings suitable for re-housing homeless households and for use as temporary accommodation has been increased to help reduce B&B use.		**IA Review 2018/19: Allocations. planned for 2018/19 in February 2019**

Statistical Responsibilities / Compliance with Statutory Responsibilities

No.	Description - risk / issue	Current level of risk L/I	Current actions / Comments	Long term aim for the risk - including actions, timescales and target risk rating	Overview & Scrutiny (O&S)Review / Work & Internal Audit (IA) Work
34	With uncertainty on the UK air quality action plan following challenges through the judicial system and the costs associated with the Government announcing infraction fines being passed down to Local Authorities in relation to air quality there is the potential of an initial £60m fine and then ongoing fines related to Birmingham not meeting air quality compliance. Lead: **Assistant Chief Executive** Owner: **Jonathan Tew**	High / Medium	**Lead Director comment** **The Council has been issued with ministerial directions under the Environment Act (1995) to complete key milestones to be compliant for roadside NO_2 by 2020** **Cabinet, in June 2018, agreed options for public consultation regarding a Clean Air Zone for Birmingham. The ambition demonstrated in the option for consultation has gone some way to mitigating the risk of Government fine. An Outline Business Case has been submitted to Government to release relevant funds for preventative work and allow for indepedant analysis of the modelling outputs.** **Significant milestones remain, however, with particular emphasis around a special Cabinet in September 2018 and submission of the Full Business Case** **These headline mitigations are supported by: -** - **Weekly teleconference meetings with DEFRA's Joint Air Quality Unit to update mitigation plans.** - **Regular Cabinet Member briefing to provide strategic direction for wider Air Quality Programme including deployment of Clean Air Zone.** - **Ongoing feasibility studies to measure air quality impact and assess measures and controls to meet compliance, including level of Clean Air Zone to be deployed.** - **Development of overarching clean air policy for Birmingham for 2018.** - **Ongoing joint development work and positive engagement**	**Target risk rating:** Medium / Low **Anticipated date of attainment of the target risk rating:** April 2019. **Source(s) of assurance regarding progress with mitigating the risk:** Wider Air Quality Plan that includes: • Traffic management, signalling and signage controls - 12/2018. • Controlled Parking Zones - 12/2018. • BCC Internal & External Fleet transition to low / zero emission full Low / zero re-fuelling infrastructure - 04/2019. • Clean Air Zone strategic business case signed off by Secretary of State by 12/2017 to enable CAZ infrastructure for access restrictions deployed by 04/2019. • Revised Birmingham Taxi Licensing Policy based on air quality compliance emissions - 12/2018. • All BCC procurement frameworks and tendering processes aligned with CAZ compliance -12/2018.	O&S - The Health & Social Care O&S Committee have carried out an inquiry into 'The Impact of Poor Air Quality on Health'. Evidence gathering took place on 17th January 2017 and 28th March 2017. Witnesses included:- • Public Health England • Friends of the Earth • Birmingham Trees for Life • Transport for West Midlands • Birmingham Children's Hospital • Network Rail The final report was presented to City Council for ratification on 12th September 2017. Further reports tracking the implementation of recommendations will be presented to HOSC on a regular basis beginning in January 2018 with progress report from Cllr Trickett on behalf of the Air Quality Members Steering Group **A report on the air quality at New Street Railway Station was presented to committee by representatives from Network Rail and the University of**

Statutory Responsibilities / Compliance with Statutory Responsibilities					
No.	**Description - risk / issue**	**Current level of risk L/I**	**Current actions / Comments**	**Long term aim for the risk - including actions, timescales and target risk rating**	**Overview & Scrutiny (O&S)Review / Work & Internal Audit (IA) Work**
			with WMCA.		**Birmingham on 20th March 2018** **IA Review - 2018/19 – Planned for Q2**
12	Failure to comply with all of the requirements of the Equality Act (2010) and the Public Sector Equality Duty. Lead: **Assistant Chief Executive / HR Director** **Owner: Jonathan Tew**	Medium / Significant	**Lead Director comment** The Public Sector Equality Duty (PSED) was created by the Equality Act 2010 and is set out in section 149. It applies to public bodies, such as local authorities listed in Schedule 19 to the Act, and to other organisations when they are carrying out public functions. The PSED contains specific duties (Specific Duties Regulations 2011) which are an important lever for ensuring that public bodies take account of equality when conducting their day-to-day work. When delivering their services and performing their functions, bodies subject to the PSED must have due regard to the need to: • Eliminate discrimination, harassment and victimisation and any other conduct that is prohibited by or under the Act. • Advance equality of opportunity between people who share a relevant protected characteristic and people who do not share it. • Foster good relations between people who share a relevant protected characteristic and those who do not share it. Legal challenge can delay implementation of change and significantly delay or reduce the planned savings to be achieved this may also have a detrimental impact on other services. It is important therefore, that Equality Assessments (EAs) are carried out robustly across BCC regarding all initiatives and service delivery changes. The responsibility for ensuring that EAs for all major policy / budget changes lies with the Directorates. All EA	**Target risk rating:** Medium / Significant **Anticipated date of attainment of the target risk rating:** Attained. **Source(s) of assurance regarding progress with mitigating the risk:** • Corporate Governance is in place to manage this risk effectively and close monitoring by ECS&CS and Legal Services will continue in order to address any issues which may arise. • Corporate Consultation undertaken on savings proposals. • Unique EA reference will be tracked and reported against individual Corporate Savings Proposals. • Corporate Steering Group to oversee compliance. • Initial RAG assessment of savings proposals to be undertaken. • Legal advice sought on high risk initiatives. • Process of Legal sign off on Cabinet Reports. Management assurance. In addition to current guidance and information, the development and use of the online Equality Analysis Toolkit will help	O&S - Corporate Resources and Governance O&S Committee to have briefing on HR matters including workforce equality on 2nd November 2017. IA Review - None.

Statutory Responsibilities / Compliance with Statutory Responsibilities					
No.	**Description - risk / issue**	**Current level of risk L/I**	**Current actions / Comments**	**Long term aim for the risk - including actions, timescales and target risk rating**	**Overview & Scrutiny (O&S)Review / Work & Internal Audit (IA) Work**
			are subject to audit by Quality Control Officers and Senior Officers who sign off the completed EA through the Equality Analysis Toolkit **currently through the** Black Radley **software.** This supports the equalities agenda and compliance to legislation. They should ensure that the EAs produced by the service are capturing evidence of ongoing compliance. Legal Services are advising on high risk EAs and check compliance through the cabinet report clearance system. Following consultation with Legal Services and Directorate Equality Leads, the Equality Analysis Toolkit was developed to improve the guidance information to staff. If followed, this guidance should help improve the content and standard of EAs submitted for approval. All budget planning paperwork requires equality assessments to be completed at an early stage and throughout. **Please note that this Equality Analysis Toolkit will be subject to review in-year 2018/19 as part of a whole-system review of equalities linked to the Councils new workforce strategy.**	mitigate against managers undertaking inadequate EAs. The toolkit provides a step by step process and on line guidance to completing an EA and developing an action plan. The online toolkit provides an overview of all EAs undertaken on the system. Project managers are encouraged to take legal advice on high risk initiatives.	
25	Failure to comply with statutory timescales in relation to DoLS (Deprivation of Liberty) referrals, which could lead to legal challenge and result in financial loss to the Council. Lead: Interim Corporate Director, Adult Social Care & Health Owner: **Pauline Mugridge**	Medium / Significant	**Lead Director comment** This risk is made of 2 components: 1) **DOLS in Care Homes and Hospitals -** DOLS strategy was reviewed in July. ASC&H DLT and the Cabinet Member subsequently adopted the recommendation to adopt an alternative view of the balance of litigation risks v financial risks in this area. In line with the approach taken by the majority of West Midland Local Authorities, it will in future only undertake DOLS assessments for those adults who	**Target risk rating**: Medium / Significant **Anticipated date of review/attainment of the target risk rating:** September 2017. **Update provided by David Gray 30/04/18 The target risk rating was achieved in September 2017 and now remains static** **Source(s) of assurance regarding progress with**	O&S - None. IA Review 2016/17: Deprivation of Liberty Standards F/Up. IA Review 2017/18: Deprivation of Liberty 2nd F/Up.

Statutory Responsibilities / Compliance with Statutory Responsibilities					
No.	**Description - risk / issue**	**Current level of risk L/I**	**Current actions / Comments**	**Long term aim for the risk - including actions, timescales and target risk rating**	**Overview & Scrutiny (O&S)Review / Work & Internal Audit (IA) Work**
			meet the ADASS "High" criteria. The significantly enlarged Best Interest Assessor (BIA) team, with increased management and administrative support will remain but expenditure on the external BIA service has ceased. The effect is anticipated to be a reduction in the number of DOLS authorisations, but an increase of those of "High" priority (and existing cases due for renewal) being completed within the legal time limit. The overall position of the number of cases which have not been assessed will steadily increase, but this will be viewed as a lower risk to the Council than previously. **2) Community DOLS -** A business process, staff procedure, manager prioritisation guidance and staff training have been established, in conjunction with legal Services, and are now in use. This level of activity seems to be in line with that of Other local authority areas. There has been no change since the last report so there is no update to report. The position remains as previously reported. The Target Risk Rating was achieved in September 2017 and now remains static.	**mitigating the risk:** A monthly position report is presented to the Directorate DOLS Project Board. A bi-monthly report is presented to the Cabinet Member.	
11	That the loss of significant personal or other sensitive data may put the City Council in breach of its statutory responsibilities and incur a fine of up to £500,000 from the Information Commissioner. Lead: Chief Operating Officer	Low / High	**Lead Director comment** Current controls based on encryption of data on mobile devices or copied to removable media; and programme of staff education and training. Breach management processes have been established with clear lines of responsibility to the Senior Information Risk Owner (SIRO), and the Monitoring Officer. Known data breaches are discussed at the Breach Management Panel and reports and	**Target risk rating:** Low / High **Anticipated date of attainment of the target risk rating:** Attained. **Source(s) of assurance regarding progress with mitigating the risk:** The e-Learning modules have been rolled out to all staff that have access to e-mail.	O&S - None. IA Reviews 2016/17: Sophos Post Implementation Review, N3 Network, IG - Fostering & Adoption F/Up, Third Party Service Provision F/Up, Network Management and Data Quality -

Statutory Responsibilities / Compliance with Statutory Responsibilities					
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	Strategic Services Owner: Malkiat Thiarai		recommendations are presented to the Monitoring Officer for consideration to notify the Information Commissioner's Office. Egress has been deployed and is operational. The e-learning Information Governance modules were launched in October 2016 following approval by the SIRO. **A report was taken to CMT on 21st May 2018 on GDPR readiness and CMT have asked for a further update and progress reporting of the training.**	Further controls on assuring that suppliers and partners impose similar controls on Council data in their possession. There is a risk that the low level take up of Information Governance training in the Council will create an information breach across the council CLT support to improve take-up. Consider possible sanctions. Update: 090118: Report being presented to IAB on 10.1.18 to highlight performance and discuss approaches to improving take-up going forward as part of GDPR. Updated Target Closure Date: **May 2018**	DfE Returns. IA Reviews 2017/18: Data Sharing, Third Party Service Provision, Information Assurance Framework, and IG - Planning Application Compliance with DP Guidelines.
35	General Data Protection Regulation Implementation - There is a risk of that our GDPR plan does not enable the authority to meet its obligations ready for the May 2018 implementation date Lead: AD Peter Bishop Strategic Services Owner: Malkiat Thiarai	High/High	**Lead Manager's comment** GDPR materials being prepared by CIM and Legal; Legal Services seeking to appoint additional legal support GDPR is being recommended to be included on the Corporate Risk Register because of the related new legislation, implementation date of May 2018 and the penalties involved for non-compliance. **An updated report was presented to CMT 21st May 2018 on GDPR readiness. The work to meet the requirements of GDPR and mitigate risks of non-compliance will continue as part of the Information Assurance Maturity Plan.**	**Target risk rating:** Medium / medium **Anticipated date of attainment of the target risk rating:** May 2018 **Source(s) of assurance regarding progress with mitigating the risk:** KPMG have been commissioned to conduct a gap analysis to high risk areas for the Council. Feedback on 15.12.17 Head of CIM chairs GDPR project board that is taking forward current known actions. Target Closure date **June 2018**	O&S – None Internal Audit reviews – 2017/18. A readiness assessment completed which included a high-level action plan to assist the project focus on key deliverables. **Internal Audit reviews 18/19 - GDPR Readiness review follow up. KPMG have been engaged to complete some work to achieve the GDPR requirements.**

Statutory Responsibilities / Compliance with Statutory Responsibilities					
No.	**Description - risk / issue**	**Current level of risk L/I**	**Current actions / Comments**	**Long term aim for the risk - including actions, timescales and target risk rating**	**Overview & Scrutiny (O&S)Review / Work & Internal Audit (IA) Work**
36	Failure to respond positively and effectively to the required outcomes of the Grenfell Tower enquiry once known. Lead: Corporate Director, Place Owner: Rob James	Low/ Medium	Project plan produced for all programmes of works required to investigate cladding systems and any associated remedial works to further enhance existing fire safety measures. • Programme to fit Sprinkler systems to 213 high rise blocks over a 3 year period starting 1/4/18 • Programme to carry out fire risk assessments to all communal areas annually Programme of work underway to ensure tower block tenants understand fire safety measures and how to respond in the event of an emergency, including: • Fire safety campaign – completion April 2018 • Fire awareness visits – completion autumn 2018 Other actions include:- a) Resilience processes review – completion autumn 2018 b) Night security service expansion c) Vulnerable persons review – completion autumn 2018 Approached Government for grant funding for the installation of sprinkler systems	**Target risk rating:** Low/Low **Anticipated date of attainment of the target risk rating:** 2019/20 financial year. **Source(s) of assurance regarding progress with mitigating the risk:** Housing/West Midlands Fire Service	O&S - None. IA Review – Proactive work to produce a fire risk index

Statutory Responsibilities / Compliance with Statutory Responsibilities					
No.	**Description - risk / issue**	**Current level of risk L/I**	**Current actions / Comments**	**Long term aim for the risk - including actions, timescales and target risk rating**	**Overview & Scrutiny (O&S)Review / Work & Internal Audit (IA) Work**
37	Homelessness Reduction Act – Insufficient council resources to meet the requirements of the Act fully. Lead Corporate Director, Place Owner: Rob James	Medium/ High	Implementation Plan to ensure compliance has been produced and consists of the following key work streams; •Redesign the Housing Option Service •Awareness and Training (Staff, Trade Unions and Elected Members) •IT systems to be developed with Councils IT Fixture providers. •Accommodation, additional accommodation for staff, communication plan being produced. •Temporary Accommodation Services will require a complete review to reduce the Council's reliance on temporary accommodation moving to preventative measures. Report presented to EMT on 23rd January 2018. •Cabinet Report March 2018	**Target risk rating:** Medium/High **Anticipated date of attainment of the target risk rating**: April 2018 for initial implementation but further work over the next 12 months. **Source(s) of assurance regarding progress with mitigating the risk:** MHCLG	**O&S: session on response to the Act (implementation plan) held in February 2018** Audit: 2017/18 Housing Options Service **IA Review planned for 2018/19 in February 2019**

Financial Resilience - Risks associated with austerity and the financial challenges facing BCC					
No.	**Description - risk / issue**	**Current level of risk L/I**	**Current actions / Comments**	**Long term aim for the risk - including actions, timescales and target risk rating**	**Overview & Scrutiny (O&S)Review / Work & Internal Audit (IA) Work**
3	Failure to identify alternative funding stream for school PFI contracts revenue pressure, impacting on availability of maintenance funding for essential management of the LA schools estate.	High / Significant	**Lead Director comment** Major review of PFI contract management arrangements underway following Local Partnerships pilot project. External consultants are engaged and a Lead Officer allocated to fully explore all opportunities to reduce PFI costs. Proposals are	**Target risk rating**: Medium / Significant **Anticipated date of review/attainment of the target risk rating:** December 2017. **Source(s) of assurance regarding progress with mitigating the risk:**	O&S - None. IA Review - None.

Financial Resilience - Risks associated with austerity and the financial challenges facing BCC					
No.	**Description - risk / issue**	**Current level of risk L/I**	**Current actions / Comments**	**Long term aim for the risk - including actions, timescales and target risk rating**	**Overview & Scrutiny (O&S)Review / Work & Internal Audit (IA) Work**
	Lead: Corporate Director Finance & Governance Owner: Jaswinder Didially **Nominate for deletion** **The reason for this is that the immediate concern over PFI gap has been met. There are longer term concerns and these are currently being evaluated but for now the proposal is to remove this risk from the Corporate Risk Register and review current and future concerns**		being brought forward and while the project more than pays for itself, there are limited opportunities to impact on the major £6m annual affordability gap. The savings proposal, being implemented to meet the current PFI affordability gap from within the funds available to invest in the maintenance of the estate, has not yet impacted on the funding available for emergency repairs. However, there are significant risks of funding shortfall into 2017/18, due to the diminishing annual maintenance grant funds available, particularly as more schools convert to academy status. The current risk rating relates to the PFI affordability gap and subsequent impact on availability of funding to address backlog maintenance across the schools' estate. The opportunities to reduce the PFI costs are limited, and this therefore remains a high risk in terms of management of the education infrastructure and potential impact of asset failure. There is a very substantial Schools Capital Programme in delivery that includes basic need and planned maintenance programmes, with further emergency maintenance projects emerging regularly. Mitigations include: • Schools capital maintenance programme is successfully levering school spend on essential repairs and maintenance through a dual funding strategy. • Dedicated resource is focusing on maximum savings against current PFI contracts. Current restructure includes specialist resource to implement savings initiative including a review of Facilities Management and life cycling arrangements	Management reporting on PFI savings. Oversight and monitoring of temporary school closures due to asset failure. A report was submitted to the March 2016 Audit Committee meeting outlining some of the initiatives being pursued to reduce the gap and a subsequent report has been considered at Cabinet (20th September 2016), detailing savings associated with the Broadway lifecycle arrangements. Savings associated with the Broadway life cycling arrangements achieved - £1.6m for 2017/18 as a one off payment followed by £330k pa for the duration of the contract. Outcomes of the benchmarking exercise which were implemented in December 2016 - a total net saving of £545,000 per annum for 5 years will be achieved. Cabinet report 24th Jan 2018 with a proposal to review current facilities management arrangements. - The report was approved so the proposal to terminate the Facilities Management from the 7 Building Schools For the Future Design and Build (not to be confused with the PFI) schools contract. Restructure to be completed by March 2018	

Financial Resilience - Risks associated with austerity and the financial challenges facing BCC					
No.	**Description - risk / issue**	**Current level of risk L/I**	**Current actions / Comments**	**Long term aim for the risk - including actions, timescales and target risk rating**	**Overview & Scrutiny (O&S)Review / Work & Internal Audit (IA) Work**
29	Not developing sufficiently robust plans to support setting a balanced budget (including in the medium term), and not containing net spending within the approved budget Lead: Corporate Director Finance and Governance. Owner: Steve Powell	High/High	**Lead Director comment** • Delivery of the budget and savings programme is being closely monitored, by CLT and CMT to review delivery and to identify mitigating actions. This includes the future years' dimension as well as the in-year position • Corporate Directors have clear accountability for the delivery of savings in their directorates. • The Council holds reserves which can be used as part of a risk management strategy to support the implementation of the budget if necessary , but plans are being developed that will not assume reliance on these. • The Council's LTFP is refreshed regularly to take account of latest information, including savings delivery issues. Plans for 2018/19 and later years were revised accordingly , and work is now starting on planning for 2019/20 onwards, linked to the Council's policy priorities and the development of the performance management arrangements. This will better integrate revenue and capital financial planning. • Proposals have been subject to corporate public consultation and more specific engagement and consultation also take place where appropriate. • Long-term collection rates for principal sources of income, together with any expected surplus/deficit in the Collection Fund for business rates and council tax, are taken into account in setting budgets. Rigorous action is taken to pursue outstanding debts wherever possible.	**Target risk rating*:*** Low / Significant **Anticipated date of attainment of the target risk rating:** Ongoing. **Source(s) of assurance regarding progress with mitigating the risk:** Planned activities to further mitigate this risk: • There is close monitoring of the delivery of the Budget and additional governance arrangements have been introduced. • The Council has a risk management strategy to address issues relating to difficulties in the delivery of the savings programme. • There is a clear focus on the development of robust consultation and implementation plans for all savings. There is focus on the project management of the savings programme. The Council maintains a medium term perspective in its financial plans - spending, savings and resources. • The Council is moving to a more integrated planning and performance management approach.	O&S - A Resources O&S Committee has been set up to scrutinise budget matters with the Deputy Leader. . IA Review 2017/18: Financial Control Review.

Financial Resilience - Risks associated with austerity and the financial challenges facing BCC					
No.	**Description - risk / issue**	**Current level of risk L/I**	**Current actions / Comments**	**Long term aim for the risk - including actions, timescales and target risk rating**	**Overview & Scrutiny (O&S)Review / Work & Internal Audit (IA) Work**
15	Risk of not recognising the need to divest of costly property assets in radical new solutions to reframe service delivery; driving out property for disposal, but beyond capital receipt generation, ultimately solutions should deliver innovative and appropriate reductions in future revenue operating costs. Lead: Corporate Director, Economy Owner: Alex Grey	Significant / Medium	**Lead Director comment** Risk mitigated by: • The Future Council Programme and proposals put out to public consultation, have the potential to drive commitment to property rationalisation, as part of the contributions to future years cost reductions. • To assist with property rationalisation alongside future service planning and development programmes, a Property Services Business Partner role has been established with the Place Directorate. • The Corporate Landlord Service has continued to deliver the facilitation of delivery of further organisation changes. • Accommodation changes across Directorates continue to be dealt with and delivered. • Continued development of the corporate property database (Techforge) - information and systems development continues to progress as planned and the additional functionality is being applied in the management of repairs and maintenance costs, provision of information and analysis to inform strategic decision making, etc. • The 'Smarter Working' project is intended to increase agility and bring further organisation and management culture change across the Council. A key outcome will potentially be further rationalisation of the Central Administration Buildings portfolio.	**Target risk rating:** Medium / Low **Anticipated date of attainment of the target risk rating:** April 2018. Ongoing and subject to potentially, significant change driven by BCC corporate business plan (this is currently "continuously changing in the short term"). **Source(s) of assurance regarding progress with mitigating the risk:** Management assurance.	O&S - None. IA Review - None.

Financial Resilience - Risks associated with austerity and the financial challenges facing BCC					
No.	**Description - risk / issue**	**Current level of risk L/I**	**Current actions / Comments**	**Long term aim for the risk - including actions, timescales and target risk rating**	**Overview & Scrutiny (O&S)Review / Work & Internal Audit (IA) Work**
38	New Risk To manage the Enterprise Zone Programme in line with its delivery plan. Risk of under achieving: potential business rates income, economic growth, and outputs/achievements. Risk of reputational damage to BCC Lead: Corporate Director, Economy	High/High	Lead Director comment Monitor development on EZ sites. Monitor and manage the EZ financial model with finance, using approved financial principles, measure business rates uplift to ensure programme affordability and delivery. Collate programme output achievements. Procure a Programme Monitoring Database. Report quarterly performance and updates to EZ Board / GBSLEP Board meetings. Annual Delivery Plan Schedules	Target risk rating: Medium/Significant Anticipated date of attainment of the target risk rating: Ongoing Source(s) of assurance regarding progress with mitigating the risk: To further improve the programmes due diligence including the ability to measure value for money of funding applications	Internal Audit 2018/19: Work on Enterprise Zones Final Report issued 03/04/18, Follow Up planned for later in year.
41	New Risk School Deficits National funding arrangements have resulted in real term funding reductions which coupled with rising costs means that there is a risk that increasingly, schools schools are not able to run balanced budgets:- -There is the potential that some schools may build up	High/High	Maintained schools are facing significant pressures on funding. As of 31-3-18 the number of schools in deficit compared to a year ago has increased by 5 to 37 (14% of the total number of LA maintained schools) but the cumulative value of deficits has reduced to £10,964k. If a school is issued with a directive academy order then any deficits at the point of conversion may become the responsibility of the local authority. (Any school converting with a surplus may retain this) Separately Even after allowing for a cumulative high needs deficit brought forward from 2017/18 of £13.8m, Indications are that there will continue to be extremely challenging budget	Target Risk Rating: Significant/Medium Anticipated date of attainment of target risk rating: March 2019 Source of assurance regarding progress with mitigating the risk from school deficits: - Schools Financial Governance Group set up to co-ordnate support and challenge to schools. - Schools financial monitoring procedures to be reinforced with requirement that these are reported to ALL Governors.	IA 2018/19: Work completed last year looking at schools financial management, we are working with the Directorate on their response. A second piece of work on this area planned for quarter 2. Schools work programme adjusted to take account of schools financial management, and a number of schools themed jobs planned during.

Financial Resilience - Risks associated with austerity and the financial challenges facing BCC					
No.	**Description - risk / issue**	**Current level of risk L/I**	**Current actions / Comments**	**Long term aim for the risk - including actions, timescales and target risk rating**	**Overview & Scrutiny (O&S)Review / Work & Internal Audit (IA) Work**
	deficits which cannot be cleared and which ultimately may need to be met by BCC In addition there is a pressure on the high needs block which centrally supports places for children with SEND. Lead: Corporate Director Colin Diamond Owners: Assistant Director – Education Safeguarding - Julie Young / Assistant Director SEND – (Austin McNamara)		pressures in 2018/19.	- Earlier use of financial warning notices where there are financial concerns. Intervention considered as appropriate inc. removal of cheque book facility to the removal of governing body and replacement with an Interim Executive Board - Collaboration with Regional schools Commissioner to ensure swift action taken to address school improvement requirements by identifying a Sponsor early to then maximise the impact of additional investment in school improvement. - Initial Audit review carried out with findings being adopted and second review to be set up to include more detailed stress testing of schools ability to cope with further cuts in funding. - More targeted audits of schools - Maintaining an in year balanced budget for placements. - Looking to address any pressures with possible mitigations coming from potential underspends. Source of assurance regarding progress with mitigating the risk from high needs block: In the longer term CYP will implement the SEND and Inclusion Strategy's following three strands to reconfigure the provision funded from the high needs block and alleviate pressure on the	IA Review 2018/19: The school audit visit programme looks at reporting to Governing Board on the notional Special Education Needs (SEN) budget and how this has benefitted SEN pupils in mainstream schools. When undertaking audits in special schools a review is undertaken on the budget and how this relates to the banding funding for pupils on the school role and the challenges around the budget.

Financial Resilience - Risks associated with austerity and the financial challenges facing BCC					
No.	**Description - risk / issue**	**Current level of risk L/I**	**Current actions / Comments**	**Long term aim for the risk - including actions, timescales and target risk rating**	**Overview & Scrutiny (O&S)Review / Work & Internal Audit (IA) Work**
				budget: 1. Develop a framework of SEND assessment and planning from 0-25 years to enable professionals and partners to meet the full range of individual need and raise achievement. 2. Ensure there is a sufficient and appropriate range of quality provision to meet the needs of children and young people with SEND aged 0-25 years and improve outcomes from early years to adulthood and minimising dependence on high cost independent placements. 3. Develop a unified resource allocation system to distribute the range of SEND funding across all schools and settings in order to make the most effective use of available resources and maximise the impact on outcomes for young people.	

Political - Risks driven by the political agenda					
No.	**Description - risk / issue**	**Current level of risk L/I**	**Current actions / Comments**	**Long term aim for the risk - including actions, timescales and target risk rating**	**Overview & Scrutiny (O&S)Review / Work & Internal Audit (IA) Work**

None.

Technology					
No.	**Description - risk / issue**	**Current level of risk L/I**	**Current actions / Comments**	**Long term aim for the risk - including actions, timescales and target risk rating**	**Overview & Scrutiny (O&S)Review / Work & Internal Audit (IA) Work**
16	There is a risk that web services to customers or work with partners may be disrupted by malicious attacks on the City Council's web based services. Lead: Chief Operating Officer Owner: Peter Bishop	Significant / Medium	**Lead Director comment** The following control measures are routinely taken by the Council's Information, Technology and Digital Services Team: • Continuously scan the information security landscape with partners to detect upcoming and new vulnerabilities which could be exploited by potential hackers. This ensures that SB are aware of all risk posed by different intrusion methods. • Have updated the Councils firewalls and introduced Intrusion Prevention Services as part of the firewall implementation. This means the firewalls are receiving regular updates from the supplier to detect new and evolving types of security attack. The firewalls detect and defeat many thousands of attacks every day. • Have implemented a cloud based Distributed Denial of Service system that defends four of the Council's main websites from high volume attacks where hackers are trying to flood the Council's websites with requests for service. This service regularly defends the Councils web sites from attackers and the contract is currently being renewed. • Have implemented the PSN walled garden which has enhanced the security of all users accessing web based government systems. PSN services have been remodelled and are currently being monitored to ensure secure transmission. The management of cyber risks within BCC will form part of the security strategy and responsibilities clearly defined. The ICF will ensure that the cyber risk investment strategy is aligned to, and supports strategic priorities. There is improved reporting of cyber risks and security incidents	**Target risk rating:** Low / Medium **Anticipated date of attainment of the target risk rating:** Ongoing - this risk can only ever be mitigated, and never fully closed due to the nature of hacking etc. **Source(s) of assurance regarding progress with mitigating the risk:** • The Council are now transmitting sensitive data securely through the PSN secure infrastructure together with the improvements / enhancements made to the firewalls. • BCC has successfully passed its PSN accreditation. • Service Birmingham, on behalf of the Council, is constantly monitoring the information security landscape with solution providers to detect upcoming and new vulnerabilities which could be exploited by potential hackers. • Given the nature of this risk these activities are now being kept under constant review. • The next health check (a mandatory requirement of PSN) has recently been completed.	O&S - Referenced in the Scrutiny Inquiry 'Refreshing the Partnership: Service Birmingham' (presented to Council in June 2015).

Technology					
No.	**Description - risk / issue**	**Current level of risk L/I**	**Current actions / Comments**	**Long term aim for the risk - including actions, timescales and target risk rating**	**Overview & Scrutiny (O&S)Review / Work & Internal Audit (IA) Work**
			which will be presented to the Corporate Information Security Group bi-monthly. This will ensure BCC are fully aware of potential regulatory & legal exposures and can assess the implications for future investment decisions. **This is an acknowledged ongoing risk that should remain on the CRR. For reference a PSN Compliance Certificate was issued to Birmingham City Council on 27/03/18.**		
17	Ineffective Corporate Risk Marker IT solution. Lead:Corporate Director – Strategic Services Owner: Dawn Hewins	Low / Medium	**Lead Director comment** Paper went to CLT on 18th January 2018, explaining how it worked currently and what the issues were around funding the costs of accessing the register, including a suggestion we bring the budget together centrally so people don't feel they can't afford to do it. There were a number of actions from CLT, including that: 1) CLT approve the use of the Data Warehouse as a mandatory requirement to check risk markers prior to any visits being undertaken by BCC employees to both domestic properties and businesses 2) CLT will review the funding of the Data Warehouse as part of the Councils long term financial plan to ensure that the risks associated with failure to comply are minimised and that the data warehouse continues to be available for use across the council 3) CLT will identify the appropriate Director to be the named officer responsible for the risk marker solution (currently this is the director of HR) 4) CLT will require the safety manager to draft the appropriate guidelines for usage of the risk marker solution by employees and managers prior to any visits being undertaken. A further report is to be bought back to CLT.	**Target risk rating:** Low / Medium **Anticipated date of attainment of the target risk rating: May 18 further work on effective access is required** **Source(s) of assurance regarding progress with mitigating the risk:** Management assurance. Currently the data warehouse pulls in the risk markers from CRM, Housing, MAPSS and CareFirst. Any user of the warehouse that searches a relevant name or address will have the respective risk markers presented to them. The risk markers not only relate to health and safety but child / vulnerable adult safeguarding too. The Audit team are in the process of creating an Intelligence Network across the City for anyone who has an investigative, enforcement or regulatory element to their role; or are likely to have	O&S - None. IA Review - None.

Technology					
No.	**Description - risk / issue**	**Current level of risk L/I**	**Current actions / Comments**	**Long term aim for the risk - including actions, timescales and target risk rating**	**Overview & Scrutiny (O&S)Review / Work & Internal Audit (IA) Work**
				some contact with the public. **However there remain challenges regarding balancing the need for timely access by a large number of staff and the requirement to ensure sufficient security of the sensitive data. Further work on this is required** Council Tax, Business Rates and Rents have a risk marker on their respective systems; this risk marker is extracted and added to the data warehouse. Monitoring the use of the IT system by Corporate Safety Services. **Guidance for employees will be completed once surety of access for all required has been secured**	

Transformation					
No.	**Description - risk / issue**	**Current level of risk L/I**	**Current actions / Comments**	**Long term aim for the risk - including actions, timescales and target risk rating**	**Overview & Scrutiny (O&S)Review / Work & Internal Audit (IA) Work**
7	Lack of capacity and capability to respond to threat of industrial action, employee relations tensions, poor service, performance issues, sickness absence levels and poor morale due to organisational downsizing and pay freezes. Lead: Chief Operating Officer Owner: Claire Ward	Significant / Significant	**Lead Director comment** Collective agreement has been reached on a package of measures that will secure required reduction in the cost of employment for 2017/18, 2018/19 and 2019/20. This has greatly diminished the likelihood of action on a widespread basis. The proposed national pay award is more generous than originally anticipated and unlikely to elicit national action. There are some proposals in the 2017/18 s188 Notice that might generate localised disputes & potential action and poor attendance / performance challenges. There are further proposals for 2018-19 which may create challenge Council wide attendance levels are stable. **EMT & CLT have endorsed a reinvigorated approach to supporting positive attendance which will be implemented in the Autumn.** There are business continuity plans in place in readiness for industrial action. Bespoke HR support is being provided to identify high risk areas. However contingency plans need testing. **A monthly review of Industrial Relations disputes is happening ensuring that we have Council wide oversight and a consistency of approach.**	**Target risk rating:** Low / Medium **Anticipated date of attainment of the target risk rating:** Ongoing. **Source(s) of assurance regarding progress with mitigating the risk:** Following significant employee engagement and collective consultation and negotiation with the trade unions, we have reached a collective agreement with the trade unions regarding the workforce savings proposals. Therefore there is now a low likelihood of industrial action in relation to these changes. Expert HR support is being provided to areas experiencing significant employee relations challenges relating to service redesign and headcount reduction. There continues to be regular and positive engagement and dialogue with the trade unions at a corporate and regional level as appropriate	O&S - The Corporate Resources OSC received an update from the Deputy Leader and senior HR officers at a briefing in September 2017. IA Review - None.

Transformation					
No.	**Description - risk / issue**	**Current level of risk L/I**	**Current actions / Comments**	**Long term aim for the risk - including actions, timescales and target risk rating**	**Overview & Scrutiny (O&S)Review / Work & Internal Audit (IA) Work**
10	Not responding fully and effectively to the recommendations made in the Kerslake Report and implementing the Future Council Programme. Lead Assistant Chief Executive Jonathan Tew	Medium / Significant	**Lead Director comment** Decision to pause on Corporate PMO activity in May 2017, but with programmes of work expected to progress in a streamlined way, owned by all directorates. The BIIP and the Council published a letter in March 2018 re-enforcing our approach to collaborative work in 2018. We have facilitated a series of productive joint meetings with the BIIP and the Council's new political / chief executive leadership and are now holiding monthly stock-take meetings with the BIIP and Ministry of Housing, Communities and Local Government throughout 2018/19. In June 2018 the Council published a new 'stock-take' report which represented a self-assessment against Kerslake and subsequent BIIP concerns, in addition to a Corporate Governance Improvement Plan. From July 2018 we will be providing regular reports against agreed self-assessment and improvement plans utilising core reports from the Council's own performance / budget monitoring process.	**Target risk rating***:* Low / Significant **Anticipated date of attainment of the target risk rating:** March 2019 **Source(s) of assurance regarding progress with mitigating the risk:** The collaborative approach between BCC and the BIIP is now established through the joint editorial against documents released in June 2018. That represented a crucial milestone against our original plan for 2018-19. Monthly meetings (with BCC represented by the Leader, Deputy, Chief Executive, Assistant Chief Executive and CFO) will now embed this way of working and will also provide a monthly opportunity to review the status of this risk. It is clear that the BIIP and MHCLG will come to a view in March 2019 about the future degree of intervention in BCC and that would be a rationale point at which to formally review this risk.	The Leader and Deputy Leader will report to the O&S co-ordinating committee on a monthly basis, where our improvement planning will be essentially a standing item. The first such session was in June 2018. Similarly, the Resources O&S committee will, less frequently, consider the implications of BIIP challenge against that provided by external audit. The first such session will be in July 2018.
18	Evaluation of Alternative Delivery Models a) Failure to adequately identify and agree the costs and benefits of alternative delivery models arising from Service	High / High	**Lead Director comment** Any alternative delivery model must demonstrate some benefit and better value for the Council. There needs to be the early identification of all costs, benefits, losses/impacts as part of the formulation and evaluation of options in the development of the business case.	**Target risk rating:** Medium / Low **Anticipated date of attainment of the target risk rating:** As soon as possible **Source(s) of assurance regarding progress with mitigating the risk:** Management assurance - reports to CMT, notes and actions from CCMB agenda. Dialogue with	O&S - Corporate Resources and Governance O&S Committee undertaking overview of procurement strategy for DCFM services. IA Reviews 2016/17: Acivico Contract Monitoring -

Transformation					
No.	**Description - risk / issue**	**Current level of risk L/I**	**Current actions / Comments**	**Long term aim for the risk - including actions, timescales and target risk rating**	**Overview & Scrutiny (O&S)Review / Work & Internal Audit (IA) Work**
	Reviews before the decision to proceed is made. b) Failure to fully implement the decisions taken to change the service model to enable delivery of expected benefits / efficiency gains. Lead: Relevant Chief Officers Owner: Mike Smith		The financial implications of any change against the existing model need to be evaluated on a case by case basis, seeking specialist advice where necessary to inform recommendations. The evaluation should be proportionate to the value and complexity of the service and the assumptions and level of confidence will need to be made clear in order to avoid over-engineering financial modelling. The Finance Business Partners will provide the necessary skills for the project requirements, as follows: • All costs and income of the proposed model as compared with existing, together with some sensitivity and risk analysis. • remaining costs to BCC (e.g. fixed overheads, income targets, resource requirements etc.) • any costs/benefits to customers/residents who are the recipients of the service These risks/costs need to be presented to and managed by the Commissioning and Contract Management Board (CCMB)/CMT and included in any cabinet reports.	directorate lead commissioners. Finance to be embedded in commissioning reviews. Commissioning expertise established in CPS to ensure best practice is applied across the Council. Risk will be managed on a case by case basis through proper use of the Commissioning Toolkit, and through reviews supported by the Finance Business Partners. CPS believes that given the challenges encountered in supporting alternative delivery models, and the innovative approaches required, the risk is now High/High. Only when we have examples of alternative delivery models being successfully implemented should this risk be removed. Mitigations detailed above are only partly in place and appropriate available resources are not yet accessible to manage risk in implementing alternative service delivery models.	Overall delivery of Contract and Contracts & Procurement Summary Report 2015/16. Acivico Contract Monitoring - Final Accounts Process. IA Review 2017/18: Acivico Review of Business Continuity Arrangements.
44	Reinstated Risk Allowance payments. Lead: Chief Operating Officer Strategic Services Owner: Claire Ward	Medium / Medium	Lead Director comment The bulk of unpaid allowances claims have been successfully managed by HR and Legal Services on a case by case basis. As new case law is decided challenges to payments have arisen including:	Target risk rating: Medium / Medium Anticipated date of attainment of the target risk rating: Attained. Source(s) of assurance regarding progress with mitigating the risk:	O&S - None. IA Review – Reviewing allowances relating to Payment of Language Supplement, Temporary Night Allowance, Tool Allowance, Disturbance Allowance and Laundry

Transformation					
No.	**Description - risk / issue**	**Current level of risk L/I**	**Current actions / Comments**	**Long term aim for the risk - including actions, timescales and target risk rating**	**Overview & Scrutiny (O&S)Review / Work & Internal Audit (IA) Work**
			• Holiday pay – there are some new claims • Sleeping in allowance - case law remains ambiguous so at this point all claims are on hold. • Travel time - currently a subject of internal challenge, but may become a matter for Employment Tribunal. An assessment of claims is made and as appropriate defended or settled dependent on legal advice. There is a clear policy and monitoring framework regarding the application of regular overtime. A new standard Flexi scheme has been developed as part of the Future Council workforce Contract.	Management assurance. All new claims for allowances are being assessed on their merits and defended wherever practical. Use of overtime is being monitored on a monthly basis, with Strategic Directors taking responsibility for addressing any areas of concern. There is a Governance Board monitoring any potential high risk claims.	Allowance.

Service Delivery - New Category					
No.	**Description - risk / issue**	**Current level of risk L/I**	**Current actions / Comments**	**Long term aim for the risk - including actions, timescales and target risk rating**	**Overview & Scrutiny (O&S)Review / Work & Internal Audit (IA) Work**
6	Failure to meet the council's objectives going forward with the Highway Maintenance and Management PFI contract. these are to: i. Obtain the investment for which we are paying; ii. Retain the capacity and financial support from government; iii. Ensure we manage the contract and only pay for what we receive; and	High/Significant	**Lead Director comment** The council has made extensive effort to resolve issues with Amey informally and through various stages of the contractual Dispute Resolution procedure since April 2014. It has numerous disputes relating to non-delivery of investment, non-performance and delivery of previous settlement requirements. On 22 February 2018 the Court of Appeal determined one of the two key investment disputes comprehensively in the council's favour. This is an important step to reducing this risk and places the council in a significantly improved position. Amey is increasingly seeking to dispute all matters and has sought leave to appeal at the Supreme Court.	**Target risk rating:** Low / Significant **Anticipated date of attainment of the target risk rating:** At this stage it is not possible to confirm this. It is proposed to bring a decision on the way forward to Cabinet in summer 2018. **Source(s) of assurance regarding progress with mitigating the risk:** External legal advice and representation has been	O&S - Economy, Skills and Transport OSC discussed with Cabinet Member at Committee on 22nd September 2016. Private briefing sessions have been held for members, most recently in March 2018 IA Review 2016/17: Highways PFI.

	iv. Develop a way forward that will enable us to have confidence in future delivery. Lead: Corporate Director, Economy		However, this appeal is only on matters relating to payment; it does not dispute the requirement to do the work. To fully resolve this matter requires a number of complex issues to be resolved, including payments, programming of work and assurance of delivery to the appropriate standards. We are considering the appropriate way forward that meets the council's objectives and are discussing this with the project lenders and SPV Board. At the same time, we are taking steps to recover money payable to the council, establish the condition of the network, continue to manage the contract and defend our position in disputes.	engaged. Department for Transport (as the sponsoring government department) is also fully engaged.	
39	New Risk HS2 Delivery of HS2 following Royal Assent of HS2 Act. BCC role to help facilitate delivery of new railway (including Curzon Station and depot). Maximise benefits for City and minimise / mitigate impact during construction. Lead: Corporate Director, Economy Owner: Waheed Nazir	Significant / Significant	Lead Director comment HS2 Ltd is the government's delivery body for the new high speed railway. HS2 governance established including regular meetings on individual projects (station, depot etc.) Regular meetings with HS2 Ltd including HS2's planning team regarding programme for Schedule 17 applications and other consents. New burdens on local authority recognised by HS2. Service Level Agreement (SLA) drafted but not yet completed. On-going meetings and joint working with HS2. Internal meeting established at Directorate level to co-ordinate and support work and address any issues. SLA to be completed March / April. Report to be drafted setting out resources required for Schedule 17s etc. going forward.	Target risk rating: Medium/Medium Anticipated date of attainment of the target risk rating: Ongoing Source(s) of assurance regarding progress with mitigating the risk: On-going meetings and joint working with HS2. Internal meeting established at Directorate level to co-ordinate and support work and address any issues. SLA to be completed March / April. Report to be drafted setting out resources required for Schedule 17s etc. going forward.	

40	New Risk Commonwealth Games – Athletes' Village Delivery of the Athletes' Village dependant on funding & acquisition of land in addition to potential changes to sporting schedules affecting villages capacity to accommodate athletes. Lead – Corporate Director, Economy Owner: Waheed Nazir	Medium/ Medium	Lead Director comment Funding First phase approval for the HIF Bid has now been given, BCC officers now need to contribute to the development of the WMCA business case (the umbrella bid under which the BCC HIF bid falls). Decision on funding from Government required in September. Land Compulsory Purchase Orders will be used to support the delivery of the Village. Changes to Sporting Schedule Identify potential options for suitable additional accommodation. Flag the risks and consequences of adding additional events to Senior Officers/Members.	Target risk rating: Medium/Medium Anticipated date of attainment of the target risk rating: Ongoing Source(s) of assurance regarding progress with mitigating the risk: Funding BCC officers working with WMCA to develop the FBC. Engagement with Government through WMCA re: timescales. Land Land required for residential element of the Village acquired. CPO progressing to agreed timeline. HCA are keen to be involved and have been providing advice to the City Council in relation to planning and delivery. Changes to Sporting Schedule A final date for adding events needs to be agreed and clearly communicated with politicians. The Village will be built to accommodate 6500, that number being inclusive of Games Officials, so if additional athletes are scheduled, Officials could be relocated. Student accommodation has been retained to account for additional influx.	Internal Audit 2018/19: Nothing in Plan at the moment

Removed Risks:

Ref No.	Risk description	Reason for removal	Date removed
53	Inadequate or ineffective corporate control of non-core IT spend.	Merged with risk 52 to become: Insufficient in-house IT expertise within Directorates & Inadequate or ineffective corporate control of non-core IT spend.	July 2013
5	Safer recruitment.	Had been at target level of risk for over 12 months, will be managed locally in future.	July 2013
36	Council Tax Rebate scheme.	The Council Tax Rebate scheme has been adopted by Full Council and was implemented with effect from 1/4/2013.	July 2013
49	Delivery of Business Charter for Social Responsibilities.	Cabinet reports and policies for Social Value: The Charter and Living Wage were approved by Cabinet in April 2013.	July 2013
43	Implications to BCC regarding decision making due to the provisions within the Localism Act and need to respond to community approaches under the Act.	This issue has been assessed as having met the target level of risk (Low likelihood and Medium impact) since May 2013. Corporate Resources and Development & Culture Directorates to continue to monitor locally.	November 2013
4	Need to achieve the full benefits from the whole business transformation programme - including financial and non-financial benefits.	The risk has been fully mitigated and is assessed as being a low likelihood and low impact. The financial challenge going forward is covered within Risk 28 "On-going reduction in government grants resulting in a shortfall in resources compared to projections from 2013/14".	March 2014
1d	Failure to successfully settle pay & grading and allowances equal pay claims.	The issues will be addressed within risks 1a - 1c & 44.	July 2014
26	Failure to utilise resources well in jointly working with the NHS to reduce delayed discharges as measured by National Performance Indicator ASCOF2C.	No Birmingham hospitals are now fining the Council for delayed transfers of care activity, and Members are supportive of the progress made and sustained.	July 2014
48	Delivery of new Public Health responsibilities.	All of the actions relating to the transition of Public Health have been actioned.	July 2014

Ref No.	Risk description	Reason for removal	Date removed
20	Demonstration of benefits arising from Customer First.	All of the actions for 2014/15 are being put in place, ie: Launch of the new Housing Repairs functionality which was delayed from last year, re-design of the website, promotion of self service, improvements to online forms, etc.	November 2014
25	Production of timely & accurate IFRS Final Accounts.	The accounts were submitted on 30th June 2014.	November 2014
51	Service Birmingham support provided to the SAP HR and payroll system.	There has been significant progress against an agreed improvement plan and the service is now significantly more stable.	November 2014
2015/16.08	Insufficient resources (finance & people) to agree / deliver the change programme.	Cabinet approved a report on 20th April 2015 that set out the Children's Social Care and Early Help Improvement Plan for 2016-2018, including the appropriate financial envelope for the plan.	July 2015
2015/16.25	Supply chain failure by reason of supplier withdrawal, liquidation or contract non-compliance.	Following identification of this risk, processes and procedures were developed and rolled out to key contract managers across the organisation with supply chain risk assessments being completed by suppliers. The supply chain risk assessment process is now captured as an annual activity within the supplier annual reviews and the Council's contract management toolkit.	July 2015
2015/16.26	PSN resubmission.	The Council has successfully retained PSN submission till April 2016.	July 2015
2015/16.27	Financial implications of failing to meet obligations regarding climate change and sustainability - carbon tax cost.	We have made four submissions out of four without issue (and passed an Environment Agency Audit in 2011), giving a 100% success record. The 2014/15 return is progressing normally.	July 2015
2015/16.28	Potential for disruption to council services due to the need to transition to a new Banking Services provider with effect from 1/4/2015.	The banking transfer has been successfully concluded.	July 2015
2015/16.10a	Resolution of contractual issues in the Highway Maintenance & Management PFI contract.	A commercial settlement signed on18th December 2015, resolved a number of contractual issues.	March 2016
2015/16.29	Risk of Court deciding against the Council regarding the Homeless Service.	The High Court dismissed the four applications for Judicial Review.	March 2016

Ref No.	Risk description	Reason for removal	Date removed
21 (old 35)	IT refresh / update.	The desktop refresh is progressing as business as usual, and PSN compliance means that we cannot have unsupported applications running on our network.	July 2016
23 (old 59)	Risk of enforcement action and fines of up to £500,000 by the Information Commissioners Office (ICO) for failure to comply with the 40 day timescale for responding to Subject Access Requests (SARs).	There has been considerable improvement in responding to Subject Access Requests. The Information Commissioner's Office is happy with the progress being made and are no longer monitoring the Council.	November 2016
8 (old N/A)	Risk of challenge regarding implementation of the Younger Peoples Re-Provision Programme.	The work stream is now closed, and efficiency and savings targets have been transferred to the Maximising Independence of Adults (MIA) Board.	March 2017
9 (old 57)	Failure to respond fully and effectively to the issues from recent reviews concerning school governance and related matters.	A much improved performance culture and set of arrangements are now in place for the Council's education services.	March 2017
13 (old 28)	Not planning appropriately for the on-going reduction in government grants.	This is an annual risk, but there are processes in place to manage it.	March 2017
24 (old N/A)	That the need to address the updated Pensions Deficit will result in an increase in employer contributions.	This risk crystallised in the setting of the 2017/18+ budget. The information received has been fully taken into account in the update of the Council's medium term financial plan, and in the development of savings proposals.	March 2017
28	Risk that in its early stages of delivery the Sustainability Transformation Plan (STP) will not alleviate the financial position of social care.	The Council budget from April 2017 does not make assumptions regarding this proposal contained in the previous year's budget; and is no longer a major financial risk to the organisation.	July 2017
22	Risk of fines from HMRC for Directorates employing long term consultants.	There are now processes in place for the engagement of off payroll individuals.	November 2017
27	Risk of claims for payback of search fees charged by the Council.	The potential liability is less than £160k, and this risk will be monitored via the directorate risk register.	November 2017
4	Defend and or settle pre 2008 equal pay claims	Equal pay risks have been reworded and updated and included on one risk No1.	March 2018
5	Further equal pay claims	Equal pay risks have been reworded and updated and included on one risk No1.	March 2018
14	Insufficient in-house IT expertise within Directorates	Transition of Service Birmingham	March 2018

Ref No.	Risk description	Reason for removal	Date removed
19	Delivery of Localisation Agenda	Majority of work has now progressed	March 2018
20	Allowance Payments	The bulk of unpaid allowance claims have been successfully managed by Legal Services. All other new claims are being assessed on their merits and defended wherever practical.	March 2018

BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to:	**AUDIT COMMITTEE**
Report of:	**Corporate Director, Finance & Governance**
Date of Decision:	**30 July 2018**
Subject:	**STATEMENT OF ACCOUNTS 2017/18**
Wards affected: All	

1 Purpose

1.1 This report presents

- The 2017/18 Statement of Accounts including an unqualified audit opinion;

- Grant Thornton's Audit Findings Report, which summarises the significant outcomes, conclusions and recommendations from their work on external audit for 2017/18, including their opinion on the Statement of Accounts, Value for Money and their written recommendations to the Council under Section 24 of the Local Audit and Accountability Act 2014.

1.2 Members are asked to approve the final Statement of Accounts for 2017/18.

2 Decisions recommended:

2.1 Audit Committee is recommended to:

- Note the Audit Findings Report from Grant Thornton and accept the recommendations in Appendix A of that report;

- Note the written recommendations issued under Section 24 of the Local Audit and Accountability Act 2014;

- Approve the Annual Governance Statement included in the Statement of Accounts for 2017/18;

- Approve the Letter of Representation from the Corporate Director, Finance & Governance;

- Approve the Statement of Accounts for 2017/18.

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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 2017/18, 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 Corporate Director, Finance & Governance on 31 May 2018. The Statement of Accounts, attached at Appendix 3, needs to be signed by 31 July 2018 to enable all statutory deadlines to be met.

4.2 Officers have worked closely with Grant Thornton through the audit of the financial statements to ensure that the final document presents a true and fair view of the Council's financial position.

4.3 The Audit Findings Report provides information about Grant Thornton's work on the Council's financial standing, internal control and value for money. Further detail on the value for money audit work is provided in the Annual Audit Letter which will be reported at the September meeting of this committee. The Council has received an adverse opinion in respect of the auditor's Value for Money conclusion. The auditor has also made seven written recommendations to the Council under Section 24 of the Local Audit and Accountability Act 2014. The recommendations are that the Council needs to:

Finance

- Deliver its savings plans in 2018/19, in particular by identifying alternatives where existing plans are not deliverable, to mitigate the impact of the combined savings and budget pressure risks.
- Develop a realistic medium term financial plan for 2019/20 to 2021/22 which incorporates realistic and detailed savings plans and takes account of key budget and service risks.
- Ensure that it maintains an adequate level of reserves to mitigate the impact of budget risks, in particular one-off risks such as the Commonwealth Games and Equal Pay.

Transparency and Governance

- Ensure that its financial monitoring and budget reports are clear, transparent, and timely particularly in relation to the use of reserves, whether in-year or at year-end.
- Report governance failures and emerging issues promptly and clearly to Members and local citizens.

