BIRMINGHAM CITY COUNCIL

AUDIT COMMITTEE

TUESDAY, 30 JULY 2019 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.

5 - 16 4 **MINUTES - AUDIT COMMITTEE 18 JUNE 2019 PUBLIC**

To confirm and sign the Minutes of the last Meeting.

17 - 20 5 **RESPONSE TO OMBUDSMAN COMPLAINT - POST 19 EDUCATION - (O/T MINUTE 124 REFERS)**

Information Update - for noting.

21 - 42 6 **ANNUAL GOVERNANCE STATEMENT**

Report of the Chief Finance Officer

7 **STATEMENT OF ACCOUNTS 2018/19** **43 - 324**

Report of the Chief Finance Officer

8 **CORPORATE RISK REGISTER UPDATE** **325 - 404**

Report of the Assistant Director, Audit & Risk Management

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

Item Description

10 **DATE OF NEXT MEETING**

The next meeting is scheduled to take place on Tuesday, 24 September 2019 at 1400 hours in Committee Room 6.

11 **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.

12 **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'.

13 **EXCLUSION OF THE PUBLIC**

That in view of the nature of the business to be transacted which includes exempt information of the category indicated the public be now excluded from the meeting:-

Exempt Paragraph 3

P R I V A T E   A G E N D A

14 **MINUTES - AUDIT COMMITTEE 18 JUNE 2019 - PRIVATE**

Item Description

15 **STATEMENT OF ACCOUNTS 2018/19 - AUDIT FINDINGS REPORT - PRIVATE SECTION**

- Information relating to any consultations or negotiations, or contemplated consultations or negotiations in connection with any labour relations matters arising between the Authority or a Minister...

16 **OTHER URGENT BUSINESS (EXEMPT INFORMATION)**

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.

BIRMINGHAM CITY COUNCIL

AUDIT COMMITTEE
18 JUNE 2019

MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD ON TUESDAY, 18 JUNE 2019 AT 1400 HOURS IN COMMITTEE ROOM 2, COUNCIL HOUSE, BIRMINGHAM

PRESENT:-

Councillor Grindrod in the Chair;

Councillors Akhtar, Bridle, Jenkins, Jones, Quinnen, Tilsley and Webb.

****

NOTICE OF RECORDING/WEBCAST

118 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.civico.net/birmingham) and members of the press/public could record and take photographs except where there were confidential or exempt items.

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

APPOINTMENT OF AUDIT COMMITTEE , CHAIR, DEPUTY CHAIR AND MEMBERS

119 **RESOLVED**:-

(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 2020 be noted:-

Labour Group

Councillors Akhtar, Bridle, Grindrod (Chair), Jones and Quinnen

Conservative Group

Councillors Jenkins and Webb

Liberal Democrat Group

Councillor Tilsley

(ii) that Councillor Paul Tilsley be elected Deputy Chair (with the proviso - until an independent member was appointed to Audit Committee, for the purpose of substitution for the Chair if absent, for the period ending with the Annual Meeting of the Council in 2020.

AUDIT COMMITTEE - FUNCTIONS

The following schedule was submitted:-

(See document No. 1)

Councillors Webb and Jenkins made known their dissatisfaction regarding the Audit Committee Chairmanship, and while highlighting the inappropriateness for this and also the possibility of less inclination to challenge the Leadership of the City Council, suggested that it should have been offered out to the other two parties.

The Chair confirmed that he would remain as neutral as possible and be a fierce some as possible in challenging the Executive in this regard.

120 **RESOLVED:-**

That the schedule of functions be noted.

DECLARATIONS OF INTEREST

121 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 interests were declared:-

Councillor Grindrod (Chair) - non-pecuniary non-executive director - Acivico
Councillor Tisley - non-pecuniary non-executive director - Birmingham Airport Holdings Limited, and pecuniary interest – beneficiary of WMPF
Councillor Akhtar – employee – HSBC
Councillor Jenkins – recipient WMPF
Councillor Quinnen – recipient WMPF

PUBLIC MINUTES – AUDIT COMMITTEE 26 MARCH 2019

122 **RESOLVED:-**

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

Matters Arising from the Last Meeting

Sarah Dunlavey, Assistant Director, Audit and Risk Management referred to the previous meeting whereby the Committee had requested that quarterly reports on contracts should be submitted to this committee.

She confirmed that as they had recently been added to the Star Chamber agenda, and rather than a stream of contracts coming here in some sort of escalation, that the more significant and riskier contracts were submitted to the meetings rather than all of them.

The Chair agreed to the recommendation put forward by the Assistant Director.

123 **RESOLVED:-**

That Audit Committee received the more significant and riskier BCC's contracts on a quarterly basis.

OMBUDSMAN REPORT – COMPLAINT ABOUT POST 19 EDUCATION

The following report of the Chief Executive and the Director, Education and Skills was submitted:-

(See document No. 2)

Miranda Freeman, Senior Liaison Management Officer, made introductory comments to the report.

Anne Ainsworth, Assistant Director, Skills and Employability, referred to the maladministration and injustice that had been found by the Ombudsman and highlighted that it was very clear in this case, that the family had been let down by not receiving the level of service that should have been provided.

She confirmed that they had accepted all of the recommendations and had welcomed the involvement of the Ombudsman. She highlighted the important lesson learnt from this case, which was that the errors were never repeated and brought to this committee again.

During the presentation the following points were captured:-

- Cabinet had recently approved a new policy for transport which included Post 19 which the Ombudsman had recognised and welcomed the introduction of a new policy.

- The City Council had committed to working with parents to change the application forms for transport assistance and to introduce a new application process for Post 19.

- The website pages relating to transport support would be changed to make them easier to understand and case studies provided to help give parents a better understanding of the different types of transport support available.

- The decision-making process for Post 19 applications was being changed and under the new policy, decisions would be made by an Independent Panel of Professionals, to ensure that the decision making process was transparent and consistent. Applicants would be able to attend Stage 2 Panel meetings to present their case.

- A new Quality Assurance Framework was also being introduced to ensure that the new process was working well and the framework would also ensure that decisions were communicated clearly and in a timely manner to applicants.

- It was noted that the department would continue to work with parent/carer forums and others, and that the Cabinet Member had committed to continue the dialogue with parents and would be meeting with them regularly over the next academic year to receive feedback, and for any further improvements to be made.

The Chair suggested that it would be useful for the Committee to see sight of the response to the Ombudsman.

Miranda Freeman confirmed that she would be replying to the Ombudsman next week based on this report and agreed to provide a copy of the communication to the Committee.

Kate Charlton, City Solicitor, referred to the governance that had been introduced into the City Council in terms of what actions needed to come to City Council, and also the actions and delegations that needed to come back to Cabinet, and therefore proposed that the governance be also applied to Audit Committee.

She stated that items that Members' requested be brought back to this Committee, suggested that it be included immediately on the action tracker in time for the next meeting.

124 **RESOLVED:-**

That the Audit Committee approved the actions being taken in response to the Local Government and Social Care Ombudsman's report and;

that Audit Committee be included on the BCC Action Tracker – to receive a copy of the response to the Ombudsman.

2018/19 ANNUAL GOVERNANCE STATEMENT

The following report of the Chief Finance Officer was submitted:-

(See document No. 3)

Martin Stevens, Head of City Finance Accounts, introduced the report and made particular reference to the governance issues identified for the inclusion in the Statement for the 2018/19 Financial Year together with the mitigation and proposed actions.

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

In response to Councillor Bridle's comments relating to the Birmingham Independent Improvement Panel (BIIP), Clive Heaphy, Strategic Director, Finance, reported they were in discussion with the Ministry of Housing, Communities & Local Government (MHCLG) and others on the future assurance framework and how this was operated.

He confirmed that there would be a report submitted to Cabinet, adding that BCC was a lead in Local Government and that they wanted to ensure the governance arrangements they have in place to replace the BIIP, were robust and fit for purpose for the whole of the sector in moving forward.

He further added that the Secretary of State had engaged with BCC on the future model and that it should be available shortly.

In response to the Chair's request to see delivery of the item, Clive Heaphy confirmed that part of the Committee's role was to be satisfied that what was being put in place was appropriate and that it would be brought back to the Committee at the earliest opportunity.

125 **RESOLVED**:-

That the Annual Governance Statement, which will be included in the 2018/19 Statement of Accounts, be approved

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 2018/19

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

(See document No. 4)

Sarah Dunlavey, Assistant Director, Audit and Risk Management, provided a comprehensive breakdown of the report.

In response to Members' comments the following points were captured:-

Sarah Dunlavey referred to the fake emails and detailed the unsophisticated way in which they had been changed. She stated that both times, they had been traced through Service Birmingham and as a result of this, notices had been sent out to schools in order to raise awareness and highlighting that BCC would never request information in this way.

Craig Price, Principal Group Auditor referred to the fake emails and subsequently reported on the processes that were in place to prevent the emails from progressing through the system.

Sarah Dunlavey referred to the students missing in education and subsequently detailed the ways in which they could trace the movement of families through various sources and ensured that when visits were made to schools, they were following the correct reporting processes for attendance.

Sarah Dunlavey confirmed that she would provide the requested information relating to the audit team and also invited the Audit Committee to an on-sight visit to Woodcock Street to view the systems and processes that were in place.

Craig Price referred to the audit plan that had been submitted at the previous meeting which detailed individuals' jobs and the work that was planned to do on a business control side. He briefly explained the visit programme put in place following the issues in schools which had recently evolved to a risk based process, where they look at which schools were sharing the potential area of risk through various factors and agreed to provide further detail if required.

Clive Heaphy highlighted that although it was useful seeing the audit plan for obvious reasons, encouraged Members to use the plan as a way of looking at areas of risk and to start looking ahead in order to get some assurances that there were the key controls in place, and to be able to call the relevant directors in and in by doing so, getting ahead of the work taking place and becoming more actively involved in the running of the organisation.

Craig Price briefly explained how the plan was put together with the inclusion of the financial systems built in with the focus areas on a cycle and assurance basis. He referred to the business assurance and that some of those areas were on a dynamic risk basis which involved a risk assessment and an update throughout the year. If there was cause for concern during the year, the appropriate action would be taken and reflected in the updated plan in order that the attention was focused on the key areas and key risks faced by the City.

In response to Councillor Webb's comments relating to reactive investigations and the assurance that there was good proactive work being undertaken by the team, the Chair suggested that it would be a justified role for the committee to learn more about the risk management culture that was being pushed out across the City Council.

He referred to comments relating to Audit Committee taking a more pro-active role in supporting good audit practices; having a greater understanding of the journey the City Council was on, where it was at, and where it wanted to get to and how the committee can ensure that the City Council was maintaining a good pace on that journey, highlighting that it would be useful for this committee.

Councillor Webb stressed the importance of the team when carrying out their work if any push back was received from Executive in preventing work from being undertaken, either positive or negative feedback, that this was reported back to committee.

The Chair reiterated the importance of the team identifying any barriers albeit political, practical or external they would need to be addressed.

He referred to the need for the Committee to have a more open broader discussion and alluded to the July meeting, or a subsequent meeting, whereby there was a significant amount of time to map out the appropriate items for the remainder of this municipal year.

Councillor Webb suggested that consideration should be given to the Work Programme and the relevancy of all the items that were on there, adding that if the Committee was to function as it should, some changes would need to be made.

The Chair concluded that the Committee would be looking for more of a themed approach in order to ensure the Council was responding to rather than a specific item by item basis.

126 **RESOLVED**:-

That the report be noted and the annual assurance opinion for 2018/19 be accepted;

that approval be given to the 2019/20 Internal Audit Charter as set out in the report now submitted.

STATEMENT OF ACCOUNTS 2018/19

The following report of the Chief Finance Officer was submitted:-

(See document No. 5)

Martin Stevens, Head of City Finance Accounts, introduced the report and subsequently responded to Members' comments:-

He explained the differences between the valuations in the report relating to the funding basis and accounting basis.

He referred to the Capital Grants and confirmed that they were all listed under Note 15 - page 181 within the report.

He agreed to provide the relevant information relating to the four schools that had since left the City Council.

Clive Heaphy, Strategic Director, Finance, referred to officers leaving the City Council and confirmed that any payments that had been made were in line with their contracts, and had been considered by the JNC Panel and by the Auditors, adding that it was not appropriate for the financial detail to be shared with the committee.

Councillor Jenkins expressed displeasure that the financial information could not be shared especially with the tax payers in Birmingham and subsequently questioned the relevance of the committee.

At this juncture, the Chair requested comments from the external auditor regarding the Statement of Accounts in anticipation of them being signed off at the next meeting.

Paul Dossett, Engagement Leader, Grant Thornton, confirmed that he had replaced Phil Jones who had since retired.

He referred to local government accounts being somewhat complex and while Birmingham was larger than other authorities and far more complex than others, confirmed that the accounts had been produced in line with the statutory deadline and at this moment in time, could see no irregularities.

127 **RESOLVED**:-

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

UPDATED EXTERNAL AUDIT PLAN – YEAR ENDING 31 MARCH 2019 - GRANT THORNTON

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

(See document No. 6)

Paul Dossett, Engagement Leader, Grant Thornton provided a comprehensive breakdown of the plan.

In response to Councillor Tilsley's comments relating to the plan, Paul Dossett referred to the expectation that in place was a strong internal audit that had reflected back on areas of weaknesses which they had identified, and therefore, without having to undertake a comprehensive review of internal audit, was satisfied with what was being demonstrated.

He highlighted that from time to time in different organisations there had been cause for concern regarding internal audit coverage, scope and capacity, adding that this was not an issue that had been raised here specifically in recent times.

He confirmed that his career had spanned over 30 years in Local Government Audit and that his team was dedicated to public sector working and their work focused specifically on the City Council.

The Chair concluded by thanking Paul for the update.

128 **RESOLVED**:-

That the report be noted.

EQUAL PAY UPDATE - PUBLIC

The following report of the Corporate Director of Finance and Governance and the City Solicitor and Monitoring Officer was submitted:-

(See document No. 7)

Kate Charlton, City Solicitor presented the report.

129 **RESOLVED:-**

That the Committee noted the contents of the report and Exempt Appendix 1.

SCHEDULE OF MEETINGS FOR NEW MUNICIPAL YEAR 2019/20

130 The following schedule of Meetings was noted:-

All meetings to take place on Tuesdays at 1400 hours:-

30 July 2019	- Committee Room 6
24 Sept 2019	- Committee Room 6
19 Nov 2019	- Committee Room 6
28 Jan 2020	- Committee Room 6
24 March 2020	- Committee Room 6

The Chair suggested that the Committee Clerk investigate the possibility of future Audit Committee meetings being held in a larger committee room given the attendance numbers.

At this juncture, in response to the Chair's suggestion as to whether there should be in the inclusion of an additional meeting between April/May 2020 given that there were no elections taking place, a lengthy discussion ensued.

Members made the following comments:-

Councillor Jenkins confirmed that there was already a great deal of demands on members' time and an additional meeting should not be scheduled unless there was an urgent reason for this.

Councillor Tilsley suggested the dates should be scheduled closer together in order to prevent a three month time lapse.

Councillor Webb suggested that if an additional meeting was not set, then the first meeting of every municipal year should be used to set the pace of what the committee were looking to achieve over the rest of the year, highlighting that for this year, the additional meeting was required in order to set the pace for the forthcoming year.

Councillor Akhtar suggested that the meetings were slightly re-jigged in order to accommodate an additional meeting.

The Chair detailed the constraints that the committee was facing with regard to the addition of a further meeting and therefore suggested the possibility of discussing further at the next meeting, albeit depending upon the size of the agenda.

SCHEDULE OF OUTSTANDING MINUTES - 2019

131 The following schedule of Outstanding Minutes was noted:-

(See document No. 8)

RESOLVED:-

That the Schedule of Outstanding Minutes be continued.

OTHER URGENT BUSINESS

The Process of All Employees Exiting the City Council – Information Requested

Councillor Webb requested for the above-mentioned information to be made available to the committee.

Clive Heaphy agreed that the information should be made available to the committee, albeit relating to the process rather than specific details of any individual cases. He reported that the JNC Panel was the decision making body and that the role of the committee was to scrutinise in order to ensure that the process they were following was robust and provided the correct outcome.

Councillor Jenkins expressed his dissatisfaction with regard to the effectiveness of the JNC Panel controlling exit payments or obtaining value for the tax payers in Birmingham and believed that it was reasonable for the Audit Committee to seek good value as part of their remit, adding that he would continue to challenge in this regard.

Clive Heaphy confirmed that the auditors were party to those individual decisions and how they were made which was undertaken as part of their year-end audit. He provided further assurance from Kate Charlton, that any decisions taken prior to the JNC, audit was contacted to ensure that all was as it should be.

The Chair agreed with Members' comments relating to the process and being confident that the tax payers were getting value from the process, and that there was assurance from the auditors that what was in place was correct.

He highlighted that it was for this committee to follow the boundary to ensure items were not getting the wrong side of the boundary and challenging the council to be the right side of the line.

Paul Dossett concluded by referring to the exit packages and confirmed that they were seen by them as part of the audit process, highlighting that if they had had any concerns about them, then there was no doubt that they would have been raised.

132 **RESOLVED:-**

That the information requested by the Committee on the process used for employees exiting the city council be provided in due course.

AUTHORITY TO CHAIRMAN AND OFFICERS

133 **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.

EXCLUSION OF THE PUBLIC

134 **RESOLVED**:-

That, in view of the nature of the business to be transacted, which includes exempt information of the category indicated, the public be now excluded from the meeting:-

Exempt Paragraph 3

Birmingham City Council

Our ref: MF/ 4960
Your ref: 17 017 296

26 June 2019

FAO Michael King
Local Government Ombudsman
PO Box 4771
COVENTRY
CV4 0EH

Dear Mr King

COMPLAINT BY: MS X

Further to my letter of 3 May, I am writing to confirm to you that your report was considered by the Audit Committee on 18 June 2019. This Committee has the power, delegated by the City Council, to consider reports from you. It approved the actions officers have taken, or intend to take, to meet the recommendations you made. The committee meets every two months, so it will be a while before the minutes are available, but audit committee meetings are web-streamed, so the proceedings can be viewed on our website. I will send a copy of the minutes to you when they are available, which I think is likely to be in August.

Please see below the actions we have taken, or are still in the process of taking, in relation to your recommendations on pages 3 and 4 of your report:-

a) I attach copies of our apology letters to Ms and Mr X.

b) And c) As advised previously, the payments were made on receipt of your report and Ms X confirmed receipt of both cheques on 18 April.

d) In May, Cabinet approved a new 0 to 25 policy for transport assistance to educational provision. This followed on directly from our consultation exercise which I referred to in my response to your draft report dated 18 February 2019. A copy of the new policy and its appendices is attached. The consultation process showed that parents, carers and young people were concerned about practice as well as policy - how it is communicated to them, the need to improve the clarity of the application process and how easy it is to navigate. We are committed to working with parents and carers to change the application forms and to introduce a new application process for post 19 transport. Our website pages relating to transport support are being changed to

Ombudsman and Complaints Liaison Team
The Council House
Victoria Square
BIRMINGHAM
B1 1BB

Tel: 0121 303 2033
Email: Miranda.freeman@birmingham.gov.uk

make them easier to understand and we plan to include case studies to help parents and carers to understand the different types of transport support that are available.

The decision making process for post 19 applications is also being changed so that in future, decisions will be made by an independent panel which will include health, safeguarding and education professionals. We want to be certain that the decision-making process is transparent and consistent. Applicants will be able to attend the stage 2 panel meetings to present their case. In addition, a new Quality Assurance framework is being introduced to ensure that decisions are communicated clearly and in a timely manner to applicants. Random sampling will take place to check that the new process is working well.

e) All transitional cases are being reviewed and I can report as follows:-

Our records show that there are 37 transitional cases. We have written to all of them and I attach a copy of our standard letter sent to all those involved other than two who have already made complaints to you. Their cases are being reviewed anyway.

So far, we have received 8 replies, 5 requesting a review and three saying that they did not want one. The five who have requested a review are being considered by an Assistant Director in accordance with the new policy approved in May. We will advise the applicants of the results as soon as we can.

We may have to chase the remaining 27, but we will give them longer to reply first as we appreciate that people are busy and need time to gather the information. I will give a further update about this in due course.

37 In reviewing our policy on the provision of an escort, we have learned from what happened in this case - clearly a new risk assessment undertaken promptly would have addressed the issue. In the future, when there is a new case, a new risk assessment will be undertaken to assess whether the requirements of the individual requesting transport have changed.

38 The Adult Social Care Service is satisfied that its policies and procedures for carers to be assessed are operating satisfactorily. But on review by Children's Services, their conclusion is that they need to improve their own communications with Adult Social Care about signposting parents/carers who may need a carer's assessment. Staff in Travel Assist have been informed that in such cases, they should ask parents/carers whether they already have a carer's assessment or would like one and, if so, signpost them to ACAP.

I hope that this is helpful to you. I will be in contact again with the minutes and a further report on transitional cases in due course.

Ombudsman and Complaints Liaison Team
The Council House
Victoria Square
BIRMINGHAM
B1 1BB

Tel: 0121 303 2033
Email: Miranda.freeman@birmingham.gov.uk

Yours sincerely

Miranda Freeman

Miss M Freeman

Senior Liaison Management Officer

Legal and Governance Department

Enc.

Ombudsman and Complaints Liaison Team
The Council House
Victoria Square
BIRMINGHAM
B1 1BB

Tel: 0121 303 2033
Email: Miranda.freeman@birmingham.gov.uk

BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to: AUDIT COMMITTEE

Report of: Chief Finance Officer

Date of Meeting: 30 July 2019

Subject: 2018/19 ANNUAL GOVERNANCE STATEMENT

Wards Affected: All

1. Purpose of Report

1.1. The Annual Governance Statement (AGS) forms part of the Statement of Accounts for 2018/19 and reports on the Council's internal control regime.

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

1.3. There have been some amendments to the report approved at the June meeting as a result of the external audit.

2. Recommendations

2.1. To approve the Annual Governance Statement that will be included in the 2018/19 Statement of Accounts.

2.2. To agree that the arrangements for the management of the items included in Section 6 will be reported to the Audit Committee during the year.

3. Background

3.1 One of the requirements for the Annual Governance Statement (AGS) is that it should reflect the governance arrangements for the financial year to which it relates, up to the date of approval of the Statement of Accounts.

3.2 The AGS forms part of the Council's annual Statement of Accounts. The Statement of Accounts will be available, post audit, at the meeting on 30 July.

3.3 The external auditor reviews the AGS as part of the final accounts audit. Additional detail was requested on the recommendations issued under Section 24 of the Local Audit and Accountability Act 2014 and also additional commentary from the Improvement Panel.

3.4 The significant issues raised in the Assurance Statement and audit processes are summarised in Section 6 of the AGS. This section comments very broadly on the Council's achievement of its central objectives and external assessments, it raises issues arising from joint working with partners and refers to significant matters highlighted by the annual review of internal control.

4. Legal and Resource Implications

4.1 The AGS is a requirement of The Accounts and Audit Regulations 2015, Regulation 6(1)(b) and meets the corporate governance best practice recommendations. There are no direct resource implications arising from this report.

5. Risk Management & Equality Impact Assessment Issues

5.1 The Statement forms part of the Council's risk management approach and the relevant issues are those considered in the attached schedule.

6. Compliance Issues

6.1 The AGS forms part of the statutory requirements for the Council's Annual Statement of Accounts.

6.2 The Council's continued improvement in responding to the issues referred to in the Statement will complement the development and delivery of the Council of the Future's objectives.

……………………………………..

Clive Heaphy – Chief Finance Officer

Contact Officer: Martin Stevens

Telephone No: **0121 303 4667**

e-mail address: **martin.stevens@birmingham.gov.uk**

Birmingham City Council

Annual Governance Statement 2018/19

Annual Governance Statement 2018/19

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 operates a governance framework 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 2019 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, driving the necessary change to deliver a new Council role and relationship with the City, its citizens and its partners.

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

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

3.4. The Council’s vision and priorities in terms of the contribution to strategic outcomes are set out in the Council Plan 2018-2022 Plan (the Plan). The Plan was updated in 2018/19 and is available on the Council’s website.

3.5. The Plan articulates the strategic direction for the Council with a clear set of corporate priorities. These priorities have been informed by extensive consultation with Cabinet Members and Members from opposition groups, citizens and partners, surveys and consultations.

3.6. A set of service delivery measures, aligned to service plans and Council priorities have been put in place for 2018/2019. These measures are designed to ensure improvement in service quality and outcomes for the citizens of Birmingham, some have a particular focus on disadvantaged groups. Regular monitoring and reporting against these measures ensures that weaknesses in performance are identified at an early stage and effective action to bring performance in line with targets is undertaken.

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

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

3.9. The Council continues to face significant funding reductions and challenges in achieving its budget plans, outlined in the Council Plan and Budget 2018+.

3.10. 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. During 2018/19, the Council has overhauled and strengthened its financial planning and control framework and reasserted 'grip' of the financial position with a series of interventions that have enabled the Council to eliminate a £28m in-year pressure since the May 2018 election. Where pressures were identified, Directors were required to find alternative solutions and actions to contain spending within cash limits.

3.11. Following the financial experiences over the last three years, highlighted by both the Birmingham Independent Improvement Panel (BIIP) and through Statutory Recommendations under Section 24 of the Local Audit and Accountability Act 2014, made by the external auditors in July 2018 and in March 2019, the extent of savings delivery risk is clearly recognised along with the potential impacts of unidentified pressures and other changes as the Council looks forward. In response, the Council is seeking to improve its controls to ensure that there are robust financial arrangements in place, recognising that it cannot continue to use reserves to balance the budget in the way that it has in the past. Nevertheless, it will continue to hold an element of its reserves as a contingency funding in case of savings delivery difficulties.

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

3.13. 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.

3.14. 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 Workforce Strategy, agreed by Cabinet in 2018. The strategy will guide a much stronger approach to staff engagement, empowerment and culture change.

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

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

3.17. Working with partners, the Council plays a strategic role for the Greater Birmingham area, working with the Greater Birmingham and Solihull Local Enterprise Partnership

(LEP) and where applicable, jointly and in consultation with the West Midlands Combined Authority. As Accountable Body and partner to the LEP, the council develops collaborative solutions to common problems, and facilitates coherent programmes with regional and international partners to deliver an economic strategy for the city and region. LEP projects are delivered within the LEP Assurance Framework, approved by the Council's governance processes as Accountable Body, managed and monitored through Programme Delivery Board and thematic "Pillar Boards", with regular reporting to the LEP Board.

3.18. 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.

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

3.20. In May 2016, the Council announced its intention to move towards a Children's Trust. The 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.

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

3.22. The Council facilitates policy and decision–making via an Executive Structure. There were ten members of Cabinet for the 2018/19 financial year: the Leader, Deputy Leader and eight other Cabinet Members with the following portfolios:

- Cabinet Member – Children's Wellbeing;
- Cabinet Member – Clean Streets, Waste and Recycling; (renamed Street Scene and Parks from May 19)
- Cabinet Member – Health and Social Care;
- Cabinet Member – Homes and Neighbourhoods;
- Cabinet Member – Finance and Resources;
- Cabinet Member – Social Inclusion, Community Safety and Equalities;
- Cabinet Member – Transportation and Environment;
- Cabinet Member – Education, Skills and Culture.

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

3.24. The CBMC has responsibility for the planning and preparation of the agenda, papers and other arrangements for Council meetings and provides the forum for non-executive, non-scrutiny and non-regulatory matters.

3.25. CBMC oversees the Council's relationship with the Independent Remuneration Panel which is chaired by an independent person. CBMC submits recommendations to the Council on the operation and membership of the Panel and amendments to the Councillors' Allowances Scheme.

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

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

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

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

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

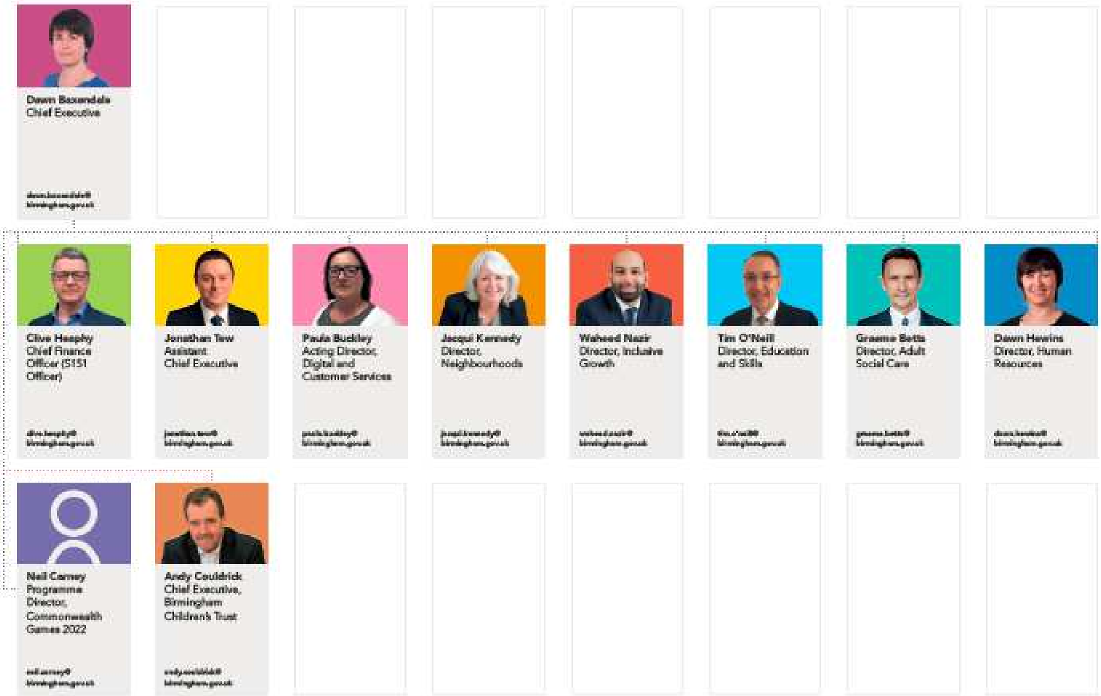
3.30. The Council has Codes of Conduct for both Members and Officers which set out the standards of conduct and personal behaviour expected and the conduct of work between members and officers. In particular the Council has clear arrangements for declaration of interests and registering of gifts and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

Management Structure

3.31. During 2018/19, the Council operated through six Directorates, Adult Social Care and Health, Children and Young People, Economy, Finance and Governance, Place and Strategic Services with a separate Human Resources Directorate from July 2018.

3.32. A senior management restructure took place in 2018/19 resulting in revised directorate names and responsibilities with effect from 21 January 2019.

3.33. The Council's management structure as at 31 March 2019 was as per the diagram below:



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

- Dawn Baxendale was appointed as permanent Chief Executive and started with the Council on 1 April 2018. Her departure was announced in July 2019.
- Dr Tim O'Neill was appointed as Director – Education and Skills on 7 January 2019, replacing Colin Diamond who left 31 August 2018.
- Angela Probert left the Council on 15 February 2019 and the post of Chief Operating Officer was deleted.
- Neil Carney took up the role of Programme Director, Commonwealth Games on 29 May 2018

Peter Bishop was appointed as Director, Digital and Customer Services from 1 July 2019.

<u>Financial Management Arrangements</u>

3.35. 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.

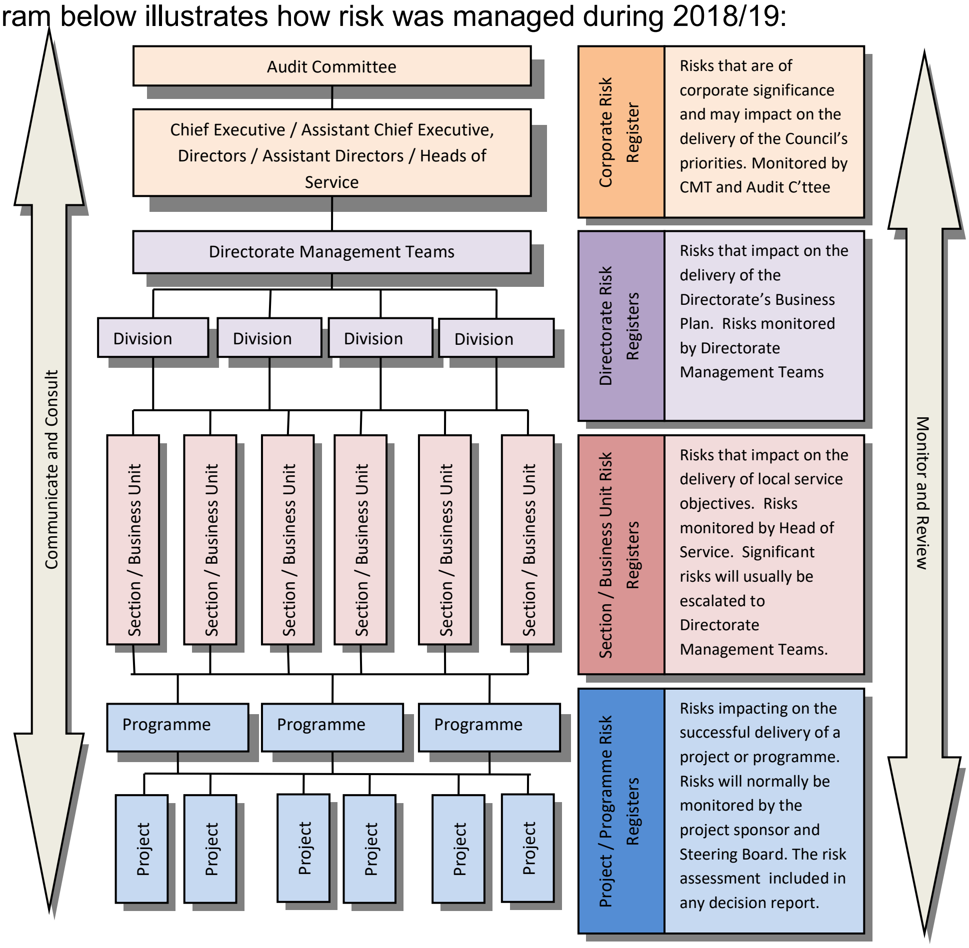
Scrutiny, Accountability and Risk Management

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

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

3.38. The Council ensures compliance with established policies, procedures, laws, and regulations - including risk management. For transparency, all reports to Cabinet and Cabinet Members are required to include governance information relating to: Council policy, internal and external consultation, financial and legal implications and Public Sector Equalities Duty. All reports are required to be cleared by senior finance and legal officers.

3.39. Risk management continues to be embedded within the Council. The schematic diagram below illustrates how risk was managed during 2018/19:



3.40. The Risk Management Framework is available 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 monthly. CMT challenge the updated information provided, and recommend re-wording or deletion of risks as appropriate. In addition business plans at directorate and divisional level include key risks.

3.41. 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.

3.42. The Council has a strong Internal Audit function (Birmingham Audit) and well-established protocols for working with external audit. The Council's external auditors have responsibilities under the Code of Audit Practice to review compliance with policies, procedures, laws and regulations within their remit.

<u>Birmingham Independent Improvement Panel (BIIP)</u>

3.43. 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.

3.44. In a letter to the Secretary of State for Communities and Local Government in April, the BIIP confirmed it had officially stood itself down in March 2019.

3.45. In its April 2019 report, the BIIP acknowledged that "there has been meaningful progress over the last 10 months. We recognise the huge amount of work that Birmingham City Council is doing to get itself on the right track and tackle deep entrenched problems" but "due to the enormous challenges encountered in the last year and still being experienced, the pace of improvement continues to be slower than everyone involved would want".

3.46. The letter recommended the Minister for Housing, Communities and Local Government "Put in place external independent challenge and support, additional to that proposed by the Council, to replace the Panel." The Council is planning to maintain constructive and critical challenge through internal scrutiny and sector-led arrangements.

<u>External Audit</u>

3.47. In July 2018, the external auditor undertook the relatively unusual step of issuing a number of Statutory Recommendations under Section 24 of the Local Audit and Accountability Act 2014. This measure was a strong warning to the Council of the Auditors concerns and was the second such report issued to Birmingham City Council in three years.

3.48. In March 2019 the external auditor considered it appropriate to issue further Section 24 recommendations in relation to Governance and the Waste Service and to Financial

Management. The Council responded to the recommendations at a meeting of Full Council on 2nd April 2019.

Member Development

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

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

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

3.51. Regular monthly "market places" and briefing sessions are held to keep Councillors updated on Council services or services provided by partner organisations.

3.52. The Members' Development Programme 2018/19 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).

Workforce

3.53. 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 its ability to recruit and retain the talent needed to ensure workforce capacity.

3.54. During 2018/19, the 'My Appraisal' review process continued, enabling a consistent means of assessing and rewarding performance. 'My Appraisal' is specifically designed to ensure that employees are supported to implement the Council's core values:

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

Engagement with the community and other stakeholders

3.55. The Council engages in a wide range of consultation and engagement activities to inform service delivery and decision making. These are summarised in an annual statement and on-line consultation database. The Council Plan and Budget 2019 to 2023 consultation process included public meetings led by the Council's Leader and Cabinet, an online Be Heard survey, an online communications campaign including webpages, news feeds, Facebook and Twitter, consultation via post and email, and consultation with the business community and the Chamber of Commerce.

3.56. 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.

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

3.58. In 2018 the Council held a "summer of engagement" including "Working Together in Neighbourhoods" and the Community Cohesion Strategy. "Forward together to build a fair and inclusive city for everyone" is the first Community Cohesion Strategy for Birmingham, developed in partnership with citizens, communities and organisations across the city.

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 published a Corporate Governance Improvement Plan and reported progress against planned actions, the most recent in March 2019.

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

4.4. 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.

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

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

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

4.7. As in previous years the Birmingham Audit plan was compiled on the basis of professional judgement and a risk model to 'score' all potential 'auditable' areas. To meet the standards required there was a need to ensure sufficient coverage of the adequacy and effectiveness of systems of internal control in relation to financial control, risk management, corporate governance and an element for proactive and reactive fraud work.

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

4.9. From the work undertaken by Birmingham Audit during 2018/19 and the outcomes from applying the model for formulating the end of year opinion the following assurance was able to be given: *"Based on the audit work undertaken I am able to provide a reasonable assurance for the core systems of internal controls evaluated. As in any large organisation, our work did identify some significant issues that required action. This assurance also needs to be taken in context of the findings from the Birmingham Improvement Panel, External Audit and CIPFA's review into financial management, all of which limit my overall assurance."* In this context 'reasonable assurance' means that the systems can be relied upon to prevent error, fraud or misappropriation occurring without detection, and that nothing was found that would materially affect the Council's standing or Annual Accounts. As in any large organisation, Internal Audit did identify some significant issues that required action. All significant issues were reported to the appropriate Director during the year.

4.10. All significant issues have also been brought to the attention of the Audit Committee, and where appropriate to CMT. The more significant of these are set out in the section entitled '**Significant governance issues 2018/19'** below.

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

4.12. The Council's Overview and Scrutiny Committees received reports on key control issues throughout 2018/19 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 122 concerns raised and considered under the Council's Whistleblowing & Serious Misconduct policy in the 2018/19 financial year.

5 Review of 2017/18 governance issues

5.1. The significant 2017/18 governance issues were considered by Audit Committee in June 2018, agreed as part of the Statement of Accounts in July 2018 and reviewed as part of the Corporate Risk Register updates in the 2018/19 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. Housing and Neighbourhoods O&S Committee reviewed progress of the Homelessness Prevention Strategy and Cabinet received an update on the implementation of the Homelessness Reduction Act.

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

5.5. The Council worked closely with the BIIP to formulate and implement action plans in response to the Kerslake review.

6 Significant governance issues 2018/19

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	**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'. Given the Council is in the ninth year of budget reductions the possibility of Judicial Review challenge to the budget or elements of it, remains high. The risk of schools deficits and strain on the high needs block is monitored via the corporate risk register as these costs may ultimately need to be borne by the council.	Proactive actions are in place to plan and monitor the delivery of the savings programme including the delivery of workforce savings. These include further assurances on the deliverability and impacts of proposals and a commitment from Cabinet to future budgeting. Governance processes have been reviewed and significantly enhanced to improve the production of implementation plans and monitoring of the most significant savings proposals at the highest level. A number of controls have been introduced to support schools and provide early warning of difficulties setting balanced budgets.
2	**Major Projects and Partnership Working** The Council is involved in a range of major projects which include partnership working arrangements and sometimes complex legal agreements for example: • Working with neighbouring authorities in the West Midlands Combined Authority • Strengthening partnership	The partnership with neighbouring authorities through the West Midlands Combined Authority continues to develop. The next stages are vital as devolution is implemented, making sure that work leads to permanent benefits for the region. The Council is reviewing the way it works with its partners - working equally to a common shared purpose.

Issue No	Governance Issue	Mitigation Action / Proposed Action
	working as Birmingham works towards hosting the Commonwealth Games 2022. • Working with private sector partners on major developments in the City such as Paradise. • Birmingham Children's Trust. • Sustainability Transformation Programme	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.
3	**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 will require significant and substantial changes to the way services are provided, both internally and when working with other service providers. The Council has committed to • commission an independent review of the Council's model of waste collection and disposal services; • a formal review of the industrial relations framework in 2019 with peer support	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. In order to maintain a level of constructive and critical challenge, the Council is actively working with audit, overview and scrutiny and external peers to drive a sector-led approach to sustaining improvement in the future. A Strategic Programme Board will provide oversight of progress.

Issue No	Governance Issue	Mitigation Action / Proposed Action
4	**Homelessness and Safety Implications for Tower Blocks** The implementation of the Homelessness Reduction Act from 1 April 2018 has seen an increase in households approaching the homelessness service. Impact of Grenfell Tower and subsequent implications for improving safety in tower blocks.	Service redesign including reconfiguration of the frontline service, enhanced staffing levels and a new IT system in place from January 2019. 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. • A programme to carry out fire risk assessments to all communal areas annually.
5	**Asset Condition and Sufficiency** Many operational assets are in very poor condition following years of budget restrictions and lack of investment. There is an aging schools estate with some assets that are beyond repair. The demand for secondary school places is beginning a period of sustained growth, requiring a large number of additional places to meet our statutory duty for sufficiency.	The Council approved a Property Strategy 2018/19 – 2023/24 to better join up decision making, realignment of assets and enable strategic development. Capital funding to meet basic need requirements is being effectively managed through our strategy to make best use of existing space
6	**Commonwealth Games** Hosting the Commonwealth Games in 2022 brings with it significant delivery expectations (in terms of capital project management and delivery of legacy benefits) for the Council as well as significant financial commitments.	The Council is alive to the delivery, financial and reputational risks associated with the Games and has active risk management and programme management arrangements in place to ensure prompt and timely resolution of issues. The Council is working closely with strategic and regional partners to build robust and collaborative governance

Issue No	Governance Issue	Mitigation Action / Proposed Action
		arrangements.
7	**Workforce** Recent industrial disputes in the Waste Service and Enablement Service potentially impacting on the Council's efforts to modernise its services. Radical change is required to the culture and behaviours of the organisation and implementation of more effective and streamlined organisational structures which promote innovation, financial resilience and accountability.	The Council will engage positively with a joint working group of trades unions to review its waste service. The Council will commission an independent review of its waste service and act on its findings. A People Strategy has been designed to reshape the workforce and employment model to ensure the Council is fit for the future.
8	**Contract Management** Intelligent Client Functions are not robust enough, leading to a number of contracts underperforming or developing risks to service provision. The corporate risk register monitors contractual risks in relation to Early Years, Travel Assist and the Highways PFI contract.	Early identification of issues or problems, ensuring the contracts and output specifications are delivered to required standards and deliver continuous improvement – tailored to each contract as necessary. On-going identification of mitigating actions to reduce the level of risk. A consensual settlement agreement has been signed for Amey plc to exit the Birmingham Highways PFI contract. As part of the agreement, Amey will continue to provide services until a replacement contractor is found to deliver those services on an interim basis. That interim replacement will be in place no later than 1st April 2020. The full retendering of the project to find a permanent replacement contractor will take place during 2020/21.

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 ………………………………	Signed …………………………..
Councillor Ian Ward	Dawn Baxendale
Leader of the Council	Chief Executive

BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to:	**AUDIT COMMITTEE**
Report of:	**Chief Finance Officer**
Date of Decision:	**30 July 2019**
Subject:	**STATEMENT OF ACCOUNTS 2018/19**
Wards affected: All	

1 Purpose

1.1 This report presents

- The 2018/19 Statement of Accounts;
- Grant Thornton's Audit Findings Report, which summarises the significant outcomes, conclusions and recommendations on the financial statements from their work on external audit for 2018/19;
- The Letter of Representation from the Chief Finance Officer

1.2 Members are asked to approve the Statement of Accounts for 2018/19 subject to external audit clearance of any outstanding issues.

2 Decisions recommended:

2.1 Audit Committee is recommended to:

- Note the Audit Findings Report from Grant Thornton and accept the recommendations of that report;
- Approve the Annual Governance Statement included in the Statement of Accounts for 2018/19;
- Approve the Letter of Representation from the Chief Finance Officer;
- Approve the Statement of Accounts for 2018/19 subject to external audit clearance of any outstanding issues.

Contact Officer: Clive Heaphy
Telephone No: 0121 303 2950
E-mail address: Clive.Heaphy@birmingham.gov.uk

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

3 Compliance Issues:

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

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

3.3 Relevant legal powers, personnel, equalities and other relevant implications (if any):
The Statement of Accounts is a requirement of the Accounts and Audit Regulations 2015. The accounts have been prepared in accordance with The Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, 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 Chief Finance Officer on 31 May 2019 and handed to the external auditors. Grant Thornton began their audit work on site on 28 May and have worked closely with Council officers since that time to ensure that the current document presents a true and fair view of the Council's financial position.

4.2 The Financial Reporting Council requires that external auditors satisfy themselves that, in signing off financial statements, they provide safe opinions and satisfy themselves that, where there are estimates within the statements, figures used are reliable. For 2018/19, this has meant an increased focus on the valuations of non-current assets and of the net pension liability within the financial statements. This has meant an increase in the workload of external auditors and for the Council during the period of audit and is likely to lead to an increase in fees for the audit. This increase in audit activity has not just been within Birmingham but has been replicated across the sector.

4.3 The Public Sector Audit Appointments (PSAA) agency has indicated to external auditors that they will not be considered to have missed audit deadlines if audit opinions are published by 30 September 2019.

4.4 During the audit, the external auditors have identified areas where changes to the financial statements have needed to be made in respect of entries within the accounts or around disclosures. Details of the adjustments are set out in section 5 of this report.

4.5 Whilst the external auditors have completed the substantial proportion of their audit of the financial statements, there remain some elements that have still to be completed, namely work on valuation of HRA assets and on cut off testing of expenditure ensuring that expenditure is accounted for in the correct financial year. This means that the auditors may not be in a position to issue their audit opinion on the Council's financial statements.

4.6 Where an audit of accounts has not been concluded, the Council is required to,

- Publish as soon as reasonably practicable on or after 31 July a notice stating that it has not been able to publish the statement of accounts and its reasons for this; and

- Publish the statement of accounts, including Annual Governance Statement and Narrative report, as soon as reasonably practicable after the receipt of any report from the auditor which contains the auditor's final findings from the audit which is issued before the conclusion of the audit.

4.7 Whilst the audit of the Council's financial statements is substantially complete, the external auditor still needs to finalise work on the value for money (vfm) assessments. One major issue that is still outstanding relates to an assessment of Amey Plc, and the view of their external auditors, following the outcome of the agreement between the Council and Amey in respect of the Highways Maintenance and Management PFI. Amey Plc was originally due to lodge its accounts with Companies House by 30 June 2019. However, from the information on Companies House website, it appears that Amey Plc has sought and been granted an extension for lodging their accounts until 31 July 2019.

4.8 The Audit Findings Report provides information about Grant Thornton's work on the Council's financial accounting and internal control. A separate report will be provided to Audit Committee at its meeting on 24 September in respect of value for money.

4.9 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.

4.10 The Audit Findings Report also includes details of adjustments made between the draft financial statements and the version presented at this committee following the outcome of audit work.

4.11 A Letter of Representation is required to be sent to the external auditor by the Chief Finance Officer, 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 Audit Adjustments

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

a) Non-current asset valuations
Given the additional focus on non-current asset valuations this year, there have been a number of items identified, which have been adjusted for in the accounts. The major changes relate to:

- A valuation for one property being linked to another property when entering into the asset database
- Incorrect space requirements applied to those secondary schools valued
- The impact of additions to school assets which did not increase pupil numbers within the school, whilst immaterial on a yearly basis, was cumulatively a significant value and this was adjusted for

b) Net pension liability adjustment
The government was refused leave to appeal a decision regarding age discrimination in respect of judges and firefighter pension schemes in respect of the transition arrangements in moving from a final salary to a career average scheme. This decision impacts on the Local Government Pension Scheme. The decision was announced after the draft accounts were produced and, given that the impact was likely to be material, the Council requested an updated actuary report. This has been amended for.

5.2 There were also a number of minor adjustments that have been amended in the final statement of accounts.

5.3 The adjustments above had no impact on the Council’s level of usable reserves.

Signature:

Chief Finance Officer: ……………………………………………

Dated: ………………………………………………………..

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

Grant Thornton

The Audit Findings for Birmingham City Council

Year ended 31 March 2019

July 2019

Contents

Your key Grant Thornton team members are:

Paul Dossett
Engagement Lead
T: 0207 728 3180
E: paul.dossett@uk.gt.com

Laura Hinsley
Senior Manager
T: 0121 232 5235
E: laura.e.hinsley@uk.gt.com

Tess Barker-Phillips
Manager
T: 0121 232 5428
E: tess.s.barker-phillips@uk.gt.com

Bethany Hincks
In-Charge Auditor
T: 0121 232 5364
E: bethany.c.hincks@uk.gt.com

Headlines

This table summarises the key findings and other matters arising from the statutory audit of Birmingham City Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2019 for those charged with governance.

Financial Statements	Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the group and Council's financial statements: • give a true and fair view of the financial position of the group and Council and the group and Council's income and expenditure for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. We are also required to report whether other information published together with the audited financial statements (including the Council's Annual Governance Statement (AGS) and the Council and Group's Narrative Reports), 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 seven adjustments to the financial statements to date that have resulted in a £93.4 m adjustment to the Council's Comprehensive Income and Expenditure Statement **but nil impact on the Council's General Fund balances**. Audit adjustments are detailed in Appendix C. We have also raised an action plan for management as a result of our audit work in Appendix A. Our follow up of the prior year's action plan is detailed in Appendix B. Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion or material changes to the financial statements, subject to the following outstanding matters; - completion of our substantive audit testing; - receipt of management representation letter; and - review of the final set of financial statements, including the Narrative Report and Annual Governance Statement. We have not yet concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited. Our anticipated audit report opinion will be unmodified including an Emphasis of Matter (EoM) paragraph relating to contingent liabilities . An EoM paragraph is added to indicate a significant uncertainty, which is disclosed appropriately in the financial statements, but which the auditor considers significant enough to warrant a mention in the audit report.
Value for Money (VfM) arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VfM) conclusion').	We have not yet finalised our risk based review of the Council's VfM arrangements as we have not been able to obtained all the necessary evidence to give this conclusion by 31 July. We have provided an update on the Council's VfM arrangements within section 3 of this report and we will issue our conclusion by 30 September 2019.
Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • to certify the closure of the audit.	We issued our Statutory Recommendation under section 24 of the Local Audit and Accountability Act 2014 in July 2018 and March 2019. We will consider progress made on these within our final VfM section report which will be presented to the Audit Committee on 24 September 2019. We do not expect to be able to certify the conclusion of the audit until: • we have completed the necessary work to issue our VfM conclusion for the year ended 31 March 2019. • we have completed the necessary work to issue our Whole of Government Accounts (WGA) Component Assurance statement for the year ended 31 March 2019.

Summary

Overview of the scope of our audit

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

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

Audit approach

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

- An evaluation of the Council's internal controls environment, including its IT systems and controls;
- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of the 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 an audit of Birmingham Children's Trust Community Interest Company was required for balances material to the group, which was completed by Crowe UK LLP, and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Our significant audit findings are set out on pages 9 to 22.

Conclusion

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.

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 2019. These outstanding items include:

- completion of our substantive audit testing;
- receipt of management representation letter; and
- review of the final set of financial statements, including the Narrative Report and Annual Governance Statement.

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 remain the same as reported in our audit plan. We detail in the table below our determination of materiality for Birmingham City Council.

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	44,460,000	44,360,000	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	31,122,000	31,052,000	We have not previously identified significant control deficiencies as a result of our audit work however we did identify material misstatements in the 2017/18 draft accounts, which subsequently were adjusted. There have also been changes within the finance team during the year. We decided that a reduced performance materiality of 70% is an appropriate level (prior year 75%).
Trivial matters	2,200,000	2,200,000	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 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

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 contributed to reserves by £48.7m in 2018/19 rather than using planned reserves of £28.6m. Although it should be noted that this contribution is mainly due to contract payments withheld in respect of a contract dispute which will need to be released in future years to undertake the work which has not been carried out.

As at month 2 the Council's forecast outturn is estimated to be an overspend of £18.202m. In month 2 there have been additional requests to use reserves of £2.781m, which when combined with planned use of reserves of £26.975m totals a requirement of £29.8m of reserves to balance the 2019/20 budget.

The Council has an ambitious savings programme of £46.2m and management has indicated that they are proactively looking to identify further savings in order to mitigate the risks of the forecasted overspend outturn position.

Auditor commentary

- 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 the 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 2018/19 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

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

- 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.
- In terms of the Council's ability to access cash, the 2019/20 planned debt is below its prudential borrowing limit by £277m and also below the current Capital Financing Requirement by £708m. The Council also has the ability to raise Council Tax up to 2.99%, plus a further 2% for the provision of social care.
- We are also satisfied that in a worst case scenario the Council's remaining useable reserves could substantially cover the non-delivery of savings plans and budget pressures in 2019/20 and 2020/21.

Group audit scope and risk assessment

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

Component	Individually Significant?	Audit Scope	Risks identified	Audit approach
Birmingham City Council	Yes	Audit of the financial information of the component using single entity materiality.	Please, see page 9 to 13	Full scope UK statutory audit performed by Grant Thornton UK LLP.
Birmingham Children's Trust	No	Audit of one or more classes of transactions, account balances or disclosures relating to risks of material misstatement of the group financial statements.	Valuation of pension net liability Accuracy of expenditure	Specific scope procedures performed on the valuation of the pension net liability and the accuracy of expenditure incurred by the Council during the year. These procedures have been performed by the component auditor and we are in the process of reviewing their working papers.
InReach ltd	No	Specified audit procedures relating to risks of material misstatement of the group financial statements	Investment properties valuation	Specific scope procedures performed on the valuation of investment properties by the group auditor.
Birmingham City Propco Ltd	No	Analytical procedures	Investment properties valuation	Specific scope procedures performed on the valuation of investment properties by the group auditor.
NEC (Developments) Plc	No	Analytical procedures	Consolidation process	We have performed analytical procedures at a group level.
Acivico Ltd	No	Analytical procedures	Consolidation process	We have performed analytical procedures at a group level.

Group audit scope and risk assessment (continued)

Component	Individually Significant?	Audit Scope	Risks identified	Audit approach
Innovation Birmingham ltd (disposed of in April 2018)	No	Analytical procedures	Consolidation process	We have performed analytical procedures at a group level.
PETPS (Birmingham) Pension Fund Scottish Limited Partnership	No	Analytical procedures	Consolidation process	We have performed analytical procedures at a group level.
PETPS (Birmingham) Ltd	No	Analytical procedures	Consolidation process	We have performed analytical procedures at a group level.
Birmingham Airport Holdings Ltd (Associate)	No	Analytical procedures	Consolidation process	We have performed analytical procedures at a group level.
Paradise Circus General Partner Limited (Joint Venture)	No	Analytical procedures	Consolidation process	We have performed analytical procedures at a group level.

Key changes within the group:

- Birmingham Children's Trust has been established on 1 April 2018
- Innovation Birmingham Ltd was disposed of during 2018/19

Audit scope

- Audit of the financial information of the component using single entity materiality
- Audit of one more classes of transactions, account balances or disclosures relating to risks of material misstatement of the group financial statements
- Review of component's financial information
- Specified audit procedures relating to risks of material misstatement of the group financial statements
- Analytical procedures at group level

Significant findings – audit risks

	Risks identified in our Audit Plan	Risk relates to	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.	**Council and Group**	**Auditor commentary** Having considered the risk factors set out in ISA240 and the nature of the revenue streams for the Council and Group, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition in the Council and Group accounts; • opportunities to manipulate revenue recognition are very limited in the Council and Group accounts; 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 or the Group and there have been no changes to our assessment reported in our audit plan.
2	**Management override of controls** Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Council faces external scrutiny of its spending, and it could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	**Council and Group**	**Auditor commentary** As part of our audit procedures we have: • evaluated the design effectiveness of management controls over journals; • analysed the journals listing and determined the criteria for selecting high risk unusual journals; • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions; and • Review and testing of consolidation adjustments and intra-group elimination entries. Our work in this area is still ongoing. Our audit work to date has not identified any issues in respect of management override of controls.

Significant findings – audit risks (continued)

Risks identified in our Audit Plan	Risk relates to	Commentary
③ **Valuation of property, plant and equipment (specifically council dwellings, other land and buildings, and surplus assets)** The Council revalues its land and buildings on a rolling five-yearly basis as well as undertaking review of assets not valued in year and any movement until the year end. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£4.8 billion in 17/18) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Council and group financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter. It should be noted that enhanced auditor scrutiny over the valuations of property, plant and equipment has been undertaken nationally on recommendations from the Financial Reporting Council and all Local Government Authorities have been subject to these enhanced audit procedures.	**Council**	**Auditor commentary** Upon receipt of the draft accounts we identified this risk relates to the council only. As part of our audit procedures we have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation expert and the scope of their work; • evaluated the competence, capabilities and objectivity of the valuation expert; • written to the valuer to confirm the basis on which the valuation was carried out; • challenged the information and assumptions used by the valuer and assessed completeness and consistency with our understanding; • tested revaluations made during the year to see if they had been input correctly into the Council's asset register; • evaluated the assumptions made by management for those assets not revalued during the year and those valued at 1 April 2018, and how management satisfied themselves that these were not materially different to current value at year end; • evaluating the beacons used for the HRA valuation in order to ensure that the classes used are still appropriate and reflected Council's housing stock as well as challenging the basis of valuation of such beacons; • used Gerald Eve as our auditor's expert to determine our valuation expectations and also engaged Wilkes Head and Eve LLP to complete an independent commentary on the valuations of both HRA and non HRA assets. From our initial audit procedures on the valuation of PPE we had some concerns over the valuation process as a whole, including the robustness and consistency of valuation movements. We therefore engaged an auditor's expert to provide us with additional assurance over the valuation. The outcome of this external expert review is that the overall methods and assumptions used in the valuation of PPE (specifically council dwellings, other land and buildings, and surplus assets) are appropriate and reasonable, and that the valuation movements are in line with market trends in Birmingham over the 2018/19 financial year. The only exception relates to a £5k adjustment rate made for bedrooms applied to the majority of archetypes within the valuation of Council Dwellings by the Valuer. Our work is still in progress to review the appropriateness of this adjustment. In addition, we have identified a number of issues as part of our work on the valuation of property, plant and equipment which are set out on the following page.