Subsidiary Bodies

- Ensure that appropriate arrangements are implemented in relation to the Council's subsidiary bodies, including regular financial reporting and appropriate Council nominees on subsidiary body boards, to ensure that emerging risks are monitored, reported and managed properly.

Place Directorate

- Ensure that robust management and governance arrangements are put in place within the Place Directorate, particularly to ensure effective oversight of the waste service, to ensure that it delivers its financial and service objectives.

4.4 The auditor will have sent details of the written recommendations to the Secretary of State at the same time as it has been forwarded to the Council. As a consequence of the written recommendations, the Council is required to:

a) Consider the recommendations at a meeting held before the end of the period of one month from the date that the recommendations were sent to the Council. This period may be extended by the auditor if he is satisfied that it is reasonable to allow more time. Given the next meeting of the full Council is scheduled for 11 September 2018, the auditor will be asked to grant an extension to that meeting. Council will need to:

- Determine at the meeting whether the recommendations are to be accepted

- Determine what action, if any, to take in response to the recommendations.

b) Follow particular procedures in notifying the public of the meeting to be held to discuss the written recommendations and also in publishing a notice of the decisions made in respect of the recommendations.

4.5 The Audit Findings Report includes an action plan with a number of recommended actions which the Council needs to consider and address in the coming year. The Audit Findings Report 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 a report will be brought to the next meeting of this committee.

4.6 A Letter of Representation is required to be sent to the external auditor by the Corporate Director, Finance & Governance, in his 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 Material Adjustments

5.1 There were three material adjustments to the single entity accounts, which are also reflected in the group accounts. The material adjustments relate to:

- The treatment of the in-year depreciation charged to the HRA in respect of the revaluation of assets;
- An error in the revaluation of HRA assets, which understated the net book value of those assets;
- The treatment of cash held in instant access accounts which had been treated as a short term investment rather than cash.

5.2 The adjustments above had no impact on the Council's level of usable reserves.

5.3 There was also one additional adjustment which impacted solely on the group accounts in respect of the treatment of debtors and creditors associated with Innovation Birmingham, which was treated as an Asset Held for Sale at the year-end.

5.4 There were also a number of adjustments to notes within the financial statements where there has been a reclassification of expenditure between reporting lines without changing totals and where information has been provided to aid clarity in the understanding of the accounts.

5.5 There were no material unadjusted items.

Signature:

Corporate Director, Finance & Governance: ……………………………………………

Dated: ………………………………………………………………………………

Attachments:
Appendix 1: Audit Findings Report
Appendix 2: Letter of Representation to the External Auditor
Appendix 3: Annual Statement of Accounts

Grant Thornton

Audit Findings

Year ending 31 March 2018

Birmingham City Council

30 July 2018

Contents

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Headlines

This table summarises the key issues 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 2018 for those charged with governance.

Financial Statements	Under the International Standards of Auditing (UK) (ISAs), we are required to report whether, in our opinion: • the group and Council's financial statements give a true and fair view of the group and Council's financial position and of the group and Council's expenditure and income 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 Statement of Accounts, 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 on site during June and July. Our findings are summarised on pages 4 to 24. We have identified four adjustments to the financial statements that have resulted in a £97m adjustment to Total Comprehensive Income. The audit adjustment is 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. Subject to receipt of the management representation letter, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 30 July 2018, as detailed in Appendix E. We have concluded that the other information published with the financial statements, which includes the Statement of Accounts, AGS and Narrative Report, are consistent with our knowledge of your organisation and with the financial statements we have audited. Although we are not proposing to report any AGS issues in our audit report, we bring the following point to your attention: • Management of schools has not been included as a significant governance issue in this year's AGS due to it being removed from the Council's risk register in response to the enhanced governance arrangements. Although we are not challenging this assessment we are proposing to qualify our value for money conclusion due to ongoing governance issues identified by internal audit's reviews of schools.
Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, 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 does not have proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an adverse value for money conclusion, as detailed in Appendix E. Our findings are summarised on pages 26 to 33.
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 • certify the closure of the audit	We have issued our Statutory Recommendation under section 24 of the Local Audit and Accountability Act 2014. Further details are included on pages 5 to 11 of this report. We do not expect to be able to certify the conclusion of the audit until: • we have completed our consideration of the one remaining objection brought to our attention in 2016/17 under Section 27 of the Local Audit and Accountability Act 2014; and • we have completed the necessary work to issue our Whole of Government Accounts (WGA) Component Assurance statement for the year ended 31 March 2018.

Acknowledgements

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

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Summary

Overview of the scope of our audit

This Audit Findings presents the observations arising from our 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. Its contents have been discussed with management. As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK), 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 Council's business and is risk based, and in particular included:

- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of total group assets and revenues to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that a targeted audit response was required for Birmingham City Propco Ltd and PETPS (Birmingham) Pension Funding Scottish Limited Partnership as they were new companies set up in the 2017/18 year. An analytical approach was required for all other components.
- An evaluation of the group's internal controls environment including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

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 30 July 2018, as detailed in Appendix E. These outstanding items include:

- receipt of management representation letter;
- reviewing the final version of the financial statements.

Key audit findings

The key messages arising from our audit of the Council's financial statements are as follows.

We received a good quality set of financial statements on 31 May in line with the statutory deadline. The working papers supporting the accounts have been fit for purpose and we appreciate the support that the Finance Team have given us throughout the audit.

Our audit has identified four adjusted errors. Further details are provided in Appendix C.

Our audit has not identified any unadjusted errors.

We are planning to issue an unqualified opinion on the financial statements. Our enhanced audit report will include an Emphasis of Matter paragraph in relation to the disclosure of the uncertainties surrounding the volume and timing of any future equal pay claims.

We are planning to issue a qualified 'adverse' Value for Money (VfM) conclusion. This is because the weaknesses in arrangements which we have identified, are both significant in terms of their impact and numerous in terms of the number of different aspects of proper arrangements affected, that we are unable to satisfy ourselves that the Council has proper arrangements to secure VfM:

- Budget Delivery and Reserves Management, as well as savings proposals (including the principles of the Future Operating Model) and Equal Pay: due to the significant use of reserves in 2017/18, the planned use of £30.5m of Corporate Reserves in 2018/19, the failure to deliver all of the planned savings in 2017/18 and the £9.1m of savings identified as not deliverable in 2018/19 as reported by the Council at Month 3;
- Improvement Panel ('the Panel'): the Council is working collaboratively with the Panel, but needs to address the issues highlighted in its Improvement Stocktake Report;
- Services for Vulnerable Children: although Ofsted has acknowledged improvement following its most recent monitoring visits, the Council is still rated as 'inadequate'; and
- Management of Schools: Ofsted has identified some improvements in arrangements but Internal Audit reports suggest weaknesses in financial and other controls at 52% of schools visited.

Whilst we have not qualified our VfM conclusion in relation to the Commonwealth Games, we do recognise that a significant level of funding has not yet been received by the Council and there is a risk that hosting the games will impact upon the Council's future financial sustainability if it is not adequately managed.

Statutory Recommendation

Recommendation made under Section 24 of the Local Audit and Accountability Act 2014 ('the Act')

The Council needs to:

Finance

- Deliver its savings plans in 2018/19, in particular by identifying alternatives where existing plans are not deliverable, to mitigate the impact of the combined savings and budget pressure risks.
- Develop a realistic medium term financial plan for 2019/20 to 2021/22 which incorporates realistic and detailed savings plans and takes account of key budget and service risks.
- Ensure that it maintains an adequate level of reserves to mitigate the impact of budget risks, in particular one-off risks such as the Commonwealth Games and Equal Pay.

Transparency and Governance

- Ensure that its financial monitoring and budget reports are clear, transparent, and timely particularly in relation to the use of reserves, whether in-year or at year-end.
- Report governance failures and emerging issues promptly and clearly to Members and local citizens.

Subsidiary Bodies

- Ensure that appropriate arrangements are implemented in relation to the Council's subsidiary bodies, including regular financial reporting and appropriate Council nominees on subsidiary body boards, to ensure that emerging risks are monitored, reported and managed promptly.

Place Directorate

- Ensure that robust management and governance arrangements are put in place within the Place Directorate, particularly to ensure effective oversight of the Waste Service, to ensure that it delivers its financial and service objectives.

Our responsibilities

As well as our responsibilities to give an opinion on the financial statements and assess the arrangements for securing economy, efficiency and effectiveness in the Council's use of resources, we have additional powers and duties under the Act. These include powers to issue a public interest report, make a written recommendation, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

We have concluded that it is appropriate for us to use our powers to make a written recommendation under Section 24 of the Act due to the Council's current and forecast financial position.

Statutory Recommendation (continued)

Reasons for making the recommendation

We included a statutory recommendation in October 2016 under Section 24 of the Local Audit and Accountability Act 2014 (‘Section 24’) in our 2015/16 Annual Audit Letter relating to the adequacy of budgetary arrangements. The recommendation stated that the Council needed to:

- ‘’ensure that there is Council-wide commitment to delivering alternative savings plans to mitigate the impact of the combined savings and budget pressure risks in 2016/17;
- demonstrate that it is implementing achievable actions to deliver its cumulative savings programme in the Business Plan 2017+ by:
  - revising savings programme from 2017/18 onwards to reflect the delayed on non-delivery of savings plans in 2016/17;
  - ensuring that all savings plans are assessed for both lead time to implement and delivery risk; and
- re-assess the impact of the combined savings and budget pressure risks on the planned use of reserves for 2016/17 and the impact of this on the reserves position from 2017/18 onwards.’’

This recommendation and the Council’s formal response were considered at the Council meeting on 10 January 2017.

We have now concluded that little progress has been made to 31 March 2018 in delivering against the recommendations. In addition, we have significant concerns about other areas of the Council’s performance. Accordingly we now consider it appropriate to make further recommendations under the Act.

It is encouraging that the Council’s Improvement Stocktake Report published on 29 June 2018 recognises many of the weaknesses which our recommendation seeks to address. The Birmingham Independent Improvement Panel (‘the Panel’) has also commented on 29 June that whilst the Council has ‘not sufficiently gripped’ the improvement challenge set by the Kerslake report, it is now committed to doing so. The key, from our perspective, now, is to start to convert the good intentions into the improvements required.

Finance

Savings Plan delivery

The Council has failed to deliver planned savings targets since 2016/17. It reported a budget overspend of £29.8m in 2016/17, but only after applying £42.1m of corporate reserves as well as making use of capital receipts flexibility. This resulted in spend of £71.9m more than the resources available. A key reason for the overspend was the failure to deliver large ambitious savings programmes such as the Adult Care savings plan. In the 2016/17 Annual Audit Letter, we commented:

‘The Council needs to continue to take action to manage the emerging trend of underdelivery of savings against plan to date, specifically to mitigate current Directorate plans which are not achieving anticipated savings targets, but also to ensure that further non-delivery of savings does not occur in other planned areas currently shown as on track…

…The events surrounding the waste strike have affected capacity to focus on corporate budget and governance monitoring. The officer and political leadership need to work together to ensure that the Council’s financial stability remains a top priority. If the waste strike resumes, the additional expense arising will add to cost pressures.’

In 2017/18, the Council reported a net overspend of £4.9m after use of £63.1m of reserves (£42.2m of which were planned) plus £11.7m to fund pension guarantees. It is of concern that the Council has applied £116.9m of reserves in 2016/17 and 2017/18 to deliver a cumulative deficit of £35m. The use of reserves has therefore masked the Council’s true position. If the Council had not applied any reserves over the last two years, it would have had to deliver £150m more in aggregate savings to achieve balance. It has effectively been running an annual deficit of £75m.

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Statutory Recommendation (continued)

Delivery of savings has proved an enduring problem. The Council continued to under-deliver planned savings in 2017/18, again, in part due to the failure to deliver large savings plans such as the Future Operating Model (FOM), which under delivered by £15.4m in 2017/18, an underdelivery which was to rise to £34.2m in future years. As noted in the 2016/17 Annual Audit Letter, the waste strike also diverted corporate focus from budget monitoring, but contributed significantly to the overall overspend of £17m.

2018/19 and beyond looks extremely challenging. The Council's medium-term financial plan provides for £52.9m of savings in 2018/19 after applying £30.5m of reserves. The month 3 budget monitoring report is forecasting a £17.9m overspend, comprising a base budget overspend of £10.1m and £9.1m of savings not deliverable, offset by £1.3m of accelerated efficiency targets. £10.8m of the £17.9m overspend relates to the Place Directorate, of which £5.3m relates to waste.

The Council is seeking to strengthen its monitoring processes and embed accountability for delivery of savings more strongly within Directorates. There will be, for instance, much stronger control over the use of reserves. This requires stronger working relationships between Finance and Service Directorates. It is imperative that the Council stays on track to deliver its budget in 2018/19 in order to:

- develop momentum
- avoid storing up problems for the future
- avoid further calls on reserves

The need to re-establish a track-record of savings delivery is important, not least as the cumulative savings requirement over the next few years is very demanding, rising from £88m by 2019/20 to £108m by 2020/21 and £117m by 2021/22. In the last two years savings delivery on that scale has proved unachievable. But without delivery of these ambitious savings plans, reserves will rapidly erode, which would leave the Council with insufficient financial resources to call upon, in the event of any budget contingencies arising.

Accordingly, we have therefore recommended that the Council needs to:

- **deliver its savings plans in 2018/19, in particular by identifying alternatives where existing plans are not deliverable, to mitigate the impact of the combined savings and budget pressure risks.**

Medium Term Financial Plan (MTFP)

There are signs, however, that the Council's new management team, with a newly appointed Chief Executive and Corporate Director, Finance & Governance, and a newly elected political administration in place for four years, is starting to develop a more robust MTFP which is less dependent on the use of reserves to support budget delivery. Whilst the 2018/19 plan is reliant on £30.5m of reserves, the Council argues that this is a recognition that it needs time and capacity to transform its services.

Developing a realistic MTFP which is deliverable, and delivers, is important because it provides a map of how a significant savings requirement can be delivered over a period of time, which builds in adequate lead-times for major transformational initiatives, which are well-designed and owned by Service Directorates. The MTFP also needs to build in headroom to accommodate financial pressures arising from increase in service demand, legislative requirements or one-off risks. The Commonwealth Games and Equal Pay are only two of the potential financial pinch-points.

We have therefore recommended that the Council needs to:

- **develop a realistic medium term financial plan for 2019/20 to 2021/22 which incorporates realistic and detailed savings plans and takes account of key budget and service risks.**

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Statutory Recommendation (continued)

Adequacy of Reserves

The 2017/18 statement of accounts show that the Council holds the following reserves:

- un-earmarked reserves: £170.4m (including the £41.5m Organisational Transitional Reserve and £98.2m Financial Resilience Reserve);
- earmarked reserves: £302.9m;
- capital reserves: £427.4m; and
- ringfenced reserves: £69.2m.

The un-earmarked reserves are key to the Council's MTFP as they are available for general application rather than reserved for a specific purpose. The level of un-earmarked reserves has increased by £69.6m in 2017/18, largely due to:

- the Council's policy decision to change its Minimum Revenue Provision (MRP) policy, which generated an unplanned additional reserve of £98.2m; and
- the beneficial repayment of a provision no longer required in respect of NEC Pensions - £23.6m.

Without the MRP policy change, un-earmarked reserves would have totalled £72.2m We wrote to the Corporate Director, Finance & Governance on 24 January 2018, noting that whilst the change in policy has resulted in an increase in reserves to support budget strategy, and is not unlawful, it also has the effect of pushing additional costs into future years. The Council argues that the arrangements are 'reasonable and prudent', in accordance with Government guidance, which states that it is for Councils to assess what is prudent according to their particular circumstances.

Whilst the Council's reserves, earmarked and un-earmarked, are not insubstantial, they should be viewed in the context of the financial risks it faces. Equal Pay remains a significant risk, whilst the Commonwealth Games, which represents a significant opportunity for the City and the region, nonetheless also presents financial risks. As of December 2017, the Council had committed to providing £30m in capital funds for the project, leaving a gap of around £44m revenue and £40m capital. Whilst this gap could narrow, it could also grow wider.

There are other potential financial risks relating to the Council's subsidiary bodies, which are referred to later. Additionally, any failure to deliver on planned savings over the next three years, could also lead to rapid depletion of reserves. A recent NAO report in March 2018 argued that many local authorities are relying on using their savings to fund local services and are overspending on services, which is not financially sustainable. For that reason, we have recommended that the Council needs to:

- **ensure that it maintains an adequate level of reserves to mitigate the impact of budget risks, in particular one-off risks such as the Commonwealth Games and Equal Pay.**

Transparency and Governance

The Council has not been effective in the way that it reports:

- its financial position; and
- governance failures and emerging issues.

Statutory Recommendation (continued)

The Council has not been transparent, in particular, in the way that it reports its financial position. In particular, the practice of applying reserves in-year (of itself unusual), rather than at year-end, has not been stated clearly at the start of in-year reports but has been lost in the detail. The Council's in-year monitoring reports have accordingly appeared to present a better financial picture than was in fact the case. This has made it difficult for Members, in particular, to establish the Council's true financial position.

The reported year-end overspend of £4.9m in 2017/18 appears a modest deficit, but was delivered through the application of £75m of reserves (£42m planned), a significant proportion of which were applied in-year. Had the reserves not been applied in-year, the emerging deficit reported in-year would have appeared substantially larger. The Council's new Management Team has now implemented more transparent reporting arrangements which explain more clearly the use of reserves. This is to be commended.

The Council also has a track record of not reporting governance failures effectively; whether relating to Equal Pay or the waste dispute. For instance, the additional costs arising from the waste dispute have not been published nor has any report on the lapses in governance, which contributed to the prolongation of the dispute, been produced. Whilst an independent investigation into the background of the waste dispute, including the conduct of the former Leader, has been commissioned, this is yet to be published, almost 12 months after the dispute commenced.

As external auditors, we have not always been made privy to emerging issues. In September 2016, the (then) budget forecast of a £50m deficit had not been discussed with us prior to the issue of the report. Similarly in August 2017, key information relating to Equal Pay, which led to the inclusion of an emphasis of matter within our audit report, had to be requested from the Council as it had not been disclosed to us.

There are again some encouraging signs that the new Management Team is being far more open with Members, the public and the external auditor. To assist the team further we have therefore recommended that the Council needs to:

- **ensure that its financial monitoring and budget reports are clear, transparent, and timely particularly in relation to the use of reserves, whether in-year or at year-end; and**
- **report governance failures and emerging issues promptly and clearly to Members and local citizens.**

Subsidiary Bodies

In recent decades, the Council has created a number of companies with partners to deliver its services. The Council's Group Accounts disclose that it has seven subsidiaries, one associate company and one joint venture. Total net spend is of the order of £40m. The bodies are accordingly a key part of the Council's delivery mechanisms, but their activities have not always been transparent. In particular, their financial position and the Council's accountability for their liabilities has not been well understood or reported by the Council. The Council has therefore not always had sufficient accurate information upon which to make decisions relating to these entities in order to mitigate risk.

The new Corporate Director, Finance & Governance, has brought a greater rigour to the monitoring of the Council's subsidiaries and other entities. For instance, Acivico Ltd., has had a troubled financial and operational record in recent years, providing excellent services in some areas, and poorer services in other areas as measured by customer satisfaction surveys. The Council is currently considering ways to strengthen its governance and performance.

Statutory Recommendation (continued)

However, governance arrangements have not been adequate to enable the Company's activities to be adequately monitored. For instance, the Council has not always had the most appropriate nominees sitting on the Company's Board and the Company's records and financial reporting have proved inadequate. This has resulted in recognition of £9.5m of pre-2018/19 accumulated losses and long-standing disputes. This has added further to the Council's overall spending pressures.

Acivico Ltd. is a 100% owned Council company and any losses and liabilities may fall to the Council. The Council is determined to exercise more effective control over the Company in future; for instance the Corporate Director, Finance & Governance will be an observer to the Board, and a number of changes have been made to the management and governance of the Company.

Acivico Ltd illustrates a wider issue about inadequacies in the Council's reporting of the financial and service performance of its subsidiary companies and other entities. For instance, the joint venture, Paradise Circus General Partner Limited, would appear to have incurred cost overruns on the project, but it is unclear at this stage whether this is a genuine overspend or is a result of re-phasing of the spend. Governance arrangements for identifying and reporting the overspend appear to have been inadequate. We have therefore recommended that the Council needs to:

- **ensure that appropriate arrangements are implemented in relation to the Council's subsidiary bodies, including regular financial reporting and Council representation on subsidiary body boards, to ensure that emerging risks are monitored, reported and managed promptly.**

Place Directorate

The Place Directorate has experienced a turbulent year, best illustrated by the events associated with the waste dispute. The Directorate has also not managed its budget effectively and there have been significant failings in its governance arrangements.

In relation to the budget, the Month 3 budget report for 2018/19 shows that over half the Council's anticipated year-end overspend of £17.9m is accounted for by an expected overspend in the Place Directorate of £10.8m. The key pressure point for most metropolitan authorities is the social care budget, which is overwhelmingly demand-driven. It is relatively unusual for the key financial challenges to relate to place-based services. This is an indication that things have gone badly wrong at Birmingham in this regard.

The Month three budget report explains that the Place Directorate financial pressures include the following:

- £5.3m relating to Waste Services and £3.5m relating to other assorted service pressures across the Directorate;
- a forecast £0.7m overspend on Markets; and
- further projected overspends of £0.4m relating to Housing Options and £0.9m relating to pension strain and other Directorate wide pressures.

The Month three report notes that there are no firm plans identified to mitigate the base pressures and non-delivery of savings. It is clear that budget accountability has not been operating effectively within the Place Directorate, which indicates a lack of leadership.

Whilst overspends have been identified across the Directorate, the Waste Service has been a focal point of the financial problems that the Directorate has experienced, with its origins in the waste dispute.

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Statutory Recommendation (continued)

We noted in the 2017/18 Annual Audit letter that the events leading to the strike being suspended on 16 August 2017, then re-instated on 1 September 2017 when 106 workers were handed their redundancy notices:

'did not serve to enhance confidence in the Council's systems of governance… ..Members will recall that a key strand of the Kerslake report related to the need to re-set member-officer relations. It is of concern that initial improvements in this area may not have been sustained.'

The action was suspended on 20 September 2017 when Unite won an injunction blocking the proposed redundancies. A full court hearing took place in November 2017. The Council's June 2018 Stocktake Report quotes the Judge's criticisms of the conduct of the waste dispute, in particular as they related to member-officer relations and local disagreements about role definitions. The Judge noted that, 'neither party (officers or members) comes out of this sorry saga with any credit at all.'

The Court ordered the re-instatement of the dismissed workers but also the immediate implementation of the proposed revised working arrangements, incorporating in particular, a move to five day working. Whilst the dismissed workers were reinstated in different roles in January 2018, the revised working arrangements have yet to be introduced, and September 2018 appears to be the earliest date for their implementation.

The waste strike and the failure to introduce revised working arrangements have given rise to significant budget pressures in both 2017/18 and 2018/19. In our Annual Audit Letter dated October 2017 we noted that additional costs in 2017/18 were running at £0.3m per week, but the true additional cost of the waste strike has not yet been reported.

We understand that in recent months, invoices totalling £1.6m have been submitted to the Council in respect of the costs of private contractors, who were hired to deliver waste rounds during the strike. This work does not appear to have been properly authorised and was accordingly not recognised in 2017/18 budget monitoring reports. This represents a significant failing in financial governance which the Council is seeking to get to the bottom of.

The Council is now seeking to get a grip on the managerial and operational delivery of the Directorate. This work needs considerable impetus and urgency of attention. Accordingly we have recommended that the Council now needs to:

- **ensure that robust management and governance arrangements are put in place within the Place Directorate, particularly to ensure effective oversight of the waste service, to ensure that it delivers its financial and service objectives.**

What does the Council need to do next?

The Act requires the Council to:

- consider our recommendation at a meeting held within one month of the recommendation being sent to the Council; and
- at that meeting the Council must decide:
  (a) whether the recommendation is to be accepted, and
  (b) what, if any, action to take in response to the recommendation.

Following the meeting the Council needs to notify us, as the Council auditors, of its decisions and publish a notice containing a summary of its decisions which have been approved by us.

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Other considerations

Key audit findings (continued)

Paradise Circus Limited Partnership Joint Venture

We have considered whether the Council should disclose a contingent liability in relation to cost overruns in relation to its joint venture. The Council as Accountable Body has provided loan finance for the scheme which, it is intended, will be repaid by the uplift in Business Rates generated by the development. Given that Phase 1 of the project is complete and a number of the offices developed, have been let, the Council considers that its loan finance will be covered by the Business rates generated. The movement to Phase 2 is expected to be agreed by the Enterprise Zone Board in September 2018.

The Council does not consider that any liability arises in its role as Accountable Body, as its loan finance will be covered by the Business Rates uplift, and it does not therefore consider that a contingent liability is appropriate.

We have had access to documentation, which does not suggest at this stage that any liability exists which would not be covered by the uplift in Business Rates. Accordingly we are not minded to challenge the Council’s view. However all projects are dynamic in nature and there is inherent risk in all business assumptions. We will therefore continue to monitor the progress of the project.

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Materiality

Our approach to materiality

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

Materiality calculations remains the same as reported in our audit plan. We detail in the table below our assessment of materiality for Birmingham City Council.

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	£43,830,000	£43,575,000	We decided that gross total cost of services expenditure in year was the most appropriate benchmark. Given the increasing level of public interest in the Council's activities during a sustained period of cost-cutting and efficiency measures we consider that it is appropriate to set the percentage applied at 1.5%.
Performance materiality	£32,873,000	£32,681,000	We have not previously identified significant control deficiencies as a result of our audit work and there were no material misstatements in the 2016/17 draft accounts. We decided that performance materiality of 75% of materiality is an appropriate level.
Trivial matters	£2,191,000	£2,178,000	Our trivial threshold has been calculated as 5% of materiality. We will report any errors over this threshold to those charged within governance within this report.
Materiality for specific transactions, balances or disclosures	£100,000	£100,000	We have identified senior officers remuneration (including exit packages for senior officers) as a sensitive item and set a lower materiality of £100,000 for testing these items based on the fact that we consider the disclosures to be sensitive and of specific interest to the reader of the financial statements.

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 commentary

Management's assessment process	Auditor commentary
Management assess that the Council will continue as a going concern. Whilst facing significant financial pressures in common with the rest of the public sector the Council has used reserves to balance its budget in 2017/18 and will require a further £30.5m of reserves to balance the 2018/19 budget.	• Management has documented the basis of their judgement, presented this to the Audit Committee within our ''Informing the Risk Assessment' 'report and the Audit Committee has endorsed it. • Management's assessment of use of going concern basis of accounting is that it is appropriate because ''Local Authorities are required by the Code of Practice on Local Authority Accounting 2017/18 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.''
Work performed	**Auditor commentary**
Detail audit work performed on managements assessment	We performed the following audit procedures: • Discussions with management about the Council's current and future financial plans; • Considered whether the results of our audit procedures indicate the existence of going concern events or conditions which may cast significant doubt on the entity's ability to continue as a going concern; • Review of managements assessment of the going concern assumption and supporting information; and • Review of the disclosures included within Note 2 of the financial statements (Critical Judgements in Applying Accounting Policies).
Concluding comments	**Auditor commentary**
	• Whilst we acknowledge that the Council faces significant financial pressures we have concluded that the going concern basis of accounting is appropriate for the Council and our audit report is unmodified in relation to going concern.

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Significant audit risks

	Risks identified in our Audit Plan	Commentary
1	**Improper revenue recognition** Under ISA 240 (UK) there is a 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.	**Auditor commentary** Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, 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; and • the culture and ethical frameworks of local authorities, including Birmingham City Council, 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.
2	**Management override of controls** Under ISA 240 (UK) 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. Management over-ride of controls is a risk requiring special audit consideration.	**Auditor commentary** As part of our audit procedures we have: • updated our review of the control environment for the preparation and authorisation of journal entries and performed a walkthrough of the controls; • tested the completeness of the journal listing; • analysed the journals listing to identify any unusual changes in volume or value of journals; • identified and selected journals which we deemed to be high risk or unusual; • tested all high risk journals and obtained managements explanations and corroborating evidence; and • reviewed management estimates and critical judgements by challenging assumptions, verifying completeness and accuracy of source date and checking calculations. **Our audit work did not identify any issues that we wish to bring to your attention.**

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Significant audit risks (continued)

	Risks identified in our Audit Plan	Commentary
3	**Valuation of property, plant and equipment** The Council revalues its land and buildings on a rolling five year programme to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements. We identified the valuation of land and buildings (specifically council dwellings, other land and buildings and surplus assets) revaluations and impairments as a risk requiring special audit consideration and a key audit matter for the audit.	**Auditor commentary** On receipt of the draft financial statements we identified that impairment was not material to the financial statements. We have considered the appropriateness of management's consideration of possible impairments but have derecognised this particular element as a significant risk requiring special audit consideration. As part of our audit procedures we have: • updated our understanding of the processes put in place by management to ensure that revaluation measurements are correct and evaluating the design of the associated controls; • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • evaluated the competence, capabilities and objectivity of the valuation expert (the valuer); • discussed with the valuer the basis on which the valuation was carried out; • challenged the information and assumptions used by the valuer to ensure completeness and consistency with our understanding; • tested revaluations made during the year to ensure they were input correctly into the Council's asset register and correctly reflected in the financial statements; and • evaluated the assumptions made by management for those assets either revalued at the start of the financial year or not revalued during the year to determine how management has satisfied themselves that the current values (or fair values for surplus assets) at the year-end are not materially different to the carrying values per the financial statements. We have identified two adjustments from our work on the valuation of property, plant and equipment: Firstly, we identified a £50.3m credit to the HRA Income and Expenditure Statement relating to depreciation incorrectly reversed through the CIES on revaluation. This had no impact on net book value and has been corrected in the final version of the financial statements. We also identified an error relating to accounting for the revaluation of council dwellings due to a formula error in the HRA working papers. The effect of this was an understatement of the net book value of council dwellings by £97.1m. Further details of these audit adjustments are included within Appendix C. **Other than the points noted above which have no impact on our audit opinion, our audit work did not identify any issues that we wish to bring to your attention.**

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Significant audit risks (continued)

	Risks identified in our Audit Plan	Commentary
4	**Valuation of pension fund net liability** The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements. We identified the valuation of the pension fund net liability as a risk requiring special audit consideration and a key audit matter for the audit.	**Auditor commentary** As part of our audit procedures we have: • gained an understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability was not materially misstated and evaluating the design of the associated controls; • tested the appropriateness of data provided for the purposes of the IAS19 actuarial valuation; • evaluated the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; • 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; and • 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. **Our audit work did not identify any issues that we wish to bring to your attention.**
5	**Valuation of equal pay provision** 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 of the equal pay provision as a risk requiring special audit consideration.	**Auditor commentary** As part of our audit procedures we have: • updated our documentation of the process and undertaken a walkthrough of the controls in place to estimate the equal pay provision; • reviewed the assumptions on which the equal pay provision estimated was based; • considered the events or conditions that could have changed the basis of estimation; • reperformed the calculation to the estimate; • checked that the estimate has been determined and recognised in accordance with accounting standards; • determined how management assessed the estimation uncertainty; and • considered the impact of any subsequent transactions or events. The impact of claims received since 31 March 2018 was also assessed. New claims received between February and June totalled £8m. The Council has not amended for this finding. We concluded that there was not a risk of material misstatement of the provision by not including these clams in the estimation. From our testing we identified that the classification between 'additional provisions' and 'unused amount reversed' required amending. Detail of this disclosure amendment are included in Appendix A. **Other than the points noted above which have been amended, our audit work did not identify any issues that we wish to bring to your attention.**

Reasonably possible audit risks

	Risks identified in our Audit Plan	Commentary
1	**Employee remuneration** Payroll expenditure represents a significant percentage (approximately 30%) of the Council's operating expenses. As the payroll expenditure comes from a number of individual transactions there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention	**Auditor commentary** We have undertaken the following work in relation to this risk: • evaluated the Council's accounting policy for recognition of payroll expenditure for appropriateness; • gained an understanding of the Council's system for accounting for payroll expenditure and evaluated the design of the associated controls; • obtained year-end payroll reconciliation, ensured the amount in the accounts could be reconciled to the ledger and through to payroll reports, and investigated significant adjusting items; • agreed payroll related accruals (e.g. unpaid leave accrual) to supporting documents and reviewed any estimates for reasonableness; and • completed substantive analytical procedures on 12 months of payroll data and investigated any variances outside of our 'acceptable range'. Our testing identified one member of staff who resigned in June 2017, but the resignation form was not signed until October 2017. Although we are satisfied the amount recognised within employee costs is correct we have identified a control weakness and more detail has been provided within Appendix A. **Other than the control weakness identified above which has no impact on our audit opinion, our audit work did not identify any issues that we wish to bring to your attention.**
2	**Operating expenses** Non-pay expenses on other goods and services also represents a significant percentage (approximately 50%) of the Council's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs. We identified completeness of non-pay expenses as a risk requiring particular audit attention:	**Auditor commentary** We have undertaken the following work in relation to this risk: • evaluated the Council's accounting policy for recognition of non-pay expenditure for appropriateness; • gained an understanding of the Council's system for accounting for non-pay expenditure and evaluated the design of the associated controls; • documented the accrual process and the controls management has put in place. We challenged any key underlying assumptions, the appropriateness of the source of data used and the basis for calculations; and • obtained a listing of non-pay payments made in April, and tested a non-statistical sample of transactions to ensure that they have been charged to the appropriate year. **Our audit work did not identify any issues that impact upon our audit opinion.** However, we were made aware of a number of waste invoices relating to services provided 2017 which had not been recorded in the financial statement. Whilst the values involved are immaterial to our audit we have raised a control weakness and recommendation within Appendix A.

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Reasonably possible audit risks (continued)

Risks identified in our Audit Plan	Commentary
3 **Property, plant and equipment - additions** The forecast capital spend for 2017/18 at the end of Q2 was £474.2m which represents a significant level of expenditure for the Council. As additions spend relates to a high number of individual transactions, including some complex projects, there is a risk that additions could be capitalised incorrectly. We have therefore identified valuation of property, plant and equipment additions as a risk requiring particular audit attention.	**Auditor commentary** We have undertaken the following work in relation to this risk: • gained an understanding of the Council's system for accounting for additions to property, plant and equipment and evaluate the design of the associated controls; • obtained a breakdown of additions and review for individually significant or unusual items to be tested; and • as the residual population was above tolerable error, we selected a sample of remaining additions and agreed to invoices, certificates or equivalent in order to confirm that the cost had been accurately recorded, that the asset belonged to the Council and that is had been correctly classified. **Our audit work did not identify any issues that we wish to bring to your attention.**

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Significant findings arising from the group audit

Findings	Group audit impact
• In our audit plan we reported that we intended to take an analytical approach to all components other than the parent Council. In the course of our audit we identified that an analytical approach would not be appropriate for Birmingham Propco Limited and PETPS (Birmingham) Pension Funding Scottish Limited Partnership due to the fact that these entities are both new for 2017/18. We therefore carried out targeted procedures on key balances and transactions for these entities.	• We carried out targeted procedures on key balances and transactions for new subsidiaries. This reflects a change to our audit plan. • No issues identified from our work.
• We identified one audit adjustment from our work on the group consolidation relating to intra-group eliminations between the Council and Innovation Birmingham.	• The accounts have been amended to correct this error. See page 43 for details.
• As in previous years, group accounts have been produced from unaudited accounts for all group entities included in the consolidated Balance Sheet. Audited accounts are received by the finance team throughout the audit process but to date these have only been received for InReach. Due to information delay management accounts have been used to consolidate 4 out of the 7 subsidiaries and 1 of the 2 associates.	• Due to the relative scale of the subsidiaries compared to the Group, we have not identified a material risk in the course of our work from the use of unaudited and management accounts. However the Audit Committee needs assurance that group entities provide sufficient information by the end of April to ensure materially accurate group accounts can be produced.
• The Council has taken the option in IAS 7 to present cash flows relating to investing and borrowing activities on a net basis for cash receipts and payments for items in which the turnover is quick, the amounts are large, and the maturities are short.	• For the Council, the gross receipts and payments are shown in Notes 36 and 37 so we are satisfied this is disclosed appropriately elsewhere in the accounts. However we have not been able to verify that the definition within IAS 7 applies to all such receipts and payments for subsidiary companies.

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Accounting policies

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	The Council has adopted the following revenue recognition policy: • Service activity is accounted for in the year it takes place, not simply when cash payments are made or received; • Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council; • Revenue from the provision of services is recognised when the Council can reliably measure the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council; • Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet, for example, fuel and transport parts; • Interest receivable on investments is accounted for as income 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 has been recognised but cash has not been received, a debtor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected. The Council has based its general accruals on the difference between the forecast revenue outturn for the year and the actual income/expenditure recorded by 31 March. Specific accruals are included for material items and for items relating to: • Statutory accounts, for example, the Collection Fund, Precepts; • Grants received by the Council that are conditional on expenditure within the year. This is intended to improve the efficiency of the final accounts process in order that earlier closedown deadlines can be achieved.	We are satisfied that the Council's disclosure note on revenue recognition is adequate, appropriate and is consistent with the requirements of the CIPFA Code.	**Green**

Assessment

- Red - Marginal accounting policy which could potentially be open to challenge by regulators
- Amber - Accounting policy appropriate but scope for improved disclosure
- Green - Accounting policy appropriate and disclosures sufficient

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Accounting policies (continued)

Accounting area	Summary of policy	Comments	Assessment
Judgements and estimates	Key estimates and judgements include: • Required level of provisions, specifically with respect to equal pay liabilities and business rates valuation appeals; • The valuation and remaining useful life of Property Plant and Equipment; • Assessment of PFI schemes and other arrangements as to whether they fall within the scope of IFRIC 12; • Valuation of long term liabilities for PFI and leasing; • Valuation of pension fund net liability; • Estimate of provision required for bad debts.	Our findings from our review of judgements and estimates are set out below: We have reviewed the Council's accounting policies with regard to judgements and estimates and are satisfied that they are appropriate and in accordance with the recommendations of the CIPFA Code. Note 32 Provisions includes: • A £152m provision for the payment of Equal Pay claims. The Council recognises equal pay claims and estimates the potential cost when they are received. The impact of claims received between February 2018 and June 2018 were also assessed and totalled £8m. The Council has not amended for this as it is immaterial to the financial statements. • We concluded that there was not a risk of material estimation uncertainty from not including these claims in the provision. 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. • A £35m provision for business rates valuation appeals. The settlement of business rates valuation appeals is determined by the Valuation Office Agency (VOA). We reviewed the Council's approach to estimating its provision including its consideration of the impact of the settlement of appeals since the Balance Sheet date. We are satisfied that the estimate has been made on a reasonable basis. We note that the Council has made judgements regarding the sale of leases of two hotel sites from the Council to Propco (Birmingham) Ltd. on 125 year leases, which have been treated as finance leases for both the buildings and the land elements of the leases. We are satisfied that the fair value of the lease assigned to Propco (Birmingham) Ltd is not material, therefore, we have not challenged the recognition of a capital receipt.	Green

Assessment
- Red - Marginal accounting policy which could potentially be open to challenge by regulators
- Amber - Accounting policy appropriate but scope for improved disclosure
- Green - Accounting policy appropriate and disclosures sufficient

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Accounting policies (continued)

Accounting area	Summary of policy	Comments	Assessment
Judgements and estimates (continued)		The Council's estimated net pension liability reduced by £283m compared to the 2016/17 balance sheet. This change is largely due to the increase in the fair value of assets in the pension scheme. As reported in previous years, although the Council does not accurately classify housing benefit debtors between short and long term we are satisfied that this would not lead to a material misstatement in the financial statements. However, we recommend that the estimation of debt to be received after the year end should accurately reflect the time collection period. We also note that the CIES prior year restatement was estimated on an apportionment basis using the 2017/18 proportions. We have undertaken audit procedures to satisfy ourselves that the estimate is not materially misstated.	**Green**
Other critical policies		We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice. The Council's accounting policies are appropriate and consistent with previous years.	**Green**

Assessment
- Red - Marginal accounting policy which could potentially be open to challenge by regulators
- Amber - Accounting policy appropriate but scope for improved disclosure
- Green - Accounting policy appropriate and disclosures sufficient

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Other communication requirements

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

	Issue	Commentary
1	**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.
2	**Matters in relation to related parties**	• We are not aware of any related parties or related party transactions which have not been disclosed.
3	**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.
4	**Written representations**	A letter of representation has been requested from the Council which is included in the Audit Committee papers. • Specific representations have been requested from management in respect of the significant assumptions used in making accounting estimates for: – Property, plant and equipment; – Equal pay measurement; – Equal pay recognition; – Academy schools; and – Group boundaries.
5	**Confirmation requests from third parties**	• We requested from management permission to send confirmation requests for bank and all material and a sample of non material borrowings / investment balances. This permission was granted, the requests were sent and all responses were obtained.
6	**Disclosures**	• We have summarised the disclosure amendments included in the final version of the accounts in Appendix C.
7	**Audit evidence and explanations**	• All information and explanations requested from management were provided.

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Other responsibilities under the Code

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

	Issue	Commentary
1	**Other information**	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Statement of Accounts, 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. Inconsistencies have been identified but have been adequately rectified by management. Details are provided in Appendix A. We plan to issue an unqualified opinion in this respect – refer to Appendix E.
2	**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 the AGS. However, we have included our Statutory Recommendation made under section 24 of the Act on pages 5 to 11 of this report.
3	**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 £500 million, we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. Note that work is not yet completed and will be undertaken in August 2018.
4	**Certification of the closure of the audit**	We do not expect to be able to certify the completion of the 2017/18 audit of Birmingham City Council in our auditor's report, as detailed in Appendix E, until we have completed our consideration of an objection raised on the 2016/17 financial statements brought to our attention by a local authority elector under Section 27 of the Act. In addition, we can also not certify the completion of the 2017/18 audit until we have completed the work necessary to issue our Whole of Government Accounts Component Assurance statement for the year ended 31 March 2018. This work is due to be undertaken in August 2018.

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Value for Money

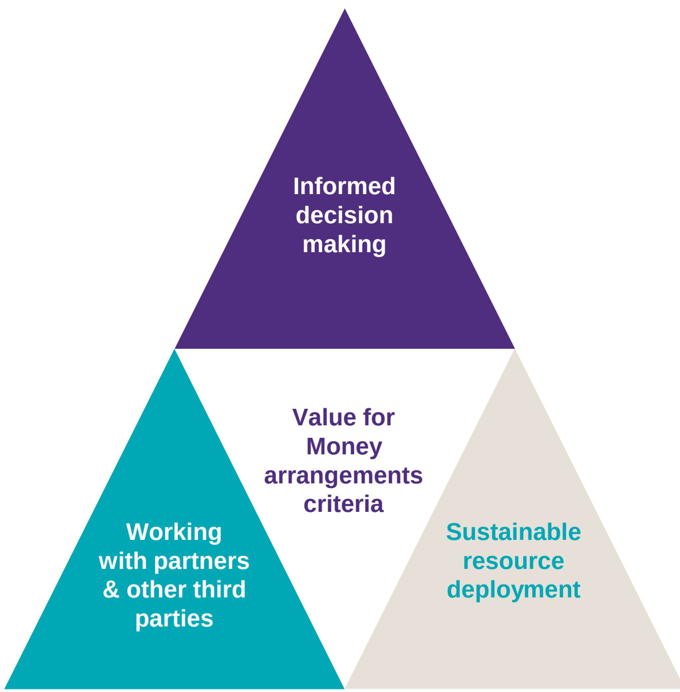
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance 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 January 2018 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN 03. We communicated these risks to you in our Audit Plan dated March 2018.

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.

Value for Money (continued)

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. In arriving at our conclusion, our main considerations were:

- Budget Delivery and Reserves Management, as well as savings proposals (including the principles of the FOM) and Equal Pay: due to the significant use of reserves in 2017/18, the planned use of £30.5m of Corporate Reserves in 2018/19, the failure to deliver all of the planned savings in 2017/18 and the £9.1m of savings identified as not deliverable in 2018/19 as reported by the Council at Month 3;
- The Panel: the Council is working collaboratively with the Panel, but needs to address the issues highlighted in its Improvement Stocktake Report;
- Services for Vulnerable Children: although Ofsted has acknowledged improvement following its most recent monitoring visits, the Council is still rated as ‘inadequate’; and
- Management of Schools: Ofsted has identified some improvements in arrangements but Internal Audit reports suggest weaknesses in financial and other controls at 52% of schools visited.

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 27 to 32.

Overall conclusion

Based on the work we performed to address the significant risks, we concluded that:

- because of the pervasive significance of the matters we identified in respect of Budget Delivery and Reserves Management, as well as savings proposals (including the principles of the FOM) and Equal Pay; Improvement Panel; Services for Vulnerable Children and Management of Schools, we are not satisfied that the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore propose to give a qualified ‘adverse' conclusion.

The text of our proposed report can be found at Appendix E.

Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendations for improvement as follows. The Council needs to:

- deliver the elements of the statutory recommendation that relate to finance and transparency and governance (see page 5) to address the Budget Delivery and Reserves Management, as well as savings proposals (including the principles of the FOM) and Equal Pay issues;
- implement the actions identified in its Improvement Stocktake Report and demonstrate measurable outcomes to the Panel;
- continue to demonstrate measurable improvements in services for vulnerable children through the Children’s Trust; and
- increase the pace of improvement in schools governance arrangements to ensure that it can demonstrate to Ofsted that it has addressed the issues that it raised.

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.

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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 and discussions with management.

	Significant risk	Findings	Conclusion
1	**Budget Delivery and Reserves Management, as well as saving proposals (including the principles of the Future Operating Model) and Equal Pay** The key risk is that the proposed savings schemes (including the implementation of savings proposals) will not deliver the required recurrent savings, or will take longer to implement than planned. We reviewed the Council's latest financial reports including savings plans trackers, to establish how the Council is identifying, managing and monitoring this risk. This involved considering the adequacy of reserves and their prudent use. We also considered the transparency of financial reporting.	The Council reported a 2017/18 revenue budget overspend of £4.9m after the use of £63.1m of reserves (£42.2m of which was planned) plus £11.7m to fund pension guarantees. The outturn overspend is in the context of demanding savings targets of £85.3m including finding 2017/18 solutions for £14.4m largely for savings achieved on a non-recurrent basis in 2016/17. The Council's Business Plan 2018+ identifies continuing savings pressures, with a requirement of £117.0m of savings to be delivered by the end of 2021/22; 2018/19 (£52.9m) and 2019/20 (£35.6m) are the two years with the greatest savings demand. The Business Plan includes a detailed analysis of savings schemes across the four year period. We focused our work on the delivery risks for the major savings schemes. The Council is planning to use £30.5m of Corporate Reserves in 2018/19. The Month 3 Corporate Revenue Budget Monitoring report position up to the end of June 2018 identifies the following: • at the end of June 2018 a gross revenue overspend of £17.9m in 2018/19 is being forecast. This consists of an overspend of £10.1m in the base budget delivery and £9.1m of savings not deliverable in 2018/19, offset by partially accelerated achievement of £1.3m of the efficiency target of £5.7m; • the total forecast overspend of £17.9m is primarily related to Place Directorate (£10.8m) and Children and Young People (CYP) £2.7m); • in the case of the Place Directorate, the overspend of £10.8m relates primarily to Waste Management services (£5.3m), Markets (£0.7m), Housing Options (£0.4) pay and pension strain related pressures (£0.5m) and other Directorate wide pressures (£0.4m). In addition, there are some savings delivery challenges totalling £3.5m; and • CYP relates largely to savings delivery challenges on Travel Assist.	**Auditor view** We identified in our initial risk assessment that the key risk was that the major savings schemes would not deliver the required recurrent savings, or would take longer to implement than planned. The Council's failure to deliver its 2017/18 savings plans and the delivery difficulties associated with the largest savings schemes in 2018/19 mean that this risk is not sufficiently mitigated. In our view savings planning arrangements did not sufficiently take into account the impact of the level of non-recurrent savings or adequately assess the vulnerability of the largest proposed savings scheme. We have concluded that these weaknesses in the Council's arrangements relate to the adequacy of financial planning as well as planning, organising and developing the workforce to deliver strategic priorities, as part of sustainable resource deployment.

Key findings (continued)

	Significant risk	Findings	Conclusion
1	**Budget Delivery and Reserves Management, as well as saving proposals (including the principles of the Future Operating Model) and Equal Pay (continued)**	The Council has now reviewed its expectations for when settlement of equal pay claims will be achieved. It is now anticipated that settlement will be concluded in 2018/19. The provision raised in the 2017/18 financial statements has taken into account the negotiated settlements made with major solicitors and the agreed payments going forward. Submissions for pre 2008 claims (1^{st} generation) and post 2008 claims (2^{nd} generation) expired in August 2014 and October 2017 respectively. This gives a certain level of assurance to ongoing provision required by the Council. However, there are still uncertainties around the volume and timing of further 3^{rd} generation claims that may be received, although this has been mitigated by some negotiated agreements with solicitors.	

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Key findings (continued)

Significant risk	Findings	Conclusion
2 **The Panel** The key risk is that the Panel will conclude that the Council is not making sufficient progress in implementing the changes needed. We considered the Panel's reports and discuss the progress made and key issues with the Panel's Vice Chair, to establish how the Council is identifying, managing and monitoring this risk.	We have met with the Vice Chair of the Panel on a frequent basis throughout the year and been briefed on the Panel's view of the progress being made. The Council has been working more closely with the Panel since the autumn of 2017 and the Panel, in conjunction with the Council, has written to the Secretary of State several times since 1 April 2017, most recently in June 2018. The joint letter from the Panel and the Council in March 2018 outlined the more collaborative approach. The letter stated that: "… with support and advice from the Panel, the Council intends to publish a suite of improvement plans. Progress on delivering all of the plans and the impact of the changes they bring about will be rigorously tracked and evaluated." The letter also refers to the financial challenges facing the Council: "The Council also recognises that it has not yet brought its day to day expenditure into line with its revenue. Balancing its revenue budget has therefore required, and continues to require, substantial draw down of the Council's reserves. This position is not sustainable and high quality strategic financial management and difficult decisions will be required to achieve financial sustainability." The joint letter from the Panel and the Council in June 2018 included a copy of the Council's Improvement Stocktake Report, which represents the Council's self-assessment against the Local Government Association's criteria for an effective organisation underpinned by a suite of detailed corporate governance and service improvement plans. The Panel and the Council will monitor early indications of improvement in social outcomes, through adherence to the 2018/19 budget and stronger grip on issues such as homelessness, skills, community cohesion, waste and equal pay.	**Auditor view** We identified in our initial risk assessment that the key risk is that the Panel will conclude that the Council is not making sufficient progress in implementing the changes needed. We have considered the latest findings of the Panel, in collaboration with the Council, and concluded that these weaknesses in the Council's arrangements do not support informed decision making.

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Key findings (continued)

Significant risk	Findings	Conclusion
③ **Services for Vulnerable Children**		**Auditor view**
The key risk is that the service does not show demonstrable improvement and continues to be subject to external intervention. Until such time as Ofsted has confirmed that adequate arrangements are in place this remains a significant risk to the Council's arrangements. We reviewed the latest findings from Ofsted, to establish how the Council is identifying, managing and monitoring this risk.	The Council was subject to its latest Ofsted monitoring visits in March 2018 and May 2018 and the inspector wrote to the Council summarising his findings on 29 March 2018 and 8 June 2018. The area covered by the March 2018 visit was children looked after by the Council. The inspector's letter stated that "positive progress identified at the point of the last inspection has been maintained, with further improvement evident in specific service areas. Senior managers continue to be aware that further work needs to be done to ensure that services for children are of a standard at which their outcomes are consistently good." The area covered by the May 2018 visit was services to young people leaving care at 18 years. The inspector's letter stated that "the local authority has demonstrated that it has made some further improvements to the quality of social work practice since the last inspection. However, where children in care have long-term plans, there is a risk that a lack of focus on ensuring long-term security will result in instability in the future and poorer outcomes as a result. Further work remains to be done to ensure that practice is consistently good and that the best outcomes for all children are achieved on a timely and consistent basis." Birmingham Children's Trust Ltd (BCT) contract commenced on 1 April 2018 and it has published its Strategic Business Plan 2018. The plan outlines how BCT will deliver services for children, young people and families in Birmingham from 1 April 2018. It sets out the vision and priorities and how BCT will deliver its commitments as contained in the Service Delivery Contract agreed with the Council for the delivery of children's social care and family support services for the next five years. BCT announced the appointment of a Director of Practice in June 2018, which further enhances its ability to deliver the further improvements required for services for vulnerable children in the near future.	We identified in our initial risk assessment that the key risk was that services for vulnerable children do not show demonstrable improvement and continue to be subject to external intervention. The findings of the Ofsted monitoring reports means that this risk is not sufficiently mitigated. We concluded that these weaknesses in the Council's arrangements relate to managing risks effectively and maintaining a sound system of internal control, demonstrating and applying the principles and values of good governance, as part of informed decision making and planning, organising and developing the workforce effectively to deliver strategic priorities as part of strategic resource deployment.

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Key findings (continued)

Significant risk	Findings	Conclusion
4 **Management of Schools** The key risk is that the governance issues identified at schools will not be addressed effectively. We reviewed the progress made by Internal Audit within their coverage of schools governance, to establish how the Council is identifying, managing and monitoring this risk.	Birmingham Education Partnership (BEP) is responsible for driving improvement in schools' performance. This includes the delivery of the Education Improvement Services contract between the Council and BEP which was amended in April 2017 to reflect a reduction in the value of the contract. The variations represent an evolution of the service specification and key performance indicators; all other terms of the contract remain in force. The BEP is also responsible for the allocation of the Strategic School Improvement Fund (SSIF). The SSIF is a £140m grant to support first, infant, primary, secondary, middle, all-through, maintained nursery schools, alternative provision, special academies, maintained schools, post-16 academies, and pupil referral units. It is intended to further build a school-led system, and aims to target resources at the schools most in need to improve school performance and pupil attainment; to help them use their resources most effectively, and to deliver more good school places. However, as part of the assessment of schools governance improvement Birmingham Audit (internal audit) has been commissioned to carry out a programme of audits over a two year period. Their findings have continued to show that there are a range of governance issues to address across the schools visited, 32 of the 87 schools audits (37%) undertaken by internal audit in 2017/18 were assessed as 'level 3' assurance (specific control weaknesses of a significant nature noted, and/or the number of minor weaknesses noted was considerable) and two schools (2%) were assessed as 'level 4' assurance (controls evaluated are not adequate, appropriate or effective. Risks are not being managed and it is unlikely that objectives will be met). These results are worse than the prior year when only 17 of the 97 schools visited were assessed as 'level 3' assurance (18%) and none were assessed as 'level 4' assurance.	**Auditor view** We identified in our initial risk assessment that the key risk was that plan implementation will be slower than envisaged and underlying issues will not be effectively addressed. Although it is clear that progress has been made with the implementation of the improvement plan there is still work to do. The pace of school improvement remains the key issue which is affecting our judgement. We concluded that these weaknesses in the Council's arrangements relate to managing risks effectively and maintaining a sound system of internal control, demonstrating and applying the principles and values of good governance, as part of informed decision making and planning, organising and developing the workforce effectively to deliver strategic priorities as part of strategic resource deployment.

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Key findings (continued)

Significant risk	Findings	Conclusion
5 Commonwealth Games		**Auditor view**
The key risk is that the cost of hosting the Commonwealth Games will impact on the Council's future financial sustainability. We reviewed the Council's latest plans for the delivery of the Commonwealth Games in 2022, to establish how the Council is identifying, managing and monitoring this risk.	The Council has developed comprehensive internal governance proposals for the management and delivery of the Commonwealth Games. The overall structure includes a Steering Group, a Project Board, a Project Group and 11 workstreams. The Steering Group is chaired by the Leader of the Council and its purpose is to provide strategic direction, guidance and oversight of the Council's responsibilities and commitments for Games-wide planning and delivery of contractual obligations, Games vision and legacy. The Project Board is chaired by the Corporate Director for Place and its purpose is to act as the Design Authority for the project and ensure the overall integrity of the Council's Commonwealth Games Project Plan, ensuring that workstream plans are consistent and coherent with the overall project plan and critical interfaces, both internal and external. The Project Group is chaired by the Project Director and its purpose is to coordinate the operational delivery of products and activities as commissioned by the Steering Group and Project Board by the project's workstreams. The workstreams will adopt a 'whole council' approach which is essential to successful delivery. The finance workstream will oversee and manage the Council's internal Games budget, liaise with partners regarding overall Games budgets and ensure all appropriate mechanisms are in place for robust financial management. The funding for the Games is due to be agreed in the Autumn Budget Statement and the Council's delivery plan is for the majority of its share of the costs of the Games to be capital expenditure. Other workstreams include a number of cross partner working groups such as transport and security (Home Office).	We identified in our initial risk assessment that the key risk is the cost of hosting the Commonwealth Games will impact on the Council's future financial sustainability. We have considered the Council's proposed governance arrangements for the management and delivery of the Commonwealth Games and are satisfied that they are appropriate. On that basis, we have concluded that the risk is sufficiently mitigated and that the Council has appropriate arrangements in place to act in the public interest, through demonstrating and applying the principles and values of sound governance. However, on the basis that the funding for the Games is not due to be agreed until the Autumn Budget Statement, we will revisit this risk as part of our 2018/19 VfM review.

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Independence and ethics

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 Standards and confirm that we are independent and are able to express an objective opinion on the financial statements.

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

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D.

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Independence and ethics (continued)

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.

Service	£	Threats	Safeguards
Audit related			
Certification of grant claims (outside PSAA requirements)	92,100 (23,250 paid by BCC)	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 £92,100 in comparison to the total fee for the audit of £314,168 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 all mitigate the perceived self-interest threat to an acceptable level. The fee for grant certification is higher than in previous years due to the complex and numerous Regional Growth Fund grant certifications. We undertook work to certify six grants over a period of four years. The fee for this work was £68,850. The Council acts as agent in this arrangement and the fee was paid from funding received by the Council from the Department for Business, Energy and Industrial Strategy.
Non-audit related			
Chief Finance Officer Insights (CFOi) for 2017/18	10,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee (subscription based for 3 years) 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 total fee for the audit of £314,168 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 all mitigate the perceived self-interest threat to an acceptable level.
Client Money and Assets (CASS) reporting – Finance Birmingham	7,000 (not paid by BCC)	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 £7,000 in comparison to the total fee for the audit of £314,168 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 all mitigate the perceived self-interest threat to an acceptable level. It is usual practise for CASS reporting services to be provided by the external auditors of an FCA regulated entity.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit Committee. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

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Action plan

We have identified 7 recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2018/19 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
1	Amber	**Control weakness – payroll leavers** As part of our payroll testing we identified one individual who resigned from the Council in June 2017. However, their resignation form was not authorised until October 2017. Salary overpayments were identified in February 2018 and payments to the individual were suspended. This has been recognised as a debtor. Although we are satisfied that this error was identified by the Council, there is a risk that salary overpayments could occur if resignation documents are not authorised and actioned on a timely basis.	We recommend that management consider the adequacy of controls in place to ensure authorisation of leaver documents does not lead to payments being made to individuals once they have ceased employment. **Management response** • […]
2	Amber	**Control issue – heritage asset valuations** From our work performed on heritage assets and through further discussions with management we consider that the value of heritage assets recognised on the balance sheet, whilst the accounting treatment is compliant with the Code based on insurance valuations, may not be a true reflection of the value of such assets.	We recommend that management consider the appropriateness of these insurance valuations. **Management response** • […]
3	Amber	**SAP – User access** We identified a higher than expected number of system accounts and service accounts with SAP_ALL access. SAP_ALL access provides access to all IT functions within the ledger system. We also noted one member of staff who was given this access in error. We can confirm no manual journals have been processed by this user in 2017/18.	We recommend that management considers which users need SAP_ALL access and removes access to this function where it is not required. **Management response** • […]
4	Amber	**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.	We recommend that management considers which users need multiple accounts within SAP and removes access to those where this function where is it not required. **Management response** • […]

Controls
- Red High - Significant effect on control system
- Amber Medium - Effect on control system
- Green Low - Best practice

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Action plan (continued)

	Assessment	Issue and risk	Recommendations
5	Amber	**Under-accrual of waste invoices** Management made us aware of a number of waste invoices relating to services provided 2017 which had not been correctly recorded in the financial statement. Whilst the values involved are immaterial to our audit we have identified two weaknesses in the control environment. Firstly, one purchase order (PO) created in the system became 'stuck' and could not be authorised. This meant that invoices received could not be matched to the PO. Secondly, a number of payments were processed in relation to invoices which had not yet been recorded in the system.	We recommend that the Council considers its controls in place to ensure other invoices are not paid before they are recognised within the ledger system. **Management response** • […]
6	Amber	**Control weakness - HRA revaluation** From completing our testing on HRA revaluation, we noted a £97.1m error within council dwellings which resulted an understatement of net book value. This occurred due to a formula error and has now been corrected.	We recommend that a reconciliation control is put in place to ensure the prevention of similar errors in the future. **Management response** • […]
7	Amber	**Control weakness – Business Rates Appeals** Classification of additional provisions made in year and amounts used in year are incorrect. However, we are satisfied that the year end provision value is correct.	We recommended that the Council accurately calculates the amount of 'business rates appeals used in year' which will result in an accurate figure for 'additional provisions to be made in year'. **Management response** • […]

Controls
- Red High - Significant effect on control system
- Amber Medium - Effect on control system
- Green Low - Best practice

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Action plan - VfM

	Assessment	Issue and risk	Recommendations
1	Red	**Budget Delivery and Reserves Management, as well as savings proposals** The key risk is that the proposed savings schemes (including the implementation of savings proposals) will not deliver the required recurrent savings, or will take longer to implement than planned.	We recommend that the Council deliver the elements of the statutory recommendation that relate to finance and transparency and governance (see page 5). **Management response** • […]
2	Amber	**The Panel** The key risk is that the Panel will conclude that the Council is not making sufficient progress in implementing the changes needed.	We recommend that the Council implement the actions identified in its Improvement Stocktake Report and demonstrate measurable outcomes to the Panel. **Management response** • […]
3	Amber	**Services for Vulnerable Children** The key risk is that the service does not show demonstrable improvement and continues to be subject to external intervention. Until such time as Ofsted has confirmed that adequate arrangements are in place this remains a significant risk to the Council's arrangements.	We recommend that the Council continue to demonstrate measurable improvements in services for vulnerable children through the Children's Trust. **Management response** • […]
4	Amber	**Management of Schools** The key risk is that the governance issues identified at schools will not be effectively addressed.	We recommend that the Council increase the pace of improvement in schools governance arrangements to ensure that it can demonstrate to Ofsted that it has addressed the issues that it raised. **Management response** • […]

Controls
- Red High - Significant effect on control system
- Amber Medium - Effect on control system
- Green Low - Best practice

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Follow up of prior year recommendations

We identified the following issues in the audit of Birmingham City Council's 2016/17 financial statements, which resulted in six recommendations being reported in our 2016/17 Audit Findings report. We are satisfied that management have implemented five out of six prior year recommendations.

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	✓	**Cut-off of operating expenditure in Schools** We tested a sample of payments made in April and May 2017 to identify whether there were items relating to goods/services received in 2016/17 which had not been appropriately accrued for (whether via system/manual accruals or the forecast accrual process). Two out of the seven schools invoice payments selected within our sample related to services received prior to 31/3/17, but processed for payment after year-end. We are satisfied there cannot be a material risk of under accrual of schools invoices. However, we recommend that the Council review their processes for ensuring schools expenditure includes appropriate accruals.	**Management response:** The Council provides guidance to schools on the appropriate accounting treatment for expenditure relating to specific financial years. The guidance will be reviewed to ensure that the information provided to schools is clear. Information will also be provided in relevant schools forums to ensure that as many people as possible are contacted. **Update:** The Council has reviewed its year-end processes. For the 2017/18 closedown process, detailed guidance letters were sent out tailored to the type of school:- • Chequebook schools • EPA schools using SIMS FMS • EPA schools using CMIS FMS • Nursery, Primary and Special non-chequebook schools using SIMS FMS • Nursery, Primary and Special non-chequebook schools using CMIS FMS
2	✓	**HRA Assets under construction** We identified that all spend on HRA additions is fully settled in year, with nothing being retained in AUC at year-end. While for spend relating to renewals to existing properties any AUC element is unlikely to be material at year-end, in recent years the Council has undertaken significant construction of new properties, and where construction spans year-end the spend should properly be included in AUC until brought into use. We are satisfied that the estimated potential impact would be trivial due to the need to impair the spend to reflect the social housing factors, and any impact on depreciation would also be trivial. We recommend that this is reviewed in future years if the Council continues to expand its house building programme, to ensure there is no material misstatement.	**Management response:** Agreed. The extent to which new homes are partially constructed at the financial year-end will be evaluated and if material accounted for as Assets Under Construction. **Update:** A large piece of work was undertaken at year-end to identify all new build homes that were still in the course of construction. At 31 March 2018 there was £23.7m relating to new homes within the Assets Under Construction overall total.

Assessment
✓ Action completed
X Not yet addressed

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Follow up of prior year recommendations (continued)

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
3	✓	**Housing Benefits** There have been two instances in the year where potential control weaknesses regarding the housing benefit system have been identified. The first related to a duplicate payment run which the Authority manually prevented from being paid. However, it still continued to be recorded as duplicated within the RBIS and therefore subsidy. The second related to two high value payments made in error, where on both occasions, an incorrect weekly rent figure had been manually entered in to the rent field of RBIS. These payments were manually stopped by the Council as they were identified as unusually large from the >£3k checks which are performed by the Housing Benefits Team. However, we recommend that the Council continues to strengthen its internal controls with regards to Housing Benefit payments in order to reduce the risk of incorrect payments being made and not being identified manually prior to payment.	**Management response:** In relation to both of these issues the controls in place within the Housing Benefit and payments system worked as intended to prevent incorrect high value and duplicate payments from being dispatched to citizens and landlords. Thereby, preventing both overpaid benefit and loss of housing benefit subsidy due to 'Local Authority error'. Both instances did create substantial additional work for officers within the Council as manual adjustments to the Housing Benefit subsidy claim had to be made and reconciliation between the Housing Benefit system and payment system had to be manually adjusted. In order to further strengthen the controls the following measures have been put in place: • Within the Housing Benefit system the payment field has now been restricted from an unlimited size to a maximum of 6 digits including 2 decimal points; • The duplicate payment issue was generated through an inappropriate batch parameter error and Service Birmingham have strengthened their controls around batch processing in order to reduce the instance of this occurring in the future. **Update:** This matter was brought to the attention of the Service Director, Customer Services who commissioned an internal audit investigation into how the above errors happened and to provide assurance that such risks are mitigated to a low level. The findings are outlined in the Final Audit Report 1700/029 with agreed actions from Senior Managers dated June and August 2017. These recommendations have been implemented.

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Assessment
✓ Action completed
X Not yet addressed

Follow up of prior year recommendations (continued)

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
4	✓	**Capitalisation of expenditure in Schools** We identified a number of issues relating to capital spend recorded by schools: - 1 item selected in our sample which had been capitalised related to IT support for April 2016 – March 2017 which had been funded by DFC. This was capitalised as spend on buildings which is incorrect as this appears to be a revenue cost. - All DFC is capitalised as buildings spend, but 1 item selected related to playground equipment which would be better classified as equipment. This is a misclassification issue only with no impact on the total value of PPE. Although we are satisfied there is no risk to material misstatement for the above noted issues, we recommend that the Council continues to review the procedures for ensuring capital expenditure by schools is recorded completely and accurately in the accounts.	**Management response:** Guidance on the appropriate accounting arrangements for capital expenditure will be reviewed to ensure that it is clear on the correct treatment. Guidance will also be provided in appropriate school forums to ensure that relevant staff have access to the information. The Capital Team within the Council's Finance & Governance Directorate will continue, where possible, to review detailed expenditure within school accounting records to ensure the correct accounting treatment for capital expenditure. **Update:** Revised guidance has been issued following consultation between the Capital Finance Team, Schools Finance Team and Schools Financial Services in relation to EPA and chequebook schools. EPA and chequebook schools now provide a capital analysis and copies of invoices relating to capital expenditure. This return relates to all capital spend including that funded by the devolved capital grant. For non EPA schools the invoices are held within BCC systems. The Capital Team continue to review all capital spend to ensure eligibility under Accounting Standards.

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Assessment
✓ Action completed
X Not yet addressed

Follow up of prior year recommendations (continued)

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
5	✓	**Group Accounts** Group Accounts are drafted using unaudited financial information provided by group entities. In future the Audit Committee need assurance that group entities provide sufficient information by the end of April to ensure materially accurate Group Accounts can be produced and that audited accounts are received before the completion of the Council's audit.	**Management response:** Discussions are held with Group entities before the year end so that contacts are aware of the Council's timetable for completion of the financial statements. The timetable includes the dates for provision of draft and audited financial statements. Information is also sought from companies in December, prior to the end of the financial year, so that any potential issues can be identified. Companies have a longer statutory timeframe for the completion and audit of their financial statements than the Council. The Council can influence companies to accelerate the completion and audit of their financial statements and companies will be encouraged to see the benefits of early completion. This is more difficult where the Council has only a minority shareholding in a company as external influences will have more power. **Update:** There has continued to be regular liaison with the Councils' group entities to ensure that they were aware of the Council's reporting deadlines and the information that would be required to complete the draft Group Financial Statements by 31 May 2018. Whilst information was provided by the majority of companies by the due date, some information was provided late. Audited statements have been provided by some of the companies but some will not have been completed by the time the Council's accounts are signed off. However, any changes to the data used in producing the Group Financial Statements will not be material.
6	X	**Exit Packages** We recommend that the Council reflects on the advice given by the Department of Communities and Local Government in relation to member consideration of exit packages. This advice suggests that authorities should report all exit payments over £100k to Full Council. Whilst Birmingham City Council is not alone in not following the advice, it may wish to consider whether this could be a useful enhancement to strengthen the transparency of its arrangements	**Management response:** The Council has previously considered the advice provided by the Department of Communities and Local Government in relation to member consideration of exit packages, which is provided as guidance only. As part of our considerations on this matter, the Council set up its own governance in 2016 for exit payments, which for chief officers' exits includes sign off from a cross party elected member JNC panel. The Council does plan to further review the guidance from Department of Communities and Local Government during the next 6 months, as part of the elected member JNC panel. **Update:** No update provided.

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Assessment
✓ Action completed
X Not yet addressed

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.

	Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000
1	**Housing Revenue Account (HRA) depreciation** Within the draft accounts we identified a £50.3m credit to the HRA Income and Expenditure Statement relating to depreciation reversed through the CIES on revaluation. The correct accounting treatment is to calculate the revaluation movement based on the net movement with the resulting net gain/loss being taken to the CIES or revaluation reserve as appropriate.	Dr Total cost of services: £50,300 Cr Surplus/deficit on revaluation of PPE (other comprehensive income) £50,300	
2	**HRA revaluation** We identified an error in the accounting for the revaluation of council dwellings. The effect of this was an understatement of the net book value of council dwellings by £97.1m.	Cr Surplus/deficit on revaluation of PPE (other comprehensive income) £97,100	Dr Property, plant and equipment £97,100 Cr Unusable (revaluation) reserve £97,100
3	**Short term investments** We have identified £15.9m of Short term investments which are instant access accounts and should therefore be classified as cash.		Dr Cash £15,900 Cr Short term investments £15,900
4	**Group Balance Sheet intra-group eliminations.** We identified one audit adjustment from our work on the group consolidation relating to intra-group eliminations between the Council and Innovation Birmingham.		Dr Long Term Debtors £7,635 Dr Short Term Debtors £8,562 Cr Short Term Creditors £693 Cr Long Term Borrowing £15,504
	Overall impact	**£97,100**	**£0**

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Audit adjustments (continued)

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.

Misclassification and disclosure changes	Detail	Adjusted?
Disclosure – Narrative Report	Section 6.5.1 of the Narrative Report incorrectly disclosed the future liability of service concession arrangements. This has been corrected to £421.8m which agrees to Note 43.	✓
Disclosure – Narrative Report	A number of trivial changes have been made to the Narrative Report to ensure transparency and consistency with the financial statements.	✓
Disclosure – Note 2 Critical Judgements in Applying Accounting Policies	Additional disclosures have been required within Note 2 to include added narrative regarding the early payment of pension contributions.	✓
Disclosure – Note 4 Assumptions made about the future and other areas of estimation uncertainty	One error was identified in 'assumptions made about the future and other major sources of estimation uncertainty relating to property, plant and equipment.	✓
Disclosure – Expenditure Funding Analysis	The 2016/17 restated adjustments to arrive at the amount chargeable to the General Fund and HRA balances have been amended to ensure they are consistent with Notes 6 and 7.	✓
Disclosure – Note 7: Note to the Expenditure and Funding Analysis	We identified that depreciation reported for the centrally managed directorate had been incorrectly stated. This has now been corrected as well as the total depreciation reported at a directorate level.	✓
Disclosure – Note 14 Grant Income	The Grant Income note has been amended to include additional disclosures of grants which were originally included under the heading 'grants and contributions of less than £3m' but have subsequently been identified as over this threshold	✓
Disclosure – Note 19 Unusable Reserves and note 21 Defined Benefit Pension Schemes	We identified errors relating to the disclosure of pension adjustments within the pensions reserve and general fund.	✓
Disclosure – Note 22 Property, Plant and Equipment	The fair value disclosure for surplus assets has been corrected to agree to the NBV as at 31/03/2018 of £112.2m.	✓

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Audit adjustments (continued)

Misclassification and disclosure changes	Detail	Adjusted?
Misclassification – Note 25 Long Term Investments	The disclosure of long term investments 'Available for Sale Financial Assets' includes £9.5m investment in Birmingham City Propco Ltd. This has been reclassified as 'Investment in Subsidiary and Associated Companies'.	✔
Misclassification – Note 32 Provisions	From our testing on provisions we noted that the unused provision amount reserve of £7.7m had been incorrectly netted off against the additional provision required. We have therefore increased the additional provision made in 2017/18 by £7.7m and similarly included an unused amount reversed in 2017/18 of £7.7m This has no impact on the provision balance as at 31 March 2018	✔
Note 33 – Contingent liabilities	Additional disclosures have been included in the contingent liabilities note to ensure the note is complete and correctly reflects potential future liabilities which may fall to the Council.	✔
Disclosure – Note 39 Financial Instruments	The fair value of PFI schemes have been disclosed incorrectly and have been amended. The fair value disclosure has increased by £67.5m In addition, other long term liabilities have decreased by £5.8m due to the correction of the £9.5m investment in Birmingham City Propco Ltd. being removed from note 25.	✔
Misclassification – Note 39 Financial Instruments	The Council has opted to remove the long term and short term classifications within the Fair Value of Financial Instruments table.	✔
Disclosure – Note 48 Related Parties	A number of disclosures have been amended within the related parties transactions note in relation to the Group disclosures of related parties.	✔
Disclosure – Note 48 Related Parties	The related parties note disclosure detailing BCF schemes has been updated to reflect that the 'Equipment Contracts' is a 'lead commissioning arrangement' by the Council. This was incorrectly disclosed as being joint control.	✔
Misclassification – Note H5 Capital Expenditure on HRA assets	We identified a lack of consistency between Note H5 and the Useable Reserves and Capital Expenditure and Capital Financing notes. This has now been amended.	✔
Disclosure – Note G2 Critical judgements in applying accounting policies	Updated disclosures within note G2 and note G3 to ensure accurately and consistently disclosed judgements for why Performances Birmingham Limited and Birmingham Museums Trust Limited have been excluded from the Group on the grounds of lack of control.	✔
Various	In addition to the items identified above, a number of other minor changes have been made to the presentation of, and disclosures, within the accounts. This is to ensure consistency, enhance transparency and ensure compliance with the Code. None of these are deemed significant enough to bring to your attention individually	✔

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Audit Adjustments (continued)

Impact of unadjusted misstatements

No unadjusted misstatements have been identified.

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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	314,168	TBC
Objections from 2016/17		TBC
Grant Certification – Housing Benefits	17,594	TBC
Total audit fees (excluding VAT)	**£331,762**	**£TBC**

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA). Our fees for grant certification covers only Housing Benefit subsidy certification, which falls under the remit of PSAA. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

Note 47 of the financial statements shows £0.3m for 'fees payable with regards to external audit services'. This agrees to our disclosed audit fees table above.
Note 47 also shows £0.1m for 'fees payable for the certification of grant claims and returns'. This is comparable to our non audit fees paid by BCC below. The Council have rounded this up so as not to show as NIL in the financial statements.

Non Audit Fees paid by BCC

Fees for other services	Fees £
Audit related services:	
• Certification of grant claims excluding Housing Benefits (BCC element only)	23,250
Non-audit services	
• CFOi insights 2017/18	10,000
Total	**33,250**

Group audit fees

These fees have not been disclosed separately in the notes to the group accounts.

Fees for other subsidiaries	Fees £
Acivico Limited	38,000
Innovation Birmingham Limited	22,800
West Midlands Growth Company Limited	13,900
Finance Birmingham Limited	7,000
NEC (Developments) PLC	35,000
PETPS (Birmingham) Limited	7,500
PETPS subsidiaries	20,000
Total	**144,200**

Audit opinion

We anticipate we will provide the Council with a modified audit report.

Independent auditor's report to the members of Birmingham City Council

Report on the Audit of the Financial Statements

Opinion

Our opinion on the financial statements is unmodified

We have audited the financial statements of Birmingham City Council (the 'Council') and its subsidiaries, associates and joint ventures (the 'group') for the year ended 31 March 2018 which comprise the Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account - Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund Income and Expenditure Account, the Group Comprehensive Income and Expenditure Statement, Group Movement in Reserves Statement, the Group Balance Sheet, the Group Cash Flow Statement and all notes to the financial statements, including the Accounting Policies to the Core Financial Statements and the Group Accounts. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the group and of the Council as at 31 March 2018 and of the group's expenditure and income and the Council's expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and the Council in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – completeness of equal pay contingent liability

We draw attention to the disclosures made in note 33 to the core financial statements (contingent liabilities and contingent assets) concerning the uncertain outcome of claims that may be received by the Council under the Equality Act. As stated in section 2 of the contingent liabilities disclosures in note 33, the Council has set aside a provision of £151.8m for claims received under the Equality Act, which incorporates all claims received and negotiations agreed to 28 February 2018. 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. Our opinion is not modified in respect of this matter.

Who we are reporting to

This report is made solely to the members of the Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Council's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council and the Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Corporate Director, Finance & Governance's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Corporate Director, Finance & Governance has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the Council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Overview of our audit approach

- Overall materiality: £43.8 million, which represents 1.5% of the group's gross total cost of services expenditure;
- Key audit matters were identified as:
  - Valuation of land and buildings (other land and buildings, council dwellings and surplus assets); and
  - Valuation of the pension fund net liability.
- We performed a full scope audit of the Council, targeted procedures on Birmingham City Propco Limited and analytical procedures on all the other non-significant components within the Group.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Key Audit Matter – Group and Council	How the matter was addressed in the audit – Group and Council
Risk 1 – Valuation of land and buildings (other land and buildings, council dwellings and surplus assets) The Council revalues its land and buildings on a rolling five year programme to ensure that the carrying value is not materially different from the current value or the fair value (for surplus assets). This represents a significant estimate by management in the core financial statements and group accounts. Valuation of land and buildings is considered a significant estimate due to the size of the numbers involved (£4.7 billion) and the sensitivity of this estimate to changes in key assumptions. We therefore identified the valuation of land and buildings (other land and buildings, council dwellings and surplus assets) as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: • Updating our understanding of the processes put in place by management to ensure that revaluation measurements are correct and evaluating the design of the associated controls; • Evaluating management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • Evaluating the competence, capabilities and objectivity of the valuation expert (the valuer); • Discussing with the valuer the basis on which the valuation was carried out; • Challenging the information and assumptions used by the valuer to ensure completeness and consistency with our understanding; • Testing revaluations made during the year to ensure they were input correctly into the Council's asset register and correctly reflected in the financial statements; and • Evaluating the assumptions made by management for those assets either revalued at the start of the financial year or not revalued during the year to determine how management has satisfied themselves that the current values (or fair values for surplus assets) at the year-end are not materially different to the carrying values per the financial statements. The Council's accounting policy on valuation of land and buildings (other land and buildings, council dwellings and surplus assets) is shown in note 1.xi to the core financial statements and related disclosures are included in note 22 to the core financial statements and note G7 to the group accounts.

Key Audit Matter – Group and Council	How the matter was addressed in the audit – Group and Council
	Key observations We obtained sufficient audit assurance to conclude that: • the basis of the valuation was appropriate and the assumptions and processes used by management in determining the estimate were reasonable; and • the valuation of land and buildings disclosed in the financial statements is reasonable. We identified that £50 million of in-year depreciation for council dwellings was incorrectly written out to the CIES on revaluation when this should have been accounted for as part of the overall revaluation increase recognised in the revaluation reserve. We also identified an error of £97 million in the accounting for the revaluation of council dwellings. The impact on the comprehensive income and expenditure statement has been to increase net cost of services expenditure by £50 million and to increase the surplus on revaluation of property, plant and equipment assets by £147 million. These adjustments are subsequently reflected in the capital adjustment account and revaluation reserve. The impact on the balance sheet has been to increase the net book value of property, plant and equipment by £97 million and to increase unusable reserves by £97 million.
Risk 2 - Valuation of the pension fund net liability The Council's pension fund net liability, as reflected in its balance sheet as the net liability on defined pension scheme, represents a significant estimate in the core 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) and the sensitivity	Our audit work included, but was not restricted to: • Gaining an understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability was not materially misstated and evaluating the design of the associated controls; • Evaluated the appropriateness of data provided for the purposes of the IAS19 actuarial valuation; • Evaluating the competence, capabilities and objectivity of the

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Key Audit Matter – Group and Council	How the matter was addressed in the audit – Group and Council
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.	actuary who carried out the Council's pension fund valuation; • Testing 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; and • Undertaking 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. The Council's accounting policy on valuation of the pension fund net liability is shown in note 1.vi to the core financial statements and related disclosures are included in note 21 to the core financial statements. **Key observations** We obtained sufficient audit assurance to conclude that: • the basis of the valuation was appropriate and the assumptions and processes used by the actuary in determining the estimate were reasonable; and • the valuation of the Council's pension fund net liability disclosed in the financial statements is reasonable.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our work and in evaluating the results of that work.

Materiality was determined as follows:

Materiality Measure	Group	Council
Financial statements as a whole	£43.8 million, which is 1.5% of the Group's gross total cost of services expenditure. This benchmark is considered the most appropriate because we consider users of the financial statements to be most interested in how it has expended its revenue and other funding. Materiality for the current year is at the same percentage level of gross total cost of services expenditure as we determined for the year ended 31 March 2017, as we did not identify any significant changes in the Group or the environment in which it operates.	£43.6 million, which is 1.5% of the Council's gross total cost of services expenditure. This benchmark is considered the most appropriate because we consider users of the financial statements to be most interested in how it has expended its revenue and other funding. Materiality for the current year is at the same percentage level of gross total cost of services expenditure as we determined for the year ended 31 March 2017, as we did not identify any significant changes in the Council or the environment in which it operates.
Performance materiality used to drive the extent of our testing	75% of financial statement materiality	75% of financial statement materiality
Specific materiality	None	£100,000 for senior officer's remuneration (including exit packages for senior officers) based on the fact that we consider the disclosures to be sensitive and of specific interest to the reader of the financial statements.
Communication of misstatements to the Audit Committee	£2.2 million and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	£2.2 million and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

The graph below illustrates how performance materiality interacts with our overall materiality and the tolerance for potential uncorrected misstatements.

An overview of the scope of our audit

Our audit approach was a risk-based approach founded on a thorough understanding of the group's business, its environment and risk profile and in particular included:

- Gaining an understanding of significant changes to the Group structure;
- Evaluation of identified components to assess the significance of each component and to determine the planned audit response based on measures of the materiality and significance of the component as a percentage of the group's current assets, total assets, current liabilities, total liabilities, equity and revenues. A full scope, targeted or analytical approach was taken for each component based on their relative materiality to the group and our assessment of audit risk;
- Full scope audit procedures on the Council, which represents 99.7% of the group's income and 99.5% of its group's total expenditure;
- Performing analytical procedures or targeted procedures on all non-significant components included in the group financial statements which make up the remainder of the group's income and total expenditure;
- Gaining an understanding of and evaluating the Council's internal control environment, including its financial and IT systems and controls; and
- Substantive testing of the income, expenditure and net assets for the Council. Testing undertaken covered 99.1% of group income and 99.3% of group expenditure.

Other information

The Corporate Director, Finance & Governance is responsible for the other information. The other information comprises the information included in the Statement of Accounts set out on pages 1 to 221 other than the group and Council financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the group and Council obtained in the course of our work including that gained through work in relation to the Council's arrangements for securing value for money through economy, efficiency and effectiveness in the use of its resources or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Our opinion on other matter required by the Code of Audit Practice is unmodified

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Council gained through our work in relation to the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice we are required to report to you if:

- we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Council under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

We have nothing to report in respect of the above matters except on 30 July 2018 we made written recommendations to the Council in our Audit Findings Report under section 24 of the Local Audit and Accountability Act 2014 in relation to the Council's financial plans and reserve levels from 2018/19, its governance arrangements over financial monitoring and the Council's Place Directorate and its oversight of subsidiary bodies.

Responsibilities of the Council, the Corporate Director Finance and Governance and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 17, 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 this Council, that officer is the Corporate Director, Finance & Governance. The Corporate Director, Finance & Governance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18, which give a true and fair view, and for such internal control as the Corporate Director, Finance & Governance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Corporate Director, Finance & Governance is responsible for assessing the group's and the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the group or the Council lacks funding for its continued existence or when policy decisions have been made that affect the services provided by group or the Council.

The Audit Committee is Those Charged with Governance.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

We are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK). Our audit approach is a risk-based approach and is explained more fully in the 'An overview of the scope of our audit' section of our audit report.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters which we are required to address

We were appointed by the Audit Commission on 26 July 2012. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 6 years.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the Council and we remain independent of the group and the Council in conducting our audit.

The following services, in addition to the audit, were provided by the firm to the Council after 1 April 2017 that have not been disclosed separately in the Statement of Accounts:

- Chief Finance Officer Insights (CFOi) subscription for 2017/18
- Skills Funding Agency return certification for 2016/17
- Illegal Money Lending Team return certification for 2016/17 and 2017/18
- Regional Growth Fund return certifications for the years of 2012/13 to 2016/17
- Pooling of Housing Capital Receipts return certification for 2016/17
- Teachers' Pensions return certification for 2016/17

Our audit opinion is consistent with the additional report to the Audit Committee.

Report on other legal and regulatory requirements - Conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources

Adverse conclusion

On the basis of our work, having regard to the guidance issued by the Comptroller and Auditor General in November 2017, because of the significance of the matters described in the basis for adverse conclusion section of our report, we are not satisfied that, in all significant respects, the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Basis for adverse conclusion

In considering the Council's arrangements for securing efficiency, economy and effectiveness, we identified the following matters:

Budget Delivery and Reserves Management, as well as saving proposals (including the principles of the Future Operating Model) and Equal Pay

The Council had demanding savings targets of £85.3 million in 2017/18 which included finding solutions for £14.4 million based mostly on savings achieved on a non-recurrent basis in 2016/17. The Council continued to under-deliver planned savings in 2017/18, again, in part due to the failure to deliver large savings plans such as the Future Operating Model (FOM), which under-delivered by £15.4 million in 2017/18, an under-delivery which was due to rise to £34.2 million in future years. As a result, the Council reported a 2017/18 revenue budget overspend of £4.9 million after the use of £63.1 million of reserves (£42.2 million of which was planned).

The Council's Business Plan 2018+ identifies continuing savings pressures, with a requirement of £117.0 million of savings to be delivered by the end of 2021/22, with 2018/19 (£52.9 million) and 2019/20 (£35.6 million) being the two years with the greatest savings demand.

The uncertainties surrounding the volume and timing of future equal pay claims and the determination of any settlements may also have an impact on the level of the Council's reserves.

These matters are evidence of weaknesses in proper arrangements for sustainable resource deployment in:

- planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions; and
- planning, organising and developing the workforce effectively to deliver strategic priorities.

Birmingham Independent Improvement Panel ('the Panel')

The Secretary of State for Communities and Local Government appointed the Panel in January 2015 to oversee improvements in the Council's governance arrangements.

The Council has been working more closely with the Panel since the autumn of 2017 and the Panel, in conjunction with the Council, has written to the Secretary of State several times since 1 April 2017, most recently in June 2018.

The joint letter from the Panel and the Council in March 2018 recognised that the Council has experienced a number of changes in key leadership positions during the last year and still needs to address a number of significant financial challenges to achieve financial sustainability.

The joint letter from the Panel and the Council in June 2018 included a copy of the Council's Improvement Stocktake Report, which represents the Council's self-assessment against the Local Government Association's criteria for an effective organisation, underpinned by a suite of detailed corporate governance and service improvement plans. This demonstrates that the Council has not yet addressed the issues identified to drive improvement in its corporate governance and achieve financial sustainability in the context of significant changes within the Council's leadership team.

This matter is evidence of weaknesses in proper arrangements for informed decision making in acting in the public interest, through demonstrating and applying the principles and values of sound governance.

Services for Vulnerable Children

In May 2014 and November 2016 the Office for Standards in Education (Ofsted) issued reports which assessed the services as inadequate and identified a number of serious weaknesses in the Council's arrangements for looking after vulnerable children and young people.

The Ofsted monitoring visit undertaken in March 2018 highlighted that the Council has demonstrated that it has maintained and made some further improvements to the quality of social work practice since the last inspection. Further work remains to be done to ensure that practice is consistently good and that the best outcomes for all children are achieved on a timely and consistent basis.

This matter is evidence of weaknesses in proper arrangements for informed decision making and sustainable resource deployment in:

- acting in the public interest, through demonstrating and applying the principles and values of sound governance;
- managing risks effectively and maintaining a sound system of internal control; and
- planning, organising and developing the workforce effectively to deliver strategic priorities.

Management of Schools

Significant failings in the Council's management of schools were identified in a review by Peter Clarke in July 2014. Since this review the Council has taken and continues to take action to improve its management of schools through the implementation of its improvement plan.

As part of the assessment of schools governance improvement Birmingham Audit (internal audit) have been commissioned to carry out a programme of audits over a two year period. Their findings have continued to show that there are a range of governance issues to address across the schools visited. Specifically, 32 of the 87 schools audits (37%) undertaken by internal audit in 2017/18 were assessed as 'level 3' assurance (specific control weaknesses of a significant nature noted, and/or the number of minor weaknesses noted was considerable) and two schools (2%) were assessed as 'level 4' assurance (controls evaluated are not adequate, appropriate or effective, and/or risks are not being managed and it is unlikely that objectives will be met).

This matter is evidence of weaknesses in proper arrangements for informed decision making and sustainable resource deployment in:

- acting in the public interest, through demonstrating and applying the principles and values of sound governance;
- managing risks effectively and maintaining a sound system of internal control; and
- planning, organising and developing the workforce effectively to deliver strategic priorities.

Responsibilities of the Council

The Council is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Council for the year ended 31 March 2018. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

In addition, we cannot formally conclude the audit and issue an audit certificate for the Council for the year ended 31 March 2018 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed our consideration of an objection brought to our attention by a local authority elector under Section 27 of the Local Audit and Accountability Act 2014. We are satisfied that this matter does not have a material effect on the financial statements or on our conclusion on the

Council's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Signature to be added

Phil Jones
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

The Colmore Building
20 Colmore Circus
Birmingham
B4 6AT

31 July 2018

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Birmingham City Council

Our Ref.: BCC/MS/

Date: 30 July 2018

Grant Thornton UK LLP
The Colmore Building
20 Colmore Circus
Birmingham
West Midlands
B4 6AT

Dear Sirs

Birmingham City Council
Financial Statements for the year ended 31 March 2018

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 48 of the Council's financial statements) for the year ended 31 March 2018 for the purpose of expressing an opinion as to whether the group and parent 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 2017/18 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:

Group Financial Statements

i) We have fulfilled our responsibilities for the preparation of the group and parent 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 2017/18 ("the Code"); in particular the group and parent Council financial statements are fairly presented in accordance therewith.

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

Finance & Governance
P.O. Box 16306
10 Woodcock Street
Aston
Birmingham. B2 2XR

Contact: Clive Heaphy
Tel.: 0121-303-2950
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E-Mail: clive.heaphy@birmingham.gov.uk
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iii) The Council has complied with all aspects of contractual agreements that could have a material effect on the group and parent 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 group and parent Council 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.

vi) Except as disclosed in the group and parent Council financial statements:
   a there are no unrecorded liabilities, actual or contingent
   b none of the assets of the group and parent 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.

vii) 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.

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 group and parent Council 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 parent Council financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

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

xii) We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the group and parent Council financial statements.

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xiii) We believe that the group and parent Council’s financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the group and parent Council’s needs. We believe that no further disclosures relating to the group and parent Council's ability to continue as a going concern need to be made in the financial statements.

xiv) 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

xv) 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 parent Council 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. unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.

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

xvii) All transactions have been recorded in the accounting records and are reflected in the group and parent Council financial statements.

xviii) We have disclosed to you the results of our assessment of the risk that the group and parent Council financial statements may be materially misstated as a result of fraud.

xix) 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 parent 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 group and parent Council financial statements.

xx) We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the group and parent Council's financial statements communicated by employees, former employees, analysts, regulators or others.

xxi) 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.

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

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

xxiv) We confirm the reasonableness of the 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) Equal Pay – measurement. We confirm that the measurement methods including related assumptions and models is 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.

c) 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.

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

e) 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 are therefore not consolidated.

Annual Governance Statement

xxv) 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

i) The disclosures within the Narrative Report fairly reflect our understanding of the group and parent Council's financial and operating performance over the period covered by the group and parent Council 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 30 July 2018.

Yours faithfully

Name:……………………………

Position: Corporate Director, Finance & Governance

Date: 30 July 2018

Name……………………………

Position: Chair of Audit Committee

Date: 30 July 2018

Signed on behalf of the Governing Body

Yours Sincerely

Clive Heaphy
Corporate Director, Finance & Governance

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Statement of Accounts 2017/18

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Narrative Report

1 Introduction

1.1 This report presents the statutory financial statements for Birmingham City Council (the Council) for the period from 1 April 2017 to 31 March 2018. The financial statements have been prepared in accordance with the 2017/18 Code of Practice on Local Authority Accounting (the Code) published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

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

1.3 The financial statements contain a number of technical accounting terms and concepts. A glossary of the major accounting terms has been provided at the end of the financial statements to help the reader's understanding.

2 Council Priorities

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

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

and sets out four key priorities for Birmingham:

- **Children – A great city to grow up in:**
  Make the best of our unique demography and create a safe and secure city for our children and young people to learn and grow in.

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

- **Jobs and Skills – A great city to succeed in:**
  Birmingham will be renowned as an enterprising, innovative and green city.

- **Health – A great city to grow old in:**
  Helping people become healthier, especially relating to physical activity and mental wellbeing

2.2 The Council recognises that it is just one player in achieving these priorities. The significant reductions in Government funding since 2010 mean that the Council's role has changed from one of service delivery across the City to one where it uses its resources to enable and facilitate others.

2.3 The Council will provide strategic leadership with its partners to create and deliver a new future for the City. The Council will ensure that high quality services are provided for all and it will focus on supporting those that are least able to support themselves. The Council will work with partners and put citizens and neighbourhoods at the heart of decision making.

3 The Council in 2017/18

Leadership

3.1 Councillor John Clancy stepped down from his role as Leader of the Council in September 2017. Councillor Ian Ward was subsequently appointed as the new Leader of the Council having previously been Deputy Leader. Councillor Brigid Jones was appointed as the new Deputy Leader of the Council.

3.2 Stella Manzie CBE served as interim Chief Executive throughout the 2017/18 financial year. Dawn Baxendale was appointed as Chief Executive from 1 April 2018.

Commonwealth Games

3.3 On 21 December 2017, the Commonwealth Games Federation announced that it had selected Birmingham as the host city partner of the XXII Commonwealth Games in 2022. Birmingham submitted its bid to host the Games following the decision of the Commonwealth Games Federation to strip Durban of the right to host the Games. The Commonwealth Games will take place in July and August 2022.

3.4 The Games will leave a lasting legacy for the City as the Alexander Stadium will be enhanced and refurbished and the proposed Games Village at Perry Barr will incorporate approximately 1,000 new homes through a mix of one and two-bed apartments as well as three and four-bed town houses.

3.5 In addition to the range of events being held in Birmingham, the Commonwealth Games will bring benefits to the wider region as events will be held in neighbouring areas with a new Aquatic Centre based in Sandwell, several sports based at the National Exhibition Centre in Solihull, the Ricoh Arena in Coventry and Victoria Park in Leamington Spa.

3.6 There will be two Expo events in 2019 and 2021 and a further one leading up to the running of the Games which will showcase the best of the region's business. There will also be a cultural programme during the Games, which will be centred on the City's four principal squares, with a satellite hub at the NEC.

Independent Improvement Panel

3.7 Following the publication of a report on the governance and organisational capabilities of the Council by Lord Kerslake, the Secretary of State set up the Birmingham Independent Improvement Panel (the Panel) in January 2015 to work with the Council to provide robust challenge and support.

3.8 The Panel has provided a number of progress reports to the Secretary of State, the latest being in March 2018, which was in the form of a joint letter from the Leader of the Council and the Chair of the Panel. The letter noted the changes within the Council, including the election of the Leader and Deputy Leader, the appointment of the new Chief Executive and other members of the Council Management Team and the creation of the Children's Trust, which became operational in April 2018. In addition the letter expressed a more positive approach to resolving the Council's issues and a more collaborative way of working with the new Leadership.

3.9 It is planned to develop a shared understanding of the improvement priorities that the Council will focus on in the months and years ahead. The Council will develop and publish a suite of improvement plans with the support and advice of the Panel. A progress report will be prepared for publication in June 2018.

Financial Challenges

3.10 The Council has continued to operate within an extremely challenging financial environment and the management of the budget has been a major focus of activity in 2017/18. The savings target for the year was £85.3m, which included £14.4m of savings that were achieved on a one-off basis in the previous year.

3.11 For the period to 2021/22, the Council will need to find significant additional savings.

3.12 The Council needs to maintain an appropriate level of reserves given the challenges facing local authorities in the current financial environment.

Major Developments

3.13 Whilst facing severe financial challenges, the Council has continued to review its services to ensure effective delivery of provision to the citizens of Birmingham. As part of the changes in service delivery the Council has created Birmingham Children's Trust, which will be responsible for the delivery of children's care services that were previously delivered by the Council. The Trust operated in shadow form prior to becoming operationally independent on 1 April 2018. The contract for service delivery by the Trust is for £201m in 2018/19.

3.14 The Council has also invested in the infrastructure within the City, awarded grants to support third party developments and purchased software to develop its IT processes through capital developments of £362.2m in 2017/18 and has future committed capital projects in excess of £1bn. The major projects have included development of:

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

4 The Financial Statements

4.1 The pages which follow contain the Council's Financial Statements for the year ended 31 March 2018, with comparative figures for the previous financial year, and comprise:

The Main Financial Statements

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

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

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

- movements in 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.

Notwithstandiing the reduced costs of services in 2017/18, as a result of the savings implemented by the Council, the 2017/18 CIES shows a net improvement of £106.0m in moving from a deficit of £128.0m on the provision of services in 2016/17 to a deficit of £22.0m in 2017/18 in the light of the factors described above. However, these factors do not impact on council tax or housing rents and are therefore 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.

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

4.4 Balance Sheet – shows the value of assets and liabilities recognised by the Council as at 31 March 2018 and the level of reserves, split between usable (those that may be used to provide services) and unusable (those that may not be used to provide services). Unusable reserves include reserves that hold unrealised gains and losses where amounts would only become available to provide services if the assets were to be sold and reserves that hold timing differences in charging to the Comprehensive Income and Expenditure Statement.

The net liability has reduced by £525.5m to £547.8m, mainly as a result of:

- An increase of £383.6m in the carrying value of Property, Plant and Equipment as a result of the completion of new assets, an increase in the current value of assets following revaluation, offset by the disposal of a number of assets;
- An increase in short term investments of £39.0m;
- An increase in short term debtors of £53.3m, mainly as a consequence of the Council's participation in the 100% Local Business Rates Retention Pilot, which has resulted in the Council now recognising 99% of amounts owed rather than 49% as in previous years;

- A reduction in the net liability on the defined benefit pension scheme of £282.8m, mainly resulting from the three year advance payment made by the Council in April 2017.

  offset by
- An increase in the level of short term borrowing of £286.2m as the Council took advantage of the low level of short term interest rates.

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

Supplementary Statements

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

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

4.8 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

4.9 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 City Propco Limited – New Company
Innovation Birmingham Limited
InReach (Birmingham) Limited
National Exhibition Centre (Developments) Plc
PETPS (Birmingham) Limited
PETPS (Birmingham) Pension Funding Scottish Limited Partnership – New company

Associates
Birmingham Airport Holdings Limited
Service Birmingham Limited – part year only

Joint Venture
Paradise Circus General Partner Limited

4.10 The Council has undertaken a review of its Group boundary to ensure that the information provided from the consolidation of related entities into its Group Financial Statements gives the most accurate picture of the Council's activities. It has been determined that Birmingham Museums Trust Limited and Performances Birmingham Limited should no longer be consolidated into the Council's Group Financial Statements on the basis that the control criteria, set out in IFRS 10, *Consolidated Financial Statements* or the significant influence criteria set out in IAS 28, *Investments in Associates and Joint Ventures* are not met. Whilst the Council is the sole member of both organisations, it can only appoint a minority of the companies' directors or trustees. Further details are provided in the attached Group Financial Statements.

4.11 The Council disposed of its interest in Service Birmingham Limited on 31 December 2017. Prior to its disposal, the Council consolidated the company on the basis of an Associate. The Council continues to have a contractual relationship for the provision of services with the company.

4.12 In February 2017 a process commenced to explore a potential sale of the business and assets of Innovation Birmingham Limited to a strategic purchaser, in order to seek a new investor to continue with the strategic development of Innovation Birmingham Limited and the Innovation Birmingham Campus. The sale was completed on 18 April 2018.

4.13 The Council also operates through or in conjunction with a number of organisations where the level of activity is not considered material to the overall Group Accounts. Details of these organisations are set out in Note 48, Related Parties.

5 Accountable Body Roles

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

6 Summary of the Council's Financial Performance for the year ended 31 March 2018

6.1 <u>Revenue Expenditure</u>

6.1.1 The Council's revenue and capital budgets were allocated between six 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 24 May 2018.

6.1.2 The Council's final revenue outturn was a net overspend of £ 20.9m which reduced to £4.9m after use of reserves for two specific items identified in the table below. Directorates overspent in total by £12.7m, which was offset by elements of underspend in corporate and policy contingency budgets. The table below gives a summary of the General Fund year-end outturn variation.

	Revised Budget	Outturn	Variance
	£m	£m	£m
Directorate Position			
Adult Social Care & Health	351.263	343.614	(7.649)
Children & Young People	211.610	214.508	2.898
Place	142.780	159.734	16.954
Economy	71.778	45.468	(26.310)
Strategic Services	34.349	31.767	(2.582)
Finance & Governance	25.199	27.296	2.097
Sub Total Directorate Position	**836.979**	**822.387**	**(14.592)**
Year End Transfers to/(from) reserves			27.275
Sub Total Gross Directorate Position			**12.683**
Central Position			
Policy Contingency underspend			(4.598)
Corporate Funding re:Wholly Owned Companies			9.508
Future Operating Model			14.610
Other Central Items			(11.332)
Sub Total Gross Central Position			**8.188**
Sub Total Gross Position			**20.871**
Other Agreed Use of Reserves			
Pension Strain			(9.400)
Waste Management			(6.600)
Sub Total Use of Other Reserves			**(16.000)**
Total Net Over/(Under)spend			**4.871**

6.1.3 Within the Council's revenue position for 2017/18, there is the impact of the amendment to the Council's Policy for Minimum Revenue Provision (MRP). The Council agreed a revised MRP policy in September 2014, which amended the repayment method from one of 4% reducing balance method to one of 2% fixed repayment method commencing in 2013/14. The amendment of the policy in 2017/18 is to backdate the current methodology to 2007/08 when the current "Prudential System" was introduced. This amendment has given the Council a one-off reduction in MRP of £98.3m in the current year and an annual increase thereafter. The reduction in 2017/18 has been appropriated to a Financial Resilience Reserve that will be used, in the first instance, to meet the ongoing additional revenue costs and will also provide extra resilience in the management of the Council's finances.

6.2 <u>Capital Expenditure</u>

6.2.1 Total expenditure on directorate capital schemes in 2017/18, reported to Cabinet on 24 May 2018, was £362.2m (2016/17: £335.4m), compared to the revised capital budget of £519.9m (2016/17: £465.5m). The reported variance of £157.7m 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 2017/18. It should be noted that no Council resources were lost as a result of the slippage as the resources and planned expenditure will be "rolled forward" into future years.

Directorate	**Revised Capital Budget**	**Capital Outturn**	**Capital Variance**
	£m	**£m**	**£m**
Adult Social Care & Health	10.901	7.600	(3.301)
Children & Young People	65.890	45.927	(19.963)
Place	213.323	151.276	(62.047)
Economy	137.928	100.094	(37.834)
Strategic Services	13.019	2.505	(10.514)
Finance & Governance	78.810	54.786	(24.024)
Total Directorate Capital Expenditure	**519.871**	**362.188**	**(157.683)**
PFI and Finance Lease Assets		28.763	
PFI related to Academy Schools		0.732	
Total Capital Expenditure		**391.683**	

6.3 Material Assets Acquired

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

6.4 Capital Financing

6.4.1 The financing arrangements in respect of capital expenditure in 2017/18, as reported to Cabinet on 24 May 2018, are summarised below:

Financing Method	**£m**
Borrowing	150.022
Government Grants	87.961
Other Grants and Contributions	49.231
Use of Capital Receipts	7.900
Use of Revenue Resources – HRA	50.069
Use of Revenue Resources – General Fund	17.005
Total Directorate Capital Financing	**362.188**
PFI and Finance Leases	28.763
PFI related to Academy Schools	0.732
Total Capital Financing	**391.683**

6.4.2 During the financial year ended 31 March 2018, the Council took £157.2m of long term loans. The Council also maintained a significant short term loan debt portfolio during the year, taking advantage of historically low short term interest rates. Total debt remained within the Council's authorised limit.

6.4.3 Further details of the Council's financial liabilities are given in Notes 39 and 40 to these financial statements. Full details regarding the financing of capital expenditure and the acquisition and disposal of non-current assets are given in Notes 22 to 24 to these financial statements.

6.5 Service Concession Arrangements and Similar Contracts

6.5.1 The Council has entered into a number of Service Concession arrangements, formerly classed as Private Finance Initiatives and similar contracts across Schools, Waste Management and Highways Services to deliver improvements in infrastructure and future service delivery. As a result of the schemes, the Council has a future liability to the end of the contracts of £421.8m as at 31 March 2018.

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

6.6 Pension Liabilities

6.6.1 For the Local Government Pension Scheme there is currently a net pension liability that is reviewed periodically by the West Midlands Metropolitan Authorities Pension Fund Actuary. The Council's share of the total pension shortfall is £2,587.9m at 31 March 2018. Whilst the figure is substantial it should be noted that:

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

- There is a 19 year recovery plan which has been built into the Council's financial plans;

- It is not unique to the Council as this is in common with the national position for pension funds. Details of the pension liability and assets are set out in Notes 20 and 21 to these financial statements.

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

6.7 Provisions

Equal Pay

6.7.1 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 up to 28

February 2018. The level of claims received after this date to the date of signing these accounts was not material.

Business Rates

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

6.7.3 The Council, as Billing Authority, is required to make a provision for this liability. The financial statements include a provision to cover the Council's share of the estimated liability for the settlement of all appeals received up to 31 March 2018 but which remained unsettled. However, regulations permitted local authorities to spread an element of the impact over a period of 5 years up to 2017/18. From 1 April 2017, the Council has piloted 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. The Council's current share includes its 49% share under the scheme prior to 1 April 2017 plus Central Government's 50% share.

NEC Pension Liability

6.7.4 On the disposal of the NEC Group on 1 May 2015, PETPS (Birmingham) Limited, a wholly owned subsidiary of the Council, replaced the National Exhibition Centre Limited as principal employer of the defined benefit schemes, which assumed the ongoing funding obligations with the agreement of the pension trustees. At the same time, the Council provided guarantees to the Trustees of the Fund and the Scheme to meet the current and future funding obligations that may arise in respect of the liabilities.