Significant findings – audit risks (continued)

	Risks identified in our Audit Plan	Risk relates to	Commentary
3	**Valuation of property, plant and equipment (specifically council dwellings, other land and buildings, and surplus assets)**	**Council**	**Auditor commentary (continued)** **Council Dwellings** - We identified a £51.0m credit to the CIES relating to depreciation incorrectly reversed through the CIES on revaluation. We identified a similar error in 2017/18. This had no impact on net book value and has been amended for within the financial statements. **Other Land and Buildings** We identified two errors from our testing: - An understatement of £27.3m in the revaluation of secondary schools due to the incorrect primary school MEA basis being applied. - An understatement of £26.7m in building assets valued on DRC basis. This is due to the historic process of capitalising expenditure which did not impact upon the current value of the asset, and including depreciation within the assets revaluation when uplifted by BCIS indices. Both of these have been amended for within the financial statements. **Surplus assets** - We identified an overstatement of £93.5m in the revaluation of surplus assets due to a valuation processing error where the valuation was applied to an incorrect asset. Whilst significant, this error makes up 1.6% of the total properly, plant and equipment asset base for the Council. This has been amended for within the financial statements. **Conclusion** Apart from the points noted above, our audit work has not identified any further issues in respect of valuation of property, plant and equipment (specifically council dwellings, other land and buildings and surplus assets). None of the adjustments above impact on the Council's General Fund Balances,

Significant findings – audit risks (continued)

Risks identified in our Audit Plan	Risk relates to	Commentary
4 **Valuation of pension fund net liability** The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements and group accounts. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£2.6 billion in the Council's balance sheet in 2017/18) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter. It should be noted that enhanced auditor scrutiny over the valuations of pension fund net liabilities has been undertaken nationally on recommendations from the Financial Reporting Council and all Local Government Authorities have been subject to these enhanced audit procedures.	**Council**	**Auditor commentary** Upon receipt of the draft accounts we identified that this risk relates to the council only. As part of our audit procedures we have: • updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluated the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work, and assessed the competence, capabilities and objectivity of this management expert actuary; • assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • 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; • requested assurances from the auditor of the West Midlands Local Government Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data, benefits data and fund assets data sent to the actuary by the pension fund; and the assets held by the pension fund at 31 March 2019; • performed analytical procedures on movements in pension assets and liabilities during the year We identified a number of risks as part of our work on the valuation of pension fund net liability: • McCloud judgement – the Council has proactively responded to this emerging national issue by obtaining a revised IAS 19 valuation from its actuary. The accounts have been amended to reflect an increase of £48.6m in the net pension liability with a related impact on the CIES. • Guaranteed Minimum Pension (GMP) – we have considered the actuary's approach to inclusion of GMP liabilities in the Council's net pension liability and have identified that the Council's pension liability may be overstated by approximately 0.15%, or £10m. • Use of estimated data – we identified a difference of £9.1m between the actuary's estimate of annual pensionable pay used to calculate the service cost for the year, and the actual pensionable pay for the Council for 2018/19. • Birmingham Children's Trust settlement – we identified a discrepancy of £6.1m between the value of liabilities transferred out of the Council's pension liability and that transferred into the Children's Trust pension liability. Further details on these are set out on the following pages. Our work on the discrepancies in estimated data and the Children's Trust data is still in progress. We are satisfied these issues do not indicate a risk of material misstatement within the estimate. We have not yet received the assurances we have requested from the auditor of the West Midlands Local Government Pension Fund. Our work in this area is therefore still in progress. None of the adjustment impact on the Council's General Fund.

Significant findings – audit risks (continued)

Risks identified in our Audit Plan	Risk relates to	Commentary
4 Valuation of pension fund net liability (continued)	Council	**Auditor commentary (continued)** **Impact of the McCloud judgement** The Court of Appeal has ruled that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members. The Government applied to the Supreme Court for permission to appeal and on 27 June 2019 it was announced this was denied. The case will now be remitted back to employment tribunal for remedy. The legal ruling around age discrimination (McCloud - Court of Appeal) has implications not just for judges' pension funds, but also for other pension schemes where they have implemented transitional arrangements on changing benefits. Discussion is ongoing in the sector regarding the potential impact of the ruling on the financial statements of Local Government bodies. This issue came to light after the production of the draft accounts and was not include in the Council's initial actuarial valuation. The Council requested a revised IAS 19 report from their actuary and have amended the financial statements to reflect the revised report taking into account the impact of the McCloud ruling. The amendments are as follows: • Increase to pension liability of £48.6m • Increased charge to the CIES of £48.6m • Additional disclosures relating to the change We have reviewed the IAS19 report produced by the actuary and undertaken procedures to confirm the reasonableness of the actuarial assumptions used, including their consistency with the original actuarial valuation. **GMP** In March 2016 the Government announced an "interim solution" for members in public service schemes who reach State Pension Age (SPA) between 6 April 2016 and 5 December 2018. In January 2018 they decided to extend this solution for a further two years to April 2021. Separately on 26 October 2018, the High Court ruled that defined benefit pension schemes must remove any discriminatory effect that guaranteed minimum pension entitlements have had on members benefits. For affected clients, the impact will be to increase the defined benefit pension obligation. However, for public services schemes HM Treasury have announced that they do not expect this ruling to have any impact on public sector schemes due to the GMP equalisation arrangements summarised above. We have considered the impact of GMP equalisation and utilised PwC as auditor's expert in this area. Barnett Waddingham has allowed for the "interim solution" to 5 December 2018 within their IAS 19 valuations and have also included an allowance for potential allowances post 2021. Based on our review, we have identified that the Council's pension liability may be overstated by approximately 0.15%, or £10m. We are satisfied that this does not indicate a risk of material misstatement within the estimate.

Significant findings – audit risks (continued)

Risks identified in our Audit Plan	Risk relates to	Commentary
4 Valuation of pension fund net liability (continued)	Council	**Auditor commentary (continued)** **Use of estimated data** In line with normal practice, the actuary has used estimated data, including pensionable pay, based on 9 months' data, grossed up to 12 months. We identified there was a difference of £9.1m between the actuary's estimate of annual pensionable pay used to calculate the service cost for the year, and the actual pensionable pay for the Council for 2018/19. In part this was due to the estimated figures including one month of pay prior to the transfer of staff to Birmingham Children's Trust. Our work in this area is still in progress. We are satisfied that given the nature of the estimate, this is reasonable and the discrepancy does not indicate a risk of material misstatement. **Discrepancy in value of Birmingham Children's Trust settlement** The transfer of staff to Birmingham Children's Trust on 1 April 2018 has resulted in a transfer of pension assets and liabilities from the Council to the Children's Trust, which has impacted on the Council's accounts. We reviewed the value of this settlement for reasonableness. We identified a discrepancy of £6.1m between the value of liabilities transferred out of the Council's pension liability and that transferred into the Children's Trust pension liability. We understand that this relates to differences in assumptions used due to the timing of the calculations, and that the figures recognised in the Council's single entity net pension liability are more up to date. We are awaiting further corroboration of this explanation, so our work in this area is still in progress. We are satisfied that this does not indicate a risk of material misstatement within the estimate. **Conclusion** We are satisfied that the amended accounts reflect a reasonable estimate of the Council's pension liability including the impact of the McCloud judgement, and that the remaining issues identified do not indicate a risk of material misstatement of the estimate. We have set out further details of our review of the actuary's estimation process on pages 20 to 21. Amendments have not been made to the group accounts for the impact of McCloud on the pension liabilities of subsidiaries, as the changes are not considered to be material.

Significant findings – audit risks (continued)

Risks identified in our Audit Plan	Risk relates to	Commentary
5 **Valuation of equal pay liability** Under ISA540 (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.	**Council**	**Auditor commentary** Upon receipt of the draft accounts we identified this risk relates to the council only. As part of our audit procedures we have: • updating our understanding of the process and controls put in place by management and evaluating the design of the associated controls in place to estimate the equal pay provision; • evaluated the assumptions on which the equal pay provision estimate was based; • assessing the events or conditions that could have changed the basis of estimation; • reperformed the calculation of the estimate on a sampling basis; • undertaken procedures to assess whether the estimate has been determined and recognised in accordance with accounting standards; • determined how management assessed the estimation uncertainty; and • evaluated the impact of any subsequent transactions or events. Please see our private report for our conclusion on the valuation of equal pay liability. We are satisfied that the financial statements are not materially misstated in respect of the valuation of the equal pay liability.

Significant findings arising from the group audit

Findings	Group audit impact
Within the ‘Group audit scope and risk assessment’ page we have provided an update as to our audit approach taken to the Group. This is slightly different from our Audit Plan communicated in June 2019.	There have been minor changes to our audit approach.
We identified one audit adjustment from our work on the group consolidation in relation to intra-group eliminations between the Council and Birmingham Children’s Trust (BCT). This relates to the elimination of entries relating to the settlement transactions within the pension liabilities of the Council and BCT upon the transfer of staff to BCT on 1 April 2018.	The accounts have been amended for this issue.
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 no audited accounts for consolidated entities have been received. Due to information delay management accounts or draft accounts have been used to consolidate all of the council’s subsidiaries, associates and joint ventures which have been included within the group accounts.	We have not identified a material risk due to the size of the majority of the Council’s consolidated components. We are in the process of obtaining assurance from the auditors of the Birmingham Children’s Trust about any additional material adjustments that are required to the Council’s group accounts.

Significant findings - other

Area of audit	Findings	Audit impact
Completeness of expenditure	We tested a sample of payments made in April and May 2019 in order to identify if payments relating to 2018/19 expenditure had been appropriately accrued. Initially we identified two items from our sample which had not been accrued, we extended our sample further and identified a further item that had not been accrued. We raised a similar point in 2017/18 about Waste accruals and it may be indicative of wider weaknesses in the Council's arrangements for the controls over accruals of income and expenditure.	Our work to evaluate the impact and any additional testing required is still in progress. We have raised an action plan point regarding controls around invoice accruals.

Significant findings – key judgements and estimates

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. Please also see the relevant section of the private report.

Accounting area	Summary of management's policy	Audit Comments	Assessment
Land and Buildings – Council Housing - £2,445m	The Council owns 60,836 dwellings and is required to revalue these properties in accordance with DCLG's (now known as MHCLG) Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. The Council has engaged the internal valuer to complete the valuation of these properties. The year end valuation of Council Housing was £2,445m, a net increase of £161.2m from 2017/18 (£2,283.8m).	The assets have been valued on EUV-SH basis with a regional adjustment factor of 40% - this is in line with DCLG (now known as MHCLG) Guidance. The Council Dwellings have been grouped into archetypes which forms the basis of the beacon valuation method. The 28 Archetypes were determined by Savills. Two new Archetypes have been subsequently added in 2010/11 for the Birmingham Housing Municipal Trust (BHMT). The Council has applied a £5k adjustment rate within archetype valuations in order to account for the number of bedrooms. Our work on this judgement is still in progress. The Council Dwellings were valued on 1st April 2018 but were revalued at 31st March 2019 to reflect a significant change in the market valuation. We have tested the completeness and accuracy of the underlying information used to determine the estimate with no issues noted. We are satisfied that the Council's judgement and estimation in relation to the valuation are adequate and are consistent with the requirements of the CIPFA Code and IAS 16. As noted above, our work is still in progress on the £5k adjustment rate applied in order to account for the number of bedrooms.	● **green (TBC)**

Assessment

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

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Land and Buildings – Other - £2,384.2m	Other land and buildings comprises £1,733m of specialised assets such as schools and libraries, which are valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings £654m are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged the internal valuer to complete the valuation of properties as at 01/04/18 on a five yearly cyclical basis. 65% of the total value of the assets were revalued during 2018/19. The valuation of properties valued by the valuer has resulted in a net decrease of £63.7m. Management has considered the year end value of non-valued properties, by applying a revaluation rate determined from properties valued in year, to determine whether there has been a material change in the total value of these properties. Management's assessment of assets not revalued has identified no material change to the properties value. The total year end valuation of Other land and buildings was £2,384.2m, a net increase/decrease of £57.7m from 2017/18 (£2,444.5m).	Other land and buildings are valued at 1st April 2018 and have been assessed to be not materially different to the current value at 31st March 2019. This has been reviewed in line with market data and we are satisfied this is correct. Buildings valued on a DRC valuation basis at 1st April 2018 are uplifted by the BCIS indices to reflect changes in build costs in year. The valuation uplift has been agreed to indices provided by RICS. Buildings valued on a DRC valuation basis that are not part of in year formal revaluation programme are uplifted by BCIS indices to reflect changes in build costs since 2017/18. The valuation uplift has been agreed to indices provided by RICS. We have tested the completeness and accuracy of the underlying information used to determine the estimate with no issues noted. We are satisfied that the Council's judgement and estimation in relation to the valuation is adequate and is consistent with the requirements of the CIPFA Code and IAS 16.	**yellow**

Assessment

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

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Net pension liability – £2,552.0m	The Council's net pension liability at 31 March 2019 is £2,552.0m (17/18 £2,587.9m) comprising the West Midlands Pension Fund Local Government funded and unfunded defined benefit pension scheme obligations, and the unfunded teachers' defined benefit obligation. The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from these schemes. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £139.5m net actuarial gain during 2018/19.	We have performed an assessment of the estimate, considering the following areas: • We have utilised PwC as auditor's expert to assess the competency, capability and objectivity of Barnett Waddingham as management's expert and identified no concerns. • We have utilised PwC as auditor's expert to assess the actuary's roll forward approach taken. We are satisfied that the approach taken by Barnett Waddingham is reasonable and that it is unlikely to lead to a material difference in the liabilities at 31 March 2019. • We have utilised PwC as auditor's expert to assess the assumptions made by the actuary – a summary of our work is set out in the table below:	● green

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.4%	2.35% to 2.45%	●
Pension increase rate	2.4%	2.4% to 2.45%	●
Salary growth	3.9% long term, with a short-term overlay for salaries to rise in line with the Consumer Price Index (CPI) (2.4%) to 31 March 2020	Combination of short and long term assumptions	●
Life expectancy – Males currently aged 45 / 65	22.6 years / 20.9 years	22.2 years to 25 years / 20.6 to 23.4 years	●
Life expectancy – Females currently aged 45 / 65	25 years / 23.2 years	25 years to 26.6 years / 23.2 to 24.8 years	●

Assessment

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

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments (continued)	Assessment
Net pension liability – £2,552.0 m		• We have tested the completeness and accuracy of the underlying information used to determine the estimate. This includes testing of data submitted by the Council to the West Midlands Pension Fund, and obtaining assurance from the auditors of West Midlands Pension Fund over the data submitted by the pension fund to the actuary. As noted on page 14, we identified a £9.1m discrepancy between the estimated pensionable pay used by the actuary to calculate the service cost, and the actual pensionable pay for the year. Additionally, as noted on page 13, we have not yet received the assurances we have requested from the auditor of the West Midlands Local Government Pension Fund. Our work in this area is therefore still in progress. • We utilised PwC as auditor's expert to review the methods used by the actuary and confirmed that Barnett Waddingham have updated their post-retirement mortality assumptions in 2018/19. In line with PwC's conclusions, we have not identified any reasons that this change would not be appropriate for the Council. There were no other significant changes to the valuation method in 2018/19. • We have performed analytical procedures to assess the reasonableness of the Council's share of LGPS pension assets. As part of this we have requested assurance from the auditors of West Midlands Pension Fund over the assets held by the West Midlands Pension Fund at 31 March 2019. We have not yet received the assurance we have requested , therefore our work in this area is therefore still in progress. • We have utilised PwC as auditor's expert to review the reasonableness of the decrease in the estimate of the Council's pension liability. The majority of the decrease relates to the transfer of staff to Birmingham Children's Trust on 1 April 2018, with a resultant transfer of pension liabilities taking place. Our work on the reasonableness of the residual movement is still in progress. As noted on page 14, there is a discrepancy of £6.1m between the value of the liabilities transferred out of the Council's pension liability and that transferred into the Birmingham Children's Trust pension liability. Our work in this area is still in progress. • We have reviewed the revised IAS19 report produced by the actuary including the impact of the McCloud judgement, and undertaken procedures to confirm the reasonableness of the actuarial assumptions used, including their consistency with the original actuarial valuation. We are satisfied the estimation basis is reasonable. The accounts have been amended, though it should be noted that this has no impact on the General Fund. • We are satisfied that the estimate has been adequately disclosed in the financial statements and supporting notes. Additional disclosures have been added relating to the McCloud judgement.	**TBC**

Assessment

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

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Money Market Funds	In the draft accounts, the Council classified investments in money market funds at amortised cost under IFRS 9.	We challenged this classification as depending on the terms of the investment it may be appropriate to classify such investments at fair value through profit and loss. We are in the process of reviewing the work performed by Arlingclose so our work in this area is still in progress.	**TBC**
Infrastructure asset impairment - £51.3m	The Council has recognised an impairment of £51.3m for infrastructure assets. The Council will need to include additional disclosures in relation to the asset impairment.	The Council has determined that, although there have been additions to infrastructure assets during the course of the HMMPFI contract, in light of the current information regarding evidence of investment in the highways network there is a need to impair the carrying value of these assets. The Council has calculated a range for the value of the impairment based on the information available and has accounted for a value in the middle of this range. We are satisfied that the estimate is reasonable, although our work to review the estimation process in detail is still in progress.	**yellow**
Material IAS 19 entries	Disclosure of material entries relating to IAS 19 pension adjustments	The CIPFA Code requires the analysis by service lines within the CIES to include 'appropriate employee benefit accrued costs', including pension costs under IAS 19. The Council has made a judgement that material IAS 19 adjustments relating to settlements and past service cost should be disclosed separately on the face of the CIES rather than being apportioned across the directorate service lines. These adjustments comprise the gain on settlements, and the additional past service costs relating to McCloud. We are in the process of reviewing this judgement and have requested that enhanced disclosures are included in the accounts to explain both the judgement made and the reason for the material adjustments.	**N/A for judgements**
Pension guarantees £9.9m	Pension guarantees are recognised within provisions and contingent liabilities	The Council has recognised a provision and contingent liability relating to pension guarantees. In our view such guarantees are scoped out of IAS 37 and should therefore be shown as other liabilities. However the Council has made a judgement that these should be accounted for as a provision, and a related contingent liability. The value is immaterial.	**N/A for judgements**

Assessment
- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process and key assumptions to be reasonable

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 other incidents in the period and no other 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 as a separate document for Audit Committee. • Specific representations have been requested from management in respect of the significant assumptions used in making accounting estimates and judgements for: – Property, plant and equipment valuation – Property, plant and equipment infrastructure impairment – HMMPFI – going concern – Council Dwellings valuation – Equal pay measurement – Equal pay recognition – Academy Schools – Group boundaries – Completeness of expenditure
5	**Confirmation requests from third parties**	• We requested from management permission to send confirmation requests for bank and borrowing/investment balances. This permission was granted and the requests were sent to the bank. All responses were obtained with the exception of Schools. We received no bank letters for schools and therefore we performed alternative procedures to gain assurance over these balances.
6	**Disclosures**	• We have summarised the disclosure amendments included in the final version of the accounts in Appendix C.
7	**Audit evidence and explanations/significant difficulties**	• All information and explanations requested from management was provided.

Other responsibilities under the Code

	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 and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified but have been adequately rectified by management. We plan to issue an unmodified opinion in this respect – refer to our audit opinion.
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; and • If we have applied any of our statutory powers or duties. We made Statutory Recommendations to the Council July 2019 and March 2019 under section 24 of the Act.
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 £500m, 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 2019.
4	**Certification of the closure of the audit**	We are unable to certify the closure of the 2018/19 audit of Birmingham City Council in the audit opinion, as detailed in our audit opinion.

Value for Money

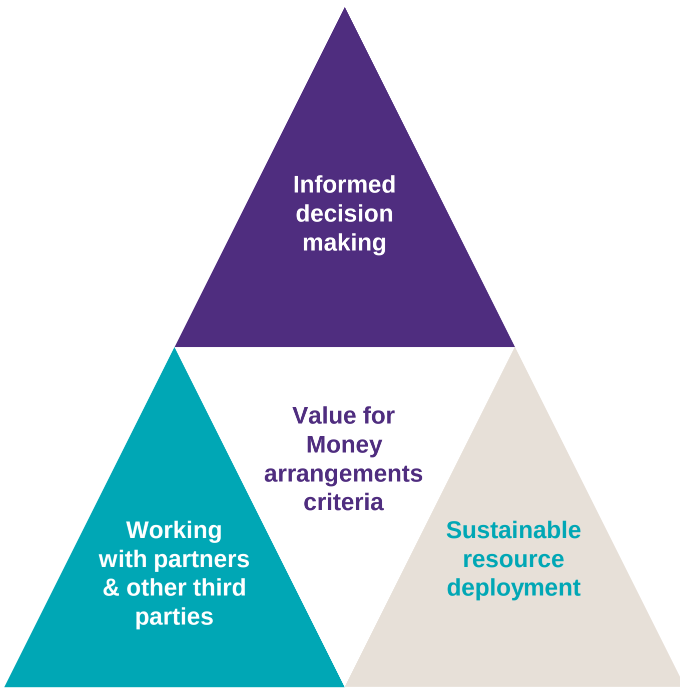
Background to our VfM approach

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

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. AGN 03 identifies one single criterion for auditors to evaluate:

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

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



Risk assessment

We carried out an initial risk assessment in January 2019 and this was updated in May 2019. We identified seven significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. The updated position was communicated to the Audit Committee on 17 June 2019.

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

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

Our work

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

We have focused our work on the significant risks that we identified in the Council's arrangements. We have not yet arrived at our conclusion as we awaiting Amey PLC to file its statutory accounts and their deadline was extended from 30 June 2019 to 31 July 2019. These accounts will impact on our conclusion specifically in relation to HMMPFI.

We have set out our preliminary findings on the risks we identified on pages 26 to 32.

Key findings

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

	Significant risk	Findings	Conclusion
1	**Finance** The key risk is that the proposed 2018/19 savings schemes have not delivered the required recurrent savings, or are taking longer to implement than planned. In addition, the Council's medium term financial plan for 2019/20 to 2022/23 needs to incorporate realistic and detailed savings plans. This needs to take account of key budget and service risks, whilst maintaining an adequate level of reserves to mitigate the impact of budget risks including the HMMPFI contract (see risk 3), Commonwealth Games (see risk 4), Equal Pay, Paradise Circus and Acivico Limited. We reviewed the Council's latest financial reports, including savings plans trackers, to establish how the Council is identifying, managing and monitoring these risks. This will involve considering the adequacy of reserves and their prudent use as well as the transparency of financial reporting.	Our work in this area is still in progress.	Our findings will be reported to the Audit Committee on 24 September 2019.

Page 74 of 406

Key findings (continued)

Significant risk	Findings	Conclusion
2 Governance and the Waste Service		
The key risk is that the Council fails to implement adequate governance arrangements. In particular, in relation to the waste dispute in order to minimise potential industrial action. We reviewed the governance arrangements in place for the Waste Service as well as considering the progress made by the Council to review other options for the delivery of the refuse collection service.	In July 2018 we issued statutory recommendations to the Council, including recommendations relating to the governance of Waste. In March 2019 we issued further statutory recommendation to the Council, which included further recommendations relating to the governance of Waste. In particular we noted that 'whilst good progress has been made in a number of areas in delivering against the recommendations, progress in relation to the refuse collection service, in particular, has been hampered by a new wave of industrial action'. There has not been any further industrial action to date since the statutory recommendations were issued in March 2019. The current Memorandum of Understanding ends in November 2019 so there will be a need to make a decision on the future direction of the service by this point. In March 2019 the Cabinet approved a proposal to commission a review of the Waste Service, and the specification for the review. The review will consist of two phases; Phase 1 will consist of the service review and options appraisal with Phase 2 being implementation. The Council has appointed Woods to carry out this review, with the Phase 1 report expected in September 2019. The Council intend to wait for this report before making decisions about future options for the service.	We identified in our initial risk assessment that the key risk is that the Council fails to implement adequate governance arrangements. In particular, in relation to the waste dispute in order to minimise potential industrial action. The independent review is due to report in September 2019 and the Council intends to wait for this report before making decisions about the future operating model for the Waste service. We therefore do not yet have sufficient information to conclude that this risk has been sufficiently mitigated. We concluded that these matters are evidence of weakness in informed decision making: acting in the public interest through demonstrating and applying principles and values of sound governance by failing to establish effective industrial relations.

Key findings (continued)

	Significant risk	Findings	Conclusion
3	**HMMPFI Contract** The key risk is the ongoing contractual disputes with Amey Birmingham Highways Limited as the SPV who sub-contract to Amey LG Limited (and other involved parties) in respect of the HMMPFI contract, which could have a significant impact on the Council's financial sustainability. We reviewed the latest information relating to this contract, to establish how the Council is identifying, managing and monitoring this risk.	Our work in this area is still in progress.	Our findings will be reported to the Audit Committee on 24 September 2019.

Key findings (continued)

Significant risk	Findings	Conclusion
4 **Commonwealth Games** 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 governance arrangements for the delivery of the XXII Commonwealth Games in 2022 and the associated funding arrangements, to establish how the Council is identifying, managing and monitoring this risk.	The Council has strengthened its governance arrangements for the delivery of the Commonwealth Games in the last 12 months and issued the 2022 Commonwealth Games Cross Partner Governance Framework in February 2019. The framework sets out the reporting lines for the various Boards, Groups and indicative cross partner working groups. These include the Commonwealth Games Strategic Board (CGSB) and the Commonwealth Games Chief Executives Group (CGCEG) which reports to the CGSB. The Security Board which reports to the CGSB and the Finance Group, the Budget Oversight Group and the Cross Partner Programme Group (CPPG) all report to the CGCEG. The 10 indicative cross partner working groups report to the CPPG or the CGCEG is the case of escalated issue resolution and setting of operational/tactical direction. Central Government announced that the cost of the Commonwealth Games would be £778m in June 2019. Central Government will fund around 75 per cent (£593.6m) and the Council is responsible for about 25 per cent (£184.4m). The Council is hoping to secure about £75m in funding from various games partners including West Midlands Combined Authority, Local Enterprise Partnerships (LEPs), Midlands Engine and some local universities. At this point in time, whilst a number of these options are at a fairly advanced stage, none of the planned partner funding has been formally agreed. The Council’s remaining share of £109.4m is split between £39m revenue funding, the majority of this (£37.8m) is due in 2022/23 and £70.4m capital funding of which only £14.7m is due in 2019/20.	We identified in our initial risk assessment that the key risk is that the cost of hosting the Commonwealth Games will impact on the Council's future financial sustainability. We are satisfied that the Council has put in place appropriate governance arrangements to oversee the delivery of the Commonwealth Games. In addition, following Central Government’s confirmation that the total cost of the Commonwealth Games will be £778m with the Council’s local commitment totalling £184.4m which includes as yet unconfirmed local partner funding of c.£75m, we are satisfied that the Council is working closely with partners so secure the partner funding. As a result, we have concluded that the Commonwealth Games significant VfM risk is mitigated for 2018/19. We will continue to monitor the Council’s progress with securing planned partner funding for the Commonwealth Games as part of our 2019/20 VfM review.

Key findings (continued)

Significant risk	Findings	Conclusion
5 **Improvement Panel** The Birmingham Independent Improvement Panel published its final report on 2 April 2019 subsequent to the Panel standing down from the end of March 2019. The key risk is that the Council fails to implement the next steps and recommendations set out in the Panel's final report, taking into account the Council's own stocktake report issued in March 2019.	Our review of the Panel's final report dated 2 April 2019 has confirmed that all the key risks that the Council is facing are covered by the other six significant VfM risks that we identified during this year's risk assessment process. The Panel's report reflects on the progress made by the Council since June 2018 and acknowledges that "The Council has worked hard over the last year and made considerable progress on many fronts." However, the report also highlights the scale of the challenges that the Council is facing. In particular, the report stated that: "The biggest risk is if a number of these key risks coincide. The Council's Financial Plan 19+ outlines both the extent of the financial risks facing the Council and its level of reserves. The financial risks include demographic pressures, capital project overruns, major contract disputes, potential changes to the business rates regime, the Commonwealth Games and Equal Pay. It is clear that if all the Council's risks that have detrimental financial implications were to come together the Council's financial resilience would be sorely tested." In its report the Panel acknowledges that "the Council is intending to maintain constructive and critical challenge through internal scrutiny and sector-led arrangements." However, in it's recommendation to the Secretary of State the Panel said ".....in the light of the exceptional risks that the Council is facing and particularly its industrial relations context, we consider that type of challenge will be insufficient. We therefore recommend that the Secretary of State should put in place external independent challenge and support, additional to that proposed by the Council, to replace the Panel."	We identified in our initial risk assessment that the key risk is that the Council fails to implement the next steps and recommendations set out in the Panel's final report, taking into account the Council's own stocktake report issued in March 2019. We have considered the findings of the Panel's final report and concluded that all the weaknesses in the Council's arrangements highlighted in it are covered by the other six significant VfM risks identified by our initial risk assessment for 2018/19. As a result, we have concluded that the Panel significant VfM risk is mitigated for 2018/19. We will continue to monitor the Secretary of State's response to the Panel's final report and consider any actions arising as part of our 2019/20 VfM review.

Key findings (continued)

Significant risk	Findings	Conclusion
6 **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. Ofsted have undertaken an inspection of services for vulnerable children. We reviewed Ofsted's findings which were reported in January 2019, to establish how the Council is identifying, managing and monitoring this risk.	The Office for Standards in Education (Ofsted) completed an inspection of children's social care services at the Council between 3 December and 14 December 2018 and published its findings in a report on 17 January 2019. The Council's services for vulnerable children have been rated as 'inadequate' by Ofsted for over 10 years, but the report published in January 2019 concluded that the Council's children's social care services were 'requires improvement to be good'. The report stated that "The local authority, the shadow board, and since its inception in April 2018, Birmingham Children's Trust (BCT), have made good progress from a low base in improving the quality of services to children and families. They have made good use of monitoring visits since the 2016 inspection and many of the recommendations for improvement from that inspection have been acted on effectively. The delegation of statutory functions to BCT has enabled the re-vitalisation of both practice and working culture, and, as a result, progress has been made in improving the experiences and progress of children." Ofsted's report also highlighted the following areas which need to improve: • the quality, effectiveness and pace of partnership working with external agencies, including partner-led early help services; • trust and confidence between the courts and BCT; • effectiveness of the fostering service; • robust and timely focus on all permanence options for children; • alignment of the approach to contextual safeguarding; and • the impact of the virtual school in improving provision for children in care. In response to Ofsted's report, the Council has developed an action plan to address the areas in need of improvement which has been discussed and agreed with Ofsted.	We identified in our initial risk assessment that the key risk is that the service does not show demonstrable improvement and continues to be subject to external intervention. The findings of the Ofsted inspection undertaken in December 2018 and report in January 2019 means that, as a result of the overall rating of 'requires improvement to be good', we are satisfied that the Council's arrangements for services for vulnerable children are appropriate. On that basis, we have concluded that the risk has been sufficiently mitigated and that the Council has appropriate arrangements in place relating 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.

Key findings (continued)

Significant risk	Findings	Conclusion
7 **Management of Schools** The key risk is that the governance issues identified at schools will not be effectively addressed. 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.	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. Birmingham Education Partnership (BEP) is responsible for driving improvement in schools performance and does so using the following structure: • leadership and governance; • continuous improvement; • wellbeing and enrichment; • partnership and communication; and • compliance & OFSTED. Continuous improvement focuses on initiatives which are helping to improve performance in schools. These include the following: families of schools; strategic school improvement fund (SSIF); BEP peer review programme; and raising attainment of disadvantaged youngsters (RADY). 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 still a range of governance issues to address across the schools visited, 37 of the 50 schools audits (74%) 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) but none of the schools 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). However, 42 of the 50 schools reviewed this year were given an overall risk rating of low (84%).	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. Continuous improvement initiatives implemented by the BEP are driving performance improvement in schools. 84% of the schools reviewed by Birmingham Audit this year were given an overall risk rating of low. We recognise Birmingham schools continue to be in the national spotlight for a number of reasons and there are an increasing number of schools experiencing a deficit position for the first time. However, we do not consider these matters to be material to the Council's overall management of those schools. On that basis, we have concluded that the risk has been sufficiently mitigated and that the Council has appropriate arrangements in place 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.

Other statutory powers and duties

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

	Issue	Commentary
1	**Written recommendations**	We issued two sets of Statutory Recommendations under section 24 of the Local Audit and Accountability Act in July 2018 and March 2019. We will provide an update on progress against these recommendations within our future report on VfM.

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

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.

	Fees £	Threats identified	Safeguards
Audit related			
Certification of housing benefits claim, pooled housing capital receipts, teachers' pensions	55,844	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 £55,844 in comparison to the total fee for the audit of £241,909 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Certification of grant claims (non-Code work as defined by PSAA)	27,750	Self-Interest (because this is a potentially 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 £27,750 in comparison to the total fee for the audit of £241,909 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Non-audit related			
CFOi (non-Code work as defined by PSAA)	10,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £10,000 in comparison to the total fee for the audit of £241,909 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
CASS reporting – Finance Birmingham (non-Code work as defined by PSAA)	14,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £14,000 in comparison to the total fee for the audit of £241,909 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

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 as notified in our Audit Plan. None of the services provided are subject to contingent fees.

We do not believe that the previous services detailed above will impact our independence as auditors.

Action plan

We have identified six 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 2019/20 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	• The Council identified that eight separate feeder files from two subsidiary systems relating to 2019/20 were posted in period 16 of the 2018/19 general ledger in error. • These entries were not reflected in the accounts and have been appropriately reversed out of the ledger, so there is no impact on the 2018/19 accounts.	• The Council should investigate this incident and implement appropriate controls to ensure a similar situation cannot occur again in the future **Management response** • TBC
2	amber	• An asset with a net book value of £9.4m was disposed of in 2017/18 but this was not accounted for until 2018/19. • We are satisfied this appears to be an isolated incident due to the unusual nature of the arrangement, so there is no material risk to the 2018/19 accounts.	• The Council should ensure there are appropriate controls in place to ensure all disposals are accounted for in the correct year **Management response** • TBC
3	amber	• We identified errors in the work of the valuer relating to the valuation of secondary schools, and a valuation where expenditure was used instead of profit as the basis of the valuation.	• Appropriate review should be included as part of the valuation process to ensure that any errors in valuation are identified and resolved. **Management response** • TBC
4	red TBC	• Our testing of the completeness of expenditure identified several items which were paid after 31 March 2019 but should have been accrued into 2018/19.	• The Council should investigate why these invoices were not appropriately accrued and implement additional controls to reduce the risk of such omissions in the future. **Management response** • TBC

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

Action plan (continued)

	Assessment	Issue and risk	Recommendations
5	amber	• As part of the valuation of Council Dwellings we identified that the valuer applied a £5k adjustment rate for bedrooms to the majority of archetypes • On further review, the £5k was based on the approach taken in previous years and it was not clear that a review had been carried out to check if this value was still appropriate.	• The Council should ensure that assumptions used in the valuation of property, plant and equipment, including council dwellings, are reviewed for appropriateness each year and updated where appropriate. • In particular a review of the actual impact of the number of bedrooms on the valuation of council dwellings should be carried out in order to support the value of the adjustment. **Management response** • TBC
6	amber	• As part of our review of IT controls, we identified an excessive number of users with access to critical T-codes within SAP • The risk is that an excessive number of users have access to critical transactions at high level of authorisation, which we would normally expect to be restricted to system administrators. • We noted this is primarily due to the current Firefighter setup, which is also noted in action plan point 6 (below).	• Management should review all access and reassign the relevant transactions in accordance with business need and current job duties only. This includes BACS users, as batch remittance responsibilities might not necessarily require the levels of authorisation currently assigned. **Management response** • TBC
7	amber	• As part of our review of IT controls, we identified weakness in current Firefighter policies and SAP GRC implementation. This included an excessive use of Firefighter IDs and a lack of proper assignment. • Under the current setup a large number of users have multiple accounts. • The risk is that a large number of user accounts are assigned to transactions with high levels of authorisation. Management oversight over changes made within production is also reduced.	• An evaluation should be performed over the appropriateness and necessity of all active Firefighter IDs. In our experience Firefighter IDs should only be set up as accounts with very critical levels of access for emergency operations or changes, as required by the system. **Management response** • TBC

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

Follow up of prior year recommendations

We identified the following issues in the audit of Birmingham City Council's 2017/18 financial statements, which resulted in 7 recommendations being reported in our 2017/18 Audit Findings report. We have set out an update on these recommendations below.

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	✓	**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 recommended 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** To improve managerial compliance HR services will undertake the following: a) half yearly communication reminders to managers to remind them of their obligations where there are pay related requirements b) Monthly audit check of 'non-completed' actions which are items awaiting approval in a manager's worklist. c) Where there are repeat offenders the relevant Director will be notified and formal disciplinary action may be taken. Targeted training to be offered to those repeat offenders. d) Ensure People Solutions training in respect of 'Self-service' is completed as part of the induction. e) HR Services proactively chase managers where we have cause to believe an overpayment may arise. **Update from management** Managers have been informed of the processes to be followed and regular audit checks have been put in place to ensure non-compliance can be identified at the earliest possible stage. This should also pick up areas where potential overpayments may have occurred. The regular monitoring should identify any repeat offenders with appropriate action taken, including disciplinary action. At present no repeat offenders have been identified. A revised induction programme has been piloted. **Audit conclusion:** We are satisfied that management has taken adequate actions to address this control weakness and have not identified areas of weakness in relation to payroll leavers in 2018/19.

Assessment
✓ Action completed
X Not yet addressed

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
2	✓	**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 recommended that management consider the appropriateness of these insurance valuations.	**Management response** The appropriateness of the current approach to Heritage Asset valuations will be kept under review. **Update from management** The current method of accounting for heritage assets is compliant with the CIPFA Code of Practice. Alternative accounting methodologies have been considered. However, placing a 'market' valuation on heritage assets may give a significant range in value for the assets which would make it difficult to identify a figure that would be materially correct. The cost of undertaking such a valuation would also not be economically viable. The insurance team have met with Museums Trust staff on a regular basis to assess insurance valuations for the collections to determine a suitable level of cover. The consideration of valuations has been discussed with external auditors. **Audit conclusion:** We acknowledge the responses from management and are satisfied that the Heritage Asset Valuations are compliant with the Code.
3	✓	**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 recommended that management considers which users need SAP_ALL access and removes access to this function where it is not required.	**Management response** SAP BSC will carry out daily checks to monitor individuals who have access to SAP_ALL and any errant users will have their access revoked immediately. Capita ICTD will review all SAP_ALL access IDs and any that are out of use are removed. **Update from management** SAP_ALL is required on occasion to support BCC, Acivico and Birmingham Children's Trust in the implementation of SAP maintenance such as bi annual support packs. A process of approval by SAP BSC prior to use and immediate revocation once the work has finished is now in place in Capita ICTDS. In addition, SAP BSC carry out daily checks to ensure compliance to this process. **Audit conclusion:** We acknowledge the responses from management and our 2018/19 IT audit work has not identified any significant deficiencies relating to this issue.

Assessment
✓ Action completed
X Not yet addressed

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
4	Partial	**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 recommended 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** SAP BSC will carry out a monthly check to ensure that all Firefighters are valid. Access for Firefighters will be revoked where they are no longer required. **Update from management** Multiple accounts are only commonplace within the Firefighter area of SAP and these accounts are only allocated to nominated staff. This is special access to enable support to be given to users in BCC, Acivico and Birmingham Children's Trust and the user accounts are split across the three entities. To ensure that this multiple access is only given to those nominated users, a monthly check is carried out to validate those users with this access. **Audit conclusion:** Our IT audit work in 2018/19 identified further recommendations relating to policies for Firefighter IDs. Our action plan points for 2018/19 are included in Appendix A.
5	✓	**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** The requirement to comply with the policies and procedures in respect of accounts payable will be reinforced through management team meetings. At year-end any significant unmatched purchase orders will be reviewed to determine the appropriateness of any accruals **Update from management** The Financial Transactions Team have liaised with colleagues from Corporate Procurement Services to identify purchase orders raised retrospectively and to take the appropriate remedial action to curtail the practice. It is planned to publish this data on a regular basis on the Corporate Procurement Compliance Dashboard. After the year end, an extract of the data for the final quarter 18/19 will be provided with an analysis for each of the directorates. This will provide dashboard highlights plus details of all orders raised retrospectively for each directorate. By circulating this to relevant senior officers in each directorate, this will enable them to tackle any non-compliance in their own service area. The exercise will be repeated quarterly, to monitor compliance and provide directorates with an ongoing tool to manage retrospective ordering **Audit conclusion:** We have identified a further control weakness within expenditure accruals in 2018/19. Our work in this area is still in progress and we have raised a new action plan point for this area on page 36.

Assessment
✓ Action completed
X Not yet addressed

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
6 ✓	**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** The timeline for the provision of HRA asset valuations will be reviewed with a view to allowing more time for effective reconciliation and consistency checks to be applied to the calculation of revaluation adjustments, whilst still ensuring that the valuations are materially correct as at the year-end date. **Update from management** A reconciliation process has been put in place to ensure that data is recorded appropriately. Discussions have been held with valuers to ensure that the provision of valuations can be accelerated and provided at an appropriate time so that errors can be identified and cleared at the earliest opportunity. **Audit conclusion:** We are satisfied that management have taken adequate actions to address this control weakness and have not identified areas of weakness in relation to reconciliation of the council dwellings net book value to the valuer's report in 2018/19.
7 ✓	**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** The figures will be analysed at the year end to determine whether there are any significant movements to the provision, either additional amounts required or provision withdrawn. **Update** Following the recommendation that the Council accurately calculate out the amount of business rates appeals used during 2018/19 to ensure an accurate figure for additional provisions to be made in year. During the year, transactions relating to the appeals provision were monitored on a quarterly basis at a high level to determine the amount of provision used in year. Figures were further analysed at year end to determine whether there were any significant movements to the provision required. The final appeals provision has been accurately calculated and submitted within the final accounts including the appropriate government returns. In addition the classification of additional provisions made and used in year and those that are unused and reversed out/no longer required, have been calculated and separately identified within the CBAL1 return for Financial Control. As part of the budget setting process, we have also made an estimate of the level of appeals provision that will be required in 2019/20. **Audit conclusion:** The business rates appeals provision was not material to our audit in 2018/19. We are satisfied with managements response and update,

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	**Surplus Assets** Upon revaluation of surplus assets, the revaluation was applied to a new asset alongside the existing asset, resulting in a duplication and overstatement of £93.5m	0	Dr Revaluation Reserve 93,500 Cr Surplus Assets 93,500
2	**Valuation of schools** The primary school MEA factors were incorrectly applied to value secondary schools resulting in an understatement of PPE of £27.3m. This adjustment has no impact on the General Fund.	Cr Cost of Services 4,100	Dr Property, plant and equipment 27,300 Cr Revaluation Reserve 23,200
3	**DRC buildings valuation** Due to a change in accounting policy for the valuation of DRC assets with capital expenditure in year, this has resulted in a cumulative adjustment to the carrying value of these assets. This adjustment has no impact on the General Fund.	Cr Cost of Services 2,100	Dr Property, plant and equipment 20,900 Cr Revaluation Reserve 18,800
4	**HRA valuation – depreciation** We identified a £51m credit to the CIES relating to depreciation reversed through the CIES on revaluation of council dwellings. 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. This adjustment has no impact on the General Fund.	Dr Cost of Services 51,000	Cr Revaluation Reserve 51,000

Audit adjustments (continued)

	Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000
5	**Pension liability** Upon receipt of the new IAS 19 report taking into account the McCloud judgement, the relevant adjustments have been made. This information was not available to the Council at the time of the publication of the draft accounts. This adjustment has no impact on the General Fund.	Dr Past service cost 48,600	Cr Pension liability 48,600
6	**Cash and Short Term Investments** Incorrect classification between cash and short term investments has been identified from testing of schools cash. This is a net adjustment of £3.5m from cash to short term investments.	0	Dr Short Term Investments 3,500 Cr Cash 3,500
7	**Group Eliminations – Birmingham Children's Trust** The draft accounts included a £81.8m credit to the CIES relating to the gain on settlement on the transfer of net pension liabilities to Birmingham Children's Trust. In the group accounts, there is related debit entry but this had been transacted through Other Comprehensive Income. As these are intra-group transactions they should not have an impact on the group accounts. This adjustment has no impact on the General Fund.	Dr Group Cost of Services 81,800 Cr Group Other Comprehensive Income 81,800	0
	Overall impact on net cost of services/balance sheet	**93,400**	**93,400**
	Impact on usable reserves	**NIL**	**NIL**

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. Note references below relate to the updated accounts as presented to audit committee in July 2019. These adjustments have been discussed with management but we have not received the final version of the financial statements to confirm that these adjustments have been processed.

Misclassification and disclosure changes	Detail	Adjusted?
Balance Sheet – Usable Reserves **Misclassification**	The Council has a net deficit balance of £8.7m on the non-schools Dedicated Schools Grant. This should be shown as part of unearmarked reserves rather than being a call on schools balances. The net deficit at 31 March 2018 was £11.5m. Appropriate amendments should also be made to the usable reserves note.	
Note 1 Accounting policies **Disclosure**	A number of changes have been made to the accounting policies to improve the compliance with the CIPFA Code and clarity to readers of the accounts.	
Note 9 – EFA by nature **Misclassification**	A number of misclassification errors were identified which resulted in incorrect values within the analysis which require correction. Additional changes are also required to this note following the audit adjustments made to the CIES.	
Note 10 – Material items of income and expense **Disclosure**	The disclosures within note 10 should be expanded to clearly disclose the Council's judgements around the disclosure of these items within the CIES, and the nature of the material items. Additionally some corrections are required to the figures to reflect the audit adjustment relating to McCloud.	
Note 15 – Revenue from Contracts with Service Recipients **Disclosure**	The draft accounts did not include any disclosures relating to IFRS 15. The Council has identified that there are material revenues which fall under IFRS 15 and therefore additional numeric and narrative disclosures are required to ensure compliance with the Code.	
Notes 19 – Usable reserves **Misclassification**	Transfers in and out were allocated incorrectly across unearmarked reserves, with no changes to the total movements.	
Note 21 & Note 22 **Disclosure**	The disclosures in the note require the following amendments: - correction of one error in the prior year figures; - correction of an error in the value disclosed for the net charge against the General Fund Balance for employer's contributions payable to scheme in year. This should reflect the proportion of the early payment made in 2017/18 which is chargeable to the General Fund in 2018/19; and - inclusion of the impact of the audit adjustments relating to McCloud.	
Note 23 – Property, plant and equipment **Disclosure**	The capital commitments disclosure was not in line with the requirements of the Code. The disclosure required amendment to ensure compliance with the Code.	

Audit adjustments (continued)

Misclassification and disclosure changes	Detail	Adjusted?
Note 23 Property, plant and equipment **Disclosure**	The analysis of assets by year of valuation requires amendment to correct a misclassification of £2.6m between 2014/15 and 2018/19, and to reflect the audit adjustments made to the valuation of PPE.	
Note 23 Property, plant and equipment **Disclosure**	The impairment of infrastructure was disclosed as a downwards revaluation in the draft accounts. This is incorrect and should be updated to disclose this as an impairment. Additional narrative disclosures should also be included relating to this material impairment.	
Note 32 – Provisions **Misclassification**	A misclassification between "additional provisions made in 2018/19" and "unused amounts reversed in 2018/19" was identified. This does not affect the net position and the provision remains the same. Additional provisions made in 2018/19 were understated by £22.8m and unused amounts reversed in 2018/19 understated by £22.8m.	
Note 37 – Cash Flow Statement – Financing Activities **Disclosure**	The accounts should be amended to include a reconciliation of liabilities arising from financing activities.	
Note 39 - Financial Instruments **Disclosure**	There have been a number of adjustments to the financial instruments note which resulted in a revised note being issued for audit. These adjustments include corrections to the categorisation of financial instruments to ensure compliance with IFRS 9, and corrections to the fair value disclosures.	
Note 45 - Legal fees senior officers **Disclosure**	An omission of legal fees reimbursed to a senior officer as part of compensation for loss of office was identified. The overall impact to this disclosure is an increase of £6k.	
Group CIES **Misclassification**	The superannuation adjustment within Group CIES should align with that reported within the single entity, excluding the impact of the settlements relating to Birmingham Children's Trust. This is a misclassification within the Group CIES.	
Note G14 – Cash Flow Statement – Operating Activities **Disclosure**	The value of interest received per Note G14 should be consistent with the value in Note G6.	
Narrative Report and Annual Governance Statement **Disclosure**	A number of changes should be made to the narrative report and Annual Governance Statement to ensure consistency with the financial statements and to improve clarity to the reader.	
Various **Disclosure**	In addition to the items identified above, a number of other minor changes are required 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.	

Audit adjustments (continued)

Impact of unadjusted misstatements

We have identified one unadjusted error in relation to provisions which we have documented within our private report.

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	241,909	241,909
Additional fees mainly relate to: • McCloud • additional regulatory requirements • Statutory Recommendations • additional VfM risks • HMMPFI and impairment • additional group audit procedures		40,300*
Total audit fees (excluding VAT)	**241,909**	**282,209**

Reconciliation to financial statements

The fees reconcile to the financial statements as below

- Audit fees as above £0.24m
- fees for grant certification work for 18/19 £0.07m
- Total £0.31m
- (agrees to total of £0.3m per the financial statements)

* Additional fees have been proposed in July 2019 and we would not expect these to be included in the financial statements. These are subject to PSAA approval.

Group audit fees

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

Fees for other subsidiaries (excluding VAT)	Fees £
Acivico Limited	40,000
Finance Birmingham Limited	7,400
NEC (Developments) PLC	35,000
PETPS subsidiaries	22,500
Total	**104,900**

Fees (continued)

Non Audit Fees

Fees for other services	Fees £
Audit related services:	
• Housing Benefits Grant Certification 17/18 (under PSAA contract)	21,594
• Housing Benefits agreed upon procedures 18/19	22,000
• Illegal Money Lending Team reasonable assurance engagement 17/18	3,500
• Education Skills Funding Agency agreed upon procedures 17/18 (undertaken September 2018)	4,650
• Education Skills Funding Agency agreed upon procedures 18/19 (undertaken July 2019)	5,000
• Homes England agreed upon procedures 17/18	2,600
• Teachers Pensions agreed upon procedures 17/18	7,100
• AMSCI reasonable assurance engagement (undertaken in November 2018)	12,000
• Polling of Capital Receipts (CFB06) agreed upon procedures 17/18	5,150
Non-audit services	
• CFOi insights 2018/19	10,000
• CASS reporting for Finance Birmingham 17/18 (undertaken June/July 2018)	7,000
• CASS reporting for Finance Birmingham 18/19 (undertaken April-July 2019)	7,000
Total	**107,594**

Our Ref.:

Date:

Grant Thornton UK LLP
The Colmore Building
20 Colmore Circus
BIRMINGHAM
B4 6AT

30 July 2019

Dear Sirs

Birmingham City Council
Financial Statements for the year ended 31 March 2019

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 2019 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 2018/19 and applicable law.

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

Financial Statements

i. We have fulfilled our responsibilities for the preparation of the group and 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 2018/19 ("the Code"); in particular 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 financial statements.

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. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. There are no other material judgements that need to be disclosed.

vi. Except as disclosed in the financial statements:

   a. there are no unrecorded liabilities, actual or contingent

   b. none of the assets of the 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. We have considered the unadjusted misstatements schedule included in your Audit Findings Report and attached. We have not adjusted the group and Council financial statements for these misstatements brought to our attention as they are immaterial to the results of the group and parent Council and its financial position at the year.

   The group and parent Council financial statements are free of material misstatements, including omissions.

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

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

xiv. 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 or parent Council's ability to continue as a going concern need to be made in the financial statements.

xv. 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 o its current Equal Pay Liabilities

Information Provided

xvi. 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.

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

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

xix. 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.

xx. 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 financial statements.

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

xxii. 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.

xxiii. 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.

xxiv. 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.

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

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

b. Property, Plant and Equipment. We confirm that the infrastructure asset impairment is a materially accurate estimate and has been calculated using management judgement based on information that best reflected the conditions and circumstances that existed at 31 March 2019.

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

d. 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.

e. 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.

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

g. 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.

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

Annual Governance Statement

xxvi. 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

xxvii. 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.

Approval

The approval of this letter of representation was minuted by the Council's Audit Committee at its meeting on 30 July 2019.

Yours faithfully

Name……………………………

Position………………………….

Date…………………………….

Name……………………………

Position………………………….

Date…………………………….

Signed on behalf of the Governing Body

Additional written representations from management or those charged with governance

The general letter of representation includes all written representations that are required to be made by management or those charged with governance for every audit.

In addition to the required representations, other ISAs (UK) require the auditor to request written representations when certain factors or situations are triggered. These ISAs and the representations are included in section 1 below.

The auditor may also determine it is necessary to obtain one or more written representations to support other audit evidence relevant to the financial statements or one or more specific assertions in the financial statements. Section 2 includes some examples of such representations.

1 Representations required by other ISAs where applicable

ISA 540.22 Auditing accounting estimates

The auditor should request specific representations from management and, where appropriate, those charged with governance about whether significant assumptions used in making accounting estimates are reasonable.

ISA 570.16(e) Going concern

Where events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern (irrespective of whether a material uncertainty exists) the auditor should request specific representations from management and, where appropriate, those charged with governance regarding their plans for future actions and the feasibility of these plans.

ISA 570.A20 Going concern

There may be situations where it is appropriate to obtain specific representations beyond those required by ISA 570.16(e) in support of audit evidence obtained regarding management's plans for future actions in relation to its going concern assessment and the feasibility of those plans.

ISA 710.9 Comparative information

The auditor should request specific representations from management about any restatement made to correct a material misstatement in prior period financial statements that affect the comparative information.

2 Other representations

ISA 580.A10 Written representations [Financial Statements]

Where relevant the auditor may want to request other representations about the following:

- whether the selection and application of accounting policies are appropriate;
- whether matters such as the following have been recognised, measured, presented or disclosed in accordance with the applicable financial reporting framework:
  - Plans or intentions that may affect the carrying value or classification of assets and liabilities;
  - Liabilities, both actual and contingent;
  - Title to, or control over, assets, the liens or encumbrances on assets, and assets pledged as collateral;
  - Aspects of laws, regulations and contractual agreements that may affect the financial statements, including non-compliance.

Examples of representations:

Under Financial Statements:
Except as stated in the financial statements:

a. there are no unrecorded liabilities, actual or contingent

b. none of the assets of the company 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.

There were no transactions, arrangements or agreements to provide credit facilities, (including loans, quasi-loans or credit transactions and guarantees to involving directors or officers that should be disclosed in the financial statements under section 412 and 413 of the Companies Act 2006 except as disclosed in note [..].

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

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

We have no plans to abandon lines of product or other plans or intentions that will result in any excess or obsolete inventory, and no inventory is stated at an amount in excess of net realisable value.

We have signed sales and service franchise agreements with the manufacturer under the new Block Exemptions regulations. We are not serving the termination period for any current franchised held, nor have we been notified of any impending franchise termination notice from any manufacturer. We anticipate meeting all standards and special arrangements required by the manufacturer.

ISA 580.A11 Written representations [Information Provided to the Auditor]

In addition to the standard written representations required by ISA 580.11 for all audits, the auditor may consider it necessary to request that management provide the following representation:

Under Information Provided:
We have communicated to you all deficiencies in internal control of which we are aware.

ISA 580.A12-A13 Written representations [Specific Assertions]

The auditor may consider it necessary to request that management provide written representations in other areas of the financial statements such as:

- directors' valuations of assets and liabilities, andprofit or losses foreseen on long term contract work in progress
- likely outcomes of litigation or uncertain situations
- representations concerning transactions which involve the application of specific areas of PAYE/NI, VAT or other corporate taxes e.g. casual labour
- any further areas of completeness or judgement
- any other areas where representations are necessary to provide adequate audit evidence.

Birmingham City Council

Statement of Accounts 2018/19

Index

NARRATIVE REPORT

KEY FACTS ABOUT BIRMINGHAM

Birmingham lies at the heart of the West Midlands with a population of 1.15 million that is forecast to increase by a further 150,000 by 2031. Birmingham's population is the most diverse of any major city outside London and is also a young city with almost half of its residents under the age of 30.

However, Birmingham faces a number of key challenges with:

- 56.3% of its population living in areas that are in the 20% most deprived in the country, compared to the English average of 20.4%
- An employment rate of 63.4% compared to the UK average of 73.9%
- 29% of children in receipt of free school meals compared to the national average of 15%

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

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

KEY FACTS ABOUT THE COUNCIL

For the first time the Council elections held in May 2018 were on the basis of all 101 seats being contested, with Councillors elected for a four year term until May 2022, rather than on the previous basis of a third of council seats being contested three years in four. The political composition of the Council following the election was:

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

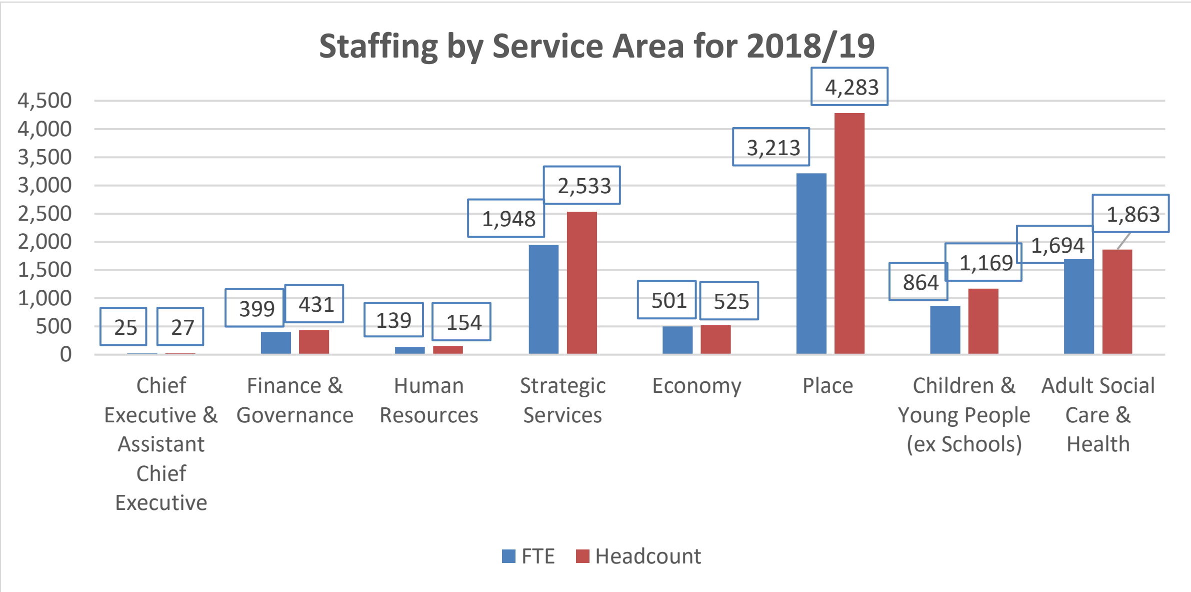
The Council has a clear vision for Birmingham, which is to create a city of growth where every child, citizen and place matters. The Council has agreed strategic outcomes and priorities which are:

- Birmingham is an entrepreneurial city to learn, work and invest in.
- Birmingham is an aspirational city to grow up in
- Birmingham is a fulfilling city to age well in
- Birmingham is a great city to live in
- Birmingham residents gain the maximum benefit from hosting the Commonwealth Games.

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

- Provision of 60,836 Council dwellings
- Provision of education through 253 funded schools with the balance of provision through 174 academy trusts and 18 free schools
- Maintenance of 2,558 km of roads
- Collection of household waste equivalent to 354kg per person per annum
- Provision of 42 libraries
- Processing of some 3,500 planning applications per annum

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



Birmingham Independent Improvement Panel

Following the publication of a report on the governance and organisation of the Council by Lord Kerslake, the Secretary of State set up the Birmingham Independent Improvement Panel (BIIP) in January 2015 to work with the Council to provide robust challenge and support. In a letter to the Secretary of State for Communities and Local Government in April, the BIIP confirmed it had officially stood itself down in March 2019.