6.7.5 In 2017/18, the Council set up an arrangement through PETPS (Birmingham) Capital Limited and PETPS (Birmingham) General Partner Limited that will enable the Council to spread the implications of the guarantee across the anticipated deficit recovery period.

Guarantees to Third Parties

6.7.6 The Council has provided guarantees to the West Midlands Pensions 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.

6.8 Reserves

6.8.1 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.

6.8.2 Details of the reserves are set out below.

	31 March 2017 £m	31 March 2018 £m
Unearmarked Reserves	100.8	170.4
Earmarked Reserves	136.2	130.9
Grant Reserves	133.4	172.0
Ringfenced Reserves	86.2	69.2
Capital Reserves	373.5	427.4
Sub-total Usable Reserves	**830.1**	**969.9**
Unusable Reserves	(1,903.4)	(1,517.7)
Total Reserves	**(1,073.3)**	**(547.8)**

6.8.3 The increase in the level of usable reserves is mainly as a result of:

- The creation of the Financial Resilience Reserve following the changes to the Council's policy in respect of setting aside resources to repay debt through the Minimum Revenue Provision:
- An increase in the level of grant reserves where resources are committed to meet future costs of activity; and
- An increase in the level of capital reserves where resources are committed to funding future capital projects

6.8.4 The Council's net liabilities at 31 March 2018 have reduced by £525.5m to £547.8m being represented by the usable and unusable reserves. Details of the reduction in net liabilities are set out in paragraph 6.8.2 above.

6.8.5 The Council has included financial assumptions for resourcing these liabilities in its long term financial plan, Council Plan and Budget 2018+.

7 Future Revenue and Capital Expenditure Plans

7.1 The Council Plan and Budget 2018+ was set in the context of pressures on services arising from demographic changes and increasing and changing needs whilst facing reducing resources available to fund service provision and investment in assets as a result of the continuing reductions in grant funding as part of the government's policy of reducing public expenditure. The Council has historically been more dependent on government grants than many local authorities because of the higher levels of need in the City and because of the comparatively low tax base which constrains what can be raised locally through Council Tax.

7.2 The Council has recognised the need for the effective management of savings programmes and has implemented a clear process for decision-making and monitoring delivery. There is active engagement by both Members and senior officers, including monthly meetings co-chaired by the Deputy Leader and Chief Executive as well as formal revenue budget monitoring reports considered by Cabinet.

7.3 The Council's key capital priorities are addressed through the four-year capital programme, totalling £1,250m in the Council Plan and Budget 2018+. The Council continues to pursue major initiatives taking advantage of the availability of external capital resources, with the programme including £390m 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.

7.4 The Council agreed to forego its Revenue Support Grant from 1 March 2017 in exchange for retaining 99% of Business Rates (the remaining 1% will continue to be passed to the West Midlands Fire and Rescue Authority) as part of a 100% Business Rates Retention Pilot across the seven West Midlands District Authorities. The top up grant that the Council receives has also been reduced in order to ensure fiscal neutrality in terms of the Local Government Finance Settlement. The Government has confirmed that the 100% Business Rates Retention Pilot will continue in 2018/19 in its current form. There are opportunities to enhance/expand the arrangement in future years if all parties are in favour.

7.5 Full details of the 2018/19 Revenue and Capital Budgets can be found within the Council Plan and Budget 2018+ approved by Council on 27 February 2018, via the Council's website.

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 Corporate Director, Finance & Governance 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 2018 and of its income and expenditure for the year ended 31 March 2018.

. . . .

Clive Heaphy, Corporate Director, Finance & Governance
30 July 2018

Approval of Accounts

In accordance with the Accounts and Audit Regulations 2015, I certify that the Statement of Accounts was approved by the Audit Committee on 30 July 2018.

. . . .

Councillor John O'Shea, Chair of Audit Committee
30 July 2018

CORE FINANCIAL STATEMENTS 2017/18

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 2016/17 have been restated to reflect the change in Directorate structure. Details of the restatement are set out in Note 8.

2016/17 (Restated) Gross Expenditure	Gross Income	Net Expenditure		Note	2017/18 Gross Expenditure	Gross Income	Net Expenditure
£m	£m	£m	**Continuing Operations**		£m	£m	£m
529.9	(203.4)	326.5	Adult Social Care & Health		554.9	(207.4)	347.5
1,065.6	(843.1)	222.5	Children and Young People		1,111.4	(800.8)	310.6
214.4	(78.5)	135.9	Place		264.1	(86.6)	177.5
150.9	(83.6)	67.3	Economy		149.2	(89.6)	59.6
621.9	(585.9)	36.0	Strategic Services		640.5	(587.2)	53.3
29.0	(8.1)	20.9	Finance & Governance		5.8	(7.6)	(1.8)
23.0	(6.1)	16.9	Centrally Managed		34.5	(64.5)	(30.0)
270.3	(289.8)	(19.5)	Housing Revenue Account		196.7	(286.7)	(90.0)
2,905.0	**(2,098.5)**	**806.5**	**Total Cost Of Services**		**2,957.1**	**(2,130.4)**	**826.7**
212.5	-	212.5	Other Operating Expenditure	10	75.5	-	75.5
283.0	(56.6)	226.4	Financing and Investment Income and Expenditure	11	284.2	(52.3)	231.9
6.0	(1,123.4)	(1,117.4)	Taxation and Non-Specific Grant Income	12	1.8	(1,113.9)	(1,112.1)
		128.0	**(Surplus) / Deficit on Provision of Services**				**22.0**
			Items that will not be reclassified to the (Surplus)/Deficit on the Provision of Services				
		(645.0)	(Surplus) / deficit on revaluation of Property, Plant and Equipment assets	22, 23, 24			(395.2)
		748.0	Remeasurement of the net defined benefit liability	21			(153.1)
		103.0					**(548.3)**
			Items that may be reclassified to the (Surplus)/Deficit on the Provision of Services				
		(0.3)	(Surplus) / deficit on revaluation of available for sale financial assets				0.8
		(0.3)					**0.8**
		102.7	**Other Comprehensive (Income) / Expenditure**				**(547.5)**
		230.7	**Total Comprehensive (Income) / Expenditure**				**(525.5)**

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 detail for 2016/17 has been restated to reflect the impairment of HRA assets that was allocated against General Fund Balances. Details of the prior period adjustment are set out in Note 8.

	General Fund Balance £m	Housing Revenue Account £m	Earmarked HRA Reserves £m	Capital Receipts £m	Major Repairs Reserve £m	Capital Grants Unapplied Account £m	**Total Usable Reserves** £m	Unusable Reserves £m	**Total Council Reserves** £m
Balance at 31 March 2016	**500.2**	**4.6**	**-**	**312.1**	**5.8**	**73.0**	**895.7**	**(1,738.3)**	**(842.6)**
Movement in Reserves during 2016/17									
Surplus/(Deficit) on the provision of services	(92.8)	(35.2)	-				**(128.0)**		**(128.0)**
Other Comprehensive Income and Expenditure							**-**	(102.7)	**(102.7)**
Total Comprehensive Income and Expenditure	**(92.8)**	**(35.2)**	**-**	**-**	**-**	**-**	**(128.0)**	**(102.7)**	**(230.7)**
Adjustments between accounting basis and funding basis under regulations (Note 16)	5.5	35.3	-	(33.8)	**33.2**	22.2	**62.4**	(62.4)	**-**
Net Increase/(Decrease) before Transfers to Earmarked Reserves	**(87.3)**	**0.1**	**-**	**(33.8)**	**33.2**	**22.2**	**(65.6)**	**(165.1)**	**(230.7)**
Transfers to/(from) Earmarked Reserves (Note 17)	-						**-**		**-**
Increase/(Decrease) in 2016/17	**(87.3)**	**0.1**	**-**	**(33.8)**	**33.2**	**22.2**	**(65.6)**	**(165.1)**	**(230.7)**
Balance at 31 March 2017	**412.9**	**4.7**	**-**	**278.3**	**39.0**	**95.2**	**830.1**	**(1,903.4)**	**(1,073.3)**
Movement in Reserves during 2017/18									
Surplus/(Deficit) on the provision of services	(80.8)	58.8					**(22.0)**		**(22.0)**
Other Comprehensive Income and Expenditure							**-**	547.5	**547.5**
Total Comprehensive Income and Expenditure	**(80.8)**	**58.8**	**-**	**-**	**-**	**-**	**(22.0)**	**547.5**	**525.5**
Adjustments between accounting basis and funding basis under regulations (Note 16)	177.0	(58.7)		42.1	**(10.4)**	11.8	**161.8**	(161.8)	**-**
Net Increase/(Decrease) before Transfers to Earmarked Reserves	**96.2**	**0.1**	**-**	**42.1**	**(10.4)**	**11.8**	**139.8**	**385.7**	**525.5**
Transfers to/(from) Earmarked Reserves (Note 17)	-						**-**		**-**
Increase/(Decrease) in 2017/18	**96.2**	**0.1**	**-**	**42.1**	**(10.4)**	**11.8**	**139.8**	**385.7**	**525.5**
Balance at 31 March 2018	**509.1**	**4.8**	**-**	**320.4**	**28.6**	**107.0**	**969.9**	**(1,517.7)**	**(547.8)**

Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council.

31 March 2017 £m		Note	31 March 2018 £m
5,336.3	Property, Plant and Equipment	22	5,719.9
251.5	Heritage Assets	23	251.6
9.8	Investment Property		11.3
19.7	Intangible Assets	24	13.7
33.5	Long Term Investments	25	41.7
92.9	Long Term Debtors	26	126.2
5,743.7	**Total Long Term Assets**		**6,164.4**
33.6	Short Term Investments	27	72.6
6.6	Assets Held for Sale	28	0.9
1.2	Inventories		1.3
276.1	Short Term Debtors	29	329.4
45.4	Cash and Cash Equivalents	30	55.5
362.9	**Total Current Assets**		**459.7**
(13.5)	Cash and Cash Equivalents	30	(35.4)
(513.6)	Short Term Borrowing	34	(799.8)
(363.5)	Short Term Creditors	31	(333.7)
(172.9)	Short Term Provisions	32	(188.1)
(1,063.5)	**Total Current Liabilities**		**(1,357.0)**
-	Long Term Creditors		(1.5)
(30.0)	Long Term Provisions	32	(23.5)
(2,730.9)	Long Term Borrowing	34	(2,740.0)
(484.8)	Other Long Term Liabilities	39	(462.0)
(2,870.7)	Net liability on defined benefit pension scheme	21	(2,587.9)
(6,116.4)	**Total Long Term Liabilities**		**(5,814.9)**
(1,073.3)	**Net Assets/(Liabilities)**		**(547.8)**
	Usable Reserves	18	
100.8	Unearmarked Reserves		170.4
136.2	Earmarked Reserves		130.9
133.4	Grant Reserves		172.0
86.2	Ringfenced Reserves		69.2
373.5	Capital Reserves		427.4
830.1	**Total Usable Reserves**		**969.9**
(1,903.4)	Unusable Reserves	19	(1,517.7)
(1,073.3)	**Total Reserves**		**(547.8)**

The unaudited accounts were issued on 31 May 2018 and the audited accounts were authorised for issue on 30 July 2018.

Cash Flow Statement

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

2016/17 £m		Note	2017/18 £m
(128.0)	Net Surplus/(Deficit) on the provision of services		(22.0)
382.1	Adjustments to net Surplus/Deficit on the provision of services for non cash movements	38	64.5
(230.2)	Adjustments for items included in the net Surplus/(Deficit) on the provision of services that are investing and financing activities	38	(224.1)
23.9	**Net cash flows from Operating Activities**		**(181.6)**
(163.7)	Investing Activities	36	(166.9)
139.8	Financing Activities	37	336.7
0.0	**Net increase/(decrease) in cash and cash equivalents**		**(11.8)**
31.9	Cash and cash equivalents at the beginning of the reporting period		31.9
31.9	**Cash and cash equivalents at the end of the reporting period**	**30**	**20.1**

Note 1
Accounting Policies

i. General Principles

The Statement of Accounts summarises the Council's transactions for the 2017/18 financial year and its position at the year-end of 31 March 2018. The Accounts and Audit Regulations 2015, requires the Council to prepare an annual statement of accounts in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (the Code) supported by International Financial Reporting Standards (IFRS).

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

ii. Accruals of Income and Expenditure

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

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

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

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

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

iii. Fair Value Measurement

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

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

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

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

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

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

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

iv. Exceptional Items

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

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

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

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

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

vi. Employee Benefits

Benefits Payable During Employment

Short Term Benefits

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

Other Long Term Benefits

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

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

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

Termination Benefits

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

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

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

Post-Employment Benefits

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

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

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

The arrangements for the Teachers' Pension Scheme and the NHS Pensions Scheme mean liabilities for these benefits cannot ordinarily be identified specifically to the Council. These schemes are, therefore, accounted for as if they were defined contribution schemes and no liability for future payments of benefits is recognised in the Balance Sheet. Within the Comprehensive Income and Expenditure Statement, the People Directorate line is charged with the employer's contributions payable to the Teachers' Pension Scheme and NHS Pensions Scheme in the year.

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 2.55% based on the indicative rate of return on AA rated corporate bond yields;
- The assets of the West Midlands Local Government Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:
    - quoted securities – current bid price;
    - unquoted securities – professional estimate;
    - unitised securities – current bid price;
    - property – market value.

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

Service cost comprising:

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

Re-measurements comprising:

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

Contributions paid to the West Midlands Local Government Pension Fund – cash paid as employer’s contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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

Discretionary Benefits

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

vii. Revenue Expenditure Funded from Capital under Statute

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

viii. Charges to Revenue for Non-Current Assets

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

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

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

ix. Government Grants and Contributions

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

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

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

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

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

x. Overheads and Support Services

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

xi. Property, Plant and Equipment

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

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

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

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

Since 1 April 2010 all additions and all material assets revalued (over £5m) are accounted for on a component basis. As components are added, any component being replaced is derecognised. On derecognising components where the component is within a non separated component bundle, the depreciation is apportioned on a straight line basis and derecognised accordingly. In addition, where the historical cost of the old component is not readily determinable, it has been estimated by comparing the remaining useful economic life of the component to the original useful economic life and the cost of the replacement component. A pro rata of both the depreciation and any applicable Revaluation Reserve is also derecognised.

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

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

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

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

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

Where non-property assets have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for current value.

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a Directorate.

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

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

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

Impairment

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

Where impairment losses are identified, the accounting treatment is:

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

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

Useful Life

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

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

The useful life of each asset is reviewed annually by the Directorate user through their service review and as part of the Council's five year cycle of revaluation by an appropriately qualified valuer.

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

Depreciation

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

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

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

Disposals and Non-Current Assets Held for Sale

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

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

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

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

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

Amounts, in excess of £10,000, received from a disposal are categorised as capital receipts. A proportion of receipts relating to housing disposals (for 2017/18, 75% of the receipt net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve. Receipts are appropriated to the Reserve from the General Fund Balance through the Movement in Reserves Statement. The written-off value of disposals is not a charge against Council Tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing.

xii. Heritage Assets

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

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

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

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

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

xiii. Intangible Assets

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

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

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

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

xiv. Investment Properties

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

Investment properties are measured initially at cost and subsequently at current value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use. Investment properties are not depreciated but are revalued annually based on market conditions at the year-end. Gains/losses on revaluation are posted to Financing Income and Expenditure in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to Financing Investment Income in the Comprehensive Income and Expenditure Statement and result in a gain for the General Fund Balance. However, revaluation and disposal gains/losses are not permitted by statutory arrangements on the General Fund Balance and are therefore reversed out through the Movement in Reserves Statement and posted to the Capital Adjustment Account and, for any sale proceeds greater than £10,000, to the Capital Receipts Reserve.

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

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

xv. Service Concession Arrangements

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

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

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

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

- Fair value of the services procured during the year – debited to the relevant Directorate in the Comprehensive Income and Expenditure Statement;

- Finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;

- Contingent rent – inflationary increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;

- Payment towards liability – applied to write down the Balance Sheet liability towards the contractor;

- Lifecycle replacement costs – usually recognised as an addition to Property, Plant and Equipment when the relevant works are carried out in line with the operator's model spending profiles.

xvi. Leases

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

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

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

The Council as Lessee

Finance Leases

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

Lease payments are apportioned between:

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

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

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

<u>Operating Leases</u>

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

<u>Finance Leases</u>

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

Lease rentals receivable are apportioned between:

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

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

The written-off value of disposals is not a charge against Council Tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance through the Movement in Reserves Statement.

Operating Leases

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

xvii. Interests in Companies and Other Entities

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

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

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

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium/discount is respectively deducted from/added to the amortised cost of the new or modified loan and the write down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

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

Financial Assets

Financial assets are classified into two types:

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

Loans and Receivables

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

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

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

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

Available-for-Sale Assets

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

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

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

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

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

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

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

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

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

Instruments Entered Into Before 1 April 2006

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

xx. Cash and Cash Equivalents

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

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

xxi. Provisions, Contingent Liabilities and Contingent Assets

Provisions

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

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

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

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

<u>Provision for Back Pay Arising from Equal Pay Claims</u>

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

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

Contingent Liabilities

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

Contingent liabilities are not recognised in the Balance Sheet but disclosed in Note 33 to the accounts.

Contingent Assets

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

Contingent assets are not recognised in the Balance Sheet but disclosed in Note 33 to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

xxii. Reserves

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

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

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

xxiii. Council Tax and Business Rates

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

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

- While the Council Tax and Business Rates income for the year credited to the Collection Fund is the accrued income for the year, regulations determine when it should be released from the Collection Fund and transferred to the Council's General Fund, or paid out from the Collection Fund to the major preceptors. The amount credited to the General Fund under statute is the Council's demand on the Fund for that year, plus/(less) the Council's share of any surplus/(deficit) on the Collection Fund for the previous year. This amount may be more or less than the accrued income for the year in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

Comprehensive Income and Expenditure Statement

The Council Tax and Business Rates income included in the Comprehensive Income and Expenditure Statement is the Council's share of accrued income for the year. The difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement. In addition, that part of Business Rates retained as the cost of collection allowance under regulation is treated as the Council's income and appears in the Comprehensive and Income Expenditure Statement as are any costs added to Business Rates in respect of recovery action.

Balance Sheet

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

Cash Flow Statement

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

xxiv. Business Improvement Districts

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

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

xxv. Community Infrastructure Levy

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

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

xxvi. Events After the Reporting Period

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

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

Events taking place after the date of Audit Committee adoption of the accounts are not reflected in the Statement of Accounts.

xxvii. 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.

xxxi. Acquired Operations

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

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

Note 2
Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in Note 1, the Council has had to make certain judgements in respect of complex transactions or those transactions involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

Going Concern
Local Authorities are required by the Code of Practice on Local Authority Accounting 2017/18 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 Plan and Budget 2018+, 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 the shortfall or it can delay the timing of its Minimum Revenue Provision contributions and equal pay settlements. On this basis, the Council considers that it can continue to meet its liabilities as they fall due, supporting the preparation of the financial statements on a going concern basis irrespective of the statutory requirements.

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

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

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

- Community Schools - all land and buildings should be recognised;
- Voluntary Controlled, Voluntary Aided and Foundation Schools - all buildings should be recognised and that land should be recognised where the Council can demonstrate that it has control over the asset through restrictive covenants within site deeds or there is reasonable evidence that restrictive covenants are in place;
- Academy Schools - no non-current assets should be recognised as they maintain their own financial records.

Local authority maintained schools, as independent entities, have responsibility for the management of their own resources. However, as their transactions are consolidated into the Council's financial statements, the Council has reviewed their activity to ensure consistency of accounting treatment. The Council has identified activity incurred as revenue expenditure by local authority maintained schools, which under the Council's policies would be considered to be capital expenditure. The Council has, therefore, treated expenditure which it can reasonably identify as being capital in nature as capital expenditure financed from revenue, which is then depreciated over an average useful economic life. Where it is not clear whether expenditure incurred relates specifically to capital, it has been left 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 45, Officers' Remuneration, as they are employed by the relevant governing body.

The table below shows the number and type of schools within Birmingham at 31 March 2018.

Type of School	Primary	Secondary	Nursery	Special	Pupil Referral Unit	**Total**
Community	119	11	27	18	1	**176**
Voluntary Controlled	6	-	-	-	-	**6**
Voluntary Aided	55	8	-	-	-	**63**
Foundation Trust	8	5	-	3	-	**16**
Academy (formerly Council school)	110	50	-	6	-	**166**
Academy (not formerly Council school)	2	11	-	-	-	**13**
Total	**300**	**85**	**27**	**27**	**1**	**440**

Where a school proposes to transfer to Academy Status, the Council will continue to retain any asset subject to transfer on the basis of its last revaluation, which maintains both the asset value and the anticipated useful life until the date of transfer. The Council has taken the view that any asset transferring will continue, on the basis of the permitted use within the lease agreements, to be used for the provision of education services, thus supporting the Council's statutory obligation for the provision of education. On transfer to an Academy, assets are derecognised in the Council's financial statements for nil consideration.

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 the basis of 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 32 of these Financial Statements.

Specialist Assets

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

Leases

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

The Better Care Fund (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 48, Related Parties.

The Council acting as Agent

The Council acts as agent for a range of funding resources. In its role as agent, transactions relating to agency activity are not included in the Council's financial statements. Two of the largest schemes where the Council acts as agent are:

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

These resources are under the control of the Greater Birmingham and Solihull Local Enterprise Partnership with decisions taken by impartial and independent Investment Boards and Committees. All governance processes are overseen by the Council.
Whilst the Council has received the funding, it is on the basis of an Accountable Body to ensure that resources are spent in compliance with the grant offer letters. Decisions in respect of the use of funds are not in the hands of the Council. The Council can only obtain use of the resources as a recipient of the normal resource allocation process.

Given the basis of control, the Council has determined that it acts as agent rather than principal for these resources which are, therefore, not included in the Council's financial statements.

Details of the Council's role as agent for external resources are included in Note 49 to these financial statements.

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 15.3% of pensionable pay plus £61.8m which was calculated to total £125m for 2017/18.

Sale of the NEC

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

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

The Council is required to disclose information relating to the impact of the accounting change on the financial statements as a result of the adoption by the Code of a new or amended standard that has been issued, but is not required to be adopted by the Council for the 2017/18 accounting period. For these financial statements the relevant standards are detailed:

- IFRS 9 – Financial Instruments
- IFRS 15 – Revenue from Contracts with Customers including amendments to IFRS 15 *Clarifications to IFRS 15 Revenue Contracts with Customers*
- Amendments to IAS 12 *Income Taxes*: Recognition of Deferred Tax Assets for Unrealised Assets
- Amendments to IAS 7 *Statement of Cash Flows*: Disclosure Initiative

<u>IFRS 9 – Financial Instruments</u>

This standard was issued in 2014 and is effective for reporting periods beginning on or after 1 January 2018. The Council will adopt the standard for the financial year beginning 1 April 2018.

This is the new accounting standard replacing IAS39 Financial Instruments Recognition and Measurement. It relates to investments, borrowing, receivables and payables. There are two potential impacts:-

- Potential losses on investments and debtors must be charged to revenue in case actual losses are incurred in the future, the largest impact being on loans and receivables to high risk debtors where a provision is not already in place;

- Changes to the treatment of unrealised gains and losses on certain investments, where movements in market value must now be charged to revenue.

The Code has adopted transitional reporting requirements such that on implementation the preceding year will not be restated.

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

<u>IFRS 15 – Revenue from Contacts with Customers</u>

This standard was issued in May 2014 and is effective for reporting periods beginning on or after 1 January 2018. The Council will adopt the standard for the financial year beginning 1 April 2018.

This standard specifies how and when an entity will recognise revenue as well as the requirement to provide users of financial statements with more informative, relevant disclosures.

The Code has adopted transitional reporting requirements such that on implementation the preceding year will not be restated.

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

Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses

The amended standard was issued in January 2016. The Council will adopt the standard for the financial year beginning 1 April 2018 in line with the Code requirements.

This standard sets out the accounting treatment for income taxes, including all domestic and foreign taxes which are based on taxable profits and those payable by a subsidiary, associate or joint venture on distributions to the reporting entity.

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

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

The amended standard was issued in January 2016. The Council will adopt the standard for the financial year beginning 1 April 2018 in line with the Code requirements.

This standard establishes requirements for cash flow reporting via the presentation of information about the historical changes in cash and cash equivalents of an entity by means of a statement of cash flows, which classifies cash flows during the period according to operating, investing, and financing activities.

This standard relates to presentation of the Cash Flow Statement and will not materially impact on the 2018/19 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 2018 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment Valuations	Valuations are undertaken on the basis of a five year rolling programme, which is supplemented by annual reviews to reflect significant changes in market values. HRA assets are subject to a full revaluation every five years, following MHCLG guidance, with a desktop review in the intervening years. The valuation of specialist assets using Depreciated Replacement Cost includes the use of building cost factors. For those assets not valued in year, updated building factors have been applied to estimate carrying values at 31 March.	For those assets not valued this year, an increase of 1% in the average valuation of assets that have not been amended for a variation in building indices would have the effect of increasing the gross carrying value of these assets by £10.0m, with a corresponding increase in the level of unusable reserves.
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 unusable reserves.
Financial Instruments	Interest rate risk - the Council is exposed to significant risk in relation to interest rate movements on its borrowing and investments.	An analysis of the impact if interest rates were 1% higher, with all other variables held constant, is set out in Note 40.
Long term obligations under, for example, PFI schemes	For service concessions, the fair value of the long term obligations has been based on financial models, including future assumptions on inflation and interest rates.	The financial models assume an inflation rate of 2.5% If the annual inflation rate was to increase to 3.5% each year of the contracts, this would result in an increase in running costs of £30.4m in 2018/19, and a further £353.9m over the remaining lives of the contracts.

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Equal Pay	The Council has included a provision of £151.8m 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 £4.0m on the provision set aside.
Defined Benefit Pension Liability	The estimate for the Local Government Pension Scheme has been based on the latest actuarial valuation and transaction information from 2017/18.	A number of factors can impact on the valuation of the scheme liability. A sensitivity analysis of the factors is set out in more detail in Note 21 of these financial statements.

Note 5
Events After the Reporting Period

The Statement of Accounts was authorised for issue by the Corporate Director, Finance & Governance and Section 151 Officer on 30 July 2018. 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 2018, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

Chief Executive

Dawn Baxendale, the Council's new Chief Executive and Head of Paid Service took up her post on 1 April 2018. Dawn replaced Stella Manzie CBE who had been Interim Chief Executive from 5 April 2017 to 31 March 2018.

Local Elections

Council elections were held on 3 May 2018 which, for the first time, were on the basis of all 101 seats being contested with councillors serving a four year term until May 2022. Previously, council elections were on the basis of a third of council seats being contested three years in four. The political composition of the Council is set out below.

Party	**Pre May 2018 Election**	**Post May 2018 Election**
Labour	79	67
Conservative	29	25
Liberal Democrat	10	8
Independent	1	-
Green	-	1
Vacant Seat	1	-
Total Councillors	**120**	**101**

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 2018 and 30 July 2018, one school, with a net book value of £5.7m, has transferred to Academy School Trust status. To date eight schools, with assets having a net book value of £68.5m, have confirmed their proposals to transfer to Academy School Trust status.

Transfer of Council Services

On 1 April 2018, Birmingham Children's Trust became responsible for the delivery of children's care services previously delivered by the Council. The Trust, a company limited by guarantee with the Council as sole member, was created on 9 May 2017. Cabinet, in July 2017, approved the details for the transfer of services to the Trust, which included the transfer of some 1,800 staff from the Council to the Trust. The governance of the Trust has been confirmed with the appointments of Andrew Christie (Chair), Andy Couldrick (Chief Executive) and six Non-Executive Directors.

Children's Services have been operating as a Shadow Trust within the Council to ensure a smooth transfer to the new model of operation in 2018/19.

The contract for the first year of the Trust is £201m.

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 Plan and Budget 2018+ 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 2018/19.

Sale of Innovation Birmingham

Innovation Birmingham (IBL) Group is a group of companies that aims to promote, encourage, and secure the development and management of a science park in Birmingham. IBL comprises Innovation Birmingham Limited, a company limited by guarantee with the Council as sole member, and several subsidiary companies.

At its meeting on 14 February 2017, Cabinet gave approval for the invitation of expressions of interest for either a majority stake or whole of IBL Group which would enable it to enter the next stage of development. Cabinet, on 6 March 2018 agreed the form of disposal of IBL assets which was completed on 18 April 2018.

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 2016/17 have been restated to reflect the change in Directorate structure.

2016/17 (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 & Health	353.5	(27.5)	**326.0**	0.5	**326.5**
Children & Young People	181.1	0.4	**181.5**	41.0	**222.5**
Place	160.2	(48.9)	**111.3**	24.6	**135.9**
Economy	68.7	(64.1)	**4.6**	62.7	**67.3**
Strategic Services	29.2	7.3	**36.5**	(0.5)	**36.0**
Finance & Governance	21.4	(2.9)	**18.5**	2.4	**20.9**
Centrally Managed	21.2	221.4	**242.6**	(225.7)	**16.9**
Housing Revenue Account	-	(51.4)	**(51.4)**	31.9	**(19.5)**
Net Cost of Services	**835.3**	**34.3**	**869.6**	**(63.1)**	**806.5**
Other Income and Expenditure	(835.3)	52.9	**(782.4)**	103.9	**(678.5)**
(Surplus)/Deficit	**-**	**87.2**	**87.2**	**40.8**	**128.0**
Opening General Fund and HRA Balance			**504.8**		
Surplus/(Deficit) for the Year			(87.2)		
Closing General Fund and HRA Balance			**417.6**		

2017/18	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 & Health	351.1	(12.3)	**338.8**	8.7	**347.5**
Children & Young People	213.4	24.0	**237.4**	73.2	**310.6**
Place	157.9	(7.7)	**150.2**	27.3	**177.5**
Economy	70.6	(49.1)	**21.5**	38.1	**59.6**
Strategic Services	32.8	14.0	**46.8**	6.5	**53.3**
Finance & Governance	23.9	(28.9)	**(5.0)**	3.2	**(1.8)**
Centrally Managed	(27.9)	(2.0)	**(29.9)**	(0.1)	**(30.0)**
Housing Revenue Account	-	(27.4)	**(27.4)**	(62.6)	**(90.0)**
Net Cost of Services	**821.8**	**(89.4)**	**732.4**	**94.3**	**826.7**
Other Income and Expenditure	(821.8)	(6.9)	**(828.7)**	24.0	**(804.7)**
(Surplus)/Deficit	**-**	**(96.3)**	**(96.3)**	**118.3**	**22.0**
Opening General Fund and HRA Balance			**417.6**		
Surplus/(Deficit) for the Year			96.3		
Closing General Fund and HRA Balance			**513.9**		

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 2016/17 have been restated to reflect the change in Directorate structure.

2016/17 (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 & Health	(7.3)	9.1	(29.3)	**(27.5)**	6.1	(5.4)	(0.2)	**0.5**
Children & Young People	(77.3)	13.8	63.9	**0.4**	54.7	(17.9)	4.2	**41.0**
Place	(44.0)	(5.7)	0.8	**(48.9)**	25.3	(5.6)	4.9	**24.6**
Economy	(97.9)	(18.4)	52.2	**(64.1)**	63.6	(1.4)	0.5	**62.7**
Strategic Services	(4.3)	6.1	5.5	**7.3**	2.9	(3.4)	-	**(0.5)**
Finance & Governance	(4.7)	1.9	(0.1)	**(2.9)**	3.4	(1.3)	0.3	**2.4**
Centrally Managed	(0.1)	81.6	139.9	**221.4**	(22.7)	(0.1)	(202.9)	**(225.7)**
Housing Revenue Account	(124.9)	(1.2)	74.7	**(51.4)**	158.6	(1.9)	(124.8)	**31.9**
Net Cost of Services	(360.5)	87.2	307.6	**34.3**	291.9	(37.0)	(318.0)	**(63.1)**
Other Income and Expenditure	360.5		(307.6)	**52.9**	88.6	72.0	(56.7)	**103.9**
(Surplus)/Deficit	-	87.2	-	**87.2**	380.5	35.0	(374.7)	**40.8**

2017/18	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 & Health	(2.7)	(13.3)	3.7	**(12.3)**	3.0	6.1	(0.4)	**8.7**
Children & Young People	(41.9)	4.5	61.4	**24.0**	55.6	20.4	(2.8)	**73.2**
Place	(16.4)	3.8	4.9	**(7.7)**	20.5	6.8	-	**27.3**
Economy	(25.8)	(23.4)	0.1	**(49.1)**	37.6	2.0	(1.5)	**38.1**
Strategic Services	(1.4)	2.4	13.0	**14.0**	2.0	4.6	(0.1)	**6.5**
Finance & Governance	(2.4)	5.8	(32.3)	**(28.9)**	1.2	1.7	0.3	**3.2**
Centrally Managed	(17.2)	(73.9)	89.1	**(2.0)**	13.2	0.8	(14.1)	**(0.1)**
Housing Revenue Account	(50.9)	(2.2)	25.7	**(27.4)**	83.5	2.3	(148.4)	**(62.6)**
Net Cost of Services	(158.7)	(96.3)	165.6	**(89.4)**	216.6	44.7	(167.0)	**94.3**
Other Income and Expenditure	158.7		(165.6)	**(6.9)**	14.9	73.9	(64.8)	**24.0**
(Surplus)/Deficit	-	(96.3)	-	**(96.3)**	231.5	118.6	(231.8)	**118.3**

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 2017/18. The impairment of assets within the HRA was incorrectly allocated against Place Directorate in 2016/17. The allocation had no impact on either General Fund or HRA balances as the impact of the impairment is reversed out under statutory requirements through the Movement in Reserves Statement. The implications of the realignment on the CIES are detailed below.

Directorate Reporting 2016/17	As Reported in the Comprehensive Income and Expenditure Statement 2016/17	Adjustments in Internal Directorate Reporting Classifications between years	As Restated in 2016/17	New Directorate Reporting 2016/17
	£m	£m	£m	
Net Expenditure				
Continuing Operations				
People	548.9	(222.4)	326.5	Adult Social Care & Health
	-	222.5	222.5	Children & Young People
Place	213.0	(77.1)	135.9	Place
Economy	71.9	(4.6)	67.3	Economy
Corporate Resources	52.4	(16.4)	36.0	Strategic Services
	-	20.9	20.9	Finance & Governance
Corporately Managed	16.9	-	16.9	Centrally Managed
Housing Revenue Account	(96.6)	77.1	(19.5)	Housing Revenue Account
Net Cost of Services	**806.5**	**-**	**806.5**	
Gross Expenditure				
Continuing Operations	£m	£m	£m	
People	1,595.4	(1,065.5)	529.9	Adult Social Care & Health
		1,065.6	1,065.6	Children & Young People
Place	291.5	(77.1)	214.4	Place
Economy	117.9	33.0	150.9	Economy
Corporate Resources	684.0	(62.1)	621.9	Strategic Services
		29.0	29.0	Finance & Governance
Corporately Managed	23.0	-	23.0	Centrally Managed
Housing Revenue Account	193.2	77.1	270.3	Housing Revenue Account
Gross Cost of Services	**2,905.0**	**-**	**2,905.0**	
Gross Income				
Continuing Operations	£m	£m	£m	
People	(1,046.5)	843.1	(203.4)	Adult Social Care & Health
		(843.1)	(843.1)	Children & Young People
Place	(78.5)	-	(78.5)	Place
Economy	(46.0)	(37.6)	(83.6)	Economy
Corporate Resources	(631.6)	45.7	(585.9)	Strategic Services
		(8.1)	(8.1)	Finance & Governance
Corporately Managed	(6.1)	-	(6.1)	Centrally Managed
Housing Revenue Account	(289.8)	-	(289.8)	Housing Revenue Account
Gross Income of Services	**(2,098.5)**	**-**	**(2,098.5)**	

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.

2016/17		2017/18
£m	**Expenditure**	£m
938.0	Employee Benefits Expenses	1,071.1
1,779.3	Other Service Expenses	1,762.7
229.7	Depreciation, Amortisation and Impairment	158.5
253.3	Interest Payments	253.1
51.1	Precepts and Levies	52.9
6.3	Payments to Housing Capital Receipts Pool	6.3
148.8	Loss on Disposal of Non-Current Assets	14.0
3,406.5	**Total Expenditure**	**3,318.6**
	Income	
(613.7)	Fees, Charges and Other Services Income	(634.4)
(508.1)	Income from Council Tax and Business Rates	(737.5)
(2,133.1)	Government Grants and Contributions	(1,905.7)
(23.6)	Interest and Investment Income	(19.0)
(3,278.5)	**Total Income**	**(3,296.6)**
128.0	**(Surplus)/Deficit on Provision of Services**	**22.0**

Note 10
Other Operating Expenditure

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

2016/17		2017/18
£m		£m
1.9	Parish Council Precepts	1.9
6.3	Enterprise Zone Growth Payment	2.4
49.0	Integrated Transport Authority Levy	47.7
0.3	Environment Agency Levy	0.3
-	Apprenticeship Levy	3.0
6.3	Payments re: Housing Capital Receipt Pool	6.3
148.7	(Gains)/Losses on the Disposal of non-current assets	13.9
212.5	**Total**	**75.5**

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

Note 11
Financing and Investment Income and Expenditure

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

2016/17 Gross Expenditure £m	2016/17 Income £m	2016/17 Net £m		2017/18 Gross Expenditure £m	2017/18 Income £m	2017/18 Net £m
181.3	-	181.3	Interest Payable and similar charges	179.2	-	179.2
71.9	-	71.9	Net Interest on the Net Defined Benefit Liability	73.9	-	73.9
-	(12.0)	(12.0)	Interest Receivable and similar income	-	(12.9)	(12.9)
-	-	-	Income and expenditure in relation to investment properties and changes in their fair value	-	(1.6)	(1.6)
29.8	(33.0)	(3.2)	(Surplus)/Deficit on trading operations not consolidated within Service Expenditure Analysis in Comprehensive Income and Expenditure Statement	31.1	(31.7)	(0.6)
-	(11.6)	(11.6)	Other investment income and expenditure	-	(6.1)	(6.1)
283.0	**(56.6)**	**226.4**	**Total**	**284.2**	**(52.3)**	**231.9**

Note 12
Taxation and Non Specific Grant Income and Expenditure

Taxation and Non Specific Grant Income and Expenditure disclosed in the Comprehensive Income and Expenditure statement comprises the following:

2016/17 Gross Expenditure £m	2016/17 Income £m	2016/17 Net £m		2017/18 Gross Expenditure £m	2017/18 Income £m	2017/18 Net £m
-	(289.8)	(289.8)	Council Tax Income - Collection Fund	-	(310.4)	(310.4)
-	(212.1)	(212.1)	Business Rates - Collection Fund	-	(401.7)	(401.7)
-	(3.6)	(3.6)	Share of Collection Fund - Council Tax	-	(2.0)	(2.0)
6.0	(2.6)	3.4	Share of Collection Fund - Business Rates	1.7	(23.3)	(21.6)
-	(491.0)	(491.0)	Non Ring Fenced Government Grants	-	(281.0)	(281.0)
-	(124.3)	(124.3)	Capital Grants and Contributions	-	(95.5)	(95.5)
-	-	-	Capital Grants Repaid	0.1	-	0.1
6.0	**(1,123.4)**	**(1,117.4)**	**Total**	**1.8**	**(1,113.9)**	**(1,112.1)**

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

Note 13
Trading Operations

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

The internal trading expenditure and income is incorporated within the relevant service line in the Comprehensive Income and Expenditure Statement. External trading income and expenditure is identified in Note 11, Financing and Investment Income and Expenditure. Details of units with significant trading activity are as follows.

2016/17				2017/18		
Turnover £m	Expenditure £m	(Surplus) / Deficit £m	**Trading activity**	Turnover £m	Expenditure £m	(Surplus) / Deficit £m
(42.6)	38.6	(4.0)	Cityserve (Direct Services)	(41.0)	40.3	(0.7)
(10.9)	8.9	(2.0)	Trade Refuse	(10.3)	9.1	(1.2)
(6.5)	6.3	(0.2)	Birmingham Parks and Nurseries	(6.0)	6.3	0.3
(0.7)	0.9	0.2	Pest Control	(0.6)	1.1	0.5
(2.8)	3.5	0.7	Procurement	(2.6)	3.7	1.1
(3.8)	3.2	(0.6)	Schools' Human Resources	(3.6)	3.8	0.2
(1.9)	1.9	-	Central Payroll	(1.9)	2.1	0.2
(3.1)	3.0	(0.1)	Other Trading Activities	(3.5)	3.3	(0.2)
(72.3)	**66.3**	**(6.0)**		**(69.5)**	**69.7**	**0.2**
			Allocation of Surplus/Deficit on Trading Operations			
(39.3)	36.5	(2.8)	- consolidated in CIES	(37.8)	38.6	0.8
(33.0)	29.8	(3.2)	- consolidated in Note 11, Financing and Investment Income and Expenditure	(31.7)	31.1	(0.6)
(72.3)	**66.3**	**(6.0)**		**(69.5)**	**69.7**	**0.2**

<u>Details of Trading Activities</u>

Cityserve
During 2017/18, Cityserve provided facilities management services to primary, secondary and special schools, plus community day nurseries and children's centres. The core services provided are Education Catering, Cleaning and a Mobile Building Services Supervisor (Mobile BSS) Caretaking Service.

Education Catering provides a range of services which support the nutritional wellbeing of students whilst meeting the governments 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.

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

The Mobile BSS Caretaking Service provides a range of caretaking and janitorial duties that supports schools and establishments on sickness, holiday and vacancy cover.

Trade Refuse
Trade Refuse offers a competitive waste management service to businesses and provides Containers and Skips, Prepaid Sacks, Hire of Equipment and Special Collections.

Birmingham Parks and Nurseries
Birmingham Parks and Nurseries is responsible for the maintenance of all of the Council's parks and open spaces, as well as the floral displays that have helped to promote the City over the years. In addition, it looks after all of the 'green' maintenance of Council estates, highway verges, traffic islands, schools, residential care homes, cemeteries and crematoria, playing fields, allotments and children's outdoor playgrounds.

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

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

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

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

Other
Other trading activities include Shelforce and Schools' Management. Shelforce is part of the Council's employment support services to registered disabled people and through the direct employment of registered disabled people in the manufacture of PVCu windows and doors.

Note 14
Grant Income

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

2016/17 £m		2017/18 £m
	Credited to Taxation and Non Specific Grant Income	
226.6	Revenue Support Grant	-
127.1	NNDR Top Up Grant	125.3
21.8	New Homes Bonus Grant	15.0
18.2	Schools PFI Grant	18.2
50.3	Highways Management and Maintenance PFI Grant	50.3
4.7	Troubled Families Grant	5.1
5.9	Housing Benefit Administration Grant	5.3
3.8	Discretionary Housing Payment	5.3
12.0	Education Services Grant	3.0
6.6	Small Business Rate Relief Grant	24.6
4.8	Business Rates S31 Grant	6.3
3.8	Children's Trust Grant	3.8
-	Adult Social Care Support Grant	5.6
5.4	Other	13.2
491.0	**Revenue Grants credited to Taxation and Non Specific Grant Income**	**281.0**
	Credited to Cost of Services	
10.5	Adult Education (Skills Funding Agency)	10.5
544.8	Housing Benefit Subsidy	533.7
681.1	Dedicated Schools Grant	657.2
16.7	Education Funding Agency	13.6
54.1	Pupil Premium Grant	48.0
3.1	Illegal Money Lending	3.6
10.3	Universal Infants Free School Meals Grant	9.6
11.1	NHS Clinical Commissioning Group contributions	9.7
95.6	Public Health Grant	93.2
33.8	Better Care Fund (including improved Better Care Fund)	69.1
4.5	Independent Living Fund Grant	4.3
3.2	Youth Promise	10.2
2.4	Asylum Seekers	4.5
-	Flexible Homeless Support	3.8
1.5	Enterprise Zone - Projects	3.1
2.1	Primary PE and Sport Grant	3.1
33.9	Grants and contributions of less than £3m	37.4
1,508.7	**Total Revenue Grants Credited to Cost of Services**	**1,514.6**
1,999.7	**Total Revenue Grants**	**1,795.6**

2016/17		2017/18
£m		£m
	Capital Grants	
67.5	Education Funding Agency	42.3
-	Lottery	3.2
2.5	Department of Health - Better Care Fund	4.7
5.2	Integrated Transport Block	4.9
8.1	Kickstart	-
0.3	Homes & Communities Agency - New Build Programme	4.8
7.8	Department for Transport	18.2
0.9	Homes & Communities Agency	-
2.2	Growing Places	-
13.1	Local Growth Fund	10.9
11.7	Skills Funding Agency	-
5.0	Other Grants and Contributions	6.5
124.3	**Capital Grants credited to Taxation and Non Specific Grant Income**	**95.5**
	Capital Grants funding Revenue Expenditure Under Statute credited to Cost of Services	
1.0	Education Funding Agency	-
6.3	Department of Health - Better Care Fund	6.0
0.3	Urban Broadband Grant	-
0.9	European Regional Development Fund	4.0
0.6	Other Grants and Contributions	4.6
9.1	**Total Capital Grants funding Revenue Expenditure Under Statute**	**14.6**
133.4	**Total Capital Grants Received**	**110.1**

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 2017/18. The Capital Grants received have been credited to the Taxation and Non Specific Grant Income line on the Comprehensive Income and Expenditure Statement except where the grant is used to finance Revenue Expenditure funded from Capital under Statute (REFCUS) where the grant is credited to the service line in the Comprehensive Income and Expenditure Statement.

Note 15
Dedicated Schools Grant

The Council's expenditure on schools is funded primarily by grant monies provided by the Education Funding Agency (EFA) through the Dedicated Schools Grant (DSG). An element of DSG is recouped by the EFA to fund academy schools in Birmingham. DSG is ringfenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School and Early Years Finance (England) Regulations 2017. 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 2017/18 are as follows:

	Central Expenditure	Individual Schools Budget	**Total**
	£m	£m	**£m**
Final DSG for 2017/18 before academy recoupment	114.9	1,026.2	**1,141.1**
Academy figure recouped for 2017/18	-	(483.1)	**(483.1)**
Total DSG after academy recoupment for 2017/18	**114.9**	**543.1**	**658.0**
Brought forward from 2016/17	(7.8)	-	**(7.8)**
Less: Carry forward to 2018/19 agreed in advance	-	-	**-**
Agreed initial budgeted distribution in 2017/18	**107.1**	**543.1**	**650.2**
In-year adjustments	0.4	(1.2)	**(0.8)**
Final budgeted distribution for 2017/18	**107.5**	**541.9**	**649.4**
Less: Actual Central Expenditure	(119.0)	-	**(119.0)**
Less: Actual ISB deployed to schools		(541.9)	**(541.9)**
Plus: Council contribution for 2017/18	-	-	**-**
Carry forward to 2018/19	**(11.5)**	**-**	**(11.5)**

The year end net deficit of £11.5m is composed of two elements:

- A deficit of £13.8m on the High Needs Block which reflects the demographic impact of increased numbers of placements with Special Educational Needs and Disabilities requiring high cost provision. This has been compounded by increases in the costs of provision particularly where the placements are in the independent sector. The service is looking to implement savings and efficiencies in 2018/19 and future years in order to address the deficit and forecast pressures

- A surplus of £2.3m on the Schools Block composed primarily of lower than anticipated commitments against prescribed centrally managed DSG budgets, specifically the pupil growth fund and falling pupils fund.

Note 16
Adjustments Between Accounting Basis and Funding Basis Under Regulations

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

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

<u>General Fund Balance</u>

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

<u>Housing Revenue Account Balance</u>

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

<u>Major Repairs Reserve</u>

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

<u>Capital Receipts Reserve</u>

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

<u>Capital Grants Unapplied</u>

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.

2017/18	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)	112.3	6.2	-	-	-
Financial Instruments (transferred to/from the Financial Instrument Adjustments Account)	16.7	-	-	-	-
Council Tax and Business Rates (transfers to/from the Collection Fund)	(28.6)	-	-	-	-
Holiday Pay (transferred to/from the Accumulated Absences Reserve)	(0.5)	-	-	-	-
Equal pay settlements (transferred to/from the Unequal Pay Backpay Account)	7.5	(0.9)	-	-	-
Reversal of entries included in the Surplus/Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	147.9	83.6	-	-	62.2
Total Adjustments to Revenue Resources	**255.3**	**88.9**	**-**	**-**	**62.2**
Adjustments between Revenue and Capital Resources					
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(71.7)	(59.1)	123.0	-	-
Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)	1.7	-	(1.7)	-	-
Contribution to the costs of Equal Pay (funded by the Capital Receipts Reserve)	19.0	-	(19.0)	-	-
Reclassification of grants originally treated as capital grants	2.4	-	-	-	(2.4)
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	-	(50.3)	-	50.3	-
Provision for the repayment of debt (transfer to the Capital Adjustment Account)	(29.2)	(37.9)	-	-	-
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	(6.8)	(0.3)	-	-	-
Total Adjustments between Revenue and Capital Resources	**(78.3)**	**(147.6)**	**96.0**	**50.3**	**(2.4)**
Adjustments to Capital Resources					
Use of the Capital Receipts Reserve to finance capital expenditure	-	-	(49.2)	-	-
Use of the Capital Receipts Reserve to repay debt	-	-	(10.3)	-	-
Use of the Major Repairs Reserve to finance capital expenditure	-	-	-	(60.7)	-
Application of capital grants to finance capital expenditure	-	-	-	-	(47.9)
Cash payments in relation to deferred capital receipts	-	-	5.1	-	-
Other	-	-	0.5	-	(0.1)
Total Adjustments to Capital Resources	**-**	**-**	**(53.9)**	**(60.7)**	**(48.0)**
Total Adjustments	**177.0**	**(58.7)**	**42.1**	**(10.4)**	**11.8**

2016/17	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)	34.1	0.9	-	-	-
Financial Instruments (transferred to/from the Financial Instrument Adjustments Account)	4.4	-	-	-	-
Council Tax and Business Rates (transfers to/from the Collection Fund)	(12.3)	-	-	-	-
Holiday Pay (transferred to/from the Accumulated Absences Reserve)	3.6	-	-	-	-
Equal pay settlements (transferred to/from the Unequal Pay Backpay Account)	(144.5)	(9.9)	-	-	-
Reversal of entries included in the Surplus/Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	221.7	158.6	-	-	69.1
Total Adjustments to Revenue Resources	**107.0**	**149.6**	**-**	**-**	**69.1**
Adjustments between Revenue and Capital Resources					
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(62.5)	(36.1)	88.5	-	-
Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)	0.6	-	(0.6)	-	-
Contribution to the costs of Equal Pay (funded by the Capital Receipts Reserve)	83.9	-	(83.9)	-	-
Reclassification of grants originally treated as capital grants	2.1	-	-	-	(2.1)
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	6.3	-	(6.3)	-	-
Posting of HRA resources from revenue to the Major Repairs Reserve	-	(47.5)	-	47.5	-
Provision for the repayment of debt (transfer to the Capital Adjustment Account)	(130.4)	(2.9)	-	-	-
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	(1.5)	(27.8)	-	-	-
Total Adjustments between Revenue and Capital Resources	**(101.5)**	**(114.3)**	**(2.3)**	**47.5**	**(2.1)**
Adjustments to Capital Resources					
Use of the Capital Receipts Reserve to finance capital expenditure	-	-	(32.0)	-	-
Use of the Capital Receipts Reserve to repay debt	-	-	(0.3)	-	-
Use of the Major Repairs Reserve to finance capital expenditure	-	-	-	(14.3)	-
Application of capital grants to finance capital expenditure	-	-	-	-	(44.8)
Cash payments in relation to deferred capital receipts	-	-	0.5	-	-
Other	-	-	0.3	-	-
Total Adjustments to Capital Resources	**-**	**-**	**(31.5)**	**(14.3)**	**(44.8)**
Total Adjustments	**5.5**	**35.3**	**(33.8)**	**33.2**	**22.2**

Note 17
Transfers To/(From) Earmarked Reserves

This note sets out the amounts set aside from the General Fund Balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2017/18.

	Balance at 1 April 2016	Transfers Out 2016/17	Transfers In 2016/17	**Balance at 31 March 2017**	Transfers Out 2017/18	Transfers In 2017/18	**Balance at 31 March 2018**
	£m	£m	£m	**£m**	£m	£m	**£m**
Earmarked Reserves	**187.8**	(117.4)	65.8	**136.2**	(65.2)	59.9	**130.9**
Grant Related Reserves	**137.9**	(47.1)	42.6	**133.4**	(37.0)	75.6	**172.0**
Schools' Reserves	**63.6**	(22.7)	1.6	**42.5**	(9.7)	3.0	**35.8**
General Fund Reserves	**389.3**	**(187.2)**	**110.0**	**312.1**	**(111.9)**	**138.5**	**338.7**

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

Note 18
Usable Reserves

Details of the major reserves held by the Council are set out below. Further information on the movements in reserves is shown in the Movement in Reserves Statement and Note 16. Opening balances have been restated to aggregate reserves, this does not affect the overall value of reserves.

The Reserves have been split into the major categories of reserves:

- 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 2018 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

- 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	(Restated) Balance at 31 March 2017	Transfers Out 2017/18	Transfers In 2017/18	Balance at 31 March 2018
	£m	£m	£m	£m
Unearmarked Reserves				
General Fund Balances	28.9	-	-	28.9
Carry Forward Balance	2.1	(0.3)	-	1.8
Organisation Transition Reserve	69.8	(34.0)	5.7	41.5
Financial Resilience Reserve	-	-	98.2	98.2
Total Unearmarked Reserves	**100.8**	**(34.3)**	**103.9**	**170.4**
Earmarked Reserves				
Insurance Fund	13.7	(2.5)	-	11.2
Highways PFI	5.2	-	1.2	6.4
Sums set aside to finance Capital Expenditure	49.7	(28.0)	21.6	43.3
Treasury Management	1.8	-	-	1.8
Housing Benefit Subsidy	2.7	-	1.5	4.2
Cyclical Maintenance	6.0	-	2.5	8.5
Equipment Renewal	5.0	(0.2)	0.7	5.5
Support to the Budget	0.7	-	3.0	3.7
Management Capacity for Change	7.7	(5.9)	5.0	6.8
Troubled Families	3.5	-	0.2	3.7
Children's Trust	3.4	(3.3)	1.9	2.0
Business Rates	-	-	10.6	10.6
Other Earmarked Reserves	36.8	(25.3)	11.7	23.2
Total Reserves Earmarked by the Council	**136.2**	**(65.2)**	**59.9**	**130.9**
Revenue Grant Reserves				
Section 256 Grant from the NHS	5.1	(3.9)	-	1.2
Public Health	7.2	(4.4)	-	2.8
Better Care Fund	0.2	(0.4)	21.6	21.4
Highways PFI Grant	81.8	(18.3)	36.2	99.7
Section 106 Grants	20.4	(3.7)	4.8	21.5
Non-Schools' DSG	1.3	(1.3)	2.3	2.3
Other Grant Reserves	17.4	(5.0)	10.7	23.1
Total Revenue Grant Reserves	**133.4**	**(37.0)**	**75.6**	**172.0**
Ringfenced Reserves				
Schools' Balances	42.5	(9.7)	3.0	35.8
Housing Revenue Account	4.7	-	0.1	4.8
HRA Major Repairs Reserve	39.0	(60.7)	50.3	28.6
Total Ringfenced Reserves	**86.2**	**(70.4)**	**53.4**	**69.2**

Usable Reserves	(Restated) Balance at 31 March 2017	Transfers Out 2017/18	Transfers In 2017/18	Balance at 31 March 2018
	£m	£m	£m	£m
Capital Reserves				
Capital Receipts Reserve	278.3	(86.5)	128.6	320.4
Capital Grants Unapplied	95.2	(50.4)	62.2	107.0
Total Capital Reserves	**373.5**	**(136.9)**	**190.8**	**427.4**
Total Usable Reserves	**830.1**	**(343.8)**	**483.6**	**969.9**

Details of the major usable reserves are set out below.

Unearmarked Reserves comprising:

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

Organisation Transition Reserve (OTR) - to provide a contingency against delays in the implementation of savings, and to make funding available to assist in making changes to the way services are provided and in ways which will reduce costs in the long term.

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.

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

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

Treasury Management – has been earmarked to manage uneven treasury costs arising from, for example, debt rescheduling activity or borrowing earlier than planned to take advantage of lower interest rates.

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.

Support to the Budget – has been earmarked to support the budget in 2018/19.

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

Troubled Families – to support, the delivery of specified outcomes within the Troubled Families cohort within the next two years.

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

Business Rates – An overall reserve for Business Rates related activities is required at 31 March 2018. This is required for the following reasons:

- 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.

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, replacement IT systems and repairs and maintenance for specific service chargeable buildings.

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.

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 37 schools with deficit balances totalling £11.0m and a deficit balance on the Non-Schools Dedicated Schools Grant of £13.8m 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 Regulations 2015 to maintain the Major Repairs Reserve. The reserve controls an element of the capital resources required to be used on HRA assets or for capital financing purposes.

Capital reserves comprising:

Capital Receipts Reserve – reflects the income received from the disposal of capital assets prior to being used to fund future capital expenditure or for the redemption of debt. Capital receipts cannot be used to fund revenue expenditure except where allowed by 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 19
Unusable Reserves

The following table shows the value of reserve balances that have come about as a result of accounting adjustments and are not therefore available to spend.

31 March 2017 £m		31 March 2018 £m
1,542.1	Revaluation Reserve	1,885.4
0.5	Available for Sale Financial Instruments Reserve	(0.3)
(411.9)	Capital Adjustment Account	(428.9)
(26.8)	Financial Instruments Adjustment Account	(25.9)
(2,870.7)	Pensions Reserve	(2,836.1)
39.6	Deferred Capital Receipts Reserve	41.8
(10.6)	Collection Fund Adjustment Account	18.0
(145.2)	Equal Pay Back Pay Account	(151.8)
(20.5)	Accumulated Absences Account	(19.9)
(1,903.4)	**Total Unusable Reserves**	**(1,517.7)**

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.

2016/17			2017/18	
£m	£m		£m	£m
	977.1	**Balance at 1 April**		**1,542.1**
734.6		Upward revaluation of assets	592.5	
(89.6)		Downward revaluation of assets and impairment losses not charged to the Surplus/(Deficit) on the Provision of Services	(197.3)	
	645.0	Surplus/(Deficit) on revaluation of non-current assets not posted to the Surplus/(Deficit) on the Provision of Services		395.2
(19.5)		Difference between fair value depreciation and historical cost depreciation	(19.0)	
(60.5)		Accumulated gains on assets sold or scrapped	(32.9)	
	(80.0)	Amount written off to the Capital Adjustment Account		(51.9)
	1,542.1	**Balance at 31 March**		**1,885.4**

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement when depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 16 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

2016/17 £m	2016/17 £m		2017/18 £m	2017/18 £m
	(290.7)	Balance at 1 April		**(411.9)**
		Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement (CIES):		
(214.7)		Charges for depreciation and impairment of non current assets	(137.1)	
(1.0)		Revaluation losses on Property, Plant and Equipment	5.7	
(8.3)		Amortisation and impairment of intangible assets	(8.0)	
		Changes in the Fair Value of Investment Properties	1.6	
(5.4)		Impairment of Capital Debtors/Grants	(17.7)	
(43.0)		Revenue expenditure funded from capital under statute	(60.1)	
(246.8)		Amounts of non current assets written off on disposal or sale as part of the gain/(loss) on disposal to the CIES	(143.1)	
	(519.2)			(358.7)
	80.0	Adjusting amounts written out of the Revaluation Reserve		51.9
	(439.2)	Net written out amount of the cost of non-current assets consumed in the year		(306.8)
		Capital financing applied in the year:		
32.0		Use of the Capital Receipts Reserve to finance new capital expenditure	49.2	
14.3		Use of the Major Repairs Reserve to finance new capital expenditure	60.7	
64.4		Capital grants and contributions credited to the CIES that have been applied to capital financing	47.9	
44.8		Application of grants to capital financing from the Capital Grants Unapplied Account	47.9	
0.3		Application of capital receipts to repay debt	10.3	
133.3		Provision for the financing of capital investment charged against the General Fund and HRA balances	67.1	
29.3		Capital expenditure charged against the General Fund and HRA balances	7.1	
	318.4			290.2
	-	Financing of capital grant repayment		0.1
	(0.4)	Repayment of long term debtors		(0.5)
	(411.9)	**Balance at 31 March**		**(428.9)**

Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains in accordance with statutory provisions. The Council uses this account to manage premia paid and discounts received on the early redemption of loans and the recognised losses on loans advanced at less than a commercial interest rate. These values are debited or credited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, these values are posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on Council Tax. For premia and discounts, this period is the unexpired term that was outstanding on the loans when they were redeemed.

2016/17			2017/18	
£m	£m		£m	£m
	(27.8)	**Balance at 1 April**		**(26.8)**
1.0		Proportion of premia incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	0.9	
	1.0	Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements		0.9
	(26.8)	**Balance at 31 March**		**(25.9)**

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

Generally the Pensions Reserve will match exactly the Pension Liabilities recorded on the Balance Sheet at the end of each year. However, the Council made an advance payment of £373.2m to cover its estimated contributions for the three-year period to 31 March 2020 but, as indicated above, the Council is only required to account for the amount payable in year. The difference of £248.2m between the Pensions Reserve and the Pension Liabilities at 31 March 2018 reflects the anticipated contributions in 2018/19 and 2019/20.

2016/17 £m		2017/18 £m
(2,087.7)	**Balance at 1 April**	**(2,870.7)**
(748.0)	Remeasurement of the net defined benefit liability	153.1
(149.7)	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	(259.0)
114.7	Employer's pensions contributions and direct payments to retirees payable in the year	140.5
(2,870.7)	**Balance at 31 March**	**(2,836.1)**

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.

2016/17 £m		2017/18 £m
30.0	**Balance at 1 April**	**39.6**
(0.1)	Transfer of deferred sale proceeds credited to the General Fund under capital finance regulations	(0.5)
10.1	Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	7.8
(0.4)	Transfer to the Capital Receipts Reserve upon receipt of cash	(5.1)
39.6	**Balance at 31 March**	**41.8**

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.

2016/17 £m		2017/18 £m
(22.9)	**Balance at 1 April**	**(10.6)**
12.3	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	28.6
(10.6)	**Balance at 31 March**	**18.0**

Available for Sale Financial Instruments Reserve

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

2016/17 £m		2017/18 £m
0.2	**Balance at 1 April**	**0.5**
0.7	Upward revaluation of investments	-
(0.4)	Downward revaluation of investments not charged to the Surplus/Deficit on the Provision of Services	(0.8)
0.5		**(0.3)**
-	Accumulated gains/(losses) on assets sold and maturing assets written out to the Comprehensive Income and Expenditure Statement as part of Other Investment Income	-
0.5	**Balance at 31 March**	**(0.3)**

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.

2016/17 £m		2017/18 £m
(299.6)	**Balance at 1 April**	**(145.2)**
59.9	(Increase)/reduction in provision for back pay in relation to Equal Pay cases	(26.6)
94.5	Cash settlements paid in the year	20.0
154.4	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	(6.6)
(145.2)	**Balance at 31 March**	**(151.8)**

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.

2016/17 £m		2017/18 £m
(16.9)	**Balance at 1 April**	**(20.5)**
0.6	Settlement or cancellation of accrual made at the end of the preceding year	1.1
(4.2)	Amounts accrued at the end of the current year	(0.5)
(3.6)	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	0.6
(20.5)	**Balance at 31 March**	**(19.9)**

Note 20
Pension Schemes Accounted for as Defined Contribution Schemes

Teachers' Pension Scheme

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education. The scheme provides teachers with specified benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The scheme is a multi-employer defined benefit scheme. The scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. Valuations of the notional fund are undertaken every four years.

The scheme has in excess of 3,700 participating employers and consequently the Council is not able to identify its share of the underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2017/18, the Council paid £35.0m (2016/17: £38.2m) to the Teachers' Pensions Scheme in respect of teachers' retirement benefits, representing 16.48% (2016/17 16.48%) of pensionable pay. The contributions due to be paid in the 2018/19 financial year are estimated to be £35.0m on the basis of employer contributions of 16.48%.

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

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

NHS Pension Scheme

Staff who joined the Council on 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 2017/18, the Council paid £0.15m (2016/17: £0.2m) to the NHS Pensions Scheme in respect of employees' retirement benefits, representing 14.3% (2016/17: 14.3%) of pensionable pay. The contributions due to be paid in the 2018/19 financial year are estimated to be £0.15m on the basis of an employer contribution rate of 14.38%.

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

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

Note 21
Defined Benefit Pension Schemes

Participation in Pension Schemes

As part of the terms and conditions of employment of its officers, the Council makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments, which needs to be disclosed at the time that employees earn their future entitlement.

The Council participates in two post-employment schemes accounted for as defined benefit schemes:

- The Local Government Pension Scheme, administered locally by the West Midlands Pension Fund 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 15.3% was set for the Council for 2017/18 (2016/17: 13.4%).
- 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.

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2016/17	2017/18	2016/17	2017/18
	£m	£m	£m	£m
Comprehensive Income and Expenditure Statement				
Cost of Services:				
current service cost	97.6	154.6		
past service costs	-	-		
effect of curtailments	2.9	4.1		
effect of settlements	(24.5)	24.7		
administration expenses	1.7	1.7		
Financing and investment income and expenditure:				
Net interest expense	70.3	72.8	1.6	1.1
Total post-employment benefit charged to the (Surplus)/Deficit on the provision of services	**148.0**	**257.9**	**1.6**	**1.1**
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	(39.7)	(123.4)	4.7	4.9
Net charge against the General Fund Balance for pensions in the year comprising:				
employer's contributions payable to scheme	**108.3**	**134.5**		
retirement benefits payable to retirees			**6.3**	**6.0**

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2016/17	2017/18	2016/17	2017/18
	£m	£m	£m	£m
Comprehensive Income and Expenditure Statement				
Total post-employment benefit charged to the (Surplus)/Deficit on the provision of services	148.0	257.9	1.6	1.1
Other post-employment benefit charged to the Comprehensive Income and Expenditure Statement				
remeasurements (liabilities and assets)	747.5	(162.2)	0.5	9.1
Total Post Employment Benefits charged to the Comprehensive Income and Expenditure Statement	895.5	95.7	2.1	10.2

	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m
Present Value of Liabilities					
- Local Government Pension Scheme	(4,649.9)	(5,548.6)	(5,284.8)	(6,863.0)	(6,919.7)
- Unfunded Teachers' Scheme	(67.9)	(69.3)	(68.5)	(64.2)	(68.5)
Total Present Value of Liabilities	**(4,717.8)**	**(5,617.8)**	**(5,353.3)**	**(6,927.2)**	**(6,988.2)**
Fair Value of Assets in the Local Government Pension Scheme	2,913.2	3,324.2	3,265.6	4,056.6	4,400.3
Surplus/(Deficit) in the scheme					
- Local Government Pension Scheme	(1,736.7)	(2,224.3)	(2,019.2)	(2,806.4)	(2,519.4)
- Unfunded Teachers' Scheme	(67.9)	(69.3)	(68.5)	(64.2)	(68.5)
Net Liability arising from defined benefit obligation	**(1,804.6)**	**(2,293.6)**	**(2,087.7)**	**(2,870.7)**	**(2,587.9)**

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**	
	2016/17 £m	2017/18 £m	2016/17 £m	2017/18 £m	2016/17 £m	2017/18 £m	**2016/17 £m**	**2017/18 £m**
Benefit Obligation at 1 April	5,207.6	6,793.2	77.4	69.8	68.5	64.2	**5,353.4**	**6,927.2**
Current Service Cost	97.6	154.6					**97.6**	**154.6**
Interest on Pension Liabilities	184.7	189.3	2.7	1.8	1.6	1.1	**189.0**	**192.2**
Member Contributions	27.0	26.8					**27.0**	**26.8**
Past service cost/(gain)	-							
Actuarial (gains)/losses arising from changes in financial assumptions	1,461.3	(252.7)	(4.5)	(1.2)	0.5	9.1	**1,457.3**	**(244.8)**
Curtailments	2.9	4.1					**2.9**	**4.1**
Settlements	(18.3)	134.9					**(18.3)**	**134.9**
Benefits/Transfers paid	(169.6)	(195.4)	(5.7)	(5.5)	(6.4)	(5.9)	**(181.7)**	**(206.8)**
Benefit Obligation at 31 March	**6,793.2**	**6,854.8**	**69.8**	**64.9**	**64.2**	**68.5**	6,927.2	6,988.2

Reconciliation of the Movements in the Fair Value of Scheme Assets

	Local Government Pension Scheme Funded		Local Government Pension Scheme Unfunded		Unfunded Teachers' Pension Scheme		**Total**	
	2016/17 £m	2017/18 £m	2016/17 £m	2017/18 £m	2016/17 £m	2017/18 £m	**2016/17 £m**	**2017/18 £m**
Fair Value of Assets at 1 April	3,265.6	4,056.6	-				**3,265.6**	**4,056.6**
Interest on Plan Assets	117.1	118.4	-				**117.1**	**118.4**
Remeasurements (assets)	709.3	(91.7)	-				**709.3**	**(91.7)**
Administration expenses	(1.7)	(1.8)	-				**(1.7)**	**(1.8)**
Settlements	6.2	110.1	-				**6.2**	**110.1**
Employer contributions	102.6	377.3	5.7	5.5	6.4	6.0	**114.7**	**388.8**
Member contributions	27.0	26.8	-				**27.0**	**26.8**
Benefits/transfers paid	(169.6)	(195.4)	(5.7)	(5.5)	(6.4)	(6.0)	**(181.7)**	**(206.9)**
Fair Value of Assets at 31 March	**4,056.6**	**4,400.3**	**-**	**-**	**-**	**-**	4,056.6	4,400.3

Local Government Pension Scheme assets

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

	31 March 2017				31 March 2018			
	Quoted £m	Unquoted £m	Total £m	Percentage of Total %	Quoted £m	Unquoted £m	Total £m	Percentage of Total %
Equity Instruments								
UK Quoted	337.5		337.5	8.3%	431.4		431.4	9.8%
UK Unquoted		49.1	49.1	1.2%		61.1	61.1	1.4%
Global Quoted	484.0		484.0	11.9%	417.3		417.3	9.5%
Global Unquoted		334.8	334.8	8.3%		283.9	283.9	6.5%
Europe	347.2		347.2	8.6%	382.0		382.0	8.7%
Japan	179.3		179.3	4.4%	190.9		190.9	4.3%
Pacific Basin	195.9		195.9	4.8%	196.7		196.7	4.5%
North America	380.0		380.0	9.4%	389.5		389.5	8.9%
Emerging Markets	333.6		333.6	8.2%	356.8		356.8	8.1%
Sub-total Equity	**2,257.5**	**383.9**	**2,641.4**	**65.1%**	**2,364.7**	**344.9**	**2,709.6**	**61.6%**
Bonds								
UK Government		294.8	294.8	7.3%		300.9	300.9	6.8%
Other	226.7	146.5	373.2	9.2%	198.4	208.6	406.9	9.2%
Sub-total Bonds	**226.7**	**441.3**	**668.0**	**16.5%**	**198.4**	**509.4**	**707.8**	**16.1%**
Property								
UK		215.9	215.9	5.3%		249.9	249.9	5.7%
Overseas		-	-	-%				
Property Funds		92.2	92.2	2.3%		99.4	99.4	2.3%
Sub-total Property		**308.1**	**308.1**	**7.6%**		**349.2**	**349.2**	**7.9%**
Alternatives								
Infrastructure	4.7	112.6	117.3	2.9%		182.9	182.9	4.2%
Absolute Return		207.8	207.8	5.1%		174.2	174.2	4.0%
Sub-total Alternatives	**4.7**	**320.4**	**325.1**	**8.0%**		**357.1**	**357.1**	**8.1%**
Cash								
Cash Instruments		102.8	102.8	2.5%		238.8	238.8	5.4%
Cash Accounts		11.2	11.2	0.3%		37.8	37.8	0.9%
Sub-total Cash		**114.0**	**114.0**	**2.8%**		**276.6**	**276.6**	**6.3%**
Total Assets	**2,488.9**	**1,567.7**	**4,056.6**	**100.0%**	**2,563.1**	**1,837.2**	**4,400.3**	**100.0%**

Basis for estimating assets and liabilities

Liabilities for both the Local Government Pension Scheme and the unfunded Teachers' Pension Scheme have been assessed by Barnett Waddingham Limited, an independent firm of actuaries. The assessment has been on an actuarial basis using the projected unit method, an estimate of the pensions that will have to be paid in future years dependent on assumptions about mortality rates, salary levels etc. The estimates for the Local Government Pension Scheme have been based on the latest full valuation of the scheme as at 31 March 2016. The principal assumptions used by the actuary have been:

Assumptions	Local Government Pension Scheme		Discretionary Benefits	
	2016/17	2017/18	2016/17	2017/18
Mortality assumptions:				
Longevity at 65 for current pensioners:				
Men (years)	21.8	21.9	21.8	21.9
Women (years)	24.2	24.3	24.2	24.3
Longevity at 65 for future pensioners retiring in 20 years:				
Men (years)	23.9	24.0	23.9	n/a
Women (years)	26.5	26.6	26.5	n/a
Rate of CPI inflation	2.7%	2.4%	2.2%	2.4%
Rate of increase in salaries	4.2%	3.9%	n/a	n/a
Rate of increase in pensions	2.7%	2.4%	2.2%	2.4%
Rate for discounting of scheme liabilities	2.7%	2.6%	1.8%	2.4%

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)	264.1	3.8	10.2
Pension increase assumptions (increase by 0.1%)	113.6	1.6	4.4
Salary increase assumption (increase by 0.1%)	11.5	0.2	0.5
Discount scheme liability assumptions (increase by 0.1%)	(122.1)	(1.8)	(4.8)

Impact on the Council's Cash Flows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 19 years. Funding levels are monitored on an annual basis. The next triennial valuation will be carried out as at 31 March 2019 and will set contributions for the period for 1 April 2020 to 31 March 2023.

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

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

Note 22
Property, Plant and Equipment

The following tables analyse movements in the carrying values of non-current assets during the year.

Movements in Balances: 2017/18

	Council dwellings	Other land and buildings	Vehicles, plant, furniture & equipment	Infrastructure assets	Community assets	Surplus assets	Assets under construction	Total Property, Plant and Equipment	PFI / Service Concession assets Included in Property, Plant and Equipment
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Cost or Valuation									
At 1 April 2017	**2,278.7**	**2,364.0**	**184.1**	**583.0**	**60.3**	**6.0**	**170.6**	**5,646.7**	**747.9**
Additions	94.1	33.7	5.4	39.0	1.6	-	84.3	**258.1**	51.3
Assets reclassified between categories	(3.2)	18.8	2.2	9.2	0.3	29.6	(57.9)	**(1.0)**	
Assets reclassified (to)/from Held for Sale	-	(0.8)	-	-	-	-	-	**(0.8)**	
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	(45.9)	125.7	-	-	-	103.7	-	**183.5**	9.1
Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	-	11.6	-	-	-	(7.2)	(0.3)	**4.1**	4.4
Derecognition - Disposals	(37.9)	(80.4)	(15.2)	(1.6)	-	(19.9)	-	**(155.0)**	(0.8)
Derecognition - other	(2.0)	-	-	-	-	-	-	**(2.0)**	
At 31 March 2018	**2,283.8**	**2,472.6**	**176.5**	**629.6**	**62.2**	**112.2**	**196.7**	**5,933.6**	**811.9**
Accumulated Depreciation and Impairment									
At 1 April 2017	**(124.7)**	**(26.9)**	**(69.7)**	**(89.2)**	**-**	**-**	**-**	**(310.5)**	**(93.9)**
Depreciation charge	(50.3)	(56.3)	(18.3)	(24.4)	-	(0.2)	-	**(149.5)**	(30.2)
Depreciation written out to the Revaluation Reserve	173.8	34.9	-	-	-	0.5	-	**209.2**	2.0
Depreciation written out to the Surplus/Deficit on the Provision of Services	-	12.5	-	-	-	-	-	**12.5**	0.8
Revaluation (losses)/reversals recognised in the Revaluation Reserve	-	2.6	-	-	-	-	-	**2.6**	
Impairment (losses)/reversals recognised in the Surplus/Deficit on the Provision of Services	-	1.5	-	-	-	-	-	**1.5**	
Derecognition - Disposals	1.2	3.3	14.3	1.7	-	-	-	**20.5**	0.2
Other movements in depreciation and impairment	-	0.3	-	-	-	(0.3)	-	**(0.0)**	
At 31 March 2018	**0.0**	**(28.1)**	**(73.7)**	**(111.9)**	**-**	**-**	**-**	**(213.7)**	**(121.1)**
Net Book Value									
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**
At 31 March 2017	**2,154.0**	**2,337.1**	**114.4**	**493.8**	**60.3**	**6.0**	**170.6**	**5,336.3**	**654.0**

Movements in Balances: 2016/17

	Council dwellings	Other land and buildings	Vehicles, plant, furniture & equipment	Infrastructure assets	Community assets	Surplus assets	Assets under construction	Total Property, Plant and Equipment	PFI / Service Concession assets Included in Property, Plant and Equipment
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Cost or Valuation									
At 1 April 2016	**1,778.0**	**2,407.4**	**198.4**	**541.0**	**92.7**	**7.4**	**110.2**	**5,135.1**	**725.8**
Additions	95.9	60.6	6.9	38.1	0.6	-	100.1	**302.2**	43.6
Assets reclassified between categories	-	34.6	0.4	3.9	0.7	-	(39.6)	**-**	
Assets reclassified (to)/from Held for Sale	-	(6.8)	-	-	-	(1.6)	-	**(8.4)**	
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	437.7	48.3	-	-	-	0.3	-	**486.3**	(6.9)
Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	-	(0.6)	-	-	-	-	(0.1)	**(0.7)**	2.9
Derecognition - Disposals	(31.4)	(179.5)	(21.6)	-	(33.7)	(0.1)	-	**(266.3)**	(17.5)
Derecognition - other	(1.5)	-	-	-	-	-	-	**(1.5)**	
At 31 March 2017	**2,278.7**	**2,364.0**	**184.1**	**583.0**	**60.3**	**6.0**	**170.6**	**5,646.7**	**747.9**
Accumulated Depreciation and Impairment									
At 1 April 2016	**(111.1)**	**(32.1)**	**(70.2)**	**(66.4)**	**-**	**-**	**-**	**(279.8)**	**(68.3)**
Depreciation charge	(47.5)	(56.4)	(20.4)	(22.8)	-	(0.1)	-	**(147.2)**	(29.0)
Depreciation written out to the Revaluation Reserve	111.1	37.7	-	-	-	-	-	**148.8**	2.0
Depreciation written out to the Surplus/Deficit on the Provision of Services	-	10.1	-	-	-	-	-	**10.1**	0.8
Revaluation (losses)/reversals recognised in the Revaluation Reserve	-	8.1	-	-	-	0.1	-	**8.2**	
Impairment (losses)/reversals recognised in the Surplus/Deficit on the Provision of Services	(77.2)	-	-	-	-	-	-	**(77.2)**	
Derecognition - Disposals	-	4.3	20.9	-	-	-	-	**25.2**	0.6
Assets reclassified (to)/from Held for Sale	-	1.4	-	-	-	-	-	**1.4**	
At 31 March 2017	**(124.7)**	**(26.9)**	**(69.7)**	**(89.2)**	**-**	**-**	**-**	**(310.5)**	**(93.9)**
Net Book Value									
At 31 March 2017	**2,154.0**	**2,337.1**	**114.4**	**493.8**	**60.3**	**6.0**	**170.6**	**5,336.3**	**654.0**
At 31 March 2016	**1,666.9**	**2,375.3**	**128.2**	**474.6**	**92.7**	**7.4**	**110.2**	**4,855.3**	**657.5**

Revaluations

Operational (other than Housing)
The Council carries out valuations of its property assets over a five year cycle and reviews those assets that are not in the valuation cycle for the year to ensure that carrying values remain materially correct at the Balance Sheet date. Azmat Mir, Member of the Royal Institution of Chartered Surveyors (MRICS), Head of Property Consultancy and other similarly qualified staff within the Council's Property Services section carried out the valuations. A Valuation Certificate was issued on 30 May 2018 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 2017, with a review of any significant changes to assets during the year to ensure that any material changes in asset values at the Balance Sheet date were identified. The review concluded that, for assets valued at Depreciated Replacement Cost (DRC), there had been a significant increase in building costs during the year to 31 March 2018. As a result, the valuations reflect these higher building costs. During the annual revaluation exercise material assets were componentised in line with the accounting policy.

In light of the identified increase in building costs used to inform DRC valuations, a review was undertaken to assess the impact on the value of those assets not subject to revaluation in 2017/18. 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 2018.

Housing
The Council's housing stock was valued as at 1 April 2017 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 2017/18 of 40% (2016/17: 40%).

There has been no identified impairment in HRA asset values in 2017/18. HRA dwellings have seen a net increase in value of £129.8m since 2016/17. Details are included in Notes H1 and H3 of the Supplementary Statements.

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

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

Surplus Assets
A small number of assets have been deemed surplus to the requirement of the Council but do not yet meet the criteria to be classified as Assets Held for Sale. As such they have been reclassified as surplus assets, and revalued at 31 March 2018 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 2017 Fair Value £m	31 March 2018 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.	6.0	112.2

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					62.2		196.7	**258.9**
Carried at Depreciated Historical Cost			126.1	629.6				**755.7**
Valued at current value as at:								
31 March 2018	2,283.8	1,523.9				112.2		**3,919.9**
31 March 2017		270.7						**270.7**
31 March 2016		269.3						**269.3**
31 March 2015		275.0	50.4					**325.4**
31 March 2014		133.7						**133.7**
Total cost or valuation	**2,283.8**	**2,472.6**	**176.5**	**629.6**	**62.2**	**112.2**	**196.7**	**5,933.6**

Capital Commitments

At 31 March 2018, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2018/19 and future years budgeted to cost £1,001.1m. Similar contracts at 31 March 2017 were £1,115.9m. The major commitments are:

	£m
PFI Lifecycle Costs	588.8
HRA New Build & Investment	168.2
Additional School Places	52.4
Revenue Reform Projects	41.9
Birmingham Cycle Routes	24.8
Clean Air Hydro Bus	12.3
Iron Lane Highway Improvements	12.0
Paradise Circus Enterprise Zone	11.3
Selly Oak Highway Widening	8.8
Equity Fund	8.3
Swimming Pools – New Build	7.4
Unlocking Housing Sites	6.1
Ashted Circus	5.7
East Aston Regional Investment Sites	5.5
Magnolia House	5.5
Battery Way Extension	5.0
Other Projects <£5m	37.1
Total Capital Commitments	**1,001.1**

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 2017/18 the amount of borrowing costs capitalised during the period was £3.6m (2016/17: £2.7m). 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 4.32% in 2017/18 (2016/17: 4.76%). For 2017/18, interest capitalised by scheme was as follows:

	£m
Enterprise Zone	2.3
Wholesale Market	1.3

Note 23
Heritage Assets

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

Heritage Assets held by the Council:

	Museum Collections	Historic Buildings	Public Art	Libraries and Archive collections	Civic Regalia and Plate	Total Assets
	£m	£m	£m	£m	£m	£m
01 April 2016						
- At Cost	3.7	11.1	0.5	-	-	15.3
- At Valuation	214.3	-	-	18.4	1.8	234.5
Additions	0.2	-	-	-	-	0.2
Revaluations	1.5	-	-	-	-	1.5
31 March 2017	**219.7**	**11.1**	**0.5**	**18.4**	**1.8**	**251.5**
- At Cost	*3.9*	*11.1*	*0.5*	*-*		*15.5*
- At Valuation	*215.8*	*-*	*-*	*18.4*	*1.8*	*236.0*
31 March 2017	***219.7***	***11.1***	***0.5***	***18.4***	***1.8***	***251.5***
01 April 2017						
- At Cost	3.9	11.1	0.5	-	-	15.5
- At Valuation	215.8	-	-	18.4	1.8	236.0
Additions	0.1	-	-	-	-	0.1
31 March 2018	**219.8**	**11.1**	**0.5**	**18.4**	**1.8**	**251.6**
- At Cost	*3.9*	*11.1*	*0.5*	*-*		*15.5*
- At Valuation	*215.9*	*-*	*-*	*18.4*	*1.8*	*236.1*
31 March 2018	***219.8***	***11.1***	***0.5***	***18.4***	***1.8***	***251.6***

The Council has significant collections of assets that contribute towards the rich and diverse heritage of the City, reflecting two thousand years of historic development, across Museums, historic buildings, Public Art, Libraries and Civic collections.

Where historical cost information is available, the Council has used this when compiling the balance sheet; otherwise insurance valuations have been used, where applicable. Where there is evidence of a movement in valuations as a result of material acquisitions or disposals, or a significant movement in comparable market values, a revaluation will be considered.

Museum Collections

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

Saxon gold and silver metalwork yet found. There are significant exhibits and artwork comprising the Permanent Collection on display in community museums, for example Aston Hall and Soho House, together with items held in storage at the Museum's Collection Centre. In addition there is a collection of Boulton silverware, a set of 24 pieces in silver jointly owned by the Council and the Birmingham Assay Office.

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 including those of pioneers Francis Frith and Sir Benjamin Stone. The Council also holds over 6,000 archive collections including major collections of national importance, such as those relating to the industrial innovators James Watt and Matthew Boulton. In addition there are significant collections of early and fine printing, incorporating over 8,000 books printed before 1701, and an extensive collection of literature and rare books, including Audobon's 19th Century work, The Birds of America, and one of the world's most comprehensive Shakespeare collections.

Civic Regalia and Plate

The Council owns in excess of 230 items of civic regalia and plate, kept either on display, in storage or used on ceremonial and other formal occasions. There is a large variety of items within the collection, the main ones being the Mayoral Chains of Office and Mace, which was cast in silver, in the late 19th Century, by Elkington and Co.

The Council has developed a Heritage Strategy, which provides a framework and context for how it preserves, manages, interprets and promotes the Council's Heritage Assets, and how they are taken forward during the 21st Century. This is supported by a more detailed collecting policy within the Museums service, which informs the Council's policy on acquisition, management and disposal, together with Documentation and Conservation policies, which 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 24
Intangible Assets

The Council accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant, Furniture and Equipment.

The carrying amount of intangible assets is amortised on a straight-line basis over a five year period, which is deemed to be the period that intangible assets are expected to be of use to the Council.

The movement on intangible asset balances during the year is as follows:

	2016/17			2017/18		
	Internally Generated Assets	Other Assets	Total	Internally Generated Assets	Other Assets	Total
	£m	£m	£m	£m	£m	£m
Balance at start of year:						
- Gross carrying amounts	-	41.6	41.6	-	43.3	43.3
- Accumulated amortisation	-	(16.1)	(16.1)	-	(23.6)	(23.6)
Net carrying amount at start of year	**-**	**25.5**	**25.5**	**-**	**19.7**	**19.7**
Additions:						
- Internal development	-	2.4	2.4	-	1.0	1.0
Assets reclassified between asset categories	-	-	-	-	1.0	1.0
Other disposals	-	(0.8)	(0.8)	-	(3.9)	(3.9)
Amortisation for the period	-	(8.3)	(8.3)	-	(8.0)	(8.0)
Amortisation written out for disposals/transfers	-	0.8	0.8	-	3.9	3.9
Other changes	-	0.1	0.1	-	-	-
Net carrying amount at end of year	**-**	**19.7**	**19.7**	**-**	**13.7**	**13.7**
Comprising:						
Gross carrying amounts	-	43.3	43.3	-	41.4	41.4
Accumulated amortisation	-	(23.6)	(23.6)	-	(27.7)	(27.7)
	-	**19.7**	**19.7**	**-**	**13.7**	**13.7**

Note 25
Long Term Investments

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

31 March 2017 £m		31 March 2018 £m
26.4	Investment in Subsidiary and Associated Companies	35.8
6.8	Available for Sale Financial Assets	5.8
0.3	Unquoted Equity Investment at Cost	0.1
33.5	**Total**	**41.7**

Note 26
Long Term Debtors

The table below shows amounts owed to the Council that are due for payment more than 12 months after the Balance Sheet date. These balances have been split by type of debt.

31 March 2017 £m		31 March 2018 £m
55.0	External Loans	88.8
0.9	Employee Loans	1.0
0.3	Mortgages: former Council House Tenants	0.3
36.7	Other Debtors	36.1
92.9	**Total**	**126.2**

Note 27
Short Term Investments

Details of the amounts invested by the Council that are due for repayment within 12 months of the Balance Sheet date are detailed below.

31 March 2017 £m		31 March 2018 £m
18.5	Money Market Funds	60.0
15.1	Financial Institutions	12.6
33.6	**Total**	**72.6**

Note 28
Assets Held for Sale

The table below details the value of assets whose carrying amount will be recovered principally through a sale transaction rather than through their continuing use.

	Current	
	2016/17	2017/18
	£m	£m
Balance outstanding at start of year	**4.2**	**6.6**
Assets newly classified as held for sale:		
- Property, Plant and Equipment	7.0	0.8
Impairments (losses)/reversals	(0.4)	-
Assets sold	(4.1)	(6.5)
Other Movements	(0.1)	-
Balance outstanding at year end	**6.6**	**0.9**

In 2017/18, two assets have been reclassified as held for sale, with disposal expected in 2018/19

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

- The Council values a number of assets at ‘fair value’. The size of a receipt from the sale of an asset is heavily dependent on how much the market is willing to pay for a particular asset at any one time and this can fluctuate
- In line with the Code, the Council values some of its assets at Depreciated Replacement Cost (DRC). This includes those associated with the entities that are consolidated into the Group Accounts. Typically, where assets are valued at DRC it is likely that the asset values in the accounts will be higher than those the open market is willing to pay.

The potential difference in values cannot be quantified as those assets which may be disposed of may change and a ‘fair’ market valuation cannot be quantified with any accuracy. Given the size of the assets on the Council’s Balance Sheet the sale of a small percentage of these could still result in a material difference.

Note 29
Short Term Debtors

The table below shows the amounts owed to the council at the end of the year that are due for payment within 12 months. The increase in debts associated with other entities and individuals is mainly as a result of the Council's participation in the 100% Local Business Rates Retention Pilot. Under the Pilot, the Council retains 99% of the Business Rates it collects rather than the 49% it retained under the previous arrangements. As a result, the Council now recognises 99% of amounts owed in respect of Business Rates rather than 49%. The amounts owed have been analysed by type of debtor.

31 March 2017		31 March 2018
£m		£m
66.4	Central government bodies	78.4
7.2	Other local authorities	12.0
5.1	NHS bodies	6.0
6.7	Public corporations and trading funds	3.2
190.7	Other entities and individuals	229.8
276.1	**Total**	**329.4**

Note 30
Cash and Cash Equivalents

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

31 March 2017		31 March 2018
£m		£m
2.9	Cash held by the Council	3.3
42.5	Bank current accounts	52.2
(13.5)	Bank Overdrafts	(35.4)
31.9	**Total**	**20.1**

Note 31
Short Term Creditors

The table below shows amounts owed by the Council at the end of the year that are due for payment within 12 months. The amounts due have been analysed by type of creditor.

31 March 2017		31 March 2018
£m		£m
(36.3)	Central government bodies	(28.6)
(6.3)	Other local authorities	(11.3)
(3.5)	NHS bodies	(2.0)
(99.9)	Public corporations and trading funds	(63.7)
(217.5)	Other entities and individuals	(228.1)
(363.5)	**Total**	**(333.7)**

Note 32
Provisions

The following table shows the value of the Council's liabilities that will probably result in a transfer of economic benefits in line with the Accounting Policy for Provisions:

Balance at 1 April 2016		**Balance at 1 April 2017**	Additional provisions made in 2017/18	Amounts used in 2017/18	Unused amounts reversed in 2017/18	**Balance at 31 March 2018**
£m		£m	£m	£m	£m	£m
	Short Term					
258.0	Equal Pay	145.2	34.2	(19.9)	(7.7)	**151.8**
16.1	Business Rates Appeals	16.8	34.8	(28.8)	-	**22.8**
-	Pension Guarantees	3.5	1.6	-	(3.5)	**1.6**
9.2	Other Provisions	7.4	8.8	(2.0)	(2.3)	**11.9**
283.3	**Total**	**172.9**	**79.4**	**(50.7)**	**(13.5)**	**188.1**
	Long Term					
52.1	Equal Pay	-	-	-	-	**-**
8.7	Business Rates Appeals	9.0	3.3	-	-	**12.3**
7.6	Pension Guarantees	21.0	11.2	-	(21.0)	**11.2**
68.4	**Total**	**30.0**	**14.5**	**-**	**(21.0)**	**23.5**

Equal Pay

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

The Council has received a number of valid equal pay claims and, as a result, has set aside a provision of £151.8m (2016/17: £145.2m) in respect of outstanding claims as at 28 February 2018. The provision will be subject to review during the period of the audit. Furthermore, a significant proportion of claims remain to be settled or challenged.

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 its long term financial plan, Council Plan and Budget 2018+.

Business Rates Appeals

As a result of the change in the funding of Local Government in 2013/14, local authorities have assumed part of the liability for refunding Business Rates payers who have successfully appealed against the rateable value of their properties in the rating list. This liability includes amounts that were collected in respect of both the current year and prior years.

The Council, as Billing Authority, is required to make a provision for this liability on behalf of the major preceptors and itself. From 1 April 2017, the Council became part of a 100% Local Business Rates Retention Pilot. Under the pilot, the Council retains 99% of the Business Rates it collects including 99% of any amounts due to be collected in future. The other 1% is retained by the West Midlands Fire and Rescue Authority (WMFRA). Prior to 1 April 2017, the Council's share of Business Rates was 49% with 1% due to WMFRA and the remaining 50% being due to Central Government. Under the pilot, the Council has assumed responsibility to pay for 99% of backdated appeals, including those prior to 1 April 2017.

These accounts include a provision of £35.1m representing 99% of the total provision (2016/17: £25.8m – representing 49% 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 2018. 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).

The Secretary of State for Communities and Local Government issued regulations allowing Local Authorities to spread the impact of accounting for their share of the backdated element of the appeals provision, based on the assessment made in 2013/14, up to a maximum of five years. The Council has opted to use this regulatory mitigation to spread the impact of the liability. 2017/18 is the final year.

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 £12.8m 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 £6.7m in 2017/18.

Equal Pay Legal Costs

The Council has set aside a provision for legal costs associated with the handling or defending of Equal Pay claims. The provision will be used when legal fees are agreed for each case and may be subject to assessment; the timing of which is uncertain. It is anticipated that this provision will be utilised fully by 31 March 2019.

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. The Council has set aside a provision in its 2017/18 accounts of £1.1m in respect of potential payments relating to sleep-in allowances.

The Carbon Reduction Commitment

In 2018/19 the Council will have to purchase allowances as a result of mandatory participation in the Government’s Carbon Reduction Commitment Energy Efficiency scheme (CRCEES). The quantity of allowances that will be purchased is dependent on the amount of energy used in properties that the Council occupied in 2017/18. In line with the recommended treatment by CIPFA, a provision for this cost has been made in the 2017/18 accounts based on the estimated energy consumed in 2017/18.

Note 33
Contingent Liabilities and Contingent Assets

<u>Contingent Liabilities</u>
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 2018 as £431.2m and has identified future commitments of £32.6m.

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 2018 as £513.6m and has identified future expenditure commitments of £503.9m.

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 2017/18 is still being considered by the Department for Work and Pensions. There may be clawback of subsidy from the Council, above the level provided for in the accounts, which would reduce the level of benefit income shown and also reduce the General Fund balance carried forward.

3. Under the 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 £151.8m (31 March 2017: £145.2m) which incorporates all claims received and negotiations agreed to 28 February 2018.

   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 Council Plan and Budget 2018+, which recognises the impact of future spending and funding requirements. The Council also has the ability to use capital receipts generated between 1 April 2013 and 31 March 2018 to meet the costs of equal pay.

4. The Council is facing a number of compensation claims from former employees for employment related and current health issues, from people who attended Council schools and from other service users. Currently the validity of any outstanding claims is being assessed.

5. The Council 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 £6.7m in 2017/18 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 2016/17 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. 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 Local Government Pension Scheme. Where the Council has an expectation that there will be a call on the guarantee, provision has been made as detailed in Note 32. However, there may be further calls on guarantees which will need to be considered in the future.

9. The Council, as with other care providers/commissioners, has an increased 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. The current case law is complex and is subject to appeal. It is, therefore, not possible to quantify fully the Council's potential exposure to this risk.

Contingent Assets

At 31 March 2018 the Council has identified the following material contingent assets.

1. The Council has been undertaking a review of its major contracts. It has identified that there have been payments made not in accordance with its interpretation of the full terms and conditions of the associated contracts. Through discussions with the relevant contractors, the Council has made a substantial recovery against one contract and is pursuing legal action to recover overpayments in other contracts.

Given the current status of these discussions and their sensitivity, the Council does not consider that further disclosure would be in its best interests at this time.

2. When disposing of non-current assets which may be the subject of further development by the purchaser, the Council may include clauses within the disposal agreement that require the purchaser to make additional payments to the Council depending on the outcome of the development. The Council has included such clauses in the agreement for the disposal of a number of developments and anticipates generating additional capital receipts in future years.

   Due to the commercially sensitive nature of the agreements, detailed information on further anticipated receipts has not been disclosed.

Note 34
Council Borrowing

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

2016/17			2017/18	
Long Term £m	Short Term £m		Long Term £m	Short Term £m
90.5	78.1	Lender’s Option Borrower’s Option (LOBO) loans	0.4	163.9
444.5	6.5	Local Bonds	483.0	7.3
2,195.9	69.7	Public Works Loan Board	2,200.9	75.8
-	359.3	Other Borrowing (mainly Other Local Authorities)	55.7	552.8
2,730.9	**513.6**	**Total**	**2,740.0**	**799.8**

Note 35
Cash Flow Statement - Operating Activities

The cash flows from operating activities include the following items:

2016/17		2017/18
£m		£m
(12.0)	Interest received	(12.9)
181.3	Interest paid	179.2
(11.6)	Dividends received	(6.1)
157.7		**160.2**

Note 36
Cash Flow Statement - Investing Activities

The cash flows from investing activities include the following:

2016/17 £m		2017/18 £m
(278.3)	Purchase of property, plant and equipment, investment property and intangible assets	(256.3)
(1,929.3)	Purchase of short-term and long-term investments	(1,643.4)
89.1	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	128.0
1,954.5	Proceeds from short-term and long-term investments	1,604.4
0.3	Other receipts from investing activities	0.4
(163.7)	**Net cash flows from investing activities**	**(166.9)**

Note 37
Cash Flow Statement - Financing Activities

The cash flows from financing activities include the following:

2016/17 £m		2017/18 £m
124.3	Other receipts from financing activities	95.5
825.0	Cash receipts of short-term and long-term borrowing	1,558.6
(44.0)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(46.0)
(782.0)	Repayments of short-term and long-term borrowing	(1,271.4)
16.5	Other payments for financing activities	-
139.8	**Net cash flows from financing activities**	**336.7**

Note 38
Cash Flow Statement – Other Adjustments

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

2016/17 £m		2017/18 £m
147.2	Depreciation/Impairment charge	149.5
8.3	Amortisation of Intangible Assets	8.0
0.3	Derecognition of Available for Sale Assets	17.6
68.5	Revaluation of Non-Current Assets	(19.7)
246.9	Derecognition of Non-Current Assets	143.1
(6.0)	(Increase)/Decrease in Debtors	(86.7)
30.6	Increase/(Decrease) in Creditors	(26.2)
(148.7)	Increase/(Decrease) in Provisions	8.6
35.0	Pensions Liability	(129.7)
382.1	**Net Cash Flow - Other Adjustments**	**64.5**

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

2016/17 £m		2017/18 £m
(124.3)	Capital Grants	(95.5)
(89.4)	Capital Receipts	(128.6)
(16.5)	Council Tax and Business Rates Adjustments	-
(230.2)		**(224.1)**

Note 39
Financial Instruments

Categories of Financial Instruments

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

	Long Term		Current	
	31 March 2017 £m	31 March 2018 £m	31 March 2017 £m	31 March 2018 £m
Investments				
Loans and receivables	-	-	33.6	72.6
Available-for-sale financial assets	6.8	5.8	-	-
Unquoted equity investment at cost	0.3	0.1	-	-
Financial assets at fair value through profit and loss	-	-	-	-
Total	**7.1**	**5.9**	**33.6**	**72.6**
Investments that are not financial instruments	26.4	35.8	-	-
Total investments	**33.5**	**41.7**	**33.6**	**72.6**
Debtors				
Loans and receivables	55.8	88.9	11.1	14.6
Financial assets carried at contract amounts	-	-	186.0	206.8
Total	**55.8**	**88.9**	**197.1**	**221.4**
Debtors that are not financial instruments	37.1	37.3	79.0	108.0
Total debtors	**92.9**	**126.2**	**276.1**	**329.4**
Cash				
Loans and receivables			45.4	55.5
Total cash: asset			**45.4**	**55.5**
Financial liabilities at amortised cost			(13.5)	(35.4)
Total cash: liability			**(13.5)**	**(35.4)**
Borrowings				
Financial liabilities at amortised cost	(2,730.9)	(2,740.0)	(513.6)	(799.8)
Financial liabilities at fair value through profit and loss	-	-	-	-
Total	**(2,730.9)**	**(2,740.0)**	**(513.6)**	**(799.8)**
Borrowings that are not financial instruments	-	-	-	-
Total borrowings	**(2,730.9)**	**(2,740.0)**	**(513.6)**	**(799.8)**
Other Long Term Liabilities				
PFI and finance lease liabilities	(423.2)	(405.6)		
Total	**(423.2)**	**(405.6)**		
Transferred Debt	(61.6)	(56.4)		
Total long term liabilities	**(484.8)**	**(462.0)**		
Creditors				
Financial liabilities at amortised cost	-	-	-	-
Financial liabilities carried at contract amount	-	-	(280.7)	(241.8)
Total	**-**	**-**	**(280.7)**	**(241.8)**
Creditors that are not financial instruments	-	(1.5)	(82.8)	(91.9)
Total creditors	**-**	**(1.5)**	**(363.5)**	**(333.7)**

Material Soft Loans Made by the Council

The Council has made the following material soft loans:

Warwickshire County Cricket Club was granted a loan of £20m in 2009 to support the major ground refurbishment undertaken. The loan is deemed to be a material soft loan and is carried in the accounts at £17.3m, paying a fixed interest rate of 5%. During the development phase of the project, interest was rolled up in the loan. In 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. Interest payments have resumed and a bullet principal payment is due in March 2020. All interest on the deferred payments is rolled up and the term of the loan has been extended to 2045.

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

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

	2016/17 £m	2017/18 £m
Opening balance at 1 April	**17.7**	**17.8**
Nominal value of new loans granted in year	-	-
Fair value adjustment on initial recognition	-	-
Loans repaid	(0.1)	(0.1)
(Increase)/Reduction in discount	0.2	0.2
Closing Balance at 31 March	**17.8**	**17.9**
Nominal value at 31 March	22.4	22.3

Valuation Assumptions

The interest rate at which the fair value of soft loans has been made at recognition is arrived at by taking the Council's prevailing cost of borrowing and adding an allowance for the risk that the loan might not be repaid.

Income, Expenses, Gains and Losses

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments are shown in the following table:

	2016/17				2017/18			
	Financial Liabilities measured at amortised cost	Financial Assets:Loans and Receivables	Financial Assets: Available for Sale	**Total**	Financial Liabilities measured at amortised cost	Financial Assets:Loans and Receivables	Financial Assets: Available for Sale	**Total**
	£m	£m	£m	**£m**	£m	£m	£m	**£m**
Interest Expense	181.3			**181.3**	179.2			**179.2**
Total expense in (Surplus)/Deficit on the Provision of Services	**181.3**			**181.3**	**179.2**			**179.2**
Interest and Dividend Income		(12.0)	(11.6)	**(23.6)**		(12.9)	(6.1)	**(19.0)**
Total income in (Surplus)/Deficit on the Provision of Services		**(12.0)**	**(11.6)**	**(23.6)**		**(12.9)**	**(6.1)**	**(19.0)**
(Gains)/Losses on Revaluation			(0.3)	(0.3)			0.8	0.8
(Surplus)/Deficit arising on revaluation of financial assets in Other Comprehensive Income and Expenditure			**(0.3)**	**(0.3)**			**0.8**	**0.8**
Net (gain)/loss for the year	**181.3**	**(12.0)**	**(11.9)**	**157.4**	**179.2**	**(12.9)**	**(5.3)**	**161.0**

Fair Value of Financial Instruments

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 2017		31 March 2018	
			Carrying Amount £m	Fair Value £m	Carrying Amount £m	Fair Value £m
Public Works Loan Board (PWLB)	Level 2	PWLB new loan at certainty rate based on published PWLB rates	2,265.6	3,105.1	2,276.8	3,069.2
Bonds		An estimate of the rate payable for a new loan on the same terms, based on published gilt yields	450.8	576.4	490.3	620.5
Other Market Loans - LOBOs			168.5	275.5	164.3	297.1
Other Market Loans -Quasi Loans			0.2	0.2	0.2	0.2
Other Long Term Loans - PETPS			-	-	13.9	14.3
Other Long Term Loans - Local Authorities		Market indicative interest rates	-	-	45.3	44.9
Other Long Term Liabilities (PFI/ leasing)		PWLB new loan at certainty rate based on published PWLB rates	436.4	733.9	417.9	679.4
Other Long Term Liabilities (Transferred Debt)*		An estimate of the rate payable for a new loan on the same terms	48.4	59.2	44.1	51.0
Other Market Loans - Short Term	N/A	Fair value is approximated at their carrying amount	359.3	359.3	549.0	549.0
Short term creditors (including PFI/finance leases/operating lease/transferred debt)	N/A	Fair value is approximated at their carrying amount	280.7	280.7	241.8	241.8
TOTAL			**4,009.9**	**5,390.3**	**4,243.6**	**5,567.4**

**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.*

Financial Assets	Input level in Fair Value Hierarchy	Valuation inputs and assumptions used to measure Fair Value	31 March 2017		31 March 2018	
			Carrying Amount £m	Fair Value £m	Carrying Amount £m	Fair Value £m
Available-for-sale financial assets	Level 3	Based on company performance	6.8	6.8	15.3	15.3
Unquoted equity investment at cost	Level 2	Valued at cost until reliable fair value can be established	0.3	0.3	0.1	0.1
Long Term Debtors (Loans and receivables)	Level 2	An estimate of the rate payable for a new loan on the same terms, based on published PWLB rates	55.8	58.6	88.9	89.1
Investments (Loans and receivables)	N/A	Fair value is approximated at their carrying amount	33.6	33.6	72.6	72.6
Short Term Debtors (Loans and receivables)	N/A	Fair value is approximated at their carrying amount	11.1	11.2	14.6	14.6
Financial assets carried at contract amounts	N/A	Fair value is approximated at their carrying amount	186.0	186.0	206.8	206.8
TOTAL			**293.6**	**296.5**	**398.3**	**398.5**

The fair value of the liabilities and assets at 31 March 2018 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 2018) 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 2018) attributable to the commitment to receive interest below current market rates.

PWLB Loans

The fair value of Public Works Loan Board (PWLB) loans, with a carrying value of £2,276.8m, 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 £2,276.8m would be valued at £3,069.2m. 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 £3,580.3m.

Note 40
Nature and Extent of Risks Arising from Financial Instruments

The Council's activities expose it to a variety of risks relating to its financial instruments, including:

- Credit risk – the possibility that other parties might fail to pay amounts due to the Council;
- Liquidity risk – the possibility that the Council may not have funds available to meet its payment commitments;
- Market risk – the possibility of financial loss due to changes in interest rates and market prices.

These risks are mainly managed by a central Treasury Management Team in accordance with policies and approvals set by the Council in its annual Budget Report, Treasury Management Strategy, and Treasury Management Practices in particular. The Council complies with CIPFA's Code of Practice for Treasury Management in the Public Services and the Prudential Code for Capital Finance in Local Authorities, both of which regulate the use of financial instruments and establish a treasury risk management framework.

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers.