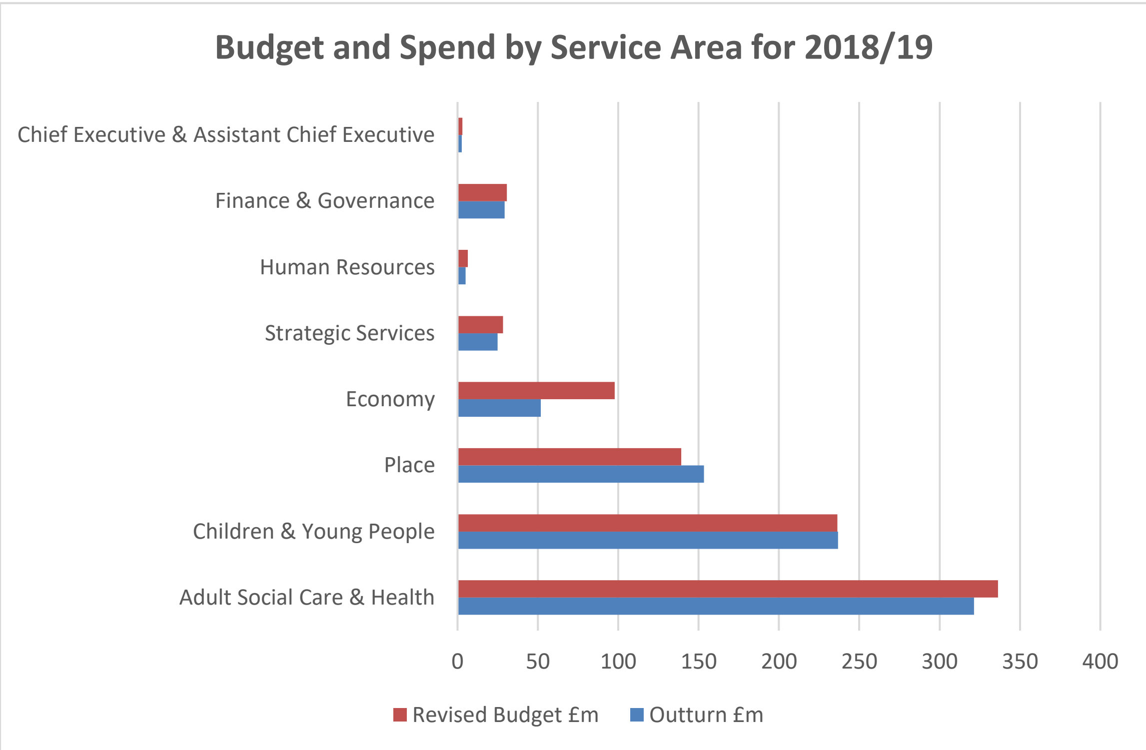
In its April 2019 report, the BIIP acknowledged that "there has been meaningful progress over the last 10 months. We recognise the huge amount of work that Birmingham City Council is doing to get itself on the right track and tackle deep entrenched problems" but "due to the enormous challenges encountered in the last year and still being experienced, the pace of improvement continues to be slower than everyone involved would want". The letter recommended the Minister for Housing, Communities and Local Government "Put in place external independent challenge and support, additional to that proposed by the Council, to replace the Panel." The Council is planning to maintain constructive and critical challenge through internal scrutiny and sector-led arrangements.

A SUMMARY OF THE COUNCIL'S FINANCIAL PERFORMANCE FOR THE YEAR ENDED 31 MARCH 2019

Revenue Expenditure

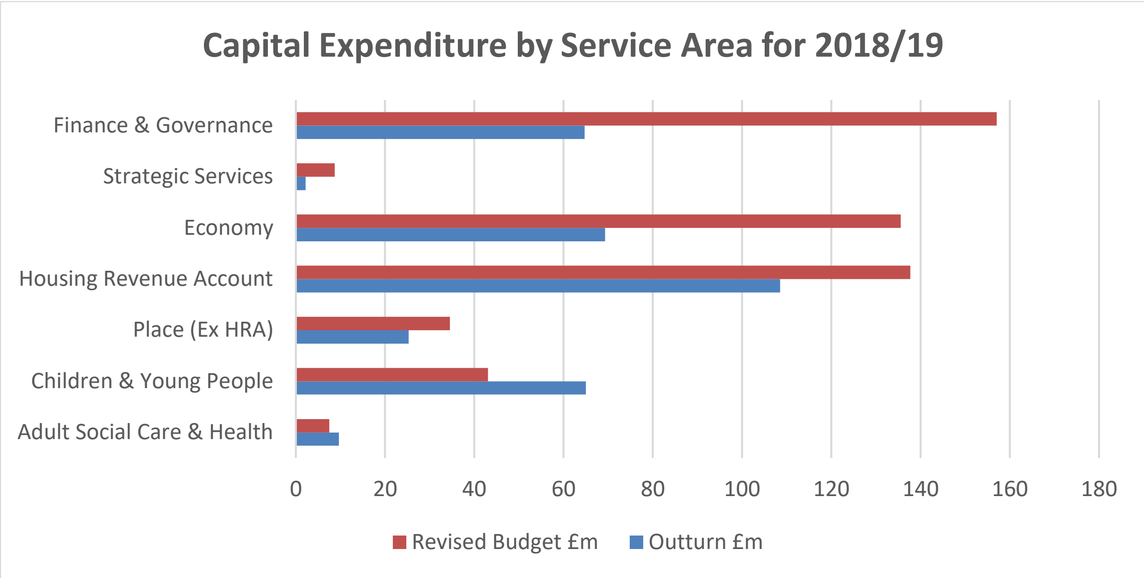
The Council's revenue and capital budgets were allocated between eight Directorates with other budgets being managed corporately. Spending against these budgets was carefully monitored throughout the year and reported to Cabinet regularly. The year-end outturn position was reported to Cabinet on 14 May 2019.

The Directorate's final revenue outturn was a net underspend of £53.5m and with a Corporate underspend of £12.3m gave a total net underspend of £65.8m. This underspend reduced to £5.9m after a net transfer to reserves of £59.9m. The major proportion of the transfer to reserves relates to contract payments withheld in respect of a contract dispute, which will need to be released in future years to undertake work which has not been carried out. The chart below shows the budget and spend by Directorate for 2018/19.



Capital Expenditure

Total expenditure on directorate capital schemes in 2018/19, reported to Cabinet on 14 May 2019, was £344.7m (2017/18: £362.2m), compared to the revised capital budget of £524.3m (2017/18: £519.9m). The reported variance of £179.6m 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 2018/19. It should be noted that no Council resources were lost as a result of the slippage as the resources and planned expenditure will be "rolled forward" into future years.

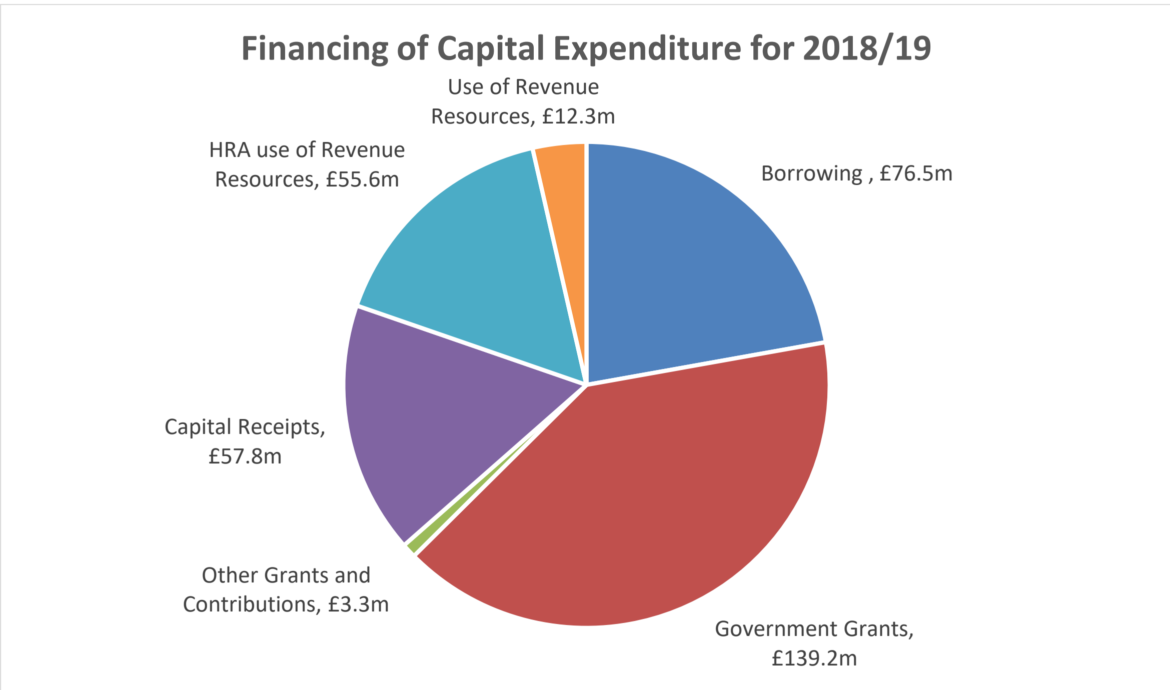


Material Assets Acquired

During the year a number of major projects have progressed including the Paradise Circus redevelopment, public realm at Centenary Square, the creation of additional school places at a number of schools, transport and highways infrastructure works including walking and cycling paths, housing improvements and work has commenced on the Athletes' Village in Perry Barr in preparation for the 2022 Commonwealth Games.

Capital Financing

The financing arrangements in respect of capital expenditure in 2018/19, as reported to Cabinet on 14 May 2019, are summarised below:



During the financial year ended 31 March 2019, the Council took £145.0m of long term loans. The Council also maintained a significant short term loan debt portfolio during the year, taking advantage of historically low short term interest rates. Total debt remained within the Council's authorised limit.

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 23 to 25 to these financial statements.

Service Concession Arrangements and Similar Contracts

The Council has entered into a number of Service Concession arrangements, formerly classed as Private Finance Initiatives and similar contracts across Schools, Waste Management and Highways Services to deliver improvements in infrastructure and future service delivery. As a result of the schemes, the Council has a future liability to the end of the contracts of £404.3m as at 31 March 2019.

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

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

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

The principal dispute began in 2014 and has been through:

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

The Council won the case at the Court of Appeal and, in July 2018, the Supreme Court refused ABHL leave to appeal, ending the dispute in the Council's favour. As a result of this final decision, the Council has considered the appropriate treatment of the contract within its financial statements. Details of the impact are set out in:

- Note 2, Critical Judgements in Applying Accounting Policies
- Note 4, Assumptions about the Future and Other Major Sources of Estimation Uncertainty
- Note 19, Usable Reserves
- Note 23, Property, Plant and Equipment
- Note 33, Contingent Liabilities and Contingent Assets, and
- Note 43, Service Concession Arrangements

At its meeting on 22 May 2019, Cabinet agreed that the Council should enter into negotiation to finalise a settlement agreement in respect of all disputes under the HMMPFI contract.

This would enable a managed transition to new arrangements for provision within the existing contract together with an appropriate negotiated settlement.

Following negotiations, a joint statement of the Council and Amey PLC was issued on 1 July 2019 which stated that agreement had been reached for Amey PLC to exit the Birmingham Highways PFI contract. The joint statement added that Amey would continue to provide services until a replacement contractor was found to deliver services on an interim basis, with the interim contractor in place no later than 31 March 2020. The full retendering of the project to find a permanent replacement would take place during 2020/21.

On the basis of a transfer of responsibilities under the contract to a new subcontractor, these financial statements have been based on the continuance of the HMMPFI arrangements. Details of the arrangements and timings of future liabilities are set out in Note 43 to these financial statements.

Pension Liabilities

For the Local Government Pension Scheme there is currently a net pension liability that is reviewed periodically by the West Midlands Metropolitan Authorities Pension Fund Actuary. The Council's share of the total pension shortfall is £2,552.0m at 31 March 2019 (31 March 2018: £2,587.9m). 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 an 18 year recovery plan which has been built into the Council's financial plans;

- It is not unique to the Council as this is in common with the national position for pension funds. Details of the pension liability and assets are set out in Notes 21 and 22 to these financial statements.

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

Provisions

Equal Pay

The Council has continued to receive equal pay claims up to the sign off of these financial statements and has, as a result, made provision in its accounts for these potential future liabilities. The Council has continued to negotiate with claimants' representatives and settle where it is recognised that a claim would be successful. These accounts include the expected costs of settlement for claims received and all negotiations agreed as at 31 March 2019.

Business Rates

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

The Council, as Billing Authority, is required to make a provision for this liability. These financial statements include a provision to cover the Council's share of the estimated liability for the settlement of all appeals received up to 31 March 2019 but which remained unsettled. From 1 April 2017, the Council has been piloting a 100% Local Business Rates Retention scheme which has meant that its share of any provision outstanding relating to appeals is now 99% with the remaining 1% attributable to the Fire and Rescue Authority.

NEC Pension Liability

On the disposal of the NEC Group on 1 May 2015, PETPS (Birmingham) Limited, a wholly owned subsidiary of the Council, replaced the National Exhibition Centre Limited as principal employer of the defined benefit 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.

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

The next formal actuarial valuations of the schemes will be based on a reporting date of 5 April 2019.

Guarantees to Third Parties

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

Reserves

The Council maintains two types of reserves:

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

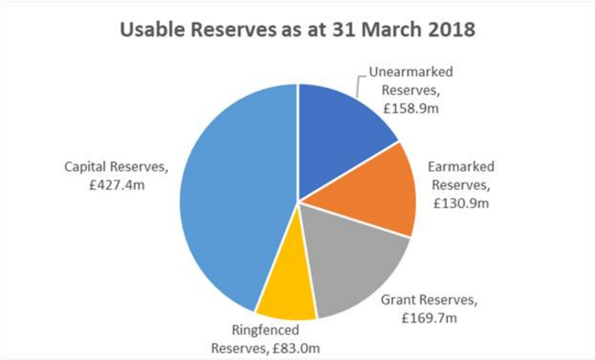
- Unusable reserves, which are not available to support the provision of services and include:

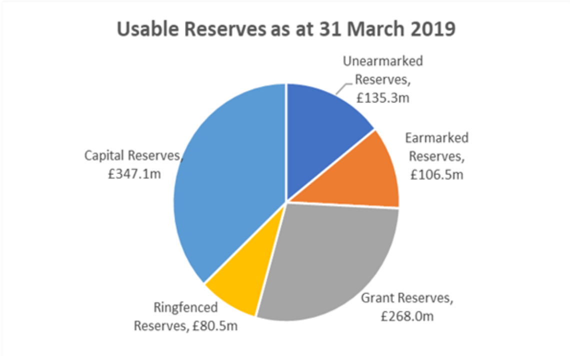
    - Unrealised gains and losses, particularly in relation to changes in valuation of non-current assets;
    - Adjustment accounts that absorb the difference between the outcome of applying proper accounting practices and the requirements of statutory arrangements for funding expenditure.

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

	31 March 2018 £m	31 March 2019 £m
Usable Reserves	969.9	937.4
Unusable Reserves	(1,517.7)	(1,180.3)
Total Reserves	**(547.8)**	**(242.9)**

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





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

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

- An increase in the level of grant reserves from the repayment of short term support of the budget position in previous financial years, with a resultant reduction in the level of unearmarked and earmarked reserves
- A reduction in the level of capital receipts as a result of funding for the capital programme and the Council's strategy for the flexible use of capital receipts.

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

- An increase in the carrying value of non-current assets as a result of the latest valuation review
- A reduction in the pensions reserve deficit as a result of the latest actuarial report
- A reduction in the capital adjustment account deficit largely as a result of the sums set aside from revenue and capital receipts to finance capital expenditure.

The Council's net liabilities at 31 March 2019 have reduced by £304.9m to £242.9m being represented by the usable and unusable reserves.

The Council has included financial assumptions for resourcing these liabilities in its long term financial plan, Council Financial Plan 2019 – 2023.

The Financial Statements

The Council's Financial Statements for 2018/19 have been prepared on the basis of the first time application of IFRS9, *Financial Instruments* and of IFRS15*, Contracts with Service Recipients*.

The CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the Code) requires local authorities to apply IFRS9 retrospectively. However, the Code has also provided a number of concessions, including the requirement that there should be no restatement of previous year information. An explanatory note has been provided where there has been a change in reporting lines within the statements as a result of the implementation of IFRS9.

IFRS15 requires that the Council should only recognise income from the provision of services only when the performance obligation under the contract is satisfied. The Council has only accounted for income from the provision services as they have been delivered and, therefore, the implementation of the new standard has had minimal impact on the Council's financial performance. The standard does require additional disclosures to be made and information is set out in Note 15.

The pages which follow contain the Council's Financial Statements for the year ended 31 March 2019, with comparative figures for the previous financial year, and comprise:

The Core Financial Statements

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

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

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

The CIES shows an increase in the deficit on the provision of services of £90.4m, with the impact of the items detailed above outweighing the reductions in the costs of services as a result of savings plans implemented by the Council in 2018/19. The factors highlighted above do not impact on Council Tax or housing rents as they are reversed out through the Movement in Reserves Statement.

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

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

Balance Sheet – shows the value of assets and liabilities recognised by the Council as at 31 March 2019 and the level of reserves, split between usable and unusable.

The Council's net liabilities at 31 March 2019 have reduced by £304.9m to £242.9m, mainly as a result of:

- an increase of £124.8m in the carrying value of non-current assets and assets held for sale following revaluation
- a reduction in borrowing of £101.2m
- a reduction in creditors of £37.1m
- a reduction in the net pension deficit of £35.9m

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

Supplementary Statements

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

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

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

Group Accounts

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

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

Associates
Birmingham Airport Holdings Limited

Joint Venture
Paradise Circus General Partner Limited

Birmingham Children's Trust CIC became operational from 1 April 2018 and took on the responsibility for the delivery of social care services for children, young people and families within the City. The Council is the sole member of the company. The company has an independent board of directors with the Council nominating one board member.

The Council disposed of its interest in Service Birmingham Limited on 31 December 2017 which is included in the comparative figures for 2017/18. Prior to its disposal, the Council consolidated the company on the basis of an Associate. The Council continues to have a contractual relationship with the company for the provision of services.

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.

Accountable Body Roles

In addition to the activities reflected in the Council's CIES and Balance Sheet, the Council also acts as an agent for 30 organisations with gross expenditure of some £175m, the most significant being the Greater Birmingham and Solihull Local Enterprise Partnership. Further details are contained in Note 49.

Future Revenue and Capital Expenditure Plans

The Council Financial Plan 2019 - 2023 was set in the context of pressures on services arising from demographic changes and increasing and changing needs, whilst facing reducing grant resources available to fund service provision and investment in assets. The Council has historically been more dependent on government grants than many local authorities because of the higher levels of need in the City and because of the comparatively low tax base which constrains what can be raised locally through Council Tax.

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

The Council's key capital priorities are addressed through the four-year capital programme, totalling £2,095m in the Financial Plan 2019 - 2023. The Council continues to pursue major initiatives taking advantage of the availability of external capital resources, with the programme including £613m 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.

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 is currently consulting on arrangements for the Business Rates scheme, including the 100% pilot for 2020/21 and beyond.

Full details of the 2019/20 Revenue and Capital Budgets can be found within the Council Financial Plan 2019 - 2023 approved by Council on 26 February 2019, 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 Chief Finance Officer who also has the role of Section 151 officer;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- approve the Statement of Accounts.

The Section 151 Officer's Responsibilities

The Section 151 Officer is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code). In preparing this Statement of Accounts, the Section 151 Officer has:

- selected suitable accounting policies and applied them consistently;
- made judgments and estimates that were reasonable and prudent;
- complied with the Code.

The Section 151 Officer has also:

- kept proper accounting records which are up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

Certification of Accounts

I certify that the Statement of Accounts presents a true and fair view of the financial position of Birmingham City Council as at 31 March 2019 and of its income and expenditure for the year ended 31 March 2019.

…………………………………………………………………………….
Clive Heaphy, Chief Finance Officer and Section 151 Officer
30 July 2019

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 xx July 2019.

…………………………………………………………..
Councillor Fred Grindrod, Chair of Audit Committee
30 July 2019

CORE FINANCIAL STATEMENTS 2018/19

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 2017/18 have been restated to reflect the change in Directorate structure. Details of the restatement are set out in Note 8.

In 2017/18, the provision for bad or doubtful debts was included in services as a charge against expenditure of £16.1m. For 2018/19, the provision has been included in Financing and Investment Income and Expenditure as detailed in Note 12.

2017/18 (Restated) Gross Expenditure	Gross Income	Net Expenditure		Note	2018/19 Gross Expenditure	Gross Income	Net Expenditure
£m	£m	£m	**Continuing Operations**		£m	£m	£m
554.9	(207.4)	347.5	Adult Social Care & Health		547.0	(213.6)	333.4
1,111.4	(800.8)	310.6	Children and Young People		1,248.0	(807.2)	440.8
264.1	(86.6)	177.5	Place		294.0	(83.8)	210.2
149.2	(89.6)	59.6	Economy		179.8	(97.2)	82.6
9.8	(1.3)	8.5	HR Directorate		18.8	(1.7)	17.1
627.5	(585.9)	41.6	Strategic Services		591.1	(550.9)	40.2
5.8	(7.6)	(1.8)	Finance & Governance		3.6	(14.2)	(10.6)
34.5	(64.5)	(30.0)	Centrally Managed		3.7	(58.6)	(54.9)
-	-	-	Superannuation Adjustment	10	(34.9)	-	(34.9)
3.2	-	3.2	Chief Executive & Assistant Chief Executive		2.8	(0.3)	2.5
196.7	(286.7)	(90.0)	Housing Revenue Account		194.2	(284.8)	(90.6)
2,957.1	**(2,130.4)**	**826.7**	**Total Cost Of Services**		**3,048.1**	**(2,112.3)**	**935.8**
75.5	-	75.5	Other Operating Expenditure	11	65.1	-	65.1
284.2	(52.3)	231.9	Financing and Investment Income and Expenditure	12	296.5	(61.1)	235.4
1.8	(1,113.9)	(1,112.1)	Taxation and Non-Specific Grant Income	13	2.4	(1,126.3)	(1,123.9)
		22.0	**(Surplus) / Deficit on Provision of Services**				**112.4**
			Items that will not be reclassified to the (Surplus)/Deficit on the Provision of Services				
		(395.2)	(Surplus) / deficit on revaluation of Property, Plant and Equipment assets	23, 24,25			(230.9)
		(153.1)	Remeasurement of the net defined benefit liability	22			(187.4)
		(548.3)					**(418.3)**
			Items that may be reclassified to the (Surplus)/Deficit on the Provision of Services				
		0.8	(Surplus) / deficit on revaluation of available for sale financial assets				-
		0.8					**-**
		(547.5)	**Other Comprehensive (Income) / Expenditure**				**(418.3)**
		(525.5)	**Total Comprehensive (Income) / Expenditure**				**(305.9)**

Movement in Reserves Statement

This Statement shows the movement in the year in the different reserves held by the Council, analysed into 'usable reserves' (that is, those that can be applied to fund expenditure or reduce local taxation) and other reserves. The opening balances for 2018/19 have been adjusted in line with the Code guidance following the implementation of IFRS 9, Financial Instruments.

	Total General Fund Balance	Housing Revenue Account	Capital Receipts	Major Repairs Reserve	Capital Grants Unapplied Account	**Total Usable Reserves**	Unusable Reserves	**Total Council Reserves**
	£m	£m	£m	£m	£m	**£m**	£m	**£m**
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 18)	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 19)	-					**-**		**-**
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)**
Movement in Reserves during 2018/19								
Adjustment for the Restatement of Financial Instruments	(0.5)	-	-	-	-	**(0.5)**	**(0.5)**	**(1.0)**
Restated Balance brought forward at 1 April 2018	**508.6**	**4.8**	**320.4**	**28.6**	**107.0**	**969.4**	**(1,518.2)**	**(548.8)**
Surplus/(Deficit) on the provision of services	(164.1)	51.7				**(112.4)**		**(112.4)**
Other Comprehensive Income and Expenditure						**-**	418.3	**418.3**
Total Comprehensive Income and Expenditure	**(164.1)**	**51.7**	**-**	**-**	**-**	**(112.4)**	**418.3**	**305.9**
Adjustments between accounting basis and funding basis under regulations (Note 18)	215.6	(51.1)	(80.1)	(3.7)	(0.3)	**80.4**	(80.4)	**-**
Net Increase/(Decrease) before Transfers to Earmarked Reserves	**51.5**	**0.6**	**(80.1)**	**(3.7)**	**(0.3)**	**(32.0)**	**337.9**	**305.9**
Transfers to/(from) Earmarked Reserves (Note 19)	-					**-**		**-**
Increase/(Decrease) in 2018/19	**51.5**	**0.6**	**(80.1)**	**(3.7)**	**(0.3)**	**(32.0)**	**337.9**	**305.9**
Balance at 31 March 2019	**560.1**	**5.4**	**240.3**	**24.9**	**106.7**	**937.4**	**(1,180.3)**	**(242.9)**

Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The reserves as at 31 March 2018 have been restated to show separately the deficit on Non-Schools DSG which was previously held in Grant Reserves and Ringfenced Reserves.

31 March 2018 (Restated) £m		Note	31 March 2019 £m
5,719.9	Property, Plant and Equipment	23	5,828.9
251.6	Heritage Assets	24	249.8
11.3	Investment Property		12.7
13.7	Intangible Assets	25	7.4
41.7	Long Term Investments	39	41.2
126.2	Long Term Debtors	26	115.4
6,164.4	**Total Long Term Assets**		**6,255.4**
72.6	Short Term Investments	27	69.6
0.9	Assets Held for Sale	28	23.4
1.3	Inventories		1.5
329.4	Short Term Debtors	29	330.6
55.5	Cash and Cash Equivalents	30	46.2
459.7	**Total Current Assets**		**471.3**
(35.4)	Cash and Cash Equivalents	30	(15.2)
(799.8)	Short Term Borrowing	34	(583.1)
(333.7)	Short Term Creditors	31	(295.8)
(188.1)	Short Term Provisions	32	(205.4)
(1,357.0)	**Total Current Liabilities**		**(1,099.5)**
(1.5)	Long Term Creditors		(2.3)
(23.5)	Long Term Provisions	32	(15.9)
(2,740.0)	Long Term Borrowing	34	(2,855.5)
(462.0)	Other Long Term Liabilities	39	(444.4)
(2,587.9)	Net liability on defined benefit pension scheme	22	(2,552.0)
(5,814.9)	**Total Long Term Liabilities**		**(5,870.1)**
(547.8)	**Net Assets/(Liabilities)**		**(242.9)**
	Usable Reserves	19	
170.4	Unearmarked Reserves		144.0
130.9	Earmarked Reserves		106.5
169.7	Grant Reserves		268.0
(11.5)	Unearmarked Non-Schools DSG		(8.7)
83.0	Ringfenced Reserves		80.5
427.4	Capital Reserves		347.1
969.9	**Total Usable Reserves**		**937.4**
(1,517.7)	Unusable Reserves	20	(1,180.3)
(547.8)	**Total Reserves**		**(242.9)**

These financial statements replace the unaudited financial statements certified by the Chief Finance Officer on 31 May 2019

Cash Flow Statement

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

2017/18 £m		Note	2018/19 £m
(22.0)	Net Surplus/(Deficit) on the provision of services		(112.4)
	Opening Adjustment for IFRS9 implementation		(1.0)
64.5	Adjustments to net Surplus/Deficit on the provision of services for non-cash movements	38	497.3
(224.1)	Adjustments for items included in the net Surplus/(Deficit) on the provision of services that are investing and financing activities	38	(209.0)
(181.6)	**Net cash flows from Operating Activities**		**174.9**
(166.9)	Investing Activities	36	(137.5)
336.7	Financing Activities	37	(26.5)
(11.8)	**Net increase/(decrease) in cash and cash equivalents**		**10.9**
31.9	Cash and cash equivalents at the beginning of the reporting period		20.1
20.1	**Cash and cash equivalents at the end of the reporting period**	**30**	**31.0**

Note 1
Accounting Policies

i. General Principles

The Statement of Accounts summarises the Council's transactions for the 2018/19 financial year and its position at the year-end of 31 March 2019. The Accounts and Audit Regulations 2015, require the Council to prepare an annual statement of accounts in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (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

<u>Short Term Benefits</u>

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.

<u>Other Long Term Benefits</u>

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.

<u>Termination Benefits</u>

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

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

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

Post-Employment Benefits

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

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

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

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

The Local Government Pension Scheme

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

- The liabilities of the West Midlands Local Government Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – that is, an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of earnings for current employees;
- Liabilities are discounted to their value at current prices, using a discount rate of 2.4% 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 18, Adjustments Between Accounting Basis and Funding Basis under Regulations, and the Movement in Reserves Statement and to replace them by the statutory contribution from the General Fund or Housing Revenue Account Balance to the Capital Adjustment Account.

ix. Government Grants and Contributions

Government grants 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.

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, unless evidence of impairment is identified;

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

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

Impairment

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

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

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

Useful Life

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

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

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

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

Depreciation

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

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

Componentisation

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

Disposals and Non-Current Assets Held for Sale

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

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

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

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

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

Amounts, in excess of £10,000, received from a disposal are categorised as capital receipts. A proportion of receipts relating to housing disposals (for 2018/19, 75% of the receipt net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve. Receipts are appropriated to the Reserve from the General Fund Balance through the Movement in Reserves Statement.

xii. Heritage Assets

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

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

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

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

xiii. Intangible Assets

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

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

Intangible assets are measured initially at cost and the depreciable amount is amortised over the useful life of the asset on a straight line basis and charges to the relevant Directorate in the Comprehensive Income and Expenditure Statement.
Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account.

xiv. Investment Properties

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

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

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

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

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

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

xv. Service Concession Arrangements

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

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

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

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

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

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

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

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

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

xvi. Leases

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

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

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

<u>The Council as Lessee</u>

<u>Finance Leases</u>

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

Lease payments are apportioned between:

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

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

Operating Leases

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

The Council as Lessor

Finance Leases

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

Lease rentals receivable are apportioned between:

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

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

Operating Leases

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

xvii. Interests in Companies and Other Entities

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

xviii. Accounting for Schools

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

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

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

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

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

xix. Financial Instruments

Financial Liabilities

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

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

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

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

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

Financial Assets

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

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

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

Financial Assets Measured at Amortised Cost

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

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

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

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

Expected Credit Loss Model

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

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

Financial Assets Measured at Fair Value through Profit of Loss

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

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

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

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

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

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

Instruments Entered Into Before 1 April 2006

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

xx. Cash and Cash Equivalents

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

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

xxi. Provisions, Contingent Liabilities and Contingent Assets

Provisions

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

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

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

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

Provision for Back Pay Arising from Equal Pay Claims

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

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

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

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

Contingent Assets

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

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

xxii. Reserves

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

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

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 2018/19.

<u>Comprehensive Income and Expenditure Statement</u>

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

<u>Balance Sheet</u>

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

<u>Cash Flow Statement</u>

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

xxiv. Business Improvement Districts

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

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

xxv. Community Infrastructure Levy

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

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

xxvi. Events After the Reporting Period

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

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

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

xxvii. Joint Operations and Jointly Controlled Assets

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

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

xxviii. Council Acting as Agent

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

xxix. Value Added Tax

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

xxx. Foreign Currency Translation

Where the Council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effected. Where amounts in foreign currency are outstanding at the year-end, they are reconverted at the spot exchange rate at 31 March. Resulting gains or losses are recognised in the Financing Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

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 2018/19 to prepare their accounts on the going concern basis, that is that the functions of the Council will continue in operational existence for the foreseeable future, as it can only be discontinued as a result of statutory prescription.

The Council continues to face financial challenges as a result of the ongoing reduction in central government support and the need to fund budget pressures, including those arising from equal pay claims. The Council has developed its medium to long term financial strategy, detailed in the Council Financial Plan 2019 - 2023, and is meeting these budget challenges by developing multi-year savings plans and by funding investment to deliver these through the generation of capital receipts. The Council has successfully delivered significant savings plans previously and has appropriate contingency plans in place to provide protection against any timing differences in the generation of capital receipts or any shortfall in the delivery of savings plans. As such the Council has identified that it has general fund balances and can redesignate earmarked reserves to meet any shortfall. On this basis, the Council considers that it can continue to meet its liabilities as they fall due, supporting the preparation of the financial statements on a going concern basis irrespective of the statutory requirements.

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 2019.

Type of School	Nursery	Primary	Secondary	All Through	Alternative	Special	Pupil Referral Unit	**Total**
Community	27	111	11	1		12	1	**163**
Voluntary Controlled		5						**5**
Voluntary Aided		54	7	1				**62**
Foundation Trust		9	5			9		**23**
Academy		116	48	4		6		**174**
Free School		2	8	2	6			**18**
Total	**27**	**297**	**79**	**8**	**6**	**27**	**1**	**445**

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

Pension Guarantees

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

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

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

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

Service Concession Arrangements – Highways PFI

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

However, as the contract has progressed and concerns have been identified with its delivery, as evidenced through the decision of the courts, the underlying assumptions in the model have been amended for 2018/19. As the Court of Appeal set the milestones against which contract payments are based back to milestone 5, equivalent to a Milestone Adjustment Factor of 80%, the total unitary charge for the year has been reduced down to the appropriate level. However, the contract may be delivered in future years and therefore future expenditure assumptions as per the original contract model have continued to be used. The model will be amended each year to reflect the up to date contract performance.

The carrying value of highways assets has also been reduced as the information to support previous expenditure levels has not been provided.

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 16.8% of pensionable pay plus £61.8m which was calculated to total £124m for 2018/19.

Sale of the NEC

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

Note 3

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

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 2018/19 accounting period. For these financial statements the relevant standards are detailed:

- Amendments to IAS 40 Investment Property: Transfers of Investment Property
- IFRIC 22 Foreign Currency Transactions and Advance Consideration
- IFRIC 23 Uncertainty over Income Tax Treatments
- Amendments to IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation.

Amendments to IAS 40 Investment Property: Transfer of Investment Property

The IFRS Interpretations Committee received a request for clarification on guidance on transfers, to, or from, investment properties. Specifically the question was whether a property under construction or development that was previously classified as inventory could be transferred to investment property when there was an evident change in use.

The standard has been amended to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if a property meets, or ceases to meet, the definition of an investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use.

The amendment is effective for periods beginning on or after 1 January 2019. An entity applies the amendments to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments.

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

IFRIC 22 Foreign Currency Transactions and Advance Consideration

IFRIC 22 clarifies the accounting for transactions that include the receipt of payment of advance considerations in a foreign currency.

IFRIC 22 is effective for annual reporting periods beginning on or after 1 January 2019.

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

IFRIC 23 Uncertainty over Income Tax Treatments

IFRIC 23 clarifies the accounting for uncertainties in income taxes. The interpretation is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, where there is uncertainty under IAS12.

IFRIC 23 is effective for annual reporting periods beginning on or after 1 January 2019. Earlier application is permissible.

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

Amendments to IFRS9 Financial Instruments: Prepayment Features with Negative Compensation

The International Accounting Standards Board has issued a narrow-scope amendment to IFRS 9. The amendment covers two issues:

- What financial assets may be measured at amortised cost. The amendment permits more assets to be measured at amortised cost than under the previous version of IFRS 9, in particular some prepayable financial assets. It is likely to have the biggest impact on banks and other financial services entities and be broadly welcomed by companies.

- How to account for the modification of a financial liability. The amendment confirms that most such modifications will result in immediate recognition of a gain or loss. This is a change from common practice under IAS 39 today and will affect all kinds of entities that have renegotiated borrowings.

These narrow-scope amendments are not anticipated to have a material impact on the Council's Statement of Accounts.

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 2019 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 for non-HRA assets are undertaken on the basis of a five year rolling programme, which is supplemented by annual reviews to reflect significant changes in market values.	For those non-HRA assets not valued this year, an increase of 1% in the average valuation of assets that have not been amended for a variation in building indices would have the effect of increasing the gross carrying value of these assets by £9.0m, with a corresponding increase in the level of unusable reserves.
	Council Dwellings are subject to a full revaluation every five years, following MHCLG guidance, with a desktop review in the intervening years.	The carrying value of Council dwellings has increased by £161.2m since 31 March 2018. A 1% movement in the total value of Council dwellings would be equivalent to a change in carrying value of £24.5m
Heritage Asset Valuations (Museum's and Libraries' Archive Collections)	In the absence of recent transactions in a number of assets held in the Museum's and Libraries' Collections, the Council has used the associated insurance valuations as the most reasonable measure of value of the assets.	If the value of the assets were to vary from the insurance valuations by 1%, this would change the carrying value of Heritage Assets on the Balance Sheet by £2.4m with a corresponding adjustment in the level of unusable reserves.
Financial Instruments	Interest rate risk - the Council is exposed to significant risk in relation to interest rate movements on its borrowing and investments.	An analysis of the impact if interest rates were 1% higher, with all other variables held constant, is set out in Note 39.
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 £16.8m in 2019/20, and a further £337.5m 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 £174.5m 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 £1.7m.
Business Rate Appeals	An estimate of the impact of Business Rate appeals has been based on the number of claims lodged and the experience of levels of success in settlement of those claims.	An increase of 1% in the average level of settlement would have the effect of £2.1m 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 2018/19.	A number of factors can impact on the valuation of the scheme liability. A sensitivity analysis of the factors is set out in more detail in Note 22 of these financial statements.

Note 5
Events After the Reporting Period

The draft Statement of Accounts was authorised for issue by the Chief Finance Officer and Section 151 Officer on 31 May 2019. 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 2019, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

ICT Services

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

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

Highways Maintenance and Management PFI

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

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

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

On 25 June 2019, Cabinet approved heads of terms for a settlement agreement and authorised officers to finalise this. A settlement agreement was concluded on 29 June 2019 within the parameters agreed and heads of terms. As well as resolving disputes, this settlement enables a managed exit of Amey LG Limited as a subcontractor of ABHL by no later than 31 March 2020 and establishes the basis for the re-procurement of the subcontract.

Amey LG Ltd will continue to provide services until a replacement subcontractor has been found to deliver services on an interim basis, with the interim contractor in place no later than 31 March 2020. The full retendering of the project to find a permanent replacement would take place by June 2021.

Chief Executive

On 10 July 2019, Dawn Baxendale announced that she would be stepping down from her role as Chief Executive of the Council to take up the role of Chief Executive of Christchurch City Council in New Zealand.

Treasury Management

In May 2019 the Council agreed the early repayment of a Lender's Option Borrower's Option loan (LOBO) with a nominal value of £30m for a price of £48m. The LOBO was due to be repaid in 2065 but was subject to options every 5 years for the lender to be repaid at par. The LOBO has been replaced by a loan from the Public Works Loans Board of £30m repayable in 2038 and short term borrowing of £18m. This refinancing was carried out as part of normal treasury management activity and complies with the Council's Treasury Management Policy and Strategy. It results in lower interest costs and lower refinancing risks due to the removal of the options. The price premium of £18m above nominal value will be charged to the CIES in the year, but in accordance with statutory requirements the charge to the Council's revenue account will be spread over the life of the loans repaid, with the balance not yet charged being held in the Financial Instruments Adjustment Account.

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 2019 and 31 July 2019, six schools, with a net book value of £52.8m at 31 March 2019, have transferred to Academy School Trust status. To date 12 schools, with assets having a net book value of £74.5m at 31 March 2019, have confirmed their proposals to transfer to Academy School Trust status.

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 Financial Plan 2019 – 2023 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 2019/20.

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 2017/18 have been restated to reflect the change in Directorate structure.

2017/18 (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	351.1	(12.3)	**338.8**	8.7	**347.5**
Children & Young People	215.6	23.4	**239.0**	71.6	**310.6**
Place	157.9	(7.7)	**150.2**	27.3	**177.5**
Economy	70.6	(49.1)	**21.5**	38.1	**59.6**
HR Directorate		0.6	**0.6**	7.9	**8.5**
Strategic Services	30.6	14.3	**44.9**	(3.3)	**41.6**
Finance & Governance	23.9	(28.9)	**(5.0)**	3.2	**(1.8)**
Centrally Managed	(27.9)	(2.0)	**(29.9)**	(0.1)	**(30.0)**
Chief Executive & Assistant Chief Executive		(0.3)	**(0.3)**	3.5	**3.2**
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**		

2018/19	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	325.7	1.8	**327.5**	5.9	**333.4**
Children & Young People	238.7	150.0	**388.7**	52.1	**440.8**
Place	155.5	42.3	**197.8**	12.4	**210.2**
Economy	97.5	(44.4)	**53.1**	29.5	**82.6**
HR Directorate	5.4	11.7	**17.1**	-	**17.1**
Strategic Services	25.4	12.7	**38.1**	2.1	**40.2**
Finance & Governance	28.3	(40.1)	**(11.8)**	1.2	**(10.6)**
Centrally Managed	(23.9)	(206.7)	**(230.6)**	175.7	**(54.9)**
Superannuation adjustment	-	-	**-**	(34.9)	**(34.9)**
Chief Executive & Assistant Chief Executive	2.6	(0.1)	**2.5**	-	**2.5**
Housing Revenue Account	-	(32.6)	**(32.6)**	(58.0)	**(90.6)**
Net Cost of Services	**855.2**	**(105.4)**	**749.8**	**186.0**	**935.8**
Other Income and Expenditure	(855.2)	53.3	**(801.9)**	(21.5)	**(823.4)**
(Surplus)/Deficit	**-**	**(52.1)**	**(52.1)**	**164.5**	**112.4**
Opening General Fund and HRA Balance			**513.9**		
IFRS9 Opening Balance Adjustment			**(0.5)**		
Surplus/(Deficit) for the Year			52.1		
Closing General Fund and HRA Balance			**565.5**		

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 2017/18 have been restated to reflect the change in Directorate structure.

2017/18 (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	(2.7)	(13.3)	3.7	**(12.3)**	3.0	6.1	(0.4)	**8.7**
Children & Young People	(41.9)	4.5	60.8	**23.4**	55.6	18.8	(2.8)	**71.6**
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**
HR Direcorate	-	0.2	0.4	**0.6**	-	0.1	7.8	**7.9**
Strategic Services	(1.4)	2.5	13.2	**14.3**	2.0	6.1	(11.3)	**(3.3)**
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)**
Chief Executive & Assistant Chief Executive	-	(0.3)	-	**(0.3)**	-	-	3.5	**3.5**
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**

2018/19	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	(7.9)	(8.6)	18.3	**1.8**	6.0	-	(0.1)	**5.9**
Children & Young People	(114.6)	5.0	259.6	**150.0**	63.7	-	(11.6)	**52.1**
Place	(56.3)	0.8	97.8	**42.3**	19.2	0.1	(6.9)	**12.4**
Economy	(68.4)	(83.1)	107.1	**(44.4)**	30.3	-	(0.8)	**29.5**
HR Directorate	-	0.2	11.5	**11.7**	-	-	-	**-**
Strategic Services	(6.7)	4.4	15.0	**12.7**	1.9	0.1	0.1	**2.1**
Finance & Governance	(6.6)	0.9	(34.4)	**(40.1)**	1.3	-	(0.1)	**1.2**
Centrally Managed	(0.1)	28.7	(235.3)	**(206.7)**	31.6	(3.6)	147.7	**175.7**
Superannuation Adjustment	-	-	-	**-**	-	(34.9)	-	**(34.9)**
Chief Executive & Assistant Chief Executive	-	(0.1)	-	**(0.1)**	-	-	-	**-**
Housing Revenue Account	(52.3)	(0.3)	20.0	**(32.6)**	79.5	2.3	(139.8)	**(58.0)**
Net Cost of Services	(312.9)	(52.1)	259.6	**(105.4)**	233.5	(36.0)	(11.5)	**186.0**
Other Income and Expenditure	312.9		(259.6)	**53.3**	(65.5)	63.6	(19.6)	**(21.5)**
(Surplus)/Deficit	-	(52.1)	-	**(52.1)**	168.0	27.6	(31.1)	**164.5**

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 2018/19. The implications of the realignment on the CIES are detailed below.

Directorate Reporting 2017/18	As Reported in the Comprehensive Income and Expenditure Statement 2017/18	Adjustments in Internal Directorate Reporting Classifications between years	As Restated in 2017/18	New Directorate Reporting 2017/18
	£m	£m	£m	
Net Expenditure				
Continuing Operations				
Adult Social Care & Health	347.5	-	347.5	Adult Social Care & Health
Children & Young People	310.6	-	310.6	Children & Young People
Place	177.5	-	177.5	Place
Economy	59.6	-	59.6	Economy
		8.5	8.5	HR Directorate
Strategic Services	53.3	(11.7)	41.6	Strategic Services
Finance & Governance	(1.8)	-	(1.8)	Finance & Governance
Centrally Managed	(30.0)	-	(30.0)	Centrally Managed
		3.2	3.2	Chief Executive & Assistant Chief Executive
Housing Revenue Account	(90.0)	-	(90.0)	Housing Revenue Account
Net Cost of Services	**826.7**	**-**	**826.7**	
Gross Expenditure				
Continuing Operations	£m	£m	£m	
Adult Social Care & Health	554.9	-	554.9	Adult Social Care & Health
Children & Young People	1,111.4	-	1,111.4	Children & Young People
Place	264.1	-	264.1	Place
Economy	149.2	-	149.2	Economy
		9.8	9.8	HR Directorate
Strategic Services	640.5	(13.0)	627.5	Strategic Services
Finance & Governance	5.8	-	5.8	Finance & Governance
Centrally Managed	34.5	-	34.5	Centrally Managed
		3.2	3.2	Chief Executive & Assistant Chief Executive
Housing Revenue Account	196.7	-	196.7	Housing Revenue Account
Gross Cost of Services	**2,957.1**	**-**	**2,957.1**	
Gross Income				
Continuing Operations	£m	£m	£m	
Adult Social Care & Health	(207.4)	-	(207.4)	Adult Social Care & Health
Children & Young People	(800.8)	-	(800.8)	Children & Young People
Place	(86.6)	-	(86.6)	Place
Economy	(89.6)	-	(89.6)	Economy
		(1.3)	(1.3)	HR Directorate
Strategic Services	(587.2)	1.3	(585.9)	Strategic Services
Finance & Governance	(7.6)	-	(7.6)	Finance & Governance
Centrally Managed	(64.5)	-	(64.5)	Centrally Managed
		-	-	Chief Executive & Assistant Chief Executive
Housing Revenue Account	(286.7)	-	(286.7)	Housing Revenue Account
Gross Income of Services	**(2,130.4)**	**-**	**(2,130.4)**	

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.

2017/18 £m	Expenditure	2018/19 £m
1,071.1	Employee Benefits Expenses	973.6
1,762.7	Other Service Expenses	1,798.7
158.5	Depreciation, Amortisation and Impairment	312.6
253.1	Interest Payments	245.6
	Movement in the value of financial assets	19.8
52.9	Precepts and Levies	50.0
6.3	Payments to Housing Capital Receipts Pool	6.3
14.0	Loss on Disposal of Non-Current Assets	5.5
3,318.6	**Total Expenditure**	**3,412.1**
	Income	
(634.4)	Fees, Charges and Other Services Income	(611.6)
(737.5)	Income from Council Tax and Business Rates	(762.9)
(1,905.7)	Government Grants and Contributions	(1,897.9)
(19.0)	Interest and Investment Income	(27.3)
(3,296.6)	**Total Income**	**(3,299.7)**
22.0	**(Surplus)/Deficit on Provision of Services**	**112.4**

Note 10
Material Items of Income and Expense

The Council is required to charge the accounting cost of its pension provision to the Comprehensive Income and Expenditure Statement (CIES) each year rather than the actual cost of payments to the pension providers.

During the year, the Council charges directorates with an employer contribution rate that is expected to recover the actual charge for the year based on a future service contribution rate of 16.8% and an equivalent 16.6% to recover the deficit on past service costs. The combined charge out rate of 33.4% led to an actual charge to services of £122.8m. The Council also meets charges in respect of payments for pension fund strain for staff leaving through redundancy and any unfunded pension arrangements agreed. These payments totalled £18.0m in 2018/19.

Each year, the West Midlands Pension Fund provides a report from its actuarial advisors which identifies the accounting cost of pension provision. The actual amounts to be charged on an accounting basis to the CIES are:

Item	2017/18 £m	2018/19 £m
Cost of Services		
Service Cost	185.1	105.9
Financing Income and Expenditure Statement		
Net Interest on the Net Defined Liability	73.9	63.6
Total Charged to the (Surplus)/Deficit on the provision of services	**259.0**	**169.5**

The reduction in service cost in 2018/19 compared to 2017/18 is mainly as a result of two material items for 2018/19, which have opposite impacts on service cost, namely:

- The impact of settlements, largely as a result of the transfer of staff to Birmingham Children's Trust CIC, leading to a net reduction in the level of liabilities, £79.7m, and
- The assessed impact of the McCloud judgement, £48.6m, where the Courts determined that there was discrimination arising from the transition arrangements as pension schemes moved from a final salary benefit scheme to a career average scheme. The assessment has an element of catch up as it covers the impact since the introduction of the career average scheme in 2014.

Given the materiality of the two items, an apportionment to individual services would distort the presentation of segmental costs within the Comprehensive Income and Expenditure Statement as the charge out rate better represents pension costs. The negative expenditure in respect of the superannuation adjustment, £34.9m, in 2018/19 represents the material items and other items of a similar nature. This enables the cost of individual services to be compared more easily between years and between local authorities as the actuarial assessment can vary significantly from year to year.

Note 11
Other Operating Expenditure

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

2017/18 £m		2018/19 £m
1.9	Parish Council Precepts	1.9
2.4	Enterprise Zone Growth Payment	3.4
47.7	Integrated Transport Authority Levy	45.0
0.3	Environment Agency Levy	0.3
3.0	Apprenticeship Levy	2.7
6.3	Payments re: Housing Capital Receipt Pool	6.3
13.9	(Gains)/Losses on the Disposal of non-current assets	5.5
75.5	**Total**	**65.1**

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

Note 12
Financing and Investment Income and Expenditure

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

As a result of the introduction of IFRS9, *Financial Instruments*, changes in values of financial instruments are shown separately within this note whereas in previous years, items would have been included in the Cost of Services within the CIES (2017/18: £16.1m). The Code does not require a restatement of previous year information on the implementation of IFRS9 for the first time.

2017/18				2018/19		
Gross Expenditure £m	Income £m	Net £m		Gross Expenditure £m	Income £m	Net £m
179.2	-	179.2	Interest Payable and similar charges	182.0	-	182.0
73.9	-	73.9	Net Interest on the Net Defined Benefit Liability	63.6	-	63.6
-	-	-	Net Interest Cost - Pensions	-	-	-
-	-	-	Administration Expenses - Pensions	-	-	-
-	(12.9)	(12.9)	Interest Receivable and similar income	-	(21.6)	(21.6)
-	(1.6)	(1.6)	Income and expenditure in relation to investment properties and changes in their fair value	-	(1.4)	(1.4)
-	-	-	(Gains)/Losses on financial assets at amortised cost	17.1	-	17.1
-	-	-	(Gains)/Losses on financial assets at fair value through profit and loss	0.5	-	0.5
-	-	-	(Gains)/Losses on the Disposal of Financial Instruments	2.2	-	2.2
31.1	(31.7)	(0.6)	(Surplus)/Deficit on trading operations not consolidated within Service Expenditure Analysis in Comprehensive Income and Expenditure Statement	31.1	(32.4)	(1.3)
-	(6.1)	(6.1)	Other investment income and expenditure	-	(5.7)	(5.7)
284.2	**(52.3)**	**231.9**	**Total**	**296.5**	**(61.1)**	**235.4**

Note 13
Taxation and Non Specific Grant Income and Expenditure

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

2017/18				2018/19		
Gross Expenditure £m	Income £m	Net £m		Gross Expenditure £m	Income £m	Net £m
-	(310.4)	(310.4)	Council Tax Income - Collection Fund	-	(329.2)	(329.2)
-	(401.7)	(401.7)	Business Rates - Collection Fund	-	(421.5)	(421.5)
-	(2.0)	(2.0)	Share of Collection Fund - Council Tax	-	(4.4)	(4.4)
1.7	(23.3)	(21.6)	Share of Collection Fund - Business Rates	2.2	(7.9)	(5.7)
-	(281.0)	(281.0)	Non Ring Fenced Government Grants	-	(236.8)	(236.8)
-	(95.5)	(95.5)	Capital Grants and Contributions	-	(126.5)	(126.5)
0.1	-	0.1	Capital Grants Repaid	0.2	-	0.2
1.8	**(1,113.9)**	**(1,112.1)**	**Total**	**2.4**	**(1,126.3)**	**(1,123.9)**

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

Note 14
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 12, Financing and Investment Income and Expenditure. Details of units with significant trading activity are as follows.

2017/18				2018/19		
Turnover £m	Expenditure £m	(Surplus) / Deficit £m	**Trading activity**	Turnover £m	Expenditure £m	(Surplus) / Deficit £m
(41.0)	40.3	(0.7)	Cityserve (Direct Services)	(33.3)	31.2	(2.1)
(10.3)	9.1	(1.2)	Trade Refuse	(10.2)	9.3	(0.9)
(6.0)	6.3	0.3	Birmingham Parks and Nurseries	(5.6)	6.1	0.5
(0.6)	1.1	0.5	Pest Control	(0.7)	1.2	0.5
(2.6)	3.7	1.1	Procurement	(2.6)	3.4	0.8
(3.6)	3.8	0.2	Schools' Human Resources	(3.2)	3.5	0.3
(1.9)	2.1	0.2	Central Payroll	(1.9)	1.7	(0.2)
(3.5)	3.3	(0.2)	Other Trading Activities	(4.6)	4.4	(0.2)
(69.5)	**69.7**	**0.2**		**(62.1)**	**60.8**	**(1.3)**
			Allocation of Surplus/Deficit on Trading Operations			
(37.8)	38.6	0.8	- consolidated in CIES	(29.7)	29.7	-
(31.7)	31.1	(0.6)	- consolidated in Note 12, Financing and Investment Income and Expenditure	(32.4)	31.1	(1.3)
(69.5)	**69.7**	**0.2**		**(62.1)**	**60.8**	**(1.3)**

<u>Details of Trading Activities</u>

Cityserve
During 2018/19, Cityserve provided facilities management services to primary, secondary and special schools, plus community day nurseries and children's centres. The core services provided are now limited to Education Catering, having disposed of both the Educational Cleaning business and the Mobile Caretaking Services in December 2018.

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

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

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

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

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

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

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

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

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

Note 15
Revenue from Contracts with Service Recipients

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

- Performing a contractually agreed task for a service recipient; and
- Granting licences.

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

2017/18		2018/19
£m		£m
79.9	Revenue from contracts with service recipients	81.0
-	Impairment of receivables or contract assets	-
79.9	**Total Included in Comprehensive Income and Expenditure Statement**	**81.0**

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

2017/18		2018/19
£m		£m
7.8	Receivables, which are included in debtors (Note 29)	6.3
-	Contract Assets	-
-	Contract Liabilities	-
7.8	**Total Included in Net Assets**	**6.3**

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

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

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

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

Note 16
Grant Income

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

2017/18 £m		2018/19 £m
	Credited to Taxation and Non Specific Grant Income	
125.3	Business Rates Top Up Grant	89.9
15.0	New Homes Bonus Grant	8.8
18.2	Schools PFI Grant	18.2
50.3	Highways Management and Maintenance PFI Grant	50.3
5.1	Troubled Families Grant	4.3
5.3	Housing Benefit Administration Grant	4.8
5.3	Discretionary Housing Payment	4.8
3.0	Education Services Grant	-
24.6	Small Business Rate Relief Grant	29.9
6.3	Business Rates S31 Grant	9.7
3.8	Children's Trust Grant	-
-	Returned Levy Funding	5.4
5.6	Adult Social Care Support Grant	3.5
13.2	Other	7.2
281.0	**Revenue Grants credited to Taxation and Non Specific Grant Income**	**236.8**
	Credited to Cost of Services	
10.5	Adult Education (Skills Funding Agency)	10.6
533.7	Housing Benefit Subsidy	506.4
657.2	Dedicated Schools Grant	660.7
13.6	Education Funding Agency	12.4
48.0	Pupil Premium Grant	46.9
3.6	Illegal Money Lending	3.8
9.6	Universal Infants Free School Meals Grant	10.3
9.7	NHS Clinical Commissioning Group contributions	12.5
93.2	Public Health Grant	90.8
69.1	Better Care Fund (including improved Better Care Fund)	83.1
4.3	Independent Living Fund Grant	4.2
10.2	Youth Promise	4.4
4.5	Asylum Seekers	5.5
3.8	Flexible Homeless Support	5.3
3.1	Enterprise Zone - Projects	3.8
3.1	Primary PE and Sport Grant	6.2
-	Adult Social Care - Winter Pressures	5.6
37.4	Grants and contributions of less than £3m	46.3
1,514.6	**Total Revenue Grants Credited to Cost of Services**	**1,518.8**
1,795.6	**Total Revenue Grants**	**1,755.6**

2017/18		2018/19
£m		£m
	Capital Grants	
42.3	Education Funding Agency	53.5
-	Commonwealth Games – MHCLG	23.2
-	Commonwealth Games - West Midlands Combined Authority	10.6
3.2	Lottery	-
4.7	Department of Health - Better Care Fund	6.0
4.9	Integrated Transport Block	5.2
4.8	Homes & Community Agency - New Build Programme	6.2
18.2	Department for Transport	-
10.9	Local Growth Fund	12.5
6.5	Other Grants and Contributions	9.3
95.5	**Capital Grants credited to Taxation and Non Specific Grant Income**	**126.5**
	Capital Grants funding Revenue Expenditure under Statute credited to Cost of Services	
6.0	Department of Health - Better Care Fund	5.9
4.0	European Regional Development Fund	7.6
4.6	Other Grants and Contributions	2.3
14.6	**Total Capital Grants funding Revenue Expenditure Under Statute**	**15.8**
110.1	**Total Capital Grants Received**	**142.3**

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 2018/19. The Capital Grants received have been credited to the Taxation and Non Specific Grant Income line on the Comprehensive Income and Expenditure Statement except where the grant is used to finance Revenue Expenditure funded from Capital under Statute (REFCUS) where the grant is credited to the service line in the Comprehensive Income and Expenditure Statement.

Note 17
Dedicated Schools Grant

The Council's expenditure on schools is funded primarily by grant monies provided by the Education Funding Agency (EFA) through the Dedicated Schools Grant (DSG). An element of DSG is recouped by the EFA to fund academy schools in Birmingham. DSG is ringfenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School and Early Years Finance (England) Regulations 2018. The Schools Budget includes elements for a range of educational services provided on a Council wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2018/19 are as follows:

	Central Expenditure £m	Individual Schools Budget £m	**Total £m**
Final DSG for 2018/19 before academy recoupment	119.7	1,053.0	**1,172.7**
Academy figure recouped for 2018/19	-	(511.4)	**(511.4)**
Total DSG after academy recoupment for 2018/19	**119.7**	**541.6**	**661.3**
Brought forward from 2017/18	(11.5)		**(11.5)**
Less: Carry forward to 2019/20 agreed in advance	-		**-**
Agreed initial budgeted distribution in 2018/19	**108.2**	**541.6**	**649.8**
In-year adjustments	1.4	(2.1)	**(0.7)**
Final budgeted distribution for 2018/19	**109.6**	**539.5**	**649.1**
Less: Actual Central Expenditure	(118.3)		**(118.3)**
Less: Actual ISB deployed to schools		(539.5)	**(539.5)**
Plus: Council contribution for 2018/19	-	-	**-**
Carry forward to 2018/19	**(8.7)**	**-**	**(8.7)**

The year-end net deficit of £8.7m is composed of three elements:

- A net deficit of £15.5m 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 develop and implement a 5 year deficit recovery plan in 2019/20, this includes £0.5m funding to be applied to invest to save initiatives from 2018/19.

- A surplus of £3m on the Schools block funding is primarily composed of lower than anticipated commitments against prescribed centrally managed DSG budgets, specifically the pupil growth fund and falling pupils fund.

- A surplus of £3.8m on the Early Years block is primarily due to lower take up of 3 & 4 year old provision, including working parents.