This risk is measured and managed primarily through the investment policies and strategy in the approved Budget, which requires that deposits are made in accordance with approved credit criteria and limits, including minimum credit ratings as follows:

'Specified' short term investments (all in Sterling)	Short term rating*	Long term rating*	Council individual lending limit
Banks (including overseas banks) and Building Societies	F1+ /A1+ /P1	AA- /AA- /Aa3	£25m
	F1+ /A1+ /P1	A- / A- /A3	£20m
	F1 /A1 /P1	A- / A- /A3	£15m
	F2 /A2 /P2	BBB+ /BBB+ /Baa1	£10m
Sterling commercial paper and corporate bonds	F1+ /A1+ /P1	A- / A- /A3	£15m
Sterling Money Market Funds (short term and Enhanced)	AAA (with volatility rating V1 /S1 /MR1 where applicable)		£40m
Local authorities	n/a	n/a	£25m
UK Government and supranational bonds	n/a	n/a	none
UK Nationalised Banks and Government controlled agencies	n/a	n/a	£25m
Secured investments including repo and covered bonds	Lending limits determined as for banks (above) using the rating of the individual investment		

* Fitch / S&P / 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.

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

The Council will not invest more than £600m in long term investments as follows:

- Government stocks (or “Gilts”) and other supranational bonds, with a maturity of less than five years.
- Corporate Bonds, Certificates of Deposit (CD) or Commercial Paper (CP) with a maturity of less than three years, subject to a long term credit rating of not less than AA (in addition to the restrictions in the table above). CD or CP shall not exceed 25% of long-term investments (i.e. those maturing in one year or more).

The Council also uses information from a variety of other sources in reaching a view about the suitability of particular investments.

The Council also makes a variety of investments in support of its service objectives. These investments are not subject to the above credit quality requirements, but are individually appraised and approved in relation to their support for service outcomes as well as their financial consequences and risks.

The Council’s maximum exposure to credit risk, in relation to its investments in financial institutions, cannot be assessed generally, as the risk of any institution failing to make due payments will be specific to each individual institution. In relation to the Council’s outstanding treasury deposits with financial institutions, local authorities and other institutions, no such deposits have defaulted in the year or are impaired. A risk of irrecoverability applies to all deposits, but there was no evidence at 31 March 2018 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 2017 £m	31 March 2018 £m
Less than 1 year	(890.6)	(1,168.9)
Between 1 and 2 years	(159.5)	(105.7)
Between 2 and 5 years	(187.8)	(204.8)
Between 5 and 20 years	(1,394.5)	(1,464.4)
Between 20 and 40 years	(1,173.8)	(1,188.6)
Over 40 years	(300.1)	(240.0)
Total	**(4,106.3)**	**(4,372.4)**

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

Market Risk

Interest rate risk

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

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

- Borrowings at variable rates – the interest expense charged to the Surplus/(Deficit) on the Provision of Services will rise
- Borrowings at fixed rates – the fair value of the liabilities 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 2018, 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	5.5
Increase in interest receivable on variable rate investments	(0.9)
Impact on Surplus/(Deficit) on the Provision of Services	4.6
Share of overall impact charged to the HRA	0.9
Decrease in fair value of fixed rate investment assets	2.2
Decrease in fair value of fixed rate borrowings liabilities (no impact on the Surplus/(Deficit) on the Provision of Services or Other Comprehensive Income and Expenditure)	(540.5)

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 2018.

Price Risk

The Council's holdings of shares are all unquoted shares held primarily to support service objectives rather than as financial investments. The financial value of these shares will vary according to general market conditions and the particular circumstances of the share issuers. Active prices for these investments are not available.

Note 41
Capital Expenditure and Capital Financing

The Council's capital expenditure on an accruals basis, analysed between types of asset, is summarised below. This also includes revenue expenditure funded from capital under statute.

	31 March 2017	31 March 2018
	£m	£m
Opening Capital Financing Requirement	**4,523.2**	**4,568.8**
Capital Investment		
Property, Plant and Equipment	302.3	257.1
Heritage Assets	0.2	0.1
Intangible Assets	2.4	2.0
Revenue Expenditure funded from Capital under Statute	33.4	42.6
Secretary of State Direction - Flexible use of Capital Receipts	9.6	17.5
Capital Grant Repayment	-	0.1
Long Term Loans	14.7	45.9
Increase in Share Equity	1.3	26.7
Sources of Finance		
Capital Receipts	(32.0)	(49.2)
Government Grants and other Contributions	(109.1)	(95.7)
Sums set aside from Revenue:		
- Direct Revenue Contributions	(29.3)	(7.1)
- Use of Major Repairs Reserve	(14.3)	(60.7)
- Minimum Revenue Provision	(133.3)	(67.1)
- Capital Receipts set aside for debt redemption	(0.3)	(10.3)
Closing Capital Financing Requirement	**4,568.8**	**4,670.7**
Explanation of Movements in Year		
Increase in underlying need to borrow	17.6	73.1
Assets acquired under finance leases	1.0	0.9
Assets acquired under PFI contracts	27.0	27.9
Increase/(decrease) in Capital Financing Requirement	**45.6**	**101.9**
Movement in Year	**45.6**	**101.9**

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

Note 42
Leases

The Council has a significant number of leases, as summarised below.

Council as the lessee

Finance leases
The Council has acquired a number of buildings and other assets under finance leases. The assets acquired under these leases are carried in the Balance Sheet at the following net amounts.

31 March 2017 £m		31 March 2018 £m
20.0	Other Land and Buildings	19.6
3.1	Vehicles, Plant Furniture & Equipment	2.7
23.1	**Total**	**22.3**

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 2017 £m		31 March 2018 £m
	Finance lease liabilities (net present value of minimum lease payments):	
1.0	- current (not later than 1 year)	0.9
1.4	- non-current (later than 1 year)	1.3
1.8	Finance costs payable in future years	1.7
4.2	**Minimum Lease Payments**	**3.9**

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

	Minimum lease payments		Finance lease liabilities	
	31 March 2017	31 March 2018	31 March 2017	31 March 2018
	£m	£m	£m	£m
Not later than 1 year	1.2	1.1	1.0	0.9
Later than 1 year and not later than 5 years	1.5	1.4	1.3	1.2
Later than 5 years	1.5	1.4	0.1	0.1
Total	**4.2**	**3.9**	**2.4**	**2.2**

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 2017/18 contingent rents of £0.1m were payable (2016/17: £0.1m).

The Council has not sublet any of the assets held under these finance leases.

Operating leases

The Council has acquired a number of administrative buildings under operating leases. The future minimum lease payments due under non-cancellable leases where the length of lease was greater than 1 year at inception are:

31 March 2017 £m		31 March 2018 £m
0.5	Not later than 1 year	0.5
0.7	Later than 1 year and not later than 5 years	0.7
1.5	Later than 5 years	1.4
2.7	**Total**	**2.6**

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 2017 £m		31 March 2018 £m
0.5	Minimum lease payments	0.5
0.1	Contingent rents	0.1
0.6	**Total**	**0.6**

<u>Council as the lessor</u>

Finance leases

The Council has leased out property to a number of parties on finance leases. The Council has a gross investment in the lease, made up of the minimum lease payments expected to be received over the remaining term and the residual value anticipated for the property when the lease comes to an end. The minimum lease payments comprise settlement of the long-term debtor for the interest in the property acquired by the lessee, and finance income that will be earned by the Council in future years whilst the debtor remains outstanding. The gross investment is made up of the following amounts:

31 March 2017 £m		31 March 2018 £m
	Finance lease debtor (net present value of minimum lease payments):	
-	- current (not later than 1 year)	-
28.7	- non-current (later than 1 year)	30.9
192.7	Unearned finance income	192.3
(29.0)	Less – Unguaranteed residual value of property	(29.2)
192.4	**Gross investment in the lease**	**194.0**

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 2017	31 March 2018	31 March 2017	31 March 2018
	£m	£m	£m	£m
Not later than 1 year	-	0.2	1.7	2.1
Later than 1 year and not later than 5 years	0.1	2.0	6.5	8.7
Later than 5 years	28.6	28.7	184.2	183.2
Total	**28.7**	**30.9**	**192.4**	**194.0**

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 2017/18 £1.3m contingent rents were receivable by the Council (2016/17 £1.2m).

Operating leases

The Council has leased out property to a number of parties as operating leases.

The future minimum lease payments receivable under non-cancellable leases where the length of lease was greater than 1 year at inception are:

31 March 2017		31 March 2018
£m		£m
11.4	Not later than 1 year	10.7
28.0	Later than 1 year and not later than 5 years	26.9
77.2	Later than 5 years	75.7
116.6	**Total**	**113.3**

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2017/18 £2.7m contingent rents were receivable by the Council (2016/17 £3.0m).

Leases - contingent rent

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

Note 43
Service Concession Arrangements

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

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

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

- Schools. There are four separate arrangements in place for the rebuild / refurbishment and management of a total of 26 schools within Birmingham. These arrangements are of varying duration and service providers: 10 schools from 2001/02 (for 32 years), 11 schools from 2004/05 (for 35 years), four schools from 2011/12 (for 25 years) and a single secondary school from 2013/14 ending 2038/39. The service provider is paid a Unitary Charge monthly for the duration of the contracts, with indexation applied annually as per the terms of each contract. Within each contract the Council retains both the schools' assets and the liability for future contract commitments in the Balance Sheet, with the exception of when schools gain Academy status. There are a number of PFI managed schools that have gained Academy status, a total of eight schools to date across the four separate school PFI contracts. Whilst the assets no longer belong to the Council and are thus removed from the Balance Sheet, the ongoing liability remains as a Council responsibility.

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

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

  Indexation is applied annually on 1 April by reference to movements in the Retail Price Index. Deductions can be levied for non-performance of the contractual deliverables as specified within the contract. As the size and scale of the highway network varies, the contract provides for these changes to be accrued into the network maintained by the Service Provider, attracting an increase/decrease in payments made as appropriate.

  The Council continues to have full use of the roads and roadside furniture during the period of the arrangement, at the end of which all rights revert to the Council. There are no early terminations or period clauses within the PFI arrangement. There have been no changes in the arrangement during 2017/18.

Payments remaining as at 31 March 2018	Interest	Repayment of liability	Payment for services	**Total**
	£m	£m	£m	**£m**
Payable in 2018/19	33.0	17.6	76.1	**126.7**
Payable within 2 to 5 years	121.7	53.2	173.7	**348.6**
Payable within 6 to 10 years	122.9	100.4	251.7	**475.0**
Payable within 11 to 15 years	76.6	134.6	295.0	**506.2**
Payable within 16 to 20 years	19.7	107.7	155.2	**282.6**
Payable within 21 to 25 years	0.7	8.3	9.1	**18.1**
Total	**374.6**	**421.8**	**960.8**	**1,757.2**

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:

2016/17		2017/18
£m		£m
457.0	**Liability outstanding at the start of the year**	**439.9**
(44.1)	Repayment of liability	(46.0)
27.0	Lifecycle and further capital expenditure	27.9
439.9	**Liability outstanding at the year end**	**421.8**

In 2017/18 £27.1m of the costs incurred in respect of lifecycle and further capital expenditure relates to the continuing upgrade of the city's highway infrastructure, with the remainder incurred on minor enhancements to schools' PFI projects.

Contingent rents, charged to the CIES, as a result of the impact of inflation total £5.4m (2016/17: £4.2m). The outstanding liability identified does not include the impact of future contingent rent.

Note 44
Members' Allowances

Allowances paid to Members of the Council in 2017/18 totalled £2.5m (2016/17: £2.5m). These figures include Members' allowances and expenses. Further information can be found on the Council's website.

Note 45
Officers' Remuneration

The remuneration paid to or receivable by the Council's senior employees is detailed in the table below.

		Salary, fees and allowances	Compensation for loss of office	Expense allowances	Pension contributions	Total
		£	£	£	£	£
S Manzie CBE, Interim Chief Executive[(1)]	2016/17	-	-	-	-	-
	2017/18	192,668	-	-	28,167	220,835
A Probert, Chief Operating Officer, Strategic Services[(2)]	2016/17	139,516	-	-	18,695	158,211
	2017/18	146,131	-	-	22,358	168,489
P Hay, Strategic Director, People[(3)]	2016/17	155,018	190,909	7,200	20,772	373,899
	2017/18	69,005	-	-	7,985	76,990
J Kennedy, Corporate Director, Place	2016/17	144,684	-	-	19,388	164,072
	2017/18	151,359	-	-	23,158	174,517
W Nazir, Corporate Director, Economy	2016/17	139,516	-	-	18,695	158,211
	2017/18	146,131	-	-	22,358	168,489
P Dransfield, Strategic Director – Major Programmes and Projects, Corporate Resources[(4)]	2016/17	155,018	-	-	20,772	175,790
	2017/18	41,751	83,300	420	319,304	444,775
C Heaphy, Corporate Director, Finance and Governance [(5)]	2016/17	-	-	-	-	-
	2017/18	41,429	-	-	-	41,429
M O'Donnell, Interim Chief Finance Officer [(6)]	2016/17	-	-	-	-	-
	2017/18	-	-	-	-	-
Dr G Betts, Corporate Director, Adult Social Care and Health[(7)]	2016/17	-	-	-	-	-
	2017/18	77,966	-	-	-	77,966
C Diamond CBE, Corporate Director, Children and Young People[(8)]	2016/17	-	-	-	-	-
	2017/18	92,960	-	-	-	92,960
A Couldrick, Chief Executive, Birmingham Children's Trust[(9)]	2016/17	-	-	-	-	-
	2017/18	95,617	-	-	14,629	110,246
Dr A Phillips, Director of Public Health	2016/17	124,076	-	-	17,743	141,819
	2017/18	125,128	-	-	17,993	143,121

		Salary, fees and allowances	Compensation for loss of office	Expense allowances	Pension contributions	Total
		£	£	£	£	£
J Tew, Assistant Chief Executive(10)	2016/17	-	-	-	-	-
	2017/18	28,441	-	-	4,351	32,792
Assistant Chief Executive(11)	2016/17	83,446	-	-	11,182	94,628
	2017/18	23,336	-	-	3,570	26,906

Notes:

(1) Stella Manzie CBE, was Interim Chief Executive from 5 April 2017 to 31 March 2018.

(2) Angela Probert, Chief Operating Officer, Strategic Services was Acting Chief Executive and Head of Paid Service with effect from 1 March 2017 to 4 April 2017.

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

(4) Paul Dransfield, Strategic Director – Major Programmes and Projects, Corporate Resources retired from the Council on 31 July 2017

(5) Clive Heaphy, Corporate Director, Finance and Governance and Section 151 Officer took up his post with effect from 3 January 2018

(6) Mike O'Donnell took up post as Interim Chief Finance Officer and Section 151 Officer with effect from 27 March 2017 until 31 December 2017. Mike was seconded to the Council from the London Borough of Camden for four days each week. Payments due to the London Borough of Camden in respect of the arrangement were £144,742 in 2017/18, (2016/17: £6,400).

(7) Dr Graeme Betts, Corporate Director, Adult Social Care and Health was initially employed through an agency, the costs of which were £153,738 in 2017/18. Graeme transferred to the Council payroll as an employee on 5 October 2017.

(8) Colin Diamond CBE, Corporate Director, Children and Young People was initially employed as a contractor, the costs of which were £66,000 in 2017/18. Colin transferred to the Council payroll as an employee on 1 September 2017.

(9) Andy Couldrick took up post of Chief Executive of Birmingham Children's Trust on 14 August 2017. The Trust, which is independent of the Council, is responsible for the provision of children's care services from 1 April 2018.

(10) Jonathan Tew, Assistant Chief Executive took up his post on 2 January 2018.

(11) The Assistant Chief Executive left her post on 10 July 2017.

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. However, staff within Voluntary Aided and Foundation schools are employed by the governing body of the school and have therefore been excluded from the table below.

2016/17 Teaching Staff & Staff in Schools No	2016/17 Other Council Employees No	2016/17 **Total No**	Remuneration band	2017/18 Teaching Staff & Staff in Schools No	2017/18 Other Council Employees No	2017/18 **Total No**
160	242	**402**	£50,000 - £54,999	158	291	**449**
103	62	**165**	£55,000 - £59,999	107	85	**192**
61	61	**122**	£60,000 - £64,999	67	55	**122**
63	67	**130**	£65,000 - £69,999	41	48	**89**
31	13	**44**	£70,000 - £74,999	42	46	**88**
15	13	**28**	£75,000 - £79,999	16	8	**24**
11	6	**17**	£80,000 - £84,999	15	13	**28**
7	12	**19**	£85,000 - £89,999	5	12	**17**
7	10	**17**	£90,000 - £94,999	3	9	**12**
5	6	**11**	£95,000 - £99,999	6	5	**11**
2	2	**4**	£100,000 - £104,999	1	8	**9**
1	1	**2**	£105,000 - £109,999	1	3	**4**
-	-	**-**	£110,000 - £114,999	-	4	**4**
-	-	**-**	£115,000 - £119,999	-	1	**1**
1	4	**5**	£120,000 +	-	5	**5**
467	**499**	**966**		**462**	**593**	**1,055**

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

The 'Other Council Employees' figures in the above table include employees with planned termination payments, 113 in 2017/18 (49 in 2016/17). Excluding employees in receipt of planned termination payments, 480 employees in 2017/18 (450 in 2016/17) 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 147 in 2017/18 (2016/17: 176).

Note 46
Exit Packages

The costs of exit packages are amounts payable as a result of either the Council's decision to terminate an employee's employment before the normal retirement date, or an employee's decision to accept voluntary redundancy in exchange for those benefits. The following table provides information on the number of exit packages payable by the Council for the year, with total cost per band and total cost of both compulsory and other redundancies.

2016/17							2017/18					
Compulsory		Voluntary		**Total**		Value of individual package	Compulsory		Voluntary		**Total**	
No	£m	No	£m	**No**	**£m**	£000	No	£m	No	£m	**No**	**£m**
-	-	2	0.7	**2**	**0.7**	£250+	-	-	3	1.1	**3**	**1.1**
-	-	1	0.2	**1**	**0.2**	£200 - £250	-	-	3	0.7	**3**	**0.7**
2	0.4	7	1.2	**9**	**1.6**	£150 - £200	1	0.2	11	1.8	**12**	**2.0**
2	0.2	18	2.2	**20**	**2.4**	£100 - £150	-	-	50	6.0	**50**	**6.0**
1	0.1	14	1.2	**15**	**1.3**	£80 - £100	3	0.3	31	2.7	**34**	**3.0**
4	0.3	15	1.0	**19**	**1.3**	£60 - £80	3	0.2	28	2.0	**31**	**2.2**
-	-	22	1.1	**22**	**1.1**	£40 - £60	3	0.1	49	2.4	**52**	**2.5**
7	0.2	66	1.8	**73**	**2.0**	£20 - £40	18	0.5	202	5.5	**220**	**6.0**
56	0.3	340	2.3	**396**	**2.6**	less than £20	113	0.8	516	4.4	**629**	**5.2**
72	**1.5**	**485**	**11.7**	**557**	**13.2**	**Total**	**141**	**2.1**	**893**	**26.6**	**1,034**	**28.7**

In addition to the costs of exit packages identified above, the Council incurred costs of £0.2m in 2017/18 (£0.2m in 2016/17) relating to the provision of transitional support and training to employees whose further employment was considered to be at risk.

Exit packages include the costs of compulsory and voluntary redundancy, pension fund strain payments and other departure costs.

Note 47
Auditor Remuneration

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

2016/17 £m		2017/18 £m
0.3	Fees payable to Grant Thornton UK LLP with regard to external audit services carried out by the appointed auditor for the year	0.3
0.1	Fees payable to Grant Thornton UK LLP for the certification of grant claims and returns for the year	0.1
0.4	**Total**	**0.4**

Note 48
Related Parties

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

Central Government

Central Government has effective control over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (for example, Council Tax bills, Business Rates, Housing Benefits). Grants received from Government departments are set out in Note 14. Grant receipts outstanding at 31 March 2018 are included in the balances within Note 29.

Members

Members of the Council have direct control over the Council's financial and operational policies. The total of Members' allowances paid in 2017/18 is shown in Note 44.

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.

Greater Birmingham and Solihull Business Rates Pooling Arrangement

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

The Council entered into a pooled budget arrangement in 2013/14 with seven other local authorities including acting as intermediary between the authorities and government in respect of top-up/tariff payments, as detailed in the table below, following the introduction of the Business Rates Retention Scheme. This arrangement has continued in 2017/18. The objective of the Pool is to adopt a strategic approach to promoting growth and job creation that supports the Greater Birmingham and Solihull Local Enterprise Partnership's Strategy for Growth, which includes:

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

The funding provided to the pooled budget includes tariff payments that would otherwise have been paid to the Government. The expenditure met from the budget paid to the Council includes an element of its top-up payments that it would otherwise have received from the Government. The table below, which has been restated for 2016/17 to include the residual top-up from Central Government, summarises the financial activity for the year.

	2016/17 (Restated) £m	2017/18 £m
Funding provided to the pooled budget		
Birmingham City Council	-	-
Bromsgrove District Council	9.5	7.9
Cannock Chase District Council	11.0	9.3
East Staffordshire Borough Council	19.5	18.3
Lichfield District Council	11.8	11.8
Redditch Borough Council	12.6	10.4
Solihull Metropolitan Borough Council	26.7	57.8
Tamworth Borough Council	11.1	10.6
Central Government – Top-up (Residual)	27.7	2.3
	129.9	**128.4**
Expenditure met from the pooled budget		
Birmingham City Council	127.3	123.7
Bromsgrove District Council	0.1	0.1
Cannock Chase District Council	0.1	0.2
East Staffordshire Borough Council	0.2	0.2
Lichfield District Council	0.2	0.2
Redditch Borough Council	0.1	0.0
Solihull Metropolitan Borough Council	0.2	0.7
Tamworth Borough Council	0.1	0.3
GBS LEP	1.1	2.0
Safety Net Contingency	0.5	1.0
	129.9	**128.4**

The information in the table above is based on information available at the time of compiling the 2017/18 Statement of Accounts. On finalisation of the business rates income (post audit), it is possible that there may be a change to income to be re-allocated, but this is not expected to be of a material nature overall.

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

Other Public Bodies

Pooled Budgets

The Council is in a pooled budget arrangement with the Clinical Commissioning Groups (CCGs) covering the Birmingham area, namely, Birmingham Cross City CCG, Birmingham South Central CCG and Sandwell and West Birmingham CCG. The pooled budget is responsible for the joint commissioning of services relating to Mental Health and Learning Disabilities. The objective of the pooled arrangement is to improve services for users through closer working and co-operation in the commissioning of services. The arrangements have been established pursuant to Section 75 of the NHS Act 2006 and related Regulations with the Council hosting the Learning Disability element and the combined CCGs hosting Mental Health Services provision. The table below summarises the financial activity for the year.

	2016/17		2017/18	
	£m	£m	£m	£m
Funding provided to the pooled budget				
Birmingham City Council	101.2		113.7	
Combined Clinical Commissioning Groups	167.1		174.7	
		268.3		**288.4**
Expenditure met from the pooled budget				
Birmingham City Council	101.2		113.7	
Combined Clinical Commissioning Groups	167.1		174.7	
		268.3		**288.4**
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.

In 2017/18 the improved Better Care Fund (iBCF) was implemented. This was introduced in two statements, the first – iBCF1 in November 2016 and the second - iBCF2 in Spring 2017. The Section 31 Grant received by local authorities, was to be included in the BCF Pool. For Birmingham this was an increase in funds of £33.8m.

The Council endorsed the principle of a BCF joint pooled budget for Older Adult Social Care and Health integrated provision between the Council and local CCGs, namely Birmingham Cross City CCG, Birmingham South Central CCG and Sandwell and West Birmingham CCG. Joint proposals were developed during 2014/15 for implementation from 1 April 2015, which included the Council acting as host for the BCF.

In 2017/18 funding of £86.5m (2016/17: £79.3m) 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	2016/17 £m	2017/18 £m
Birmingham Cross City CCG	50.4	55.9
Birmingham South Central CCG	17.9	19.1
Sandwell and West Birmingham CCG	11.0	11.5
NHS Contribution	**79.3**	**86.5**
Birmingham City Council	13.9	11.5
iBCF Section 31 Grant		33.8
Total BCF Pooled Fund	**93.2**	**131.8**

The BCF will be used to fund a number of schemes as identified in the agreed joint plan. The management arrangements for the individual projects will be dependent on the services being provided and will include:

- Sole control of the activities by CCGs;
- Sole control of the activities by the Council;
- Joint control of the activities with CCGs or the Council acting as host;
- Lead commissioning by CCGs or the Council on behalf of the other organisations.

Details of the specific projects are set out below.

Service Provision	Budgeted Activity 2016/17 £m	2017/18 £m	Nature of Arrangement
Bed Based Additional Provision	1.7	1.5	Lead Commissioning – Council
Social Care Based Additional Provision	2.1	4.9	Sole Control – Council
Reablement – Kenrick Centre	-	1.5	Sole Control – Council
Care Act	3.0	3.0	Lead Commissioning – Council
Carers Strategy	1.2	1.0	Joint Control
Eligibility Criteria	20.5	20.8	Sole Control – Council
Acuity Tool Management	0.4	-	Joint Control
CUR Implementation Team	0.2	0.1	Joint Control
Recovery Team Implementation	0.2	-	Joint Control
Management of Programme	0.6	0.4	Joint Control
Community Services	43.0	45.6	Sole Control – CCGs
Reablement – Rapid Assessment, Interface and Discharge	1.7	1.7	Sole Control – CCGs
Dementia	-	2.6	Sole Control – CCGs
Assertive Outreach	-	0.2	Sole Control – CCGs
Non Elective Admissions (reduction)	6.6	-	Sole Control – CCGs
Equipment Contracts	6.0	4.7	Lead Commissioning – Council
Disabled Facilities Grant and Capital	8.8	9.7	Sole Control – Council
Non-recurring Pump Priming Schemes	3.8	0.2	Joint Control
Contingency	(0.1)	0.1	Joint Control
	99.7	**98.0**	
Balance of funding	0.1	-	
iBCF	-	33.8	Sole Control – Council
Total BCF	**99.8**	**131.8**	

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.

Other Related Parties

During 2017/18 payments, to the value of £338.4m, inclusive of VAT, were payable to related parties of which £24.8m remained outstanding at 31 March 2018. Additionally £71.2m inclusive of VAT, was receivable during 2017/18 from companies in which the Council had a related party interest of which £27.3m remained outstanding at 31 March 2018. 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 2018 are: assets of £41.7m of investments, £78.1m of loans (of which £68.7m is repayable after 31 March 2019) and £7.6m of leases; liabilities of £85.5m of funding guarantee (NEC Developments Plc) and £13.8m of borrowing (of which £10.5m is repayable after 31 March 2019.

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 2017/18.

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

			Loans Council as Grantor		Council Assets at year end	Council Liabilities at year end
	Exp.	Income	Granted	Repaid		
	£m	£m	£m	£m	£m	£m
Acivico Limited	28.3	2.9	25.1	13.5	14.1	7.0
Birmingham City Propco Limited	-	-	20.2	-	20.2	-
Innovation Birmingham Limited	0.6	0.7	0.2	-	16.2	-
InReach (Birmingham) Limited	-	0.5	9.3	-	11.5	0.4
National Exhibition Centre (Developments) Plc	5.6	-	-	0.2	0.4	85.7
PETPS (Birmingham) Limited	-	-	-	-	-	-
PETPS (Birmingham) Pension Funding Scottish Limited Partnership	3.9	-	-	-	-	14.2

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

	Exp.	Income	Council Assets at year end	Council Liabilities at year end
	£m	£m	£m	£m
Birmingham Airport Holdings Limited (BAH)	-	9.5	2.2	-
Paradise Circus General Partner Limited	13.9	1.2	0.5	-
Service Birmingham Limited (to 31.12.2017)	64.4	9.5	-	-

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 2017/18

Birmingham Business Support Centre Limited	Creative Advantage West Midlands Limited
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*	Performances (Birmingham) Limited*

<u>Entities where the Council has some influence</u>

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 2017/18.

Ascarii Limited	Frontier Development Capital Limited
Ascension Ventures	Goodfish Limited
Aston Eyetech Limited	Icknield Port Loop LLP
Auctus*	Inceptum Development Limited
Big Button	Info-Ctrl Limited
Birmingham LEP Company (also known as Birmingham Lend Lease Partnership)*	Learning Labs Limited
Birmingham Research Park Ltd*	Midlands Industrial Association Ltd
Birmingham Schools SPC Holdings Phase 1A Limited	Mutt Motorcycles Limited
Birmingham Schools SPC Phase 1A Limited*	Natural HR Limited
Birmingham Schools SPC Holdings Phase 1B Limited	Obillex Limited
Birmingham Schools SPC Phase 1B Limited*	Opinsta Limited
Birmingham Wholesale Market Company Limited*	Owned It
Bridge Street Management Ltd	Pure Business ServicesLimited
Central Technology Belt	Stockfield Community Association
Crowd Technologies	Stockfield Community Association (Subsidiary) Ltd
CSR City Limited	UK Municipal Bonds Agency Plc
Droplet Online	Veolia Environmental Services Birmingham Ltd*
Ex Cathedra	Vision Technologies
Finds You	West Midlands Growth Company Limited*
Foodient T/A Whisk	Wetakestock Limited
Formatzone 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 2017/18.

Acocks Green Primary School Academy*
Alston Primary School Academy*
Ark Tindal Primary School Academy*
Bartley Green School Academy*
Birmingham Asian Resource Centre
Birmingham Citizens Advice Bureau Service Ltd*
Birmingham Disability Resource Centre*
Birmingham Opera Company
Birmingham Repertory Theatre*
Birmingham Royal Ballet*
Birmingham Settlement Ltd
Birmingham Voluntary Service Council
Bournville College*
Bournville School*
Castle Vale Neighbourhood Partnership Board
City of Birmingham Symphony Orchestra*
Cockshut Hill Technology College Academy*
Dance Xchange*
Greater Birmingham and Solihull LEP Ltd.
Greenholm Primary School Academy
Heathfield Primary School Academy*
Heart Of England NHS FT
Joseph Chamberlain College*
King Edward VI Academy Trust*
Leigh Primary School Academy*
Midlands Arts Centre*
Millennium Point Property Ltd*
Millennium Point Trust
Prince Albert Primary School Academy*
St Basils*
St. Paul's Community Development Trust*
Shenley School Academy*
Tile Cross Academy School*
Warren Farm Primary School Academy*
Warwickshire County Cricket Club*
West Midlands Ambulance Service
West Midlands Combined Authority*
West Midlands Fire and Rescue Authority
Wilson Stuart School Academy*
Witton Lodge Community Association Ltd*
Wyndcliffe Primary School*

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 2017/18.

Acocks Green Village BID*
Colmore Business District BID*
Erdington Town Centre Partnership
Jewellery Quarter Development Trust CIC
Kings Heath BID
Northfield Town Centre BID
Retail Birmingham Limited*
Soho Road BID
Southside BID*
Sutton Coldfield Town Centre BID*
Westside Partnership Limited*

Tenant Management Organisations (TMO) – The Council, whilst not having shareholding, entitlement to returns, nor board representation, does still hold significant influence over these bodies. Those highlighted with an asterisk had transactions with the Council in excess of £0.1m in 2017/18.

Bloomsbury Estate Management Board*
Four Towers TMO*
Holly Rise Housing Co-operative
Manor Close Residents' Management Organisation*
Roman Way Estate Community Interest Company*

Other Related Parties

In addition to the companies where the Council has influence through its share ownership or representation on the board, set out above, the Council has had transactions of over £100,000 within 2017/18 with the following organisations which fall within the definition of related parties:

Anthony Collins Solicitors
Birmingham and Solihull Mental Health Trust
Birmingham and Solihull Women's Aid
Birmingham Community Healthcare Trust
Birmingham YMCA
Camden London Borough Council
Focus Birmingham
Highclare Independent School
Leigh Trust
Norton Hall Children and Family Centre
Sandwell and West Birmingham Hospitals NHST
Shencare Community Transport Trust
Sir Josiah Mason Trust
South and City College (Birmingham) Limited
Thompsons Solicitors
University Hospital Birmingham Foundation Trust
Yardley Great Trust

The value of transactions for other, non-consolidated, related parties, individually less than £100,000 within 2017/18 was net expenditure of £0.6m (£1.1m expenditure and £0.5m income).

Note 49
The Council Acting as Agent

The Council acts as an intermediary in its role as agent for a number of external bodies. The Council processes transactions through its financial ledger but does not include them in its financial statements as there is no exposure to significant risk or reward associated with the transactions. Details of the major activities where the Council acts as agent are detailed below:

Agency Role	No	Level of Reserve	Gross Expenditure
		£m	£m
Provision of External Payrolls	122	-	294.4
Accountable Body	29	197.9	199.6
Business Rate Pooling	8	2.0	128.4
Arrangements supporting Housing activities	5	3.1	0.5
Reporting of Trust activities	20	24.6	0.4
Subsidiary Companies	3	31.0	-
Other transactions	7	-	0.9

External Payrolls

The Council provides payroll services to a number of external organisations, including Academy Schools and Colleges of Further Education, using capacity within its payroll system. Whilst the cost of providing the service is charged to the external organisation and forms part of the CIES, the payroll records for the external organisations do not form part of the Council's financial statements.

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.

Business Rate Pooling

Details of the Greater Birmingham and Solihull Business Rates Pooling Arrangement are set out in Note 48 to these financial statements.

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.

<u>Subsidiary Companies</u>

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.

<u>Other</u>

The Council provides accountancy support to:

- a number of National and Regional bodies, collecting contributions and making payments on their behalf
- receiving and making payments in respect of service users who require support in managing their resources.

Note 50
Trust Funds

The Council administers a number of trust funds which have been established from donations and bequests made to it to meet a variety of objectives and purposes. The total funds held at 31 March 2018 was £28.8m (2016/17: £28.6m). In addition, the Council held £2.1m (2016/17: £3.2m) of Adult Services Clients' Funds. The trust funds and clients' funds do not represent assets of the Council and have not been included in the Consolidated Balance Sheet. The major trust funds are detailed below.

	Balance at 31 March 2017	Income	Expenditure	Balance at 31 March 2018
	£m	£m	£m	£m
Council acting as Sole Trustee				
Birmingham Municipal Charity - general charitable objectives	0.4	0.3	-	0.7
Charles Baker Trust – for the elderly and disabled	0.3	-	-	0.3
Cropwood Estate – management of the estate	14.8	-	-	14.8
Elford Trust – healthy recreation for Birmingham citizens	3.5	-	-	3.5
Harriet Louisa Loxton Charity – for the aged and infirm	1.8	-	-	1.8
Highbury Trust – for the benefit of the citizens of Birmingham	2.0	0.1	0.1	2.0
Total Council acting as Sole Trustee	**22.8**	**0.4**	**0.1**	**23.1**
Council acting as Custodian				
Alderson – to let dwelling houses to ex-servicemen and other persons in need	0.4	0.1	0.1	0.4
Bodenham Trust – for children with special educational needs	0.7	-	-	0.7
Clara Martineau Trust – for children with special educational needs	4.0	0.1	-	4.1
Holinsworth Fund – to further the work of voluntary bodies	0.2	-	0.2	-
The Lord Mayor's Charity Appeal – for charitable purposes	0.1	0.1	0.1	0.1
Moseley Road Friends Institute – provision and maintenance	0.2	0.1	0.1	0.2
Other	0.2	0.1	0.1	0.2
Total Council acting as Custodian	**5.8**	**0.5**	**0.6**	**5.7**
Total Trust Balances	**28.6**	**0.9**	**0.7**	**28.8**

Analysis of the assets of the main funds:

	Restricted Funds at 31 March 2018	Unrestricted Funds at 31 March 2018	Total Funds at 31 March 2018
	£m	£m	£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	14.3	14.8
Elford Trust – healthy recreation for Birmingham citizens	3.3	0.2	3.5
Harriet Louisa Loxton Charity – for the aged and infirm	1.6	0.2	1.8
Highbury Trust – for the benefit of the citizens of Birmingham	2.0	-	2.0
Total Council acting as Sole Trustee	**8.2**	**14.9**	**23.1**
Council acting as Custodian			
Alderson – to let dwelling houses to ex-servicemen and other persons in need	-	0.4	0.4
Bodenham Trust – for children with special educational needs	0.7	-	0.7
Clara Martineau Trust – for children with special educational needs	4.1	-	4.1
Holinsworth Fund – to further the work of voluntary bodies	-	-	-
The Lord Mayor's Charity Appeal – for charitable purposes	-	0.1	0.1
Moseley Road Friends Institute – provision and maintenance	0.2	-	0.2
Other	0.1	0.1	0.2
Total Council acting as Custodian	**5.1**	**0.6**	**5.7**
Total Assets	**13.3**	**15.5**	**28.8**

SUPPLEMENTARY FINANCIAL STATEMENTS 2017/18

Housing Revenue Account - Income and Expenditure Statement

The Housing Revenue Account (HRA) reflects a statutory obligation to maintain a revenue account for local Council housing provision in accordance with Part 6 of the Local Government and Housing Act 1989. The Account is required to be self-financing and cannot subsidise or be subsidised by the General Fund. The HRA Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. The Council charges rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the Movement on the HRA Statement.

The detailed income and expenditure for 2016/17 has been restated to reflect the impairment of HRA assets that was previously incorrectly allocated against General Fund balances. This restatement has no impact on the net HRA or General Fund balances carried forward to future years.

2016/17 (Restated) £m		Note	2017/18 £m
	Income		
(263.8)	Dwellings rents		(258.6)
(7.9)	Non-dwellings rents		(9.1)
(18.1)	Charges for services and facilities		(19.0)
(289.8)	**Total Income**		**(286.7)**
	Expenditure		
57.4	Repairs and maintenance		53.5
78.0	Supervision and management	H9	82.5
5.1	Rent, rates, taxes and other charges		5.4
124.6	Depreciation and impairment charge	H3 & H6	50.6
0.2	Debt management costs		0.2
5.0	Movement in the allowance for bad debts (not specified by the Code)		4.5
270.3	**Total Expenditure**		**196.7**
(19.5)	**Net Expenditure/(Income) of HRA Services as included in the whole authority Comprehensive Income and Expenditure Statement and Net (Income) / Cost of HRA Services**		**(90.0)**

	HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement:	
52.6	Interest payable and similar charges	51.3
0.5	Amortisation of premia and discounts	0.4
(0.3)	HRA interest and investment income	(0.5)
0.5	(Gains)/ Losses on the disposal of HRA non-current assets	(19.0)
2.8	Pensions interest cost and expected return on pensions assets	3.8
(1.4)	Capital Grants and Contributions Receivable	(4.8)
35.2	**(Surplus)/Deficit for the Year on HRA Services**	**(58.8)**

Movement on the Housing Revenue Account Statement

2016/17 (Restated) £m		2017/18 £m
35.2	(Surplus)/Deficit for the year on the HRA Income and Expenditure Account	(58.8)
(36.5)	Adjustments between accounting basis and funding basis under statute	56.4
(1.3)	Net (increase) / decrease before transfers to / (from) reserves	**(2.4)**
1.2	Transfers to / (from) reserves	2.3
(0.1)	(Increase) / decrease for the year on HRA balance	**(0.1)**
(4.6)	HRA Balance Brought Forward	(4.7)
(4.7)	HRA Balance Carried Forward	**(4.8)**

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 2017		31 March 2018
3,725	1 bedroom bungalows	3,715
15,152	1 bedroom flats	15,036
49	1 bedroom houses	52
296	2 bedroom bungalows	295
10,758	2 bedroom flats	10,708
8,494	2 bedroom houses	8,428
31	3 or more bedroom bungalows	30
4,150	3 or more bedroom flats	4,009
19,415	3 or more bedroom houses	19,180
62,070	**Total housing stock**	**61,453**

The change in the property numbers is analysed below:

2016/17		2017/18
62,637	Stock at 1 April	62,070
(632)	Sales	(784)
(143)	Demolitions / transfers	(119)
208	Acquisitions	286
62,070	**Stock at 31 March**	**61,453**

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

31 March 2017		31 March 2018
£m		£m
2,154.0	Council dwellings/garages	2,283.8
-	Assets under Construction	23.7
35.9	Other land and buildings	37.8
2,189.9	**Total operational assets**	**2,345.3**
18.9	Non-operational assets	19.2
2,208.8	**Total**	**2,364.5**

The housing stock, land and other property within the HRA are valued in line with the Ministry of Housing, Communities and Local Government *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 2017/18 of 40%.

The change reflects properties lost through sales, demolitions, acquisitions, and revaluation of Beacon Values and depreciation. £113.4m was spent on HRA dwellings during the year.

As at 31 March 2018, the Council also owned 86 dwellings (2017: 82) 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 £3.2m (2017: £2.8m).

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

31 March 2017		31 March 2018
£m		£m
529.7	Land	547.4
20.4	Kitchens	19.2
21.7	Bathrooms	23.1
43.4	Windows	34.3
52.2	Heating	52.4
37.1	Roofs	18.4
1,449.5	Remaining Structure	1,589.0
2,154.0	**Total**	**2,283.8**

H2. Value of Dwellings on Vacant Possession

(a) The vacant possession value of dwellings within the Council's HRA, valued in accordance with the Guidance, as at 31 March 2018 is £5,396.9m.

(b) The difference between the above figure and the figure of £2,283.8m in the Balance Sheet notionally represents diminution in the value of assets caused by their being let at social housing rents, according to the MHCLG's stock valuation model as explained in Supplementary Note H1.

H3. Revaluations and Impairment Charges

Revaluations and impairment charges reflect an increase or reduction in the value of property due to the economic environment or an event that has occurred to the assets. This could include a decline in demand, obsolescence, and commitments to make significant changes to housing. There has been no identified impairment in HRA asset values in 2017/18 (2016/17 as restated - £77.1m). A revaluation of the HRA dwellings has identified a net increase in value of £127.9m. This increase has been transferred to a revaluation reserve.

H4. Major Repairs Reserve

A transfer is made to the Major Repairs Reserve each year of a value equivalent to the amount charged to the HRA for depreciation of dwellings based on the componentised valuation of the dwellings and individual component residual lives, to make provision for ongoing elemental renewal over the longer term.

The main movements on the Major Repairs Reserve are set out below

2016/17		2017/18
£m		£m
5.8	Balance on Major Repairs Reserve at 1 April	39.0
47.5	Amount transferred to Major Repairs Reserve during the year	50.3
(14.3)	Charge to the Major Repairs Reserve during the financial year in respect of capital expenditure on the land, houses and other property within the Council's HRA	(60.7)
39.0	**Balance on Major Repairs Reserve at 31 March**	**28.6**

H5. Capital Expenditure on HRA Assets

Expenditure on HRA assets was funded from the following sources:

2016/17		2017/18
£m		£m
22.5	Usable Capital Receipts (Right to Buy/Land)	48.3
14.3	Major Repairs Reserve	60.7
27.8	HRA Revenue contributions	0.3
28.0	Prudential Borrowing	0.0
3.3	Other resources	4.1
95.9		**113.4**

The total capital receipts from disposals of land, houses and other property within the HRA during the financial year was £58.9m (land £19.9m, houses £39.0m). The values for 2016/17 were £36.1m (land £6.0m and houses £30.1m). The Government operates a capital receipts pooling framework and of these amounts £6.3m was paid to Central Government (2016/17: £6.3m).

H6. Depreciation Charges

The total charge for depreciation for the land, houses, and other property within the Council's HRA is £50.3m (2016/17: £47.5m). The depreciation charge is calculated by reference to an assessment of the remaining useful life of the key components of each individual dwelling valued on a depreciated replacement cost basis.

H7. Contribution from Pension Reserve

The Comprehensive Income and Expenditure Statement includes pension costs calculated in accordance with International Accounting Standard (IAS) 19 as described in detail in Note 21 to the Financial Statements. To ensure that these costs do not affect the level of HRA balances and Council House rents, an appropriation is made from the Pensions Reserve so that the movement in balances only reflects the actual employer's pension contribution.

H8. Rent Arrears

Rent arrears from current tenants at 31 March 2018 totalled £12.9m (2016/17: £12.3m). Other arrears including Housing Benefit overpayments, leaseholder major works and miscellaneous services totalled £23.4m at 31 March 2018 (2016/17: £22.5m).

A provision for bad debts has been made to meet possible future write offs of rent and other services/leaseholder/benefit overpayments. The provision was £31.4m at 31 March 2018 (2016/17: £29.8m) and has been calculated based on value/aged analysis in accordance with Government guidelines.

31 March 2017		31 March 2018
£m		£m
12.3	Current tenants	12.9
13.2	Housing benefit overpayment	13.8
9.3	Other debt (services/leaseholders)	9.6
34.8	**Total arrears**	**36.3**
29.8	Provision for bad debts	31.4

H9. Supervision and Management

The Council has recognised that an element of the settlements being agreed in respect of equal pay claims relate to employees whose employment costs fell on the HRA. Therefore the HRA has been charged its share of the Council's overall Equal Pay liability based on the current estimate of claims. The charge to the HRA relates solely to claims relating to activities correctly charged to the HRA, and amounts to a charge of £0.9m in 2017/18 (2016/17: £0.7m). These amounts also include £2.9m that has been set aside in a provision for future years' payments. Statutory arrangements allow the change in provision to be reversed back to an Equal Pay Back Pay Account. The remaining balance on the Equal Pay Back Pay Account will be debited back to the HRA through the Movement in Reserves Statement in future financial years as payments are made.

H10. Restatement of 2016/17 accounts

A restatement of the 2016/17 accounts has been made to the Housing Revenue Account Income and Expenditure Account to correctly account for the impairment to the carrying value of HRA dwellings as at 31 March 2017, previously incorrectly allocated against General Fund balances. This adjustment has had no impact on the value of HRA or General Fund balances carried forward for use in 2017/18 and subsequent years. The impacts of this restatement are as follows:

	Original Total 2016/17 £m	Change £m	Revised Total 2016/17 £m
Total Income	(289.8)	-	(289.8)
Expenditure			
Depreciation & Impairment	47.5	77.1	124.6
Other Expenditure	145.7	-	145.7
Total Expenditure	193.2	77.1	270.3
Net Expenditure/(Income) of HRA Services as included in the whole authority Comprehensive Income and Expenditure Statement and Net Cost/(Income) of HRA Services	**(96.6)**	**77.1**	**(19.5)**
HRA Share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement	54.7	-	54.7
(Surplus)/Deficit for the Year on HRA Services	**(41.9)**	**77.1**	**35.2**
Movement on the Housing Revenue Account Statement			
(Surplus)/Deficit for the year on the HRA Income and Expenditure Account	**(41.9)**	**77.1**	**35.2**
Adjustments between accounting basis and funding basis under statute	40.6	(77.1)	(36.5)
Net (increase)/decrease before transfers to / (from) reserves	**(1.3)**	**-**	**(1.3)**
Transfers to / (from) reserves	1.2	-	1.2
(Increase) / decrease for the year on HRA balance	**(0.1)**	**-**	**(0.1)**
HRA Balance Brought Forward	(4.6)	-	(4.6)
HRA Balance Carried Forward	**(4.7)**	**-**	**(4.7)**

Collection Fund Income and Expenditure Account

The Collection Fund Income and Expenditure Account reflects the statutory requirement for the Council to maintain a separate Collection Fund for Council Tax and Business Rates or National Non Domestic Rates (NNDR). The statement shows transactions in relation to the collection of income from tax payers and the distribution to major preceptors and the Council itself, as principal. The resulting balance is apportioned between the Council and major preceptors.

2016/17				2017/18		
Council Tax	NNDR	Total		Council Tax	NNDR	Total
£m	£m	£m	Income	£m	£m	£m
(343.0)		(343.0)	Collectable Council Tax	(364.1)		(364.1)
(343.0)		**(343.0)**		**(364.1)**		**(364.1)**
	(445.1)	(445.1)	Collectable Business Rates		(453.9)	(453.9)
	1.7	1.7	Transitional Payment Payable to Government		8.2	8.2
	(443.4)	**(443.4)**			**(445.7)**	**(445.7)**
	(2.2)	**(2.2)**	**Enterprise Zone Deficit Repayable to the Collection Fund**		**(1.5)**	**(1.5)**
			Apportionment of Prior Year Deficit:			
-	(17.9)	(17.9)	Birmingham City Council	-	(9.9)	(9.9)
	(18.3)	(18.3)	Central Government		(10.1)	(10.1)
-	(0.4)	(0.4)	West Midlands Fire & Rescue Authority	-	(0.2)	(0.2)
-		-	West Midlands Police and Crime Comm.	-		-
-	**(36.6)**	**(36.6)**	**Total Apportionment of Prior Year Deficit**	**-**	**(20.2)**	**(20.2)**
(343.0)	**(482.2)**	**(825.2)**	**TOTAL INCOME**	**(364.1)**	**(467.4)**	**(831.5)**

2016/17				2017/18		
Council Tax	NNDR	Total		Council Tax	NNDR	Total
£m	£m	£m	Expenditure	£m	£m	£m
			Precepts Demands & Shares Incl Prior Years Surplus:			
293.7	212.1	505.8	Birmingham City Council	313.6	400.9	714.5
0.1		0.1	New Frankley in Birmingham Parish Council	0.1		0.1
1.8		1.8	Sutton Coldfield Town Council	1.8		1.8
	209.7	209.7	Central Government		-	-
13.7	4.2	17.9	West Midlands Fire & Rescue Authority	14.2	4.0	18.2
27.2		27.2	West Midlands Police and Crime Comm.	28.9		28.9
			Charges:			
9.0	8.6	17.6	Increase/(Decrease) in Provision for Bad and Doubtful Debts	9.0	9.1	18.1
	17.8	17.8	Increase/(Decrease) in Provision for Appeals		11.9	11.9
	1.9	1.9	Cost of Collection		1.9	1.9
345.5	**454.3**	**799.8**	**TOTAL EXPENDITURE**	**367.6**	**427.8**	**795.4**
2.5	**(27.9)**	**(25.4)**	**(Surplus)/Deficit for the year**	**3.5**	**(39.6)**	**(36.1)**
(8.1)	**51.8**	**43.7**	**(Surplus)/Deficit brought forward**	**(5.6)**	**23.9**	**18.3**
(5.6)	**23.9**	**18.3**	**(Surplus)/Deficit carried forward**	**(2.1)**	**(15.7)**	**(17.8)**

Notes to the Collection Fund
C1. Contributions from Council Tax Payers

The Council's tax base at January 2017 (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	148	5/9	82
A	83,730	6/9	55,820
B	87,038	7/9	67,696
C	59,232	8/9	52,651
D	31,126	1	31,126
E	17,810	11/9	21,768
F	8,035	13/9	11,606
G	5,387	15/9	8,978
H	757	18/9	1,514
Total	**293,263**		**251,241**
Less adjustment for collection rate			(7,286)
			243,955

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	687	6/9	458
B	995	7/9	774
C	86	8/9	76
D	52	1	52
E	1	11/9	1
F	-	13/9	-
G	-	15/9	-
H	1	18/9	2
Total	**1,823**		**1,364**
Less adjustment for collection rate			(39)
			1,325

The figures for Sutton Coldfield Town Council are:

Band	Number of Properties	Ratio	Band D equivalent dwellings
AR	1	5/9	1
A	1,645	6/9	1,097
B	3,906	7/9	3,038
C	6,118	8/9	5,438
D	8,308	1	8,308
E	7,851	11/9	9,596
F	3,841	13/9	5,548
G	2,438	15/9	4,063
H	348	18/9	696
Total	**34,456**		**37,785**
Less adjustment for collection rate			(1,096)
			36,689

C2. Business Rate Payers

The Council collects Business Rates (NNDR) receipts for its area, which are based on local rateable values multiplied by a uniform rate which is set by the Government (46.6p for 2017/18: 48.4p for 2016/17). The total non-domestic rateable value at 31 March 2018 was £1,123.03m (31 March 2017: £1,076.42m). 2017/18 was a re-valuation year. In order to neutralise the effect of revaluation on the total national Business Rates Income yield the Government adjusts the uniform rate used to calculate Business Rates, hence the multiplier is lower in 2017/18 than it was in 2016/17.

From 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 were distributed on the following basis:

- 50% - Central Government
- 49% - Birmingham City Council
- 1% - The West Midlands Fire and Rescue Authority.

C3. Precept Payments

The preceptors on the Council Tax element of the Collection Fund are the City Council, New Frankley in Birmingham Parish Council, Sutton Coldfield Town Council, the West Midlands Fire and Rescue Authority and the West Midlands Police and Crime Commissioner.

The preceptors on the Business Rates element of the Collection Fund are the City Council and the West Midlands Fire and Rescue Authority.

Statement of GROUP Accounts 2017/18

Narrative Report

1 Introduction

1.1 This section presents the statutory financial statements for Birmingham City Council Group (the Group) for the period from 1 April 2017 to 31 March 2018. The financial statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (The Code) published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The aim of the Group Accounts is to provide the reader with an overall view of the material economic activities of the Council.

1.2 In common with many other local authorities, the Council uses different forms of service delivery, where this is appropriate. In some cases it has created separate companies with its partners to deliver those services. The use of separate companies means that the Council's single entity financial statements on their own do not fully reflect the assets and liabilities or income and expenditure associated with all of its activities. The Group Accounts more fully reflect the overall financial picture of the Council's activities.

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

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

1.5 The financial statements contain a number of technical accounting terms and concepts. A glossary of the major accounting terms has been provided at the end of the financial statements to help the reader's understanding.

1.6 The pages which follow contain the Group's Financial Statements for the year ended 31 March 2018, with comparative figures for the previous financial year.

2 Consolidation of Subsidiaries, Associate Companies and Joint Ventures

2.1 The Council operates through a variety of undertakings, either exercising full control of an organisation (subsidiary undertakings) or in partnership with other organisations (associate undertakings or joint ventures). To provide a full picture of the activities of the Council, Group Accounts have been prepared which include those organisations where the interest and the level of activity is considered material to the Group as a whole.

The Council has incorporated two companies into its Group consolidation for the first time in 2017/18 as the activity in the companies is considered material to the whole, namely:

PETPS (Birmingham) Pension Funding Scottish Limited Partnership
Birmingham City Propco Limited

Further details are set out in Section 3 below.

2.2 The Council has taken two companies out of the Group Accounts as it is judged that the Council does not have the current ability to direct the relevant activities of the companies, in accordance with the requirements of IFRS 10, Consolidated Financial Statements, and therefore does not control them, namely

Birmingham Museums Trust Limited
Performances Birmingham Limited

Further details are set out in Section 3 below.

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

Subsidiaries
- Acivico Limited
- Birmingham City Propco Limited
- Innovation Birmingham Limited
- InReach (Birmingham) Limited
- National Exhibition Centre (Developments) Plc
- PETPS (Birmingham) Limited
- PETPS (Birmingham) Pension Funding Scottish Limited Partnership

Associates
- Birmingham Airport Holdings Limited
- Service Birmingham Limited – discontinued 31 December 2017

Joint Venture
- Paradise Circus General Partner Limited

2.4 Further detail regarding the Council's relationship with the above companies is given in notes G23 and G24.

2.5 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. Where these entities fall within the group boundary as subsidiaries, associates or joint ventures they have been excluded from consolidation on the grounds of materiality. Alternatively they do not fall within the Group boundary due to the Council's limited control or influence. Further details are set out in Note 48 to the Council entity accounts.

3 Changes in Group Structure

3.1 The Council has set up two companies, PETPS (Birmingham) Capital Limited and PETPS (Birmingham) General Partner Limited to enable the Council to deal with the financial implications of its guarantee in respect of the pensions from the NEC Group Limited following its disposal. The companies have entered into a partnership through PETPS (Birmingham) Pension Funding Scottish Limited Partnership as part of an Asset Backed Scheme to mitigate the immediate impact of any change in the pension deficit. Further information is set out in Note G23(V).

3.2 Birmingham City Propco Limited, a wholly owned subsidiary of the Council has been created to provide a vehicle for commercial investment through the purchase, lease, and rent or hire of commercial property for the purpose of raising revenue and to develop, manage and lease commercial properties. The company has purchased the leasehold interests of the Council in respect of the Crowne Plaza NEC and Hilton Metropole NEC hotels.

3.3 Following a review of the Council's group boundary it has been determined that Birmingham Museums Trust Limited and Performances Birmingham Limited should no longer be consolidated in the Group Accounts. The Council has determined that the current control of the relevant activities of the companies lie with the Trustees and Directors of the companies. The Council only has a reserved right to appoint a minority of Trustees or Directors to the Company Boards and therefore control is not considered to lie with the Council. Whilst the Council is currently sole member of both companies, it would require a special resolution to change the operation of the companies and this may result in adverse financial implications on their operation. If the companies were to be dissolved then the Council cannot receive any assets as a member as it is precluded by the Articles of Association. Any assets on dissolution must be applied for charitable purposes as directed by the court or the Charities Commission. Details of the restatement of the Group Financial Statements are set out in Note G3.

3.4 Service Birmingham Limited was incorporated in 2005 and was a joint arrangement between Capita Business Services Limited and the Council, with the Council holding 32% of the shares of the company. The company was formed to provide ICT services and business transformation outsourcing services to the Council. Service Birmingham was consolidated into the Council's Group Financial Statements as an associate. The Council sold its shares in Service Birmingham on 31 December 2017 to Capita Business Services Limited.

3.5 The Council has been negotiating the disposal of the assets of Innovation Birmingham Limited with the sale being completed on 18 April 2018. The company has been included in the Group Financial Statements as discontinued operations and the assets and liabilities of the company included in the Balance Sheet as Assets Held for Sale and Liabilities in Disposal Groups respectively.

4 The Main Financial Statements

4.1 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 48, Related Parties, to the entity accounts.

4.2 Group Movement in Reserves Statement (GMiRS) – provides a reconciliation of the movement in year on the different reserves held and how the balance of resources generated or used in the year reconciles to the Council's statutory requirements for raising Council Tax.

4.3 The Group Comprehensive Income and Expenditure Statement (GCIES) – provides the accounting cost in year recognised by the Group, in a specified format, in accordance with generally accepted accounting practices. Details of the net surplus/ (deficit) on the provision of services is detailed below. The detail for 2016/17 has been restated as a result of the elimination of Birmingham Museums Trust Limited and Performances Birmingham Limited from the Council's group boundary.

	2016/17 (Restated)		2017/18	
	Entity	Group	Entity	Group
	£m	£m	£m	£m
Surplus/(Deficit) on Provision of Services	(128.0)	(127.1)	(22.0)	(34.1)

4.4 The 2017/18 GCIES shows a positive movement of £93.0m in the movement on the net Surplus/(Deficit) on Provision of Services compared to 2016/17. Details of the major movements are set out in paragraph 4.2 of the Narrative Report in the Council entity accounts.

4.5 Group Movement in Reserves Statement (GMiRS) – provides a reconciliation of the movement in year on the different reserves held and how the balance of resources generated or used in the year reconciles to the Council's statutory requirements for raising Council Tax.

4.6 Group Balance Sheet – shows the value of assets and liabilities recognised by the Group at 31 March 2018 and the level of reserves, split into usable and unusable.

	2016/17		2017/18	
	Entity	Group (Restated)	Entity	Group
	£m	£m	£m	£m
Long Term Assets	5,743.7	5,738.0	6,164.4	6,159.5
Current Assets	362.9	357.5	459.7	467.0
Current Liabilities	(1,063.5)	(1,060.0)	(1,357.0)	(1,374.0)
Long Term Liabilities	(6,116.4)	(6,121.3)	(5,814.9)	(5,820.1)
Net Assets/(Liabilities)	**(1,073.3)**	**(1,085.8)**	**(547.8)**	**(567.6)**
Represented by:				
Usable Reserves	830.1	805.9	969.9	938.0
Unusable Reserves	(1,903.4)	(1,891.7)	(1,517.7)	(1,505.6)
Total Reserves	**(1,073.3)**	**(1,085.8)**	**(547.8)**	**(567.6)**

4.7 The net liability has decreased by £518.2m to £567.6m. This is mainly due to increases in the carrying value of Property, Plant & Equipment, together with a reduction in the net liability on the defined pension schemes.

4.8 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 is treated as Assets Held for Sale. The activity for 2016/17 has been restated to reflect the removal of Birmingham Museums Trust Limited and Performances Birmingham Limited from the Council's group boundary and the amendments to the Council entity financial statements. Details are set out in Note G3 and G5 to these Group Financial Statements.

2016/17 (Restated) Gross Expenditure	2016/17 (Restated) Gross Income	2016/17 (Restated) Net Expenditure		Note	2017/18 Gross Expenditure	2017/18 Gross Income	2017/18 Net Expenditure
£m	£m	£m	**Continuing Operations**		£m	£m	£m
529.9	(203.4)	326.5	Adult Social Care & Health		554.9	(207.4)	347.5
1,065.6	(843.1)	222.5	Children & Young People		1,111.4	(800.9)	310.5
214.5	(78.5)	136.0	Place		264.3	(86.5)	177.8
156.1	(86.4)	69.7	Economy		155.2	(90.8)	64.4
621.9	(585.9)	36.0	Strategic Services		640.5	(587.2)	53.3
29.0	(8.1)	20.9	Finance & Governance		6.7	(7.6)	(0.9)
13.9	(6.1)	7.8	Centrally Managed		34.5	(64.5)	(30.0)
270.3	(289.8)	(19.5)	Housing Revenue Account		196.7	(286.7)	(90.0)
2,901.2	**(2,101.3)**	**799.9**	**Total Cost Of Continuing Operations**		**2,964.2**	**(2,131.6)**	**832.6**
9.0	(5.2)	3.8	Discontinued Operations	G5	6.2	(4.5)	1.7
2,910.2	**(2,106.5)**	**803.7**	**Total Cost of Services**		**2,970.4**	**(2,136.1)**	**834.3**
212.5		212.5	Other Operating Expenditure		77.5		77.5
289.1	(60.8)	228.3	Financing and Investment Income and Expenditure	G6	289.9	(55.5)	234.4
6.0	(1,123.4)	(1,117.4)	Taxation and Non-Specific Grant Income		1.8	(1,113.9)	(1,112.1)
		127.1	**(Surplus) / Deficit on Provision of Services**				**34.1**
		(7.9)	Share of the (surplus)/deficit on the Provision of Services of Associates				(6.0)
		0.1	Tax Expense of Subsidiaries				-
		1.4	Tax Expense of Associates				1.5
		120.7	**Group (Surplus)/Deficit**				**29.6**
			Items that will not be reclassified to the (Surplus)/Deficit on the Provision of Services				
		(650.1)	(Surplus) / deficit on revaluation of Property, Plant and Equipment assets	G7			(395.7)
		-	Impairment losses on non-current assets charged to the revaluation reserve	G7			0.2
		765.2	Remeasurement of the net defined benefit liability	G20			(158.7)
		8.4	Share of Other Comprehensive Income and Expenditure of Associates and Joint Ventures				5.6
		123.5					**(548.6)**
			Items that may be reclassified to the (Surplus)/Deficit on the Provision of Services				
		(0.3)	(Surplus) / deficit on revaluation of available for sale financial assets				0.8
		(0.3)					**0.8**
		123.2	**Other Comprehensive (Income) / Expenditure**				**(547.8)**
		243.9	**Total Comprehensive (Income) / Expenditure**				**(518.2)**

Group Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held, analysed into 'usable reserves' (that is, those that can be applied to fund expenditure or reduce local taxation) and other reserves.

	General Fund Balance	Housing Revenue Account	Capital Receipts	Major Repairs Reserve	Capital Grants Unapplied Account	**Total Usable Reserves**	Unusable Reserves	**Total Council Reserves**	Council's Share of Reserves of Subsidiaries, Associates and Joint Ventures	**Total Group Reserves**
	£m	£m	£m	£m	£m	**£m**	£m	**£m**	£m	**£m**
Balance at 1 April 2016 (Restated)	**500.2**	**4.6**	**312.1**	**5.8**	**73.0**	**895.7**	**(1,738.4)**	**(842.7)**	**7.2**	**(835.5)**
Movement in Reserves during 2016/17(Restated)										
Surplus/(Deficit) on the provision of services	(77.2)	(35.2)				**(112.4)**		**(112.4)**	**(8.3)**	**(120.7)**
Other Comprehensive Income and Expenditure							(102.6)	**(102.6)**	**(20.6)**	**(123.2)**
Total Comprehensive Income and Expenditure	**(77.2)**	**(35.2)**				**(112.4)**	**(102.6)**	**(215.0)**	**(28.9)**	**(243.9)**
Adjustments between Group Accounts and Council Accounts (Note G23)	(15.6)					(15.6)		(15.6)	15.6	-
Changes in Group Reserves accounted for through equity (G8)									(6.4)	(6.4)
Net Increase/(Decrease) before Transfers	**(92.8)**	**(35.2)**				**(128.0)**	**(102.6)**	**(230.6)**	(19.7)	**(250.3)**
Adjustments between accounting basis and funding basis under regulations (Note 16)	5.5	35.3	(33.8)	33.2	22.2	**62.4**	(62.4)	**-**		**-**
Increase/(Decrease) in 2016/17	**(87.3)**	**0.1**	**(33.8)**	**33.2**	**22.2**	**(65.6)**	**(165.0)**	**(230.6)**	(19.7)	**(250.3)**
Balance at 31 March 2017	**412.9**	**4.7**	**278.3**	**39.0**	**95.2**	**830.1**	**(1,903.4)**	**(1,073.3)**	**(12.5)**	**(1,085.8)**
Movement in Reserves during 2017/18										
Surplus/(Deficit) on the provision of services	(62.9)	58.8				**(4.1)**		**(4.1)**	(25.5)	**(29.6)**
Other Comprehensive Income and Expenditure							547.5	**547.5**	0.3	**547.8**
Total Comprehensive Income and Expenditure	**(62.9)**	**58.8**				**(4.1)**	**547.5**	**543.4**	(25.2)	**518.2**
Adjustments between Group Accounts and Council Accounts (Note G23)	(17.9)					(17.9)		(17.9)	17.9	-
Changes in Group Reserves accounted for through equity (G8)									-	-
Net Increase/(Decrease) before Transfers	**(80.8)**	**58.8**				**(22.0)**	**547.5**	**525.5**	**(7.3)**	**518.2**
Adjustments between accounting basis and funding basis under regulations (Note 16)	177.0	(58.7)	42.1	(10.4)	11.8	**161.8**	(161.8)	**-**		**-**
Increase/(Decrease) in 2017/18	**96.2**	**0.1**	**42.1**	**(10.4)**	**11.8**	**139.8**	**385.7**	**525.5**	**(7.3)**	**518.2**
Balance at 31 March 2018	**509.1**	**4.8**	**320.4**	**28.6**	**107.0**	**969.9**	**(1,517.7)**	**(547.8)**	**(19.8)**	**(567.6)**

Group Balance Sheet

The Group Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Group. The figures for 2015/16 and 2016/17 have been restated to reflect the elimination of Birmingham Museums Trust Limited and Performances Birmingham Limited from the Council's Group Accounts. Details of the prior period adjustments are set out in Note G3 to these Group Financial Statements.

1 April 2016 (Restated) £m	31 March 2017 (Restated) £m		Note	31 March 2018 £m
4,869.6	5,355.3	Property, Plant and Equipment	G7	5,735.0
249.8	251.5	Heritage Assets		251.6
10.0	9.8	Investment Property		20.2
25.6	19.7	Intangible Assets		13.7
5.8	5.1	Long Term Investments		3.8
62.7	75.0	Long Term Debtors		114.7
24.9	21.6	Investments in Associates and Joint Ventures	G24	20.5
5,248.4	**5,738.0**	**Total Long Term Assets**		**6,159.5**
58.8	33.6	Short Term Investments		72.6
4.2	6.6	Assets Held for Sale		15.3
1.3	1.3	Inventories		1.3
279.3	270.0	Short Term Debtors	G9	321.5
76.0	46.0	Cash and Cash Equivalents		56.3
419.6	**357.5**	**Total Current Assets**		**467.0**
(34.5)	(13.5)	Cash and Cash Equivalents		(35.4)
(430.5)	(513.6)	Short Term Borrowing		(796.5)
(324.2)	(363.5)	Short Term Creditors	G10	(333.3)
-	-	Liabilities in Disposal Groups	G5	(20.7)
(283.3)	(169.4)	Provisions		(188.1)
(1,072.5)	**(1,060.0)**	**Total Current Liabilities**		**(1,374.0)**
(72.6)	(73.0)	Long Term Creditors	G8	(74.5)
(60.8)	(16.3)	Provisions		(23.5)
(2,684.4)	(2,644.3)	Long Term Borrowing		(2,644.0)
(507.8)	(484.8)	Other Long Term Liabilities		(462.1)
(2,105.4)	(2,902.9)	Net Liability on Defined Benefit Pension Scheme	G20	(2,616.0)
(5,431.0)	**(6,121.3)**	**Total Long Term Liabilities**		**(5,820.1)**
(835.5)	**(1,085.8)**	**Net Assets/(Liabilities)**		**(567.6)**
896.3	805.9	Usable Reserves	G11	938.0
(1,731.8)	(1,891.7)	Unusable Reserves	G12	(1,505.6)
(835.5)	**(1,085.8)**	**Total Reserves**		**(567.6)**

The unaudited accounts were issued on 31 May 2018 and the audited accounts were authorised for issue on 30 July 2018.

Group Cash Flow Statement

The Group Cash Flow Statement shows the changes in cash and cash equivalents of the Group during the reporting period. The figures for 2016/17 have been restated to reflect the elimination of Birmingham Museums Trust Limited and Performances Birmingham Limited from the Group Accounts.

2016/17 (Restated) £m		Note	2017/18 £m
(116.4)	Net Surplus/(Deficit) on Continuing Operations		(27.6)
(4.3)	Net Surplus/(Deficit) on Discontinued Operations	G5	(2.0)
(120.7)	**Net Surplus/(Deficit) on the provision of services**		**(29.6)**
374.7	Adjustments to net Surplus/(Deficit) on the provision of services for non-cash movements	G16	74.9
(231.9)	Adjustments for items included in the net Surplus/(Deficit) on the provision of services that are investing and financing activities	G16	(224.1)
22.1	**Net cash flows from Operating Activities**		**(178.8)**
(172.6)	Investing Activities	G14	(149.4)
141.5	Financing Activities	G15	316.6
(9.0)	**Net increase/(decrease) in cash and cash equivalents**		**(11.6)**
41.5	Cash and cash equivalents at the beginning of the reporting period		32.5
32.5	**Cash and cash equivalents at the end of the reporting period**		**20.9**

NOTES TO THE GROUP ACCOUNTS

Note G1
Accounting Policies

The Group Financial Statements summarise the Council's and Group's transactions for the 2017/18 financial year. The Group Financial Statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, 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 associates in the Council's entity accounts are carried at cost rather than fair value less any provision for losses.

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 G20.

Defined Benefit Pension Scheme

Acivico Limited participates 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 G20.

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 and which 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. In the cases of Birmingham Museums Trust Limited and Performances Birmingham Limited, the Council has, through the Articles of Association, the right to appoint a minority of Directors or Trustees to sit on the company board. In each case the number of Council Directors or Trustees appointed is in the minority of Board members such that they have less than 20% of voting rights. Trustees of charities must act in the best interest of the charity and not in the interests of the body that appointed them.

The Council is sole member of both organisations 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 the 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 Birmingham Museums Trust Limited nor Performances Birmingham Limited should be consolidated into the Council's Group Accounts.

Note G3
Prior Period Adjustment

The Council has continued to review its group boundary to ensure that the Group Financial Statements reflect the activities controlled by the Council.

As detailed in Note G2, the Council has determined that Birmingham Museums Trust Limited and Performances Birmingham Limited should not be consolidated into the Council's Group Accounts.

The Council has been marketing the assets of Innovation Birmingham Limited to external organisations who have the capacity to enhance the activities of the company. The sale was at an advanced stage as at 31 March 2018 and therefore the associated assets have been treated as an Asset Held for Sale at the year end. Activity reported through the Group Comprehensive Income and Expenditure Statement (GCIES) has been identified as Discontinued Operations. The sale was completed on 18 April 2018.

The Council has realigned its reporting structure, as detailed in Note 8 to the entity accounts, and the GCIES has been adjusted to reflect the new arrangements.

Details of the prior period adjustments are set out below.

Group Comprehensive Income and Expenditure Adjustments

Net Expenditure	Original GCIES in 2016/17 £m	Adjustment for Entity Directorate Realignment £m	Adjustment for Elimination of BMT and PBL £m	Impact of Discontinued Operations £m	Restated for GCIES 2016/17 £m
Continuing Operations					
People	548.9	(548.9)			-
Adult Social Care & Health		326.5			326.5
Children & Young People		222.5			222.5
Place	205.3	(77.1)	7.8		136.0
Economy	78.1	(4.6)		(3.8)	69.7
Corporate Resources	52.4	(52.4)			-
Strategic Services		36.0			36.0
Finance & Governance		20.9			20.9
Corporately Managed	7.8				7.8
Housing Revenue Account	(96.6)	77.1			(19.5)
Total Continuing Operations	**795.9**	**-**	**7.8**	**(3.8)**	**799.9**
Discontinued Operations				3.8	3.8
Net Cost of Services	**795.9**	**-**	**7.8**	**-**	**803.7**

Gross Expenditure	Original GCIES in 2016/17 £m	Adjustment for Entity Directorate Realignment £m	Adjustment for Elimination of BMT and PBL £m	Impact of Discontinued Operations £m	Restated for GCIES 2016/17 £m
Continuing Operations					
People	1,595.4	(1,595.4)			-
Adult Social Care & Health		529.9			529.9
Children & Young People		1,065.6			1,065.6
Place	303.4	(77.1)	(11.8)		214.5
Economy	132.1	33.0		(9.0)	156.1
Corporate Resources	684.0	(684.0)			-
Strategic Services		621.9			621.9
Finance & Governance		29.0			29.0
Corporately Managed	13.9				13.9
Housing Revenue Account	193.2	77.1			270.3
Total Continuing Operations	2,922.0	-	(11.8)	(9.0)	2,901.2
Discontinued Operations				9.0	9.0
Gross Cost of Services	2,922.0	-	(11.8)	-	2,910.2

Gross Income	Original GCIES in 2016/17 £m	Adjustment for Entity Directorate Realignment £m	Adjustment for Elimination of BMT and PBL £m	Impact of Discontinued Operations £m	Restated for GCIES 2016/17 £m
Continuing Operations					
People	(1,046.5)	1,046.5			-
Adult Social Care & Health		(203.4)			(203.4)
Children & Young People		(843.1)			(843.1)
Place	(98.1)		19.6		(78.5)
Economy	(54.0)	(37.6)		5.2	(86.4)
Corporate Resources	(631.6)	631.6			-
Strategic Services		(585.9)			(585.9)
Finance & Governance		(8.1)			(8.1)
Corporately Managed	(6.1)				(6.1)
Housing Revenue Account	(289.8)				(289.8)
Total Continuing Operations	(2,126.1)	-	19.6	5.2	(2,101.3)
Discontinued Operations				(5.2)	(5.2)
Gross Income	(2,126.1)	-	19.6	-	(2,106.5)

Balance Sheet Prior Period Adjustments

Balance Sheet as at 31 March 2017	Original balance at 31 March 2017	Adjustment for elimination of Group entities	Amended balance at 31 March 2017
	£m	£m	£m
Property, Plant and Equipment	5,368.0	(12.7)	5,355.3
Heritage Assets	251.5	-	251.5
Investment Property	9.8	-	9.8
Intangible Assets	19.7	-	19.7
Long Term Investments	5.1	-	5.1
Long Term Debtors	74.1	0.9	75.0
Investments in Associates and Joint Ventures	21.6	-	21.6
Total Long Term Assets	**5,749.8**	**(11.8)**	**5,738.0**
Short Term Investments	33.6	-	33.6
Assets Held for Sale	6.6	-	6.6
Inventories	1.6	(0.3)	1.3
Short Term Debtors	271.4	(1.4)	270.0
Cash and Cash Equivalents	53.7	(7.7)	46.0
Total Current Assets	**366.9**	**(9.4)**	**357.5**
Cash and Cash Equivalents	(13.5)	-	(13.5)
Short Term Borrowing	(513.6)	-	(513.6)
Short Term Creditors	(369.2)	5.7	(363.5)
Provisions	(169.4)	-	(169.4)
Total Current Liabilities	**(1,065.7)**	**5.7**	**(1,060.0)**
Long Term Creditors	(73.0)	-	(73.0)
Provisions	(16.3)	-	(16.3)
Long Term Borrowing	(2,644.3)	-	(2,644.3)
Other Long Term Liabilities	(484.8)	-	(484.8)
Net Liability on Defined Benefit Pension Schemes	(2,905.2)	2.3	(2,902.9)
Total Long Term Liabilities	**(6,123.6)**	**2.3**	**(6,121.3)**
Net Assets/(Liabilities)	**(1,072.6)**	**(13.2)**	**(1,085.8)**
Usable Reserves	814.1	(8.2)	805.9
Unusable Reserves	(1,886.7)	(5.0)	(1,891.7)
Total Reserves	**(1,072.6)**	**(13.2)**	**(1,085.8)**

Balance Sheet as at 31 March 2016	Original balance at 31 March 2016	Adjustment for elimination of Group entities	Amended balance at 31 March 2016
	£m	£m	£m
Property, Plant and Equipment	4,874.6	(5.0)	4,869.6
Heritage Assets	249.8	-	249.8
Investment Property	10.0	-	10.0
Intangible Assets	25.6	-	25.6
Long Term Investments	5.8	-	5.8
Long Term Debtors	61.5	1.2	62.7
Investments in Associates and Joint Ventures	24.9	-	24.9
Total Long Term Assets	**5,252.2**	**(3.8)**	**5,248.4**
Short Term Investments	58.8	-	58.8
Assets Held for Sale	4.2	-	4.2
Inventories	1.5	(0.2)	1.3
Short Term Debtors	281.2	(1.9)	279.3
Cash and Cash Equivalents	82.5	(6.5)	76.0
Total Current Assets	**428.2**	**(8.6)**	**419.6**
Cash and Cash Equivalents	(34.5)	-	(34.5)
Short Term Borrowing	(430.5)	-	(430.5)
Short Term Creditors	(329.4)	5.2	(324.2)
Provisions	(283.3)	-	(283.3)
Total Current Liabilities	**(1,077.7)**	**5.2**	**(1,072.5)**
Long Term Creditors	(73.1)	0.5	(72.6)
Provisions	(60.8)	-	(60.8)
Long Term Borrowing	(2,684.4)	-	(2,684.4)
Other Long Term Liabilities	(507.8)	-	(507.8)
Net Liability on Defined Benefit Pension Schemes	(2,105.4)	-	(2,105.4)
Total Long Term Liabilities	**(5,431.5)**	**0.5**	**(5,431.0)**
Net Assets/(Liabilities)	**(828.8)**	**(6.7)**	**(835.5)**
Usable Reserves	897.4	(1.1)	896.3
Unusable Reserves	(1,726.2)	(5.6)	(1,731.8)
Total Reserves	**(828.8)**	**(6.7)**	**(835.5)**

Group Movement in Reserves Statement Prior Period Adjustment

Original Group Movement in Reserves Statement	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 2016 (Restated)	**500.2**	**4.6**	**312.1**	**5.8**	**73.0**	**895.7**	**(1,738.4)**	**(842.7)**	**14.0**	**(828.7)**
Total Comprehensive Income and Expenditure	(150.3)	41.9				(108.4)	(102.6)	(211.0)	(26.4)	(237.4)
Adjustments between Group and Company Accounts	(19.6)					(19.6)		(19.6)	13.3	(6.3)
Adjustments between accounting basis and funding basis under regulations	82.6	(41.8)	(33.8)	33.2	22.2	62.4	(62.4)	-		-
Increase/Decrease in 2016/17	**(87.3)**	**0.1**	**(33.8)**	**33.2**	**22.2**	**(65.6)**	**(165.0)**	**(230.6)**	**(13.1)**	**(243.7)**
Balance at 31 March 2017	**412.9**	**4.7**	**278.3**	**39.0**	**95.2**	**830.1**	**(1,903.4)**	**(1,073.3)**	**0.9**	**(1,072.4)**

Amendments to Group Movement in Reserves Statement	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 2016 (Restated)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(6.8)**	**(6.8)**
Total Comprehensive Income and Expenditure	73.1	(77.1)				(4.0)	-	(4.0)	(2.5)	(6.5)
Adjustments between Group and Company Accounts	4.0	-				4.0	-	4.0	(4.1)	(0.1)
Adjustments between accounting basis and funding basis under regulations per entity accounts (Note 8)	(77.1)	77.1				-	-	-		-
Increase/Decrease in 2016/17	**-**	**-**	**-**	**-**	**-**	**0.0**	**-**	**0.0**	**(6.6)**	**(6.6)**
Balance at 31 March 2017	**-**	**-**	**-**	**-**	**-**	**0.0**	**-**	**0.0**	**(13.4)**	**(13.4)**

Restated Group Movement in Reserves Statement	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 2016 (Restated)	**500.2**	**4.6**	**312.1**	**5.8**	**73.0**	**895.7**	**(1,738.4)**	**(842.7)**	**7.2**	**(835.5)**
Total Comprehensive Income and Expenditure	(77.2)	(35.2)				(112.4)	(102.6)	(215.0)	(28.9)	(243.9)
Adjustments between Group and Company Accounts	(15.6)					(15.6)		(15.6)	9.2	(6.4)
Adjustments between accounting basis and funding basis under regulations	5.5	35.3	(33.8)	33.2	22.2	62.4	(62.4)	-		-
Increase/Decrease in 2016/17	**(87.3)**	**0.1**	**(33.8)**	**33.2**	**22.2**	**(65.6)**	**(165.0)**	**(230.6)**	**(19.7)**	**(250.3)**
Balance at 31 March 2017	**412.9**	**4.7**	**278.3**	**39.0**	**95.2**	**830.1**	**(1,903.4)**	**(1,073.3)**	**(12.5)**	**(1,085.8)**

Amendment to Group Cash Flow Statement Prior Period Adjustment

	2016/17 Original	Adjustments	2016/17 (Restated)
	£m	£m	£m
Net Surplus/(Deficit) on Continuing Operations	(112.8)	(3.6)	(116.4)
Net Surplus/(Deficit) on Discontinued Operations		(4.3)	(4.3)
Net Surplus/(Deficit) on the provision of services	**(112.8)**	**(7.9)**	**(120.7)**
Adjustments to net Surplus/(Deficit) on the provision of services for non-cash movements	368.4	6.3	374.7
Adjustments for items included in the net Surplus/(Deficit) on the provision of services that are investing and financing activities	(231.9)	-	(231.9)
Net cash flows from Operating Activities	**23.7**	**(1.6)**	**22.1**
Investing Activities	(173.0)	0.4	(172.6)
Financing Activities	141.5	-	141.5
Net increase/(decrease) in cash and cash equivalents	**(7.8)**	**(1.2)**	**(9.0)**
Cash and cash equivalents at the beginning of the reporting period	48.0	(6.5)	41.5
Cash and cash equivalents at the end of the reporting period	**40.2**	**(7.7)**	**32.5**

Note G4
Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

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

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

Note 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, the Council disposed of its interest in Service Birmingham on 31 December 2017 and has marketed its holdings in Innovation Birmingham Limited with a view to a sale, which was completed on 18 April 2018 (see Note 5). Service Birmingham Limited was accounted for in the Council's Group Financial Statements as an Associate and Innovation Birmingham Limited was accounted for as a Subsidiary. Details of the relevant activities are set out below.

Innovation Birmingham

Comprehensive Income and Expenditure Statement

	2016/17 £m	2017/18 £m
Turnover	2.3	3.3
Cost of Sales	(3.3)	(4.4)
Gross Profit/(Loss)	**(1.0)**	**(1.1)**
Other Operating Income	1.2	
Other Operating Expenditure	(4.0)	(0.6)
Operating Profit/(Loss)	**(3.8)**	**(1.7)**
Interest Payable	(0.4)	(0.4)
Profit/(Loss) before Taxation	**(4.2)**	**(2.1)**

Balance Sheet Impact

	31 March 2018 £m
Assets Held for Sale	
Property, Plant & Equipment	13.3
Short Term Debtors	0.8
Cash & Cash Equivalents	0.3
Accounted for as Assets Held for Sale	**14.4**
Liabilities in Disposal Groups	
Short Term Creditors	(2.6)
Long Term Creditors	(18.1)
Accounted for as Liabilities in Disposal Groups	**(20.7)**

Cash Flow
Details of the discontinued operations cash flow are included in the Cash Flow Statement and in Note G14, Cash Flow Statement – Investing Activities.

Service Birmingham

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

	2017/18 £m
Consideration Received	11.1
Investment in Associate	2.4
Gain on disposal of associate	**8.7**

Note G6
Financing and Investment Income and Expenditure

Financing and Investment Income and Expenditure disclosed in the Group CIES are detailed below. The detail for 2016/17 has been restated to reflect the elimination of Birmingham Museums Trust Limited and Performances Birmingham Limited from the Group Accounts.

2016/17 (Restated)				2017/18		
Gross Expenditure £m	Income £m	Net £m		Gross Expenditure £m	Income £m	Net £m
186.8	-	186.8	Interest Payable and similar charges	184.3	-	184.3
0.4	-	0.4	Interest Payable by Discontinued Operations	0.4	-	0.4
72.1	-	72.1	Net interest on the net defined benefit liability	74.1	-	74.1
-	(16.1)	(16.1)	Interest Receivable and similar income	-	(16.1)	(16.1)
-	-	-	Changes in the Fair Value of Investment Properties	-	(1.6)	(1.6)
29.8	(33.0)	(3.2)	(Surplus)/Deficit on trading operations not consolidated within Service Expenditure Analysis in Comprehensive Income and Expenditure Statement	31.1	(31.7)	(0.6)
-	(11.7)	(11.7)	Other investment income and expenditure	-	(6.1)	(6.1)
289.1	**(60.8)**	**228.3**	**Sub Total**	**289.9**	**(55.5)**	**234.4**

Note G7
Property, Plant and Equipment

Details of the Group Property, Plant and Equipment are set out below. The detail for 2016/17 has been restated to reflect the elimination of Birmingham Museums Trust Limited and Performances Birmingham Limited from the Group Accounts. Details of the adjustment are set out in Note G3.

Movements in Balances: 2017/18

	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 2017	2,278.7	2,380.5	190.0	582.9	60.3	6.0	170.7	**5,669.1**	747.9
Additions	94.1	42.3	6.1	39.0	1.5	-	84.3	**267.3**	51.3
Assets reclassified between categories	(3.2)	19.1	2.2	9.2	0.3	29.6	(58.2)	**(1.0)**	
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	(45.9)	126.2				103.6		**183.9**	9.1
Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services		11.7	(0.1)			(7.2)	(0.3)	**4.1**	4.4
Derecognition - Disposals	(39.9)	(80.3)	(15.1)	(1.6)		(19.9)		**(156.8)**	(0.8)
Assets reclassified (to)/from Held for Sale		(13.3)	(4.3)					**(17.6)**	
At 31 March 2018	**2,283.8**	**2,486.2**	**178.8**	**629.5**	**62.1**	**112.1**	**196.5**	**5,949.0**	**811.9**
Accumulated Depreciation and Impairment									
At 1 April 2017	(124.7)	(27.0)	(73.1)	(89.1)				**(313.9)**	(93.9)
Depreciation charge	(50.3)	(56.5)	(18.7)	(24.4)		(0.2)		**(150.1)**	(30.2)
Depreciation written out to the Revaluation Reserve	173.8	34.9				0.5		**209.2**	2.0
Depreciation written out to the Surplus/Deficit on the Provision of Services	-	12.5						**12.5**	0.8
Impairment losses/ (reversals) recognised in the Revaluation Reserve		2.6						**2.6**	
Impairment losses/ (reversals) recognised in the Surplus/Deficit on the Provision of Services		1.8	(0.1)					**1.7**	
Derecognition - Disposals	1.2	3.3	14.3	1.6				**20.4**	0.2
Assets reclassified to/(from) Held for Sale			3.6					**3.6**	
Other movements in Depreciation and Impairment		0.4				(0.4)		**-**	
At 31 March 2018	**-**	**(28.0)**	**(74.0)**	**(111.9)**	**0**	**(0.1)**	**0**	**(214.0)**	**(121.1)**
Net Book Value									
At 31 March 2018	2,283.8	2,458.2	104.8	517.6	62.1	112.0	196.5	**5,735.0**	690.8
At 31 March 2017	2,154.0	2,353.5	116.9	493.8	60.3	6.0	170.7	**5,355.3**	654.0

Movements on Balances: 2016/17

	Council Dwellings £m	Other land and buildings £m	Vehicles, plant, furniture & equipment £m	Infrastructure assets £m	Community assets £m	Surplus Assets £m	Assets under construction £m	**Total Property, Plant and Equipment £m**	Service Concession Assets included in Property, Plant & Equipment £m
Cost or Valuation									
At 1 April 2016	1,778.0	2,413.5	202.3	540.9	92.7	7.3	118.3	**5,153.0**	725.8
Additions	95.9	67.1	9.1	38.1	0.6		100.1	**310.9**	43.6
Assets reclassified between categories		42.5	0.4	3.9	0.7		(47.6)	**(0.1)**	
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	437.7	50.1				0.4		**488.2**	(6.9)
Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services		(6.4)	(0.1)				(0.1)	**(6.6)**	2.9
Derecognition - Disposals	(31.4)	(179.5)	(21.7)		(33.7)	(0.1)		**(266.4)**	(17.5)
Derecognition - Other	(1.5)							**(1.5)**	
Assets reclassified (to)/from Held for Sale		(6.8)				(1.6)		**(8.4)**	
At 31 March 2017	**2,278.7**	**2,380.5**	**190.0**	**582.9**	**60.3**	**6.0**	**170.7**	**5,669.1**	**747.9**
Accumulated Depreciation and Impairment									
At 1 April 2016	(111.2)	(32.3)	(73.6)	(66.3)				**(283.4)**	(68.3)
Depreciation charge	(47.5)	(56.5)	(20.4)	(22.8)		(0.1)		**(147.3)**	(29.0)
Depreciation written out to the Revaluation Reserve	111.1	37.7						**148.8**	2.0
Depreciation written out to the Surplus/Deficit on the Provision of Services		10.0						**10.0**	0.8
Impairment losses/ (reversals) recognised in the Revaluation Reserve		8.1				0.1		**8.2**	
Impairment losses/ (reversals) recognised in the Surplus/Deficit on the Provision of Services	(77.1)	0.3						**(76.8)**	
Derecognition - Disposals		4.3	20.9					**25.2**	0.6
Assets reclassified to/(from) Held for Sale		1.4						**1.4**	
At 31 March 2017	**(124.7)**	**(27.0)**	**(73.1)**	**(89.1)**	**-**	**-**	**-**	**(313.9)**	**(93.9)**
Net Book Value									
At 31 March 2017	2,154.0	2,353.5	116.9	493.8	60.3	6.0	170.7	**5,355.3**	654.0
At 31 March 2016	1,666.8	2,381.2	128.7	474.6	92.7	7.3	118.3	**4,869.6**	657.5

Further details on the Council's policies for fixed asset revaluations and depreciation are provided in Note 1 to the Council entity accounts. Buildings assets held by Innovation Birmingham Group Limited have been valued as at 31 March 2018, by Azmat Mir, Member of the Royal Institution of Chartered Surveyors, and other similarly qualified staff within the Council's Property Services section.

Note G8
Financial Instruments

This note sets out the differences from the information contained in Note 39 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 G9.

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 G10.

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 2017	31 March 2018
	£m	£m
Creditors		
NEC 7.56% Loan Stock – maturity 30 September 2027	(73.0)	(73.0)

The fair value of the loan, as assessed by independent experts, is detailed below.

Financial Liabilities	Input level in Fair Value Hierarchy	Valuation inputs and assumptions used to measure Fair Value	31 March 2017		31 March 2018	
			Carrying Amount £m	Fair Value £m	Carrying Amount £m	Fair Value £m
NEC Loan Stock	Level 2	An estimate of the rate payable for a new loan on the same terms, based on published gilt yields.	73.0	113.7	73.0	109.1
TOTAL			**73.0**	**113.7**	**73.0**	**109.1**

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 2018 between the Council entity accounts, £2,740.0m and the group accounts, £2,644.0, is largely represented by the borrowing recognised by the Council associated with group entities, namely NECD and PETPS SLP. These transactions are eliminated on consolidation.

Income, Expense, Gains and Losses
These amounts in the Group Financial Statements are not considered materially different from those in the Council entity accounts.

Fair Values of Assets and Liabilities
The amounts consolidated as part of the Group Financial Statements are not considered significantly different from the carrying amounts.

Nature and extent of risks arising from financial instruments
The nature and extent of risks from financial instruments arising in the Group Financial Statements are not considered materially different from those in the Council entity accounts.

Note G9
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. The detail for 2015/16 and 2016/17 has been restated to reflect the elimination of Birmingham Museums Trust Limited and Performances Birmingham Limited from the Group Accounts as set out in Note G3.

31 March 2016 (Restated)	31 March 2017 (Restated)		31 March 2018
£m	£m		£m
60.2	66.4	Central government bodies	78.4
8.2	7.2	Other local authorities	12.0
5.0	5.1	NHS bodies	6.0
1.7	6.7	Public corporations and trading funds	3.2
204.2	184.6	Other entities and individuals	221.9
279.3	**270.0**	**Total**	**321.5**

Note G10
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. The detail for 2015/16 and 2016/17 has been restated to reflect the elimination of Birmingham Museums Trust Limited and Performances Birmingham Limited from the Group Accounts as set out in Note G3.

31 March 2016 (Restated)	31 March 2017 (Restated)		31 March 2018
£m	£m		£m
(40.3)	(36.3)	Central government bodies	(28.6)
(5.8)	(6.3)	Other local authorities	(11.3)
(3.8)	(3.5)	NHS bodies	(2.0)
(36.2)	(99.9)	Public corporations and trading funds	(63.7)
(238.1)	(217.5)	Other entities and individuals	(227.7)
(324.2)	**(363.5)**	**Total**	**(333.3)**

Note G11
Usable Reserves

Details of the Group's usable reserves are detailed below. The detail for 2015/16 and 2016/17 has been restated to reflect the elimination of Birmingham Museums Trust Limited and Performances Birmingham Limited from the Group Accounts as detailed in Note G3.

31 March 2016 (Restated) £m	31 March 2017 (Restated) £m		31 March 2018 £m
184.2	198.2	General Fund	276.5
312.1	278.3	Capital Receipts Reserve	320.4
389.4	312.1	Earmarked General Fund Reserves	338.7
4.7	4.7	Housing Revenue Account (HRA)	4.8
5.8	39.0	Major Repairs Reserve	28.6
73.0	95.2	Capital Grants Unapplied	107.0
(77.7)	(126.4)	Profit and Loss Reserve	(142.8)
4.8	4.8	Merger Reserve	4.8
896.3	**805.9**	**Total**	**938.0**

Further analysis is provided below for material usable reserves.

Movements in the General Fund are set out in the Council and Group Movement in Reserves Statements, further supported by Note 18 to the Council entity accounts. Differences arising on group consolidation are set out in Note G21 to the Group Accounts.

Profit and Loss Reserve

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

2016/17 (Restated) £m		2017/18 £m
(77.7)	**Balance at 1 April**	**(126.4)**
(48.7)	In year profit/(loss) result for subsidiaries, adjusted for Group accounting policies and elimination of intra-group transactions	(16.4)
(126.4)	**Balance at 31 March**	**(142.8)**

Note G12
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 detail for 2015/16 and 2016/17 has been restated to reflect the elimination of Birmingham Museums Trust Limited and Performances Birmingham Limited from the Group Accounts as detailed in Note G3.

31 March 2016 (Restated) £m	31 March 2017 (Restated) £m		31 March 2018 £m
983.1	1,553.2	Revaluation Reserve	1,896.8
(290.8)	(411.9)	Capital Adjustment Account	(428.9)
(27.9)	(26.8)	Financial Instruments Adjustment Account	(25.9)
30.0	39.6	Deferred Capital Receipts	41.8
(2,087.7)	(2,870.7)	Pensions Reserve	(2,836.1)
(22.9)	(10.6)	Collection Fund Adjustment Account	18.0
(299.6)	(145.2)	Equal Pay Back Pay Account	(151.8)
(16.9)	(20.5)	Accumulated Absences Account	(19.9)
0.2	0.5	Available for Sale Financial Instruments Reserve	(0.3)
0.7	0.7	Called up Share Capital	0.7
(1,731.8)	**(1,891.7)**	**Total**	**(1,505.6)**

Further analysis is provided below for unusable reserves which are materially different from the balances included in the Council entity accounts.

<u>Revaluation Reserve</u>

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.

2016/17 £m		2017/18 £m
983.1	**Balance at 1 April**	**1,553.2**
	Revaluations not posted to (Surplus)/Deficit on the Provision of Services	
734.6	Council: Upward revaluation of assets	592.5
(89.6)	Council: Downward revaluation of assets	(197.3)
645.0	**Council: Surplus/(Deficit) on revaluation of non-current assets not posted to the (Surplus)/Deficit on the Provision of Services**	**395.2**
	Amounts written off to the Capital Adjustment Account	
(19.5)	Council: Difference between fair value depreciation and historical cost depreciation	(19.0)
(60.5)	Council: Accumulated gains on assets sold or scrapped	(32.9)
(80.0)	**Council: Amount written off to the Capital Adjustment Account**	**(51.9)**
	Group Movements	
5.1	Other movements in reserve in Group entities	0.3
5.1	**Total Group Movements**	**0.3**
1,553.2	**Balance at 31 March**	**1,896.8**

Note G13
Cash Flow Statement - Operating Activities

The cash flows from operating activities include the items set out below. The detail for 2016/17 has been restated to reflect the elimination of Birmingham Museums Trust Limited and Performances Birmingham Limited from the Group Accounts.

2016/17 (Restated) £m		2017/18 £m
(16.7)	Interest Received	(16.1)
187.6	Interest Paid	184.7
(11.7)	Dividends Received	(6.1)

Note G14
Cash Flow Statement - Investing Activities

The cash flows from investing activities are set out below. The detail for 2016/17 has been restated to reflect the elimination of Birmingham Museums Trust Limited and Performances Birmingham Limited from the Group Accounts.

2016/17 (Restated) £m		2017/18 £m
(283.9)	Purchase of property, plant and equipment, investment property and intangible assets	(238.4)
(2.0)	Investing Activities of Discontinued Operations	(0.6)
72.2	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	126.1
16.9	Proceeds from the sale of subsidiary (NEC Group)	2.0
23.9	Net (Purchase)/Proceeds from short-term and long-term investments	(39.0)
0.3	Other receipts from investing activities	0.5
(172.6)	**Net cash flows from investing activities**	**(149.4)**

Note G15
Cash Flow Statement - Financing Activities

The cash flows from financing activities are set out below.

2016/17 £m		2017/18 £m
126.0	Other receipts from financing activities	95.5
(50.9)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(45.9)
49.9	Net Cash Receipts/(Repayments) of short-term and long-term borrowing	267.0
16.5	Other payments for financing activities	-
141.5	**Net cash flows from financing activities**	**316.6**

Note G16
Group Cash Flow Statement – Other Adjustments

The cash flow adjustments to the net surplus/deficit on the provision of services are set out below. The detail for 2016/17 has been restated to reflect the elimination of Birmingham Museums Trust Limited and Performances Birmingham Limited from the Group Accounts.

2016/17 (Restated) £m		2017/18 £m
147.2	Depreciation/Impairment charge	150.1
8.3	Amortisation of Intangible Assets	8.0
4.7	Derecognition of Available for Sale Assets	6.5
242.8	Derecognition of Non-Current Assets	135.4
(2.8)	(Increase)/decrease in Investments	6.1
77.0	Revaluation of Non-Current Assets	(38.9)
(2.9)	(Increase)/Decrease in Debtors	(91.2)
32.8	Increase/(Decrease) in Creditors	1.2
(0.1)	(Increase)/Decrease in Inventories	-
(158.4)	Increase/(Decrease) in Provisions	25.9
32.3	Pensions Liability	(128.2)
(6.2)	Change in Equity	-
374.7		**74.9**

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

2016/17 £m		2017/18 £m
(126.0)	Capital Grants	(95.5)
(89.4)	Capital Receipts	(128.6)
(16.5)	Council Tax and Business Rates Adjustments	-
(231.9)		**(224.1)**

Note G17
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. The figures for 2016/17 have been restated to reflect the elimination of Birmingham Museums Trust Limited and Performances Birmingham Limited from the Group Accounts as detailed in Note G3.

2016/17 (Restated) £m	Expenditure	2017/18 £m
951.9	Employee Benefits Expenses	1,085.9
1,769.5	Other Service Expenses	1,760.6
230.6	Depreciation, Amortisation and Impairment	158.5
259.6	Interest Payments	261.4
51.1	Precepts and Levies	52.9
6.3	Payments to Housing Capital Receipts Pool	6.3
148.8	Loss on Disposal of Non-Current Assets	14.0
3,417.8	**Total Expenditure**	**3,339.6**
	Income	
(620.2)	Fees, Charges and Other Services Income	(636.3)
(508.1)	Income from Council Tax and Business Rates	(737.5)
(2,138.3)	Government Grants and Contributions	(1,910.9)
(24.1)	Interest and Investment Income	(20.8)
(3,290.7)	**Total Income**	**(3,305.5)**
127.1	**(Surplus)/Deficit on Provision of Services**	**34.1**

Note G18
Related Parties

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

In addition to the related parties detailed within Note 48 to the Council entity accounts those included below are deemed to be related parties of the Group – bodies or individuals with the potential to control or significantly influence the Group entities or to be controlled or significantly influenced by the Group entities. Where in-year transactions and outstanding balances between Group entities and associated related parties are £1m or greater, they are disclosed below. The Group entities and their relationships with the Council are detailed in Notes G23 and G24.

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

Note G19
Leases

<u>Group as the lessee</u>

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

<u>Group as the lessor</u>

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 42 to the Council entity accounts. This note sets out the impact of intra-Group leases and leases of Group entities to external organisations.

Intra-Group Leases

<u>Finance leases</u>

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

31 March 2017 £m		31 March 2018 £m
	Finance lease debtor (net present value of minimum lease payments):	
-	- Current	-
7.7	- Non current	7.6
13.6	Unearned finance income	13.5
(0.1)	Unguaranteed residual value of property	(0.1)
21.2	**Gross investment in the lease**	**21.0**

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 2017 £m	31 March 2018 £m	31 March 2017 £m	31 March 2018 £m
Not later than one year	-	-	0.2	0.2
Later than one year and not later than five years	0.1	0.1	0.7	0.7
Later than five years	7.6	7.5	20.3	20.1
Total	**7.7**	**7.6**	**21.2**	**21.0**

Leases by Group entities to External Organisations

Finance leases

Details of the Council's finance leases are provided in Note 42 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 2017 £m		31 March 2018 £m
	Finance lease debtor (net present value of minimum lease payments):	
-	- Current	0.1
-	- Non current	20.1
-	Unearned finance income	47.1
-	Unguaranteed residual value of property	-
-	**Gross investment in the lease**	**67.3**

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 2017 £m	31 March 2018 £m	31 March 2017 £m	31 March 2018 £m
Not later than one year	-	0.1	-	1.0
Later than one year and not later than five years	-	0.2	-	4.1
Later than five years	-	19.9	-	62.2
Total	**-**	**20.2**	**-**	**67.3**

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 2017 £m		31 March 2018 £m
-	Not later than one year	0.4
-	Later than one year and not later than five years	1.7
-	Later than five years	26.6
-	**Gross investment in the lease**	**28.7**

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 G20
Defined Benefit Pension Schemes

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

PETPS (Birmingham) Limited
Following completion of the sale of the NEC Group by the Council on 1 May 2015, NEC Limited was replaced as principal employer by PETPS (Birmingham) Limited (PETPS), a wholly owned subsidiary of the Council, which assumed the ongoing funding obligation of the NEC Limited Pension Fund (the Fund) and the NEC Executive Pension Scheme (the Scheme) with the agreement of the pension trustees. The Fund and the Scheme had ceased to provide future service accrual with effect from 30 June 2010.

The Fund and the Scheme are defined benefit schemes, operating under UK trust law, which pay out pensions at retirement based on service and final pay. The trustee boards of the Fund and the Scheme are independent of the Council and are responsible for setting certain policies (for example, investment and contribution policies).

Under 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 2016. 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 2016/17 for the Fund and the Scheme have been provided.

Balance Sheet

The following amounts have been recognised in the PETPS' Balance Sheet and so consolidated into the Group Balance Sheet. The fair value of plan assets has been restated as at 31 March 2017 to reflect the confirmed year-end valuation. The fair value of plan assets has been increased by £0.3m, and the retirement benefit obligation reduced by the same amount.

	31 March 2017 (Restated) £m	31 March 2018 £m
Present value of funded obligations	(206.6)	(200.5)
Fair value of plan assets	184.3	182.8
Deficit for funded plans	(22.3)	(17.7)
Unrecognised asset due to the asset ceiling	-	-
Retirement Benefit Obligation	**(22.3)**	**(17.7)**

Income Statement

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

	2016/17 £m	2017/18 £m
Operating Costs:		
Administration Expenses	0.7	0.9
Current Service Cost	-	-
Included in Operating Cost	0.7	0.9
Financing Costs:		
Interest cost on pension scheme liabilities	5.9	5.1
Interest income on plan assets	(5.4)	(4.6)
Net interest cost	0.5	0.5
Total income statement expense	**1.2**	**1.4**

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 2016/17 have been restated to reflect an increase in the return on plan assets in excess of interest income by £0.3m.

	2016/17 (Restated) £m	2017/18 £m
Return on plan assets in excess of interest income	27.2	0.9
Actuarial gain/(loss) on liabilities due to changes in financial assumptions	(43.2)	1.9
Actuarial gain/(loss) on liabilities due to changes in demographic assumptions	1.8	0.6
Actuarial gain/(loss) on liabilities due to experience	6.8	(0.9)
Remeasurement gain/(loss) recognised during the period	**(7.4)**	**2.5**

Reconciliation of Liabilities and Assets

Movements in the retirement benefit obligations are as follows:

	2016/17 £m	2017/18 £m
Beginning of Period	(171.2)	(206.6)
Interest Cost	(5.9)	(5.1)
Actuarial gain/(loss) on liabilities due to changes in financial assumptions	(43.2)	1.9
Actuarial gain/(loss) on liabilities due to changes in demographic assumptions	1.8	0.6
Actuarial gain/(loss) on liabilities due to experience	6.8	(0.9)
Benefits Paid	5.1	9.5
Present value of obligation at 31 March	**(206.6)**	**(200.5)**

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

	2016/17 (Restated) £m	2017/18 £m
Beginning of Period	157.4	184.3
Interest income on plan assets	5.4	4.5
Return on plan assets in excess on interest income	27.2	0.9
Contributions by employer	-	3.5
Administration expenses paid	(0.7)	(0.9)
Benefits paid	(5.1)	(9.5)
Fair value of plan assets at 31 March	**184.3**	**182.9**

Movements in the reimbursement right are as follows:

	2016/17 (Restated) £m	2017/18 £m
Surplus/(Deficit) at start of year	(13.7)	(22.3)
Expense (charge)/credit	(1.2)	(1.5)
Employer contributions	-	3.5
Remeasurement gain/(loss) in Other Comprehensive Income	(7.4)	2.5
Surplus/(Deficit) at end of year	**(22.3)**	**(17.7)**

Plan Assets

The major categories of plan assets are as follows:

	31 March 2017		31 March 2018	
	£m	%	£m	%
Equities, GTAA and hedge funds	91.6	50	87.1	48
Bonds and Cash	71.1	39	72.9	40
Property	14.8	8	16.4	9
Gilts	6.5	3	6.5	3
	184.0	**100**	**182.9**	**100**

Assumptions

The principal assumptions made by the actuary were:

	31 March 2017 %	31 March 2018 %
Discount rate – Fund/Scheme	2.50/2.45	2.50/2.50
RPI Inflation rate	3.20	3.15
CPI Inflation rate	2.20	2.15
Future Pension increases		
- pension accrued prior to 5 April 2005	3.05	3.00
- pension accrued after 5 April 2005	2.05	2.05

The base mortality assumptions for the Fund are based on SAPS tables (S2 series). Adjustments were applied to reflect the Scheme's populations with future improvements based on the CMI 2017 projection with a long term rate of improvement of 1.25% p.a. (2016/17: 1.25%).