Note 18
Adjustments Between Accounting Basis and Funding Basis Under Regulations

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

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

General Fund Balance

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

Housing Revenue Account Balance

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

Major Repairs Reserve

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

Capital Receipts Reserve

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

Capital Grants Unapplied

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

2018/19	General Fund Balance £m	Housing Revenue Account £m	Capital Receipts Reserve £m	Major Repairs Reserve £m	Capital Grants Unapplied £m
Adjustments to Revenue Resources					
Adjustments by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:					
Pension costs (transferred to/from the Pensions Reserve)	17.2	10.3	-	-	-
Financial Instruments (transferred to/from the Financial Instrument Adjustments Account)	22.4	-	-	-	-
Council Tax and Business Rates (transfers to/from the Collection Fund)	8.0	-	-	-	-
Holiday Pay (transferred to/from the Accumulated Absences Reserve)	(5.9)	-	-	-	-
Equal pay settlements (transferred to/from the Unequal Pay Backpay Account)	20.7	2.0	-	-	-
Reversal of entries included in the Surplus/Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	241.1	79.5	-	-	72.0
Total Adjustments to Revenue Resources	**303.5**	**91.8**	**-**	**-**	**72.0**
Adjustments between Revenue and Capital Resources					
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(28.8)	(55.6)	83.4	-	-
Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)	1.6	-	(1.6)	-	-
Contribution to the costs of Equal Pay (funded by the Capital Receipts Reserve)	86.2	-	(86.2)	-	-
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	6.3	-	(6.3)	-	-
Posting of HRA resources from revenue to the Major Repairs Reserve	-	(51.7)	-	51.7	-
Provision for the repayment of debt (transfer to the Capital Adjustment Account)	(139.8)	(35.4)	-	-	-
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	(13.3)	(0.2)	-	-	-
Total Adjustments between Revenue and Capital Resources	**(87.8)**	**(142.9)**	**(10.7)**	**51.7**	**-**
Adjustments to Capital Resources					
Use of the Capital Receipts Reserve to finance capital expenditure	-	-	(57.8)	-	-
Use of the Capital Receipts Reserve to repay debt	-	-	(53.1)	-	-
Use of the Major Repairs Reserve to finance capital expenditure	-	-	-	(55.4)	-
Application of capital grants to finance capital expenditure	-	-	-	-	(72.2)
Cash payments in relation to deferred capital receipts	-	-	3.9	-	-
Other	-	-	37.6	-	(0.1)
Total Adjustments to Capital Resources	**-**	**-**	**(69.4)**	**(55.4)**	**(72.3)**
Total Adjustments	**215.7**	**(51.1)**	**(80.1)**	**(3.7)**	**(0.3)**

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**

Note 19
Usable Reserves

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

The Reserves have been split into the following major categories:

- Unearmarked Reserves – Reserves that the Council can use for any purpose within the General Fund
- Earmarked Reserves – Reserves that the Council has set aside to meet specific future liabilities
- Grant Reserves – Reserves arising as a result of revenue grants received by the Council for specific projects that haven't been fully utilised by 31 March 2019 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	Balance at 31 March 2018	Transfers Out 2018/19	Transfers In 2018/19	Balance at 31 March 2019
	£m	£m	£m	£m
Unearmarked Reserves				
General Fund Balances	28.9	(0.5)	7.1	35.5
Carry Forward Balance	1.8	(1.8)	-	-
Invest to Save Reserve	41.5	(6.1)	6.3	41.7
Financial Resilience Reserve	98.2	(44.7)	13.3	66.8
Total Unearmarked Reserves	**170.4**	**(53.1)**	**26.7**	**144.0**
Earmarked Reserves				
Insurance Fund	11.2	(1.4)	-	9.8
Highways PFI Earmarked Reserve	6.4	(6.4)	-	-
Sums set aside to finance Capital Expenditure	43.3	(0.7)	3.5	46.1
Treasury Management Reserve	1.8	(1.8)	-	-
Housing Benefit Subsidy Reserve	4.2	-	-	4.2
Cyclical Maintenance Reserve	8.5	(1.8)	4.0	10.7
Equipment Renewal Reserve	5.5	(1.2)	1.6	5.9
Support to the Business Plan	3.7	(3.7)	-	-
Management Capacity for Change	6.8	(6.8)	2.8	2.8
Troubled Families	3.7	(3.7)	-	-
Children's Trust	2.0	(2.0)	-	-
Business Rates	10.6	(12.9)	14.7	12.4
Other Earmarked Reserves	23.2	(27.4)	18.8	14.6
Total Reserves Earmarked by the Council	**130.9**	**(69.8)**	**45.4**	**106.5**

Usable Reserves	Balance at 31 March 2018	Transfers Out 2018/19	Transfers In 2018/19	Balance at 31 March 2019
	£m	£m	£m	£m
Revenue Grant Reserves				
Section 256 Grant from the NHS	1.2	-	-	1.2
Public Health	2.8	-	2.5	5.3
Better Care Fund	21.4	(5.2)	8.8	25.0
Highways PFI Grant	99.7	(14.7)	95.8	180.8
Section 106 Grants	21.5	(4.5)	9.0	26.0
Community Infrastructure Levy	3.2	-	6.3	9.5
National Business Rate Levy	-	-	5.4	5.4
Other Grant Reserves	19.9	(13.7)	8.6	14.8
Total Revenue Grant Reserves	**169.7**	**(38.1)**	**136.4**	**268.0**
Unearmarked Non-Schools DSG				
Unearmarked Non- Schools DSG	(11.5)	(2.2)	5.0	(8.7)
Total Unearmarked Non-Schools DSG	**(11.5)**	**(2.2)**	**5.0**	**(8.7)**
Ringfenced Reserves				
Schools' Balances	49.6	(3.5)	4.1	50.2
Housing Revenue Account	4.8	-	0.6	5.4
HRA Major Repairs Reserve	28.6	(55.4)	51.7	24.9
Total Ringfenced Reserves	**83.0**	**(58.9)**	**56.4**	**80.5**
Capital Reserves				
Capital Receipts Reserve	320.4	(205.0)	125.0	240.4
Capital Grants Unapplied	107.0	(72.3)	72.0	106.7
Total Capital Reserves	**427.4**	**(277.3)**	**197.0**	**347.1**
Total Usable Reserves	**969.9**	**(499.4)**	**466.9**	**937.4**

Details of the major usable reserves as at 31 March 2019 are set out below.

Unearmarked Reserves comprising:

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

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

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

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

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

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

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

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

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

Business Rates – An overall reserve for Business Rates related activities, including:

- A contingency in case there is a requirement to make a payment under the Council's "no detriment" agreement with the other West Midlands Business Rates Retention Pilot authorities.

- To address the timing difference between grant received and when the Council has assumed it will be required.

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 in support of the Financial Plan.

Revenue Grant reserves comprising:

Grant Reserves – relate to the unused element of grant support for which the conditions of the grant are expected to be met or for which there are no conditions of grant. The reserves will be used to meet future years' expenditure for the service for which the grant was awarded.

In addition to the resources set aside in the Council's budget to meet the costs of the Highways PFI scheme, grant support is also received on an equal annual basis over the life of the contract. There was expected to be a budget surplus in the early years of the contract as the unitary charge payable to the contractor would increase during the initial core investment period until all milestones had been completed. The excess of available resources together with any deductions from unitary charge payments as a result of poor performance against the contract have been set aside in the Highways PFI reserve and will be used in the later period of the contract where the unitary charge payable is expected to exceed the budgeted resources and grant support. The reserve is expected to be fully utilised by the end of the contract.

The increase in reserve in 2018/19 is partly due to the full repayment of resources that had previously been used on a short term repayable basis to support budget pressures and transformation plans within the Council.

Ringfenced reserves comprising:

Schools' Balances - are the net cumulative balances held by the local authority maintained schools which, under national school funding regulations, the schools are entitled to retain for unexpected commitments and/or for planned school curriculum/infrastructure improvements and investment. Within the total Schools' Balances there are 53 (2017/18:37) schools with deficit balances totalling £12.6m (2017/18: £11.0m) and a deficit balance on the Non-Schools Dedicated Schools Grant of £15.5m (2017/18: £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 20
Unusable Reserves

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

31 March 2018 £m		31 March 2019 £m
1,885.4	Revaluation Reserve	2,021.1
(0.3)	Available for Sale Financial Instruments Reserve	-
(428.9)	Capital Adjustment Account	(336.3)
(25.9)	Financial Instruments Adjustment Account	(48.1)
(2,836.1)	Pensions Reserve	(2,676.2)
41.8	Deferred Capital Receipts Reserve	37.7
18.0	Collection Fund Adjustment Account	10.0
(151.8)	Equal Pay Back Pay Account	(174.5)
(19.9)	Accumulated Absences Account	(14.0)
(1,517.7)	**Total Unusable Reserves**	**(1,180.3)**

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.

2017/18			2018/19	
£m	£m		£m	£m
	1,542.1	**Balance at 1 April**		**1,885.4**
592.5		Upward revaluation of assets	430.4	
(197.3)		Downward revaluation of assets and impairment losses not charged to the Surplus/(Deficit) on the Provision of Services	(199.5)	
-		Impairment (losses)/reversals not charged to the Surplus/(Deficit) on the Provision of Services	-	
	395.2	Surplus/(Deficit) on revaluation of non-current assets not posted to the Surplus/(Deficit) on the Provision of Services		230.9
(19.0)		Difference between fair value depreciation and historical cost depreciation	(74.8)	
(32.9)		Accumulated gains on assets sold or scrapped	(20.4)	
-		Adjustment for Transfer of land to Investment Property	-	
	(51.9)	Amount written off to the Capital Adjustment Account		(95.2)
	1,885.4	**Balance at 31 March**		**2,021.1**

Available for Sale Financial Instruments Reserve

The Available for Sale Financial Instruments Reserve previously contained 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. Following the implementation of IFRS9, Financial Instruments, the reserve has now been subsumed into the Capital Adjustment Account.

2017/18		2018/19
£m		**£m**
0.5	**Balance at 1 April**	**(0.3)**
-	Transfer to Capital Adjustment Account	**0.3**
0.5	**Adjusted Balance 1 April**	**-**
-	Upward revaluation of investments	-
(0.8)	Downward revaluation of investments not charged to the Surplus/Deficit on the Provision of Services	-
(0.3)	**Balance at 31 March**	**-**

Capital Adjustment Account

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

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

Note 18 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

2017/18 £m	2017/18 £m		2018/19 £m	2018/19 £m
	(411.9)	**Balance at 1 April**		**(428.9)**
	-	Adjustment for the Restatement of Financial Instruments		(0.5)
	-	Transfer from Available for Sale Reserve		(0.3)
	(411.9)	**Restated Opening Balance at 1 April**		**(429.7)**
		Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement (CIES):		
(137.1)		Charges for depreciation and impairment of non current assets	(305.5)	
5.7		Revaluation losses on Property, Plant and Equipment	1.4	
(8.0)		Amortisation and impairment of intangible assets	(8.2)	
1.6		Changes in the Fair Value of Investment Properties	1.4	
(17.7)		Impairment of Capital Debtors/Grants	(0.4)	
(60.1)		Revenue expenditure funded from capital under statute	(59.5)	
(143.1)		Amounts of non current assets written off on disposal or sale as part of the gain/(loss) on disposal to the CIES	(88.3)	
-		Amounts of financial instruments written off on disposal/sale as part of the gain/(loss) on disposal to the CIES	-	
	(358.7)			(459.1)
	51.9	Adjusting amounts written out of the Revaluation Reserve		95.2
	(306.8)	Net written out amount of the cost of non-current assets consumed in the year		(363.9)
		Capital financing applied in the year:		
49.2		Use of the Capital Receipts Reserve to finance new capital expenditure	57.8	
60.7		Use of the Major Repairs Reserve to finance new capital expenditure	55.4	
47.9		Capital grants and contributions credited to the CIES that have been applied to capital financing	70.3	
47.9		Application of grants to capital financing from the Capital Grants Unapplied Account	72.2	
10.3		Application of capital receipts to repay debt	53.1	
67.1		Provision for the financing of capital investment charged against the General Fund and HRA balances	175.2	
7.1		Capital expenditure charged against the General Fund and HRA balances	13.5	
	290.2			497.5
	0.1	Financing of capital grant repayment		0.2
	(0.5)	Repayment of long term debtors		(40.4)
	(428.9)	**Balance at 31 March**		**(336.3)**

Financial Instruments Adjustment Account

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

In the 2018/19 financial year, the Council agreed the early repayment of three long term loans with the lenders, at a total premium of £23.4m.

2017/18			2018/19	
£m	£m		£m	£m
	(26.8)	**Balance at 1 April**		**(25.9)**
-		Premia incurred in the year and charged to the Comprehensive Income and Expenditure Statement	(23.4)	
0.9		Proportion of premia incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	1.2	
	0.9	Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements		(22.2)
	(25.9)	**Balance at 31 March**		**(48.1)**

Pensions Reserve

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

Generally, the Pensions Reserve will match exactly the Pension Liabilities recorded on the Balance Sheet at the end of each year. However, the Council made an advance payment of £373.2m in April 2017 to cover its estimated contributions for the three-year period to 31 March 2020. However, as indicated above, the Council is only required to account for the amount payable in year. The difference of £124.2m between the Pensions Reserve and the Pension Liabilities at 31 March 2019 reflects the anticipated contributions in 2019/20.

2017/18 £m		2018/19 £m
(2,870.7)	**Balance at 1 April**	**(2,836.1)**
153.1	Remeasurement of the net defined benefit liability	187.4
(259.0)	Reversal of items relating to retirement benefits debited or credited to the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(169.5)
140.5	Employer's pensions contributions and direct payments to retirees payable in the year	142.0
(2,836.1)	**Balance at 31 March**	**(2,676.2)**

Deferred Capital Receipts Reserve

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the Council does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

2017/18 £m		2018/19 £m
39.5	**Balance at 1 April**	**41.8**
(0.5)	Transfer of deferred sale proceeds credited to the General Fund under capital finance regulations	(1.2)
7.8	Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	1.0
(5.0)	Transfer to the Capital Receipts Reserve upon receipt of cash	(3.9)
41.8	**Balance at 31 March**	**37.7**

Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of Council Tax and Business Rates income in the Comprehensive Income and Expenditure Statement as it falls due from Council Tax and Business Rates payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

2017/18 £m		2018/19 £m
(10.6)	**Balance at 1 April**	**18.0**
28.6	Amount by which Council Tax/Business Rates income credited to the Comprehensive Income and Expenditure Statement is different from Council Tax/Business Rates income calculated for the year in accordance with statutory requirements	(8.0)
18.0	**Balance at 31 March**	**10.0**

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.

2017/18 £m		2018/19 £m
(145.2)	**Balance at 1 April**	**(151.8)**
(26.6)	(Increase)/reduction in provision for back pay in relation to Equal Pay cases	(110.5)
20.0	Cash settlements paid in the year	87.8
(6.6)	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	(22.7)
(151.8)	**Balance at 31 March**	**(174.5)**

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.

2017/18 £m		2018/19 £m
(20.5)	**Balance at 1 April**	**(19.9)**
1.1	Settlement or cancellation of accrual made at the end of the preceding year	-
(0.5)	Amounts accrued at the end of the current year	5.9
0.6	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	5.9
(19.9)	**Balance at 31 March**	**(14.0)**

Note 21
Pension Schemes Accounted for as Defined Contribution Schemes

Teachers' Pension Scheme

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

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

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

In 2018/19, the Council paid £34.7m (2017/18: £35.0m) to the Teachers' Pensions Scheme in respect of teachers' retirement benefits, representing 16.48% (2017/18 16.48%) of pensionable pay. The contributions due to be paid in the 2019/20 financial year are estimated to be £44.6m on the basis of employer contributions of 16.48% until 31 August 2019 and 23.68% thereafter.

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and detailed in Note 22.

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

NHS Pension Scheme

Staff who joined the Council on 1 April 2014 upon the transfer of Public Health responsibilities from the National Health Service were members of the NHS Pension Scheme. The scheme provides its members with specified benefits upon their retirement and the Council has taken responsibility for making contributions based on a percentage of members' pensionable salaries.

The scheme is a multi-employer defined benefit scheme covering NHS employers, GP practices and other bodies allowed under the direction of the Secretary of State in England and Wales. The scheme is unfunded and is not designed to be run in a way that would enable member organisations to identify their share of the underlying assets and liabilities. Actuarial valuations of the scheme are undertaken every four years with a valuation of the scheme liability carried out on an annual basis by the scheme actuary through an update of the result of the full actuarial valuation. For the purposes of this Statement of Accounts, the scheme is accounted for on the same basis as a defined contribution scheme.

In 2018/19, the Council paid £0.12m (2017/18: £0.15m) to the NHS Pensions Scheme in respect of employees' retirement benefits, representing 14.38% (2017/18: 14.38%) of pensionable pay. The contributions due to be paid in the 2019/20 financial year are estimated to be £0.12m 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 22.

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

Note 22
Defined Benefit Pension Schemes

Participation in Pension Schemes

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

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

- The Local Government Pension Scheme, administered locally by the West Midlands Pension Fund offices at Wolverhampton City Council – this is a funded defined benefit career average salary scheme for benefits accrued since 1 April 2014, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets. Benefits accrued to 31 March 2014 are based on final salary. An employer's future service contribution rate of 16.8% was set for the Council for 2018/19 (2017/18: 15.3%).

- Arrangements for the award of discretionary post-retirement benefits upon early retirement – this is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pensions liabilities, and cash has to be generated to meet actual pension payments as they eventually fall due.

The pension scheme is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the scheme is the responsibility of the pensions committee of Wolverhampton City Council. Policy is determined in accordance with the Pensions Fund Regulations.

The principal risks to the Council of the scheme are:
- the longevity assumptions
- statutory changes to the scheme
- structural changes to the scheme (for example, large-scale withdrawals)
- changes to inflation
- bond yields, and
- the performance of the equity investments held by the scheme.

These risks are mitigated, to a certain extent, by the statutory requirements to charge to the General Fund and the Housing Revenue Account the amounts required by statute as described in the accounting policies note.

Transactions relating to Post-employment benefits

The Council recognises the cost of retirement benefits in the reported Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge the Council is required to make against Council Tax is based on the cash payable in the year, so the real cost of post-employment/retirement benefits is reversed out of the General Fund and Housing Revenue Account via the Movement in Reserves Statement.

The table below shows the transactions that have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year. The major movements from 2017/18 to 2018/19 in the table relate to:

- Effect of curtailments – the increase is as a result of the assessment of the impact of the McCloud judgement, in respect of judges' pensions and firefighter pensions, arising from the ruling regarding age discrimination arising from public sector transition arrangements put in place when moving from final salary to average salary scheme arrangements
- Effect of settlements – mainly arising from the transfer of staff from the Council to Birmingham Children's Trust CIC where the associated historic pension liabilities were transferred to the Trust's share of the pension scheme
- Release of pension reserve – reflecting the accounting arrangements for the release from the pension reserve of the sums due for 2018/19 arising following the pre-payment of three years of employer contributions in April 2017.

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2017/18	2018/19	2017/18	2018/19
	£m	£m	£m	£m
Comprehensive Income and Expenditure Statement				
Cost of Services:				
current service cost	154.6	128.3		
past service costs, including curtailments	4.1	55.3		
effect of settlements	24.7	(79.7)		
administration expenses	1.7	2.0		
Financing and investment income and expenditure:				
Net interest expense	72.8	62.0	1.1	1.6
Total post-employment benefit charged to the (Surplus)/Deficit on the provision of services	**257.9**	**167.9**	**1.1**	**1.6**
Movement in Reserves Statement				
Reversal of net charges made to the Surplus/Deficit on the provision of services for post-employment benefits in accordance with the Code	(123.4)	(155.9)	4.9	4.4
Release from pension reserve re:prepayment		124.0		
Net charge against the General Fund Balance for pensions in the year comprising:				
employer's contributions payable to scheme	**134.5**	**136.0**		
retirement benefits payable to retirees			**6.0**	**6.0**

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2017/18	2018/19	2017/18	2018/19
	£m	£m	£m	£m
Comprehensive Income and Expenditure Statement				
Total post-employment benefit charged to the (Surplus)/Deficit on the provision of services	257.9	167.9	1.1	1.6
Other post-employment benefit charged to the Comprehensive Income and Expenditure Statement				
remeasurements (liabilities and assets)	(162.2)	(185.6)	9.1	(1.8)
Total Post Employment Benefits charged to the Comprehensive Income and Expenditure Statement	95.7	(17.7)	10.2	(0.2)

	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m
Present Value of Liabilities					
- Local Government Pension Scheme	(5,548.6)	(5,284.8)	(6,863.0)	(6,919.7)	(6,706.6)
- Unfunded Teachers' Scheme	(69.3)	(68.5)	(64.2)	(68.5)	(62.2)
Total Present Value of Liabilities	**(5,617.8)**	**(5,353.3)**	**(6,927.2)**	**(6,988.2)**	**(6,768.8)**
Fair Value of Assets in the Local Government Pension Scheme	3,324.2	3,265.6	4,056.6	4,400.3	4,216.8
Surplus/(Deficit) in the scheme					
- Local Government Pension Scheme	(2,224.3)	(2,019.2)	(2,806.4)	(2,519.4)	(2,489.7)
- Unfunded Teachers' Scheme	(69.3)	(68.5)	(64.2)	(68.5)	(62.2)
Net Liability arising from defined benefit obligation	**(2,293.6)**	**(2,087.7)**	**(2,870.7)**	**(2,587.9)**	**(2,552.0)**

Pension Assets and Liabilities Recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the Council's obligation in respect of its defined benefit plans is as follows:

	Local Government Pension Scheme				Unfunded Teachers' Pension Scheme		**Total**	
	Funded		Unfunded					
	2017/18 £m	2018/19 £m	2017/18 £m	2018/19 £m	2017/18 £m	2018/19 £m	**2017/18 £m**	**2018/19 £m**
Benefit Obligation at 1 April	6,793.2	6,854.8	69.8	64.9	64.2	68.5	**6,927.2**	**6,988.2**
Current Service Cost	154.6	128.3					**154.6**	**128.3**
Interest on Pension Liabilities	189.3	166.4	1.8	1.6	1.1	1.6	**192.2**	**169.5**
Member Contributions	26.8	23.0					**26.8**	**23.0**
Past service cost/(gain)								
Actuarial (gains)/losses arising from changes in financial assumptions	(252.7)	(135.6)	(1.2)	(2.0)	9.1	(1.9)	**(244.8)**	**(139.5)**
Curtailments	4.1	55.3					**4.1**	**55.3**
Settlements	134.9	(249.9)					**134.9**	**(249.9)**
Benefits/Transfers paid	(195.4)	(194.9)	(5.5)	(5.3)	(5.9)	(6.0)	**(206.8)**	**(206.1)**
Benefit Obligation at 31 March	**6,854.8**	**6,647.4**	**64.9**	**59.2**	**68.5**	**62.2**	**6,988.2**	**6,768.8**

Reconciliation of the Movements in the Fair Value of Scheme Assets

	Local Government Pension Scheme				Unfunded Teachers' Pension Scheme		**Total**	
	Funded		Unfunded					
	2017/18 £m	2018/19 £m	2017/18 £m	2018/19 £m	2017/18 £m	2018/19 £m	**2017/18 £m**	**2018/19 £m**
Fair Value of Assets at 1 April	4,056.6	4,400.3	-	-			**4,056.6**	**4,400.3**
Interest on Plan Assets	118.4	105.9	-	-			**118.4**	**105.9**
Remeasurements (assets)	(91.7)	47.9	-	-			**(91.7)**	**47.9**
Administration expenses	(1.8)	(1.9)	-	-			**(1.8)**	**(1.9)**
Settlements	110.1	(170.1)	-	-			**110.1**	**(170.1)**
Employer contributions	377.3	6.7	5.5	5.3	6.0	6.0	**388.8**	**18.0**
Member contributions	26.8	23.0					**26.8**	**23.0**
Benefits/transfers paid	(195.4)	(195.0)	(5.5)	(5.3)	(6.0)	(6.0)	**(206.9)**	**(206.3)**
Fair Value of Assets at 31 March	**4,400.3**	**4,216.8**	**-**	**-**	**-**	**-**	**4,400.3**	**4,216.8**

Local Government Pension Scheme assets

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

	31 March 2018				31 March 2019			
	Quoted £m	Unquoted £m	Total £m	Percentage of Total %	Quoted £m	Unquoted £m	Total £m	Percentage of Total %
Equity Instruments								
UK Quoted	431.4		431.4	9.8%	413.4		413.4	9.8%
UK Unquoted		61.1	61.1	1.4%		58.5	58.5	1.4%
Global Quoted	417.3		417.3	9.5%	399.9		399.9	9.5%
Global Unquoted		283.9	283.9	6.5%		272.0	272.0	6.5%
Europe	382.0		382.0	8.7%	366.1		366.1	8.7%
Japan	190.9		190.9	4.3%	183.0		183.0	4.3%
Pacific Basin	196.7		196.7	4.5%	188.5		188.5	4.5%
North America	389.5		389.5	8.9%	373.2		373.2	8.9%
Emerging Markets	356.8		356.8	8.1%	341.9		341.9	8.1%
Sub-total Equity	**2,364.7**	**344.9**	**2,709.6**	**61.6%**	**2,266.1**	**330.5**	**2,596.6**	**61.6%**
Bonds								
UK Government		300.9	300.9	6.8%		288.3	288.3	6.8%
Other	198.4	208.6	406.9	9.2%	190.1	199.9	390.0	9.2%
Sub-total Bonds	**198.4**	**509.4**	**707.8**	**16.1%**	**190.1**	**488.2**	**678.3**	**16.1%**
Property								
UK		249.9	249.9	5.7%		239.5	239.5	5.7%
Overseas								
Property Funds		99.4	99.4	2.3%		95.2	95.2	2.3%
Sub-total Property		**349.2**	**349.2**	**7.9%**		**334.7**	**334.7**	**7.9%**
Alternatives								
Infrastructure		182.9	182.9	4.2%		175.2	175.2	4.1%
Absolute Return		174.2	174.2	4.0%		166.9	166.9	4.0%
Sub-total Alternatives		**357.1**	**357.1**	**8.1%**		**342.2**	**342.2**	**8.1%**
Cash								
Cash Instruments		238.8	238.8	5.4%		228.8	228.8	5.4%
Cash Accounts		37.8	37.8	0.9%		36.2	36.2	0.9%
Sub-total Cash		**276.6**	**276.6**	**6.3%**		**265.0**	**265.0**	**6.3%**
Total Assets	**2,563.1**	**1,837.2**	**4,400.3**	**100.0%**	**2,456.2**	**1,760.6**	**4,216.8**	**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	
	2017/18	2018/19	2017/18	2018/19
Mortality assumptions:				
Longevity at 65 for current pensioners:				
Men (years)	21.9	20.9	21.9	20.9
Women (years)	24.3	23.2	24.3	23.2
Longevity at 65 for future pensioners retiring in 20 years:				
Men (years)	24.0	22.6	n/a	n/a
Women (years)	26.6	25.0	n/a	n/a
Rate of CPI inflation	2.4%	2.4%	2.4%	2.5%
Rate of increase in salaries	3.9%	3.9%	n/a	n/a
Rate of increase in pensions	2.4%	2.4%	2.4%	2.5%
Rate for discounting of scheme liabilities	2.6%	2.4%	2.4%	2.2%

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)	257.0	3.8%	10.2%
Pension increase assumptions (increase by 0.1%)	110.3	1.6%	4.3%
Salary increase assumption (increase by 0.1%)	10.9	0.2%	0.4%
Discount scheme liability assumptions (increase by 0.1%)	(119.0)	(1.8%)	(4.7%)

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 18 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. Set out below are the contribution rates for 2019/20.

Financial Year	Employer's Future Service Contribution Rate	Past Service Cost Deficit Payment
	%	£m
2019/20	18.3	61.5

Note 23
Property, Plant and Equipment

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

Movements in Balances: 2018/19

	Council dwellings £m	Other land and buildings £m	Vehicles, plant, furniture & equipment £m	Infrastructure assets £m	Community assets £m	Surplus assets £m	Assets under construction £m	Total Property, Plant and Equipment £m	PFI / Service Concession assets Included in Property, Plant and Equipment £m
Cost or Valuation									
At 1 April 2018	**2,283.8**	**2,472.6**	**176.5**	**629.6**	**62.2**	**112.2**	**196.7**	**5,933.6**	**811.9**
Additions	102.8	51.9	4.8	30.0	2.3	-	100.3	**292.1**	32.6
Assets reclassified between categories	16.7	76.6	1.1	1.3	(1.1)	1.4	(96.8)	**(0.8)**	
Assets reclassified (to)/from Held for Sale	-	(11.9)	-	-	-	(12.2)	-	**(24.1)**	
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	76.5	(12.7)	-	-	-	73.3	-	**137.1**	(0.9)
Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	-	(110.2)	-	-	-	-	(0.2)	**(110.4)**	0.4
Derecognition - Disposals	(34.8)	(53.3)	(19.6)	-	-	(2.0)	-	**(109.7)**	(0.3)
Derecognition - other	-	-	-	-	-	-	-	**-**	
At 31 March 2019	**2,445.0**	**2,413.0**	**162.8**	**660.9**	**63.4**	**172.7**	**200.0**	**6,117.8**	**843.7**
Accumulated Depreciation and Impairment									
At 1 April 2018	**-**	**(28.1)**	**(73.7)**	**(111.9)**	**-**	**-**	**-**	**(213.7)**	**(121.1)**
Depreciation charge	(51.7)	(59.9)	(16.0)	(26.2)	-	(0.6)	-	**(154.3)**	(32.4)
Depreciation written out to the Revaluation Reserve	51.0	41.5	-	-	-	0.1	-	**92.6**	2.2
Depreciation written out to the Surplus/Deficit on the Provision of Services	-	13.2	-	-	-	-	-	**13.2**	0.9
Revaluation (losses)/reversals recognised in the Revaluation Reserve	-	0.8	-	-	-	-	-	**0.8**	
Impairment (losses)/reversals recognised in the Surplus/Deficit on the Provision of Services	-	0.8	-	(51.3)	-	-	-	**(50.5)**	(51.3)
Derecognition - Disposals	0.7	2.2	19.1	-	-	0.1	-	**22.1**	0.1
Assets reclassified (to)/from Held for Sale	-	0.5	-	-	-	0.4	-	**0.9**	
Other movements in depreciation and impairment	-	-	-	-	-	-	-	**-**	
At 31 March 2019	**-**	**(28.9)**	**(70.6)**	**(189.4)**	**-**	**-**	**-**	**(288.9)**	**(201.6)**
Net Book Value									
At 31 March 2019	**2,445.0**	**2,384.1**	**92.2**	**471.5**	**63.4**	**172.7**	**200.0**	**5,828.9**	**642.1**
At 31 March 2018	**2,283.8**	**2,444.5**	**102.8**	**517.7**	**62.2**	**112.2**	**196.7**	**5,719.9**	**690.8**

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	PFI / Service Concession assets Included in Property, Plant and Equipment £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
Assets reclassified (to)/from Held for Sale	-	-	-	-	-	-	-	**-**	
Other movements in depreciation and impairment	-	0.3	-	-	-	(0.3)	-	**-**	
At 31 March 2018	**-**	**(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**	**5,336.2**	**654.0**

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 24 May 2019 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 2018, 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 little movement in building costs during the year to 31 March 2019.

A review was undertaken to assess the impact of the movement in building costs on the value of those assets not subject to revaluation in 2018/19. 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 2019, resulting in a small reduction in relevant asset values.

Housing
The Council's housing stock was valued as at 1 April 2018 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 2018/19 of 40% (2017/18: 40%). A review was undertaken to assess any material movement in the valuation from 1 April 2018 to 31 March 2019, and the valuation updated accordingly.

HRA dwellings have seen a net increase in value of £161.2m since 31 March 2018. Details are included in Notes H1 and H3 of the Supplementary Statements.

Infrastructure Assets
The value of infrastructure assets increases each year with capital works undertaken by both the Council and by Amey LG Ltd (ALG) as part of the Highways Management and Maintenance PFI arrangements. Infrastructure assets are not subject to a formal revaluation process but are carried at Depreciated Historical Cost. The Court of Appeal judgement in January 2018 which identified concerns around delivery of the Core Investment, particularly in relation to the road network, reset the contract payments back to Milestone 5, as identified in Note 2, *Critical Judgements in Applying Accounting Policies*. ALG provided information on capital expenditure incurred and an assessment was made comparing the impact of setting contract payments back to Milestone 5, the level of capital expenditure incurred and the carrying value of infrastructure assets on the Balance Sheet, as determined from the financial modelling of the contract. As a consequence, the carrying value of these assets within Place Directorate has been impaired by £51.3m, charged to the Comprehensive Income and Expenditure Statement and then reversed out via the Movement in Reserves State to the Capital Adjustment Account.

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 2019 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 2018 Fair Value £m	31 March 2019 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.	112.2	172.7

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					63.4		200.0	**263.4**
Carried at Depreciated Historical Cost			112.4	660.9				**773.3**
Valued at current value as at:								
31 March 2019	2,445.0	1,557.4				172.7		**4,175.1**
31 March 2018		161.3						**161.3**
31 March 2017		234.2						**234.2**
31 March 2016		254.9						**254.9**
31 March 2015		205.2	50.4					**255.6**
Total cost or valuation	**2,445.0**	**2,413.0**	**162.8**	**660.9**	**63.4**	**172.7**	**200.0**	**6,117.8**

Capital Commitments

At 31 March 2019, the Council has entered into contracts for the construction or enhancement of Property, Plant and Equipment in 2019/20 and future years budgeted to cost £1,009.4m (2017/18: £895.9m). The major commitments are:

	£m
PFI Lifecycle Costs	557.9
HRA New Build & Investment	92.5
Tame Valley Phase 3	87.5
Curzon Promenade/Paternoster/Square	57.9
Paradise Circus Enterprise Zone	50.5
Digbeth High Street Public Realm	31.5
A457 Dudley Road	28.9
Enterprise Zone Capitalised Interest	22.3
Birmingham Cycle Routes	11.2
Iron Lane Highway Improvements	10.3
Selly Oak New Road Phase 1b	7.3
Snow Hill Public Realm	7.1
Additional School Places	6.0
Other Projects <£5m	38.5
Total Capital Commitments	**1,009.4**

Capitalisation of Borrowing Costs

The Council has adopted an accounting policy, detailed in Note1 - section xi., of capitalising borrowing costs in relation to qualifying assets. In 2018/19 the amount of borrowing costs capitalised during the period was £3.0m (2017/18: £3.6m). The interest does not relate to a specific loan and was calculated using the Council's average borrowing rate in the year expenditure was incurred. This was 4.36% in 2018/19 (2017/18: 4.32%). For 2018/19, interest capitalised by scheme was as follows:

	£m
Enterprise Zone	2.9
Wholesale Market	0.1

Note 24
Heritage Assets

The Council has significant collections of assets that contribute towards the rich and diverse heritage of the City, reflecting two thousand years of historic development, across Museums, Historic Buildings, Public Art, Libraries and Civic collections.

Where historical cost information is available, the Council has used this when compiling the Balance Sheet; otherwise insurance valuations have been used, where applicable. Where there is evidence of a movement in valuations as a result of material acquisitions or disposals, or a significant movement in comparable market values, a revaluation will be considered.

Heritage Assets held by the Council:

	Museum Collections	Historic Buildings	Public Art	Libraries and Archive collections	Civic Regalia and Plate	Total Assets
	£m	£m	£m	£m	£m	£m
01 April 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
Impairment losses /(reversals) recognised in the Revaluation Reserve	-	-	-	-	-	-
Impairment losses /(reversals) recognised in the Surplus or Deficit on the Provision of Services	-	-	-	-	-	-
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***
01 April 2018						
- At Cost	3.9	11.1	0.5	-	-	15.5
- At Valuation	215.9	-	-	18.4	1.8	236.1
Additions	0.1	-	-	-	-	0.1
Impairment losses /(reversals) recognised in the Revaluation Reserve	0.3	-	-	-	-	0.3
Impairment losses /(reversals) recognised in the Surplus or Deficit on the Provision of Services	(2.2)	-	-	-	-	(2.2)
31 March 2019	**218.0**	**11.1**	**0.5**	**18.4**	**1.8**	**249.8**
- At Cost	*1.8*	*11.1*	*0.5*	*-*		*13.4*
- At Valuation	*216.2*	*-*	*-*	*18.4*	*1.8*	*236.4*
31 March 2019	***218.0***	***11.1***	***0.5***	***18.4***	***1.8***	***249.8***

Museum Collections

The Council holds collections of artworks, ceramics, jewellery and items of archaeological and scientific significance. The vast majority of the Museum’s Loan collection is held within the Birmingham Museum and Art Gallery, which holds one of the finest collections of art, history and science in the UK and the best collection of Pre-Raphaelite works in the world.

There are significant exhibits and artwork comprising the Permanent Collection on display in community museums, for example Aston Hall and Soho House, together with items held in storage at the Museum's Collection Centre. The value of the collection has been adjusted to reflect updated insurance valuations. In addition, there is a collection of Boulton silverware, a set of 24 pieces in silver jointly owned by the Council and the Birmingham Assay Office.

Historic Buildings and the Historical Environment

The Council either owns or holds on trust in excess of 150 listed buildings and structures, with Grade I and Grade II properties being the most significant. These include Aston Hall, a Grade I listed Jacobean manor house completed in 1635, Blakesley Hall, an Elizabethan timber house built by a local merchant in 1590 and Soho House, home of Birmingham industrialist and entrepreneur Matthew Boulton, all of which are included as Heritage Assets.

Public Art

The Council owns over 80 pieces of public art, including statues, sculpture and fountains, some of which are listed structures. Victoria Square fountain and the King Edward VII statue are included in the Balance Sheet as reliable information is available for these works of art.

Libraries and Archive Collections

The Library of Birmingham is unique amongst UK public libraries for the range and depth of the collections it houses. The library houses a large photography collection and the Council also holds over 6,000 archive collections including major collections of national importance, such as those relating to the industrial innovators James Watt and Matthew Boulton. There are significant collections of early and fine printing, incorporating over 8,000 books printed before 1701, and an extensive collection of literature and rare books, including Audobon's 19th Century work, The Birds of America, and one of the world's most comprehensive Shakespeare collections.

Civic Regalia and Plate

The Council owns in excess of 230 items of civic regalia and plate, kept either on display, in storage or used on ceremonial and other formal occasions. There is a large variety of items within the collection, the main ones being the Mayoral Chains of Office and Mace, which was cast in silver, in the late 19th Century, by Elkington and Co.

The Council has developed a Heritage Strategy, which provides a framework and context for how it preserves, manages, interprets and promotes the Council's Heritage Assets, and how they are taken forward during the 21st Century. This is supported by a more detailed collecting policy within the Museums service, which informs the Council's policy on acquisition, management and disposal, together with Documentation and Conservation policies, which detail how the service manages and cares for the collections. These are all available on the Council's website, or via the relevant service area. Both Libraries and Museums use database systems to manage their collections.

Access to heritage assets is provided through permanent displays of historical material, temporary exhibitions and events, publications, catalogues and digital and web-based resources. In addition the Museum's Collection Centre schedules occasional open days, allowing public access to some of the Museum's stored historical artefacts. For the wider historical environment guided tours, printed leaflets and publications, heritage trails and interpretive panels are effective in enabling intellectual access.

Birmingham Museums Trust exists to promote heritage within Birmingham, with the aims of advancing education through the operation, maintenance, development and promotion of museums, galleries and libraries in Birmingham. The Council continues to retain ownership of the buildings and collections.

Note 25
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:

	2017/18			2018/19		
	Internally Generated Assets £m	Other Assets £m	Total £m	Internally Generated Assets £m	Other Assets £m	Total £m
Balance at start of year:						
- Gross carrying amounts	-	43.3	43.3	-	41.4	41.4
- Accumulated amortisation	-	(23.6)	(23.6)	-	(27.7)	(27.7)
Net carrying amount at start of year	**-**	**19.7**	**19.7**	**-**	**13.7**	**13.7**
Additions:						
- Internal development	-	1.0	1.0	-	1.1	1.1
- Purchases	-	-	-	-	-	-
Assets reclassified between asset categories	-	1.0	1.0	-	0.8	0.8
Other disposals	-	(3.9)	(3.9)	-	(1.2)	(1.2)
Amortisation for the period	-	(8.0)	(8.0)	-	(8.2)	(8.2)
Amortisation written out for disposals/transfers	-	3.9	3.9	-	1.2	1.2
Other changes	-	-	-	-	-	-
Net carrying amount at end of year	-	13.7	13.7	-	7.4	7.4
Comprising:						
Gross carrying amounts	-	41.4	41.4	-	42.1	42.1
Accumulated amortisation	-	(27.7)	(27.7)	-	(34.7)	(34.7)
	-	13.7	13.7	-	7.4	7.4

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 2018 £m		31 March 2019 £m
88.8	External Loans	83.8
1.0	Employee Loans	0.7
0.3	Mortgages: former Council House Tenants	0.3
36.1	Other Debtors	30.6
126.2	**Total**	**115.4**

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 2018 £m		31 March 2019 £m
60.0	Money Market Funds	58.6
12.6	Financial Institutions	-
-	Other Investments	11.0
72.6	**Total**	**69.6**

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	
	2017/18 £m	2018/19 £m
Balance outstanding at start of year	**6.6**	**0.9**
Assets newly classified as held for sale:		
- Property, Plant and Equipment	0.8	23.2
Assets sold	(6.5)	(0.7)
Balance outstanding at year end	**0.9**	**23.4**

In 2018/19, 19 assets have been reclassified as held for sale, with disposal expected in 2019/20.

If a programme of asset sales is undertaken the value of capital receipts may differ from the carrying value of the assets within these financial statements. The Council values the majority of its assets at ‘current value’, either at Depreciated Replacement Cost (DRC) or in existing use. 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. The potential difference in values cannot be quantified as those assets which may be disposed of may change and a ‘fair’ market valuation cannot be quantified with any accuracy. Given the size of the assets on the Council’s Balance Sheet the sale of a small percentage of these could still result in a material difference.

Note 29
Short Term Debtors

The table below shows the amounts owed to the council at the end of the year that are due for payment within 12 months. The amounts owed have been analysed by type of debtor.

31 March 2018 £m		31 March 2019 £m
78.4	Central government bodies	68.6
12.0	Other local authorities	21.2
6.0	NHS bodies	8.3
3.2	Public corporations and trading funds	2.5
229.8	Other entities and individuals	230.0
329.4	**Total**	**330.6**

Note 30
Cash and Cash Equivalents

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

31 March 2018 £m		31 March 2019 £m
3.3	Cash held by the Council	3.1
52.2	Bank current accounts	43.1
(35.4)	Bank Overdrafts	(15.2)
20.1	**Total**	**31.0**

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 2018		31 March 2019
£m		£m
(28.6)	Central government bodies	(26.2)
(11.3)	Other local authorities	(6.7)
(2.0)	NHS bodies	(1.3)
(63.7)	Public corporations and trading funds	(64.1)
(228.1)	Other entities and individuals	(197.5)
(333.7)	**Total**	**(295.8)**

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 2017		**Balance at 1 April 2018**	Additional provisions made in 2018/19	Amounts used in 2018/19	Transfer between current and non-current provision	Unused amounts reversed in 2018/19	Unwinding of discounting in 2018/19	**Balance at 31 March 2019**
£m		£m	£m	£m	£m	£m	£m	£m
	Short Term							
145.2	Equal Pay	151.8	133.3	(87.8)	-	(22.8)	-	**174.5**
16.8	Business Rates Appeals	22.8	11.1	(12.4)	-	(7.8)	-	**13.7**
3.5	Pension Guarantees	1.6	-	(1.5)	1.3	-	-	**1.4**
7.5	Other Provisions	11.9	6.2	(2.3)	-	-	-	**15.8**
173.0	**Total**	**188.1**	**150.6**	**(104.0)**	**1.3**	**(30.6)**	**-**	**205.4**
	Long Term							
-	Equal Pay	-	-	-	-	-	-	**-**
9.0	Business Rates Appeals	12.3	6.0	(6.7)	-	(4.2)	-	**7.4**
21.0	Pension Guarantees	11.2	-	-	(1.3)	(0.9)	(0.5)	**8.5**
-	Other Provisions	-	-	-	-	-	-	**-**
30.0	**Total**	**23.5**	**6.0**	**(6.7)**	**(1.3)**	**(5.1)**	**(0.5)**	**15.9**

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 equal pay claims and, as a result, has set aside a provision of £174.5m (2017/18: £151.8m) in respect of all claims received and negotiations agreed by 31 March 2019. There remain an element of claims that are to be settled or challenged.

The Secretary of State for Housing Communities and Local Government has issued regulations allowing Local Authorities to use capital receipts received on or after 1 April 2013 to meet back payments associated with 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 Financial Plan 2019 - 2023

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). Under the pilot, therefore, the Council is responsible to pay for 99% of backdated appeals.

Prior to 1 April 2017 the Council's share was 49% with 1% due to the WMFRA and the other 50% being due to Central Government.

These accounts include a provision of £21.1m representing 99% of the total provision (2017/18: £35.1m) 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 2019. 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.

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 £9.9m (2017/18: £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 £8.7m in 2018/19 (2017/18: £6.7m).

Equal Pay Legal Costs

The Council has set aside a provision for legal costs associated with the handling or defending of Equal Pay claims. The provision will be used when legal fees are agreed for each case and may be subject to assessment; the timing of which is uncertain. It is anticipated that this provision will be utilised fully by 31 March 2020.

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 Employment Appeal Tribunal 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. However, the Court of Appeal Judgement overturned that decision by deciding that the minimum wage does not have to be paid for all sleeping hours, only for those who undertake actual work rather than those who are simply available for work. The current case law is complex, and currently subject to appeal. The Council has set aside a provision in its 2018/19 accounts of £1.1m in respect of potential payments relating to sleep-in allowances.

The Carbon Reduction Commitment

In 2019/20 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 2018/19. In line with the recommended treatment by CIPFA, a provision of £0.7m has been made in the 2018/19 accounts based on the estimated energy consumed in 2018/19.

Waste Management Settlement

Following the decision of Cabinet on 15 March 2019 in relation to the Waste Management employees pay claim, a provision of £1.8m has been made in the 2018/19 accounts based on the estimated cost of the settlement.

Note 33
Contingent Liabilities and Contingent Assets

Contingent Liabilities
These relate to pending legal or contractual claims not included in the accounts and guarantees given by the Council for repayment of loans taken out by certain associated companies. The Council currently has the following contingent liabilities:

1. The Council has an on-going accountable body role for a range of grant funding regimes, both historical and current, which include supporting programmes and projects under its direct control as well as managing programmes involving wider partnerships with external organisations.

   Direct
   For arrangements managed under its control, the accountable body function covers projects and programmes where the Council accesses European or Domestic grant support either for itself or on behalf of another organisation. In accepting this role the Council underwrites the financial performance and delivery of the activity along with compliance with the funding regulations. Under this role there is, depending on the nature of the particular scheme, a potential liability to the Council arising from either non-delivery of outputs, claiming of ineligible expenditure or from the disposal of assets prior to any clawback liability expiring. The Council has quantified this potential liability at 31 March 2019 as £440.5m and has identified future commitments of £20.7m.

   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 2019 as £571.7m and has identified future expenditure commitments of £481.2m.

   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 2018/19 is still being considered by the Department for Work and Pensions. There may be clawback of subsidy from the Council, above the level provided for in the accounts, which would reduce the level of benefit income shown and reduce the General Fund balance carried forward.

3. Under the Equality Act 2010, employees are entitled to equal pay for work of equal value. The Council has received a number of claims under the Equality Act and, as a result, has set aside a provision of £174.5m (31 March 2018: £151.8m) which incorporates all claims received and negotiations agreed by 31 March 2019.

   Whilst the provision reflects the forecast impact of claims made to date, there remain a number of uncertainties regarding any additional liabilities that the Council may face. There are uncertainties surrounding the volume and timing of any future claims and the determination of any settlements. The Council has developed a robust medium to long term financial plan, set out in the Financial Plan 2019 – 2023 which recognises the impact of future spending and funding requirements. The Council also has the ability to use capital receipts generated between 1 April 2013 and 31 March 2020 to meet the costs of equal pay.

4. The Council is facing a number of compensation claims from former employees for employment related and current health issues, from people who attended Council schools and from other service users. Currently the validity of any outstanding claims is being assessed.

5. The Council uses a number of different arrangements in the delivery of services in addition to the services it provides itself. Alternative methods of service delivery may include the use of subsidiary companies where the Council has majority control or partnership arrangements with third parties through associate companies and joint ventures where the Council has joint control or a significant influence. To ensure continuity of service delivery, the Council may provide guarantees or letters of assurance to these companies so that they can give assurance to third party suppliers that they can continue to meet their liabilities as they fall due. The Council has set aside a provision of £8.7m in 2018/19 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. Across the country NHS Trusts have submitted applications, under Section 47 of the Local Government Finance Act 1988, to re-classify their Business Rates assessments as charitable and therefore claim mandatory charitable relief, equivalent to an 80% reduction in the amount payable. The NHS Trusts are also seeking repayment of Business Rates paid over the last six years. All affected local authorities have rejected these applications, following legal advice organised through the Local Government Association, and the issue will now be determined by the Courts, with a provisional listing date of November 2019. Should the NHS Trust applications be successful there would be a significant impact to the Council, in excess of £10m per annum.

8. The Council received insurance services from Municipal Mutual Insurance (MMI). Due to financial difficulties, MMI ceased trading in October 1993 and entered into a solvent run off. MMI entered into a Scheme of Arrangement with its creditors, namely the Councils which were owed claim settlements. The Scheme of Arrangement stated that MMI would be able to claw back any claim settlements paid on behalf of its creditors after 1 October 1993 if a solvent run off was not likely to be achieved.

   Following a decision of the Supreme Court in March 2012 regarding Employers' Liability Policy Trigger Litigation, MMI's liability in respect of asbestos related claims has increased substantially. As a result, the Scheme of Arrangement was enacted in 2012/13 and an Administrator was appointed.

   At present, the Administrator has announced a levy of 25% on claims paid since 1 October 1993 and the Council has incurred costs of £0.7m to cover its share together with a share, based on population, of the claims paid in respect of the former West Midlands County Council. The maximum remaining liability faced by the Council, less the payments already made, is £2.3m.

9. In the delivery of services, the Council may transfer staff to external organisations rather than directly deliver those services itself. As part of the staff transfer arrangements, continued access to the Local Government Pension Scheme may still be permitted. Where these arrangements exist, the Council has given guarantees in respect of pension liabilities to the West Midlands Pension Fund and to companies in respect of contribution rates. Where the Council has an expectation that there will be a call on the guarantee, provision has been made as detailed in Note 32. At present the Council has set aside a provision of £9.9m in respect of its guarantees. However, there may be further calls on guarantees which will need to be considered in the future.

10. The Council, as with other care providers/commissioners, has a risk of potential back pay liability as a result of outcomes from Employment Tribunals in relation to sleep-in shifts. In the Employment Appeal Tribunal of Mencap vs Tomlinson-Blake, the judgement was that care providers must pay the National Minimum Wage throughout a sleep-in shift rather than a fixed allowance as is currently the case. However, the Court of Appeal Judgement overturned that decision by deciding that the minimum wage does not have to be paid for all sleeping hours, only for those who undertake actual work rather than those who are simply available for work. The current case law is complex and is subject to appeal.

Contingent Assets

At 31 March 2019 the Council has identified the following material contingent assets.

1. The Council undertakes robust contract management of its major contracts to ensure that services are delivered and paid for in line with the terms and conditions of each contract. Where there is evidence of performance below the standard required or non-delivery of elements of a contract, redress is sought from the contractor including redress through the courts where it is appropriate. Where there continues to be poor performance the Council may take further action to ensure that services can continue to be delivered to the quality stipulated. The Council is currently in discussions with Amey Birmingham Highways Ltd and its subcontractor Amey LG Ltd regarding the delivery of the Highways Management and Maintenance Private Finance Initiative scheme. Given the current status of discussions and their commercial sensitivity, the Council does not consider that further disclosure would be in its best interests at this time.

2. HM Revenue and Customs has accepted that local authority leisure services are eligible for VAT Exemption. The Council has submitted a claim for the refund of VAT paid in respect of leisure services income dating back to April 2007. Should the claim be accepted, the Council expects to receive about £4m.

3. 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:

2017/18 Long Term £m	2017/18 Short Term £m		2018/19 Long Term £m	2018/19 Short Term £m
0.4	163.9	Lender's Option Borrower's Option (LOBO) loans	60.4	42.6
483.0	7.3	Local Bonds	476.3	7.6
2,200.9	75.8	Public Works Loan Board	2,311.0	66.3
55.7	552.8	Other Borrowing (mainly Other Local Authorities)	7.8	466.6
2,740.0	**799.8**	**Total**	**2,855.5**	**583.1**

Note 35
Cash Flow Statement - Operating Activities

The cash flows from operating activities include the following items:

2017/18 £m		2018/19 £m
(12.9)	Interest received	(21.6)
179.2	Interest paid	182.0
(6.1)	Dividends received	(5.7)
160.2		**154.7**

Note 36
Cash Flow Statement - Investing Activities

The cash flows from investing activities include the following:

2017/18 £m		2018/19 £m
(256.3)	Purchase of property, plant and equipment, investment property and intangible assets	(261.9)
(1,643.4)	Purchase of short-term and long-term investments	(1,115.9)
128.0	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	87.4
1,604.4	Proceeds from short-term and long-term investments	1,152.9
0.4	Other receipts from investing activities	-
(166.9)	**Net cash flows from investing activities**	**(137.5)**

Note 37
Cash Flow Statement - Financing Activities

The cash flows from financing activities include the following:

2017/18 £m		2018/19 £m
95.5	Other receipts from financing activities	126.5
1,558.6	Cash receipts of short-term and long-term borrowing	2,171.8
(46.0)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(47.3)
(1,271.4)	Repayments of short-term and long-term borrowing	(2,272.6)
-	Other payments for financing activities	(4.9)
336.7	**Net cash flows from financing activities**	**(26.5)**

Details of the reconciliation of liabilities arising from financing activities is set out below.

	01 April 2018	Financing Cash Flows	Non-Cash Changes		31 March 2019
			Acquisition	Other Non-Cash Changes	
	£	£	£	£	£
Long-Term Borrowings	2,740.0	115.5			2,855.5
Short-term Borrowings	799.8	(216.4)		(0.3)	583.1
Lease liabilities	2.2	(1.1)	0.6	-	1.7
On Balance Sheet PFI Liabilities	421.8	(47.3)	29.8	-	404.3
Total Liabilities from Financing Activities	**3,963.8**	**(149.3)**	**30.4**	**(0.3)**	**3,844.6**

	01 April 2017	Financing Cash Flows	Non-Cash Changes		31 March 2018
			Acquisition	Other Non-Cash Changes	
	£	£	£	£	£
Long-Term Borrowings	2,730.9	9.1			2,740.0
Short-term Borrowings	513.6	278.1		8.1	799.8
Lease liabilities	2.4	(1.1)	0.9	0.0	2.2
On Balance Sheet PFI Liabilities	439.9	(46.0)	27.9	0.0	421.8
Total Liabilities from Financing Activities	**3,686.8**	**240.1**	**28.8**	**8.1**	**3,963.8**

Note 38
Cash Flow Statement – Other Adjustments

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

2017/18 £m		2018/19 £m
149.5	Depreciation/Impairment charge	154.3
8.0	Amortisation of Intangible Assets	8.2
17.6	Derecognition of Available for Sale Assets	0.5
(19.7)	Revaluation of Non-Current Assets	148.4
143.1	Derecognition of Non-Current Assets	88.3
(86.7)	(Increase)/Decrease in Debtors	(24.3)
(26.2)	Increase/(Decrease) in Creditors	(39.2)
-	(Increase)/Decrease in Inventories	(0.1)
8.6	Increase/(Decrease) in Provisions	9.7
(129.7)	Pensions Liability	151.5
64.5	**Net Cash Flow - Other Adjustments**	**497.3**

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

2017/18 £m		2018/19 £m
(95.5)	Capital Grants	(126.5)
(128.6)	Capital Receipts	(87.4)
-	Council Tax and Business Rates Adjustments	4.9
(224.1)		**(209.0)**

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 2018 £m	31 March 2019 £m	31 March 2018 £m	31 March 2019 £m
Investments				
Fair Value through Profit or Loss	3.8	3.9	60.0	56.3
Amortised Cost	-	-	12.6	13.3
Fair Value through Other Comprehensive Income - designated equity instruments	-	-	-	-
Investments in subsidiarires, associates and joint ventures	37.9	37.3	-	-
Total	**41.7**	**41.2**	**72.6**	**69.6**
Investments that are not financial instruments	-	-	-	-
Total investments	**41.7**	**41.2**	**72.6**	**69.6**
Debtors				
Fair Value through Profit or Loss	-	-	-	-
Amortised Cost	88.9	88.8	221.4	216.5
Fair Value through Other Comprehensive Income - designated equity instruments	-	-	-	-
Financial assets carried at contract amounts	-	-	-	-
Total	**88.9**	**88.8**	**221.4**	**216.5**
Debtors that are not financial instruments	37.3	26.6	108.0	114.1
Total debtors	**126.2**	**115.4**	**329.4**	**330.6**
Cash				
Cash in Hand			55.5	46.2
Total cash: asset			55.5	46.2
Cash Overdrawn			(35.4)	(15.2)
Total cash: liability			(35.4)	(15.2)
Borrowings				
Fair Value through Profit or Loss	-	-	-	-
Amortised Cost	(2,740.0)	(2,855.5)	(799.8)	(583.1)
Total	(2,740.0)	(2,855.5)	(799.8)	(583.1)
Borrowings that are not financial instruments	-	-	-	-
Total borrowings	**(2,740.0)**	**(2,855.5)**	**(799.8)**	**(583.1)**
Other Long Term Liabilities				
PFI and finance lease liabilities	(405.6)	(393.4)		
Total	(405.6)	(393.4)		
Transferred Debt and Other Liabilities	(56.4)	(51.0)		
Total long term liabilities	**(462.0)**	**(444.4)**		
Creditors				
Fair Value through Profit or Loss	-	-	-	-
Fair Value at Amortised Cost	(1.5)	(2.3)	(241.8)	(217.7)
Total	(1.5)	(2.3)	(241.8)	(217.7)
Creditors that are not financial instruments	-	-	(91.9)	(78.1)
Total creditors	**(1.5)**	**(2.3)**	**(333.7)**	**(295.8)**

Material Soft Loans Made by the Council
The Council has made the following material soft loans:

Warwickshire County Cricket Club was granted a loan of £20m in 2009 to support the major ground refurbishment undertaken. The loan is deemed to be a material soft loan and is carried in the accounts at £17.3m, 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 £0.4m, pays an interest rate of 2.2% and matures in 2022.

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

	2017/18 £m	2018/19 £m
Opening balance at 1 April	**17.8**	**17.9**
Adjustment to Opening Balance		(0.5)
Loans repaid	(0.1)	(0.1)
Movement in Expected Credit Loss per IFRS9		0.1
(Increase)/Reduction in discount	0.2	0.3
Closing Balance at 31 March	**17.9**	**17.7**
Nominal value at 31 March	22.3	22.2

Valuation Assumptions

The interest rate at which the fair value of soft loans has been made at recognition is arrived at by taking the Council's prevailing cost of borrowing and adding an allowance for the risk that the loan might not be repaid.

The Opening Balance Adjustment on the loans is as a result of the implementation of IFRS9, Financial Instruments, and the requirement to determine Expected Credit Losses on financial assets. The Expected Credit Losses estimate has reduced during the year as repayments have been made.

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:

	2017/18		2018/19	
	Surplus/Deficit on the Provision of Services	Other Comprehensive Income and Expenditure	Surplus/Deficit on the Provision of Services	Other Comprehensive Income and Expenditure
	£m	£m	£m	£m
Net (Gains)/Losses on financial instruments:				
• financial assets measured at fair value through profit/loss		0.8	2.7	
• financial assets measured at amortised costs			17.1	
Total Net (Gains)/Losses on financial instruments	**-**	**0.8**	**19.8**	**-**
Income/Expenditure in (Surplus)/Deficit on the Provision of Services				
Interest Receivable from financial assets measured at amortised costs	(12.9)	-	(21.6)	-
Interest Receivable from financial assets measured through profit and loss	(6.1)	-	(5.7)	-
Interest Expense	179.2	-	182.0	-
Net Income/Expenditure in (Surplus)/Deficit on the Provision of Services	160.2	-	154.7	-
Net (gain)/loss for the year	**160.2**	**0.8**	**174.5**	**-**

Fair Value of Financial Instruments

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

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

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

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

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

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

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

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

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

Financial Liabilities	Input level in Fair Value Hierarchy	Valuation inputs and assumptions used to measure Fair Value	31 March 2018		31 March 2019	
			Carrying Amount £m	Fair Value £m	Carrying Amount £m	Fair Value £m
Bonds	Level 1	Quoted prices (unadjusted) in active markets for identical assets	85.6	109.1	84.5	103.1
Public Works Loan Board (PWLB)	Level 2	PWLB new loan at certainty rate based on published PWLB rates	2,276.8	3,069.2	2,377.2	3,130.7
Bonds		An estimate of the rate payable for a new loan on the same terms, based on published gilt yields	404.7	511.4	399.4	507.9
Other Market Loans - LOBOs			164.3	297.1	102.9	190.6
Other Long Term Loans			14.1	14.4	11.4	11.6
Other Long Term Loans - Local Authorities		Market indicative interest rates	45.3	44.9	45.0	45.2
Other Long Term Liabilities (PFI/ leasing)		PWLB new loan at certainty rate based on published PWLB rates	417.9	679.4	405.0	661.4
Other Long Term Liabilities (Transferred Debt)*		An estimate of the rate payable for a new loan on the same terms	44.1	51.0	39.4	45.0
Other Market Loans - Short Term	N/A	Fair value is approximated at their carrying amount	549.0	549.0	417.8	417.8
Short term creditors (including PFI/finance leases/operating lease/transferred debt)	N/A	Fair value is approximated at their carrying amount	241.8	241.8	217.7	217.7
TOTAL			**4,243.6**	**5,567.3**	**4,100.3**	**5,331.0**

*The Transferred Debt information is provided by Dudley Metropolitan Borough Council, who have responsibility for the West Midlands County Council Debt Administration Fund. The fair values were provided to them by their Treasury Advisors.