The life expectancy for members as at the Balance Sheet date:

	31 March 2017 Years		31 March 2018 Years	
	Fund	Scheme	Fund	Scheme
Male: member aged 65 (current life expectancy)	22.2	23.4	22.1	24.5
Female: member aged 65 (current life expectancy)	24.7	24.6	24.6	26.8
Male: member aged 45 (life expectancy at age 65)	23.2	24.7	23.0	25.9
Female: member aged 45 (life expectancy at age 65)	26.2	26.1	26.2	28.3

Sensitivity Analysis

An increase of 0.25% in the discount rate would decrease the retirement benefit obligations by £10.4m
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 £9.9m

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

Expected Contributions for 2018/19

The contribution schedule in force sets out contributions of £3.5m that will be paid into the Fund and £0.1m that will be paid into the Scheme in the 2018/19 financial year. The contribution into the Fund is expected to be paid from the Asset Backed Funding arrangement that was put in place in 2017.

Acivico Limited Group

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

The information disclosed below is in respect of the whole of the plans for which the Company is either the sponsoring employer or has been allocated a share of cost under an agreed group policy throughout the periods shown.

	2016/17	2017/18
	£m	£m
Present value of funded defined benefit obligations	(85.1)	(87.0)
Fair value of plan assets	77.3	77.7
Net (Liability)/Asset	**(7.8)**	**(9.3)**

Movements in the present value of defined benefit obligation:

	2016/17	2017/18
	£m	£m
Balance at beginning of period	49.7	85.1
Current service cost	2.1	3.2
Interest cost	2.4	2.4
Actuarial (gains)/losses	31.2	(3.0)
Contributions by members	0.6	0.6
Curtailment	-	0.3
Benefits paid	(0.9)	(1.6)
31 March	**85.1**	**87.0**

Movements in the fair value of plan assets:

	2016/17	2017/18
	£m	£m
Balance at beginning of period	47.6	77.3
Return on assets (less interest)		
Interest on assets	2.4	2.1
Actuarial (losses)/gains	26.5	(2.1)
Contributions	1.8	1.9
Benefits paid	(0.9)	(1.6)
31 March	**77.3**	**77.7**

Expense recognised in the profit and loss account:

	2016/17	2017/18
	£m	£m
Operating Costs:		
Current Service Cost	2.1	3.5
Included in Operating Cost	2.1	3.5
Financing Costs:		
Interest cost on pension scheme liabilities	2.4	2.4
Interest income on plan assets	(2.4)	(2.1)
Net interest cost	-	0.3
Total Income Statement expense	**2.1**	**3.8**

Other Comprehensive Income

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

	2016/17	2017/18
	£m	£m
Actuarial (gain)/loss on liabilities	31.2	(3.0)
(Gain)/loss on settlement or curtailment	-	-
Actuarial (gain)/loss on plan assets	(27.2)	2.1
Remeasurement (gain)/loss recognised during the period	**4.0**	**(0.9)**

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

	2016/17 Fair Value		2017/18 Fair Value	
	£m	%	£m	%
Equities	49.8	64	49.6	64
Government Bonds	6.3	8	5.7	7
Other Bonds	3.2	4	3.0	4
Property	6.0	8	6.0	8
Cash/Liquidity	2.2	3	1.9	2
Other	9.9	13	11.5	15
Total	**77.3**	**100**	**77.7**	**100**

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

	2016/17	2017/18
	%	%
Discount rate	2.7	2.6
Future salary increases	4.2	3.8
Future pension increases	2.7	2.3
CPI increases	2.7	2.3

In valuing the liabilities of the pension fund at 31 March 2018, mortality assumptions have been made as indicated below.

The life expectancy for members as at the Balance Sheet date:

	31 March 2017	31 March 2018
Male: member aged 65 (current life expectancy)	21.8	21.9
Female: member aged 65 (current life expectancy)	24.2	24.3
Male: member aged 45 (life expectancy at age 65)	23.9	24.0
Female: member aged 45 (life expectancy at age 65)	26.5	26.6

The valuation of the defined benefit obligation and the impact on current service cost are sensitive to a number of factors. Details of the impact of changes to relevant factors are set out below.

	Impact of Change	
	Defined Benefit Obligation	Current Service Cost
	£m	£m
An increase in the discount rate of 0.1%	(1.7)	(0.1)
An increase in long term salary estimate of 0.1%	0.2	-
An increase in the rate of pension increases of 0.1%	1.5	0.1
An increase in anticipated life expectancy of 1 year	3.0	0.1

Note G21
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. The detail for 2016/17 has been restated to reflect the elimination of Birmingham Museums Trust Limited and Performances Birmingham Limited from the Group Accounts as detailed in Note G3.

	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**
2016/17 (Restated)										
Provision of goods and services to subsidiaries	3.4					3.4		3.4	(3.4)	-
Purchases of goods and services from subsidiaries	(19.0)					(19.0)		(19.0)	19.0	-
Total adjustments between Group accounts and Council accounts	**(15.6)**	**-**	**-**	**-**	**-**	**(15.6)**	**-**	**(15.6)**	**15.6**	**-**
2017/18										
Provision of goods and services to subsidiaries	3.2					3.2		3.2	(3.2)	-
Purchases of goods and services from subsidiaries	(21.1)					(21.1)		(21.1)	21.1	-
Total adjustments between Group accounts and Council accounts	**(17.9)**	**-**	**-**	**-**	**-**	**(17.9)**	**-**	**(17.9)**	**17.9**	**-**

Note G22
Analysis of Group Comprehensive Income and Expenditure Statement and Total Movement in Balance Sheet

Detailed below is the analysis of Group Balance Sheet movements.

2016/17 (Restated)				2017/18		
Council	Minority Interests	Total		Council	Minority interests	Total
£m	£m	£m		£m	£m	£m
127.1	-	127.1	(Surplus)/Deficit on the provision of services	34.1	-	34.1
(6.4)	-	(6.4)	Share of Associates	(4.5)	-	(4.5)
123.2	-	123.2	Other Comprehensive (Income)/Expenditure	(547.8)	-	(547.8)
243.9	**-**	**243.9**	**Total Comprehensive (Income)Expenditure**	**(518.2)**	**-**	**(518.2)**
6.4	-	6.4	(Increase)/Decrease in Equity	-	-	-
250.3	-	**250.3**	**Total movement in Balance Sheet**	**(518.2)**	**-**	**(518.2)**

Note G23
Subsidiary Companies

I. The National Exhibition Centre (Developments) Plc

The company was set up to provide an additional 30,000 square metres of exhibition space in four halls. The building was financed by a loan stock issue of £73 million by the company which is guaranteed by the Council. The Council has held all 1,000 issued ordinary shares of £1 each and all 100,000 £1 preference shares throughout the reporting period covered by these financial statements.

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

	2016/17	2017/18
	£m	£m
Profit/(Loss) for the year	(1.0)	(1.0)
Net Assets/(Liabilities) at the year-end	9.1	8.4

The year end of the company is 31 March 2018. 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.

II. Innovation Birmingham Limited

Innovation Birmingham Limited, a company limited by guarantee with the Council as sole member, was created with the aim of promoting, encouraging and securing the development and management of a science park in Birmingham. During the 2017/18 financial year, the Council was entitled to appoint up to seven members of the company and five of the nine voting directors. Furthermore, additional control by the Council was exercised through its 71% share of directors' voting rights. The Articles of Association for Innovation Birmingham Group prohibits the distribution of profits and, as such, dividends.

The Council had made the decision to dispose of its interests in the company to a third party to ensure its continued development. The company is therefore treated as an Asset Held for Sale in these Group financial statements.

The position at the year end is detailed below.

	2016/17	2017/18
	£m	£m
Profit/(Loss) for the year	(0.4)	(0.6)
Net Assets/(Liabilities) at the year-end	0.1	1.8

The year-end of the company is 31 March 2018. For the purposes of consolidation these accounts have been used. There was no qualification to the audit opinion on the last audited accounts of this company.

Information regarding transactions during the year and balances held at the year-end between the Council and Innovation Birmingham Limited can be found within Note 48 of the Council entity accounts. The Council sold its interests in the company on 18 April 2018.

III**. Acivico Limited**

Acivico Limited is a registered company, which is wholly owned by the Council. The company was launched in April 2012, with three special purpose vehicles (SPVs): one holding company and two trading companies. The two trading companies, Acivico Design Construction and Facilities Management Limited and Acivico (Building Consultancy) Limited, have been operational since April 2012 and provide a range of statutory and non-statutory services on behalf of and to the Council and to other public and private sector clients. The Council has held the £1 issued ordinary share (100%) for the whole of the reporting period covered by these financial statements.

	2016/17	2017/18
	£m	£m
Profit/(Loss) for the year	(1.7)	(4.6)
Net Assets/(Liabilities) at the year-end	(7.2)	(12.2)

The year-end of the company is 31 March 2018 and for the purposes of consolidation these accounts have been used. There was no qualification to the audit opinion on the last audited accounts of the group.

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

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.

	2016/17 £m	2017/18 £m
Profit/(Loss) for the year	-	-
Net Assets/(Liabilities) at the year-end	-	-

The year-end of the company is 31 March 2018 and for the purposes of consolidation these accounts have been used. There was no qualification to the audit opinion on the last audited accounts of the group.

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

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 has been 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 2018, there were nominal balances in PETPS Capital and PETPS General with the major transactions in SLP.

	2017/18 £m
Profit/(Loss) for the year	-
Net Assets/(Liabilities) at the year-end	-

The year-end of the company is 31 March 2018 and for the purposes of consolidation these accounts have been used. This is the first year of operation of the company and its accounts are subject to audit.

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 48 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. The company has continued its building programme and it is expected that the first units will be available for accommodation early in the 2018/19 financial year. 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.

	2016/17	2017/18
	£m	£m
Profit/(Loss) for the year	(0.1)	(0.6)
Net Assets/(Liabilities) at the year-end	1.9	12.8

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 2018 have been used. There was no qualification to the audit opinion on the last audited accounts of the group.

VII. Birmingham City Propco Limited

The Council set up Birmingham City Propco Limited, a wholly owned subsidiary of the Council, in 2017/18 to provide a vehicle for commercial investment. The initial transactions of the company were to purchase the leasehold interests of the Council in respect of the Crowne Plaza NEC and Hilton Metropole NEC Hotels, which were completed on 15 March 2018. The company has been consolidated into the Council's Group Financial Statements for the first time in 2017/18.

	2016/17	2017/18
	£m	£m
Profit/(Loss) for the year	-	(0.6)
Net Assets/(Liabilities) at the year-end	-	8.9

The year-end of the company is 31 March. The company has opted to produce its first financial statements as at 31 March 2019 and for the purposes of consolidation, the company's latest management accounts have been used as there were few transactions in the year other than the purchase of the leasehold interests.

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 48 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 main ordinary shareholders of Birmingham Airport Holdings Limited (BAH) are the seven West Midland Districts. The seven Districts together own 49% of BAH's 324.0m ordinary shares of 1p each (the Council owns 18.68% that is 60.5m ordinary shares). 48.25% ordinary shares are held by Airport Group Investments Limited which is owned by the Ontario Teachers' Pension Plan and Victorian Funds Management Corporation and the remaining 2.75% shares are held by an Employee Share Trust. The Shareholders' Agreement provides for the Districts to cast their 49% vote in all circumstances in one consolidated block. The vote of 75% of ordinary shareholders is required for certain major decisions of the company.

The seven West Midland Districts together own all £15.4m of BAH's 6.31% preference shares (the Council owns £5.9m) which are cumulative and redeemable.

The BAH Group Accounts incorporate:

- Birmingham Airport Limited;
- Birmingham Airport Air Traffic Limited;
- Birmingham Airport Developments Limited;
- Birmingham Airport (Finance) Plc;
- Birmingham Airport Operations Limited;
- Birmingham Airport Services Limited;
- BHX Fire and Rescue Limited;
- BHX (Scotland) Limited;
- BHX Limited Partnership;
- Euro-Hub (Birmingham) Limited; and
- First Castle Developments Limited.

The principal activity of the group is the operation and management of Birmingham International Airport and the provision of facilities and services associated with those operations.

The year-end of the company is 31 March 2018. 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;

- 25% of the BAH Board of Directors (4 of 16) are Council officers or councillors.

Following adjustments to the financial information to align accounting policies with those of the Council, in accordance with the principal of equity accounting under the Code, the summarised financial information for the associate for the year ended 31 March is detailed below:

31 March 2017 £m		31 March 2018 £m
468.2	Non-Current Assets	465.6
73.0	Current Assets	68.7
(77.8)	Current Liabilities	(76.3)
(358.7)	Non-Current Liabilities	(348.1)
104.7	Net Assets	109.9
19.6	**Council Interest in Net Assets @ 18.68%**	**20.5**
145.8	**Revenue**	**155.5**
19.3	Post-Tax Profit/(Loss)	26.4
(12.6)	Other Comprehensive Income/(Expenditure)	9.1
6.7	Total Comprehensive Income/(Expenditure)	35.5
1.3	**Council Interest in Total Comprehensive Income/(Expenditure) @ 18.68%**	**6.6**

The carrying value of the Council's interest in this entity is £20.5m (2016/17: £19.6m), which is included within Investments in Associates and Joint Ventures in the Group Balance Sheet.

Birmingham Airport Holdings Limited at 31 March 2018 has disclosed four existing contingent liabilities within its financial statements:

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

- On 3 December 2013 the company along with other group members of Birmingham Airport Holdings Limited provided guarantees in support of £75m private placement senior notes received by Birmingham Airport (Finance) Plc. Series A senior notes of £30m are for a period of ten years maturing on 3 December 2023 and carry fixed interest rate of 4.472% per annum. Series B senior notes of £45m are for a period of 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 30 March 2016 the company along with other group members of Birmingham Airport Holdings Limited, provided guarantees to the Royal Bank of Scotland Plc and Lloyds Bank Plc in support of a £20m banking facility made available to Birmingham

Airport Holdings Limited. The facility is for a period of five years with an expiry date of 30 March 2021, with an option to extend by two further 12 month periods. At the date of the signing of its financial statements, the total amount outstanding under the facility was £nil.

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

II. Paradise Circus Limited Partnership

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

The year-end of the company was 30 June 2017. For the purposes of consolidation these accounts have been used and supplemented by management accounts information for the nine month period to 31 March 2018. There was no qualification on the audit opinion for the last audited accounts of the company.

Following adjustments to the financial information to align accounting policies with those of the Council, in accordance with the principles of equity accounting under the Code, the summarised financial information for the associate for the year ended 31 March is as follows:

31 March 2017 £m		31 March 2018 £m
6.8	Non-Current Assets	6.8
23.3	Current Assets	22.2
(5.9)	Current Liabilities	(4.0)
(26.0)	Non-Current Liabilities	(28.2)
(1.9)	Net Assets/(Liabilities)	(3.2)
(0.95)	**Council Interest in Net Liabilities @ 50%**	**(1.6)**
17.8	**Revenue**	**12.4**
(1.3)	Post-Tax Profit/(Loss)	(1.4)
-	Other Comprehensive Income/(Expenditure)	-
(1.3)	Total Comprehensive Income/(Expenditure)	(1.4)
(0.7)	**Council Interest in Total Comprehensive Income/(Expenditure) @ 50%**	**(0.7)**

The carrying value of the Council's interest in this entity is a net deficit of £1.6m (2016/17: £0.95m deficit), which is included within the current liabilities in the Group Balance Sheet.

Birmingham
City Council

Annual Governance Statement 2017/18

Annual Governance Statement 2017/18

1 Scope of responsibility

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

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

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

2 The purpose of the governance framework

2.1. 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 2018 and up to the date of approval of the Statement of Accounts.

3 The governance framework

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

The Council's vision and priorities for Birmingham

3.2. The Council has been on a journey to redefine its vision and purpose in serving the people of Birmingham. Creating a Council of the Future will drive 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 for a city of growth, in which every child, citizen and place matters and to support this, the Council has set itself four clear priorities:

- **Children – a great city to grow up in**. To make the best of the city's unique demography and create a safe and secure city for children to learn and grow.
- **Housing – a great city to live in.** To provide housing in a range of types and tenures, to meet the housing needs of all current and future citizens of the city.
- **Jobs and Skills – a great city to succeed in.** Birmingham will be renowned as an enterprising, innovative and green city.
- **Health – a great place to grow old in.** To help people become healthier, especially relating to physical activity and mental wellbeing.

3.4. The Council's vision and priorities in terms of the contribution to strategic outcomes are set out in the Vision and Priorities 2017-2020 Plan (the Plan). The Plan was updated in 2017/18 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.

3.6. The Council's Delivery Plan published in September 2017, sets out by each corporate priority the key actions, how progress is tracked and measured, deadlines and identification of the lead officer. Regular monitoring and reporting against these measures ensures that shortfalls in performance are identified at an early stage and effective action to bring performance in line with targets is undertaken.

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

3.8. Ultimately, the Council's role will change. No longer can it see itself as simply delivering services across the City, it must now be a place-shaper and commissioner and work with partners, communities and individuals to deliver outcomes. As a result the Council of the Future will be smaller and more strategic, partnership based, more about people and better at managing demand.

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

3.10. The Financial Plan 2017+ was developed to align with the Council's Delivery Plan. The Council continues to face significant funding reductions and challenges in achieving its budget plans, outlined in the Council Plan and Budget 2018+.

3.11. A robust system to monitor the achievement of savings proposals and scrutiny by Council Management Team (CMT), Budget Board and Cabinet is in place and regularly undertook actions throughout the financial year to control spend. Where pressures were identified, Corporate Directors were asked to find alternative solutions and actions to contain spending within cash limits. Even so, pressures at the year-end remain.

3.12. Following the financial experiences over the last two years, highlighted by both the Birmingham Independent Improvement Panel (BIIP) and through a Statutory Recommendation under Section 24 of the Local Audit and Accountability Act 2014, made by the external auditors for the 2016/17 Statutory Accounts, 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 ensures 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 reserves as a contingency funding in case of savings delivery difficulties.

3.13. The Council's workforce has experienced many changes and challenges 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, it is recognised the workforce has been facing change over the last 10 years.

3.14. External reviews, including the '*Kerslake Review'*, highlighted many areas for improvement – much of which the Council already knew about itself – including the lack of a corporate strategic picture and therefore workforce reductions which were not focused in terms of delivering savings.

3.15. As the vision for the future priorities is now clearer, the workforce and employment model needs to be reshaped to ensure that the Council is fit for that future through the Council's People Strategy. People who have the right behaviours and skills for the future need to be retained and nurtured, whilst acknowledging that the workforce will be significantly smaller, needing a different focus and capabilities. It will be a challenge to bring the workforce on this journey and to re-engage individuals and teams in a positive future.

3.16. 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).

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

3.18. 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 supported by the West Midland's Devolution Deal to develop collaborative solutions to common problems, and facilitating coherent programmes with regional and international partners to deliver an economic strategy for the city and region. LEP projects follow the Council's governance processes, managed and monitored through a Project Delivery Board, with regular reporting to the LEP Board by the LEP Champion.

3.19. Change across local government continues. A Mayor was elected on 6 May 2017 to head the West Midlands Combined Authority (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.

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

3.21. In May 2016, the Council announced its intention to move towards a Children's Trust. The Trust is a wholly owned company of the Council 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.

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

3.23. The Council facilitates policy and decision–making via an Executive Structure. There were ten members of Cabinet for the 2017/18 financial year: the Leader, Deputy Leader and eight other Cabinet Members with the following portfolios:

- Cabinet Member – Children, Families and Schools;
- Cabinet Member – Commercialism, Commissioning and Contract Management;
- Cabinet Member – Transport and Roads;
- Cabinet Member – Clean Streets, Recycling and Environment;
- Cabinet Member – Health and Social Care;
- Cabinet Member – Housing and Homes;
- Cabinet Member – Jobs and Skills;
- Cabinet Member – Community Safety and Equalities.

3.24. For the 2018/19 financial year, the Cabinet structure includes:

- The Leader
- Deputy Leader
- Cabinet Member – Children's Wellbeing;
- Cabinet Member – Clean Streets, Waste and Recycling;
- 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.

3.25. 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.

3.26. 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.

3.27. 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.

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

3.29. 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

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

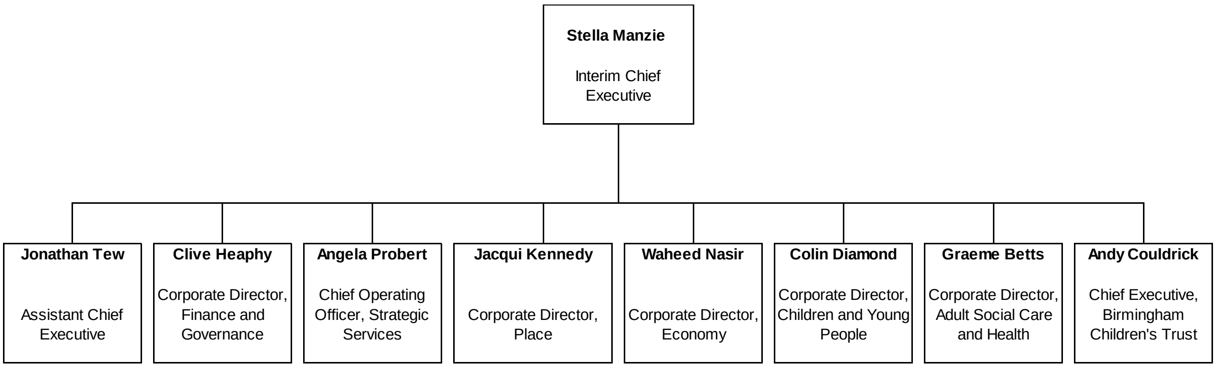
3.31. The Constitution also includes a Scheme of Delegation to Officers which sets out the powers of Corporate Directors.

3.32. 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

3.33. During 2017/18, the Council operated within six Directorates, Adult Services, Children and Young People, Economy, Finance and Governance, Place and Strategic Services.

3.34. The Council's management structure as at 31 March 2018 was as per the diagram below:



3.35. During the year, the following key changes occurred

- Stella Manzie was appointed as Interim Chief Executive 4 April 2017 and served through to 31 March 2018. Dawn Baxendale who was appointed as permanent Chief Executive started with the Council on 1 April 2018.
- The Interim Chief Finance Officer, Mike O'Donnell left the Council at the end of December 2017 and Clive Heaphy joined as Corporate Director - Finance & Governance on 3 January 2018.
- The previous Assistant Chief Executive, Piali DasGupta, left the Council at the end of June 2017 with Jonathan Tew commencing on 2 January 2018.
- The Strategic Director – Major Projects and Programmes left the Council at the end of July 2017.
- The appointment of Andy Couldrick as Chief Executive of the Children's Trust was announced in May 2017 and Andy formally took over his role following the transfer of operation responsibility from the Council to the Trust on 1 April 2018.

Financial Management Arrangements

3.36. 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.

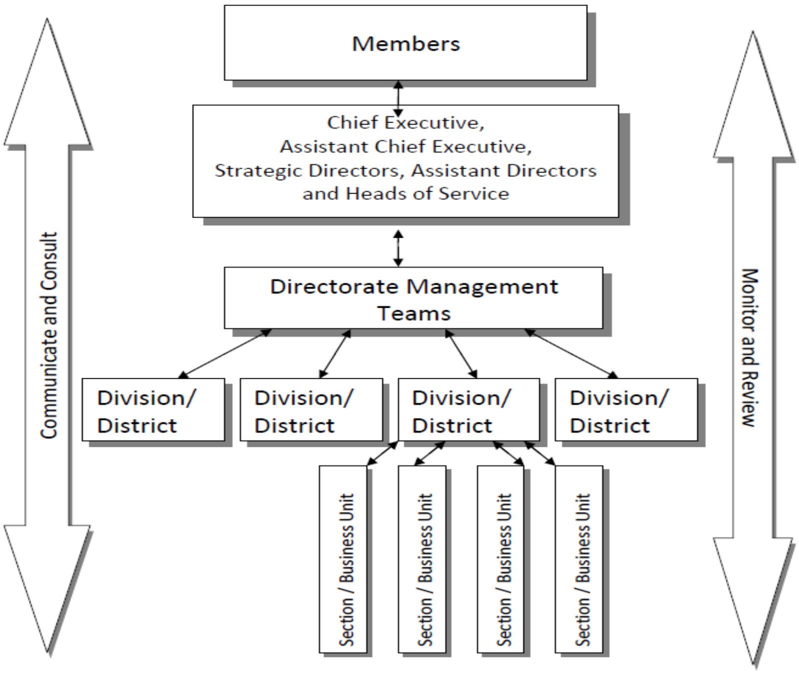
Scrutiny, Accountability and Risk Management

3.37. 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.

3.38. 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.

3.39. The Council ensures compliance with established policies, procedures, laws, and regulations - including risk management. For transparency, all reports to Cabinet, Cabinet Members and Districts are required to include governance information relating to: Council policy, internal and external consultation, financial and legal implications and Public Sector Equalities Duty. All reports are required to be cleared by senior finance and legal officers.

3.40. Risk management continues to be embedded within the Council. The schematic diagram below illustrates how risk was managed during 2017/18:



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

3.42. Legal requirements and Council policy, together with guidance on their implementation, are set out in detail in the Policies, Standards, Procedures and Guidance database held on the Council's systems. Directorates maintain detailed delegations and guidance on specific legislative requirements which affect their service delivery.

3.43. The Council has a strong Internal Audit function 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.

Birmingham Independent Improvement Panel (BIIP)

3.44. Following Lord Kerslake's review of the Council's corporate governance (published in December 2014), the Birmingham Independent Improvement Panel (BIIP) was set up in January 2015. The Council and BIIP have worked closely together from this time.

3.45. During August and September, the Council faced an industrial dispute over the reorganisation of its waste management operations. In the course of the dispute, questions arose about the conduct of the Leader of the Council and whether the Council's constitution and Member Code of Conduct had been breached. On the 11 September the Leader of the Council resigned his position and the Deputy Leader became Interim Leader of the Council until a new Leader was elected.

3.46. In a letter to the Secretary of State for Communities and Local Government in September, the BIIP stated it was disappointed in this set back as at the heart of the Kerslake Review was a question of the Council's culture. It recommended, in consultation with the Interim Leader and the Interim Chief Executive, that the BIIP should remain in place, providing advice and support to the Council through a period of significant transition and until it can demonstrate that the changes in culture and governance still required are truly embedded. The Interim Leader of the Council was elected Leader in autumn 2017 along with a new Deputy Leader.

3.47. In March 2018, the BIIP acknowledged that "*along with the election of the Council Leader and Deputy Leader, permanent appointments had been made to Chief Executive, Assistant Chief Executive and Corporate Director of Finance and Governance. These significant leadership changes were taking place in the context of the Children's Trust being established, the Council experiencing all-out elections in May 2018 and that Birmingham had been announced as the host City for the Commonwealth Games 2022.*"

3.48. The letter further went on the say that:

"*Significant changes are continuing to take place in Birmingham. These are set to bring fresh opportunities and some new challenges in the years ahead.*" In addition the letter said "*in the light of these changes and context, the Council and the Panel have reviewed our position and propose moving to a more collaborative approach. This joint letter from the Panel and the Council reflects this change.*

With support and advice from the Panel, the Council intends to publish a suite of improvement plans. Progress on delivering all of the plans and the impact of the changes they bring about will be rigorously tracked and evaluated.

The Council also recognises that it has not yet brought its day to day expenditure into line with its revenue. Balancing its revenue budget has therefore required, and continues to require, substantial draw down of the Council's reserves. This position is not sustainable and high quality strategic financial management and difficult decisions will be required to achieve financial sustainability.

We understand that if more collaborative working as proposed is to be successful, this will require all elected members and officers of the Council and the Panel to demonstrate high levels of transparency and self-awareness in evaluation and reporting."

Member Development

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

3.50. Regular monthly "market places" and briefing sessions are held to keep Councillors up-to-date with Council services or services provided by partner organisations.

3.51. The Members' Development Programme 2017/18 was delivered around three areas as outlined in the table below:

New Member Induction	Role Specific Training	On-going Member Development
Aim: To give oversight of Council processes and procedures to enable new members to get quickly up to speed with their role.	**Aim: ensuring members have the knowledge and understanding of legal and governance requirements to carry out role on regulatory and scrutiny committees.**	**Aim: to provide ongoing development opportunities for members related to current and potential future role and responsibilities.**
Understand role and responsibilities, the Council's values & behaviours, define new development offer.	Planning, Licensing and Scrutiny training provided to support members.	Skill development (e.g. mental health, first aid); networks and external courses.
Code of conduct and the constitution.		On-going transformation (e.g. Children's Trust, apprenticeships, homelessness, universal credit).
Who's who in Birmingham, customer intelligence and access to IT and council services.		Community leadership including local leadership, tools for ward working).

<u>Workforce</u>

3.52. Having a flexible, skilled and mobile workforce is critical to the Council effectively responding 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 the Council's ability to recruit and retain the talent needed to ensure workforce capacity.

3.53. During 2017/18, the 'My Appraisal' review process was embedded. This streamlined the personal review process and enabled a consistent means of assessing and rewarding performance. 'My Appraisal' is specifically designed to ensure that employees are supported to implement the Council's core values:

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

Engagement with the community and other stakeholders

3.54. 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 2018+ 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. The Customer Service transformation and Communications Review ensures that clear channels of communication are in place with service users, citizens and stakeholders. The Council holds meetings in public wherever possible. Directorates have extensive programmes of consultation and engagement activity for specific services.

4 Review of effectiveness

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

4.2. The Council continues to assess how its overall corporate governance responsibilities are discharged. In particular the Council has adopted the *'Delivering Good Governance in Local Government: Framework'* (2016 CIPFA/Solace) and continues to learn from experiences and makes necessary changes to improve its local code of governance. The Council's review process uses the Core Principles and Sub Principles included in this framework and this Statement sets out how the Council meets these roles and principles in its control and governance arrangements.

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

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

- Directorate assurance based on management information, performance information, officer assurance statements and Scrutiny reports;
- The work undertaken by Birmingham Audit during the year;

- The work undertaken by the external auditor reported in their annual audit and inspection letter; and
- Other work undertaken by independent inspection bodies.

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

4.6. As in previous years the Birmingham Audit plan was compiled using professional judgement and a risk model to 'score' all potential 'auditable' areas. To meet the standards required there was a need to ensure sufficient coverage of the adequacy and effectiveness of systems of internal control in relation to financial control, risk management, corporate governance and an element for proactive and reactive fraud work.

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

4.8. From the work undertaken by Birmingham Audit during 2017/18 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 on the core systems of internal controls evaluated**." In this context 'reasonable assurance' means that the systems can be relied upon to prevent error, fraud or misappropriation occurring without detection, and that nothing was found that would materially affect the Council's standing or Annual Accounts. As in any large organisation, Internal Audit did identify some significant issues that required action. All significant issues were reported to the appropriate Corporate Director during the year.

4.9. Whilst this assurance is limited by the overall improvement that still needs to be delivered and adverse value for money opinion issued by the Council's External Auditors, the Improvement Panel, in its latest letter to the Secretary of State, recognises that significant changes are taking place, including strengthening of the Council Management Team; establishment of the Children's Trust; the Council's first all-out elections; and progress against priorities. These changes are now moving the Council forward on a positive basis.

4.10. All significant issues have also been brought to the attention of the Audit Committee, and where appropriate to CMT. The more significant of these are set out in the section entitled '**Significant governance issues 2017/18'** below.

4.11. The internal audit function is monitored and reviewed regularly by the 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 2017/18 including an integrated assessment of Health and Social Care on delayed transfer of care, corporate parenting and the Sustainability and Transformation Partnership.

4.13. The Vision and Priorities Council Plan and organisational health targets were monitored through the Council Plan Measures by CMT, 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 93 concerns raised and considered under the Council's Whistleblowing & Serious Misconduct policy in the 2017/18 financial year.

5 **Review of 2016/17 governance issues**

5.1. The significant 2016/17 governance issues were considered by Audit Committee in June 2017, agreed as part of the Statement of Accounts in September 2017 and reviewed as part of the Corporate Risk Register updates in the 2017/18 financial year. In addition, this Committee received reports relating to Final Accounts, Fraud and the Local Government Ombudsman Annual Review.

5.2. Children's Safeguarding issues were considered by Cabinet and the Schools, Children and Families O&S Scrutiny Committee. This O&S Committee also considered issues such as the Children's Trust, the Education and Children's Social Care Improvement Journey, child poverty and children missing from home or care.

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

5.4. The Council worked closely with the BIIP to formulate and implement action plans in response to the Kerslake review. From March 2018, the Council and the BIIP are moving to a more collaborative approach.

6 **Significant governance issues 2017/18**

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

Issue No	Governance Issue	Mitigation Action / Proposed Action
1	**Safeguarding** Safeguarding for both children and adults remains a priority. Work will continue to review the action plans in place as a result of the review by Commissioner Lord Warner and producing a robust Business Plan for 2018/19 and future years. The Care Act 2014 sets out the legal requirements for adult safeguarding.	The Council has launched an Improvement Plan and new operating model which sets out the vision, values, direction and shape of the service. A clear performance framework that provides challenge and accountability at all levels has been introduced. This will be part of the framework for the Children's Trust. The Care Act established the requirement to set up an independent Safeguarding Board for Adults. Arrangements are in place to work alongside the existing membership of the Birmingham Adults Safeguarding Board (BASB) with a view to ensuring that local arrangements are compliant with the Care Act.
2	**Financial Resilience** The Council faces continued reducing resources. This poses challenges to the financial resilience of the Council. Financial resilience continues to be a focus for the external auditors, with continued demands to evidence 'Going Concern'. The auditor noted in his Annual Audit Letter that there was considerable challenge for the Council to deliver its savings plans for 2017/18 and the potential impact on future years' savings plans. Given the Council is in the eighth year of budget reductions the possibility of Judicial Review challenge to the budget or elements of it, remains high.	Proactive actions are in place to plan and monitor the delivery of the savings programme including the delivery of workforce savings. These include further assurances on the deliverability and impacts of proposals and a commitment from the Leader 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.
3	**Major Projects** The Council is involved in a range of major projects which include partnership working arrangements and sometimes complex legal	The partnership with neighbouring authorities through the West Midlands Combined Authority continues to develop. The next stages are vital as devolution is

Issue No	Governance Issue	Mitigation Action / Proposed Action
	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. • Children's Services Trust.	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 have 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. In the light of weaknesses identified in the Council's role as accountable body for the LEP, a joint protocol is being developed to define relationships more formally so that there is greater clarity of role. Strengthening and tightening capital financial controls. Closely monitoring expenditure on major projects to ensure projects are achieved on time and within budget. Any transfer, commissioning or outsourcing of services is subject to the development and Cabinet approval of robust business cases and shadow working arrangements.
4	**Equal Pay Claims** The risk of Equal Pay Claims remains significant and is being actively managed by a joint team from Legal Services and Human Resources.	Equal pay claims issued against the Council are subject to detailed analysis and robust legal challenge. The Council has sought to secure settlements that represented the best outcome for the taxpayer. The law in respect of equal pay is complex and has developed over the past 10 years. Any entitlement to compensation has to be justified in accordance with the legal position. The Council continues to monitor and manage the situation closely.

Issue No	Governance Issue	Mitigation Action / Proposed Action
5	**The Improvement Agenda** The current challenging financial environment has required significant organisational upheaval as well as workforce reductions and compulsory redundancies. Review of services and associated budgets as the Council moves towards the Council of the Future will require significant and substantial changes to the way services are provided, both internally and when working with other service providers.	A People Strategy has been designed to reshape the workforce and employment model to ensure the Council is fit for the future. In the forthcoming year the significant planned budget reductions will increase pressure on services, which will need to be re-shaped and adopt more efficient ways of working to mitigate and manage this.
6	**Safety Implications for Tower Blocks** Impact of Grenfell Tower and subsequent implications for improving safety in tower blocks.	A project plan has been produced for all programmes of works required to investigate cladding systems and any associated remedial works to further enhance existing fire safety measures. This includes : • A programme to fit sprinkler systems to 213 high rise blocks over a 3 year period starting 1/4/18. • A programme to carry out fire risk assessments to all communal areas annually.
7	**Homeless Reduction Act** Implementation of the Homeless Reduction Act is a significant risk for the local authority due to an increase in demand that will be placed on the service. New burdens funding of £1.75m to be received over 3 years to implement the Homelessness Reduction Act. The demand on the service continues to be significant and the Council has	An implementation plan has been developed to ensure compliance with the new legislation which comes into force on 3.4.2018. The plan includes a number of work streams: • Redesign the Housing Option Service • Awareness and training (staff, Trade Unions and elected members) • IT systems to be developed with the

Issue No	Governance Issue	Mitigation Action / Proposed Action
	over 2,000 households in temporary accommodation with a large number of individuals/families in Bed and Breakfast accommodation outside of the City.	Council's IT fixture providers • Accommodation, additional accommodation for staff, communication plan being produced. • Temporary Accommodation Services will require a complete review to reduce the Council's reliance on temporary accommodation moving to preventative measures.

6.2. These matters are monitored through the Corporate Risk Register, CMT 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 …………………………..
Clive Heaphy
Corporate Director, Finance & Governance

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 instruments, 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 process 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 similar types and a sample from each type, known as beacon properties, are valued with the results being multiplied up to give a total value for each type.

Business Rates
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 fixed asset, or expenditure which adds to, and not merely maintains, the value of an existing fixed 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
Money received from the disposal of land and other non-current assets, and from the repayment of capital grants and loans made by the Council.

Cash Flow Statement
The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as being from operating, investing 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 to the General Fund, other public authorities and Business Improvement Districts.

Community Assets
Assets that the local authority intends to hold in perpetuity, that have no determinable useful life and that may have restrictions on their disposal. Examples of community assets are parks and historic buildings.

Comprehensive Income and Expenditure Statement (CIES)
This Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation.

Consistency
The concept that the accounting treatment of like items within an accounting period and from one period to the next is the same.

Creditors
Amounts owed by the Council for work done, goods received or services rendered, but for which payment has not been made by the end of the year.

Current Value
Current value is a measurement base which reflects the economic environment prevailing for the service or function that an asset supports when valuing the asset. The current value measurement bases include Existing Use Value, Depreciated Replacement Cost and Fair Value (see below).

Debtors
Sums of money owed to the Council for work done, goods received, services rendered or taxation due but not received by the end of the year.

Deferred Capital Receipts
These represent income that is still due following disposal of a non-current asset.

Defined Benefit Pension Scheme
Pension schemes in which the benefits received by the participants are independent of the contributions paid and are not directly related to the investments of the scheme.

Defined Contribution Pension Scheme
Pension schemes or other retirement benefit schemes in which the employer pays regular fixed contributions as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Depreciated Replacement Cost
This is a method of valuation which provides the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and obsolescence.

Depreciation
The measure of the wearing out, consumption or other reduction in the useful economic life of a non-current asset.

Earmarked Reserve
A 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 unfavourable, that occur between the balance sheet date and the date on which the statement of accounts is signed by the Responsible Financial Officer.

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

Expenditure and Funding Analysis
The Expenditure and Funding Analysis shows how the Council allocates net expenditure for decision making purposes between the Council’s Directorates. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

Fair Value
Fair Value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fees and Charges
Income arising from the provision of services, for example, the use of leisure facilities.

Finance Lease
A lease that transfers substantially all of the risks and rewards of ownership of a 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.

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 and art 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
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.

Joint Operation
A joint operation is an arrangement where the parties that share joint control have rights to the assets and obligations for the liabilities of the arrangement.

Joint Venture
A joint venture is an arrangement where the parties that share joint control have rights to the net assets of the arrangement.

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 Debtors
These debtors represent the capital income still to be received, 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 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.

Revenue Support Grant (RSG)
A grant formerly received from Government towards the cost of providing services.

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.

Independent auditor's report to the members of Birmingham City Council

Report on the Audit of the Financial Statements

Opinion

Our opinion on the financial statements is unmodified

We have audited the financial statements of Birmingham City Council (the 'Council') and its subsidiaries, associates and joint ventures (the 'group') for the year ended 31 March 2018 which comprise the Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account - Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund Income and Expenditure Account, the Group Comprehensive Income and Expenditure Statement, Group Movement in Reserves Statement, the Group Balance Sheet, the Group Cash Flow Statement and all notes to the financial statements, including the Accounting Policies to the Core Financial Statements and the Group Accounts. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18.

In our opinion, the financial statements:

give a true and fair view of the financial position of the group and of the Council as at 31 March 2018 and of the group's expenditure and income and the Council's expenditure and income for the year then ended;

have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and

have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and the Council in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – completeness of equal pay contingent liability

We draw attention to the disclosures made in note 33 to the core financial statements (contingent liabilities and contingent assets) concerning the uncertain outcome of claims that may be received by the Council under the Equality Act. As stated in section 2 of the contingent liabilities disclosures in note 33, the Council has set aside a provision of £151.8m for claims received under the Equality Act, which incorporates all claims received and negotiations agreed to 28 February 2018. 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. Our opinion is not modified in respect of this matter.

Who we are reporting to

This report is made solely to the members of the Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Council's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council and the Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Corporate Director, Finance & Governance's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

- the Corporate Director, Finance & Governance has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the Council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Overview of our audit approach

- Overall materiality: £43.8 million, which represents 1.5% of the group's gross total cost of services expenditure;
- Key audit matters were identified as:
    - Valuation of land and buildings (other land and buildings, council dwellings and surplus assets); and
    - Valuation of the pension fund net liability.
- We performed a full scope audit of the Council, targeted procedures on Birmingham City Propco Limited and analytical procedures on all the other non-significant components within the Group.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter – Group and Council	How the matter was addressed in the audit – Group and Council
Risk 1 – Valuation of land and buildings (other land and buildings, council dwellings and surplus assets) The Council revalues its land and buildings on a rolling five year programme to ensure that the carrying value is not materially different from the current value or the fair value (for surplus assets). This represents a significant estimate by management in the core financial statements and group accounts. Valuation of land and buildings is considered a significant estimate due to the size of the numbers involved (£4.7 billion) and the sensitivity of this estimate to changes in key assumptions. We therefore identified the valuation of land and buildings (other land and buildings, council dwellings and surplus assets) as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: • Updating our understanding of the processes put in place by management to ensure that revaluation measurements are correct and evaluating the design of the associated controls; • Evaluating management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • Evaluating the competence, capabilities and objectivity of the valuation expert (the valuer); • Discussing with the valuer the basis on which the valuation was carried out; • Challenging the information and assumptions used by the valuer to ensure completeness and consistency with our understanding; • Testing revaluations made during the year to ensure they were input correctly into the Council's asset register and correctly reflected in the financial statements; and • Evaluating the assumptions made by management for those assets either revalued at the start of the financial year or not revalued during the year to determine how management has satisfied themselves that the current values (or fair values for surplus assets) at the year-end are not materially different to the carrying values per the financial statements. The Council's accounting policy on valuation of land and buildings (other land and buildings, council dwellings and surplus assets) is shown in note 1.xi to the core financial statements and related disclosures are included in note 22 to the core financial statements and note G7 to the group accounts.

<table>
<tr><th>Key Audit Matter – Group and Council</th><th>How the matter was addressed in the audit – Group and Council</th></tr>
<tr><td></td><td>Key observations
We obtained sufficient audit assurance to conclude that:
the basis of the valuation was appropriate and the assumptions and processes used by management in determining the estimate were reasonable; and
the valuation of land and buildings disclosed in the financial statements is reasonable.
We identified that £50 million of in-year depreciation for council dwellings was incorrectly written out to the CIES on revaluation when this should have been accounted for as part of the overall revaluation increase recognised in the revaluation reserve. We also identified an error of £97 million in the accounting for the revaluation of council dwellings.

The impact on the comprehensive income and expenditure statement has been to increase net cost of services expenditure by £50 million and to increase the surplus on revaluation of property, plant and equipment assets by £147 million. These adjustments are subsequently reflected in the capital adjustment account and revaluation reserve.

The impact on the balance sheet has been to increase the net book value of property, plant and equipment by £97 million and to increase unusable reserves by £97 million.</td></tr>
<tr><td>Risk 2 - Valuation of the pension fund net liability

The Council's pension fund net liability, as reflected in its balance sheet as the net liability on defined pension scheme, represents a significant estimate in the core 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) and the sensitivity of the estimate to changes in key assumptions.</td><td>Our audit work included, but was not restricted to:
Gaining an understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability was not materially misstated and evaluating the design of the associated controls;
Evaluated the appropriateness of data provided for the purposes of the IAS19 actuarial valuation;
Evaluating the competence, capabilities and objectivity of the actuary who carried out the</td></tr>
</table>

Key Audit Matter – Group and Council	How the matter was addressed in the audit – Group and Council
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.	Council's pension fund valuation; • Testing 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; and • Undertaking 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. The Council's accounting policy on valuation of the pension fund net liability is shown in note 1.vi to the core financial statements and related disclosures are included in note 21 to the core financial statements. **Key observations** We obtained sufficient audit assurance to conclude that: • the basis of the valuation was appropriate and the assumptions and processes used by the actuary in determining the estimate were reasonable; and • the valuation of the Council's pension fund net liability disclosed in the financial statements is reasonable.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our work and in evaluating the results of that work.

Materiality was determined as follows:

Materiality Measure	Group	Council
Financial statements as a whole	£43.8 million, which is 1.5% of the Group's gross total cost of services expenditure. This benchmark is considered the most appropriate because we consider users of the financial statements to be most interested in how it has expended its revenue and other funding. Materiality for the current year is at the same percentage level of gross total cost of services expenditure as we determined for the year ended 31 March 2017, as we did not identify any significant changes in the Group or the environment in which it operates.	£43.6 million, which is 1.5% of the Council's gross total cost of services expenditure. This benchmark is considered the most appropriate because we consider users of the financial statements to be most interested in how it has expended its revenue and other funding. Materiality for the current year is at the same percentage level of gross total cost of services expenditure as we determined for the year ended 31 March 2017, as we did not identify any significant changes in the Council or the environment in which it operates.
Performance materiality used to drive the extent of our testing	75% of financial statement materiality	75% of financial statement materiality
Specific materiality	None	£100,000 for senior officer's remuneration (including exit packages for senior officers) based on the fact that we consider the disclosures to be sensitive and of specific interest to the reader of the financial statements.
Communication of misstatements to the Audit Committee	£2.2 million and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	£2.2 million and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

The graph below illustrates how performance materiality interacts with our overall materiality and the tolerance for potential uncorrected misstatements.

An overview of the scope of our audit

Our audit approach was a risk-based approach founded on a thorough understanding of the group's business, its environment and risk profile and in particular included:

- Gaining an understanding of significant changes to the Group structure;
- Evaluation of identified components to assess the significance of each component and to determine the planned audit response based on measures of the materiality and significance of the component as a percentage of the group's current assets, total assets, current liabilities, total liabilities, equity and revenues. A full scope, targeted or analytical approach was taken for each component based on their relative materiality to the group and our assessment of audit risk;
- Full scope audit procedures on the Council, which represents 99.7% of the group's income and 99.5% of its group's total expenditure;
- Performing analytical procedures or targeted procedures on all non-significant components included in the group financial statements which make up the remainder of the group's income and total expenditure;
- Gaining an understanding of and evaluating the Council's internal control environment, including its financial and IT systems and controls; and
- Substantive testing of the income, expenditure and net assets for the Council. Testing undertaken covered 99.1% of group income and 99.3% of group expenditure.

Other information

The Corporate Director, Finance & Governance is responsible for the other information. The other information comprises the information included in the Statement of Accounts set out on pages 1 to 221 other than the group and Council financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the group and Council obtained in the course of our work including that gained through work in relation to the Council's arrangements for securing value for money through economy, efficiency and effectiveness in the use of its resources or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Our opinion on other matter required by the Code of Audit Practice is unmodified
In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Council gained through our work in relation to the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice we are required to report to you if:

we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or

we have made a written recommendation to the Council under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or

we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

We have nothing to report in respect of the above matters except on 30 July 2018 we made written recommendations to the Council in our Audit Findings Report under section 24 of the Local Audit and Accountability Act 2014 in relation to the Council's financial plans and reserve levels from 2018/19, its governance arrangements over financial monitoring and the Council's Place Directorate and its oversight of subsidiary bodies.

Responsibilities of the Council, the Corporate Director Finance and Governance and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 17, 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 this Council, that officer is the Corporate Director, Finance & Governance. The Corporate Director, Finance & Governance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18, which give a true and fair view, and for such internal control as the Corporate Director, Finance & Governance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Corporate Director, Finance & Governance is responsible for assessing the group's and the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the group or the Council lacks funding for its continued existence or when policy decisions have been made that affect the services provided by group or the Council.

The Audit Committee is Those Charged with Governance.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

We are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK). Our audit approach is a risk-based approach and is explained more fully in the 'An overview of the scope of our audit' section of our audit report.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters which we are required to address

We were appointed by the Audit Commission on 26 July 2012. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 6 years.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the Council and we remain independent of the group and the Council in conducting our audit.

The following services, in addition to the audit, were provided by the firm to the Council after 1 April 2017 that have not been disclosed separately in the Statement of Accounts:

- Chief Finance Officer Insights (CFOi) subscription for 2017/18
- Skills Funding Agency return certification for 2016/17
- Illegal Money Lending Team return certification for 2016/17 and 2017/18
- Regional Growth Fund return certifications for the years of 2012/13 to 2016/17
- Pooling of Housing Capital Receipts return certification for 2016/17
- Teachers' Pensions return certification for 2016/17

Our audit opinion is consistent with the additional report to the Audit Committee.

Report on other legal and regulatory requirements - Conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources

Adverse conclusion

On the basis of our work, having regard to the guidance issued by the Comptroller and Auditor General in November 2017, because of the significance of the matters described in the basis for adverse conclusion section of our report, we are not satisfied that, in all significant respects, the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Basis for adverse conclusion

In considering the Council's arrangements for securing efficiency, economy and effectiveness, we identified the following matters:

Budget Delivery and Reserves Management, as well as saving proposals (including the principles of the Future Operating Model) and Equal Pay

The Council had demanding savings targets of £85.3 million in 2017/18 which included finding solutions for £14.4 million based mostly on savings achieved on a non-recurrent basis in 2016/17. The Council continued to under-deliver planned savings in 2017/18, again, in part due to the failure to deliver large savings plans such as the Future Operating Model (FOM), which under-delivered by £15.4 million in 2017/18, an under-delivery which was due to rise to £34.2 million in future years. As a result, the Council reported a 2017/18 revenue budget overspend of £4.9 million after the use of £63.1 million of reserves (£42.2 million of which was planned).

The Council's Business Plan 2018+ identifies continuing savings pressures, with a requirement of £117.0 million of savings to be delivered by the end of 2021/22, with 2018/19 (£52.9 million) and 2019/20 (£35.6 million) being the two years with the greatest savings demand.

The uncertainties surrounding the volume and timing of future equal pay claims and the determination of any settlements may also have an impact on the level of the Council's reserves.

These matters are evidence of weaknesses in proper arrangements for sustainable resource deployment in:

- planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions; and
- planning, organising and developing the workforce effectively to deliver strategic priorities.

Birmingham Independent Improvement Panel ('the Panel')

The Secretary of State for Communities and Local Government appointed the Panel in January 2015 to oversee improvements in the Council's governance arrangements.

The Council has been working more closely with the Panel since the autumn of 2017 and the Panel, in conjunction with the Council, has written to the Secretary of State several times since 1 April 2017, most recently in June 2018.

The joint letter from the Panel and the Council in March 2018 recognised that the Council has experienced a number of changes in key leadership positions during the last year and still needs to address a number of significant financial challenges to achieve financial sustainability.

The joint letter from the Panel and the Council in June 2018 included a copy of the Council's Improvement Stocktake Report, which represents the Council's self-assessment against the Local Government Association's criteria for an effective organisation, underpinned by a suite of detailed corporate governance and service improvement plans. This demonstrates that the Council has not yet addressed the issues identified to drive improvement in its corporate governance and achieve financial sustainability in the context of significant changes within the Council's leadership team.

This matter is evidence of weaknesses in proper arrangements for informed decision making in acting in the public interest, through demonstrating and applying the principles and values of sound governance.

Services for Vulnerable Children

In May 2014 and November 2016 the Office for Standards in Education (Ofsted) issued reports which assessed the services as inadequate and identified a number of serious weaknesses in the Council's arrangements for looking after vulnerable children and young people.

The Ofsted monitoring visit undertaken in March 2018 highlighted that the Council has demonstrated that it has maintained and made some further improvements to the quality of social work practice since the last inspection. Further work remains to be done to ensure that practice is consistently good and that the best outcomes for all children are achieved on a timely and consistent basis.

This matter is evidence of weaknesses in proper arrangements for informed decision making and sustainable resource deployment in:

- acting in the public interest, through demonstrating and applying the principles and values of sound governance;
- managing risks effectively and maintaining a sound system of internal control; and
- planning, organising and developing the workforce effectively to deliver strategic priorities.

Management of Schools

Significant failings in the Council's management of schools were identified in a review by Peter Clarke in July 2014. Since this review the Council has taken and continues to take action to improve its management of schools through the implementation of its improvement plan.

As part of the assessment of schools governance improvement Birmingham Audit (internal audit) have been commissioned to carry out a programme of audits over a two year period. Their findings have continued to show that there are a range of governance issues to address across the schools visited. Specifically, 32 of the 87 schools audits (37%) undertaken by internal audit in 2017/18 were assessed as 'level 3' assurance (specific control weaknesses of a significant nature noted, and/or the number of minor weaknesses noted was considerable) and two schools (2%) were assessed as 'level 4' assurance (controls evaluated are not adequate, appropriate or effective, and/or risks are not being managed and it is unlikely that objectives will be met).

This matter is evidence of weaknesses in proper arrangements for informed decision making and sustainable resource deployment in:

- acting in the public interest, through demonstrating and applying the principles and values of sound governance;
- managing risks effectively and maintaining a sound system of internal control; and
- planning, organising and developing the workforce effectively to deliver strategic priorities.

Responsibilities of the Council

The Council is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Council for the year ended 31 March 2018. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

In addition, we cannot formally conclude the audit and issue an audit certificate for the Council for the year ended 31 March 2018 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed our consideration of an objection brought to our attention by a local authority elector under Section 27 of the Local Audit and Accountability Act 2014. We are satisfied that this matter does not have a material effect on the financial statements or on our conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Signature to be added

Phil Jones
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

The Colmore Building
20 Colmore Circus
Birmingham
B4 6AT

31 July 2018