The fair market value of some of the Council’s bonds has been set through Bloomberg. These assets are considered to have readily observable prices and therefore a reliable, fair market value.

Financial Assets	Input level in Fair Value Hierarchy	Valuation inputs and assumptions used to measure Fair Value	31 March 2018		31 March 2019	
			Carrying Amount £m	Fair Value £m	Carrying Amount £m	Fair Value £m
Fair value through profit and loss assets	Level 2	With significant unobservable inputs	-	-	4.0	4.0
Available-for-sale financial assets	Level 3	Based on company performance	15.3	15.3	-	-
Unquoted equity investment at cost	Level 2	Valued at cost until reliable fair value can be established	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	88.9	89.1	83.8	90.9
Investments (Loans and receivables)	N/A	Fair value is approximated at their carrying amount	60.0	60.0	56.3	56.3
Investments (Loans and receivables)	N/A	Amortised cost	12.6	12.6	13.3	13.3
Short term debtors (Loans and receivables)	N/A	Fair value is approximated at their carrying amount	14.6	14.6	5.0	5.0
Financial assets carried at contract amounts	N/A	Fair value is approximated at their carrying amount	206.8	206.8	211.5	211.5
TOTAL			**398.3**	**398.5**	**373.9**	**381.0**

The fair value of the liabilities and assets at 31 March 2019 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 2019) 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 2019) attributable to the commitment to receive interest below current market rates.

PWLB Loans

The fair value of Public Works Loan Board (PWLB) loans of £3,130.7m 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 borrowing rates from the PWLB.

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.

<u>Credit Risk</u>
Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers.

This risk is measured and managed primarily through the investment policies and strategy in the approved Budget, which requires that deposits are made in accordance with approved credit criteria and limits, including minimum credit ratings as follows:

'Specified' short term investments (all in Sterling)	**Short term rating***	**Long term rating***	**Council individual lending limit**
Banks (including overseas banks) and Building Societies	F1+ /A1+ /P1	AA- /AA- /Aa3	£25m
	F1+ /A1+ /P1	A- / A- /A3	£20m
	F1 /A1 /P1	A- / A- /A3	£15m
	F2 /A2 /P2	BBB+ /BBB+ /Baa1	£10m
Sterling commercial paper and corporate bonds	F1+ /A1+ /P1	A- / A- /A3	£15m
Sterling Money Market Funds (short term and Enhanced)	AAA (with rating indicating lowest level of volatility where applicable)		£40m
Local authorities	n/a	n/a	£25m
UK Government and supranational bonds	n/a	n/a	none
UK Nationalised Banks and Government controlled agencies	n/a	n/a	£25m
Secured investments including repo and covered bonds	Lending limits determined as for banks (above) using the rating of the individual investment		

* Fitch / S&P / and Moody's rating Agencies respectively. Institutions must be rated by at least two of the Agencies, and the lowest rating will be taken into account.

This risk is minimised through the Treasury Management Policy, which requires that deposits are not made with financial institutions unless they meet minimum credit ratings from the three major credit ratings agencies. The Treasury Management Policy also imposes a maximum sum to be invested with a financial institution located within each rating category and country. The Treasury Management Policy is contained within the Council's approved Financial Plan.

The Council will not invest more than £400m in long term investments as follows:

- Government stocks (or "Gilts") and other supranational bonds, with a maturity of less than five years.
- Corporate Bonds, Certificates of Deposit (CD) or Commercial Paper (CP) with a maturity of less than three years, subject to a long term credit rating of not less than AA (in addition to the restrictions in the table above). CD or CP shall not exceed 20% of long-term investments (i.e. those maturing in one year or more).

The Council also uses information from a variety of other sources in reaching a view about the suitability of particular investments.

The Council also makes a variety of investments in support of its service objectives. These investments are not subject to the above credit quality requirements, but are individually appraised and approved in relation to their support for service outcomes as well as their financial consequences and risks.

The Council's maximum exposure to credit risk, in relation to its investments in financial institutions, cannot be assessed generally, as the risk of any institution failing to make due payments will be specific to each individual institution. In relation to the Council's outstanding treasury deposits with financial institutions, local authorities and other institutions, no such deposits have defaulted in the year or are impaired. A risk of irrecoverability applies to all deposits, but there was no evidence at 31 March 2019 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 2018 £m	31 March 2019 £m
Less than 1 year	(1,168.9)	(894.1)
Between 1 and 2 years	(105.7)	(63.6)
Between 2 and 5 years	(204.8)	(197.5)
Between 5 and 20 years	(1,464.4)	(1,670.1)
Between 20 and 40 years	(1,188.6)	(1,191.0)
Over 40 years	(240.0)	(180.0)
Total	**(4,372.4)**	(4,196.3)

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

Market Risk

Interest rate risk

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

The Council is exposed to changes in interest rates as a result of its borrowings being at long-term fixed rates and investment being short-term or at variable rates of interest. Consequently, falls in interest rates will have an adverse impact on the Council's finances.

For instance, a rise in interest rates would have the following effects:

- Borrowings at variable rates – the interest expense charged to the Surplus/(Deficit) on the Provision of Services will rise
- Borrowings at fixed rates – the fair value of the liabilities for borrowings will fall
- Investments at variable rates – the interest income credited to the Surplus/(Deficit) on the Provision of Services will rise
- Investments at fixed rates – the fair value of the assets will fall.

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus/(Deficit) on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus/(Deficit) on the Provision of Services and affect the General Fund Balance. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in Other Comprehensive Income and Expenditure.

These risks are measured and managed in accordance with the Council's Treasury Management Strategy, including the setting and monitoring of risk limits on the level of variable rate instruments and on the amount of borrowing maturing in future years.

At 31 March 2019, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

	£m
Increase in interest payable on variable rate borrowings	4.2
Increase in interest receivable on variable rate investments	(0.8)
Impact on Surplus/(Deficit) on the Provision of Services	3.4
Share of overall impact charged to the HRA	0.9
Decrease in fair value of fixed rate investment assets	2.1
Decrease in fair value of fixed rate borrowing liabilities (no impact on the Surplus/(Deficit) on the Provision of Services or Other Comprehensive Income and Expenditure)	(512.8)

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 2019.

Price Risk

The Council's holdings of shares are all unquoted shares held primarily to support service objectives rather than as financial investments. The financial value of these shares will vary according to general market conditions and the particular circumstances of the share issuers. Active prices for these investments are not available. Any temporary fluctuations in the market value of such investments would have no significant impact on the Council's finances.

Note 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 2018	31 March 2019
	£m	£m
Opening Capital Financing Requirement	4,568.7	4,670.6
Capital Investment		
Property, Plant and Equipment	257.1	291.3
Heritage Assets	0.1	0.1
Intangible Assets	2.0	1.9
Revenue Expenditure funded from Capital under Statute	42.6	45.0
Secretary of State Direction - Flexible use of Capital Receipts	17.5	14.5
Capital Grant Repayment	0.1	0.2
Long Term Loans	45.9	20.8
Increase in Share Equity	26.7	2.3
Sources of Finance		
Capital Receipts	(49.2)	(57.8)
Government Grants and other Contributions	(95.7)	(142.5)
Sums set aside from Revenue:		
- Direct Revenue Contributions	(7.1)	(13.5)
- Use of Major Repairs Reserve	(60.7)	(55.4)
- Revenue Provision for Debt Redemption	(67.1)	(175.2)
- Capital Receipts set aside for debt redemption	(10.3)	(53.1)
Closing Capital Financing Requirement	**4,670.6**	**4,549.2**
Explanation of Movements in Year		
Movement in underlying need to borrow	73.1	(151.8)
Assets acquired under finance leases	0.9	0.6
Assets acquired under PFI contracts	27.9	29.8
Increase/(decrease) in Capital Financing Requirement	**101.9**	**(121.4)**
Movement in Year	**101.9**	**(121.4)**

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 2018 £m		31 March 2019 £m
19.6	Other Land and Buildings	19.3
2.7	Vehicles, Plant Furniture & Equipment	2.3
22.3	**Total**	**21.6**

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 2018 £m		31 March 2019 £m
	Finance lease liabilities (net present value of minimum lease payments):	
0.9	- current (not later than 1 year)	0.8
1.3	- non-current (later than 1 year)	0.9
1.7	Finance costs payable in future years	1.5
3.9	**Minimum Lease Payments**	**3.2**

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

	Minimum lease payments		Finance lease liabilities	
	31 March 2018	31 March 2019	31 March 2018	31 March 2019
	£m	£m	£m	£m
Not later than 1 year	1.1	0.9	0.9	0.8
Later than 1 year and not later than 5 years	1.4	1.0	1.2	0.8
Later than 5 years	1.4	1.3	0.1	0.1
Total	**3.9**	**3.2**	**2.2**	**1.7**

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 2018/19 contingent rents of £nil were payable (2017/18: £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 2018 £m		31 March 2019 £m
0.5	Not later than 1 year	0.3
0.7	Later than 1 year and not later than 5 years	0.5
1.4	Later than 5 years	1.2
2.6	**Total**	**2.0**

The Council has not sublet any of the assets held under these operating leases.

The expenditure charged to the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

31 March 2018 £m		31 March 2019 £m
0.5	Minimum lease payments	0.4
0.1	Contingent rents	-
0.6	**Total**	**0.4**

Council as the lessor

Finance leases
The Council has leased out property to a number of parties on finance leases. The Council has a gross investment in the lease, made up of the minimum lease payments expected to be received over the remaining term and the residual value anticipated for the property when the lease comes to an end. The minimum lease payments comprise settlement of the long-term debtor for the interest in the property acquired by the lessee, and finance income that will be earned by the Council in future years whilst the debtor remains outstanding. The gross investment is made up of the following amounts:

31 March 2018 £m		31 March 2019 £m
	Finance lease debtor (net present value of minimum lease payments):	
-	- current (not later than 1 year)	0.2
30.9	- non-current (later than 1 year)	26.7
192.3	Unearned finance income	210.4
(29.2)	Less – Unguaranteed residual value of property	(27.7)
194.0	**Gross investment in the lease**	**209.6**

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 2018	31 March 2019	31 March 2018	31 March 2019
	£m	£m	£m	£m
Not later than 1 year	0.2	0.2	2.1	2.0
Later than 1 year and not later than 5 years	2.0	1.8	8.7	8.4
Later than 5 years	28.7	24.9	183.2	199.2
Total	**30.9**	**26.9**	**194.0**	**209.6**

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 2018/19 £1.5m contingent rents were receivable by the Council (2017/18 £1.3m).

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 2018		31 March 2019
£m		£m
10.7	Not later than 1 year	9.7
26.9	Later than 1 year and not later than 5 years	28.1
75.7	Later than 5 years	73.8
113.3	**Total**	**111.6**

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2018/19 £2.5m contingent rents were receivable by the Council (2017/18 £2.7m).

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 Service Concession arrangements, formerly classed as Private Finance Initiative (PFI), through which assets are constructed or refurbished and services are provided under long-term contracts with private sector firms. These contracts cover Waste Disposal facilities, Schools and Highways Management and Maintenance.

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 ended in January 2019, with payments made monthly. Prices were indexed each year from 1 April. Veolia are continuing to provide a waste disposal service on a service provision basis.

- Schools. There are four separate arrangements in place for the rebuild / refurbishment and management of a total of 26 schools within Birmingham. These arrangements are of varying duration and service providers: 10 schools from 2001/02 (for 32 years), 11 schools from 2004/05 (for 35 years), four schools from 2011/12 (for 25 years) and a single secondary school from 2013/14 ending 2038/39. The service provider is paid a Unitary Charge monthly for the duration of the contracts, with indexation applied annually as per the terms of each contract. Within each contract the Council retains both the schools' assets and the liability for future contract commitments in the Balance Sheet, with the exception of when schools gain Academy status. There are a number of PFI managed schools that have gained Academy status, a total of eight schools to date across the four separate school PFI contracts. Whilst the assets no longer belong to the Council and are thus removed from the Balance Sheet, the ongoing liability remains as a Council responsibility.

- Birmingham Highways Management and Maintenance arrangement. The contract provides for management and maintenance of all public highway and other contractually designated areas within the Birmingham boundary by the Service Provider. The contract commenced on 7 June 2010, with a contract period of 25 years, and provides for a five year period of remediation for all of the main highway assets followed by a 20 year period during which the improved highway condition is maintained.

  Indexation is applied annually on 1 April by reference to movements in the Retail Price Index. Deductions can be levied for non-performance of the contractual deliverables as specified within the contract. As the size and scale of the highway network varies, the contract provides for these changes to be accrued into the network maintained by the Service Provider, attracting an increase/decrease in payments made as appropriate.

  The Council continues to have full use of the roads and roadside furniture during the period of the arrangement, at the end of which all rights revert to the Council. There are no early terminations or period clauses within the PFI arrangement.

  However, the Council has identified concerns regarding:

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

Disputes regarding the contract have resulted in consideration through adjudication and through the courts terminating in a decision by the Supreme Court in July 2018 refusing Amey Local Government Ltd (ALG) permission to appeal after the Council's successful appeal at the High Court in February 2018. At its meeting on 22 May 2019, Cabinet agreed that the Council should enter into negotiation to finalise a settlement agreement in respect of all disputes under the contract, which would enable a managed release and handover to a new provider together with appropriate settlement to rectify liabilities left behind by ALG.

On the basis of a transfer of responsibilities under the contract to a new provider, these financial statements have been based on a continuance of the current contract arrangements.

Payments remaining as at 31 March 2019	Interest	Repayment of liability	Payment for services	**Total**
	£m	£m	£m	**£m**
Payable in 2019/20	31.8	11.8	42.0	**85.6**
Payable within 2 to 5 years	117.5	59.8	178.5	**355.8**
Payable within 6 to 10 years	114.8	105.9	260.9	**481.6**
Payable within 11 to 15 years	65.7	143.1	300.1	**508.9**
Payable within 16 to 20 years	11.6	81.8	101.4	**194.8**
Payable within 21 to 25 years	0.1	1.9	2.9	**4.9**
Total	**341.5**	**404.3**	**885.8**	**1,631.6**

Although the payments made to the contractor are described as unitary payments, they have been calculated to compensate the contractor for the fair value of the services they provide, the capital expenditure incurred and interest payable whilst the capital expenditure remains to be reimbursed. The movement in the liabilities to repay the contractors for capital expenditure incurred is as follows:

2017/18		2018/19
£m		£m
439.9	**Liability outstanding at the start of the year**	**421.8**
(46.0)	Repayment of liability	(47.3)
27.9	Lifecycle and further capital expenditure	29.8
421.8	**Liability outstanding at the year end**	**404.3**

Note 44
Members' Allowances

Allowances paid to Members of the Council in 2018/19 totalled £2.2m (2017/18: £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
		£	£	£	£	£
Dawn Baxendale, Chief Executive and Head of Paid Service(1)	2017/18	-	-	-	-	-
	2018/19	214,200	-	4,388	35,986	254,574
Clive Heaphy, Chief Finance Officer and Section 151 (2)	2017/18	41,429	-	-	-	41,429
	2018/19	172,548	-	429	-	172,977
Jonathan Tew, Assistant Chief Executive(3)	2017/18	28,441	-	-	4,351	32,792
	2018/19	114,368	-	-	19,214	133,582
Kate Charlton, City Solicitor and Monitoring Officer	2017/18	104,662	-	-	16,013	120,675
	2018/19	103,159	-	-	17,331	120,490
Jacqui Kennedy, Director, Place	2017/18	151,359	-	-	23,158	174,517
	2018/19	149,054	-	-	25,041	174,095
Rob James, Acting Director, Neighbourhoods(4)	2017/18	-	-	-	-	-
	2018/19	105,416	-	-	17,710	123,126
Waheed Nazir, Director, Inclusive Growth	2017/18	146,131	-	-	22,358	168,489
	2018/19	143,730	-	-	24,147	167,877
Dr Tim O'Neill, Director, Education and Skills(5)	2017/18	-	-	-	-	-
	2018/19	32,742	-	-	5,501	38,243
Colin Diamond OBE, Corporate Director, Children & Young People(6)	2017/18	92,960	-	-	-	92,960
	2018/19	67,728	-	-	-	67,728
Anne Ainsworth, Acting Corporate Director, Children & Young People(7)	2017/18	-	-	-	-	-
	2018/19	55,288	-	-	9,288	64,576
Professor Graeme Betts, Director, Adult Social Care(8)	2017/18	77,966	-	-	-	77,966
	2018/19	162,548	-	8,000	-	170,548
Angela Probert, Chief Operating Officer, Strategic Services(9)	2017/18	146,131	-	-	22,358	168,489
	2018/19	141,405	93,198	6,000	157,793	398,396

		Salary, fees and allowances	Compensation for loss of office	Expense allowances	Pension contributions	Total
		£	£	£	£	£
Paula Buckley, Acting Strategic Director, Strategic Services[(10)]	2017/18	-	-	-	-	-
	2018/19	88,818	-	-	14,921	103,739
Dawn Hewins, Director, Human Resources[(11)]	2017/18	-	-	-	-	-
	2018/19	73,253	-	-	12,307	85,560
Dr Adrian Phillips, Director of Public Health[(12)]	2017/18	125,128	-	-	17,993	143,121
	2018/19	17,877	-	-	2,571	20,448
Becky Pollard, Interim Director of Public Health[(13)]	2017/18	-	-	-	-	-
	2018/19	-	-	-	-	-
Dr Justin Varney, Director of Public Health[(14)]	2017/18	-	-	-	-	-
	2018/19	11,515	-	940	1,935	14,390
Neil Carney, Programme Director, Commonwealth Games 2022[(15)]	2017/18	-	-	-	-	-
	2018/19	102,256	-	-	17,179	119,435

Notes:

(1) Dawn Baxendale took up the role of Chief Executive and Head of Paid Service on 1 April 2018. The expense allowance relates to relocation expenses incurred.

(2) Clive Heaphy took up the role as Chief Finance Officer and Section 151 Officer on 3 January 2018.

(3) Jonathan Tew Executive took up the role on 2 January 2018.

(4) Rob James took up the role on 15 June 2018

(5) Dr Tim O'Neill took up the role on 7 January 2019

(6) Colin Diamond CBE was initially employed as a contractor, the costs of which were £66,000 in 2017/18 and which are not included in the table above. Colin transferred to the Council payroll as an employee on 1 September 2017 and left the Council on 31 August 2018.

(7) Anne Ainsworth was the Acting Corporate Director, Children & Young People between 1 August 2018 and 6 January 2019.

(8) Professor 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 and which are not included in the table above. Graeme transferred to the Council payroll as an employee on 5 October 2017.

(9) Angela Probert, the Chief Operating Officer, Strategic Services was Acting Chief Executive and Head of Paid Service between 1 March 2017 and 4 April 2017. Angela left the Council on 15

February 2019.

(10) Paula Buckley has been the Acting Strategic Director, Strategic Services since 31 July 2018.

(11) Dawn Hewins, Director, Human Resources was appointed as a senior officer from 18 July 2018.

(12) Dr Adrian Phillips, Director of Public Health left the Council on 22 May 2018.

(13) Becky Pollard, Interim Director of Public Health held the role between 1 July 2018 and 18 February 2019 and was employed through a third party, the costs of which were £162,060.

(14) Dr Justin Varney, Director of Public Health took up the role on 18 February 2019

(15) Neil Carney, Programme Director, Commonwealth Games 2022 took up the role on 29 May 2018

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

Other Council employees receiving more than £50,000 remuneration for the year (excluding employer's pension contributions) were paid the amounts detailed in the table below. Staff within Voluntary Aided and Foundation schools are employed by the governing body of the school and have therefore been excluded from the table below.

2017/18				2018/19		
Teaching Staff & Staff in Schools	Other Council Employees	**Total**	Remuneration band	Teaching Staff & Staff in Schools	Other Council Employees	**Total**
No	No	**No**		No	No	**No**
158	291	**449**	£50,000 - £54,999	155	163	**318**
107	85	**192**	£55,000 - £59,999	105	61	**166**
67	55	**122**	£60,000 - £64,999	61	45	**106**
41	48	**89**	£65,000 - £69,999	45	18	**63**
42	46	**88**	£70,000 - £74,999	37	29	**66**
16	8	**24**	£75,000 - £79,999	16	5	**21**
15	13	**28**	£80,000 - £84,999	13	11	**24**
5	12	**17**	£85,000 - £89,999	6	3	**9**
3	9	**12**	£90,000 - £94,999	4	6	**10**
6	5	**11**	£95,000 - £99,999	5	3	**8**
1	8	**9**	£100,000 - £104,999	2	3	**5**
1	3	**4**	£105,000 - £109,999	1	4	**5**
-	4	**4**	£110,000 - £114,999	-	2	**2**
-	1	**1**	£115,000 - £119,999	-	-	**-**
-	5	**5**	£120,000 +	-	2	**2**
462	**593**	**1,055**		**450**	**355**	**805**

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

The 'Other Council Employees' figures for 2017/8 in the above table included staff that transferred to Birmingham Children's Trust CIC on 1 April 2018. The figures for both years include those employees with planned termination payments, 38 in 2018/19 (113 in 2017/18). Excluding employees in receipt of planned termination payments, 317 employees in 2018/19 (480 in 2017/18) 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 financial statements.

The number of staff in Voluntary Aided and Foundation Schools, with a remuneration of more than £50,000 per annum, was 225 in 2018/19 (2017/18: 147).

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.

2017/18							2018/19					
Compulsory		Voluntary		**Total**		Value of individual package	Compulsory		Voluntary		**Total**	
No	£m	No	£m	**No**	**£m**	£000	No	£m	No	£m	**No**	**£m**
-	-	3	1.1	**3**	**1.1**	£250+	3	0.8	-	-	**3**	**0.8**
-	-	3	0.7	**3**	**0.7**	£200 - £250	2	0.5	2	0.4	**4**	**0.9**
1	0.2	11	1.8	**12**	**2.0**	£150 - £200	-	-	11	1.8	**11**	**1.8**
-	-	50	6.0	**50**	**6.0**	£100 - £150	-	-	17	2.0	**17**	**2.0**
3	0.3	31	2.7	**34**	**3.0**	£80 - £100	3	0.3	9	0.8	**12**	**1.1**
3	0.2	28	2.0	**31**	**2.2**	£60 - £80	1	0.1	7	0.5	**8**	**0.6**
3	0.1	49	2.4	**52**	**2.5**	£40 - £60	7	0.4	14	0.6	**21**	**1.0**
18	0.5	202	5.5	**220**	**6.0**	£20 - £40	21	0.5	51	1.5	**72**	**2.0**
113	0.8	516	4.4	**629**	**5.2**	less than £20	116	0.6	245	1.7	**361**	**2.3**
141	**2.1**	**893**	**26.6**	**1,034**	**28.7**	**Total**	**153**	**3.2**	**356**	**9.3**	**509**	**12.5**

In addition to the costs of exit packages identified above, the Council incurred costs of £0.2m in 2018/19 (£0.2m in 2017/18) 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.

2017/18 £m		2018/19 £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	0.2
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**	**0.3**

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 16. Grant receipts outstanding at 31 March 2019 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 2018/19 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.

School Governors
All school governors and staff should complete the school's Register of Business Interests. This register should be kept up-to-date and be freely available for inspection by governors, staff and parents.

Greater Birmingham and Solihull Business Rates Pooling Arrangement

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

The Council entered into a pooled budget arrangement in 2013/14 with seven other local authorities including acting as intermediary between the authorities and the government in respect of top-up/tariff payments, as detailed in the table below, following the introduction of the Business Rates Retention Scheme. This arrangement has continued in 2018/19. The objective of the Pool has been to adopt a strategic approach to promoting growth and job creation that supports the Greater Birmingham and Solihull Local Enterprise Partnership's Strategy for Growth, which includes:

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

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

	2017/18 £m	2018/19 £m
Funding provided to the pooled budget		
Birmingham City Council	-	-
Bromsgrove District Council	7.9	8.4
Cannock Chase District Council	9.3	9.9
East Staffordshire Borough Council	18.3	18.6
Lichfield District Council	11.8	12.4
Redditch Borough Council	10.4	11.0
Solihull Metropolitan Borough Council	57.8	67.3
Tamworth Borough Council	10.6	11.0
Central Government – Top-up (Residual)	2.3	-
	128.4	**138.6**
Expenditure met from the pooled budget		
Birmingham City Council	123.7	90.5
Bromsgrove District Council	0.1	0.1
Cannock Chase District Council	0.2	0.3
East Staffordshire Borough Council	0.2	0.1
Lichfield District Council	0.2	0.4
Redditch Borough Council	-	0.1
Solihull Metropolitan Borough Council	0.7	1.0
Tamworth Borough Council	0.3	0.3
GBS LEP	2.0	4.4
Safety Net Contingency	1.0	-
Central Government – Tariff	-	41.4
	128.4	**138.6**

The information in the table above is based on information available at the time of compiling the 2018/19 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.

Following the decision by six members of the GBS Pool to enter into Business Rates Pilots and form new and separate Business Rates Pools attached to those Pilots, outside of the current set up, the Greater Birmingham and Solihull Business Rates Pool will no longer continue with effect from 1 April 2019.

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 & Solihull CCG (a new CCG for 2018/19 merging Cross City CCG, Birmingham South Central CCG and Solihull 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.

	2017/18		2018/19	
	£m	£m	£m	£m
Funding provided to the pooled budget				
Birmingham City Council	113.7		108.2	
Combined Clinical Commissioning Groups	174.7		174.7	
		288.4		**282.9**
Expenditure met from the pooled budget				
Birmingham City Council	113.7		108.2	
Combined Clinical Commissioning Groups	174.7		174.7	
		288.4		**282.9**
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 2016/17 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 in 2017/18 and £47.3m in 2018/19.

The Council endorsed the principle of a BCF joint pooled budget for Older Adult Social Care and Health integrated provision between the Council and local CCGs, namely Birmingham & Solihull CCG (Cross City CCG, Birmingham South Central CCG and Solihull CCG merged in 2018/19) 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 2018/19 funding of £89.1m (2017/18: £86.5m) 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	2017/18 £m	2018/19 £m
Birmingham & Solihull CCG	-	77.7
Birmingham Cross City CCG	55.9	-
Birmingham South Central CCG	19.1	-
Sandwell and West Birmingham CCG	11.5	11.4
NHS Contribution	**86.5**	**89.1**
Birmingham City Council	11.5	11.7
iBCF Section 31 Grant	33.8	47.3
Total BCF Pooled Fund	**131.8**	**148.1**

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 2017/18 £m	2018/19 £m	Nature of Arrangement
Bed Based Additional Provision	1.5	1.4	Lead Commissioning – Council
Social Care Based Additional Provision	4.9	1.6	Sole Control – Council
Reablement – Kenrick Centre	1.5	1.5	Sole Control – Council
Care Act	3.0	3.1	Lead Commissioning – Council
Carers Strategy	1.0	1.4	Joint Control
Eligibility Criteria	20.8	21.2	Sole Control – Council
CUR Implementation Team	0.1	-	Joint Control
Management of Programme	0.4	0.1	Joint Control
Community Services	45.6	47.2	Sole Control – CCGs
Reablement – Rapid Assessment, Interface and Discharge	1.7	1.7	Sole Control – CCGs
Planned Community/Intermediate Care	-	0.1	
Dementia	2.6	2.6	Sole Control – CCGs
Assertive Outreach	0.2	0.3	Sole Control – CCGs
Equipment Contracts	4.7	4.5	Lead Commissioning – Council
Disabled Facilities Grant and Capital	9.7	10.6	Sole Control – Council
Non-recurring Pump Priming Schemes	0.2	-	Joint Control
Contingency	0.1	-	Joint Control
Health & Social Care System Improvements	-	3.5	Sole Control - Council
	98.0	**100.8**	
Balance of funding			
iBCF	33.8	47.3	Sole Control – Council
Total BCF	**131.8**	**148.1**	

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 2018/19 payments, to the value of £461.7m, inclusive of VAT, were payable to related parties of which £16.4m remained outstanding at 31 March 2019. Additionally £103.0m inclusive of VAT, was receivable during 2018/19 from companies in which the Council had a related party interest of which £38.2m remained outstanding at 31 March 2019. 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 2019 are: assets of £41.2m of investments and £74.8m of loans (of which £74.0m is repayable after 31 March 2020); liabilities of £84.5m of funding guarantee (NEC Developments Plc), £27.0m held as cash invested by Birmingham Children's Trust and £10.5m of borrowings (of which £7.2m is repayable after 31 March 2020).

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 2018/19.

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

	Exp. £m	Income £m	Loans Council as Grantor Granted £m	Repaid £m	Council Assets at year end £m	Council Liabilities at year end £m
Acivico Limited	27.7	1.0	6.0	26.1	10.3	5.1
Birmingham Children's Trust CIC	206.7	19.3	4.0	-	10.3	28.3
Birmingham City Propco Limited	-	-	-	1.0	20.2	-
InReach (Birmingham) Limited	-	0.1	2.8	1.0	13.7	0.1
National Exhibition Centre (Developments) Plc	5.6	-	-	0.2	0.1	84.5
PETPS (Birmingham) Limited	-	-	-	-	-	-
PETPS (Birmingham) Pension Funding Scottish Limited Partnership	3.5	-	-	-	-	10.7

Separate to the numbers in the table above the Council has made a provision of £8.7m in its accounts for potential reimbursement right support to its subsidiaries as a result of giving a letter of assurance.

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

	Expenditure £m	**Income** £m	Council Assets at year end £m	Council Liabilities at year end £m
Birmingham Airport Holdings Limited (BAH)	-	8.4	2.0	-
Paradise Circus General Partner Limited	17.2	1.1	0.8	-

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 2018/19.

Birmingham Business Support Centre Limited	Fields Millennium Green Trust (Kings Norton)
Birmingham Charities Limited	Finance Birmingham Limited*
Birmingham Curzon Regeneration Company Limited	Forward Homes (Birmingham) Limited
Birmingham Endeavour Limited	Frontier Development Holding Limited
Birmingham Municipal Housing Limited	Gallery 37 Foundation
Birmingham Museums Trust*	Greater Birmingham and West Midlands Brussels Office
Birmingham Venture Capital Limited*	NEC Pension Trustee Company Limited*
Birmingham Wheels Ltd	NEC Pension Trustee Company No.2 Limited
Creative Advantage West Midlands Limited	Performances (Birmingham) Limited*

Entities where the Council has some influence

Organisations, including associated subsidiaries, where the Council is a minority shareholder of the company and the level of activity is not material to the Council's Group Accounts are detailed below. Those organisations highlighted with an asterisk had transactions with the Council in excess of £0.1m in 2018/19.

Ascarii Limited
Ascension Ventures*
Auctus
Big Button
Birmingham LEP Company (also known as Birmingham Lend Lease Partnership)
Birmingham Schools SPC Holdings Phase 1A Limited
Birmingham Schools SPC Phase 1A Limited*
Birmingham Schools SPC Holdings Phase 1B Limited
Birmingham Schools SPC Phase 1B Limited*
Birmingham Wholesale Market Company Limited*
Bridge Street Management Ltd
Central Technology Belt
Crowd Technologies
CSR City Limited
Droplet Online
Ex Cathedra
Eyoto Group Limited
Foodient T/A Whisk
Formatzone Limited
Friends of Rectory park
Frontier Development Capital Limited
Goodfish Limited
Icknield Port Loop LLP
Inceptum Development Limited
Info-Ctrl Limited
Learning Labs Limited
Midlands Industrial Association Ltd
Mutt Motorcycles Limited*
Natural HR Limited
Obillex Limited
Opinsta Limited
Owned It
Pure Business Services Limited
Stockfield Community Association
Stockfield Community Association (Subsidiary) Ltd
UK Municipal Bonds Agency Plc*
Veolia Environmental Services Birmingham Ltd*
Vision Technologies
West Midlands Growth Company Limited*
Wetakestock Limited

The Council also has representation on the board of a number of organisations but has no associated shareholding or entitlement to returns from the organisation. Details of the relevant companies are detailed below. Those organisations highlighted with an asterisk had transactions with the Council in excess of £0.1m in 2018/19.

Acocks Green Primary School Academy*
Active Wellbeing Society Limited*
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 Organising Committee for the 2022 Commonwealth Games Limited*
Birmingham Repertory Theatre*
Birmingham Royal Ballet*
Birmingham Settlement Ltd*
Birmingham Voluntary Service Council*
Bournville College
Greenholm Primary School Academy
Heart Of England NHS FT
Heathfield Primary School Academy*
Joseph Chamberlain College*
King Edward VI Academy Trust*
Leigh Primary School Academy*
Midlands Arts Centre
Millennium Point Property Ltd*
Millennium Point Trust
Shenley School Academy
St. Basil's*
St. Michael's Primary School Academy
St. Paul's Community Development Trust*
Thorns Collegiate Academy
Tile Cross Academy School*

Bournville Village Trust*
Castle Vale Neighbourhood Partnership Board
City of Birmingham Symphony Orchestra*
Clifton Road Youth Centre
Cockshut Hill Technology College Academy*
Cottesbrooke Infant and Nursery School Academy*
Dance Xchange
Greater Birmingham and Solihull LEP Ltd.
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*

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 2018/19.

Acocks Green Village BID
Colmore Business District BID
Erdington Town Centre Partnership
Harborne Village BID Limited
Jewellery Quarter Development Trust CIC
Kings Heath BID
Northfield Town Centre BID
Retail Birmingham Limited*
Soho Road BID
Southside BID
Sutton Coldfield Town Centre BID
Westside Partnership Limited

Tenant Management Organisations (TMO) – The Council, whilst not having shareholding, entitlement to returns, nor board representation, does still hold significant influence over these bodies. Those highlighted with an asterisk had transactions with the Council in excess of £0.1m in 2018/19.

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 2018/19 with the following organisations which fall within the definition of related parties:

Accessible Transport Group Limited	Norton Hall Children and Family Centre
Anthony Collins Solicitors	Penderels Trust Limited
Birmingham and Solihull Mental Health Trust	Sandwell and West Birmingham Hospitals NHST
Birmingham and Solihull Women's Aid	Sandwell College
Birmingham Community Healthcare NHSFT	Shencare Community Transport Trust
Birmingham Women's and Children's NHSFT	Sir Josiah Mason Trust
Birmingham YMCA	South and City College (Birmingham) Limited
ESN Solicitors	St. Anne's Hostel
Focus Birmingham	Thompsons Solicitors
Highclare Independent School	University Hospital Birmingham Foundation Trust
Leigh Trust	Yardley Great Trust

The value of transactions for other, non-consolidated, related parties, individually less than £100,000 within 2018/19 was net expenditure of £0.4m (£1.2m expenditure and £0.8m 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	133	-	292.6
Accountable Body	30	201.7	175.3
Business Rate Pooling	8	2.0	138.6
Arrangements supporting Housing activities	5	1.1	6.4
Reporting of Trust activities	22	24.7	0.5
Subsidiary Companies	5	28.1	0.1
Other transactions	10	0.6	0.3

External Payrolls

The Council provides payroll services to external organisations, including Academy Schools and Colleges of Further Education, using capacity within its payroll system. Whilst the cost of providing the service is charged to the external organisation and forms part of the CIES, the payroll records for the external organisations do not form part of the Council's financial statements.

Accountable Body Role

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

The Council records and reports the financial activities of the bodies for which it is accountable and may receive directly the funds allocated to the activities and incur expenditure as directed by the external party. The Council may also receive funds in its own right from the arrangement to support eligible projects, which will form part of the Council's financial statements.

Greater Birmingham & Solihull Local Enterprise Partnership

Resources have been made available through a number of Government sources, including the Regional Growth Fund where the Council has been identified as the accountable body. In its role as accountable body, under the terms and conditions of the funding arrangements, the Council has no entitlement to:

- retain any interest generated as a result of the provision of state funds;
- use the state funds in any way other than as provided for in the offer letter.

The Council acts as accountable body for the resources provided on behalf of the LEP. The Council may receive direct funding to support eligible projects as determined by the LEP's independent investment boards and committees.

Enterprise Zones

The Council provides accountancy support, collecting Business Rate contributions through its role as agent for the Collection Fund and making payments on its behalf against LEP approved projects as contained in the Enterprise Zone Investment Programme.

England Illegal Money Lending Team

The England Illegal Money Lending Team seizes and holds cash from third parties temporarily as part of its accountable body activities on behalf of the Courts.

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.

Subsidiary Companies

Following the disposal of the Council's interests in NEC Group Limited, NEC (Developments) Plc has a minimal number of transactions going through it in respect of its loan stock. The company is consolidated into the Council's Group Accounts. The Council provided guarantees to the Trustees of the Fund and the Scheme to meet the current and future funding obligations that may arise in respect of the liabilities. In 2018/19, the Council has set up an arrangement through PETPS (Birmingham) Capital, PETPS (Birmingham) General Partner Limited and their joint partnership, PETPS (Birmingham) Pension Funding Scottish Limited Partnership that will enable the Council to spread the implications of the guarantee across the anticipated deficit recovery period.

Other

The Council provides accountancy support to:

- a number of National and Regional bodies, collecting contributions and making payments on their behalf
- service users who require support in managing their resources.

Note 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 2019 was £29.8m (2017/18: £28.8m). The trust funds do not represent assets of the Council and have not been included in the Consolidated Balance Sheet. The major trust funds are detailed below.

	Balance at 31 March 2018	Income	Expenditure	Balance at 31 March 2019
	£m	£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	0.3	-	-	0.3
Cropwood Estate – management of the estate	14.8	0.1	-	14.9
Elford Trust – healthy recreation for Birmingham citizens	3.5	0.6	-	4.1
Harriet Louisa Loxton Charity – for the aged and infirm	1.8	0.2	0.1	1.9
Highbury Trust – for the benefit of the citizens of Birmingham	2.0	0.1	0.1	2.0
Other	0.2	-	-	0.2
Total Council acting as Sole Trustee	**23.3**	**1.0**	**0.2**	**24.1**
Council acting as Custodian				
Alderson – to let dwelling houses to ex-servicemen and other persons in need	0.4	0.1	-	0.5
Bodenham Trust – for children with special educational needs	0.7	-	-	0.7
Clara Martineau Trust – for children with special educational needs	4.1	0.4	0.2	4.3
The Lord Mayor’s Charity Appeal – for charitable purposes	0.1	-	0.1	-
Moseley Road Friends Institute – provision and maintenance	0.2	0.1	0.1	0.2
Other	-	-	-	-.
Total Council acting as Custodian	**5.5**	**0.6**	**0.4**	**5.7**
Total Trust Balances	**28.8**	**1.6**	**0.6**	**29.8**

Analysis of the assets of the main funds:

	Restricted Funds at 31 March 2019	Unrestricted Funds at 31 March 2019	Total Funds at 31 March 2019
	£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	14.4	14.9
Elford Trust – healthy recreation for Birmingham citizens	3.8	0.3	4.1
Harriet Louisa Loxton Charity – for the aged and infirm	1.6	0.3	1.9
Highbury Trust – for the benefit of the citizens of Birmingham	2.0	-	2.0
Other	0.1	0.1	0.2
Total Council acting as Sole Trustee	**8.8**	**15.3**	**24.1**
Council acting as Custodian			
Alderson – to let dwelling houses to ex-servicemen and other persons in need	-	0.5	0.5
Bodenham Trust – for children with special educational needs	0.7	-	0.7
Clara Martineau Trust – for children with special educational needs	3.8	0.5	4.3
Moseley Road Friends Institute – provision and maintenance	0.2	-	0.2
Other			
Total Council acting as Custodian	**4.7**	**1.0**	**5.7**
Total Assets	**13.5**	**16.3**	**29.8**

SUPPLEMENTARY FINANCIAL STATEMENTS 2018/19

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 Council has adopted IFRS 9, *Financial Instruments*, for the first time in 2018/19 as a modified retrospective adjustment. Provision for bad debts is included in the surplus/deficit for the year for 2018/19 (2017/18 included in total expenditure).

2017/18 £m		Note	2018/19 £m
	Income		
(258.6)	Dwellings rents		(253.6)
(9.1)	Non-dwellings rents		(11.4)
(19.0)	Charges for services and facilities		(19.8)
(286.7)	**Total Income**		**(284.8)**
	Expenditure		
53.5	Repairs and maintenance		50.3
82.5	Supervision and management		86.1
5.4	Rent, rates, taxes and other charges		5.5
50.6	Depreciation and impairment charge	H3 & H6	52.0
0.2	Debt management costs		0.3
4.5	Movement in the allowance for bad debts (not specified by the Code		-
196.7	**Total Expenditure**		**194.2**
(90.0)	**Net Expenditure/(Income) of HRA Services as included in the whole authority Comprehensive Income and Expenditure Statement and Net (Income) / Cost of HRA Services**		**(90.6)**

	HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement:	
-	Change in fair value of financial instruments	4.4
51.3	Interest payable and similar charges	50.4
0.4	Amortisation of premia and discounts	0.5
(0.5)	HRA interest and investment income	(0.6)
(19.0)	(Gains)/ Losses on the disposal of HRA non-current assets	(20.9)
3.8	Pensions interest cost and expected return on pensions assets	8.1
(4.8)	Capital Grants and Contributions Receivable	(3.0)
(58.8)	**(Surplus)/Deficit for the Year on HRA Services**	**(51.7)**

Movement on the Housing Revenue Account Statement

2017/18		2018/19
£m		£m
(58.8)	(Surplus)/Deficit for the year on the HRA Income and Expenditure Account	(51.7)
56.4	Adjustments between accounting basis and funding basis under statute (Note 18)	46.8
(2.4)	Net (increase) / decrease before transfers to / (from) reserves	**(4.9)**
2.3	Transfers to / (from) reserves	4.3
(0.1)	(Increase) / decrease for the year on HRA balance	**(0.6)**
(4.7)	HRA Balance Brought Forward	(4.8)
(4.8)	HRA Balance Carried Forward	**(5.4)**

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 2018		31 March 2019
3,715	1 bedroom bungalows	3,712
15,036	1 bedroom flats	14,947
52	1 bedroom houses	58
295	2 bedroom bungalows	294
10,708	2 bedroom flats	10,586
8,428	2 bedroom houses	8,393
30	3 or more bedroom bungalows	30
4,009	3 or more bedroom flats	3,937
19,180	3 or more bedroom houses	18,879
61,453	**Total housing stock**	**60,836**

The change in the property numbers is analysed below:

2017/18		2018/19
62,070	Stock at 1 April	61,453
(784)	Sales	(680)
(119)	Demolitions / transfers	(118)
286	Acquisitions	181
61,453	**Stock at 31 March**	**60,836**

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

31 March 2018		31 March 2019
£m		£m
2,283.8	Council dwellings/garages	2,445.0
23.7	Assets under Construction	12.7
37.8	Other land and buildings	44.2
2,345.3	**Total operational assets**	**2,501.9**
19.2	Non-operational assets	19.6
2,364.5	**Total**	**2,521.5**

The housing stock, land and other property within the HRA are valued in line with the MHCLG Guidance on Stock Valuation for Resource Accounting published in November 2016. The basis of the valuation for the housing stock element is in accordance with the Royal Institution of Chartered Surveyors using the Existing Use Value - Social Housing basis, which takes open market value for the underlying dwellings and applies a discount factor to reflect the reduced value as a result of use for social housing for 2018/19 of 40%.

The change reflects properties lost through sales, demolitions, acquisitions, and revaluation of Beacon Values and depreciation. £108.6m was spent on HRA dwellings during the year.

As at 31 March 2019, the Council also owned 118 dwellings (31 March 2018: 86) 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 £4.7m (31 March 2018: £3.2m).

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

31 March 2018	`	31 March 2019
£m		£m
547.4	Land	595.7
19.2	Kitchens	18.2
23.1	Bathrooms	22.7
34.3	Windows	34.9
52.4	Heating	51.4
18.4	Roofs	11.2
1,589.0	Remaining Structure	1,710.9
2,283.8	**Total**	**2,445.0**

H2. Value of Dwellings on Vacant Possession

(a) The vacant possession value of dwellings within the Council's HRA, valued in accordance with the Guidance, as at 31 March 2019 is £5,890.3m.

(b) The difference between the above figure and the figure of £2,445.0m in the Balance Sheet notionally represents diminution in the value of assets caused by their being let at social housing rents, according to the 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 2018/19 (2017/18: £nil). The net value of HRA dwellings has increased by £161.2m to £2,445.0m.

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

2017/18		2018/19
£m		£m
39.0	Balance on Major Repairs Reserve at 1 April	28.6
50.3	Amount transferred to Major Repairs Reserve during the year	51.7
(60.7)	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	(55.4)
28.6	**Balance on Major Repairs Reserve at 31 March**	**24.9**

H5. Capital Expenditure on HRA Assets

Expenditure on HRA assets was funded from the following sources:

2017/18		2018/19
£m		£m
48.3	Usable Capital Receipts (Right to Buy/Land)	43.4
60.7	Major Repairs Reserve	55.4
0.3	HRA Revenue contributions	0.2
-	Prudential Borrowing	1.0
4.1	Other resources	8.6
113.4		**108.6**

The total capital receipts from disposals of land, houses and other property within the HRA during the financial year was £54.5m (land £14.9m, houses £39.6m). The values for 2017/18 were £58.9m (land £19.9m and houses £39.0m). The Government operates a capital receipts pooling framework and of these amounts £6.3m was paid to Central Government (2017/18: £6.3m).

H6. Depreciation Charges

The total charge for depreciation for the houses and other property within the Council's HRA is £51.7m (2017/18: £50.3m). 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 22 to the Financial Statements. To ensure that these costs do not affect the level of HRA balances and Council House rents, an appropriation is made from the Pensions Reserve so that the movement in balances only reflects the actual employer's pension contribution.

H8. Rent Arrears

Rent arrears from current tenants at 31 March 2019 totalled £12.5m (2017/18: £12.9m). Other arrears including Housing Benefit overpayments, leaseholder major works and miscellaneous services totalled £28.3m at 31 March 2019 (2017/18: £23.4m).

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 £31.5m at 31 March 2019 (2017/18: £31.4m) and has been calculated based on value/aged analysis in accordance with Government guidelines.

31 March 2018		31 March 2019
£m		£m
12.9	Current tenants	12.5
13.8	Housing benefit overpayment	13.4
9.6	Other debt (services/leaseholders)	14.9
36.3	**Total arrears**	**40.8**
31.4	Provision for bad debts	31.5

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.

2017/18				2018/19		
Council Tax	**NNDR**	**Total**		**Council Tax**	**NNDR**	**Total**
£m	**£m**	**£m**	**Income**	**£m**	**£m**	**£m**
(364.1)		(364.1)	Collectable Council Tax	(387.1)		(387.1)
(364.1)		**(364.1)**		**(387.1)**		**(387.1)**
	(453.9)	(453.9)	Collectable Business Rates		(448.5)	(448.5)
	8.2	8.2	Transitional Payment Payable to Government		1.8	1.8
	(445.7)	**(445.7)**			**(446.7)**	**(446.7)**
	(1.5)	**(1.5)**	**Enterprise Zone Deficit Repayable to the Collection Fund**		**(2.6)**	**(2.6)**
			Apportionment of Prior Year Deficit:			
-	(9.9)	(9.9)	Birmingham City Council	-	-	-
	(10.1)	(10.1)	Central Government		(1.8)	(1.8)
-	(0.2)	(0.2)	West Midlands Fire & Rescue Authority	-	-	-
-		-	West Midlands Police and Crime Comm.	-		-
-	**(20.2)**	**(20.2)**	**Total Apportionment of Prior Year Deficit**	**-**	**(1.8)**	**(1.8)**
(364.1)	**(467.4)**	**(831.5)**	**TOTAL INCOME**	**(387.1)**	**(451.1)**	**(838.2)**

2017/18				2018/19		
Council Tax	**NNDR**	**Total**		**Council Tax**	**NNDR**	**Total**
£m	**£m**	**£m**	Expenditure	**£m**	**£m**	**£m**
			Precepts Demands & Shares Incl Prior Years Surplus:			
313.6	400.9	714.5	Birmingham City Council	329.3	436.9	766.2
0.1		0.1	New Frankley in Birmingham Parish Council	0.1		0.1
1.8		1.8	Sutton Coldfield Town Council	1.9		1.9
	-	-	Central Government			-
14.2	4.0	18.2	West Midlands Fire & Rescue Authority	14.7	4.4	19.1
28.9		28.9	West Midlands Police and Crime Comm.	32.2		32.2
			Charges:			
9.0	9.1	18.1	Increase/(Decrease) in Provision for Bad and Doubtful Debts	6.1	11.1	17.2
	11.9	11.9	Increase/(Decrease) in Provision for Appeals		5.1	5.1
	1.9	1.9	Cost of Collection		1.8	1.8
367.6	**427.8**	**795.4**	**TOTAL EXPENDITURE**	**384.3**	**459.3**	**843.6**
3.5	**(39.6)**	**(36.1)**	**(Surplus)/Deficit for the year**	**(2.8)**	**8.2**	**5.4**
(5.6)	**23.9**	**18.3**	**(Surplus)/Deficit brought forward**	**(2.1)**	**(15.7)**	**(17.8)**
(2.1)	**(15.7)**	**(17.8)**	**(Surplus)/Deficit carried forward**	**(4.9)**	**(7.5)**	**(12.4)**

Notes to the Collection Fund
C1. Contributions from Council Taxpayers

The Council's tax base at January 2018 (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	161	5/9	90
A	86,397	6/9	57,598
B	88,590	7/9	68,903
C	60,283	8/9	53,585
D	31,761	1	31,761
E	18,031	11/9	22,038
F	8,135	13/9	11,751
G	5,408	15/9	9,013
H	765	18/9	1,530
Total	**299,531**		**256,269**
Less adjustment for collection rate			(7,431)
			248,838

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 Council are:

Band	Number of Properties	Ratio	Band D equivalent dwellings
AR	1	5/9	1
A	690	6/9	460
B	1013	7/9	787
C	85	8/9	76
D	52	1	52
E	1	11/9	1
F	-	13/9	-
G	-	15/9	-
H	1	18/9	2
Total			**1,379**
Less adjustment for collection rate			(40)
			1,339

The figures for Sutton Coldfield Town Council are:

Band	Number of Properties	Ratio	Band D equivalent dwellings
AR	1	5/9	1
A	1,699	6/9	1,133
B	3,991	7/9	3,104
C	6,219	8/9	5,528
D	8,394	1	8,394
E	7,873	11/9	9,623
F	3,870	13/9	5,590
G	2,447	15/9	4,078
H	351	18/9	702
Total			**38,153**
Less adjustment for collection rate			(1,106)
			37,047

C2. Business Ratepayers

The Council collects Business Rates (NNDR) receipts for its area, which are based on local rateable values multiplied by a uniform rate which is set by the Government (48.0p for 2018/19: 46.6p for 2017/18). The total non-domestic rateable value at 31 March 2019 was £1,124.96m (31 March 2018: £1,123.03m).

Since 1 April 2017, the Council has been 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 2018/19

NARRATIVE REPORT

Introduction

In common with many other local authorities, the Council uses different forms of service delivery, where this is appropriate. In some cases, it has created separate companies with its partners to deliver those services. The use of separate companies means that the Council's single entity financial statements on their own do not fully reflect the assets and liabilities or income and expenditure associated with all of its activities. The Group Accounts more fully reflect the overall financial picture of the Council's activities.

This section presents the statutory financial statements for Birmingham City Council Group (the Group) for the period from 1 April 2018 to 31 March 2019. The financial statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (The Code) published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The aim of the Group Accounts is to provide the reader with an overall view of the material economic activities of the Council.

These Group Accounts have been prepared using uniform accounting policies for like transactions and other events in similar circumstances. The accounting policies of its subsidiaries, associates and joint ventures have been aligned with the policies of the Council, for the purposes of Group Accounts, where materially different. Such adjustments as are necessary to align the Group Accounting Policies are made as consolidation adjustments.

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

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

The pages which follow contain the Group's Financial Statements for the year ended 31 March 2019, with comparative figures for the previous financial year.

Consolidation of Subsidiaries, Associate Companies and Joint Ventures

The Council operates through a variety of undertakings, either exercising full control of an organisation (subsidiary undertakings) or in partnership with other organisations (associate undertakings or joint ventures). To provide a full picture of the activities of the Council, Group Accounts have been prepared which include those organisations where the interest and the level of activity is considered material to the Group as a whole.

The Council has incorporated one new company, Birmingham Children's Trust Community Interest Company, into its Group consolidation in 2018/19 as it became operational from 1 April 2018 and its level of activity is considered material. The Children's Trust is responsible for the delivery of social care services for children with all its activities being delivered through a contract with the Council. The company is a community interest company with the Council as sole member. However, the company is asset locked and the Council has no entitlement to any assets of the company. Further details are set out in note G24.

The Council disposed of its assets in Innovation Birmingham Limited on 18 April 2018.

The entities consolidated into the Council's Group Accounts are:

Subsidiaries
Acivico Limited
Birmingham Children's Trust CIC – from 1 April 2018
Birmingham City Propco Limited
Innovation Birmingham Limited – to 18 April 2018
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 – to 31 December 2017 and for comparative purposes only

Joint Venture
Paradise Circus General Partner Limited

Further detail regarding the Council's relationship with the above companies is given in notes G24 and G25.

The Council maintains involvement with a number of other related entities where the assets and liabilities of the companies are not included in these Group Financial Statements, either on the basis of materiality or that the Council does not exercise control or has no significant influence over the operation of the entity. Further details are set out in Note 48, Related Parties to the Council entity accounts.

The Main Financial Statements

The following statements consolidate the accounts of the Council with those of its subsidiaries, associates and joint venture. Transactions between the Council and its Group entities are eliminated on consolidation. Details of the inter-company transactions are set out in Note 48, Related Parties, to the entity accounts.

The Group Comprehensive Income and Expenditure Statement (GCIES) – provides the accounting cost in year recognised by the Group, in a specified format, in accordance with generally accepted accounting practices. Details of the net surplus/ (deficit) on the provision of services is detailed below.

	2017/18		2018/19	
	Entity £m	Group £m	Entity £m	Group £m
Surplus/(Deficit) on Provision of Services	(22.0)	(34.1)	(61.7)	(128.1)

The 2018/19 GCIES shows an adverse movement of £94.0m in the movement on the net Surplus/(Deficit) on Provision of Services compared to 2017/18. Details of the major movements are set out in the Narrative Report in the Council entity accounts.

Group Movement in Reserves Statement (GMiRS) – provides a reconciliation of the movement in year on the different reserves held and how the balance of resources generated or used in the year reconciles to the Council's statutory requirements for raising Council Tax.

Group Balance Sheet – shows the value of assets and liabilities recognised by the Group at 31 March 2019 and the level of reserves, split into usable and unusable.

	2017/18		2018/19	
	Entity	Group	Entity	Group
	£m	£m	£m	£m
Long Term Assets	6,164.4	6,159.5	6,255.4	6,255.7
Current Assets	459.7	467.0	471.3	467.6
Current Liabilities	(1,357.0)	(1,374.0)	(1,099.5)	(1,086.1)
Long Term Liabilities	(5,814.9)	(5,820.1)	(5,870.1)	(5,956.7)
Net Assets/(Liabilities)	**(547.8)**	**(567.6)**	**(242.9)**	**(319.5)**
Represented by:				
Usable Reserves	969.9	938.0	937.4	852.9
Unusable Reserves	(1,517.7)	(1,505.6)	(1,180.3)	(1,172.4)
Total Reserves	**(547.8)**	**(567.6)**	**(242.9)**	**(319.5)**

The net liability has decreased by £248.1m to £319.5m. This is mainly due to an increase in the carrying value of Property, Plant & Equipment together with reduction in the overall level of borrowing.

The difference in the level of usable reserves between the entity accounts and the group accounts has increased by £52.6m, rising from a gap of £31.9m to £84.5m. This increase is mainly due to the way that the pension liabilities of companies are shown. Within the Council, there is a statutory override which allows the impact of a net pension deficit to be reflected in unusable reserves whilst in companies, the pension deficit impacts directly on usable reserves. The transfer of staff to Birmingham Children's Trust CIC would have had the impact of switching a deficit reserve held in unusable reserves as at 31 March 2018 to a deficit reserve in usable reserves at 31 March 2019.

Group Cash Flow Statement – shows how the Group generates and uses cash during the year and the impact this has on the balances of cash and cash equivalents.

Group Comprehensive Income and Expenditure Statement

This statement shows the income and expenditure recognised by the Group during the reporting period. Discontinued operations relate to Innovation Birmingham which was treated as Assets Held for Sale at 31 March 2018. The details for 2017/18 have been restated following the Council restructure, details of which are set out in Note 8 in the entity accounts and in Note G3.

2017/18 (Restated) Gross Expenditure	Gross Income	Net Expenditure		Note	2018/19 Gross Expenditure	Gross Income	Net Expenditure
£m	£m	£m	**Continuing Operations**		£m	£m	£m
554.9	(207.4)	347.5	Adult Social Care & Health		547.0	(213.6)	333.4
1,111.4	(800.9)	310.5	Children & Young People		1,235.9	(792.6)	443.3
264.3	(86.5)	177.8	Place		294.4	(84.3)	210.1
155.2	(90.8)	64.4	Economy		177.7	(99.1)	78.6
9.8	(1.3)	8.5	HR Directorate		18.8	(1.7)	17.1
627.5	(585.9)	41.6	Strategic Services		591.1	(550.9)	40.2
6.7	(7.6)	(0.9)	Finance & Governance		5.1	(14.2)	(9.1)
34.5	(64.5)	(30.0)	Centrally Managed		3.7	(58.7)	(54.9)
-	-	-	Superannuation Adjustment		46.8	-	46.8
3.2	-	3.2	Chief Executive & Assistant Chief Executive		2.8	(0.3)	2.5
196.7	(286.7)	(90.0)	Housing Revenue Account		194.2	(284.8)	(90.6)
2,964.2	**(2,131.6)**	**832.6**	**Total Cost of Continuing Operations**		**3,117.5**	**(2,100.1)**	**1,017.4**
6.2	(4.5)	1.7	Discontinued Operations	G5	0.2	(0.2)	-
2,970.4	**(2,136.1)**	**834.3**	**Total Cost of Services**		**3,117.7**	**(2,100.3)**	**1,017.4**
77.5		77.5	Other Operating Expenditure		65.1	-	65.1
289.9	(55.5)	234.4	Financing and Investment Income and Expenditure	G6	300.4	(80.1)	220.3
1.8	(1,113.9)	(1,112.1)	Taxation and Non-Specific Grant Income		2.4	(1,126.4)	(1,124.0)
		34.1	**(Surplus)/Deficit on Provision of Services**				**178.8**
		(6.0)	Share of the (surplus)/deficit on the Provision of Services of Associates				(2.3)
		-	Tax Expense of Subsidiaries				-
		1.5	Tax Expense of Associates				1.2
		29.6	**Group (Surplus)/Deficit**				**177.7**
			Items that will not be reclassified to the (Surplus)/Deficit on the Provision of Services				
		(395.7)	(Surplus) / deficit on revaluation of Property, Plant and Equipment assets	G7			(230.9)
		0.2	Impairment losses on non-current assets charged to the revaluation reserve				4.0
		(158.7)	Remeasurement of the net defined benefit liability	G21			(203.8)
		5.6	Share of Other Comprehensive Income and Expenditure of Associates and Joint Ventures				4.8
		(548.6)					**(425.9)**
			Items that may be reclassified to the (Surplus)/Deficit on the Provision of Services				
		0.8	(Surplus) / deficit on revaluation of available for sale financial assets				-
		0.8					**-**
		(547.8)	**Other Comprehensive (Income) / Expenditure**				**(425.9)**
		(518.2)	**Total Comprehensive (Income) / Expenditure**				**(248.2)**

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 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 G22)	(17.9)					(17.9)		(17.9)	17.9	-
Changes in Group Reserves accounted for through equity (G23)									-	-
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 18)	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)**
Movement in Reserves during 2018/19										
Adjustment for the Restatement of Financial Instruments	(0.5)					**(0.5)**	(0.5)	**(1.0)**	-	**(1.0)**
Restated Balance brought forward at 1 April 2018	**508.6**	**4.8**	**320.4**	**28.6**	**107.0**	**969.4**	**(1,518.2)**	**(548.8)**	**(19.8)**	**(568.6)**
Surplus/(Deficit) on the provision of services	40.7	51.7				**92.4**		**143.1**	(191.8)	**(48.7)**
Other Comprehensive Income and Expenditure						**-**	418.3	**418.3**	(69.8)	**348.5**
Total Comprehensive Income and Expenditure	**40.7**	**51.7**	**-**	**-**	**-**	**92.4**	**418.3**	**510.7**	(261.6)	**249.1**
Adjustments between Group Accounts and Council Accounts (Note G22)	(204.8)					(204.8)		(204.8)	204.8	-
Changes in Group Reserves accounted for through equity (G23)									0.1	0.1
Net Increase/(Decrease) before Transfers	**(164.1)**	**51.7**	**-**	**-**	**-**	**(112.4)**	**418.3**	**305.9**	**(56.7)**	**249.2**
Adjustments between accounting basis and funding basis under regulations (Note 18)	215.6	(51.1)	(80.1)	(3.7)	(0.3)	**80.4**	(80.4)	**-**		**-**
Increase/(Decrease) in 2018/19	**51.5**	**0.6**	**(80.1)**	**(3.7)**	**(0.3)**	**(32.0)**	**337.9**	**305.9**	**(56.7)**	**249.2**
Balance at 31 March 2019	**560.1**	**5.4**	**240.3**	**24.9**	**106.7**	**937.4**	**(1,180.3)**	**(242.9)**	**(76.5)**	**(319.4)**

Group Balance Sheet

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

31 March 2018 £m		Note	31 March 2019 £m
5,735.0	Property, Plant and Equipment	G7	5,832.3
251.6	Heritage Assets		249.8
20.2	Investment Properties	G8	44.6
13.7	Intangible Assets		7.4
3.8	Long Term Investments		4.0
114.7	Long Term Debtors		97.7
20.5	Investments in Associates and Joint Ventures	G25	20.0
6,159.5	**Total Long Term Assets**		**6,255.8**
72.6	Short Term Investments		69.7
15.3	Assets Held for Sale		23.4
1.3	Inventories		1.4
321.5	Short Term Debtors	G10	324.6
56.3	Cash and Cash Equivalents		48.5
467.0	**Total Current Assets**		**467.6**
(35.4)	Cash and Cash Equivalents		(15.2)
(796.5)	Short Term Borrowing		(552.8)
(333.3)	Short Term Creditors	G11	(321.4)
(20.7)	Liabilities in Disposal Groups	G5	-
(188.1)	Provisions		(196.7)
(1,374.0)	**Total Current Liabilities**		**(1,086.1)**
(74.5)	Long Term Creditors	G9	(75.3)
(23.5)	Provisions		(16.6)
(2,644.0)	Long Term Borrowing		(2,763.9)
(462.1)	Other Long Term Liabilities		(444.4)
(2,616.0)	Net Liability on Defined Benefit Pension Scheme	G21	(2,656.5)
(5,820.1)	**Total Long Term Liabilities**		**(5,956.7)**
(567.6)	**Net Assets/(Liabilities)**		**(319.4)**
938.0	Usable Reserves	G12	852.9
(1,505.6)	Unusable Reserves	G13	(1,172.3)
(567.6)	**Total Reserves**		**(319.4)**

Group Cash Flow Statement

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

2017/18		Note	2018/19
£m			£m
(27.6)	Net Surplus/(Deficit) on Continuing Operations		(177.7)
(2.0)	Net Surplus/(Deficit) on Discontinued Operations	G5	-
(29.6)	**Net Surplus/(Deficit) on the provision of services**		**(177.7)**
74.9	Adjustments to net Surplus/(Deficit) on the provision of services for non-cash movements	G17	623.5
(224.1)	Adjustments for items included in the net Surplus/(Deficit) on the provision of services that are investing and financing activities	G17	(262.1)
(178.8)	**Net cash flows from Operating Activities**		**183.7**
(149.4)	Investing Activities	G15	(121.7)
316.6	Financing Activities	G16	(49.6)
(11.6)	**Net increase/(decrease) in cash and cash equivalents**		**12.4**
32.5	Cash and cash equivalents at the beginning of the reporting period		20.9
20.9	**Cash and cash equivalents at the end of the reporting period**		**33.3**

NOTES TO THE GROUP ACCOUNTS

Note G1
Accounting Policies

The Group Financial Statements summarise the Council's and its Group's transactions for the 2018/19 financial year. The Group Financial Statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, 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 G24 and G25. Subsidiaries have been consolidated into the Group Financial Statements on a line by line basis, with associates and joint ventures consolidated under the equity method.

Investments in subsidiaries and associates in the Council's entity accounts are carried at cost rather than fair value less any provision for losses unless there is evidence of impairment.

Notes to the Group Financial Statements have been presented where the figures are materially different from those of the Council entity accounts. Where there are no material differences, the Notes to the Council entity accounts provide the required disclosures.

Accounting policies of the individual members of the Group have been aligned to the Council's accounting policies.

The accounting policies applied to the Group Financial Statements are consistent with those set out in Note 1 to the Council entity accounts, with additional policies specific to the Group set out below.

Disposal of a Subsidiary Company

When a subsidiary company is disposed of, the assets and liabilities of the subsidiary are derecognised at their carrying value at the time of disposal and the value of any consideration received is recognised. The transactions plus any resulting differences are identified in the Profit/Loss on disposal of a subsidiary and form part of the Surplus/Deficit on Provision of Services within the Group Comprehensive Income and Expenditure Statement.

Defined Contribution Pension Schemes

The NEC Limited Group funded two defined benefit schemes, which ceased to provide future service accrual with effect from 30 June 2010 and operated two contributory benefit schemes comprising a Stakeholder Scheme to which only members contribute, and a Group Personal Pension Plan where the company matched member contributions to an agreed maximum. The schemes transferred to PETPS (Birmingham) Limited on 1 May 2015 on the Council's disposal of NEC Ltd. Further information may be found in Note G21.

Defined Benefit Pension Scheme

Acivico Limited and Birmingham Children's Trust CIC participate in the Local Government Pension Scheme (LGPS). The scheme is a funded defined benefit scheme based upon career average salary for benefits accrued since 1 April 2014 and on final pensionable salary for benefits accrued to 31 March 2014. Further information may be found within the Council's entity accounting policies and Note G21.

Note G2
Critical Judgements in Applying Accounting Policies

In addition to the Critical Judgements, set out in Note 2 of the entity accounts, the Council has considered the following judgement in respect of the application of its accounting policies.

The Council has created a number of companies that are limited by guarantee that are also charitable companies. In such cases the Council is sole member on creation of the company.

The Trustees of a charity have the responsibility for determining the policies and the activities of the company in line with the specific remit of the charity. Where the Council is sole member of the charitable company, it also has, through the Articles of Association, the right to appoint Directors or Trustees to sit on the company board. Whilst the Council has the right to appoint Directors, this right is limited to appointing a minority of Directors such that they have less than 20% of the voting rights. The charitable company board is responsible for the day to day management and for setting the direction of the company. Trustees of charities must always act in the best interest of the charity and not in the interests of the body that appointed them.

Whilst the Council is sole member of charitable companies and whilst it may pass resolutions to impact on the operation of the companies, to date it has not done so. There are also financial barriers to the Council exercising any form of control as this may jeopardise the charitable nature of the organisations which would lead to financial detriment.

On the basis of the above factors, the Council considers that it does not have the current ability to direct the relevant activities of charitable companies given its minority level of representation, the Trustees must act independently of the Council in the best interest of the charity and should the Council exercise any rights through its role as sole member, it is considered that this would have an adverse financial impact. Therefore, the Council does not consider that it should consolidate any charitable companies into the Council's Group Accounts.

Note G3
Prior Period Adjustment

The Council has realigned its reporting structure and the Group Comprehensive Income and Expenditure Statement has been adjusted to reflect the new arrangements. Details of the prior period adjustments are set out in Note 8 of the entity accounts.

	Original GCIES in 2017/18	Adjustment for Directorate Realignment	Restated for GCIES 2017/18
Net Expenditure	£m	£m	£m
Continuing Operations			
Adult Social Care & Health	347.5	-	347.5
Children & Young People	310.5	-	310.5
Place	177.8	-	177.8
Economy	64.4	-	64.4
HR Directorate	-	8.5	8.5
Strategic Services	53.3	(11.7)	41.6
Finance & Governance	(0.9)	-	(0.9)
Centrally Managed	(30.0)	-	(30.0)
Chief Executive & Assistant Chief Executive	-	3.2	3.2
Housing Revenue Account	(90.0)	-	(90.0)
Total Continuing Operations	**832.6**	**-**	**832.6**
Discontinued Operations	1.7	-	1.7
Net Cost of Services	**834.3**	**-**	**834.3**

	Original GCIES in 2017/18	Adjustment for Directorate Realignment	Restated for GCIES 2017/18
Gross Expenditure	£m	£m	£m
Continuing Operations			
Adult Social Care & Health	554.9	-	554.9
Children & Young People	1,111.4	-	1,111.4
Place	264.3	-	264.3
Economy	155.2	-	155.2
HR Directorate	-	9.8	9.8
Strategic Services	640.5	(13.0)	627.5
Finance & Governance	6.7	-	6.7
Centrally Managed	34.5	-	34.5
Chief Executive & Assistant Chief Executive	-	3.2	3.2
Housing Revenue Account	196.7	-	196.7
Total Continuing Operations	**2,964.2**	**-**	**2,964.2**
Discontinued Operations	6.2	-	6.2
Net Cost of Services	**2,970.4**	**-**	**2,970.4**

Gross Income	Original GCIES in 2017/18 £m	Adjustment for Directorate Realignment £m	Restated for GCIES 2017/18 £m
Continuing Operations			
Adult Social Care & Health	(207.4)	-	(207.4)
Children & Young People	(800.9)	-	(800.9)
Place	(86.5)	-	(86.5)
Economy	(90.8)	-	(90.8)
HR Directorate	-	(1.3)	(1.3)
Strategic Services	(587.2)	1.3	(585.9)
Finance & Governance	(7.6)	-	(7.6)
Centrally Managed	(64.5)	-	(64.5)
Chief Executive & Assistant Chief Executive	-	-	-
Housing Revenue Account	(286.7)	-	(286.7)
Total Continuing Operations	**(2,131.6)**	**-**	**(2,131.6)**
Discontinued Operations	(4.5)	-	(4.5)
Net Cost of Services	**(2,136.1)**	**-**	**(2,136.1)**

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 of its review, the Council disposed of its interest in Innovation Birmingham Limited on 18 April 2018 through the disposal of head leases in the properties used by the company. Innovation Birmingham Limited was a company, limited by guarantee, with the Council as sole member and was consolidated into the Council's Group Accounts as a subsidiary company. The company's Articles of Association prohibited the distribution of profits.

The Council disposed of its interest in Service Birmingham Limited on 31 December 2017. Service Birmingham Limited was accounted for in the Council's Group Financial Statements as an associate company. Details of the relevant activities are set out below.

Innovation Birmingham

Comprehensive Income and Expenditure Statement

	2017/18 £m	2018/19 £m
Turnover	3.3	0.2
Cost of Sales	(4.4)	(0.2)
Gross Profit/(Loss)	**(1.1)**	**-**
Other Operating Income		
Other Operating Expenditure	(0.6)	-
Operating Profit/(Loss)	**(1.7)**	**-**
Interest Payable	(0.4)	-
Profit/(Loss) before Taxation	**(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)**
Net Liabilities	**(6.3)**
Represented by:	
P&L Reserve	(10.1)
Revaluation Reserve	3.8
Net Equity	**(6.3)**

Cash Flow
Details of the discontinued operations' cash flow are included in the Cash Flow Statement and in Note G15, 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.

2017/18				2018/19		
Gross Expenditure £m	Income £m	Net £m		Gross Expenditure £m	Income £m	Net £m
184.3	-	184.3	Interest Payable and similar charges	183.2	-	183.2
0.4	-	0.4	Interest Payable by Discontinued Operations	-	-	-
74.1	-	74.1	Net interest on the net defined benefit liability	65.7	-	65.7
-	-	-	(Gain)/Loss on financial assets at amortised cost	18.2	-	18.2
-	-	-	(Gain)/Loss on financial assets at Fair Value through Profit & Loss	-	(9.5)	(9.5)
-	-	-	(Gain)/Loss on the Disposal of Financial Instruments	2.2	-	2.2
-	(16.1)	(16.1)	Interest Receivable and similar income	-	(21.6)	(21.6)
-	(1.6)	(1.6)	Changes in the Fair Value of Investment Properties	-	(10.9)	(10.9)
31.1	(31.7)	(0.6)	(Surplus)/Deficit on trading operations not consolidated within Service Expenditure Analysis in Comprehensive Income and Expenditure Statement	31.1	(32.4)	(1.3)
-	(6.1)	(6.1)	Other investment income and expenditure	-	(5.7)	(5.7)
289.9	**(55.5)**	**234.4**	**Sub Total**	**300.4**	**(80.1)**	**220.3**

Note G7
Property, Plant and Equipment

Details of the Group Property, Plant and Equipment are set out below.

Movement in Balances 2018/19

	Council Dwellings £m	Other land and buildings £m	Vehicles, plant, furniture & equipment £m	Infrastructure assets £m	Community assets £m	Surplus assets £m	Assets under construction £m	**Total Property, Plant and Equipment £m**	*Service Concession Assets included in Property, Plant & Equipment £m*
Cost or Valuation									
At 1 April 2018	**2,283.8**	**2,486.2**	**178.8**	**629.5**	**62.1**	**112.1**	**196.5**	**5,949.0**	**811.9**
Additions	102.8	53.7	5.0	30.1	2.3	-	100.3	**294.2**	32.6
Assets reclassified between categories	16.7	63.3	1.1	1.3	-	-	(96.8)	**(14.4)**	
Revaluation increases/(decreases) recognised in the Revaluation Reserve	76.5	(12.6)	-	-	-	73.3	-	**137.2**	(0.9)
Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	-	(110.2)	-	-	-	-	(0.1)	**(110.3)**	0.4
Derecognition - Disposals	(34.8)	(53.3)	(19.6)	-	-	(2.0)	-	**(109.7)**	(0.3)
Derecognition - Other	-	-	-	-	-	-	-	**-**	
Assets reclassified (to)/from Held for Sale	-	(11.9)	-	-	-	(12.2)	-	**(24.1)**	
Other movements in Cost or Valuation	-	(0.3)	-	-	(1.1)	1.4	-	**-**	
At 31 March 2019	**2,445.0**	**2,414.9**	**165.3**	**660.9**	**63.3**	**172.6**	**199.9**	**6,121.9**	**843.7**
Accumulated Depreciation and Impairment									
At 1 April 2018	**-**	**(28.1)**	**(74.0)**	**(111.9)**	**-**	**-**	**-**	**(214.0)**	**(121.1)**
Depreciation charge	(51.7)	(60.0)	(16.3)	(26.2)	-	(0.6)	-	**(154.8)**	(32.4)
Depreciation written out to the Revaluation Reserve	51.0	41.6	-	-	-	0.1	-	**92.7**	2.3
Depreciation written out to the Surplus/Deficit on the Provision of Services	-	13.2	-	-	-	-	-	**13.2**	0.9
Impairment losses/(reversals) recognised in the Revaluation Reserve	-	0.8	-	-	-	-	-	**0.8**	
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	-	0.8	-	(51.3)	-	-	-	**(50.5)**	
Derecognition - Disposals	0.7	2.2	19.1	-	-	0.1	-	**22.1**	0.1
Derecognition - Other	-	0.5	-	-	-	0.4	-	**0.9**	
Assets reclassified to/(from) Held for Sale	-	-	-	-	-	-	-	**-**	
Other movements in Depreciation and Impairment	-	-	-	-	-	-	-	**-**	
At 31 March 2019	**-**	**(29.0)**	**(71.2)**	**(189.4)**	**-**	**-**	**-**	**(289.6)**	**(150.2)**
Net Book Value									
At 31 March 2019	**2,445.0**	**2,385.9**	**94.1**	**471.5**	**63.3**	**172.6**	**199.9**	**5,832.3**	**693.5**
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**

Movement 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	(37.9)	(80.3)	(15.1)	(1.6)	-	(19.9)	-	**(154.8)**	(0.8)
Derecognition - Other	(2.0)	-	-	-	-	-	-	**(2.0)**	
Assets reclassified (to)/from Held for Sale	-	(13.3)	(4.3)	-	-	-	-	**(17.6)**	
Other movements in Cost or Valuation	-	-	-	-	-	-	-	**-**	
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)	(56.6)	(18.7)	(24.4)	-	(0.1)	-	**(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
Derecognition - Other	-	-	-	-	-	-	-	**-**	
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	**-**	**(28.1)**	**(74.0)**	**(111.9)**	**-**	**-**	**-**	**(214.0)**	**(121.1)**
Net Book Value									
At 31 March 2018	**2,283.8**	**2,458.1**	**104.8**	**517.6**	**62.1**	**112.1**	**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**	**5,355.2**	**654.0**

Further details on the Council's policies for fixed asset revaluations and depreciation are provided in Note 1 to the Council entity accounts.

Note G8
Investment Properties

The Council, Birmingham City PropCo Limited and InReach Limited have non-current assets that meet the criteria for treatment as investment properties. Details of the financial impact of Investment Properties are set out below.

	2017/18	2018/19
	£m	£m
Cost or Valuation		
At 1 April	**9.8**	**20.2**
Additions	8.9	-
Assets reclassified between categories	-	13.5
Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	1.5	10.9
At 31 March	**20.2**	**44.6**

Recurring Fair Value Measurement	Input Level in Fair Value Hierarchy	Valuation Technique used to measure Fair Value	Fair Value 31 March 2018	Fair Value 31 March 2019
			£m	£m
Highest and Best Use	Level 2	The fair value has been measured using a market approach, taking into account quoted prices for similar assets in active markets and data and market knowledge.	11.3	35.7
Highest and Best Use	Level 3	The fair value has been measured using a market approach taking into account yields from rental compared to similar assets.	8.9	8.9

The fair value of the Council's Group Investment Properties is measured annually at each reporting date. Valuations are carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors (RICS). The valuations were undertaken by appropriately qualified valuers as detailed below:

- For the Council, Azmat Mir MRICS, Head of Property Consultancy within the Council's Property Services section
- For InReach (Birmingham) Limited, David Farrow MRICS and Daniel Winter MRICS of Savills (UK) Limited
- For Birmingham City PropCo Limited, Nick Boyd BSc (Hons) FRICS and Ken Hogg BSc (Hons) MRICS of Lambert Smith Hampton

Note G9
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 G10.

Creditors
Short term creditors consolidated as part of the Group Financial Statements are classified as financial liabilities at amortised cost. Further information on Group creditors is provided in Note G11.

Long term creditors consolidated as part of the Group Financial Statements relate to debt issued by NEC (Developments) Plc on the London Stock Exchange. The following long term creditors are brought into the Group Financial Statements upon group consolidation.

	Long-term	
	31 March 2018	31 March 2019
	£m	£m
Creditors		
NEC 7.56% Loan Stock – maturity 30 September 2027	(73.0)	(73.0)

The basis of the fair value of the loan stock has changed between 31 March 2018 and 31 March 2019. For last year, the fair value of the loan stock was assessed by independent experts and an estimate of its fair value was determined on the basis of a rate payable for a new loan on the same terms. However, for the current year end, a stock market value was available and this has been used as a better indicator of fair value.

Financial Liabilities	Input level in Fair Value Hierarchy	Valuation inputs and assumptions used to measure Fair Value	31 March 2018		31 March 2019	
			Carrying Amount £m	Fair Value £m	Carrying Amount £m	Fair Value £m
NEC Loan Stock	Level 1	Stock Market valuation			73.0	102.6
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	109.1		
TOTAL			**73.0**	**109.1**	**73.0**	**102.6**

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 2019 between the Council entity accounts, £2,855.5m and the group accounts, £2,763.9m, 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 G10
Short Term Debtors

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

31 March 2018 £m		31 March 2019 £m
78.4	Central government bodies	68.6
12.0	Other local authorities	21.2
6.0	NHS bodies	8.3
3.2	Public corporations and trading funds	2.5
221.9	Other entities and individuals	224.0
321.5	**Total**	**324.6**

Note G11
Short Term Creditors

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

31 March 2018 £m		31 March 2019 £m
(28.6)	Central government bodies	(26.2)
(11.3)	Other local authorities	(6.7)
(2.0)	NHS bodies	(1.3)
(63.7)	Public corporations and trading funds	(64.1)
(227.7)	Other entities and individuals	(223.1)
(333.3)	**Total**	**(321.4)**

Note G12
Usable Reserves

Details of the Group's usable reserves are set out below.

31 March 2018 (Restated) £m		31 March 2019 £m
509.1	General Fund Balances	560.1
4.8	Housing Revenue Account (HRA)	5.4
320.4	Capital Receipts Reserve	240.3
28.6	Major Repairs Reserve	24.9
107.0	Capital Grants Unapplied	106.7
(36.7)	Company Profit & Loss	(89.3)
4.8	Merger Reserve	4.8
938.0	**Total**	**852.9**

Details of General Fund Balances are set out in Note 19 of the entity accounts.

The major reason for the reduction in the level of company profit & loss is as result of the recognition of the pension fund liability of Birmingham Children's Trust CIC in usable reserves whereas in previous years the pension liability for children's services in the Council would have been reflected in unusable reserves within the Pensions Reserve because of the statutory accounting arrangements for local authorities in respect of pension contributions.

Note G13
Unusable Reserves

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

31 March 2018 £m		31 March 2019 £m
1,896.8	Revaluation Reserve	2,028.5
(428.9)	Capital Adjustment Account	(336.3)
(25.9)	Financial Instruments Adjustment Account	(48.1)
41.8	Deferred Capital Receipts	37.7
(2,836.1)	Pensions Reserve	(2,676.2)
18.0	Collection Fund Adjustment Account	10.0
(151.8)	Equal Pay Back Pay Account	(174.5)
(19.9)	Accumulated Absences Account	(14.0)
(0.3)	Available for Sale Financial Instruments Reserve	-
0.7	Called up Share Capital	0.6
(1,505.6)	**Total**	**(1,172.3)**

Further analysis is provided below for unusable reserves which are materially different from the balances included in the Council entity accounts.

Revaluation Reserve

The Revaluation Reserve contains the gains made by the Group arising from increases in the value of its Property, Plant, Equipment, Heritage Assets and Intangible Assets. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

For amounts arising in the Council entity accounts, the Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

2017/18 £m		2018/19 £m
1,553.2	**Balance at 1 April**	**1,896.8**
	Revaluations not posted to (Surplus)/Deficit on the Provision of Services	
592.5	Council: Upward revaluation of assets	430.4
(197.3)	Council: Downward revaluation of assets	(199.5)
-	Council: Impairment (losses)/reversals not charged to the Surplus/Deficit on the Provision of Services	-
395.2	**Council: Surplus/(Deficit) on revaluation of non-current assets not posted to the (Surplus)/Deficit on the Provision of Services**	**230.9**
	Amounts written off to the Capital Adjustment Account	
(19.0)	Council: Difference between fair value depreciation and historical cost depreciation	(74.8)
(32.9)	Council: Accumulated gains on assets sold or scrapped	(20.4)
-	Council: Adjustment for transfer of land to Investment Property	-
(51.9)	**Council: Amount written off to the Capital Adjustment Account**	**(95.2)**
	Group Movements	
0.3	Other movements in reserve in Group entities	(4.0)
0.3	**Total Group Movements**	**(4.0)**
1,896.8	**Balance at 31 March**	**2,028.5**

Note G14
Cash Flow Statement - Operating Activities

The cash flows from operating activities include the items set out below.

2017/18 £m		2018/19 £m
(16.1)	Interest Received	(21.6)
184.7	Interest Paid	183.2
(6.1)	Dividends Received	(5.7)

Note G15
Cash Flow Statement - Investing Activities

The cash flows from investing activities are set out below. The detail for 2017/18 has been restated to show the split between the purchase and proceeds from short-term and long-term investments.

2017/18 (Restated) £m		2018/19 £m
(238.4)	Purchase of property, plant and equipment, investment property and intangible assets	(264.9)
(2,004.2)	Purchase of short-term and long-term investments	(1,081.1)
(0.6)	Investing Activities of Discontinued Operations	-
126.1	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	87.4
2.0	Proceeds from the sale of subsidiary (NEC Group)	-
1,965.2	Proceeds from short-term and long-term investments	1,083.8
0.5	Other receipts from investing activities	53.1
(149.4)	**Net cash flows from investing activities**	**(121.7)**

Note G16
Cash Flow Statement - Financing Activities

The cash flows from financing activities are set out below.

2017/18 £m		2018/19 £m
95.5	Other receipts from financing activities	126.5
1,554.0	Cash Receipts from short-term and long-term borrowing	1,962.8
(45.9)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(47.4)
(1,287.0)	Repayments of short-term and long-term borrowing	(2,086.6)
-	Other payments for financing activities	(4.9)
316.6	**Net cash flows from financing activities**	**(49.6)**

Note G17
Group Cash Flow Statement – Other Adjustments

The cash flow adjustments to the net surplus/deficit on the provision of services are set out below.

2017/18 £m		2018/19 £m
150.1	Depreciation/Impairment charge	154.6
8.0	Amortisation of Intangible Assets	8.2
6.5	Derecognition of Available for Sale Assets	-
135.4	Derecognition of Non-Current Assets	78.6
6.1	(Increase)/Decrease in Investments	(4.3)
(38.9)	Revaluation of Non-Current Assets	160.0
(91.2)	(Increase)/Decrease in Debtors	13.9
1.2	Increase/(Decrease) in Creditors	(33.5)
-	(Increase)/Decrease in Inventories	(0.1)
25.9	Increase/(Decrease) in Provisions	1.7
(128.2)	Pensions Liability	244.4
74.9		**623.5**

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

2017/18 £m		2018/19 £m
(95.5)	Capital Grants	(126.5)
(128.6)	Capital Receipts	(140.5)
-	Council Tax and Business Rates Adjustments	4.9
(224.1)		**(262.1)**

Note G18
Group Expenditure and Funding by Nature of Activity

Detail of the Council's Expenditure and Funding by Nature of Activity is provided in Note 9 to the entity accounts.

2017/18 £m	Expenditure	2018/19 £m
1,085.9	Employee Benefits Expenses	1,147.9
1,760.6	Other Service Expenses	1,703.5
158.5	Depreciation, Amortisation and Impairment	312.6
261.4	Interest Payments	248.9
-	Movement in the valuation of financial assets	10.9
52.9	Precepts and Levies	50.0
6.3	Payments to Housing Capital Receipts Pool	6.3
14.0	Loss on Disposal of Non-Current Assets	5.5
3,339.6	**Total Expenditure**	**3,485.6**
	Income	
(636.3)	Fees, Charges and Other Services Income	(618.7)
(737.5)	Income from Council Tax and Business Rates	(762.9)
(1,910.9)	Government Grants and Contributions	(1,897.9)
(20.8)	Interest and Investment Income	(27.3)
(3,305.5)	**Total Income**	**(3,306.8)**
34.1	**(Surplus)/Deficit on Provision of Services**	**178.8**

Note G19
Related Parties

Details of the Council's material transactions with related parties are provided in Note 48 to the Council entity accounts. Details of the subsidiary companies of group entities are detailed in the relevant notes G24 and G25 to these group financial statements.

In addition to the related parties detailed within Note 48 to the Council entity accounts, Birmingham Airport Holdings Limited transacts business with the shareholding West Midlands District Councils with Solihull MBC acting as the lead authority. Transactions would be undertaken in a number of areas and include business rates, planning applications and building control services. All of these transactions are carried out on an arms-length basis at full commercial rate.

Birmingham Airport Limited entered into a lease arrangement with Solihull MBC, on behalf of all the Districts, which has been treated as a finance lease in its accounts by the company. The total amount payable in the year under the arrangement was £0.8m with an amount due at the year-end of £4.7m.

Note G20
Leases

Group as the lessee

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

Group as the lessor

Within the Group there are leases between Group entities and also leases from Group entities to external organisations. Details of the Council's finance leases are provided in Note 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

Finance leases

The Council was the lessor for premises leased to Innovation Birmingham Group Limited (IBL) prior to its disposal on 18 April 2018. 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 2018 £m		31 March 2019 £m
	Finance lease debtor (net present value of minimum lease payments):	
-	- Current	-
7.6	- Non current	-
13.5	Unearned finance income	-
(0.1)	Unguaranteed residual value of property	-
21.0	**Gross investment in the lease**	**-**

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 2018 £m	31 March 2019 £m	31 March 2018 £m	31 March 2019 £m
Not later than one year	-	-	0.2	-
Later than one year and not later than five years	0.1	-	0.7	-
Later than five years	7.5	-	20.1	-
Total	**7.6**	**-**	**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 2018 £m		31 March 2019 £m
	Finance lease debtor (net present value of minimum lease payments):	
0.1	- Current	0.1
20.1	- Non current	20.1
47.1	Unearned finance income	46.1
-	Unguaranteed residual value of property	-
67.3	**Gross investment in the lease**	**66.3**

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 2018 £m	31 March 2019 £m	31 March 2018 £m	31 March 2019 £m
Not later than one year	0.1	0.1	1.0	1.0
Later than one year and not later than five years	0.2	0.2	4.1	4.1
Later than five years	19.9	19.9	62.2	61.2
Total	**20.2**	**20.2**	**67.3**	**66.3**

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 2018 £m		31 March 2019 £m
0.4	Not later than one year	0.4
1.7	Later than one year and not later than five years	1.7
26.6	Later than five years	26.1
28.7	**Gross investment in the lease**	**28.2**

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews.

Note G21
Defined Benefit Pension Schemes

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

Birmingham Children's Trust Limited

Birmingham Children's Trust CIC participates in the West Midlands Pension Fund, a Local Government Pension Scheme. The scheme is a defined benefit scheme, which pays out pensions at retirement based on length of service and final pay for service earned up to 31 March 2014 and on a career salary average for service earned from 1 April 2014.

The information disclosed below is in respect of the whole of the plans for which the Company is either the sponsoring employer or has been allocated a share of cost under an agreed group policy throughout the periods shown.

	2018/19 £m
Present value of funded defined benefit obligations	(258.7)
Fair value of plan assets	182.4
Net (Liability)/Asset	**(76.3)**

Movements in the present value of defined benefit obligation:

	2018/19 £m
Balance at beginning of period	-
Transfer on creation of Trust	231.2
Current service cost	20.0
Interest cost	6.0
Change in financial assumptions	13.1
Change in demographic assumptions	(13.9)
Contributions by scheme members	3.0
Curtailment	
Benefits paid	(0.7)
31 March	**258.7**

Movements in the fair value of plan assets:

	2018/19 £m
Balance at beginning of period	-
Transfer on creation of Trust	155.5
Return on assets (less interest)	8.8
Interest on assets	4.2
Administrative expenses	(0.1)
Settlement prices received/(paid)	11.7
Contributions by scheme members	3.0
Benefits paid	(0.7)
31 March	**182.4**

Expense recognised in the profit and loss account:

	2018/19 £m
Operating Costs:	
Current Service Cost	8.3
Administrative Expenses	0.1
Included in Operating Cost	8.4
Financing Costs:	
Interest cost on pension scheme liabilities	6.0
Interest income on plan assets	(4.2)
Net interest cost	1.8
Total Income Statement expense	**10.2**

Other Comprehensive Income

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

	2018/19 £m
Return on plan assets in excess of interest income	-
Actuarial gain/(loss) on liabilities due to changes in financial assumptions	13.0
Actuarial gain/(loss) on liabilities due to changes in demographic assumptions	(13.9)
Actuarial gain/(loss) on liabilities due to experience	(8.8)
Remeasurement gain/(loss) recognised during the period	**(9.7)**

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

	2018/19 Fair Value	
	£m	%
Equities	105.6	58
Government Bonds	13.7	8
Other Bonds	7.0	4
Property	16.3	9
Cash/Liquidity	9.5	5
Other	30.3	16
Total	**182.4**	**100**

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

	2018/19 %
Discount rate	2.45
Future salary increases	3.85
Future pension increases	2.35
CPI increases	2.35

In valuing the liabilities of the pension fund at 31 March 2019, mortality assumptions have been made as indicated below.

The life expectancy for members as at the Balance Sheet date:

	31 March 2019
Male: member aged 65 (current life expectancy)	20.9
Female: member aged 65 (current life expectancy)	23.2
Male: member aged 45 (life expectancy at age 65)	22.6
Female: member aged 45 (life expectancy at age 65)	25.0

The valuation of the defined benefit obligation and the impact on current service cost are sensitive to a number of factors. Details of the impact of changes to relevant factors are set out below.

	Impact of Change	
	Defined Benefit Obligation	Current Service Cost
	£m	£m
An increase in the discount rate of 0.1%	(6.6)	(0.5)
An increase in long term salary estimate of 0.1%	1.3	-
An increase in the rate of pension increases of 0.1%	5.5	0.5
An increase in anticipated life expectancy of 1 year	8.4	0.6

A ruling has been made regarding age discrimination arising from public sector pension scheme transition arrangements put in place when moving from final salary to average salary scheme arrangements. Court of Appeal judgements were made in cases affecting judges' pensions (the McCloud Judgement) and firefighter pensions. An estimate has been made of the potential impact to the Council's total defined benefit obligations based on an analysis carried out by the Government Actuary's Department and the Council's liability profile. The impact has been estimated to be equivalent to 0.7% of the Council's total defined benefit obligations. If the impact to Birmingham Children's Trust were similar to that of the Council, its total defined benefit obligations would increase by around £1.8m.

It is also anticipated that there will also be an increase in service costs in future years as a result of the determination.

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 2017/18 for the Fund and the Scheme have been provided.

Balance Sheet

The following amounts have been recognised in PETPS' Balance Sheet and so consolidated into the Group Balance Sheet. The fair value of plan assets has been restated as at 31 March 2018 to reflect the confirmed year-end valuation. The fair value of plan assets has been increased by £0.2m, and the retirement benefit obligation reduced by the same amount.

	31 March 2018 (Restated) £m	31 March 2019 £m
Present value of funded obligations	(200.5)	(206.8)
Fair value of plan assets	183.0	190.2
Deficit for funded plans	(17.5)	(16.6)
Unrecognised asset due to the asset ceiling	(1.0)	(1.4)
Retirement Benefit Obligation	**(18.5)**	**(18.0)**

Income Statement

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

	2017/18 £m	2018/19 £m
Operating Costs:		
Administration Expenses	0.9	0.7
Past Service Cost	-	0.8
Included in Operating Cost	0.9	1.5
Financing Costs:		
Interest cost on pension scheme liabilities	5.1	4.9
Interest income on plan assets	(4.6)	(4.5)
Net interest cost	0.5	0.4
Total income statement expense	**1.4**	**1.9**

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 2017/18 have been restated to reflect an increase in the return on plan assets in excess of interest income by £0.2m.

	2017/18 (Restated) £m	2018/19 £m
Return on plan assets in excess of interest income	1.1	5.4
Actuarial gain/(loss) on liabilities due to changes in financial assumptions	1.9	(10.2)
Actuarial gain/(loss) on liabilities due to changes in demographic assumptions	0.6	4.0
Actuarial gain/(loss) on liabilities due to experience	(0.9)	(1.3)
Remeasurement gain/(loss) recognised during the period	**2.7**	**(2.1)**

Reconciliation of Liabilities and Assets

Movements in the retirement benefit obligations are as follows:

	2017/18 £m	2018/19 £m
Beginning of Period	(206.6)	(200.5)
Past Service Cost	-	(0.8)
Interest Cost	(5.1)	(4.9)
Actuarial gain/(loss) on liabilities due to changes in financial assumptions	1.9	(10.2)
Actuarial gain/(loss) on liabilities due to changes in demographic assumptions	0.6	4.0
Actuarial gain/(loss) on liabilities due to experience	(0.9)	(1.3)
Benefits Paid	9.5	7.0
Present value of obligation at 31 March	**(200.5)**	**(206.7)**

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

	2017/18 (Restated) £m	2018/19 £m
Beginning of Period	184.3	183.0
Interest income on plan assets	4.5	4.6
Return on plan assets in excess on interest income	1.1	5.4
Contributions by employer	3.5	4.9
Administration expenses paid	(0.9)	(0.7)
Benefits paid	(9.5)	(7.0)
Fair value of plan assets at 31 March	**183.0**	**190.2**

Movements in the reimbursement right are as follows:

	2017/18 £m	2018/19 £m
Surplus/(Deficit) at start of year	(22.3)	(17.5)
Expense (charge)/credit	(1.5)	(1.9)
Employer contributions	3.5	4.9
Remeasurement gain/(loss) in Other Comprehensive Income	2.5	(2.1)
Surplus/(Deficit) at end of year	**(17.5)**	**(16.6)**

Plan Assets

The major categories of plan assets are as follows:

	31 March 2018		31 March 2019	
	£m	%	£m	%
Equities, GTAA and hedge funds	87.1	48	76.7	40
Bonds and Cash	72.9	40	89.6	47
Property	16.4	9	16.9	9
Gilts	6.6	3	7.0	4
	183.0	**100**	**190.2**	**100**

Assumptions

The principal assumptions made by the actuary were:

	31 March 2018 %	31 March 2019 %
Discount rate – Fund/Scheme	2.50	2.4/2.35
RPI Inflation rate	3.15	3.25
CPI Inflation rate	2.15	2.35
Future Pension increases		
- pension accrued prior to 5 April 2005	3.00	3.1
- pension accrued after 5 April 2005	2.05	2.1

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 2018 projection with a long term rate of improvement of 1.25% p.a. (2017/18: 1.25%).

The life expectancy for members as at the Balance Sheet date:

	31 March 2018 Years		31 March 2019 Years	
	Fund	Scheme	Fund	Scheme
Male: member aged 65 (current life expectancy)	22.1	24.5	21.6	24.0
Female: member aged 65 (current life expectancy)	24.6	26.8	24.2	26.4
Male: member aged 45 (life expectancy at age 65)	23.0	25.9	22.5	25.4
Female: member aged 45 (life expectancy at age 65)	26.2	28.3	25.7	27.8

Sensitivity Analysis

An increase of 0.25% in the discount rate would decrease the retirement benefit obligations by £10.7m
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 £9.0m

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

Expected Contributions for 2019/20

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 2019/20 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.

	2017/18 £m	2018/19 £m
Present value of funded defined benefit obligations	(87.0)	(89.4)
Fair value of plan assets	77.7	79.3
Net (Liability)/Asset	**(9.3)**	**(10.1)**

Movements in the present value of defined benefit obligation:

	2017/18 £m	2018/19 £m
Balance at beginning of period	85.1	87.0
Current service cost	3.2	2.8
Interest cost	2.4	2.2
Actuarial (gains)/losses	(3.0)	(0.8)
Contributions by members	0.6	0.5
Curtailment	0.3	0.6
Benefits paid	(1.6)	(2.9)
31 March	**87.0**	**89.4**

Movements in the fair value of plan assets:

	2017/18 £m	2018/19 £m
Balance at beginning of period	77.3	77.7
Return on assets (less interest)		
Interest on assets	2.1	2.0
Actuarial (losses)/gains	(2.1)	0.8
Contributions	1.9	1.6
Benefits paid	(1.6)	(2.8)
31 March	**77.7**	**79.3**

Expense recognised in the profit and loss account:

	2017/18 £m	2018/19 £m
Operating Costs:		
Current Service Cost	3.5	2.8
Included in Operating Cost	3.5	2.8
Financing Costs:		
Interest cost on pension scheme liabilities	2.4	2.2
Interest income on plan assets	(2.1)	(2.0)
Net interest cost	0.3	0.2
Total income statement expense	**3.8**	**3.0**

Other Comprehensive Income

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

	2017/18 £m	2018/19 £m
Actuarial (gain)/loss on liabilities	(3.0)	(0.8)
(Gain)/loss on settlement or curtailment	-	-
Actuarial (gain)/loss on plan assets	2.1	(0.8)
Remeasurement (gain)/loss recognised during the period	**(0.9)**	**(1.6)**

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

	2017/18 Fair Value		2018/19 Fair Value	
	£m	%	£m	%
Equities	49.6	64	46.9	59
Government Bonds	5.7	7	7.7	10
Other Bonds	3.0	4	3.0	4
Property	6.0	8	6.7	8
Cash/Liquidity	1.9	2	2.5	3
Other	11.5	15	12.5	16
Total	**77.7**	**100**	**79.3**	**100**

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

	2017/18 %	2018/19 %
Discount rate	2.6	2.4
Future salary increases	3.8	3.9
Future pension increases	2.3	2.4
CPI increases	2.3	2.4

In valuing the liabilities of the pension fund at 31 March 2019, mortality assumptions have been made as indicated below.

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

	31 March 2018	31 March 2019
Male: member aged 65 (current life expectancy)	21.9	20.9
Female: member aged 65 (current life expectancy)	24.3	23.2
Male: member aged 45 (life expectancy at age 65)	24.0	22.6
Female: member aged 45 (life expectancy at age 65)	26.6	25.0

The valuation of the defined benefit obligation is sensitive to the assumption adopted for the discount rate. The effect of a 0.1% increase in the discount rate is set out below

	£m
Effect on service cost	2.7
Effect on defined benefit obligation	87.7

A ruling has been made regarding age discrimination arising from public sector pension scheme transition arrangements put in place when moving from final salary to average salary scheme arrangements. Court of Appeal judgements were made in cases affecting judges' pensions (the McCloud Judgement) and firefighter pensions. An estimate has been made of the potential impact to the Council's total defined benefit obligations based on an analysis carried out by the Government Actuary's Department and the Council's liability profile. The impact has been estimated to be equivalent to 0.7% of the Council's total defined benefit obligations. If the impact to Acivico Limited were similar to that of the Council, its total defined benefit obligations would increase by around £0.6m.

It is also anticipated that there will also be an increase in service costs in future years as a result of the determination.

Note G22
Adjustments between Group Accounts and Council Accounts

The following adjustments are made in the Group's Movement in Reserves Statement in order to reconcile the General Fund balance back to its Council position prior to funding basis adjustments being made. There has been a significant increase in activity in 2018/19 as a result of the creation of Birmingham Children's Trust CIC.

	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**
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**	**-**
2018/19										
Provision of goods and services to subsidiaries	20.3					20.3		20.3	(20.3)	-
Purchases of goods and services from subsidiaries	(225.1)					(225.1)		(225.1)	225.1	-
Total adjustments between Group accounts and Council accounts	**(204.8)**	**-**	**-**	**-**	**-**	**(204.8)**	**-**	**(204.8)**	**204.8**	**-**

Note G23
Analysis of Group Comprehensive Income and Expenditure Statement and Total Movement in Balance Sheet

Detailed below is the analysis of Group Balance Sheet movements.

2017/18				2018/19		
Council	Minority Interests	Total		Council	Minority interests	Total
£m	£m	£m		£m	£m	£m
34.1	-	34.1	(Surplus)/Deficit on the provision of services	128.1	-	128.1
(4.5)	-	(4.5)	Share of Associates	(1.1)	-	(1.1)
(547.8)	-	(547.8)	Other Comprehensive (Income)/Expenditure	(377.9)	-	(377.9)
(518.2)	**-**	**(518.2)**	**Total Comprehensive (Income)/Expenditure**	**(250.9)**	**-**	**(250.9)**
-	-	-	(Increase)/Decrease in Equity	0.1	-	0.1
(518.2)	**-**	**(518.2)**	**Total movement in Balance Sheet**	**(250.8)**	**-**	**(250.8)**

Note G24
Subsidiary Companies

I. Acivico Limited

Acivico Limited is a registered company, which is wholly owned by the Council. The company was launched in April 2012, with three special purpose vehicles: one holding company and two trading companies. The two trading companies, Acivico (Design Construction and Facilities Management) Limited and Acivico (Building Consultancy) Limited, have been operational since April 2012 and provide a range of statutory and non-statutory services on behalf of and to the Council and to other public and private sector clients. The Council has held the £1 issued ordinary share (100%) for the whole of the reporting period covered by these financial statements.

The Council issued a letter of assurance to the company, in December 2018, to ensure that it was able to meet its liabilities as they fell due as detailed in Note 33 of the entity accounts.

The year-end of the company is 31 March and for the purposes of consolidation the accounts for the period to 31 March 2019 have been used, as amended for alignment of accounting policies and the guarantee given by the Council.

	2017/18	2018/19
	£m	£m
Total Comprehensive Income for the Year	(4.6)	4.5
Net Assets/(Liabilities) at the year-end	(12.2)	(7.7)

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.

II. Birmingham Children's Trust CIC

Birmingham Children's Trust CIC was incorporated on 17 May 2017 and became independently operational on 1 April 2018. The Council is sole member of the company. However, as the company is an asset locked entity, the Council has no entitlement to any assets of the company. For the purposes of consolidation, the Council has used the Trust's outturn for 2018/19, as amended for alignment of accounting policies. Details of the outturn, before elimination of intra-group transactions, are set out below.

	2018/19 £m
Comprehensive Income and Expenditure	
Turnover	202.0
Other Income	8.9
Administrative Expenses	(295.2)
Operating Profit/(Loss)	**(84.3)**
Interest Receivable	4.4
Interest Payable	(6.1)
Profit/(Loss) for the Year	**(86.0)**
Other Comprehensive Income	
Actuarial Gain/(Loss) on defined benefit scheme	15.7
Total Comprehensive Income for the Year	**(70.3)**
Balance Sheet	
Debtors	8.5
Short Term Investments	27.0
Cash and Cash Equivalents	0.3
Total Current Assets	**35.8**
Creditors due within one year	(25.8)
Net Current Assets	**10.0**
Long Term Borrowing	(4.0)
Pension Liabilities	(76.3)
Total Assets/(Liabilities)	**(70.3)**
Reserves	(70.3)
Total Reserves	**(70.3)**

Whilst the company is showing net pension liabilities on an IAS19, *Employee Benefits* basis, in line with IFRS reporting, the latest actuarial valuation of the Trust's defined benefit scheme on an ongoing funding basis shows that the Trust is in surplus by £28.0m.

III. The National Exhibition Centre (Developments) Plc

The company was set up to provide an additional 30,000 square metres of exhibition space in four halls. The building was financed by a loan stock issue of £73 million, at 7.5625%, by the company and is guaranteed by the Council and which is due for repayment in 2027.

The Council has held all 1,000 issued ordinary shares of £1 each and all 100,000 £1 preference shares throughout the reporting period covered by these financial statements.

The Council has zero coupon loan notes totalling £0.1m (2017/18: £0.4m). The loan notes are repayable in instalments and repayments commenced in 2013/14. The position at the year end is detailed below.

	2017/18	2018/19
	£m	£m
Profit/(Loss) for the year	(1.0)	(1.0)
Net Assets/(Liabilities) at the year-end	8.4	7.7

The year end of the company is 31 March 2019. For the purposes of consolidation these accounts have been used. There was no qualification to the audit opinion on the last audited accounts of the company.

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

IV. 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 2018/19 financial year, until disposal on 18 April 2018, 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 group accounts incorporated:

- Birmingham Technology (Property) Limited – with shareholding of 87.5% held by Innovation Birmingham Limited and 12.5% by the Council
- Birmingham Technology (Property One) Limited – wholly owned by Birmingham Technology (Property) Limited
- Birmingham Technology (Venture Capital) Limited – with shareholding of 90.9% held by Innovation Birmingham Limited and 9.1% by the Council

The Council had made the decision, in 2017/18, to dispose of its interests in the company and its subsidiaries to a third party to ensure its continued development. The company was therefore treated as an Asset Held for Sale in the 2017/18 Group financial statements. The assets of the company were disposed of on 18 April 2018.

The reported position at the year end is detailed below.

	2017/18 £m	2018/19 £m
Profit/(Loss) for the-year	(0.6)	-
Net Assets/(Liabilities) at the year-end	1.8	-

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.

V. 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.

	2017/18 £m	2018/19 £m
Profit/(Loss) for the year	-	-
Net Assets/(Liabilities) at the year-end	-	-

The year-end of the company is 31 March 2019 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.

VI. PETPS (Birmingham) Pension Funding Scottish Limited Partnership

PETPS (Birmingham) Pension Funding Scottish Limited Partnership (SLP) was formed by PETPS (Birmingham) Capital Limited (PETPS Capital) and PETPS (Birmingham) General Partner Limited (PETPS General), which are both wholly owned subsidiaries of the Council.

The arrangement was created in 2017/18 to enable the Council to manage the funding implications of its guarantee in respect of the pensions from the NEC Group Limited following its disposal. The Council has invested equity in PETPS Capital which it has subsequently invested in SLP. The rights of the investment in SLP have been assigned to the NEC Pension Fund Trustees whilst the pension fund is in deficit. At 31 March 2019, the level of investment in SLP that is currently assigned to the NEC Pension Fund Trustees was £10.6m (31 March 2018: £13.9m).

At 31 March 2019, there were nominal balances in PETPS Capital and PETPS General with the major transactions in SLP.

	2017/18 £m	2018/19 £m
Profit/(Loss) for the year	-	-
Net Assets/(Liabilities) at the year-end	-	-

The year-end of the company is 31 March 2019 and for the purposes of consolidation these accounts have been used. Advantage has been taken of the exemption not to produce partnership accounts under regulation 7 of The Partnerships (Accounts) Regulations 2008 as the financial information for the partnership has been consolidated into these group accounts.

Information regarding transactions during the year and balances held at the year-end between the Council and PETPS (Birmingham) Pension Funding Scottish Limited Partnership can be found within Note 48 of the Council entity accounts.

VII. 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 completed its building programme of 92 flats and 53 car parking spaces in July 2018 with the first occupant taking up residence in August 2018. Currently, the company has achieved in excess of 93% occupancy of its flats.

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.

	2017/18 £m	2018/19 £m
Operating Profit/(Loss) for the year	(0.5)	-
Change in value of Investment Property	-	9.5
Total Comprehensive Income for the Year	(0.5)	9.5
Net Assets/(Liabilities) at the year-end	1.3	10.8

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 2019 have been used. There was no qualification to the audit opinion on the last audited accounts of the group.

VIII. 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.

	2017/18 £m	2018/19 £m
Profit/(Loss) for the year	(0.6)	0.1
Net Assets/(Liabilities) at the year-end	8.9	9.0

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 G25
Associate and Joint Venture

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

I. Birmingham Airport Holdings Limited

The seven West Midlands District Councils together own 49% of Birmingham Airport Holdings Limited (BAH) (the Council holds 18.68% of the total shareholding). The remaining shares of the company are held by Airport Group Investments Limited, 48.25%, and by the Employee Share Ownership Plan, 2.75%. The Shareholders' Agreement provides for the District Councils to cast their 49% vote in all circumstances in one consolidated block. The vote of 75% of ordinary shareholders is required for certain major decisions of the company.

The seven West Midland Districts together own all £15.4m of BAH's 6.31% preference shares (the Council owns £5.9m) which are cumulative and redeemable.

The BAH Group Accounts incorporate:

- Birmingham Airport Limited;
- Birmingham Airport Air Traffic Limited;
- Birmingham Airport Developments Limited;
- Birmingham Airport (Finance) Plc;
- Birmingham Airport Operations Limited;
- Birmingham Airport Services Limited;
- BHX Fire and Rescue Limited;
- BHX (Scotland) Limited;
- BHX Limited Partnership;
- Euro-Hub (Birmingham) Limited; and
- First Castle Developments Limited.

The principal activity of the group is the operation and management of Birmingham Airport and the provision of facilities and services associated with those operations.

The year-end of the company is 31 March 2019. 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 2018 £m		31 March 2019 £m
465.6	Non-Current Assets	467.7
68.7	Current Assets	152.5
(76.3)	Current Liabilities	(73.9)
(348.1)	Non-Current Liabilities	(439.4)
109.9	Net Assets	106.9
20.5	**Council Interest in Net Assets @ 18.68%**	**20.0**
155.5	**Revenue**	**160.8**
26.4	Post-Tax Profit/(Loss)	25.6
9.1	Other Comprehensive Income/(Expenditure)	(3.0)
35.5	Total Comprehensive Income/(Expenditure)	22.6
6.6	**Council Interest in Total Comprehensive Income/(Expenditure) @ 18.68%**	**4.2**

The carrying value of the Council's interest in this entity is £20.0m (2017/18: £20.5m), which is included within Investments in Associates and Joint Ventures in the Group Balance Sheet.

Birmingham Airport Holdings Limited at 31 March 2019 has disclosed four contingent liabilities within its financial statements:

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

- On 3 December 2013 the company along with other group members of Birmingham Airport Holdings Limited provided guarantees in support of £75m private placement senior notes received by Birmingham Airport (Finance) Plc. Series A senior notes of £30m are for a period of ten years maturing on 3 December 2023 and carry a fixed interest rate of 4.472% per annum. Series B senior notes of £45m are for a period of 15 years maturing on 3 December 2028 and carry a fixed interest rate of 4.557% per annum;

- On 30 March 2016 the company along with other group members of Birmingham Airport Holdings Limited, provided guarantees in support of £76m private placement senior notes issued by Birmingham Airport (Finance) Plc. The notes are for a period of 25 years maturing on 30 March 2041 and carry a fixed interest rate of 3.8% per annum;

- On 19 January 2019 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 £50m banking facility made available to Birmingham Airport Holdings Limited. The facility is for a period of five years with an expiry date of 16 January 2024, with an option to extend by two further 12 month periods. At the date of the signing of its financial statements, the total amount outstanding under the facility was £nil.

- On 24 January 2019, the company, along with other group members of Birmingham Airport Holdings Limited, provided guarantees in support of £90m private placement senior notes issued by Birmingham Airport (Finance) Plc on 24 January 2019. The senior notes are for a period of 30 years maturing on 24 January 2049 and carry a fixed interest rate of 3.21% per annum.

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

II. Paradise Circus Limited Partnership

Paradise Circus Limited Partnership (the partnership) is a joint venture arrangement between the Council, BriTel Funds Trustees Limited (BriTel) and Paradise Circus General Partner Limited, which is itself formed through a partnership of the Council and BriTel. The Council and BriTel share control of the joint venture on a 50/50 basis.

The partnership is facilitating the development of the area known as Paradise Circus, supporting delivery against one of the Council's strategic aims of making Birmingham an entrepreneurial city to learn, work and invest in. The entity was incorporated on 11 September 2013, with operational activity commencing in January 2015.

The year-end of the company was 30 June 2018. For the purposes of consolidation these accounts have been used and supplemented by management accounts information for the nine month period to 31 March 2019. There was no qualification on the audit opinion for the last audited accounts of the company.

Following adjustments to the financial information to align accounting policies with those of the Council, in accordance with the principles of equity accounting under the Code, the summarised financial information for the joint venture for the year ended 31 March is as follows:

31 March 2018 £m		31 March 2019 £m
6.8	Non-Current Assets	17.7
22.2	Current Assets	14.3
(4.0)	Current Liabilities	(4.9)
(28.2)	Non-Current Liabilities	(37.4)
(3.2)	Net Assets/(Liabilities)	(10.3)
(1.6)	**Council Interest in Net Liabilities @ 50%**	**(5.2)**
12.4	**Revenue**	**7.3**
(1.4)	Post-Tax Profit/(Loss)	(7.1)
-	Other Comprehensive Income/(Expenditure)	-
(1.4)	Total Comprehensive Income/(Expenditure)	(7.1)
(0.7)	**Council Interest in Total Comprehensive Income/(Expenditure) @ 50%**	**(3.6)**

The carrying value of the Council’s interest in this entity is a net deficit of £5.2m (2017/18: £1.6m deficit), which is included within the current liabilities in the Group Balance Sheet.

Birmingham City Council

Draft Annual Governance Statement 2018/19

Annual Governance Statement 2018/19

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 operates a governance framework 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 2019 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, driving the necessary change to deliver a new Council role and relationship with the City, its citizens and its partners.

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

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

3.4. The Council's vision and priorities in terms of the contribution to strategic outcomes are set out in the Council Plan 2018-2022 Plan (the Plan). The Plan was updated in 2018/19 and is available on the Council's website.

3.5. The Plan articulates the strategic direction for the Council with a clear set of corporate priorities. These priorities have been informed by extensive consultation with Cabinet Members and Members from opposition groups, citizens and partners, surveys and consultations.

3.6. A set of service delivery measures, aligned to service plans and Council priorities have been put in place for 2018/2019. These measures are designed to ensure improvement in service quality and outcomes for the citizens of Birmingham, some have a particular focus on disadvantaged groups. Regular monitoring and reporting against these measures ensures that weaknesses in performance are identified at an early stage and effective action to bring performance in line with targets is undertaken.

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

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

3.9. The Council continues to face significant funding reductions and challenges in achieving its budget plans, outlined in the Council Plan and Budget 2018+.

3.10. 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. During 2018/19, the Council has overhauled and strengthened its financial planning and control framework and reasserted 'grip' of the financial position with a series of interventions that have enabled the Council to eliminate a £28m in-year pressure since the May 2018 election. Where pressures were identified, Directors were required to find alternative solutions and actions to contain spending within cash limits.

3.11. Following the financial experiences over the last three years, highlighted by both the Birmingham Independent Improvement Panel (BIIP) and through Statutory Recommendations under Section 24 of the Local Audit and Accountability Act 2014, made by the external auditors in July 2018 and in March 2019, the extent of savings delivery risk is clearly recognised along with the potential impacts of unidentified pressures and other changes as the Council looks forward. In response, the Council is seeking to improve its controls to ensure that there are robust financial arrangements in place, recognising that it cannot continue to use reserves to balance the budget in the way that it has in the past. Nevertheless, it will continue to hold an element of its reserves as a contingency funding in case of savings delivery difficulties.

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

3.13. 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.

3.14. 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 Workforce Strategy, agreed by Cabinet in 2018. The strategy will guide a much stronger approach to staff engagement, empowerment and culture change.

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

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

3.17. Working with partners, the Council plays a strategic role for the Greater Birmingham area, working with the Greater Birmingham and Solihull Local Enterprise Partnership (LEP) and where applicable, jointly and in consultation with the West Midlands Combined Authority. As Accountable Body and partner to the LEP, the council develops collaborative solutions to common problems, and facilitates coherent programmes with regional and international partners to deliver an economic strategy for the city and region. LEP projects are delivered within the LEP Assurance Framework, approved by the Council's governance processes as Accountable Body, managed and monitored through Programme Delivery Board and thematic "Pillar Boards", with regular reporting to the LEP Board.

3.18. 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.

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

3.20. In May 2016, the Council announced its intention to move towards a Children's Trust. The 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.

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

3.22. The Council facilitates policy and decision–making via an Executive Structure. There were ten members of Cabinet for the 2018/19 financial year: the Leader, Deputy Leader and eight other Cabinet Members with the following portfolios:

- Cabinet Member – Children's Wellbeing;
- Cabinet Member – Clean Streets, Waste and Recycling; (renamed Street Scene and Parks from May 19)
- Cabinet Member – Health and Social Care;
- Cabinet Member – Homes and Neighbourhoods;
- Cabinet Member – Finance and Resources;
- Cabinet Member – Social Inclusion, Community Safety and Equalities;
- Cabinet Member – Transportation and Environment;
- Cabinet Member – Education, Skills and Culture.

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

3.24. The CBMC has responsibility for the planning and preparation of the agenda, papers and other arrangements for Council meetings and provides the forum for non-executive, non-scrutiny and non-regulatory matters.

3.25. CBMC oversees the Council's relationship with the Independent Remuneration Panel which is chaired by an independent person. CBMC submits recommendations to the Council on the operation and membership of the Panel and amendments to the Councillors' Allowances Scheme.

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

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

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

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

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

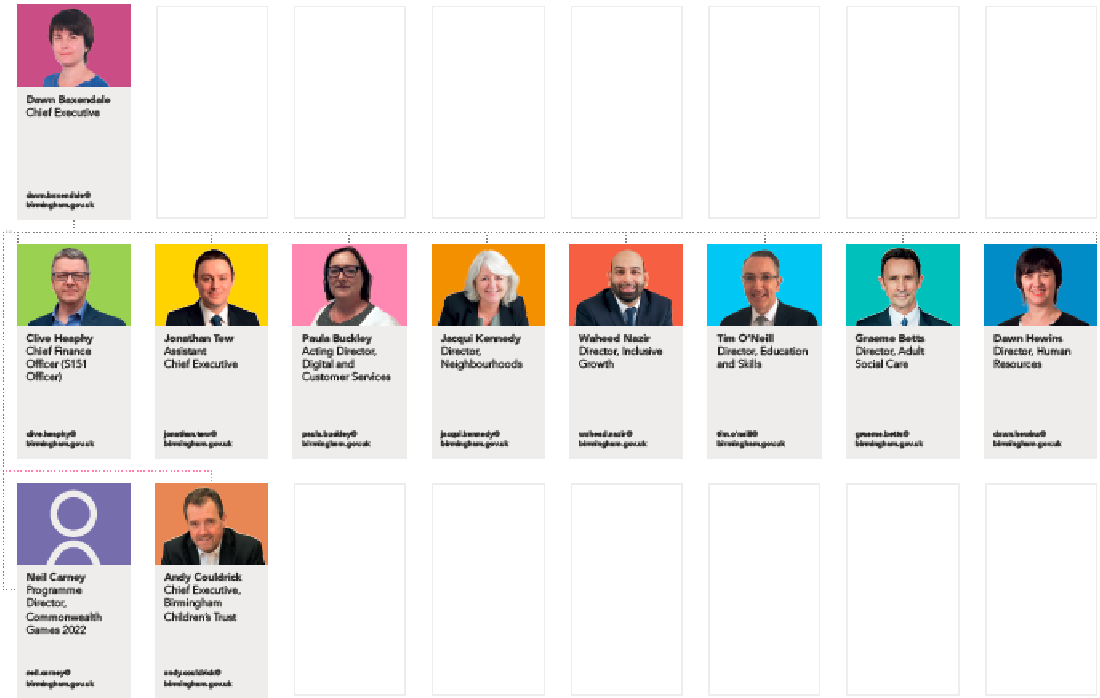
3.30. The Council has Codes of Conduct for both Members and Officers which set out the standards of conduct and personal behaviour expected and the conduct of work between members and officers. In particular the Council has clear arrangements for declaration of interests and registering of gifts and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

Management Structure

3.31. During 2018/19, the Council operated through six Directorates, Adult Social Care and Health, Children and Young People, Economy, Finance and Governance, Place and Strategic Services with a separate Human Resources Directorate from July 2018.

3.32. A senior management restructure took place in 2018/19 resulting in revised directorate names and responsibilities with effect from 21 January 2019.

3.33. The Council's management structure as at 31 March 2019 was as per the diagram below:



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

- Dawn Baxendale was appointed as permanent Chief Executive and started with the Council on 1 April 2018. Her departure was announced in July 2019.
- Dr Tim O'Neill was appointed as Director – Education and Skills on 7 January 2019, replacing Colin Diamond who left 31 August 2018.
- Angela Probert left the Council on 15 February 2019 and the post of Chief Operating Officer was deleted.
- Neil Carney took up the role of Programme Director, Commonwealth Games on 29 May 2018

Peter Bishop was appointed as Director, Digital and Customer Services from 1 July 2019.

<u>Financial Management Arrangements</u>

3.35. 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.

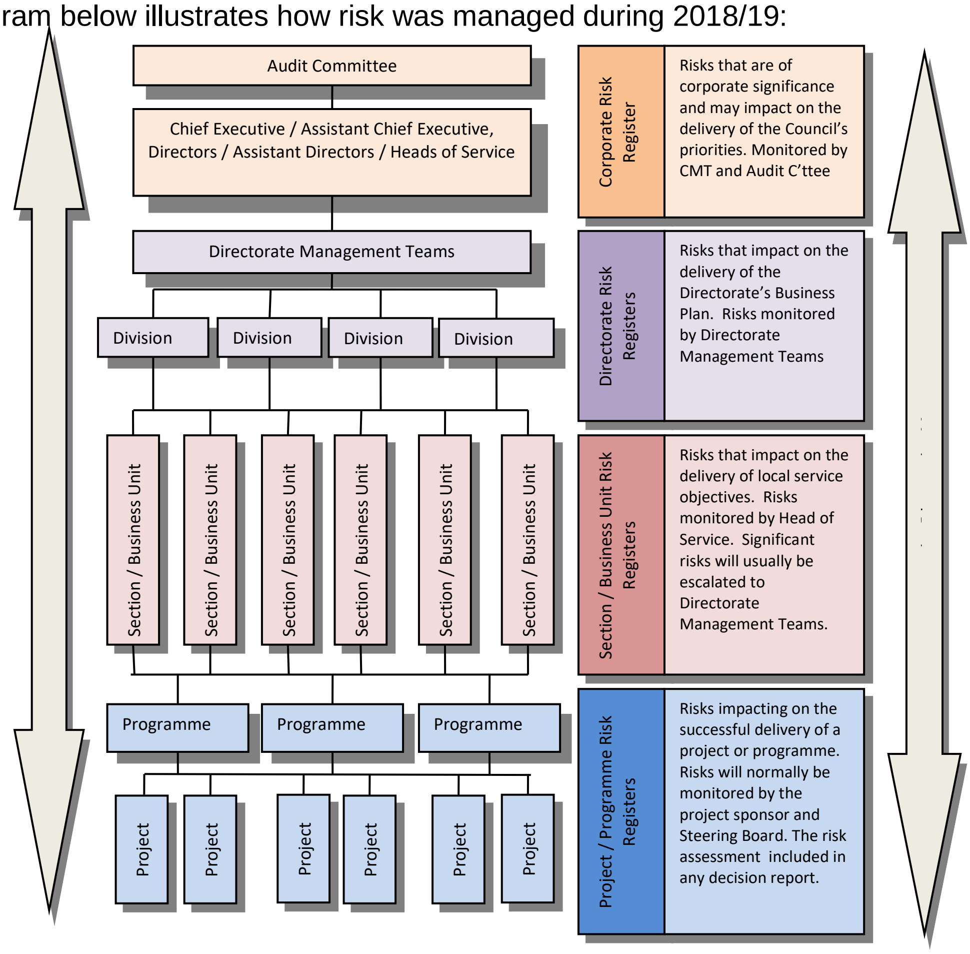
Scrutiny, Accountability and Risk Management

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

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

3.38. The Council ensures compliance with established policies, procedures, laws, and regulations - including risk management. For transparency, all reports to Cabinet and Cabinet Members are required to include governance information relating to: Council policy, internal and external consultation, financial and legal implications and Public Sector Equalities Duty. All reports are required to be cleared by senior finance and legal officers.

3.39. Risk management continues to be embedded within the Council. The schematic diagram below illustrates how risk was managed during 2018/19:



3.40. The Risk Management Framework is available 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 monthly. CMT challenge the updated information provided, and recommend re-wording or deletion of risks as appropriate. In addition business plans at directorate and divisional level include key risks.

3.41. 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.

3.42. The Council has a strong Internal Audit function (Birmingham Audit) and well-established protocols for working with external audit. The Council's external auditors have responsibilities under the Code of Audit Practice to review compliance with policies, procedures, laws and regulations within their remit.

Birmingham Independent Improvement Panel (BIIP)

3.43. 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.

3.44. In a letter to the Secretary of State for Communities and Local Government in April, the BIIP confirmed it had officially stood itself down in March 2019.

3.45. In its April 2019 report, the BIIP acknowledged that "there has been meaningful progress over the last 10 months. We recognise the huge amount of work that Birmingham City Council is doing to get itself on the right track and tackle deep entrenched problems" but "due to the enormous challenges encountered in the last year and still being experienced, the pace of improvement continues to be slower than everyone involved would want".

3.46. The letter recommended the Minister for Housing, Communities and Local Government "Put in place external independent challenge and support, additional to that proposed by the Council, to replace the Panel." The Council is planning to maintain constructive and critical challenge through internal scrutiny and sector-led arrangements.

External Audit

3.47. In July 2018, the external auditor undertook the relatively unusual step of issuing a number of Statutory Recommendations under Section 24 of the Local Audit and Accountability Act 2014. This measure was a strong warning to the Council of the Auditors concerns and was the second such report issued to Birmingham City Council in three years.

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

Member Development

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

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

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

3.51. Regular monthly "market places" and briefing sessions are held to keep Councillors updated on Council services or services provided by partner organisations.

3.52. The Members' Development Programme 2018/19 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).

Workforce

3.53. 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 its ability to recruit and retain the talent needed to ensure workforce capacity.

3.54. During 2018/19, the 'My Appraisal' review process continued, enabling a consistent means of assessing and rewarding performance. 'My Appraisal' is specifically designed to ensure that employees are supported to implement the Council's core values:

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

Engagement with the community and other stakeholders

3.55. The Council engages in a wide range of consultation and engagement activities to inform service delivery and decision making. These are summarised in an annual statement and on-line consultation database. The Council Plan and Budget 2019 to 2023 consultation process included public meetings led by the Council's Leader and Cabinet, an online Be Heard survey, an online communications campaign including webpages, news feeds, Facebook and Twitter, consultation via post and email, and consultation with the business community and the Chamber of Commerce.

3.56. 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.

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

3.58. In 2018 the Council held a "summer of engagement" including "Working Together in Neighbourhoods" and the Community Cohesion Strategy. "Forward together to build a fair and inclusive city for everyone" is the first Community Cohesion Strategy for Birmingham, developed in partnership with citizens, communities and organisations across the city.

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 published a Corporate Governance Improvement Plan and reported progress against planned actions, the most recent in March 2019.

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

4.4. 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.

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

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

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

4.7. As in previous years the Birmingham Audit plan was compiled on the basis of professional judgement and a risk model to 'score' all potential 'auditable' areas. To meet the standards required there was a need to ensure sufficient coverage of the adequacy and effectiveness of systems of internal control in relation to financial control, risk management, corporate governance and an element for proactive and reactive fraud work.

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

4.9. From the work undertaken by Birmingham Audit during 2018/19 and the outcomes from applying the model for formulating the end of year opinion the following assurance was able to be given: *"Based on the audit work undertaken I am able to provide a reasonable assurance for the core systems of internal controls evaluated. As in any large organisation, our work did identify some significant issues that required action. This assurance also needs to be taken in context of the findings from the Birmingham Improvement Panel, External Audit and CIPFA's review into financial management, all of which limit my overall assurance."* In this context 'reasonable assurance' means that the systems can be relied upon to prevent error, fraud or misappropriation occurring without detection, and that nothing was found that would materially affect the Council's standing or Annual Accounts. As in any large organisation, Internal Audit did identify some significant issues that required action. All significant issues were reported to the appropriate Director during the year.

4.10. All significant issues have also been brought to the attention of the Audit Committee, and where appropriate to CMT. The more significant of these are set out in the section entitled '**Significant governance issues 2018/19'** below.

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

4.12. The Council's Overview and Scrutiny Committees received reports on key control issues throughout 2018/19 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 122 concerns raised and considered under the Council's Whistleblowing & Serious Misconduct policy in the 2018/19 financial year.

5 Review of 2017/18 governance issues

5.1. The significant 2017/18 governance issues were considered by Audit Committee in June 2018, agreed as part of the Statement of Accounts in July 2018 and reviewed as part of the Corporate Risk Register updates in the 2018/19 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. Housing and Neighbourhoods O&S Committee reviewed progress of the Homelessness Prevention Strategy and Cabinet received an update on the implementation of the Homelessness Reduction Act.

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

5.5. The Council worked closely with the BIIP to formulate and implement action plans in response to the Kerslake review.

6 Significant governance issues 2018/19

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	**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'. Given the Council is in the ninth year of budget reductions the possibility of Judicial Review challenge to the budget or elements of it, remains high. The risk of schools deficits and strain on the high needs block is monitored via the corporate risk register as these costs may ultimately need to be borne by the council.	Proactive actions are in place to plan and monitor the delivery of the savings programme including the delivery of workforce savings. These include further assurances on the deliverability and impacts of proposals and a commitment from Cabinet to future budgeting. Governance processes have been reviewed and significantly enhanced to improve the production of implementation plans and monitoring of the most significant savings proposals at the highest level. A number of controls have been introduced to support schools and provide early warning of difficulties setting balanced budgets.
2	**Major Projects and Partnership Working** The Council is involved in a range of major projects which include partnership working arrangements and sometimes complex legal agreements for example: • Working with neighbouring authorities in the West Midlands Combined Authority • Strengthening partnership working as Birmingham works towards hosting the Commonwealth Games 2022. • Working with private sector partners on major developments in the City such as Paradise. • Birmingham Children's Trust.	The partnership with neighbouring authorities through the West Midlands Combined Authority continues to develop. The next stages are vital as devolution is implemented, making sure that work leads to permanent benefits for the region. The Council is reviewing the way it works with its partners - working equally to a common shared purpose. Children's Services 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.

Issue No	Governance Issue	Mitigation Action / Proposed Action
	• Sustainability Transformation Programme	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.
3	**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 will require significant and substantial changes to the way services are provided, both internally and when working with other service providers. The Council has committed to • commission an independent review of the Council's model of waste collection and disposal services; • a formal review of the industrial relations framework in 2019 with peer support	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. In order to maintain a level of constructive and critical challenge, the Council is actively working with audit, overview and scrutiny and external peers to drive a sector-led approach to sustaining improvement in the future. A Strategic Programme Board will provide oversight of progress.
4	**Homelessness and Safety Implications for Tower Blocks** The implementation of the Homelessness Reduction Act from 1 April 2018 has seen an increase in households approaching the homelessness service.	Service redesign including reconfiguration of the frontline service, enhanced staffing levels and a new IT system in place from January 2019.

Issue No	Governance Issue	Mitigation Action / Proposed Action
	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. • A programme to carry out fire risk assessments to all communal areas annually.
5	**Asset Condition and Sufficiency** Many operational assets are in very poor condition following years of budget restrictions and lack of investment. There is an aging schools estate with some assets that are beyond repair. The demand for secondary school places is beginning a period of sustained growth, requiring a large number of additional places to meet our statutory duty for sufficiency.	The Council approved a Property Strategy 2018/19 – 2023/24 to better join up decision making, realignment of assets and enable strategic development. Capital funding to meet basic need requirements is being effectively managed through our strategy to make best use of existing space
6	**Commonwealth Games** Hosting the Commonwealth Games in 2022 brings with it significant delivery expectations (in terms of capital project management and delivery of legacy benefits) for the Council as well as significant financial commitments.	The Council is alive to the delivery, financial and reputational risks associated with the Games and has active risk management and programme management arrangements in place to ensure prompt and timely resolution of issues. The Council is working closely with strategic and regional partners to build robust and collaborative governance arrangements.
7	**Workforce** Recent industrial disputes in the Waste Service and Enablement Service potentially impacting on the Council's efforts to modernise its services.	The Council will engage positively with a joint working group of trades unions to review its waste service. The Council will commission an independent review of its waste service and act on its findings.

Issue No	Governance Issue	Mitigation Action / Proposed Action
	Radical change is required to the culture and behaviours of the organisation and implementation of more effective and streamlined organisational structures which promote innovation, financial resilience and accountability.	A People Strategy has been designed to reshape the workforce and employment model to ensure the Council is fit for the future.
8	**Contract Management** Intelligent Client Functions are not robust enough, leading to a number of contracts underperforming or developing risks to service provision. The corporate risk register monitors contractual risks in relation to Early Years, Travel Assist and the Highways PFI contract.	Early identification of issues or problems, ensuring the contracts and output specifications are delivered to required standards and deliver continuous improvement – tailored to each contract as necessary. On-going identification of mitigating actions to reduce the level of risk. A consensual settlement agreement has been signed for Amey plc to exit the Birmingham Highways PFI contract. As part of the agreement, Amey will continue to provide services until a replacement contractor is found to deliver those services on an interim basis. That interim replacement will be in place no later than 1st April 2020. The full retendering of the project to find a permanent replacement contractor will take place during 2020/21.

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 ……………………………… Signed …………………………..
Councillor Ian Ward Dawn Baxendale
Leader of the Council Chief Executive

Glossary

Academy School
A school that chooses to opt out of Local Authority control and receive its funding from the Education Funding Agency directly.

Accounting Policies
The rules and practices adopted by the Council that determine how the transactions and events are reflected in the Accounts.

Accruals
Income and expenditure are recognised as they are earned or incurred, not as money is received or paid (see Debtors and Creditors).

Amortised Cost
Some financial assets and liabilities are carried at amortised cost, where part of their carrying amount in the balance sheet will be either written down or written up via the Comprehensive Income and Expenditure Statement over the term of the instrument.

Annual Governance Statement
The annual governance statement is a statutory document that explains the 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 types of a similar nature. A sample from each type, known as beacon properties, are valued with the results being multiplied up to give a total value for each type.

Business Rates
A local tax paid by businesses to their local authority, based on the value of their premises as assessed by the Government Valuation Office Agency (VOA).

Capital Charge
A charge to service revenue accounts to reflect the cost of non-current assets used in the provision of services.

Capital Expenditure
Expenditure on the acquisition of a non-current asset, or expenditure which adds to, and not merely maintains, the value of an existing non-current asset. The Government has also enacted regulations which results in certain other types of spending being treated as capital expenditure.

Capital Financing Requirement (CFR)
A measure of an authority's cumulative need to borrow to finance capital expenditure, or to meet the costs of other long-term liabilities.

Capital Receipt
Cash received from the disposal of land and other non-current assets, and from the repayment of grants and loans of a capital nature made by the Council.

Cash Flow Statement
The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as being from operating, investing or financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (that is borrowing) to the Council.

CIPFA/SOLACE Framework
The CIPFA/SOLACE Framework helps local authorities to develop and maintain their own codes of governance and discharge their accountability for the proper conduct of public business.

Collection Fund
A separate account administered by the Council collecting receipts from Council Tax and Business Rates and paying it on to the General Fund and other public authorities.

Community Assets
Assets that the local authority intends to hold in perpetuity, that have no determinable useful life and that may have restrictions on their disposal. Examples of community assets are parks and historic buildings.

Comprehensive Income and Expenditure Statement (CIES)
This Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation.

Consistency
The concept that the accounting treatment of like items within an accounting period and from one period to the next is the same.

Creditors
Amounts owed by the Council for work done, goods received or services rendered, 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
Income that is still due following disposal of a non-current asset.

Defined Benefit Pension Scheme
Pension schemes in which the benefits received by the participants are independent of the contributions paid and are not directly related to the investments of the scheme.

Defined Contribution Pension Scheme
Pension schemes or other retirement benefit schemes in which the employer pays regular fixed contributions as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Depreciated Replacement Cost
A method of valuation which provides the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and obsolescence.

Depreciation
The measure of the wearing out, consumption or other reduction in the useful economic life of a non-current asset.

Earmarked Reserve
A reserve which has been set aside for a specific purpose.

Effective Interest Rate
The rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument.

Emoluments
Payments received in cash and benefits for employment.

Events After the Reporting Period
Those events, both favourable and adverse, that occur between the balance sheet date and the date on which the statement of accounts is signed by the Responsible Financial Officer.

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

Expenditure and Funding Analysis
The Expenditure and Funding Analysis shows how the Council allocates expenditure for decision making purposes between the Council's Directorates. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

Fair Value
Fair Value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fees and Charges
Income arising from the provision of services, for example, the use of leisure facilities.

Finance Lease
A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee. The payments usually cover the full cost of the asset together with a return for the cost of finance.

Financial Instruments
Financial instruments are financial assets that can be traded. They can also be seen as packages of capital that may be traded. Most types of financial instruments provide an efficient flow and transfer of capital all throughout the world's investors. These assets can be cash, a contractual right to deliver or receive cash or another type of financial instrument, or evidence of one's ownership of an entity

General Fund
The account which records income and expenditure for all the services of the Council except for the Housing Revenue Accounts and the Collection Fund, the net costs of which is met by Council Tax, Business Rates and Government grants.

Government Grants
Financial assistance from Government or other external bodies as a contribution towards the costs of services. Some grants may be accompanied by strict conditions relating to how the money can be spent. These are referred to as ring-fenced grants.

Heritage Assets
Assets that the council intends to hold for the purpose of informing or educating the public about their heritage and which are not held for their investment value. Examples include collections of antiques in museums.

Housing Revenue Account (HRA)
A separate account detailing the expenditure and income arising from the provision of council housing. Local authorities are required to maintain this separately from the General Fund.

Impairment
A diminution in value of a fixed asset resulting from, for example, obsolescence or physical damage. To comply with accounting standards the Council undertakes annual reviews of its assets to identify any assets which have been impaired.

Infrastructure Assets
These are inalienable assets, the value of which is recognised only by continued use of the asset created. Examples of such assets are highways and footpaths.

Intangible Assets
An intangible (non-physical) item may be defined as an asset when access to the future economic benefits it represents is controlled by the reporting entity.

International Financial Reporting Standards
International Financial Reporting Standards (IFRS) are a set of accounting standards developed by an independent, not for profit organisation called the International Accounting Standards Board (IASB). These are the standards which local authorities adhere to as interpreted for the public sector by the Chartered Institute of Public Finance and Accountancy (CIPFA).

Investment Properties
Interest in land and/or buildings in respect of which construction work and development have been completed, or which is held for its investment potential with rental income being negotiated at arm's length.

Investments – long term
A long-term investment is an investment that is intended to be held for use on a continuing basis in the activities of the Council. Investments should be so classified only where an intention to hold the investment for the long term can clearly be demonstrated or where there are restrictions as to the investor's ability to dispose of the investment.

Investments - short term
A short-term investment is an investment that will mature to cash within a one-year time period and is considered liquid. An asset is liquid if the owner can readily access it.

Lender Option Borrower Option (LOBO)
A LOBO is a type of loan instrument where borrowing is undertaken, initially at a fixed rate of interest. Periodically, at specific points, the lender has the option to alter the interest rate charged. Should the lender exercise the option to alter the interest rate, the borrower then has the option to continue with the loan instrument at the new rate or alternatively to terminate the agreement and pay back the sum borrowed with no other penalty.

Liabilities
Amounts due to individuals or organisations, at the balance sheet date, which will have to be paid at some time in the future. Current liabilities are payable within one year of the balance sheet date.

Long Term Debtors
These debtors represent 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.

Usable Reserves
Usable reserves are reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt).

Unusable Reserves
Unusable reserves are reserves that the Council is not able to use to provide services. This category includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

Revenue Expenditure
Expenditure on the day-to-day running costs of services e.g. employees, premises, supplies and services.

Revenue Expenditure Funded from Capital under Statute (REFCUS)
Expenditure incurred during the year that is treated as capital expenditure under statutory provision but does not result in a non-current asset owned by the Council. Examples of these are expenditure on items such as improvement grants.

Right to Buy (RTB) Capital Receipts
Capital receipts generated from the sale of council housing under the national scheme available to existing tenants. These receipts can only be used in ways determined by the Government, for example to pay for further capital expenditure on council housing.

Soft Loan
Loans at nil or below prevailing interest rates are often referred to as soft loans.

Top-up Grant
Additional grant which the Government provides to reflect the difference between Business Rates income that the Council can generate and the amount which the Government has calculated it needs to spend on services.

Voluntary Revenue Provision (VRP)
Voluntary Revenue Provision is a charge to the revenue account in relation to capital expenditure financed from borrowing or credit arrangements that the Council chooses to make over and above Minimum Revenue Provision.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BIRMINGHAM CITY COUNCIL

To be finalised on completion of the audit.

BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to:	**Audit Committee**
Report of:	**Assistant Director, Audit & Risk Management**
Date of Meeting:	**30th July 2019**
Subject:	**Corporate Risk Register Update**
Wards Affected:	**All**

1. Purpose of Report

1.1 To update the Audit Committee on the management of risks and issues contained within the Corporate Risk Register (CRR); Appendix A. A risk heat map together with an index of risks, showing the direction of travel, are also included.

2. Recommendation

2.1 That the Audit Committee:

i) notes the CRR updates detailed in Section 3 below; and

ii) review the CRR and assess whether the risk ratings and actions are reasonable / effective or if further explanation / information is required in order to satisfy itself that the Risk Management Framework has been consistently applied.

3. Changes to the CRR

3.1 Reworded Risks

Risk	From	To	Page
10	Not responding fully and effectively to the recommendations made in the Kerslake Report and implementing the Future Council Programme.	Transformation – failing to make sufficient progress in key areas of improvement activity	58

3.2 Increased Risk Rating

Risk		From	To	Page
12	Equality Act	Medium / Significant	Significant / Significant	33
17	Corporate Risk Marker	Low / Medium	Medium / Medium	43

006853/2019

16	Web Service	Significant / Medium	Significant / Significant	61
10	Transformation	Medium / Significant	Significant / Significant	65

3.3 Decreased Risk Ratings

Risk		From	To	Page
32	Incidents or acts of terrorism	Significant / High	Medium / Significant	14
31	Homeless Service	High / High	Significant / Medium	28
11	Loss of personal data	Medium / High	Medium / Significant	37
36	Grenfell	Low / Medium	Low / Low	39
15	Divest of costly property assets	Significant / Medium	Medium / Medium	49
38	Enterprise Zone Programme	Medium / High	Medium / Significant	52
41	Schools Deficits	High / High	High / Significant	55
46	Universal Credit	Medium / High	Medium / Medium	58
39	HS2	Significant / Significant	Medium / Medium	71

4. Background Information

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

4.2 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.

5. Corporate Risk Register Update

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

5.2 The Council Management Team (CMT) and the Deputy Leader review the CRR on a monthly basis to strengthen oversight arrangements and have agreed to the above changes.

6. Risk Management Framework

6.1 The Council's Risk Management Strategy, Policy and Toolkit have been reviewed and consolidated into a single Risk Management Framework. This revised Framework, which places greater emphasis on the actions that are required to the manage risks, was approved by the Audit Committee at their January 2019 meeting.

6.2 Tools to support the implementation of the framework, guidance for managers and an E-learning module, have been developed and made accessible via the Council's Internet.

6.3 All risks have been comprehensively reviewed, transferred into the new template and action plans established. Each action has been assigned a R.A.G status as follows:

Red	Target date will not be achieved; significant difficulties encountered delivering the action.
Amber	Slight slippage against the target date. Action will be substantially delivered.
Green	On track, action will be fully delivered by the target date.

We are working closely with directorate risk representatives to continue to develop and strengthen action plans. Completed actions will be removed after they have been reported to Audit Committee.

7. Embedding Risk Management

7.1 There are directorate risk registers in place supported by individual risk registers for service areas. Monthly updates are facilitated through the Directorate Risk Representatives.

7.2 The current main route to provide risk management awareness is the e-learning package for managers, accessed via the internet. All documents and web pages have been refreshed.

7.3 Service managers are asked about their risk management arrangements as part of routine audit work.

7.4 Corporate Directors are required to provide an annual assurance that they have embedded risk management to support the Annual Governance Statement.

8. Legal and Resource Implications

8.1 The work carried out is within approved budgets.

9. Equality Impact Assessment Issues

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

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

10. Compliance Issues

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

……………………..

Sarah Dunlavey
Assistant Director, Audit & Risk Management

Telephone No: 0121 675 8714
e-mail address: sarah.dunlavey@birmingham.gov.uk

Risk Heat Map

Risk Map – July 2019

Likelihood	Impact: Low	Impact: Medium	Impact: Significant	Impact: High
High		Risk of fines re air quality (R34)	Highways PFI – Core Investment deliverables (R6) The Early Years Health and Well Being Contract (R43) Schools Deficits – National funding arrangements have resulted in real term funding reductions (R41)	Compliance re Counter Terrorism & Security Act (R26) Employee relations/ sickness absence levels (R7)
Significant		Equal Pay claims (R1) Statutory homeless service (R31)	Compliance to Equality Act 2010 & PSED (R12) Improvement Activity Progress (R10) Failure of STP to deliver change/improve health & wellbeing (R33) Malicious attacks of web based services (R16)	Improving children's safeguarding (R2) Travel Assist – cost of provision and ability to deliver the agreed level of service (R42)
Medium		Not divesting of property assets (R15) Commonwealth Games – Athletes Village (R40) Evaluation of service delivery options (R18) Universal Credit (R46) Allowance Payments (R44) Ineffective Corporate Risk Marker IT solution (R17) Delivery of HS2 following Royal Assent of the HS2 Act (R39)	Loss of personal/ sensitive data (R11) Responding to emergency incidents including acts of terrorism (R32) Compliance to timescales for DoLS referrals (R25) Management of the Enterprise Zone Programme in line with its delivery Plan (R38)	Containing expenditure within approved budget (R29) Homeless Reduction Act (R37)
Low	Grenfell Tower Enquiry (R36)			

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 OF RISKS – PREVIOUS UPDATES

Safeguarding / Welfare

Risk No.	Risk Title	Appendix A Page No.	Actual Rating Nov 2017 L / I	Actual Rating March 2018 L / I	Actual Rating July 2018 L / I	Actual Rating Nov 2018 L / I	Actual Rating March 2019 L / I	Actual Rating July 2019 L / I
2	Not responding fully and effectively to the improvement agenda for children - Failure to improve children's safeguarding and children's social care.	12	H/H ↑	H/H ↔	S/H ↓	S/H ↔	S/H ↔	S/H ↔
32	Risk of significant disruption to Council services and failure to effectively manage and respond to emergency incidents, including acts of terrorism.	14	S/H ↔	S/H ↔	S/H ↔	S/H ↔	S/H ↔	M/S ↓
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.	16	S/S ↔	S/S ↔	S/S ↔	S/S ↔	S/S ↔	S/S ↔
42	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.	17			S/H	S/H ↔	S/H ↔	S/H ↔
43	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.	20			H/S	H/S ↔	H/S ↔	H/S ↔

Statutory Responsibilities / Compliance with Statutory Responsibilities

Risk No.	Risk Title	Appendix A Page No.	Actual Rating Nov 2017 L / I	Actual Rating March 2018 L / I	Actual Rating July 2018 L / I	Actual Rating Nov 2018 L / I	Actual Rating March 2019 L / I	Actual Rating July 2019 L / I
1	Management of equal pay claims.	22	H/H ↔	S/S ↓	S/S ↔	S/H ↑	S/H ↔	S/M ↓
26	Failure to comply with all of the requirements of the Counter Terrorism and Security Act (2015) and the Prevent Duty.	26	H/H ↔	H/H ↔	H/H ↔	H/H ↔	H/H ↔	H/H ↔
31	Increased pressure on the statutory homeless service.	28	H/H ↔	H/H ↔	H/H ↔	H/H ↔	H/H ↔	S/M ↓
34	Risk of fines being passed down to Local Authorities in relation to air quality / ongoing fines related to not meeting air quality compliance.	30	H/M ↔	H/M ↔	H/M ↔	H/M ↔	H/M ↔	H/M ↔
12	Failure to comply with all the requirements of the Equality Act 2012 and the Public Sector Equality Duty.	33	M/S ↔	M/S ↔	M/S ↔	M/S ↔	M/S ↔	S/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.	34	M/S ↓	M/S ↔	M/S ↔	M/S ↔	M/S ↔	M/S ↔
11	The loss of significant personal or other sensitive data	37	L/H ↓	L/H ↔	L/H ↔	M/H ↑	M/H ↔	M/S ↓
36	Failure to respond positively and effectively to the required outcomes of the Grenfell Tower enquiry once known.	39		L/M	L/M ↔	L/M ↔	L/M ↔	L/L ↓

Risk No.	Risk Title	Appendix A Page No.	Actual Rating Nov 2017 L / I	Actual Rating March 2018 L / I	Actual Rating July 2018 L / I	Actual Rating Nov 2018 L / I	Actual Rating March 2019 L / I	Actual Rating July 2019 L / I
37	Homelessness Reduction Act – Insufficient council resources to meet the requirements of the Act fully.	41		M/H	M/H ↔	M/H ↔	M/H ↔	M/H ↔
17	Ineffective Corporate Risk Marker IT solution.	43	L/M ↔	L/M ↔	L/M ↔	L/M ↔	L/M ↔	M/M ↑

Financial Resilience

Risk No.	Risk Title	Appendix A Page No.	Actual Rating Nov 2017 L / I	Actual Rating March 2018 L / I	Actual Rating July 2018 L / I	Actual Rating Nov 2018 L / I	Actual Rating March 2019 L / I	Actual Rating July 2019 L / I
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.	45	S/S ↑	S/S ↔	H/H ↑	H/H ↔	M/H ↓	M/H ↔
15	Not recognising the need to divest of costly property assets in radical new solutions to reframe service delivery.	49	S/M ↔	S/M ↔	S/M ↔	S/M ↔	S/M ↔	M/M ↓
38	Management of the Enterprise Zone Programme in line with its delivery plan	52			H/H	M/H ↓	M/H ↔	M/S ↓
41	School Deficits National funding arrangements have resulted in real term funding reductions	55			H/H	H/H ↔	H/H ↔	H/S ↓
46	Universal Credit risks	58				M/H	M/H ↔	M/M ↓

Political

Risk No.	Risk Title	Appendix A Page No.	Actual Rating Nov 2017 L / I	Actual Rating March 2018 L / I	Actual Rating July 2018 L / I	Actual Rating Nov 2018 L / I	Actual Rating March 2019 L / I	Actual Rating July 2019 L / I

None.

Technology

Risk No.	Risk Title	Appendix A Page No.	Actual Rating Nov 2017 L / I	Actual Rating March 2018 L / I	Actual Rating July 2018 L / I	Actual Rating Nov 2018 L / I	Actual Rating March 2019 L / I	Actual Rating July 2019 L / I
16	That web services to customers or work with partners may be disrupted by malicious attacks on the City Council's web based services.	61	S/M	S/M	S/M	S/M	S/M	S/S

Transformation

Risk No.	Risk Title	Appendix A Page No.	Actual Rating Nov 2017 L / I	Actual Rating March 2018 L / I	Actual Rating July 2018 L / I	Actual Rating Nov 2018 L / I	Actual Rating March 2019 L / I	Actual Rating July 2019 L / I
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.	63	S/S	S/S	S/S	S/S	H/H	H/H

Risk No.	Risk Title	Appendix A Page No.	Actual Rating Nov 2017 L / I	Actual Rating March 2018 L / I	Actual Rating July 2018 L / I	Actual Rating Nov 2018 L / I	Actual Rating March 2019 L / I	Actual Rating July 2019 L / I
10	Transformation – failing to make sufficient progress in key areas of improvement activity	65	M/S ↔	M/S ↔	M/S ↔	M/S ↔	M/S ↔	S/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.	66	M/M ↔	M/M ↔	H/H ↑	M/M ↓	M/M ↔	M/M ↔
44	Allowance payments	68			M/M	M/M ↔	M/M ↔	M/M ↔

Service Delivery

Risk No.	Risk Title	Appendix A Page No.	Actual Rating Nov 2017 L / I	Actual Rating March 2018 L / I	Actual Rating July 2018 L / I	Actual Rating Nov 2018 L / I	Actual Rating March 2019 L / I	Actual Rating July 2019 L / I
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.	70	H/S ↔	H/S ↔	H/S ↔	H/S ↔	H/S ↔	H/S ↔
39	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.	71			S/S	S/S ↔	S/S ↔	M/M ↓

Risk No.	Risk Title	Appendix A Page No.	Actual Rating Nov 2017 L / I	Actual Rating March 2018 L / I	Actual Rating July 2018 L / I	Actual Rating Nov 2018 L / I	Actual Rating March 2019 L / I	Actual Rating July 2019 L / I
40	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.	74			**M/M**	**M/M** ⬌	**M/M** ⬌	**M/M** ⬌

<table>
<tr><td colspan="9">Safeguarding / Welfare</td></tr>
<tr><td colspan="2">Risk No: 2</td><td colspan="7">Risk Title: Safeguarding Children</td></tr>
<tr><td colspan="9">Risk Description:
•Not responding fully and effectively to the improvement agenda for Children
•Failure to improve children's safeguarding and children's social care</td></tr>
<tr><td colspan="3">Risk Owner: Director, Education and Skills</td><td colspan="3">Risk Lead: Lead: Assistant Director Commissioning , Education and Skills</td><td colspan="3">Risk Type / Category: Customer / Citizen</td></tr>
<tr><td colspan="3">Inherent / Gross Risk</td><td colspan="3">Residual / Current Risk</td><td colspan="3">Target Risk</td></tr>
<tr><td>Likelihood</td><td>Impact</td><td>Prioritisation</td><td>Likelihood</td><td>Impact</td><td>Prioritisation</td><td>Likelihood</td><td>Impact</td><td>Prioritisation</td></tr>
<tr><td>Significant</td><td>High</td><td>Severe</td><td>Significant</td><td>High</td><td>Severe</td><td>Medium</td><td>Significant</td><td>Material</td></tr>
</table>

Current Controls Mitigating Inherent 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 and will be chaired by Tim O'Neill

Sources of Assurance on Effectiveness of Identified Controls:

- Noting the positive steps from the recent Ofsted Safeguarding Inspection carried out in December 2018 and that Birmingham now is rated as "Requires Improvement to be Good"
- Birmingham Children's Trust Adoption Agency received a positive outcome from their first adoption inspection, held in February this year. The service was judged to be 'good' overall and leadership and management was judged to be 'outstanding'.
- The Lead Member for Children's Services will meet regularly with the Chief Executive of the Trust to be briefed on progress.

No.	Actions to Reduce Risk to Target	Owner	Target Date	Progress	RAG
1	Birmingham Childrens Trust contract annual review – review and refresh of KPI's	Sarah Sinclair	July 2019	**This is now complete and can be closed.** KPI'S agreed with Trust at OCG in April. Throughout the next year a review of the	Green

Safeguarding / Welfare					
Risk No: 2	**Risk Title:** Safeguarding Children				
				contract will be carried out to take effect from 1 April 2020 Internal Audit completed reviewing audit compliance of BCT	
2	Ofsted action plan being developed following recent inspection to be presented to Cabinet	BCT	April 19	**This is now complete and can be closed.** The Development Plan is based around 8 strategic priorities the first 6 of which respond to Ofsted's findings: • The quality, effectiveness and pace of partnership working with external agencies, including partner-led early help services. • Trust and confidence between the courts and Birmingham Children's Trust. • Effectiveness of the fostering service. • Robust and timely focus on all permanence options for children. • Alignment of the approach to contextual safeguarding. • The impact of the virtual school in improving provision for children in care. • Practice improvement. • Workforce. This was adopted at Cabinet in April and is a joint plan between BCT and Education and Skills Directorate Progress against the plan will be monitored through the monthly OCG group	Green
3	Remodel the Virtual School's procedures, to ensure educational progress is reviewed and supportive interventions implemented, to enable	**Paul Senior**	September 2019	• Recruitment for a new Head of Service underway. • Joint planning scheduled with BCT and Education Services.Development work commenced with 'Outstanding' LA Virtual School models - Suffolk and Leeds.	Amber

Safeguarding / Welfare					
Risk No: 2	**Risk Title:** Safeguarding Children				
	all looked after children to make good progress.			• Governanc e review underway.	
4	Review of Safeguarding arrangements in Commissioned Services Review of internal compliance and controls	Sarah Sinclair Julia Davey	September 2019	A review of commissioned services is being developed in conjunction with the Education Safeguarding team and Internal Audit. This will look at safeguarding governance and compliance. This will be developed with the support of the Safeguarding Board to capture best practice in this area. An internal review of the current Section 11 audit process to be carried out and areas for development to be identified and actioned	
Updated BY:	**Baljit Jandu (Risk Rep)**	Date:	**28 June 19**		

Safeguarding / Welfare								
Risk No: 32	Risk Title: Risk of significant disruption to Council services and failure to effectively manage and respond to emergency incidents, including acts of terrorism.							
Risk Description: Risk of significant disruption to Council services and failure to effectively manage and respond to emergency incidents, including acts of terrorism.								
Risk Owner: Chief Executive			**Risk Lead:** Head of Resilience (TBC)			**Risk Type / Category:** Customer / Citizen		
Inherent / Gross Risk			**Residual / Current Risk**			**Target Risk**		
Likelihood	**Impact**	**Prioritisation**	**Likelihood**	**Impact**	**Prioritisation**	**Likelihood**	**Impact**	**Prioritisation**
High	**Significant**	**Severe**	**Medium**	**Significant**	**Material**	**Medium**	**Significant**	**Material**

Current Controls Mitigating Inherent Risk:	**Sources of Assurance on Effectiveness of Identified Controls:**
- Corporate and Multi-Agency emergency plans in place. - Working with partners in all areas - 24/7 out of hours emergency duty officer service in place including emergency control room.	- Training delivered - Test and exercise results - Annual exercise - Delivery of wider engagement and validate

Safeguarding / Welfare

Risk No: 32	Risk Title: Risk of significant disruption to Council services and failure to effectively manage and respond to emergency incidents, including acts of terrorism.
- Experienced Emergency Planning Professionals in place - New Emergency Plan launched New BC Plan Launched and EP & BC Promotion. - BC Programme roll out - Roles and people identified. - Training & Exercising programme established - Command team meeting - New response and duty process implemented. - Further review of wider response arrangements underway.	

No.	Actions to Reduce Risk to Target	Owner	Target Date	Progress	RAG
1	Full review of risk to be carried out and plan to be developed	Michael Enderby	End July 2019	Risk review workshop carried out late June to review current risk position.	Amber
2					Choose an item.
3					Choose an item.

Updated BY:	**Michael Enderby**	Date:	**03 July 2019**

Safeguarding / Welfare

Risk No: 33	**Risk Title: STP (Sustainability Transformation Programme)**							
Risk Description: 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.								
Risk Owner: Director for Adult Social Care – Graeme Betts		**Risk Lead: Director for Adult Social Care – Graeme Betts**			**Risk Type / Category: Social**			
Inherent / Gross Risk			**Residual / Current Risk**			**Target Risk**		
Likelihood	**Impact**	**Prioritisation**	**Likelihood**	**Impact**	**Prioritisation**	**Likelihood**	**Impact**	**Prioritisation**
High	**Significant**	**Severe**	**Significant**	**Significant**	**Severe**	**Low**	**Medium**	**Tolerable**

Current Controls Mitigating Inherent Risk:	**Sources of Assurance on Effectiveness of Identified Controls:**
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	STP board which is represented by the Leader / Cllr Hamilton, CEO and Graeme Betts.

No.	Actions to Reduce Risk to Target	Owner	Target Date	Progress	RAG
1	STP is a standing item on the Health and Wellbeing Board; bi-monthly meetings to receive updates from the Birmingham and Solihull CCG. Graeme Betts is a member of the STP Programme Board and Justin Varney (started February 2019) is a member of the Development and Delivery Board. Public Health is currently auditing the involvement in the BSol STP process to ensure appropriate engagement.	Graeme Betts	Ongoing	Ongoing Action The Council supports the Health and Wellbeing Board with live web casting and publically available papers.	Amber

Safeguarding / Welfare					
Risk No: 33	**Risk Title: STP (Sustainability Transformation Programme)**				
2	The STP Board has agreed its strategy and is engaging with the public and stakeholders. Work streams have been agreed and priorities identified. There is a high degree of commitment amongst the partners. The main risk is that the work streams are not all as well-advanced as others which means that the risk that improvement for some citizens may take longer than would be desirable.	Graeme Betts	Ongoing	Ongoing Action The [Adult Social Care] Directorate continues to be an active partner on the Sustainability and Transformation Plan (STP) and in leading the STP Birmingham Older People Programme. The Assistant Director Commissioning is the SRO [Senior Responsible Officer] for the Prevention work stream and other officers act as project leads across work streams. Specific activity in support of the Programme includes procurement and contract management of the Early Intervention External Support Partner. Future activity through the partnership will include the development of integrated commissioning arrangements.	Amber
3					Choose an item.
Updated BY: **Graeme Betts**	**No further update at this time. Sally Marlow**	Date:	**5/6/19**		

Safeguarding / Welfare	
Risk No: 42	**Risk Title:** Travel Assist

Risk Description:

- There are risks within the service over the cost of provision and ability to deliver 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.
- Birmingham has a higher than average number of children with SEN (17.8% in the city; 15.5% nationally).

Safeguarding / Welfare

Risk No: 42	**Risk Title:** Travel Assist

- 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).
- The TA budget for the last few years has been artificially low. It was significantly reduced to £13.6m in 2016/17 which 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 and while the TA budget was increased for 2018/19 the service still wasn't able to deliver the budget savings.
- Recent risks have been realised with the contractor Accessible Transport Group Contract Services Limited (ATGCSL) going into administration but work has been undertaken to implement contingency planning and develop future options.

Risk Owner: Director, Education and Skills	**Risk Lead:** Lead: Assistant Director Commissioning , Education and Skills	**Risk Type / Category:** Customer / Citizen

Inherent / Gross Risk			**Residual / Current Risk**			**Target Risk**		
Likelihood	**Impact**	**Prioritisation**	**Likelihood**	**Impact**	**Prioritisation**	**Likelihood**	**Impact**	**Prioritisation**
Significant	High	Severe	Significant	High	Severe	Medium	Significant	Material

Current Controls Mitigating Inherent Risk:	**Sources of Assurance on Effectiveness of Identified Controls:**
• Travel Assist Contingency Programme Board put in place to progress immediate required activity and to plan longer term development.	• Oversight from legal and finance as part of the Programme Board

No.	**Actions to Reduce Risk to Target**	**Owner**	**Target Date**	**Progress**	**RAG**
1	Widespread consultation with stakeholders about possible changes to the school transport policy. Report to Cabinet scheduled	Paul Senior	April 2019	**June Update** - process concluded on time. Following Call-In the report was resubmitted for Cabinet in May 2019, and was approved. The Policy has been introduced and is being phased in over the next academic year, as outlined in the	Green

Safeguarding / Welfare					
Risk No: 42	**Risk Title:** Travel Assist				
				cabinet report. This action can now be closed as the policy has been approved and introduced.	
2	Interim planning and contingency work with WMCA, administrators and partners to maintain immediate provision	SS	March 2019	**June Update – this can now be closed.** Services have been run by administrators and we have seen an improvement in performance. Currently working positively with TfWM and administrators to develop the next stages. An SCN is being drafted setting out the recommended approach to secure on going provision. The Transitional Support Service Agreement runs until the end of May with the need to either secure services by June or look to extend the agreement.	Green
3	Discussions with alternative providers and routes re-allocated (where possible)	SS	Completed	Received positive responses to discussions between future providers and TfWM with 3 formal bid received by administrators for purchase of ATG Previous update April: Work is actively being undertaken to find alternative provider(s) to take over the affected routes. 11 routes of routes have already been redirected from ATGCSL to alternative providers and a further 4 on 1st April 2019 . Under the TTSA the Council upon a weeks' notice can remove routes from the scope of the services	Green
4	Review of providers contractual arrangements being carried out including quality assurance, safeguarding and governance compliance	SS	July 2019	Review and internal audit report completed. Improvement Plan in place.	Green
Updated by:	**Baljit Jandu (Risk Rep)**	Date:	**28 June 2018**		

Safeguarding / Welfare								
Risk No: 43	**Risk Title:** Early Years Health and Well Being contract							
Risk Description: •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 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								
Risk Owner: Director, Education and Skills			**Risk Lead:** Lead: Assistant Director Commissioning , Education and Skills			**Risk Type / Category:** Financial		
Inherent / Gross Risk			**Residual / Current Risk**			**Target Risk**		
Likelihood	**Impact**	**Prioritisation**	**Likelihood**	**Impact**	**Prioritisation**	**Likelihood**	**Impact**	**Prioritisation**
High	High	Severe	High	Significant	Severe	Significant	Medium	Material

Current Controls Mitigating Inherent Risk:	**Sources of Assurance on Effectiveness of Identified Controls:**
• A newly established Children's and Young People's Commissioning Board which has cross directorate senior representation; • A Monthly EYHWB Programme Board was established and due diligence undertaken. Officers report formally about progress against the key actions required; • Discrepancies in the Estates Schedule are being jointly revised to ensure the correct buildings are in use or where appropriate changes made to correct these, following the process set out in the Change Control Schedule; • There are formal Contract management arrangements in place through the recently	•Contract Governance mechanism in place that incorporates a Monthly Contract Management Review to hold BCHCT to account for contract performance against the metrics; •A review of contract is underway with specific focus on performance measurement, estates, finance, employment and service specifications to be complete by end of March 2019;

Safeguarding / Welfare					
Risk No: 43	**Risk Title:** Early Years Health and Well Being contract				
established Intelligent Client Function (ICF) commissioning team in the Education and Skills directorate; • Monthly employee reports are being shared by HRBP to each of the sub-contractors to capture staffing data including resignations, changes to hours, moves, maternity, LTS, etc.;					
No.	**Actions to Reduce Risk to Target**	**Owner**	**Target Date**	**Progress**	**RAG**
1	- A review of contract is underway with a specific focus on performance measurement, estates, finance, employment and service specifications to be complete by end of March 2019.	SS	July 2019	On going discussion with BCHCT around contractual issues and performance	Amber
2	- Finalising options for the transfer of staff post the end of the secondment agreement.	SS	June 2019	Discussions are continuing with the involvement of Legal, HR anf BCHCT	Amber
3	- Discussion with the DfE around the Capital Clawback position with the children's centres is required.	SS	June 2019	**Complete and can be closed** Position regarding designations agreed with DfE.	Green
Updated BY:	**Baljit Jandu (Risk Rep)**	Date:	**28 June 2019**		

Statutory Responsibilities / Compliance with Statutory Responsibilities								
Risk No: 1	**Risk Title:** Management of Equal Pay Claims							

Risk Description:

Since 2006, a significant number of equal pay claims have been brought against the Council. The predominance of these claims relates to liability for the period before the implementation of Single Status, which took place in 2008, and liability for the period following the implementation of Single Status. The time limit for issuing these types of claims has now expired – in 2014 for the former; in 2017 for the latter.

The Council has also received claims for the period following the implementation of the Birmingham Contract (in November 2011); some with limited particularisation.

The past industrial action in Waste Management (July to 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. A law firm acting for approximately 1,000 employees and formers employees on a "no win no fee" basis is pursuing its claims in the Tribunal, having rejected the Council's settlement proposals. This firm is currently in the process of further particularising its claims. Once done, the Council will have a better idea of the level of risk and liability which these claims pose.

Employees are raising complaints/grievances regarding their perceived right to a payment equivalent to those made to employees in Waste Management following the industrial dispute in March 2019. Their grievances having been rejected, some employees have referred their complaints to Acas. The Council's position is that the complaints which have been raised so far are not claims that would fall under equal pay law, since the payments in question do not constitute contractual pay and were made in settlement of legal proceedings.

Risk Owner: Director of Finance			**Risk Lead: Kate Charlton**			**Risk Type / Category: Financial**		
Inherent / Gross Risk			**Residual / Current Risk**			**Target Risk**		
Likelihood	**Impact**	**Prioritisation**	**Likelihood**	**Impact**	**Prioritisation**	**Likelihood**	**Impact**	**Prioritisation**
High	**High**	Severe	**Significant**	**Medium**	Material	**Medium**	**Low**	Tolerable

Current Controls Mitigating Inherent Risk:	**Sources of Assurance on Effectiveness of identified Controls:**

Statutory Responsibilities / Compliance with Statutory Responsibilities					
Risk No: 1	**Risk Title:** Management of Equal Pay Claims				
Significant progress has been made in terms of defending equal pay claims, managing settlement negotiations and executing settlement schemes, where approved by the Council. The Council's overarching settlement strategy is based on the 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 the Legal & Governance department. Each claim is subject to robust legal challenge before any offer to settle is made. A litigation strategy has been developed to address any risks arising from the grievances/complaints from employees seeking equivalent payments to those made to staff in Waste Management ("parity payments"). With a view to preventing any discriminatory working practices, a robust review of processes and checks and balances are undertaken to mitigate against/prevent further liability where evidence of potential risks is known/identified.				Management assurance – reporting to Equal Pay Executive Cabinet Sub-Group, Corporate Governance Group, Audit Committee, the District Auditor and Employment Governance Group/Steering Board	
No.	**Actions to Reduce Risk to Target**	**Owner**	**Date**	**Progress**	**RAG**
1	Defend all low risk claims in the Tribunal and County Court	EP team	31/3/20	91% of claims for the period before the implementation of Single status have now been resolved; 88% of claims for the period after the implementation of Single Status have now been resolved; and 77% of claims for the period after the implementation of the Birmingham	Green

Statutory Responsibilities / Compliance with Statutory Responsibilities					
Risk No: 1	**Risk Title:** Management of Equal Pay Claims				
				Contract have now been resolved.	
2	Undertake settlement negotiations with employees, or their representatives or unions, with potentially meritorious claims	EP team	31/3/20	An offer has been made to unions to settle their members' prospective claims for the period after the implementation of the Birmingham Contract. A framework agreement is to be drafted once that offer has been accepted formally. Negotiations with individual claimants and representatives with a relatively low number of claims are ongoing.	Amber
3	Execute outstanding settlement schemes	EP team	31/3/20	91% of claims for the period before the implementation of Single status have now been resolved; 88% of claims for the period after the implementation of Single Status have now been resolved; and 77% of claims for the period after the implementation of the Birmingham Contract have now been resolved.	Amber
4	Defend live litigation in the Tribunal	EP team	31/3/20	Claimants have been ordered by the Tribunal to further particularise their claims, and a telephone hearing has been listed for 02/08/19. The Council has put its settlement proposals back on the table, this time without an "all or nothing" catch – i.e. the proposals are now open to individual claimants to accept, so as to expedite the resolution of as many claims in the litigation as possible.	Red
5	Implement litigation strategy for "pay parity" complaints	EP team	31/3/20	Approximately 700 grievances/complaints have been received by the Council, all of which have been responded to and rejected.	Green

Statutory Responsibilities / Compliance with Statutory Responsibilities					
Risk No: 1	**Risk Title:** Management of Equal Pay Claims				
				Four employees have referred their complaints to Acas, who have issued early conciliation certificates in three cases so far. Tribunal claims are likely to follow.	
6	Monitor working practices in Waste Management so as to identify and address any further equal pay risks	EGG	31/3/20	The Employment team is working closely with Waste Management and will, as part of that ongoing relationship, monitor working practices.	Amber
7	Develop and maintain risk register to identify any practices in the organisation which could pose an equal pay risk	EGG	31/3/20	This action will continue in perpetuity.	Amber
8	Dismissal and re-engagement to end any ongoing equal pay liability	EGG	31/3/20	A team with the remit of identifying and addressing any non-standard arrangements and practices within the organisation is being set up, so as to ensure staff are not re-engaged on terms which perpetuate any current risks of further equal pay liability.	Red

Updated By:	Rob Harris on behalf of Shugufta Jabeen	Date:	10/07/19

Statistical Responsibilities / Compliance with Statutory Responsibilities

Statutory Responsibilities / Compliance with Statutory Responsibilities								
Risk No: 26	Risk Title: Failure to comply with all of the requirements of the Counter Terrorism and Security Act (2015) and the Prevent Duty							
Risk Description: 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.								
Risk Owner: Director, Neighbourhoods			**Risk Lead: Director, Neighbourhoods**			**Risk Type / Category: Legislative / Regulatory**		
Inherent / Gross Risk			**Residual / Current Risk**			**Target Risk**		
Likelihood	**Impact**	**Prioritisation**	**Likelihood**	**Impact**	**Prioritisation**	**Likelihood**	**Impact**	**Prioritisation**
High	**High**	Severe	**High**	**High**	Severe	Choose an item.	Choose an item.	Choose an item.
Current Controls Mitigating Inherent Risk: • 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 Assistant Chief Executive increasing visibility across the Council. • 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 and Prevent is embedded				**Sources of Assurance on Effectiveness of Identified Controls:** The Home Office Peer review of Birmingham City Council's Prevent responsibilities highly commended the work Birmingham is doing.				

Statutory Responsibilities / Compliance with Statutory Responsibilities

Risk No: 26	Risk Title: Failure to comply with all of the requirements of the Counter Terrorism and Security Act (2015) and the Prevent Duty

within CASS/MASH arrangements

- CHANNEL is in place as a multi-agency pre-criminal space platform to support vulnerable people; and chaired by the DWPs Think Family Lead.
- BCC Resilience Team continues to lead on the Prepare and Protect strand of the counter-terrorism strategy.
- Recruitment of Michael Enderby as Head of Resilience. Experienced professional in Emergency Planning, Prepare and Protect.

No.	**Actions to Reduce Risk to Target**	**Owner**	**Target Date**	**Progress**	**RAG**
1	Full review of risk to be carried out and plan to be developed	Michael Enderby	End July	Risk review workshop carried out late June to review current risk position.	**Green**
2					Choose an item.
3					Choose an item.
4					Choose an item.

Updated By: **Simon J Field & Kwabena Osayan**de	Date: **3/7/19**

Statistory Responsibilities / Compliance with Statutory Responsibilities

Risk No: 31	**Risk Title:** Increased pressure on the statutory homeless service							
Risk Description: 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.								
Risk Owner: Director			**Risk Lead: Julie Griffin**			**Risk Type / Category: Financial**		
Inherent / Gross Risk			Residual / Current Risk			Target Risk		
Likelihood	**Impact**	**Prioritisation**	**Likelihood**	**Impact**	**Prioritisation**	**Likelihood**	**Impact**	**Prioritisation**
High	**Significant**	Severe	**Significant**	**Medium**	Material	**Medium**	**Significant**	Material

Current Controls Mitigating Inherent Risk:	Sources of Assurance on Effectiveness of Identified Controls:
New Homeless Reduction Act Legislation implemented from April 2018. The opening of two additional homeless centres in April 2019 as part of the Council's statutory duty to provide temporary accommodation has been completed. Residents are now occupying the centres. (Barry Jackson Tower and Magnolia House. Bed and breakfast has more than halved since May 2018. The homeless prevention strategy is now approved by Cabinet which aims to prevent people becoming homeless and assisting in sustaining tenancies. A domestic abuse hub, operated in partnership with BSWAID was initially piloted from 4 February 2019 and became fully operational from Monday 11 March 2019. It provides a support to those experiencing and fleeing domestic violence. A dispersed void project was completed in December 2018 which created an additional 750 self-contained temporary accommodation units.	This risk is being closely monitored by Directorate Management Team and Cabinet Member for Homes and Neighbourhoods. There is a programme of regular Cabinet Member briefings dedicated to homelessness tracking and a standard dashboard has been developed to aid close monitoring and scrutiny. A comprehensive re-design programme is underway and a number of key work streams are in place to address this risk. These incorporate improvements to homeless prevention work and a plan to address temporary accommodations and bed and breakfast numbers. A re-design project board has been established and an ambitious programme plan. The intended outcomes include ensuring the service is designed and managed fit for purpose and the correct resources are in place. Delivery of the programme to reduce this pressure is monitored by Directorate Management Team and Cabinet Member for Homes and Neighbourhoods. There is a programme of regular Cabinet Member briefings dedicated to homelessness tracking and

Statutory Responsibilities / Compliance with Statutory Responsibilities					
Risk No: 31	**Risk Title:** Increased pressure on the statutory homeless service				
				a standard dashboard has been developed to aid close monitoring and scrutiny. Birmingham Audit has commenced a review of the Temporary Accommodation Service. Monthly finance monitoring meetings to ensure effective management of actual and forecast income and expenditure.	
No.	**Actions to Reduce Risk to Target**	**Owner**	**Date (Target)**	**Progress**	**RAG**
1	There is close monitoring of the delivery of the budget and additional governance arrangements have been introduced.	Julie Griffin/ Vicki Pumphrey	March 2020	Monthly finance monitoring meetings to ensure effective management of actual and forecast income and expenditure.	Green
2	Open a Homeless Prevention Hub in June 2019.	Tracey Radford/ Vicki Pumphrey	June 2019	£400,000 of commissioned services has been identified and mobilisation in progress, the Ladywood hub opens on Monday 17th June 2019 for staff training. It will be operational from Monday 24th June 2019	Amber
3	Private Rented Sector Access Fund	Karl Robinson/Deborah Moseley	Sept. 2019	We will be emulating the private rented sector secure sustain model in the prevention hub and TA pilots. We will be identifying private landlords to work with moving forward and discharging duty into the private rented sector from September 2019.	Amber
4	New emergency homeless placement model	Tracey Radford/Vicki Pumphrey	Sept. 2019	New Homeless Centre and TA step down accommodation model is under development. This pilot is looking at improving support for homeless on the day cases needing TA, the pilot started on the 13th June 2019 and will be evaluated over the forthcoming weeks	Amber

Statutory Responsibilities / Compliance with Statutory Responsibilities

Risk No: 31	**Risk Title:** Increased pressure on the statutory homeless service				
5	Review of spending/commissioned provision	Karl Robinson	April 2020	Mapping of current commissioned provision and an analysis of homeless households support needs have commenced.	Amber
Updated BY:	**Vicki Pumphrey**	Date:	**5 June 2019**		

Statutory Responsibilities / Compliance with Statutory Responsibilities

Risk No: 34 | **Risk Title:** Air Quality

Risk Description: Failure to deliver a Clean Air Zone as mandated by Government by the target date of January 2020. Failure to do so could result in ongoing fines for not complyiing with air quality standards. elated to Birmingham not meeting air quality compliance.

Risk Owner: Assistant Chief Executive | **Risk Lead:** Assistant Chief Executive | **Risk Type / Category: Legislative / Regulatory**

Inherent / Gross Risk			**Residual / Current Risk**			**Target Risk**		
Likelihood	**Impact**	**Prioritisation**	**Likelihood**	**Impact**	**Prioritisation**	**Likelihood**	**Impact**	**Prioritisation**
High	**High**	Severe	**High**	**Medium**	Material	**Medium**	**Low**	Tolerable

Current Controls Mitigating Inherent Risk:	**Sources of Assurance on Effectiveness of Identified Controls:**
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 Significant milestones remain; however, a Preferred Clean Air Zone Option Business Case has been prepared, approved and submitted to Government for	Wider Air Quality Plan that includes: • Traffic management, signalling and signage controls - 12/2018. • Controlled Parking Zones - 12/2018.

Statutory Responsibilities / Compliance with Statutory Responsibilities	
Risk No: 34	**Risk Title:** Air Quality
review. This Business Case will need to be further refined into a Full Business Case to fully comply with the Ministerial Direction over the next 2-3 months. 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 with WMCA. Key progress comprises the completion of a Preferred Clean Air Zone Option Business Case and Cabinet report to authorise submission to Government by 15 September 2018, as required by the Ministerial Direction. The report follows the largest ever response of circa 11,000 to the CAZ consultation.	• 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.

Statutory Responsibilities / Compliance with Statutory Responsibilities

Risk No: 34	**Risk Title:** Air Quality

A special Cabinet in September 2018 considered the consultation response and endorsed a 'preferred option business case' for submission to Government. Submission of the Full Business Case followed in December 2018.

No.	**Actions to Reduce Risk to Target**	**Owner**	**Target Date**	**Progress**	**RAG**
1	To be determined				Choose an item.
2					Choose an item.
3					Choose an item.
4					Choose an item.
5					Choose an item.

Updated By:	**Date:**

<table>
<tr><td colspan="9">Statutory Responsibilities / Compliance with Statutory Responsibilities</td></tr>
<tr><td colspan="2">Risk No: 12</td><td colspan="7">Risk Title: Failure to comply with all the requirements of the Equality Act 2012 and the Public Sector Equality Duty.</td></tr>
<tr><td colspan="9">Risk Description: Core/Gross Risks
1. Failure to comply with the Equality Act (2010) – High likelihood, High risk
2. Capacity to delivery community cohesion strategy and cabinet member expectations – H likelihood, H risk
3. Capacity and resource to support response to incidents & community issues – H likelihood, H risk
4. Lack of skills and knowledge across the business on cohesion and equalities – H likelihood, H risk
5. Failure to consider equality and cohesion in context of consultation leading to judicial review – H likelihood, H risk
6. Failure to consider impact of council budget savings on protected characteristics as defined in Equality Act 2010 leading to judicial review– H likelihood, H risk
7. Reputational damage H likelihood.</td></tr>
<tr><td colspan="3">Risk Owner: Justin Varney</td><td colspan="3">Risk Lead: Suwinder Bains</td><td colspan="3">Risk Type / Category: Legislative / Regulatory</td></tr>
<tr><td colspan="3">Inherent / Gross Risk</td><td colspan="3">Residual / Current Risk</td><td colspan="3">Target Risk</td></tr>
<tr><td>Likelihood</td><td>Impact</td><td>Prioritisation</td><td>Likelihood</td><td>Impact</td><td>Prioritisation</td><td>Likelihood</td><td>Impact</td><td>Prioritisation</td></tr>
<tr><td>High</td><td>High</td><td>Severe</td><td>Significant</td><td>Significant</td><td>Severe</td><td>Low</td><td>Significant</td><td>Material</td></tr>
</table>

<table>
<tr><td colspan="4">Current Controls Mitigating Inherent Risk:</td><td colspan="2">Sources of Assurance on Effectiveness of Identified Controls:</td></tr>
<tr><td>No.</td><td>Actions to Reduce Risk to Target</td><td>Owner</td><td>Target Date</td><td>Progress</td><td>RAG</td></tr>
<tr><td>1</td><td>a. Refresh of corporate equality objectives in 2019.
b. CMT & ELT champions for diversity and inclusion appointed in May 2019.
c. Working with Cabinet member to develop ‘star</td><td>Suwinder Bains</td><td>December 2019</td><td>Draft equality objectives are due to go to CMT in July and currently consulting with legal on whether public consultation needed.
CMT & ELT champions appointed and quarterly updates on actions and progress through ELT.</td><td>Amber</td></tr>
</table>

Statutory Responsibilities / Compliance with Statutory Responsibilities					
Risk No: 12	Risk Title: Failure to comply with all the requirements of the Equality Act 2012 and the Public Sector Equality Duty.				
	chamber' type review of equalities work within directorates.			Draft TOR agreed with Cabinet member and now starting process through CMT and EMT.	
2	a. Service review proposal to expand Equalities and Cohesion team being developed.	Justin Varney	September 2019	Draft service review proposal developed and working with Jonathan Tew and HR on taking forward.	Amber
3	a. Service review proposal to establish a specific incident response capacity.	Justin Varney	September 2019	Draft service review proposal developed and working with Jonathan Tew and HR on taking forward.	Amber
4	a. Improve understanding of protected characteristics through Public Health and Equalities & Cohesion team working together on developing core briefings to improve quality of Equality Impact Assessments b. EIA training programme rolled out across BCC to senior and middle managers. c. Member equalities training programme.	Justin Varney	October 2019	Briefings have been commissioned from the core reports and are expected in Autumn 2019. The EIA training is being continually reviewed and developed based on feedback from users. There is further work needed to map the core staff who need the training to ensure full coverage. The member equality training is in train and two sessions have been held. EIA Toolkit to be updated to make it more user friendly. Equalities lead officer integral part of the budget planning process. Providing Advice and guidance on cumulative Equalities impact.	Amber
5	a.EIA training programme				Amber
Updated By: **Justin Varney**		Date: **02/07/2019**			

Statutory Responsibilities / Compliance with Statutory Responsibilities	
Risk No: 25	**Risk Title:** DoLS (Deprivation of Liberty Safeguards)
Risk Description: 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	

Statutory Responsibilities / Compliance with Statutory Responsibilities								
Risk No: 25	**Risk Title:** DoLS (Deprivation of Liberty Safeguards)							
Council.								
Risk Owner: AD Community and Operations, Adult Social Care -Pauline Mugridge			**Risk Lead: Head of Adult Safeguarding, Adult Social Care – David Gray**			**Risk Type / Category: Legislative / Regulatory**		
Inherent / Gross Risk			**Residual / Current Risk**			**Target Risk**		
Likelihood	**Impact**	**Prioritisation**	**Likelihood**	**Impact**	**Prioritisation**	**Likelihood**	**Impact**	**Prioritisation**
High	**Significant**	**Severe**	**Medium**	**Significant**	Material	**Medium**	**Significant**	Material

Current Controls Mitigating Inherent Risk:	**Sources of Assurance on Effectiveness of Identified Controls:**
Refer Actions 1-3 below	A monthly position report is presented to the Directorate DOLS Project Board. A bi-monthly report is presented to the Cabinet Member.

No.	**Actions to Reduce Risk to Target**	**Owner**	**Target Date**	**Progress**	**RAG**
1	A monthly position report is presented to the Directorate DOLS Project Board. A bi-monthly report is presented to the Cabinet Member. When governmnent proposals for how the transition to LPS are known, a brief will be prepared to the cabinet member based upon an agreed strategy	David Gray	Ongoing	Ongoing action	Green
2	**1) DOLS in Care Homes and Hospitals -** DOLS strategy was reviewed in July. ASCMT and the Cabinet Member subsequently adopted the recommendation to adopt an alternative view of the balance of litigation	David Gray	Review end September 2019	The situation described at 1) above altered due to the number of DOLS referrals continuing to rise (up by 35% rise in the year to August 2018). As a consequence a back log of high priority cases began to develop. The position is to be monitored to understand if the position can be managed within existing resources. A backlog of high priority cases could increase the likelihood of a challenge, but it is not clear that	Amber

Statutory Responsibilities / Compliance with Statutory Responsibilities

Risk No: 25	Risk Title: DoLS (Deprivation of Liberty Safeguards)				
	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 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.			this would alter the position to the extent that a challenge could be described as highly likely.	
3	**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	David Gray	Review end September 2019	Ongoing monitoring	Green

Statutory Responsibilities / Compliance with Statutory Responsibilities

Risk No: 25	Risk Title: DoLS (Deprivation of Liberty Safeguards)				
	other local authority areas.				
Updated BY:	**David Gray/Graeme Betts**	Date:	**12 June 2019**		

Statutory Responsibilities / Compliance with Statutory Responsibilities

Risk No: 11	**Risk Title: Loss of significant personal or other sensitive data**							
Risk Description: 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 £20million from the Information Commissioner								
Risk Owner: Assistant Director ICT and Digital			**Risk Lead:** : Senior Information (SIRO) and Director Digital and Customer Services			**Risk Type / Category: Legislative / Regulatory**		
Inherent / Gross Risk			**Residual / Current Risk**			**Target Risk**		
Likelihood	**Impact**	**Prioritisation**	**Likelihood**	**Impact**	**Prioritisation**	**Likelihood**	**Impact**	**Prioritisation**
High	**High**	Severe	**Medium**	**Significant**	Material	**Low**	**Medium**	Tolerable

Current Controls Mitigating Inherent Risk:	**Sources of Assurance on Effectiveness of Identified Controls:** Maintain clear lines of responsibility to the Senior Information Risk Owner (SIRO) and the Monitoring Officer.
The Information Assurance Board (IAB), chaired by the Senior Information Risk Owner (SIRO) have agreed that the Council should achieve level 2 maturity to support the ongoing implementation of the Council's Information Assurance Framework. A plan of action is in development and agreed targets and resource commitments are being identified to support this work.	Security posture for the Council is monitored and has been recently reviewed as part of a SOCITM assessment as well as the LGA Stocktake. A secure email solution, Egress, has been deployed and is operational to prevent the accidental loss of data.

Statutory Responsibilities / Compliance with Statutory Responsibilities					
Risk No: 11	**Risk Title: Loss of significant personal or other sensitive data**				
				Review Breach management processes to ensure any learning from breaches is adopted to prevent further data loss.	
No.	**Actions to Reduce Risk to Target**	**Owner**	**Target Date**	**Progress**	**RAG**
1	Across BCC, as well as capturing the data itself, we need to look at maintaining an inventory of the location of key personal data storage and the associated flows (including cross-border), with defined classes of personal data. We need to ensure that BCC is maintaining contracts and agreements with third-parties and affiliates consistent with the data privacy policy, legal requirements, and operational risk tolerance.	Peter Bishop	05/04/2019	A baselined Information Asset Register (Inventory) is now in place with Customer Services and HR Processes captured; This identifies areas such as the location of key personal data storage and the associated flows (including cross-border) with defined classes of data. The Information Assurance Project is now addressing the 'Accountability Principle' and aiming to identify Information Asset Owners within each directorate. Once this has been established we will be looking to work with each Information Asset Owner to establish their Information Asset Register. In terms of maintain contracts and agreements with third parties, the Information Assurance Project has commenced work on identifying our third parties that are in scope (i.e. whom BCC share personal and special category data with) and working with legal to identify a programme of work which involves working with each party to ensure a Data Sharing/Processing Agreement has been sent and agreed with each third party in scope. These agreements will be kept in a Council wide repository.	Amber
2	BCC will need to maintain an information security program based on legal requirements and ongoing risk assessments. We will need to train our identified employees to be able to conduct a Data Protection Impact Assessment (DPIA) when managing change to personal data.	Peter Bishop	05/04/2019	The Information Security requirements required by GDPR being introduced are embedded into the Information Assurance Plan which is monitored by Project Board (monthly) and Information Assurance Board (Quarterly). All Change Management Processes within the Council are still required to fully incorporate the Data Protection Impact Assessments into their governance processes. The Information Assurance Project is currently working on the steps required to embed this into a business as usual practice. 12 Business Analysts have now been trained on how to conduct a Data Protection Impact Assessments (DPIA) when managing change to personal data. A revised DPIA template has been produced to ensure all GDPR requirements are being	Amber

Statutory Responsibilities / Compliance with Statutory Responsibilities

Risk No: 11	Risk Title: Loss of significant personal or other sensitive data				
				met and will going through a sign-off process through the Project Board and Information Assurance Board. Once signed off, this will be rolled out across all Change Management processes across the Council.	
3	To satisfy GDPR requirements BCC must provide ongoing training and awareness to promote compliance with our data privacy policy and to mitigate operational risk.	Peter Bishop	05/04/2019	Staff training was re-launched in December 2018 and staff will be required to undertake the training on an annual basis. **This action has been completed and can be closed**	Green
4	A project board is to be established, chaired by the CIO, to take the IAMM action plan forward and report on progress to IAB and CMT.	Peter Bishop	05/04/2019	A monthly Project Board was established in December 2018 which is chaired by the CIO. The Information Assurance Project Board reviews progress against the planned activities set out in the IAMM action plan and reports progress to IAB and CMT. **This action has been completed and can be closed**	Green
Updated BY:	**Peter Bishop**	Date:	**June 2019 No further updates**		

Statutory Responsibilities / Compliance with Statutory Responsibilities

Risk No: 36	Risk Title: Response to Grenfell Tower enquiry	
Risk Description: Failure to respond positively and effectively to the required outcomes of the Grenfell Tower enquiry once known.		
Risk Owner: Director	**Risk Lead: Julie Griffin**	**Risk Type / Category: Reputational**

Statutory Responsibilities / Compliance with Statutory Responsibilities

Risk No: 36	Risk Title: Response to Grenfell Tower enquiry							
Inherent / Gross Risk			**Residual / Current Risk**			**Target Risk**		
Likelihood	**Impact**	**Prioritisation**	**Likelihood**	**Impact**	**Prioritisation**	**Likelihood**	**Impact**	**Prioritisation**
Low	**Medium**	**Material**	**Low**	**Low**	**Tolerable**	**Low**	**Low**	**Tolerable**

Current Controls Mitigating Inherent Risk:	Sources of Assurance on Effectiveness of Identified Controls:
Delivery in responding to the outcomes of the Grenfell Tower reports are closely monitored by the Service Heads involved. Regular updates are provided at Housing DMT and escalated as required. 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. Fire safety campaign – completion April 2018 Fire awareness visits – completion autumn 2018 Awaiting further imminent regulations announcements from MHCLG following Hackitt recommendations. This risk is also recorded on the Neighbourhoods Directorate Risk Register and monitored through this process.	Where concerns are identified appropriate action is taken. Grenfell 2 years on report is going to Cabinet in July reporting on progress.

No.	Actions to Reduce Risk to Target	Owner	Date	Progress	RAG
1	Programme to fit Sprinkler systems to 213 high rise blocks over a 3 year period starting	Martin	2018 -	The installation programme has started - Work has begun on the first block (Adelaide	Green

Statutory Responsibilities / Compliance with Statutory Responsibilities

Risk No: 36	**Risk Title:** Response to Grenfell Tower enquiry				
	1/4/18	Tolley/ John Jamieson	2021	Tower) Have consulted with City Housing Liaison Board, Sheltered Housing Liaison Board and also have consulted with tenant management organisations and leaseholders board. All staff in housing management and repairs and maintenance have been briefed with regard to the sprinkler programme.	
2	Programme to carry out fire risk assessments to all communal areas annually	John Jamieson	From 2018 ongoing	These are in place to ensure all communal areas are inspected.	Green
Updated BY:	**Martin Tolley**	Date:	**13 May 2019**		

Statutory Responsibilities / Compliance with Statutory Responsibilities

Risk No: 37	**Risk Title:** Homeless Reduction Act.							
Risk Description: Insufficient council resources to meet the requirements of the Act fully.								
Risk Owner: Director			**Risk Lead: Julie Griffin**			**Risk Type / Category:** Legislative / Regulatory		
Inherent / Gross Risk			Residual / Current Risk			Target Risk		
Likelihood	**Impact**	**Prioritisation**	**Likelihood**	**Impact**	**Prioritisation**	**Likelihood**	**Impact**	**Prioritisation**
High	**High**	Severe	**Medium**	**High**	Severe	**Medium**	**Medium**	Material

Statutory Responsibilities / Compliance with Statutory Responsibilities

Risk No: 37	**Risk Title:** Homeless Reduction Act.				
Current Controls Mitigating Inherent Risk: New Homeless Reduction Act Legislation implemented from April 2018. New IT system developed with Councils IT providers and fully operational from July 2019. The homeless prevention strategy is now approved by Cabinet which aims to prevent people becoming homeless and assisting in sustaining tenancies. A domestic abuse hub, operated in partnership with BSWAID was initially piloted from 4 February 2019 and became fully operational from Monday 11 March 2019. It provides a support to those experiencing and fleeing domestic violence. Monthly reviews are being carried out by the Ministry of Housing Communities and Local Government (MHCLG)				Sources of Assurance on Effectiveness of Identified Controls: This risk is being closely monitored by Directorate Management Team and Cabinet Member for Homes and Neighbourhoods. There is a programme of regular Cabinet Member briefings dedicated to homelessness tracking and a standard dashboard has been developed to aid close monitoring and scrutiny. A comprehensive re-design programme is underway and a number of key work streams are in place to address this risk. These incorporate improvements to homeless prevention work and backlog of homeless casework. A re-design project board has been established and an ambitious programme plan. The intended outcomes include ensuring the service is designed and managed fit for purpose and the correct resources are in place. Delivery of the programme to reduce this pressure is monitored by Directorate Management Team and Cabinet Member for Homes and Neighbourhoods. There is a programme of regular Cabinet Member briefings dedicated to homelessness tracking and a standard dashboard has been developed to aid close monitoring and scrutiny.	
No.	**Actions to Reduce Risk to Target**	**Owner**	**Date**	**Progress**	**RAG**
1	Redesign the Housing Option Service	Vicki Pumphrey	April 2019	Phase 1 completed.	Green
2	Phase 2 re-design of Housing Option Service	Vicki Pumphrey	January 2020	Informal consultation commenced April 2019	Amber
3.	Open a Homeless Prevention Hub in June 2019.	Vicki Pumphrey	June 2019	£400,000 of commissioned services has been identified and mobilisation in progress, the Ladywood hub opens on Monday 17th June 2019 for staff training. It will be operational from Monday 24th June 2019	Amber

Statutory Responsibilities / Compliance with Statutory Responsibilities					
Risk No: 37	**Risk Title:** Homeless Reduction Act.				
4.	Recruit to Housing Options Centre vacancies	Deborah Moseley	August 2019	Shortlisting in progress, June 2019	Amber
5.	Review of spending/commissioned provision	Karl Robinson	June 2020	Mapping of current commissioned provision and an analysis of homeless households support needs have commenced.	Amber
6.	Private Rented Sector Access Fund to be implemented to maximise "move on" opportunities to relieve homelessness	Karl Robinson/Deborah Moseley	September 2019	We will be emulating the private rented sector secure sustain model in the prevention hub and TA pilots. We will be identifying private landlords to work with moving forward and discharging duty into the private rented sector from September 2019.	Amber
Updated By:	Vicki Pumphrey	**Date:**	11 June 2019		

Statutory Responsibilities / Compliance with Statutory Responsibilities								
Risk No: 17	**Risk Title: Technology - Ineffective Corporate Risk Marker IT solution**							
Risk Description: Staff exposure to aggression/violence/harm due to lack of information regarding inherent dangers which are known to the Council.								
Risk Owner Assistant Director, ICT and Digital			**Risk Lead:** Director, Digital and Customer Services			**Risk Type / Category: Information**		
Inherent / Gross Risk			**Residual / Current Risk**			**Target Risk**		
Likelihood	**Impact**	**Prioritisation**	**Likelihood**	**Impact**	**Prioritisation**	**Likelihood**	**Impact**	**Prioritisation**
Significant	**High**	Severe	**Medium**	**Medium**	Material	**Low**	**Low**	Tolerable

Statutory Responsibilities / Compliance with Statutory Responsibilities	
Risk No: 17	**Risk Title: Technology - Ineffective Corporate Risk Marker IT solution**
Current Controls Mitigating Inherent Risk: Joint report went to CLT (from customer services and HR) on 18th January 2018, explaining how this 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 discussions points and follow on 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 their risk marker solution (currently this is the director of HR but only as a temporary measure – may sit better in Revenues and Benefits) 4) CLT will require the safety manager to draft the appropriate guidelines for usage of the risk marker solution	**Sources of Assurance on Effectiveness of Identified Controls:** 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 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.

No.	Actions to Reduce Risk to Target	Owner	Target Date	Progress	RAG
1	During 2019 further work on effective access is required	TBD			Choose an item.
2	Monitoring the use of the IT system by Corporate Safety Services.	TBD			Choose an item.
3	Guidance for employees will be completed once surety of access for all required has been	TBD			Choose an

Statutory Responsibilities / Compliance with Statutory Responsibilities					
Risk No: 17	**Risk Title: Technology - Ineffective Corporate Risk Marker IT solution**				
	secured				item.
4	Appropriate Line Managers to monitor employee safety, as applicable	TBC			Choose an item.
Updated BY:	Peter Bishop	Date:	**June 2019** **No further updates**		

Financial Resilience - Risks associated with austerity and the financial challenges facing BCC								
Risk No: 29	**Risk Title: Budget Management**							
Risk Description: 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.								
Risk Owner: Director of Finance			**Risk Lead: Clive Heaphy**			**Risk Type / Category: Financial**		
Inherent / Gross Risk			**Residual / Current Risk**			**Target Risk**		
Likelihood	**Impact**	**Prioritisation**	**Likelihood**	**Impact**	**Prioritisation**	**Likelihood**	**Impact**	**Prioritisation**
High	**High**	Severe	**Medium**	**High**	Severe	**Medium**	**Low**	Tolerable

Current Controls Mitigating Inherent Risk:	**Sources of Assurance on Effectiveness of identified Controls:**
Delivery of the 2019/20 budget including management of financial pressures and delivery of the approved savings programme is being closely monitored and managed, corporate	Resources O&S scrutinises budget matters on an ongoing basis and identifies areas of concern as appropriate. Where concerns are identified relevant service scrutiny

Financial Resilience - Risks associated with austerity and the financial challenges facing BCC

Risk No: 29	**Risk Title: Budget Management**
directors in collaboration with their Finance Business Partners. Further support is provided by the Programme Management Office with focus upon providing assurance in relation to the implementation of savings plans. There will be scrutiny and challenge of the financial position on a monthly basis via the Council's Management Team, Member led Star Chambers, EMT and Resources Overview & Scrutiny. On a quarterly basis and there will be further rigorous challenge of the overall financial performance via the officer Budget Programme Board chaired by the Chief Executive and supported by the Budget Planning Group. Quarterly reports will be considered by Cabinet. Additional Member led star chambers have been established for those directorates are forecasting significant overspends to explore the issues and develop solutions. This will continue throughout the year until the budgetary position is successfully recovered. Directors have clear accountability for the delivery of savings in their directorates and this includes attendance at monthly meetings with the Cabinet Member for Finance. The Council's LTFP is refreshed regularly to take account of latest information, including the successful mitigation of finanical pressures and delivery of savings plans. A periodic assessment of the impact of in year delivery upon future finanical years in undertaken to ensure proactive management.	committees will assess the impact on specific service areas including impact upon services of in-year mitigations.

No.	**Actions to Reduce Risk to Target**	**Owner**	**Target Date**	**Progress**	**RAG**
1	There is close monitoring of the delivery of the Budget and additional governance arrangements have been introduced	Debbie Middleton	April 19	The CMT is building on the stabalisation of the financial position achieved with a £5.6m underspend for 2018/19. The following arrangements are in place for 2019/20:	Green

Financial Resilience - Risks associated with austerity and the financial challenges facing BCC

Risk No: 29 **Risk Title: Budget Management**

				- Collaborative support, review and challenge of savings delivery and management of budgetary pressures by Finance Business Partners and PMO working closely with Directorates - Monthly review and challenge by CMT, Member Led Star Chambers prior to consideration by EMT, and Resources O&S - Quarterly review and challenge by CEO led Budget Programme Board supported by Budget Planning Group Focused deep dive of areas with significant overspends by Member Led Star Chambers to oversee development and delivery of directorate financial recovery plans.	
2	Moving to a more integrated planning and performance management approach.	Clive Heaphy / Jonathan Tew	Mar 19	**During 2019-20** a. In February 2019 the Council approved a balanced MTFS over the period 2019/20 2022/23 subject to significant uncertainty over the future local government finance framework that will not become clear until the Government's spending review in Autumn 2019. Therefore the Council will need to prepare for a range of financial scenarios that could see our resources vary between approx. £40m per annum reduction to £100m per annum increase dependent upon the Review by 2024. This may not become clear even in SR2019 as it is now expected that this will cover only 2020/21 and not a three year review as originally planned due to the delays in Brexit. We must plan for the worst to ensure we can responds to the national funding uncertainty. For 2020/21 we will plan for a reduction of £30m. b. Launch of 2020/21 budget process on 7 June at EMT and 20 June ELT set out the importance of moving to a business transformation and outcomes based budget cycle underpinned by a robust performance management framework to demonstrate improved Value for Money and financial resilience. We will	Amber

Financial Resilience - Risks associated with austerity and the financial challenges facing BCC					
Risk No: 29	**Risk Title: Budget Management**				
				twin track the development of savings to deliver in 2020/21 and 2021/22, whilst developing service transformation initiatives for the medium to longer term. c. Following the refresh of the Council Plan by Cabinet in June 19, the Assistant Chief Executive is currently putting arrangements in place to introduce corporate business planning and performance management framework, building upon the foundations laid in 2018/19. These will be launched in July/August to be developed by directorates alongside their budget proposals and review of their medium term financial plans for approval in February. d. Delivery and monitoring – ongoing – Budget PMO established and will QA the implementation plans for budget proposals during the 2020/21 process. e. The Birmingham Independent Improvement Panel (BIIP) stepped down in March 2019, with the Council having completed and publicised a 2019 stock take report on future improvement areas. Since that point, the Council has continued to work with MHCLG regarding the Council's own improvement governance arrangements and proposals will be submitted for consideration to Cabinet in July. This new model will ensure that key areas of future improvement activity are progressed in concert with the delivery of the 2019-20 profiled savings and oversight of transformation activity for 2020-21 and 2021-22.	
3	Proposals will be subject to corporate public consultation commencing following Cabinet approval on 13 November 2018 and more specific engagement and consultation also take	Clive Heaphy / Eleri Roberts/ All CMT	Feb 20	Corporate Consultation on the 2019/20 Budget completed; further localised and targeted consultation is being developed. Directorate consultations will be required within the year for specific budget proposals. This will be monitored as part of 2019/20 budget monitoring and through PMO support in developing and challenging Implementation Plans.	Amber

Financial Resilience - Risks associated with austerity and the financial challenges facing BCC

Risk No: 29	**Risk Title: Budget Management**				
	place where appropriate			Corporate Communications are planning for a 12 week consultation – though this is dependent on all budget savings being signed off and ready for public scrutiny by the required date. All Directorates will need to have plans for any service specific consultations that will be required as supplementary activity.	
Updated By:	**Ayra Sohal**	Date:	**2/7/19**		

Financial Resilience - Risks associated with austerity and the financial challenges facing BCC

Risk No: 15	**Risk Title: Not recognising the need to divest of costly property assets in radical new solutions to reframe service delivery.**							
Risk Description: 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.								
Risk Owner: Director Inclusive Growth			**Risk Lead: Phillip Andrews**			**Risk Type / Category: Financial**		
Inherent / Gross Risk			**Residual / Current Risk**			**Target Risk**		
Likelihood	**Impact**	**Prioritisation**	**Likelihood**	**Impact**	**Prioritisation**	**Likelihood**	**Impact**	**Prioritisation**
Significant	**Medium**	Material	**Medium**	**Medium**	Material	**Medium**	**Low**	Tolerable
Current Controls Mitigating Inherent Risk:				**Sources of Assurance on Effectiveness of Identified Controls:**				

Financial Resilience - Risks associated with austerity and the financial challenges facing BCC					
No.	**Actions to Reduce Risk to Target**	**Owner**	**Target Date**	**Progress**	**RAG**
1	The approval by Cabinet in November 2018 of a new corporate Property Strategy with a key emphasis on the Operational Portfolio as one of four themes. Recommendations include reducing the level of directly managed stock in order to retain a smaller, multi-faceted, well-maintained estate	Philip Andrews	March 2019 July 2019	Ongoing and subject to potentially, significant change driven by BCC corporate business plan (this is currently "continuously changing in the short term").	Amber
2	The current rounds of budget proposals for FY19/20 onwards contain a number of property rationalisation propositions across the service areas as part of the contributions to future years cost reductions. This includes the Public Hubs Programme which will remodel and reduce the Council's frontline estate.	Philip Andrews	July 2019	Ongoing and subject to potentially, significant change driven by BCC corporate business plan (this is currently "continuously changing in the short term"). Progress on the Public Hub Programme was discussed at both CMT and EMT in June 2019, with further direction given. External subject matter expert with proven track record of delivering such programmes to be procured to assist in mapping out the options, formulating delivery plan and communication	Amber
3	Through the recommendations of the Property Strategy services will need to articulate their medium term asset plans and associated utilisation / resourcing which in turn will be subject to critical appraisal by the Property & Assets Board. To assist with property rationalisation alongside future service planning and	Philip Andrews	May 2019	Ongoing and subject to potentially, significant change driven by BCC corporate business plan (this is currently "continuously changing in the short term").	Amber

Financial Resilience - Risks associated with austerity and the financial challenges facing BCC					
	development programmes, a Property Services Business Partner role has been established with the Neighbourhoods Directorate.				
4	The Corporate Landlord service has continued to deliver the facilitation of delivery of further organisation changes e.g. Service Birmingham and the Contact Centre the creation of the Children's Trust, absorption of Service Birmingham / ICTDS and Contact Centre functions within the estate, accommodating the CWG project Team etc.	Philip Andrews	June 2019	Ongoing and subject to potentially, significant change driven by BCC corporate business plan (this is currently "continuously changing in the short term"). A briefing paper will be brought to CMT in July 2019 to update the changes required / levels of agility needed to achieve the stated savings target of £2.4m External subject matter expert to be procured to assist in mapping out the options and delivery plan.	Amber
5	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 "Modern Workplace" project is	Mark Bieganski Philip	March 2019 June 2019	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 "Modern Workplace" project is intended to increase agility and bring further organisation and management culture change across the Council through improved	Amber

Financial Resilience - Risks associated with austerity and the financial challenges facing BCC					
	intended to increase agility and bring further organisation and management culture change across the Council. A key outcome will be further rationalisation of the Central Administration Buildings portfolio.	Andrews		ICT and revised HR policies. A key outcome will be the opportunity for increased agility and different ways of working, enabling further rationalisation of the Central Administration Buildings portfolio.	
Updated BY:	**Philip Andrews**	Date:	**17 June 2019**		

Financial Resilience - Risks associated with austerity and the financial challenges facing BCC								
Risk No: 38	**Risk Title: To manage the Enterprise Zone Programme in line with its delivery plan.**							
Risk Description: Risk of under achieving: potential business rates income, economic growth, and outputs/achievements.								
Risk Owner Director Inclusive Growth		**Risk Lead: Inclusive Growth (Delivery) / Finance and Governance (Accountable Body)**			**Risk Type / Category:** Reputational			
Inherent / Gross Risk			**Residual / Current Risk**			**Target Risk**		
Likelihood	**Impact**	**Prioritisation**	**Likelihood**	**Impact**	**Prioritisation**	**Likelihood**	**Impact**	**Prioritisation**
Medium	**High**	Severe	**Medium**	**Significant**	Material	**Medium**	**Significant**	Material
Current Controls Mitigating Inherent Risk:					Sources of Assurance on Effectiveness of Identified Controls:			

Financial Resilience - Risks associated with austerity and the financial challenges facing BCC	
• Financial principles are integrated in to the Enterprise Zone (EZ) Model, to inform and provide assurance that funding of projects is affordable prior to it being committed. • Collaboration with Finance to manage the EZ Business model and ensure it contains the latest data on spend and business rates income. • Collaboration with BCC Planning officers and business rates team to enable effective monitoring of development on EZ sites and their hereditaments to ensure the forecasts for business rates income are accurate and up to date. • Collaboration with GBSLEP Programme Management Office (PMO) on quarterly reporting by EZ projects. • Reporting to the Programme Delivery and GBSLEP Boards providing reports and requesting approval. • Substantial proportion of business rates income is ring fenced on an annual basis to create a financial contingency as a safeguard against business rates income not coming forward as per forecast.	• All projects now follow the GBSLEP's assurance framework, thus the Treasury Green Book process for developing business cases for funding. • The EZ and Curzon Delivery Board meets monthly (last meeting 25 June 2019) to implement the delivery of the EZ Investment Plan, and monitor and oversee the delivery of EZ and Curzon projects managed by the Economy Directorate. • Major EZ projects are reported to BCC Capital Board.

No.	Actions to Reduce Risk to Target	Owner	Target Date	Progress	RAG
1	Develop EZ and Curzon projects to meet requirements as outlined in the Investment Plan.	Jane Smith	To cover 10 year Investment Plan	Management of Enterprise Zone Model Regular Monitoring of projects Capital Board Business cases for funding meet HM Treasury's Green Book Standard.	Green

Financial Resilience - Risks associated with austerity and the financial challenges facing BCC					
2	To monitor Enterprise Zone BCC managed projects (EZ and Curzon).	Jane Smith	To cover 10 year Investment Plan	Management of Enterprise Zone Model Regular Monitoring of projects Capital Board EZ and Curzon Project Delivery Board meets regularly to discuss the management of the EZ Model. Regular monitoring of projects continues. Senior representation at the BCC Capital Board.	Green
3	To maintain state aid systems and monitor EZ business rates relief.	Jane Smith	To cover 10 year Investment Plan	Management of Enterprise Zone Model Regular Monitoring of projects Capital Board Management of a EZ business rates relief system received by businesses located on eligible EZ sites. Regular Monitoring of the sums received by the businesses. Paper trail with businesses in receipt of EZ business rates relief.	Green
4	Collate BCC EZ and Curzon delivery programme outputs and outcomes.	Jane Smith	To cover 10 year Investment Plan	Management of Enterprise Zone Model Regular Monitoring of projects Capital Board Management of Enterprise Zone Model activity. Regular monitoring of projects. Ongoing monitoring of those businesses received EZ business rates relief. Capture of activity on EZ sites.	Green
Updated BY:	**Jane Smith**	Date:	**26 June 2019**		

Financial Resilience - Risks associated with austerity and the financial challenges facing BCC

Risk No: 41

Risk Title: School Deficits

Risk Description:

- National funding arrangements have resulted in real term funding reductions which coupled with rising costs means that there is a risk that increasingly, schools are not able to run balanced budgets:-
- There is the potential that some schools may build up 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.

Risk Owner: Director Education and Skills

Risk Lead: Assistant Director – Education and Early Years / Assistant Director SEND

Risk Type / Category: Financial

Inherent / Gross Risk			Residual / Current Risk			Target Risk		
Likelihood	Impact	Prioritisation	Likelihood	Impact	Prioritisation	Likelihood	Impact	Prioritisation
High	High	Severe	High	Significant	Severe	Medium	Significant	Material

Current Controls Mitigating Inherent Risk:

- 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.

Sources of Assurance on Effectiveness of Identified Controls:

- Schools Financial Governance Group set up to co-ordinate support and challenge to schools.
- 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

Financial Resilience - Risks associated with austerity and the financial challenges facing BCC	
Risk No: 41	**Risk Title:** School Deficits
•Schools financial monitoring procedures to be reinforced with requirement that these are reported to all Governors. •Schools identified to be financially vulnerable, to have imposed level of spend agreed by BCC •Schools Financial Services to work directly with vulnerable schools to establish a financial recovery plan •School Causing Concern Pre-warning and then warning notices if there are no improvement in the financial management, to be sent to all schools with a forecasted deficit. (DfE regulations)	

No.	Actions to Reduce Risk to Target	Owner	Target Date	Progress	RAG
1	Strengthen Schools Finance Governance Board, by: •Corporate Director to chair •Review methodology and develop risk register •Quarterly strategic forecasting to determine financially vulnerable schools	ToN	April	Change of chair has been agreed and implemented. Terms of reference drafted and adopted. The June Finance Governance Board was chaired by the Director of Education and Skills. Follow up report with School Deficits Action Plan presented to CMT on 13 May	Green

Financial Resilience - Risks associated with austerity and the financial challenges facing BCC

Risk No: 41	**Risk Title:** School Deficits				
2	Schools Forum to consider financial position of school budgets: •Identify a Schools Forum rep to join the Schools Finance Governance Board, •Agree criteria by which schools are identified as being financially vulnerable, •Receive reports and monitor the school budget position	Julie Young / Paul Stevenson	June 2019	School Forum meeting took place in June and a request for representative to join the Board was made at the meeting and accepted in principle – name to be confirmed. A report was taken on the School Carried forward balances at the end of 2018/19, which included schools in deficit and a commitment agreed to bring quarterly reports on school deficit position to School Forum meetings.	Amber
3	Management of school deficits, by: - •Inadequate schools to be risk assessed to determine if Governing Body to either be replaced by an IEB or strengthened with an additional finance governor, •Meeting to be held with Head Teacher /Chair of Governors for any school facing potential removal of delegated powers and actions agreed •In exceptional circumstances the schools	Julie Young / Paul Stevenson Julie Young / Tim O'Neill	Sept 19	The report on Schools Causing Financial Concern has been produced for June 2019 and the actions outlined in this section will be progressed in line with the information and concerns within the report.	Green

Financial Resilience - Risks associated with austerity and the financial challenges facing BCC				
Risk No: 41	**Risk Title:** School Deficits			
	delegated powers to be removed.			
Updated BY:	**Baljit Jandu (Risk Rep)**	Date:	**28 June 2019**	

Financial Resilience - Risks associated with austerity and the financial challenges facing BCC		
Risk No: 46	**Risk Title: Universal Credit**	

Risk Description: UC related arrears has already increased with 12% of the arrears accounting for 33% of the total arrears (Over £5 million out of a total of £15 million).
The major risks for UC are

- Reduction in HB income of £22.7 million to the rent account in 2018/19
- Increase in rent arrears
- Decrease in tenancy sustainability
- Increase in evictions and homelessness
- Increase in citizens debt
- Increased council tax arrears
- Lower rates of debt recovery of housing benefit overpayments
- Lower take-up of council tax support
- Reduction in DWP funding adds pressure to budgets and remaining HB recipients
- Further short notice change announcements from DWP
- Confusion for citizens

Risk Owner: Assistant Director, Revenues and Benefits	**Risk Lead:** Director, Digital and Customer Services	**Risk Type / Category: Financial**

Financial Resilience - Risks associated with austerity and the financial challenges facing BCC								
Inherent / Gross Risk			**Residual / Current Risk**			**Target Risk**		
Likelihood	**Impact**	**Prioritisation**	**Likelihood**	**Impact**	**Prioritisation**	**Likelihood**	**Impact**	**Prioritisation**
Significant	**Significant**	Severe	**Medium**	**Medium**	Material	**Low**	**Low**	Tolerable

Current Controls Mitigating Inherent Risk:	Sources of Assurance on Effectiveness of Identified Controls:
• Pilot work is underway to examine interventions in order to mitigate the impact on tenants and the HRA. This will be built into a forthcoming service redesign for the Rent Service. • Alternative Payment Arrangements (APAs) are being encouraged so the Council receives the rent direct from UC payments where possible. • Close working with DWP work coaches and other partners is helping to reduce the impact. • Alternative ways of working have been explored with other housing providers – as well as software solutions. • Housing Benefit recovery is being closely monitored and a recent initiative will increase recovery rates for people who are in work. • New 50% earnings disregard in place and allowing increased rates of recovery on HB cases before more are 'lost' to UC • Awareness around Council Tax Support claim process is being increased at regular strategic meetings between the Council and the DWP. • Benefit Service is working on new arrangements for service delivery from 2019/20 in	• Headline arrears figure for 2018/19 is lower than expected Close monitoring of rent arrears – arrears target was £13.2 million (actual £12.3 million). This is due to fluctuations in payments received from DWP, and 'rent free weeks'. • Ongoing dialogue with DWP • Progressing rent and benefit service redesigns • Maintaining a view of national picture through attendance at meetings with LGA/DWP • Promoting council tax support (CTS) • Consider options for council tax debt on CTS cases – work with Enforcement Agents on vulnerability issues • Close subsidy monitoring on UC/HB related cases • Use of specific reserve to ensure vulnerable people don't suffer and subsidy income is maximised • Council tax support cases have started to increase back to previous levels Income generated through the earnings disregard is bringing the council in around £45,000

Financial Resilience - Risks associated with austerity and the financial challenges facing BCC					
	order to mitigate against DWP cuts and protect vulnerable tenants.			per week	
No.	**Actions to Reduce Risk to Target**	**Owner**	**Target Date**	**Progress**	**RAG**
1	Auto intent to claim for CTS	D Kinnair	Dec 18	Implemented and CTS cases now back to former level **– Completed.**	Green
2	Benefit structure implemented	D Kinnair	Jan 19	Implemented to mitigate DWP funding cuts – **Completed.**	Green
3	Rent Service redesign (structure review) to be implemented following successful pilot	T Holsey	June 19	Implement to mitigate against the impact of UC on the HRA **(Pre staff consultation)**	**Amber**
4					Choose an item.
Updated BY:	**Tim Savill**	Date:	**18/6/19**		

Political - Risks driven by the political agenda

None

Technology								
Risk No: 16	**Risk Title: Technology – Cyber Attacks**							
Risk Description: 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.								
Risk Owner: Assistant Director, ICT and Digital			**Risk Lead:** Director, Digital and Customer Services			**Risk Type / Category:** Technology		
Inherent / Gross Risk			**Residual / Current Risk**			**Target Risk**		
Likelihood	**Impact**	**Prioritisation**	**Likelihood**	**Impact**	**Prioritisation**	**Likelihood**	**Impact**	**Prioritisation**
High	**High**	Severe	**Significant**	**Significant**	Severe	**Low**	**Low**	Tolerable

Current Controls Mitigating Inherent Risk: 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

Sources of Assurance on Effectiveness of Identified Controls:
This risk can only ever be mitigated, and never fully closed due to the nature of hacking etc.

- 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.

Technology	
Risk No: 16	**Risk Title: Technology – Cyber Attacks**
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 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.	

No.	Actions to Reduce Risk to Target	Owner	Target Date	Progress	RAG
1	BCC have undertaken a Cyber Security Stocktake and are in the process of developing a combined Cyber Security and Resilience strategy to mitigate risks identified in the stocktake.	Peter Bishop	30/9/19	The approach to cyber security has been informed by 2 security reviews, from Socitm and RAND who were commissioned by the LGA. The outputs of these reviews have informed the approach to the cyber security strategy which has now been approved and an additional SME joins in early April to drive forward the agreed plan. The plan covers delivery of enhanced, coherent security management and is estimated to complete in early Autumn 2019. The cyber security strategy will be closely aligned to the Information Management strategy and the overall IT&D Strategy, both of which require increased organisation-wide awareness of the need for vigilance in both physical and technological environments.	Amber

Technology					
Risk No: 16	**Risk Title: Technology – Cyber Attacks**				
2					Choose an item.
Updated BY:	Peter Bishop	Date:	**June 2019**		

Transformation		
Risk No: 7	**Risk Title: Failure to Deliver Culture Change and Transformation**	
Risk Description: In delivering significant change, industrial action, increased sickness absence levels and poor performance will divert managerial capacity from delivering outcomes to include organisational effectiveness and savings.		
Risk Owner: Dawn Hewins	**Risk Lead:** Director of Human Resources	**Risk Type / Category: Financial**

Inherent / Gross Risk			Residual / Current Risk			Target Risk		
Likelihood	**Impact**	**Prioritisation**	**Likelihood**	**Impact**	**Prioritisation**	**Likelihood**	**Impact**	**Prioritisation**
High	**High**	Severe	**High**	**High**	Severe	**Medium**	**Medium**	Material

Current Controls Mitigating Inherent Risk:	**Sources of Assurance on Effectiveness of Identified Controls:**
There are a number of high level localised disputes that could result in further escalation of service specific industrial action, some on-going at the moment. There have been localised disputes resulting in a series of action short of strike / strike actions. The Council is utilising non-binding mediation as a means of seeking to resolve these matters. Reports have been considered by Cabinet as a potential means of bringing conclusion to current	Will be on-going. Despite this, overall there continues to be regular and positive engagement and dialogue with the trade unions at a corporate, regional and local level as appropriate (excluding where in dispute). Expert HR support is being provided to areas experiencing significant employee relations challenges relating to service redesign and headcount reductions.

Transformation					
Risk No: 7	**Risk Title: Failure to Deliver Culture Change and Transformation**				
action. There are business continuity plans in place in readiness for industrial action. Bespoke HR support is being provided to identify high risk areas. Management to ensure contingency plans periodically reviewed in proportion to the risk to ensure 'fit for purpose' and known milestones surrounding savings and organisational change. The establishment of an Industrial Relations Specialist Unit comprising HR and Legal services to be developed and implemented ensuring that • we have Council wide oversight of key events timetable with the aim of managing any high risk activity and a consistency of approach. • a review of the trade union engagement arrangements with a view to empowering managers to deliver change at the lowest level of the organisation (Kerslake Report) • areas where there is a high risk of industrial action are to have increased employee engagement arrangements such as Joint Service Improvement Board – Waste Management. HR/managers monitoring and taking action to minimise sickness absence as a result of organisational changes.			All budget proposals are subject to validation via full council, before consultation with trade unions will commence. There are some delays in delivery timescales where any applicable disputes are considered. Focus on attendance and wellbeing occurs to provide support to employees who are experiencing change.		
No.	Actions to Reduce Risk to Target	Owner	Target Date	Progress	RAG
1	Set up Industrial Relations Unit	Dawn Hewins	04/04/19	Initial conversations have been held with the TU's, scoping document drafted and awaiting feedback	Red
2	All managers to monitor employee well-being	All Managers	04/04/19	In progress and on-going.	Amber
3	Additional HR Support provided as needed	Dawn	04/04/19	On-going as required to specific disputes/programmes/service redesigns and	Green

Transformation					
Risk No: 7	**Risk Title: Failure to Deliver Culture Change and Transformation**				
		Hewins		restructures	
4	Council wide and Directorate dashboards provided monthly to monitor organisational health	Dawn Hewins	04/04/19	Delivered monthly and on-going	Green
5					Choose an item.
Updated BY:	**Dawn Hewins/Helen Ward**	Date:	**21 June 2019**		

Transformation

Risk No: 10	Risk Title: Transformation – failing to make sufficient progress in key areas of improvement activity							
Risk Description: Failing to make sufficient progress in key areas of improvement activity identified as; waste management and industrial relations, outcomes for vulnerable adults and children, financial resilience, risk management, good governance, cultural change and organisational development.								
Risk Owner: Assistant Chief Executive			**Risk Lead:** Assistant Chief Executive			**Risk Type / Category:** Financial		
Inherent / Gross Risk			**Residual / Current Risk**			**Target Risk**		
Likelihood	**Impact**	**Prioritisation**	**Likelihood**	**Impact**	**Prioritisation**	**Likelihood**	**Impact**	**Prioritisation**
Significant	High	Severe	**Significant**	**Significant**	Severe	**Low**	**Low**	Tolerable
Current Controls Mitigating Inherent Risk: Birmingham Independent Improvement Panel (BIIP) stepped down in March 2019 alongside the publication of a 2019 stock take report.				Sources of Assurance on Effectiveness of Identified Controls: Proposals will be included in the July Cabinet report.				

Transformation					
Risk No: 10	Risk Title: Transformation – failing to make sufficient progress in key areas of improvement activity				
There has been ongoing work with MHCLG regarding the Council's own improvement governance arrangements and proposals will be submitted for consideration to Cabinet in July. Key areas of future improvement activity have been identified as stated above.					
No.	**Actions to Reduce Risk to Target**	**Owner**	**Date**	**Progress**	**RAG**
1	The risk to be formally reviewed/amended to focus on strong assurance of financial, governance and specific service risks as highlighted by the external auditor in 2019.	Jonathan Tew		New draft prepared for discussion and approval at Directorate Risk Workshop 26 June 2019.	Choose an item.
Updated BY:	**Jonathan Tew**	Date:	**20 June 2019**		

Transformation								
Risk No: 18	**Risk Title:** Evaluation of Alternative Delivery Models							
a) **Risk Description:** Failure to adequately identify and agree the costs and benefits of alternative delivery models arising from Service Reviews before the decision to proceed is made. Failure to fully implement the decisions taken to change the service model to enable delivery of expected benefits / efficiency gains.								
Risk Owner: Director of Finance			**Risk Lead: Richard Tibbetts**			**Risk Type / Category:** Financial / Reputational		
Inherent / Gross Risk			**Residual / Current Risk**			**Target Risk**		
Likelihood	**Impact**	**Prioritisation**	**Likelihood**	**Impact**	**Prioritisation**	**Likelihood**	**Impact**	**Prioritisation**

Transformation								
Risk No: 18	**Risk Title:** Evaluation of Alternative Delivery Models							
Significant	**Significant**	Severe	**Medium**	**Medium**	Material	**Low**	**Medium**	Tolerable

Current Controls Mitigating Inherent Risk:	**Sources of Assurance on Effectiveness of identified Controls:**
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. 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.

No.	Actions to Reduce Risk to Target	Owner	Date	Progress	RAG
1	**Anticipated date of attainment of the target risk rating**:	Richard Tibbatts	ASAP	April 2020 – sign off by Finance Business Partner	Amber
2	**Source(s) of assurance regarding progress with mitigating the risk:** Management assurance - reports to CMT, notes and actions from CCMB agenda. Dialogue with directorate lead commissioners. Finance to be embedded in commissioning	Relevant SRO for the service under consideration	Ongoing		Amber

Transformation					
Risk No: 18	**Risk Title:** Evaluation of Alternative Delivery Models				
	reviews.				
3	Commissioning expertise	GB		Team established in CPS and expertise in some parts of the Council. Council-wide move to Strategic Commmissioning will ensure roll-out of knowledge	Amber
4	Risk to be managed on a case by case basis through proper use of the Commissioning Toolkit	Relevant SRO	Ongoing	through reviews supported by the Finance Business Partners.	Amber
5	Toolkit Working with Finance Business partners on forthcoming commissioning projects CPS will establish templates and guidance for the level of financial detail required to inform decisions. Projects identified are Birmingham City Laboratories, Civic Catering and Cleaning.	Relevant SRO	On going	These services are now within the commercial business hub and will be completing reviews towards the end of 2019 with Business Partner input	Amber
Updated By:	Mike Smith	Date:	11th July 2019		

Transformation		
Risk No: 44	Risk Title: Allowance Payments	
Risk Description: Unpaid allowance payments		
Risk Owner: Director Human Resources	**Risk Lead:** Director Human Resources	**Risk Type / Category:** Financial

Transformation								
Risk No: 44	Risk Title: Allowance Payments							
Inherent / Gross Risk			Residual / Current Risk			Target Risk		
Likelihood	Impact	Prioritisation	Likelihood	Impact	Prioritisation	Likelihood	Impact	Prioritisation
Medium	Medium	Material	**Medium**	**Medium**	Material	**Low**	**Low**	Tolerable

Current Controls Mitigating Inherent Risk:	Sources of Assurance on Effectiveness of Identified Control:
There is a Governance Board monitoring any potential high risk claims	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

No.	Actions to Reduce Risk to Target	Owner	Date	Progress	RAG
1.	As new case law is decided challenges to payments have arisen: Holiday pay sleeping in allowance where case law remains ambiguous so claims on hold Travel time – currently a subject of internal challenge, but may become a matter for Employment Tribunal.	Dawn Hewins	On going		Material
Updated by:		Date:			

Service Delivery								
Risk No: 6	Risk Title: 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.							
Risk Description: 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 iv. Develop a way forward that will enable us to have confidence in future delivery.								
Risk Owner: Director Inclusive Growth			Risk Lead: Dominic De Bechi			Risk Type / Category: Partnership / Contractual		
Inherent / Gross Risk			Residual / Current Risk			Target Risk		
Likelihood	Impact	Prioritisation	Likelihood	Impact	Prioritisation	Likelihood	Impact	Prioritisation
High	Significant	Severe	High	Significant	Severe	Low	Significant	Material

Current Controls Mitigating Inherent Risk:	Sources of Assurance on Effectiveness of Identified Controls:
A settlement agreement was signed with Amey, the SPV and project lenders on 29 June 2019. This settlement was in accordance with the heads of terms and Cabinet's approval of 25 June 2019. The settlement confirms that Amey LG will be replaced as soon as possible and no later than 31 March 2020. Delivery risks remain but a settlement is the first step in moving forward. Business continuity / contingency plans remain in place for key areas.	The terms of the settlement agreement provide assurance as detailed in the Cabinet decision of 25 June 2019. Advice taken from Legal Services, together with external advice (including counsel where appropriate). External financial advice has also been secured.

No.	Actions to Reduce Risk to Target	Owner	Target Date	Progress	RAG
1	Develop and commence delivery of a programme of investment to work towards	Thomas Clarkson-	June 2019		Amber

Service Delivery					
Risk No: 6	**Risk Title: 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.**				
	completion of the Core Investment Period in an acceptable timescale.	Williams		The settlement provides a minimum of £50m of investment subject to funding being available. This commitment now needs to be turned into an acceptable programme to be delivered by the SPV.	
2	Continue to progress a delivery solution that ensures the PFI grant is retained.	Kevin Hicks / Domenic de Bechi	June 2019	We are working with Government and the SPV to ensure a delivery solution that enables the PFI grant to continue in the long term, subject to a way forward being agreed.	**Amber**
3	Continue to manage performance under the contract until a way forward is agreed with Amey.	Dominic De Bechi	June 2019	Performance will continue to be managed in line with the proposed settlement terms.	**Amber**
4	Enter into a settlement agreement to commence replacement of Amey as subcontractor.	Kevin Hicks / Domenic de Bechi	June 2019	Completed.	Green

Updated BY:	**Domenic de Bechi**	Date:	**12 July 2019**

Service Delivery		
Risk No: 39	**Risk Title:** HS2	
Risk Description: 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.		
Risk Owner: Director Inclusive Growth	**Risk Lead: Doug Lee**	**Risk Type / Category: Reputational**
Inherent / Gross Risk	**Residual / Current Risk**	**Target Risk**

Service Delivery								
Likelihood	**Impact**	**Prioritisation**	**Likelihood**	**Impact**	**Prioritisation**	**Likelihood**	**Impact**	**Prioritisation**
Significant	**Significant**	Severe	**Medium**	**Medium**	Material	**Medium**	**Medium**	Material

Current Controls Mitigating Inherent Risk:	Sources of Assurance on Effectiveness of Identified Controls:

No.	Actions to Reduce Risk to Target	Owner	Target Date	Progress	RAG
1	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) has been completed and signed. Internal meeting established at Directorate level to co-ordinate and support work and address any issues. Joint working with HS2 is ongoing to develop the design of the station,	Doug Lee	Curzon Station S17 Autumn 2019 (further application s to follow)	On-going meetings and joint working with HS2. Internal meeting established at Directorate level to co-ordinate and support work and address any issues. Schedule 17 application for the HS2 Curzon Station is programmed for submission in Autumn this year.	Amber

Service Delivery					
	including the public realm, which will create a world class arrival to the city, whilst also improving connectivity to the wider area that will maximise the economic impact of HS2. Early engagement has taken place with Planning Committee and senior BCC officers regarding the design of the Curzon Station. Funding has been secured through the Enterprise zone to improve the design over and above the base scheme developed through the HS2 Act. Curzon Station design has now been launched publicly and HS2 have held a series of consultation events on the design.				
2	The SLA is now signed to provide the appropriate resources needed to meet the requirements for Schedule 17, Schedule 4 applications etc. Pre applications on-going regarding the number of schedule 17 planning	Doug Lee	On going submission of timesheets		**Amber**

Service Delivery

	applications.				
3					Choose an item.
4					Choose an item.
Updated BY:	**Doug Lee**	Date:	**June 2019**		

Service Delivery

Risk No: 40	**Risk Title: Commonwealth Games – Athletes' Village**							
Risk Description: 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								
Risk Owner: Director, Inclusive Growth			**Risk Lead** Khalid Abbas			**Risk Type / Category: Reputational**		
Inherent / Gross Risk			**Residual / Current Risk**			**Target Risk**		
Likelihood	**Impact**	**Prioritisation**	**Likelihood**	**Impact**	**Prioritisation**	**Likelihood**	**Impact**	**Prioritisation**
Medium	**Medium**	Material	**Medium**	**Medium**	Material	**Medium**	**Medium**	Material

Current Controls Mitigating Inherent Risk:	Sources of Assurance on Effectiveness of Identified Controls:

Service Delivery					
No.	**Actions to Reduce Risk to Target**	**Owner**	**Target Date**	**Progress**	**RAG**
1	Funding	Khalid Abbas	March 2019	Government funding levels have been agreed, along with the administrative arrangements and reporting processes required by the funding body . FBC has been approved through delegated powers providing authority to progress with the scheme.	Green
2	Land Acquisition -	Khalid Abbas	March 2020	Substantial acquisitions being undertaken voluntarily. CPO will be used to support acquisitions/delivery of village and the legal process will need to be followed and estimated to complete March 2020, however it needs to be noted that not all acquisitions through CPO are on the critical path of the construction of the village. Public Inquiry start date of 2nd July Evidence has been submitted for the Inquiry and final preparations are in place. Engagement ongoing with objectors and other affected parties.	Amber
3	Changes to sporting schedules resulting in increased accommodation requirements -	Khalid Abbas	June 2020	The existing plan will allow for the accommodation of 6,500 athletes and officials, and is in accordance with the Host City contract. The outcome of the sports review has moved from March 2019 to June with an announcement expected end of June and it is believed the host city is not contractually obliged to accommodate the additional athletes at the village. This will need to be ratified. Additionally, the addition of any additional supports will need to be agreed by the General Assembly because, if accepted, these additions would mean that Birmingham 2022 would exceed the CGF's agreed limit for the number of athletes taking part in optional sports.	Amber

Service Delivery					
				Once the outcome of the General Assembly's vote is known a further announcement will be made.	

Updated BY:	**Khalid Abbas**	Date:	**21 June 2019**

Removed Risks (previous 5 years):

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

Ref No.	Risk description	Reason for removal	Date removed
2015/16.10 a	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
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

Ref No.	Risk description	Reason for removal	Date removed
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
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
3	Failure to identify alternative funding stream for school PFI contracts revenue pressures.	Immediate concern over PFI gap has been met. Longer term concerns are being evaluated.	July 2018
11	GDPR	Incorporated into one single risk on information assurance – Risk No.11	November 2018

BIRMINGHAM CITY COUNCIL

AUDIT COMMITTEE

30 JULY 2019

SCHEDULE OF OUTSTANDING MINUTES

MINUTE NO./DATE	SUBJECT MATTER	COMMENTS
99 26/03/2019	**Early Years Health and Wellbeing Risk** The Director, Education and Skills requested to provide an update report.	Report due in November 2019
124 18/06/2019	**Ombudsman Report – Complaint – Post 19 Education** Copy of response to the Ombudsman to be provided.	Response due in July 2019.
125 18/06/2019	**BCC Assurance Framework** Report of the Strategic Director, Finance to be provided	Report expected – Sept 2019